



Bank of Queensland Limited Capital Notes 2

PROSPECTUS

Prospectus for the issue of Bank of Queensland Limited
Capital Notes 2 to raise \$200 million with the ability
to raise more or less

Issuer

Bank of Queensland Limited ABN 32 009 656 740

Arranger

Goldman Sachs

Joint Lead Managers

ANZ Securities Limited

Morgans Financial Limited

National Australia Bank Limited

Co-Manager

JBWere Limited

IMPORTANT NOTICES

IMPORTANT NOTICES

About This Prospectus

This Prospectus is dated 26 October 2020 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. This Prospectus is being issued in compliance with the requirements of section 713(1) of the Corporations Act (as modified by ASIC Corporations (Regulatory Capital Securities) Instrument 2016/71). The offer contained in this Prospectus is for an issue of Capital Notes 2 (**Capital Notes 2**) by Bank of Queensland Limited (ABN 32 009 656 740) (**Bank of Queensland** or **BOQ**) at \$100 per Capital Note 2 to raise \$200 million with the ability to raise more or less (**Offer**).

This Prospectus expires on the date which is 13 months after 26 October 2020 (**Expiry Date**) and no Capital Notes 2 will be issued on the basis of this Prospectus after the Expiry Date.

Neither ASIC nor ASX Limited (**ASX**) take any responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates.

Exposure Period

The Corporations Act prohibits the processing of Applications in the period of seven days after the date of lodgement of this Prospectus (**Exposure Period**). This Exposure Period may be extended by ASIC by up to a further seven days. No Applications received will be accepted until after the expiry of the Exposure Period.

Nature of Capital Notes 2

Capital Notes 2 are non-cumulative, perpetual, convertible, unguaranteed and unsecured notes with preferred, discretionary distributions, issued by BOQ. They are an investment in BOQ and may be affected by the ongoing performance, financial position and solvency of BOQ.

An investment in Capital Notes 2 is subject to investment risk including possible loss of income and principal invested. See Section 4 for further details.

Neither BOQ nor any other person warrants or guarantees the future performance of BOQ, Capital Notes 2 or any return on any investment made pursuant to this Prospectus.

Capital Notes 2 are unsecured notes for the purposes of section 283BH of the Corporations Act.

Capital Notes 2 are not deposits or protected accounts and are not guaranteed

Capital Notes 2 are not:

- deposit liabilities of BOQ;
- protected accounts for the purposes of the depositor protection provisions in Division 2 of Part II of the Banking Act or of the Financial Claims Scheme established under Division 2AA of Part II of the Banking Act;
- guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction; or
- secured over any of BOQ's or any member of the BOQ Group's assets.

No representations other than in this Prospectus

You should rely only on information in this Prospectus.

No person is authorised to give any information, or to make any representation, in connection with the Offer that is not contained in this Prospectus. Any information or representation that is not in this Prospectus may not be relied on as having been authorised by BOQ or any other person in connection with the Offer.

Unless otherwise indicated, all information in this Prospectus, while subject to change from time to time is current as at the date of this Prospectus.

This Prospectus does not include financial product or investment advice - you should seek your own professional investment advice

The information in this Prospectus is not financial product advice and does not take into account your individual investment objectives, financial situation or particular needs as an investor. You should carefully consider the whole of this Prospectus in light of your particular investment needs, objectives and financial situation (including your taxation situation).

Capital Notes 2 are complex and involve more risks than a simple debt or ordinary equity security. Capital Notes 2 are not suitable for all investors and contain features which may make the Capital Note 2 Terms difficult to understand. BOQ strongly recommends that you seek professional advice from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to invest in Capital Notes 2.

Past financial performance information

Historical financial information in this Prospectus is for information purposes only and is not a forecast of future performance. Past performance or trends should not be relied on as being indicative of future performance or trends.

Financial information and forward-looking statements

Section 3.2 contains pro-forma financial information about BOQ, including the basis of preparation of that information. The pro-forma financial information provided in this Prospectus is for illustrative purposes only and is not represented as being indicative of BOQ's view on its future financial condition or performance.

This Prospectus contains forward-looking statements which may be identified by words such as "may", "could", "believes", "considers", "expects", "estimates", "intends" and other similar words. Such statements are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from the outcomes expressed or implied by the forward-looking statements in this Prospectus.

Forward-looking statements should be read in conjunction with the risk factors in Section 4 and other information in this Prospectus.

Prospectus availability

Paper copies of this Prospectus can be obtained free of charge during the Offer Period by calling the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays).

This Prospectus can also be accessed electronically at www.boq.com.au/capitalnotes2. If you access the Prospectus in electronic form, the following conditions apply:

- you must access and download the entire Prospectus;
- your Application will only be considered where you have applied pursuant to an Application Form (either electronic or paper) that was attached to, or accompanied by, a complete electronic copy of the Prospectus. By making an Application, you declare that you were given access to the complete Prospectus together with the Application Form; and
- the Prospectus is available electronically to residents of Australia who are accessing and downloading or printing the electronic Prospectus in Australia.

Restrictions in foreign jurisdictions

See Section 8.11 for details of the selling restrictions that apply to the Capital Notes 2 in foreign jurisdictions.

Providing personal information and privacy

You will be asked to provide personal information to BOQ (directly or via the Registrar) if you apply for Capital Notes 2. See Section 8.12 for information on how BOQ (and the Registrar on its behalf) collects, holds and uses this personal information.

Diagrams

Diagrams used in the Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Defined words and expressions

Some words and expressions used in this Prospectus have defined meanings, which are either explained in the Glossary in Appendix B or in the Capital Note 2 Terms set out in Appendix A of this Prospectus. If there is any inconsistency between the defined terms in Appendix A and Appendix B, the definitions in Appendix A will prevail.

A reference to \$, A\$, AUD dollars and cents is to Australian currency, unless otherwise stated. Unless otherwise stated, references to times in this Prospectus are to the time in Sydney, New South Wales, Australia.

Enquiries

If you are considering applying for Capital Notes 2 under the Offer, this document is important and should be read in its entirety.

If you have any questions in relation to the Offer, please contact your stockbroker, solicitor, accountant or other independent and qualified professional adviser. You may also call the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays). Applicants in the Broker Firm Offer may also contact their Syndicate Broker.

CHAIRMAN'S LETTER



26 October 2020

Dear Investor,

On behalf of the Board of Bank of Queensland Limited (**BOQ**), I am pleased to offer you the opportunity to invest in Capital Notes 2 (**Capital Notes 2**).

BOQ is a full service financial institution whose primary function is gathering deposits and lending. It is listed on the ASX and regulated by APRA as an ADI. BOQ is included in the ASX 100 index.

BOQ intends to raise \$200 million through the offer of Capital Notes 2 (**Offer**) with the ability to raise more or less. The proceeds of Capital Notes 2 will be used for BOQ's general corporate and funding purposes. This issue of Capital Notes 2 is being made as part of BOQ's capital management strategy. The Australian Prudential Regulation Authority (**APRA**), the prudential regulator of Australia has confirmed that Capital Notes 2 are capable of being recognised as Additional Tier 1 Capital of BOQ for the purposes of APRA's prudential standards.

As announced on 7 April 2020, BOQ received APRA's approval to redeem BOQ's A\$150 million Wholesale Capital Notes (**WCNs**) which constituted Additional Tier 1 Capital, conditional on BOQ completely replacing the WCNs with a new Additional Tier 1 instrument at the first available opportunity. The Offer will satisfy this condition.

Capital Notes 2 are fully paid, unsecured, non-cumulative, perpetual, convertible notes. They will pay, subject to the issue terms and BOQ's discretion, preferred floating rate quarterly distributions which are expected to be fully franked. An application will be made by BOQ for Capital Notes 2 to be quoted on the ASX. Capital Notes 2 must Convert into fully paid ordinary shares of BOQ (**Ordinary Shares**) on 15 May 2029 (**Scheduled Mandatory Conversion Date**) if certain Mandatory Conversion Conditions are satisfied, unless they are Converted or Redeemed by BOQ earlier. If these Mandatory Conversion Conditions are not satisfied, then Capital Notes 2 will mandatorily Convert on the first distribution payment date after the Scheduled Mandatory Conversion Date on which the conditions are satisfied. In addition, Capital Notes 2 must Convert into Ordinary Shares of BOQ if there is a successful takeover or other acquisition of BOQ and certain conditions are satisfied.

BOQ has an option to Redeem, Resell or Convert Capital Notes 2 into Ordinary Shares on 14 May 2027 or if there are certain changes in regulation or taxation. BOQ also has an option to Convert all Capital Notes 2 into Ordinary Shares if BOQ may potentially be acquired by a takeover or other acquisition. These options are subject to APRA's prior written approval and to certain conditions being satisfied.

Importantly, BOQ must Convert Capital Notes 2 to Ordinary Shares if BOQ's Common Equity Tier 1 Capital Ratio is equal to or less than 5.125% or if APRA considers that Conversion is necessary to prevent BOQ from becoming non-viable. This may adversely affect the value of or returns on Capital Notes 2. In these circumstances, if Conversion does not occur for any reason within 5 Business Days, Capital Notes 2 that are required by APRA to be converted will be written off, which means that all rights in relation to those Capital Notes 2 will be terminated and Capital Note 2 holders will not get back their capital or receive any compensation in relation to those Capital Notes 2.

The key features of Capital Notes 2 are set out in Section 2.

Securityholder Offer

As part of the Offer, Eligible BOQ Securityholders as at 7:00pm (Sydney time) on 23 October 2020 have the opportunity to apply for an allocation of Capital Notes 2. Details of the Securityholder Offer are set out in Section 5.4.2. No assurance is given that any Securityholder Applicant will receive an allocation of Capital Notes 2.

Conclusion

The key dates for the Offer are summarised on page 6. The Offer may close early, so you are encouraged to submit your Application as soon as possible after the Opening Date. On behalf of the Directors, I encourage you to read this Prospectus carefully. The terms of Capital Notes 2 are more complex than a simple debt instrument or ordinary equity instrument and trading volumes on ASX in instruments such as Capital Notes 2 are typically lower than in BOQ's Ordinary Shares. Capital Notes 2 are not deposits or protected accounts, are not guaranteed or secured and there is a risk that Distributions will not be paid. In particular, you should consider the risk factors set out in Section 4 before deciding whether to apply for Capital Notes 2.

If, after reading this Prospectus, you have any questions about the Offer or how to apply, please call the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays) or consult your stockbroker, solicitor, accountant or other independent and qualified professional adviser.

On behalf of the Board and management team of BOQ, I invite you to consider this investment opportunity.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. Allaway', with a horizontal line extending to the right.

Patrick Allaway
Chairman

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GUIDANCE FOR RETAIL INVESTORS

READ THIS PROSPECTUS IN FULL

This Prospectus is important and should be read in its entirety. In particular, you should have regard to the:

- Important Notices at the front of this Prospectus;
- Investment Overview in Section 1 and key features of the Capital Notes 2 in Section 2;
- Information about BOQ in Section 3;
- Investment Risks in Section 4; and
- Capital Notes 2 Terms in Appendix A.

In considering whether to apply for Capital Notes 2, it is important that you consider all risks and other information regarding an investment in Capital Notes 2 in light of your particular investment objectives and circumstances.

UNDERSTAND THE RISKS

Capital Notes 2 are complex, involve increased risks compared to other less risky and less complex bank investments (such as deposits) and may not be suitable for all investors. You should not use Capital Notes 2 as an alternative to investments such as deposits. In particular:

- the overall complexity of Capital Notes 2 may make the Capital Notes 2 Terms difficult to understand;
- Capital Notes 2 are not guaranteed or insured by any government, government agency, compensation scheme or by any other person;
- if BOQ encounters severe financial difficulty, Capital Notes 2 may be Converted into Ordinary Shares or Written Off and you are likely to suffer a loss of your investment as a consequence;
- Distributions on Capital Notes 2 may not be paid;
- Capital Notes 2 may never Convert or be Redeemed or Resold and may remain on issue indefinitely;
- the market price of Capital Notes 2 may fluctuate; and
- the liquidity of Capital Notes 2 may be low and you may be unable to sell your Capital Notes 2.

If you do not fully understand how the Capital Notes 2 Terms work, or the risks associated with the Capital Notes 2, you should not invest in them.

CONSULT YOUR PROFESSIONAL ADVISER

BOQ strongly recommends that you seek independent and qualified professional guidance which takes into account your particular investment objectives, financial situation and needs before making an investment decision. ASIC has published guidance on how to choose a professional adviser on its MoneySmart website. You can find this guidance under the “Investing and planning” tab at www.moneysmart.gov.au.

CONSIDER THE ASIC GUIDANCE FOR RETAIL INVESTORS

ASIC has published guidance on hybrid securities on its MoneySmart website which may be relevant to your consideration of Capital Notes 2. You can find this guidance under the “Investing and planning” tab at www.moneysmart.gov.au. The guidance includes a series of questions you should ask before you invest in hybrid securities, as well as a short quiz to check your understanding of how hybrids work, their features and risks.

OBTAIN FURTHER INFORMATION ABOUT BOQ AND CAPITAL NOTES 2

BOQ is a disclosing entity for the purposes of the Corporations Act and, as a result, is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. In addition, BOQ must notify ASX immediately (subject to certain exceptions) if it becomes aware of information about BOQ that a reasonable person would expect to have a material effect on the price or value of its securities including, once issued, Capital Notes 2.

Copies of documents lodged by BOQ with ASIC can be obtained from ASIC’s website at www.asic.gov.au (a fee may apply) and BOQ’s ASX announcements can be obtained from www.asx.com.au.

Further information about BOQ is available at www.boq.com.au.

ENQUIRIES

If you have any questions in relation to the Offer or how to apply, please call the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays) or consult your stockbroker, solicitor, accountant or other independent and qualified professional adviser.

KEY DATES

KEY DATES FOR THE OFFER	DATE
Record Date for determining Eligible Securityholders for Securityholder Offer	7pm (Sydney time), 23 October 2020
Lodgement of the original Prospectus with ASIC	26 October 2020
Bookbuild	On or before 02 November 2020
Announcement of the Margin	02 November 2020
Lodgement of replacement Prospectus with ASIC	03 November 2020
Opening Date of Offer	03 November 2020
Closing Date for the Securityholder Offer	5pm (Sydney time), 17 November 2020
Closing Date for the Broker Firm Offer	10am (Sydney time), 23 November 2020
Broker Firm Settlement Date	27 November 2020
Issue Date	30 November 2020
Capital Notes 2 commence trading on ASX	01 December 2020
Expected despatch of Holding Statements	01 December 2020

KEY DATES FOR CAPITAL NOTES 2	DATE
First quarterly Distribution Payment Date	15 February 2021
Optional Conversion / Redemption / Resale Date	14 May 2027 ¹
Scheduled Mandatory Conversion Date	15 May 2029

DATES MAY CHANGE

These dates are indicative only and are subject to change without notice.

BOQ, the Arranger and the Joint Lead Managers may agree to vary the timetable, including extending any Closing Date, closing the Offer early without notice or accepting late Applications, whether generally or in particular cases, at their discretion. BOQ may withdraw the Offer at any time before Capital Notes 2 are issued.

Accordingly, you are encouraged to apply as soon as possible after the Opening Date.

ASX

BOQ will apply to ASX for Capital Notes 2 to be quoted on ASX within seven days of the date of this Prospectus and Capital Notes 2 are expected to trade under ASX code "BOQPF". Quotation of Capital Notes 2 is not guaranteed. If ASX does not grant permission for Capital Notes 2 to be quoted, then Capital Notes 2 will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as practicable.

MAKING AN APPLICATION

For information on who is eligible to apply for Capital Notes 2 under the Offer and how to make an Application see Section 5 and the Application Forms for full details.

¹ As 15 May 2027 is not a Business Day, this date has been brought forward to the preceding Business Day.

SECTION 1

INVESTMENT OVERVIEW

SECTION 1 INVESTMENT OVERVIEW

This section provides a summary of information that is key to a decision whether to invest in Capital Notes 2. Further details are provided in other sections of this Prospectus which you should read in its entirety.

1.1 KEY FEATURES OF THE OFFER AND CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
What is the Offer?	The Offer is for the issue of Capital Notes 2 at a Face Value of \$100 each to raise approximately \$200 million with the ability to raise more or less.	Section 5.1
Who can apply?	The Offer is being made to: <ul style="list-style-type: none"> • Institutional Investors; • Broker Firm Applicants (i.e. Australian resident and high net worth clients of Syndicate Brokers); and • Eligible Securityholders. 	Section 5.2
Who is the issuer?	The issuer is Bank of Queensland Limited.	Section 3
What are Capital Notes 2?	Capital Notes 2 are: <ul style="list-style-type: none"> • fully paid — at \$100 Face Value per Capital Notes 2; • subordinated — although Capital Notes 2 have priority over Ordinary Shares and rank equally with Equal Ranking Instruments, they are subordinated to the claims of Senior Ranking Creditors in a winding-up of BOQ; • perpetual — Capital Notes 2 do not have any fixed maturity date and you may not receive your capital back or receive any Ordinary Shares; • Redeemable and Resalable — in certain circumstances, BOQ may Redeem Capital Notes 2 by paying an amount equal to their Face Value or may require Holders to Resell their Capital Notes 2 to a third party in exchange for a cash amount equal to their Face Value (but there are significant restrictions on Redemption or Resale of Capital Notes 2); • convertible — in certain circumstances, Capital Notes 2 will Convert into Ordinary Shares; • unguaranteed and unsecured — Capital Notes 2 are not guaranteed or secured, are not policy liabilities or deposit liabilities of BOQ or any member of BOQ Group, and are not protected accounts under the Banking Act; • exposed to Loss Absorption Events — if APRA determines that a Loss Absorption Event has occurred, Capital Notes 2 will be subject to Conversion into Ordinary Shares or Write Off, which would likely result in Holders suffering a material loss; and • quoted — BOQ will apply, within seven days after the date of this Prospectus, to ASX for Capital Notes 2 to be quoted on ASX and Capital Notes 2 are expected to trade under ASX code "BOQPF". <p>The Capital Notes 2 Terms are complex and are designed to meet the detailed regulatory capital requirements which APRA applies to these instruments. BOQ's ability to pay Distributions, or to optionally Convert, Redeem or Resell Capital Notes 2, is subject to APRA's prior approval or non-objection. Holders should not expect that APRA's approval or non-objection will be given if requested.</p>	Section 2
Why is BOQ issuing Capital Notes 2?	BOQ is issuing Capital Notes 2 to raise funds in a manner that generates Additional Tier 1 Capital for the purposes of APRA's Prudential Capital Requirements.	-
	The proceeds of Capital Notes 2 will be used for BOQ's general corporate and funding purposes.	
Regulatory capital treatment	<ul style="list-style-type: none"> • APRA has confirmed that the Capital Notes 2 are capable of being recognised as Additional Tier 1 Capital of BOQ under APRA's Prudential Capital Requirements. • Capital Notes 2 and BOQ's other regulatory capital help to protect BOQ's depositors and other creditors by providing a loss absorbing capital buffer which supports losses that may be incurred on BOQ's assets. 	Section 2.7

TOPIC	SUMMARY	FURTHER INFORMATION
Distributions	<ul style="list-style-type: none"> • Distributions on Capital Notes 2 are discretionary and are only payable subject to no Payment Condition existing. • Distributions are scheduled to be paid quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year. • The Distribution Rate for each quarterly Distribution is a floating rate of: • (BBSW Rate + Margin) x (1 – t) where: <ul style="list-style-type: none"> › BBSW Rate is the 3-month Bank Bill Swap Rate (BBSW) expressed as a percentage per annum on the first Business Day of the relevant Distribution Period; › Margin is the margin determined under the Bookbuild, expected to be in the range of 3.80% and 4.00% per annum; and › t is the Australian corporate tax rate applicable to the franking account of BOQ at the relevant Distribution Payment Date. As at the date of this Prospectus, it is 30%. 	Section 2.1
Will Distributions be frankable?	<ul style="list-style-type: none"> • Distributions are expected to be fully franked. Holders should be aware that the ability of a Holder to use franking credits will depend on their individual position and that the potential value of franking credits does not accrue at the same time as the cash Distribution is received. • If any Distribution payment is not fully franked, the Distribution will be increased to adjust for any unfranked component of the Distribution, based upon the applicable Franking Rate. 	Section 2.1
Will Distributions be paid?	<ul style="list-style-type: none"> • Distributions are non-cumulative, which means that if BOQ does not pay a Distribution on a Distribution Payment Date there is no ability to seek payment of that Distribution at a future time and no compensation or event of default arises. • If BOQ does not pay a Distribution on a Distribution Payment Date, subject to some exceptions, BOQ will be prevented from paying dividends on its Ordinary Shares until the next Distribution Payment Date for Capital Notes 2. 	Section 2.1
Will I get my capital back?	<ul style="list-style-type: none"> • Capital Notes 2 are perpetual and have no maturity date. While Capital Notes 2 are scheduled to Mandatorily Convert into Ordinary Shares on 15 May 2029, that Conversion is subject to conditions which may never be met. As a result, Capital Notes 2 could remain on issue indefinitely and you may not receive your capital back or receive any Ordinary Shares. Holders have no right to request or require Conversion, Redemption or Resale. • If BOQ encounters severe financial difficulty, Capital Notes 2 may be Converted into Ordinary Shares or Written Off and you are likely to suffer a loss of your investment and you may not receive your capital back as a consequence. See Section 1.3 for further details. • What will happen to Capital Notes 2 is therefore uncertain and depends on a number of factors including whether BOQ elects to Convert, Redeem or Resell Capital Notes 2 when permitted under the Capital Notes 2 Terms and whether APRA approval is given to any such Conversion, Redemption or Resale. Holders should not expect that APRA's approval will be given if requested. • Capital Notes 2 are expected to be quoted on ASX. If quoted on ASX, Capital Notes 2 can be bought or sold on ASX. There is no guarantee of a liquid market for Capital Notes 2 or the price at which Capital Notes 2 may trade and whether Holders will be able to recover their capital by selling on market. 	Section 2.2

SECTION 1 INVESTMENT OVERVIEW

TOPIC	SUMMARY	FURTHER INFORMATION
When will my Capital Notes 2 Convert to Ordinary Shares?	<ul style="list-style-type: none"> Capital Notes 2 will Convert to Ordinary Shares: <ul style="list-style-type: none"> On 15 May 2029 if the Mandatory Conversion Conditions are satisfied, unless Capital Notes 2 are Redeemed or Converted earlier. This Conversion is subject to the Mandatory Conversion Conditions. See Section 2.2. Following a Loss Absorption Event. This Conversion is not subject to any Conditions. At BOQ's option and with APRA's prior written approval, on 14 May 2027 or following a Tax Event, Regulatory Event or a Potential Acquisition Event. This Conversion is subject to certain conditions. See Section 2.5. Following an Acquisition Event. This Conversion is subject to certain conditions. See Section 2.4. Where Conversion is subject to conditions, the conditions are based on the price and continuing quotation of Ordinary Shares. 	Section 2.2, 2.4 and 2.5
What is the purpose of the Mandatory Conversion Conditions?	<ul style="list-style-type: none"> The Mandatory Conversion Conditions are based on the price and continuing quotation of Ordinary Shares. The price of the Ordinary Shares needs to be above a certain level for the Mandatory Conversion Conditions to be satisfied. The Mandatory Conversion Conditions are intended to protect Holders against receiving on Conversion of Capital Notes 2 a number of Ordinary Shares that would be worth less than \$101.01 per Capital Note 2 (although, because Ordinary Share prices fluctuate on ASX, by the time any Conversion actually occurs the value of Ordinary Shares received may be more or less than \$101.01). 	Section 2.2.4
What is Conversion on account of a Loss Absorption Event?	<ul style="list-style-type: none"> If a Loss Absorption Event occurs, Capital Notes 2 will be subject to Conversion into Ordinary Shares or Write Off. A Loss Absorption Event is either a Common Equity Trigger Event or a Non-Viability Trigger Event. A Common Equity Trigger Event occurs if BOQ's Common Equity Tier 1 Capital Ratio falls to, or below, 5.125%, calculated on a Level 1 or Level 2 basis. At 31 August 2020, BOQ's Common Equity Tier 1 Capital Ratio was 9.78% based on APRA's Prudential Capital Requirements², which equates to a surplus of capital of approximately A\$1,471 million above the Common Equity Trigger Event level of 5.125%. A Non-Viability Trigger Event occurs if at any time APRA has determined that Capital Notes 2 and other Relevant Tier 1 Capital Instruments (i.e. other Tier 1 Capital instruments which can be converted or written off in a similar way to Capital Notes 2) must be converted or written off because without conversion, write off or a public sector injection of capital (or equivalent support) BOQ would become, in APRA's opinion, nonviable. Conversion on account of a Loss Absorption Event is not subject to any conditions. The number of Ordinary Shares a Holder will receive in these circumstances is capped at the Maximum Conversion Number. As a result, Holders may receive a number of Ordinary Shares worth significantly less than \$101.01 for each Capital Note 2 that they held. 	Section 2.3

² BOQ only discloses Common Equity Tier 1 Capital at Level 2. The difference between the calculation at Level 1 and Level 2 is not material.

TOPIC	SUMMARY	FURTHER INFORMATION
What is Write Off?	<ul style="list-style-type: none">• If a Conversion is required in respect of a Capital Note 2 on account of a Loss Absorption Event and Conversion of Capital Notes 2 has not been effected within five Business Days after the relevant event for any reason, then Conversion will not occur and the Capital Note 2 will be Written Off with effect on and from the Loss Absorption Event Conversion Date. All rights in relation to Capital Notes 2 (including in respect of Distributions and return of capital) will be immediately and irrevocably terminated and Holders will lose all of the value of those Capital Notes 2 without compensation.• In the Capital Notes 2 Terms and this Prospectus, this is referred to as Capital Notes 2 being Written Off.	Section 2.3
When can Capital Notes 2 be Redeemed or Resold at BOQ's option?	<ul style="list-style-type: none">• Subject to APRA's prior written approval, BOQ may elect to Convert, Redeem or Resell (or some combination of these) all or some Notes on 14 May 2027.• Subject to APRA's prior written approval, BOQ may elect to Convert, Redeem or Resell all or some Capital Notes 2 if a Tax Event or Regulatory Event occurs.• Holders should not expect that APRA's prior written approval for any such Conversion, Redemption or Resale will be given.	Section 2.5

SECTION 1 INVESTMENT OVERVIEW

TOPIC	SUMMARY	FURTHER INFORMATION														
Where do Capital Notes 2 rank in a winding-up of BOQ?	<ul style="list-style-type: none"> In a winding-up of BOQ, Capital Notes 2 rank for payment of capital ahead of Ordinary Shares, equally with BOQ Capital Notes (which were issued on 28 December 2017) and other Equal Ranking Instruments, but behind the claims of all Senior Ranking Creditors (including depositors and unsubordinated and subordinated creditors). If there is a shortfall of funds on a winding-up of BOQ to pay all amounts ranking ahead or equally with Capital Notes 2, Holders will lose all or some of their capital. Any return in a winding-up may be adversely affected if Capital Notes 2 have been Converted or Written Off as a result of a Loss Absorption Event. After Conversion, Holders become holders of Ordinary Shares and will rank equally with all other Ordinary Securityholders in a winding-up. After a Write Off, all rights in relation to Capital Notes 2 (including in respect of Distributions and return of capital) will be immediately and irrevocably terminated with effect on and from the Loss Absorption Event Conversion Date and Holders will lose all of the value of those Capital Notes 2 without compensation. 	Sections 2.6 and 4.3.10														
<table border="1"> <thead> <tr> <th data-bbox="422 880 885 925">Higher Ranking</th> <th data-bbox="893 880 1228 925">Illustrative Examples</th> </tr> </thead> <tbody> <tr> <td data-bbox="422 925 885 1126">Preferred and secured debt</td> <td data-bbox="893 925 1228 1126">Liabilities in Australia in relation to protected accounts (generally savings accounts and term deposits), liabilities preferred by law including employee entitlements and secured creditors</td> </tr> <tr> <td data-bbox="422 1126 885 1216">Unsubordinated and unsecured debt</td> <td data-bbox="893 1126 1228 1216">Unsubordinated and unsecured bonds and notes, trade and general creditors</td> </tr> <tr> <td data-bbox="422 1216 885 1294">Subordinated and unsecured debt</td> <td data-bbox="893 1216 1228 1294">Subordinated and unsecured debt obligations</td> </tr> <tr> <td data-bbox="422 1294 885 1417">Capital Notes 2 and preference securities</td> <td data-bbox="893 1294 1228 1417">Capital Notes 2 and other Equal Ranking Instruments (including BOQ Capital Notes (issued on 28 December 2017))</td> </tr> <tr> <td data-bbox="422 1417 885 1451">Ordinary shares</td> <td data-bbox="893 1417 1228 1451">BOQ Ordinary Shares</td> </tr> <tr> <th colspan="2" data-bbox="422 1451 1228 1491">Lower Ranking</th> </tr> </tbody> </table> <p data-bbox="422 1525 1236 1664">This diagram and the descriptions are simplified and illustrative only, and do not include every type of security or obligation that may be issued or entered into by BOQ, or every potential claim against BOQ in a winding-up. BOQ will from time to time issue additional securities or incur or guarantee other obligations that rank ahead of, equally with or subordinated to, Capital Notes 2.</p>			Higher Ranking	Illustrative Examples	Preferred and secured debt	Liabilities in Australia in relation to protected accounts (generally savings accounts and term deposits), liabilities preferred by law including employee entitlements and secured creditors	Unsubordinated and unsecured debt	Unsubordinated and unsecured bonds and notes, trade and general creditors	Subordinated and unsecured debt	Subordinated and unsecured debt obligations	Capital Notes 2 and preference securities	Capital Notes 2 and other Equal Ranking Instruments (including BOQ Capital Notes (issued on 28 December 2017))	Ordinary shares	BOQ Ordinary Shares	Lower Ranking	
Higher Ranking	Illustrative Examples															
Preferred and secured debt	Liabilities in Australia in relation to protected accounts (generally savings accounts and term deposits), liabilities preferred by law including employee entitlements and secured creditors															
Unsubordinated and unsecured debt	Unsubordinated and unsecured bonds and notes, trade and general creditors															
Subordinated and unsecured debt	Subordinated and unsecured debt obligations															
Capital Notes 2 and preference securities	Capital Notes 2 and other Equal Ranking Instruments (including BOQ Capital Notes (issued on 28 December 2017))															
Ordinary shares	BOQ Ordinary Shares															
Lower Ranking																
Is Ordinary Securityholder approval required?	No.															

TABLE 1: SUMMARY OF CERTAIN EVENTS THAT MAY OCCUR DURING THE LIFE OF CAPITAL NOTES 2

The table below summarises certain events that may occur during the life of Capital Notes 2, and what Holders may receive upon the occurrence of such events. The events are dependent on factors including share price, the occurrence of contingencies and in some cases election by BOQ and, accordingly, may not occur.

EVENT	WHEN? ³	IS APRA APPROVAL REQUIRED? ⁴	DO CONDITIONS APPLY?	WHAT VALUE WILL A HOLDER RECEIVE? ⁵	IN WHAT FORM WILL THAT VALUE BE PROVIDED TO A HOLDER?	FURTHER INFORMATION
Mandatory Conversion on specified dates	On 15 May 2029	No	Yes	\$101.01 per Capital Note 2	Variable number of Ordinary Shares	Section 2.2
Conversion or Write-Off on account of a Loss Absorption Event	Immediately on a Loss Absorption Event occurring	No (although APRA may determine that a Loss Absorption Event has occurred)	No	Between \$101.01 (and likely to be significantly less) and \$0 per Capital Note 2	Variable number (capped at the Maximum Conversion Number) of Ordinary Shares or, if Conversion does not occur Capital Notes 2 will be Written Off ⁶	Section 2.3
Conversion upon Acquisition Event	On the Acquisition Conversion Date	No	Yes	\$101.01 per Capital Note	Variable number of Ordinary Shares	Section 2.4
Optional Conversion	On 14 May 2027 or following a Tax Event, Regulatory Event or Potential Acquisition Event	Yes	Yes	\$101.01 per Capital Note 2	Variable number of Ordinary Shares	Section 2.5
Optional Redemption or Resale	On 14 May 2027 or following a Tax Event or Regulatory Event	Yes	Yes	\$100 per Capital Note 2 (Face Value)	Cash	Section 2.5

3 In the case of Conversion, except for Conversion on account of a Loss Absorption Event, if the relevant conversion conditions are not met, Conversion is deferred to the following Distribution Payment Date on which the relevant conversion conditions are satisfied.

4 Holders should not assume that APRA's approval will be given, if requested.

5 In the case of Conversion, the value stated is the value a Holder will receive on Conversion based on the share price during a specified period prior to Conversion called the VWAP Period. The VWAP period is usually a period of 20 Business Days on which trading in Ordinary Shares took place on ASX except in the case of a Loss Absorption Event, where it is five Business Days, and in the case of an Acquisition Event or Potential Acquisition Event, where it may be less than 20 Business Days. The share price on and after the date of Conversion may be higher or lower than this price. Conversion as a result of a Loss Absorption Event is not subject to any conditions and since the Conversion Number may not exceed the Maximum Conversion Number the value received is likely to be significantly less than \$101.01 per Capital Note 2.

6 If a Capital Note 2 is Written-Off, all rights (including to Distributions) in respect of that Capital Note 2 are terminated and the Holder will not get back their capital.

SECTION 1 INVESTMENT OVERVIEW

1.2 COMPARISON BETWEEN CAPITAL NOTES 2 AND OTHER INVESTMENTS IN BOQ

Capital Notes 2 are different from other investments in BOQ, such as term deposits and Ordinary Shares. The table below compares the key features of Capital Notes 2 to some other types of investments in BOQ. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding whether to apply for Capital Notes 2. BOQ strongly recommends that you seek professional advice, which takes into account your particular investment objectives and circumstances, from a licensed adviser.

FEATURE	BOQ STANDARD TERM DEPOSIT	CAPITAL NOTES 1	CAPITAL NOTES 2	ORDINARY SHARES
ASX code	Not applicable	BOQPE	Expected to be BOQPF	BOQ
Issuer	BOQ	BOQ	BOQ	BOQ
Legal form	Bank deposit	Unsecured, subordinated debt	Unsecured, subordinated debt	Ordinary share
Maturity	Up to five years	Perpetual	Perpetual	Perpetual
Ranking in winding-up	Senior to general unsecured creditors of BOQ ¹	Senior to Ordinary Shares, ranks equally with Equal Ranking Instruments (including Capital Notes 2), and junior to the claims of all creditors (including depositors and holders of Tier 2 Capital Instruments) other than holders of Equal Ranking Instruments	Senior to Ordinary Shares, ranks equally with Equal Ranking Instruments (including Capital Notes 1), and junior to the claims of all creditors (including depositors, holders of Tier 2 Capital) other than holders of Equal Ranking Instruments ²	Junior to all creditors, including Capital Notes 1 and Capital Notes 2
Protected under the Financial Claims Scheme	Yes ³	No	No	No
Transferable on market	No	Yes	Yes	Yes
Distribution / dividend rate	Interest rate is fixed (varies across different amounts, terms and interest payment arrangements)	Floating (BBSW + margin)*(1-t). Margin of 3.75% p.a.	Floating (BBSW + Margin)*(1-t). Margin expected to be in the range of 3.80% - 4.00% to be determined under the Bookbuild	Variable dividends
Distribution / dividend frequency	Monthly, quarterly, semi-annually, annually or on maturity depending on the term	Quarterly	Quarterly	Semi-annually
Distribution / dividend discretionary	No	Yes	Yes	Yes
Distribution / dividend cumulative	Interest payments cannot be waived or deferred	Non-cumulative	Non-cumulative	Non-cumulative
Restriction on Ordinary Share Dividends if distribution / dividend not paid	No	Yes, until the next quarterly distribution payment date	Yes, until the next quarterly Distribution Payment Date	n/a
Franking	Interest payments are not franked	Expected to be fully franked	Expected to be fully franked	Expected to be fully franked
Conversion or write-off on account of Loss Absorption Event	No	Yes	Yes ⁴	No
Issuer's optional redemption ⁵	No	Yes	Yes	No

FEATURE	BOQ STANDARD TERM DEPOSIT	CAPITAL NOTES 1	CAPITAL NOTES 2	ORDINARY SHARES
Issuer's optional resale ⁵	No	Yes	Yes	No
Issuer's optional conversion ⁵	No	Yes	Yes	n/a
Scheduled mandatory conversion	No	Yes	Yes	n/a
Mandatory conversion on acquisition event	No	Yes	Yes	n/a
Treated as regulatory capital	No	Yes, Additional Tier 1 Capital	Yes, Additional Tier 1 Capital	Yes, Common Equity Tier 1 Capital

Notes:

- As provided in Section 13A of the Banking Act.
- Any return in a winding-up may be adversely affected if APRA determines that a Loss Absorption Event has occurred, as described in Section 2.3.
- Up to \$250,000 in aggregate across all accounts that an account holder has with an Australian ADI declared subject to the Financial Claims Scheme.
- If following the occurrence of a Loss Absorption Event Capital Notes 2 are not Converted when required, those Capital Notes 2 are Written Off and all obligations are terminated. In this scenario, Holders will likely be worse off than holders of Ordinary Shares as further described in Sections 2.3.8 and 4.3.16.
- Optional redemption, resale and conversion of Capital Notes 2 and Capital Notes 1 are on specified dates and following a tax or regulatory event.

1.3 KEY RISKS ASSOCIATED WITH CAPITAL NOTES 2

Before applying for Capital Notes 2, you should consider whether Capital Notes 2 are a suitable investment for you. There are risks associated with an investment in Capital Notes 2 and in BOQ, many of which are outside the control of BOQ and its Directors. The key risks are detailed in Section 4 which you should read in its entirety before deciding to invest. The summary below outlines the key risks associated with an investment in Capital Notes 2.

1.3.1 KEY RISKS ASSOCIATED WITH AN INVESTMENT IN CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
Capital Notes 2 are not deposit liabilities or protected accounts	<ul style="list-style-type: none"> Capital Notes 2 are not deposit liabilities of BOQ, are not protected accounts for the purposes of the Banking Act or any other accounts with BOQ and are not guaranteed or insured by any government or other person. 	Section 4.2
Market price of Capital Notes 2	<ul style="list-style-type: none"> The price at which Holders are able to sell Capital Notes 2 on ASX is uncertain. It is possible that Capital Notes 2 may trade at a market price below their Face Value of \$100. The market price of Capital Notes 2 may fluctuate due to various factors including investor perceptions, general financial market conditions, interest rates, the availability of better rates of return on other securities and factors that may affect BOQ's financial performance or position. In particular, since March 2020 global financial markets have become more volatile due to the impact of the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and its full economic impact remains unclear. Unlike Ordinary Shares, Capital Notes 2 do not provide exposure to growth in BOQ's business. 	Section 4.3.1
Exposure to BOQ's financial performance and position	<ul style="list-style-type: none"> The market price of Capital Notes 2 (and the Ordinary Shares into which they can Convert) may be affected by BOQ's financial performance and position. For specific risks associated with an investment in BOQ, see Section 4.4. BOQ's financial performance and position may also affect the credit ratings associated with BOQ's securities, which may impact the market price and liquidity of Capital Notes 2. BOQ's credit rating may be revised, withdrawn or suspended by ratings agencies at any time. 	Section 4.3.2

SECTION 1 INVESTMENT OVERVIEW

1.3.1 KEY RISKS ASSOCIATED WITH AN INVESTMENT IN CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
Liquidity	<ul style="list-style-type: none"> There may be no liquid market for Capital Notes 2 and the market for Capital Notes 2 may be volatile and less liquid than the market for Ordinary Shares or other securities issued by BOQ. There may be a limited number of buyers when you decide to sell Capital Notes 2 and Holders who wish to sell their Capital Notes 2 may be unable to do so at an acceptable price, or at all. The liquidity of Capital Notes 2 may also be impacted as a result of market volatility due to the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and the potential impact on the liquidity of Capital Notes 2 is unclear. 	Section 4.3.3
Ranking of Ordinary Shares	<ul style="list-style-type: none"> The Ordinary Shares held as a result of any Conversion will, following Conversion, rank equally with existing Ordinary Shares. Accordingly, the ongoing value of any Ordinary Shares received upon Conversion will depend upon the market price of Ordinary Shares after the date on which Capital Notes 2 are Converted. That market may also be volatile depending on securities markets conditions at that time. 	Section 4.3.4
Fluctuation in Ordinary Share price	<ul style="list-style-type: none"> The market price of Ordinary Shares may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions (including, but not limited to, the impact of and continued uncertainty surrounding the COVID-19 pandemic), BOQ's financial performance and position, and transactions affecting the share capital of BOQ. As a result, the value of Ordinary Shares received by Holders on Conversion may be greater than or less than Holders anticipated. After Conversion of Capital Notes 2, Holders may wish to sell their Ordinary Shares which may have a negative effect on the trading price of Ordinary Shares and may not be able to sell those Ordinary Shares at the price on which the Conversion calculation was based, or at all. 	Section 4.3.5
Changes in Distribution Rate	<ul style="list-style-type: none"> Distributions will fluctuate (both increasing and decreasing) over time as a result of movements in the BBSW Rate. The Distribution Rate will also fluctuate if there is a change in the Tax Rate. There is a risk that Distributions may become less attractive when compared to the returns available on comparable securities or investments. The amount of cash Distributions will also fluctuate with any change in the rate of franking of Distributions. It is possible for the BBSW Rate to become negative. Should this occur, the negative amount will be taken into account in calculating the Distribution Rate (but there is no obligation on Holders to pay BOQ if the rate becomes negative). 	Section 4.3.6
Distributions may not be paid	<ul style="list-style-type: none"> There is a risk that Distributions will not be paid on Capital Notes 2, including where the Directors decide not to pay a Distribution or where a Payment Condition exists. Distributions are non-cumulative. If BOQ does not pay a scheduled Distribution, a Holder has no entitlement to that Distribution. If for any reason a scheduled Distribution has not been paid in full on the relevant Distribution Payment Date, then, subject to some exceptions, a Distribution Restriction will apply to prevent payment of dividends on Ordinary Shares until a Distribution is next paid. A failure to pay a scheduled Distribution will not constitute an event of default and a Holder has no right to apply for BOQ to be wound up and will have no right of set-off or offsetting rights or claim on BOQ. 	Sections 4.3.7 and 4.3.8

1.3.1 KEY RISKS ASSOCIATED WITH AN INVESTMENT IN CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
Distributions may not be fully franked	<ul style="list-style-type: none"> BOQ currently expects Distributions to be fully or substantially franked. However, there is no guarantee that BOQ will have sufficient franking credits in the future to fully frank Distributions. If a Distribution is unfranked or partially franked, the Distribution will be increased to compensate for the unfranked component, subject to the conditions to payment of Distributions. The value and availability of franking credits to be utilised by a Holder will differ depending on the Holder's personal tax circumstances. 	Section 4.3.9
Restrictions on rights and ranking in a winding-up of BOQ	<ul style="list-style-type: none"> In a winding-up of BOQ, Capital Notes 2 rank for payment of capital ahead of Ordinary Shares, equally with Capital Notes 1 and other Equal Ranking Instruments, but behind the claims of all Senior Ranking Creditors (including depositors and unsubordinated and subordinated creditors). If there is a shortfall of funds on a winding-up of BOQ to pay all amounts ranking ahead of or equally with Capital Notes 2, Holders will lose all or some of their capital. Any return in a winding-up may be adversely affected if your Capital Notes 2 have been Converted or Written Off as a result of a Common Equity Trigger Event or Non-Viability Trigger Event. To understand the potential effect on the assets of BOQ available to meet the claims of a Holder in a winding-up of BOQ if there is a replacement of BOQ as the ultimate holding company of the BOQ Group and the successor holding company is an Approved NOHC, see Section 4.3.23. Holders do not have any claim on the assets of an Approved NOHC other than following Conversion as a holder of ordinary shares in the Approved NOHC. 	Section 4.3.10
Mandatory Conversion may not occur on the Scheduled Mandatory Conversion Date	<ul style="list-style-type: none"> There is a risk that Conversion will not occur on the Scheduled Mandatory Conversion Date because the Mandatory Conversion Conditions are not satisfied. Mandatory Conversion may therefore not occur when scheduled or at all. 	Section 4.3.11
Holders have no right to request Conversion, Redemption or Resale	<ul style="list-style-type: none"> Holders have no right to request that their Capital Notes 2 be Converted, Redeemed or Resold. Unless their Capital Notes 2 are Converted, Redeemed or Resold, in order to realise their investment, Holders would need to sell their Capital Notes 2 on the ASX at the prevailing market price. That price may be less than the Face Value, and there may be no liquid market in Capital Notes 2. 	Section 4.3.12
It is not certain whether and when Capital Notes may be Converted, Redeemed or Resold	<ul style="list-style-type: none"> There are a number of scenarios in which Capital Notes 2 may be Converted, Redeemed or Resold. It is uncertain whether and when Conversion, Redemption or Resale may occur. The timing of any Conversion, Redemption or Resale may not suit Holders. Capital Notes 2 are perpetual and may not be Converted, Redeemed or Resold at all, in which case they may remain on issue indefinitely and you may not receive your capital back or receive any Ordinary Shares. 	Sections 4.3.11, 4.3.12, 4.3.13, 4.3.14, 4.3.15, 4.3.16, 4.3.17, and 4.3.19

SECTION 1 INVESTMENT OVERVIEW

1.3.1 KEY RISKS ASSOCIATED WITH AN INVESTMENT IN CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
Conversion following a Loss Absorption Event	<ul style="list-style-type: none"> • Conversion following a Loss Absorption Event is not subject to any conditions. • If Conversion occurs following a Loss Absorption Event, you may receive significantly less than \$101.01 worth of Ordinary Shares per Capital Note 2. • Where Conversion does not occur for any reason (including an Inability Event) within 5 Business Days after the Loss Absorption Event, those Capital Notes 2 which are required to be Converted will be Written Off. • If Capital Notes 2 are Written Off, all rights in relation to those Capital Notes 2 will be terminated (and Holders will not get back their capital or receive compensation in relation to those Capital Notes 2). 	Section 4.3.17
BOQ may issue further securities or incur other indebtedness	<ul style="list-style-type: none"> • There is no limit on the amount of senior debt, deposits or other obligations or securities (whether ranking equally with, or in priority or junior to Capital Notes 2) that may be incurred or issued by BOQ at any time or the incurring or guaranteeing by BOQ of any indebtedness, which may affect a Holder's ability to be repaid on a winding-up of BOQ. 	Section 4.3.22
Amendment of Capital Notes 2 Terms	<ul style="list-style-type: none"> • Subject to complying with all applicable laws, BOQ may amend the Capital Notes 2 Terms and the Capital Notes 2 Deed Poll without the approval of Holders in certain circumstances. That may include amendments which affect the rights of Holders, including changes to dates or time periods stated, required or permitted in connection with any Conversion, Redemption or Resale. BOQ may make other amendments that in its opinion are not materially prejudicial to the interests of Holders as a whole. BOQ may also amend the Capital Notes 2 Terms if the amendment has been approved by a Special Resolution. • Amendments which may affect the eligibility of Capital Notes 2 as Additional Tier 1 Capital require APRA's prior written approval. • Amendments under these powers are binding on all Holders despite the fact that a Holder may not agree with the amendment. 	Section 4.3.24
Global economic, market and business risks with respect to the COVID-19 pandemic	<ul style="list-style-type: none"> • The ongoing COVID-19 pandemic has had a significant impact on the global economy and the ability of individuals, businesses, and governments to operate. • The impacts of COVID-19 are beyond BOQ's control and can have a material adverse effect on the overall business sentiment and environment, causing material uncertainties. These impacts can cause BOQ's business and investments to suffer in ways that cannot be predicted and which may have a material adverse impact on BOQ's operations, financial performance and position. 	Section 4.4.5

1.4 WHAT IS THE OFFER AND HOW DO I APPLY?

TOPIC	SUMMARY	FURTHER INFORMATION
How is the Offer structured and who can apply?	<ul style="list-style-type: none"> The Offer comprises: <ul style="list-style-type: none"> an Institutional Offer to Institutional Investors; a Broker Firm Offer to Australian resident retail and high net worth clients of Syndicate Brokers; and a Securityholder Offer to Eligible Securityholders on the register as at 7:00pm (Sydney time) on 23 October 2020. 	Section 5
When is the Offer Period?	<ul style="list-style-type: none"> The Offer opens on 03 November 2020. The Broker Firm Offer closes at 10:00am (Sydney time) on 23 November 2020 	Key Dates and Section 5
Is there a minimum application size?	<ul style="list-style-type: none"> Applications must be for a minimum of 50 Capital Notes 2 (\$5,000) and, after that, in multiples of 10 Capital Notes 2 (\$1,000). 	Section 5.4.1
How do I apply?	<ul style="list-style-type: none"> Instructions for Institutional Investors participating in the Institutional Offer will be provided by the Joint Lead Managers. Broker Firm Applicants must contact their Syndicate Broker for instructions on how to apply. All other Applicants must complete an Application Form and follow the instructions set out in Section 5. 	Section 5.4
How will Capital Notes 2 be allocated?	<ul style="list-style-type: none"> Allocations under the Institutional Offer and the Broker Firm Offer will be agreed by BOQ, the Arranger and the Joint Lead Managers following completion of the Bookbuild. The allocation policy is described in Section 5.5. 	Section 5.5
Is there any brokerage, commission or stamp duty payable?	<ul style="list-style-type: none"> No brokerage, commission or stamp duty is payable on your Application. You may have to pay brokerage but will not have to pay any stamp duty if you sell your Capital Notes 2 on ASX after Capital Notes 2 have been quoted on ASX. 	Section 5.4.4
What are the tax implications of investing in Capital Notes 2?	<ul style="list-style-type: none"> A general description of the Australian taxation consequences of investing in Capital Notes 2 is set out in Section 6. 	Section 6
Where can I find more information about the Offer?	<ul style="list-style-type: none"> If you have any questions in relation to the Offer, you can call the BOQ Offer Information Line (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays) on 1800 779 639 (within Australia) or +611800 779 639 (outside Australia). If you are a Broker Firm Applicant, you should contact your Syndicate Broker. 	Section 5.7
Consider and consult	<ul style="list-style-type: none"> Consider all risks and other information regarding an investment in Capital Notes 2 in light of your particular investment objectives and financial situation and particular circumstances. If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in Capital Notes 2 or not, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to invest. 	Section 4
Complete and submit your Application Form	<ul style="list-style-type: none"> The Application process varies depending on whether you participate in the Institutional Offer, Broker Firm Offer or Securityholder Offer. The Offer may close early so you are encouraged to consider submitting your Application as soon as possible after the Opening Date. 	Section 5.4

SECTION 2

ABOUT CAPITAL NOTES 2

This section is intended to provide information about the key features of Capital Notes 2. Where indicated, more detailed information is provided in other sections of the Prospectus.

It is important that you read this Prospectus and the Capital Notes 2 Terms in full before deciding to invest in Capital Notes 2. If you have any questions, you should seek advice from your financial adviser or other professional adviser.

The full Capital Notes 2 Terms are contained in Appendix A.


2.1 DISTRIBUTIONS

Capital Notes 2 are expected to pay quarterly floating rate non-cumulative Distributions, which are expected to be fully franked and accordingly Holders are expected to receive a combination of cash Distributions and franking credits until all Capital Notes 2 are Converted, Redeemed, Resold or Written Off. Payment of the Distributions is at BOQ's discretion and subject to the Payment Conditions. The Payment Conditions are described in Section 2.1.8 below.

Distributions on Capital Notes 2 are based on a floating rate and are non-cumulative. This means that if a Distribution or part of a Distribution is not paid on a Distribution Payment Date, Holders have no claim or entitlement in respect of non-payment nor any right to receive that Distribution at any later time.

TOPIC	SUMMARY	FURTHER INFORMATION										
2.1.1 What are Distributions?	<ul style="list-style-type: none"> • Distributions on Capital Notes 2 are: <ul style="list-style-type: none"> > preferred; > discretionary; > non-cumulative; > based on a floating rate; > scheduled to be paid quarterly in arrears on the Distribution Payment Dates; > subject to Payment Conditions; and > expected to be fully franked. 	Clause 2 of the Capital Notes 2 Terms										
2.1.2 How will the Distribution Rate be calculated?	<ul style="list-style-type: none"> • The Distribution Rate for each quarterly Distribution is a floating rate of: $(\text{BBSW Rate} + \text{Margin}) \times (1 - t)$ <p>where:</p> <ul style="list-style-type: none"> > BBSW Rate is the 3-month Bank Bill Swap Rate (BBSW) expressed as a percentage per annum on the first Business Day of the relevant Distribution Period; > Margin is the margin determined under the Bookbuild, expected to be in the range of 3.80% and 4.00% per annum; and > t is the Australian corporate tax rate applicable to the franking account of BOQ at the relevant Distribution Payment Date. As at the date of this Prospectus, t is 30% (but that rate may change). <p>As an example, assuming a BBSW Rate of 0.08% per annum and the Margin is 3.80% per annum and t is 30%, then the Distribution Rate for that Distribution Period would be calculated as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">BBSW Rate</td> <td style="text-align: right;">0.08% per annum</td> </tr> <tr> <td>plus Margin</td> <td style="text-align: right;">3.80% per annum</td> </tr> <tr> <td style="border-top: 1px solid black;">Equivalent unfranked Distribution rate</td> <td style="text-align: right; border-top: 1px solid black;">3.88% per annum</td> </tr> <tr> <td>Multiplied by (1 - t)</td> <td style="text-align: right;">x 0.70</td> </tr> <tr> <td style="border-top: 1px solid black;">Indicative fully franked Distribution Rate</td> <td style="text-align: right; border-top: 1px solid black;">2.716% per annum</td> </tr> </table>	BBSW Rate	0.08% per annum	plus Margin	3.80% per annum	Equivalent unfranked Distribution rate	3.88% per annum	Multiplied by (1 - t)	x 0.70	Indicative fully franked Distribution Rate	2.716% per annum	Clause 2 of the Capital Notes 2 Terms
BBSW Rate	0.08% per annum											
plus Margin	3.80% per annum											
Equivalent unfranked Distribution rate	3.88% per annum											
Multiplied by (1 - t)	x 0.70											
Indicative fully franked Distribution Rate	2.716% per annum											
	<p>Fall-back procedures apply under the Capital Notes 2 Terms if the BBSW Rate does not appear, if there is an obvious error in that rate or (subject to APRA's prior written approval) if that rate is otherwise subject to disruption.</p> <p>It is possible for the BBSW Rate to become negative. Should this occur, the negative amount will be taken into account in calculating the Distribution Rate (but there is no obligation on Holders to pay BOQ if the rate becomes negative). For example, if the BBSW Rate is -1.00% per annum, the Margin is 3.80% per annum and the t is 30%, then the Distribution Rate will be 1.96% per annum.</p>											

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
2.1.3 What is the BBSW Rate?	<ul style="list-style-type: none"> • Currently, the BBSW Rate is the primary short-term rate used in financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate. • The BBSW Rate, in respect of a Distribution Period, will be the rate “BBSW” in respect of prime bank eligible securities having a tenor of 3 months, which ASX (or its successor as administrator of that rate) publishes through information vendors on the first Business Day of the Distribution Period. • The graph below illustrates the movement in the BBSW Rate over the past 10 years. The rate on 9 October 2020 was 0.08% per annum. • If BOQ determines that a Rate Disruption Event has occurred, then, subject to APRA’s prior written approval, BOQ shall use as the BBSW Rate such Replacement Rate as it may determine and shall make such adjustments to the Capital Notes 2 Terms as it determines are reasonably necessary to calculate Distributions in accordance with such Replacement Rate. In making these determinations, BOQ: <ul style="list-style-type: none"> › shall act in good faith and in a commercially reasonable manner; › may consult with such sources of market practice as it considers appropriate; and › may otherwise make such determination in its discretion. • Holders should note that APRA’s approval may not be given for any Replacement Rate it considers to have the effect of increasing the rate of Distributions contrary to applicable prudential standards. • Broadly, a Rate Disruption Event occurs when, in BOQ’s opinion, BBSW: <ul style="list-style-type: none"> › has been discontinued or otherwise ceased to be calculated or administered; or › is no longer generally accepted in the Australian market as a reference rate appropriate to floating rate debt securities of a tenor and interest period comparable to that of Capital Notes 2. • Broadly, Replacement Rate means a rate that is generally accepted in the Australian market as the successor to the BBSW Rate, or if BOQ is not able, after making reasonable efforts, to ascertain such rate, or there is no such rate: <ul style="list-style-type: none"> › a reference rate that is, in BOQ’s opinion, appropriate to floating rate debt securities of a tenor and interest period most comparable to that of Capital Notes 2; or › such other rate as BOQ determines having regard to available comparable indices. 	Clause 2.4 of the Capital Note Terms
	 <p>The graph displays the 3-month Bank Bill Swap Rate (BBSW) in Australia, expressed as a percentage per annum. The vertical axis ranges from 0.00 to 6.00. The horizontal axis shows dates from October 2010 to October 2020. The rate begins at 5.00% in late 2010, peaks slightly, then declines to around 3.50% by early 2012. It continues to fall, reaching approximately 2.50% by late 2013, and stabilizes around 2.00% through 2016. A significant drop occurs in early 2020, with the rate falling to near 0.00% by October 2020.</p>	
	(Source: Thomson Reuters)	
	<ul style="list-style-type: none"> • The above graph is for illustrative purposes only and does not indicate, guarantee or forecast the actual BBSW Rate. The actual BBSW Rate for the first and any subsequent Distribution Periods may be higher or lower than the rates in the above graph and there is no guarantee that the BBSW Rate will be greater than zero throughout the life of Capital Notes 2. If the BBSW Rate is negative, the Distribution Rate will be reduced by taking account of the negative value of that rate in the calculation of the Distribution Rate, as set out in Section 2.1.4 (but there is no obligation on Holders to pay BOQ if the Distribution Rate were to become negative). 	

TOPIC	SUMMARY	FURTHER INFORMATION												
2.1.4 How will the Distribution be calculated for each Distribution Period?	<ul style="list-style-type: none"> Distributions scheduled to be paid on each Distribution Payment Date will be calculated using the following formula: (Distribution Rate x \$100 x D) / 365 <p>where:</p> <ul style="list-style-type: none"> Distribution Rate means the rate (expressed as a percentage per annum) calculated as set out in Section 2.1.2; and D means the number of days in the Distribution Period calculated as set out in the Capital Notes 2 Terms. <p>As an example, following the formula above, if the Distribution Rate was 2.716% per annum, then the Distribution on each Capital Note 2 for that Distribution Period (if the Distribution Period was 91 days) would be calculated as follows:</p> <table border="0" data-bbox="435 696 1225 835"> <tr> <td>Indicative fully franked Distribution Rate</td> <td style="text-align: right;">2.716% per annum</td> </tr> <tr> <td>Multiplied by \$100</td> <td style="text-align: right;">x \$100.00</td> </tr> <tr> <td>Multiplied by the number of days in the Distribution Period⁷</td> <td style="text-align: right;">x 91</td> </tr> <tr> <td>Divided by 365</td> <td style="text-align: right;">+ 365</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>Illustrative fully franked Distribution payment per Capital Note 2 for a Distribution Period of 91 days</td> <td style="text-align: right;">\$0.6771</td> </tr> </table> <ul style="list-style-type: none"> The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Distribution payment for any Distribution Period. Actual Distribution payments may be higher or lower than this example. The Distribution Rate for the first Distribution Period will be set on the Issue Date and will include the Margin to be determined under the Bookbuild. 	Indicative fully franked Distribution Rate	2.716% per annum	Multiplied by \$100	x \$100.00	Multiplied by the number of days in the Distribution Period ⁷	x 91	Divided by 365	+ 365	<hr/>		Illustrative fully franked Distribution payment per Capital Note 2 for a Distribution Period of 91 days	\$0.6771	Clause 2.4 of the Capital Notes 2 Terms
Indicative fully franked Distribution Rate	2.716% per annum													
Multiplied by \$100	x \$100.00													
Multiplied by the number of days in the Distribution Period ⁷	x 91													
Divided by 365	+ 365													
<hr/>														
Illustrative fully franked Distribution payment per Capital Note 2 for a Distribution Period of 91 days	\$0.6771													
2.1.5 What is the impact of franking credits?	<ul style="list-style-type: none"> Distributions are expected, but not guaranteed, to be fully franked. The franking credits represent a Holder's share of tax paid by BOQ on the profits from which the cash Distribution is paid. Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Holder. Holders should refer to the Australian taxation summary in Section 6 and seek professional advice in relation to their tax position. If any Distribution is not fully franked, the Distribution will be increased to adjust for any unfranked component of the Distribution, based upon the applicable Franking Rate. 	Clause 2.5 of the Capital Notes 2 Terms and Sections 4.3.9 and 6 of this Prospectus												
2.1.6 When are the Distribution Payment Dates?	<ul style="list-style-type: none"> Distributions will be calculated quarterly and are scheduled to be paid quarterly in arrears, subject to no Payment Condition existing. Distribution Payment Dates are 15 February, 15 May, 15 August and 15 November each year. The first Distribution Payment Date is 15 February 2021. If Capital Notes 2 are Converted, Redeemed or Resold, the date on which that occurs will be a Distribution Payment Date for those Capital Notes 2. For a Conversion (other than a Conversion on account of a Loss Absorption Event) or Redemption that will be the final Distribution Payment Date. If any of these dates is not a Business Day, then the Distribution Payment Date will be the next Business Day, except where the Distribution Payment Date is 15 May 2027, which shall be the preceding Business Day. 	Clause 2.2 of the Capital Notes 2 Terms												
2.1.7 What is the Record Date for Distributions?	<ul style="list-style-type: none"> Distributions are only payable to those persons registered as Holders on the date which is 11 Business Days before the Distribution Payment Date for that Distribution. 	Clause 2.3 of the Capital Notes 2 Terms												

⁷ Distribution Periods will generally contain 90 to 92 days with the exception of the first Distribution Period.

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
2.1.8 What are the Payment Conditions?	<ul style="list-style-type: none"> • Distributions may not always be paid. The payment of each Distribution is subject to the following being satisfied: <ul style="list-style-type: none"> › BOQ in its absolute discretion electing to pay the Distribution on the relevant Distribution Payment Date; and › no Payment Condition existing on the relevant Distribution Payment Date. • A Payment Condition will exist on a Distribution on a Distribution Date if any of the following applies: <ul style="list-style-type: none"> › paying the Distribution would result in BOQ or the Group not complying with APRA's then current Prudential Capital Requirements; › unless APRA otherwise approves in writing, the payment of Distributions would result in BOQ or the Group exceeding any limit on distributions of earnings applicable under (and calculated in accordance with) APRA's then current capital conservation requirements as they are applied to BOQ or the Group (as the case may be) at the time; › APRA otherwise objects to the payment of the Distribution; or › paying the Distribution would result in BOQ becoming, or being likely to become, insolvent for the purposes of the Corporations Act. 	Clause 2.6 of the Capital Notes 2 Terms and Section 3.3.3
2.1.9 What happens if a Distribution is not paid?	<ul style="list-style-type: none"> • If for any reason a Distribution has not been paid in full on a Distribution Payment Date (Relevant Distribution Payment Date), subject to certain exceptions, BOQ must not, until and including the next Distribution Payment Date: <ul style="list-style-type: none"> › declare, determine or pay any Ordinary Share Dividend; or › undertake any Buy-Back or Capital Reduction, unless: <ul style="list-style-type: none"> › the Distribution is paid in full within 3 Business Days of the Relevant Distribution Payment Date; or › a Special Resolution of the Holders has been passed approving such action. • Distributions are non-cumulative. If a Distribution or part of a Distribution is not paid on a Distribution Payment Date, Holders have no claim or entitlement in respect of non-payment and no right to receive that Distribution at any later time. • A failure to pay a scheduled Distribution will not constitute an event of default and a Holder has no right to apply for BOQ to be wound up and will have no right of set-off or offsetting rights or claim on BOQ. 	Clauses 2.7 and 2.8 of the Capital Notes 2 Terms

2.2 MANDATORY CONVERSION ON A MANDATORY CONVERSION DATE

Capital Notes 2 do not have a maturity date but are scheduled to be Converted into Ordinary Shares on 15 May 2029 if Capital Notes 2 have not been Converted or Redeemed prior to that date, provided that certain conditions are met. These conditions may never be satisfied and therefore Capital Notes 2 may never Convert into Ordinary Shares.

TOPIC	SUMMARY	FURTHER INFORMATION
2.2.1 What is Mandatory Conversion?	<ul style="list-style-type: none"> • Holders will receive Ordinary Shares on Conversion of Capital Notes 2 on the Mandatory Conversion Date unless the Mandatory Conversion Conditions are not satisfied or Capital Notes 2 are not outstanding on that date. • Upon Conversion on a Mandatory Conversion Date, Holders will receive Ordinary Shares worth approximately \$101.01 per Capital Note 2 based on the VWAP (the volume weighted average price of Ordinary Shares) during a period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date. • The number of Ordinary Shares received will not be greater than the Maximum Conversion Number. • The VWAP that is used to calculate the number of Ordinary Shares that Holders receive will most likely differ from the Ordinary Share price on or after the Mandatory Conversion Date. This means that the value of Ordinary Shares received may be worth more or less than \$101.01 per Capital Note when they are issued or at any time after that. 	Clause 3 of Capital Notes 2 Terms
2.2.2 When is the Mandatory Conversion Date?	<ul style="list-style-type: none"> • The Mandatory Conversion Date will be the Scheduled Mandatory Conversion Date (being 15 May 2029) provided that the Mandatory Conversion Conditions are satisfied on that date. • If any of the Mandatory Conversion Conditions are not satisfied on the Scheduled Mandatory Conversion Date, then the Mandatory Conversion Date will be deferred until the next Distribution Payment Date in respect of which all of the Mandatory Conversion Conditions are satisfied. 	Clause 3 of the Capital Notes 2 Terms

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
2.2.3 What are the Mandatory Conversion Conditions?	<p>The Mandatory Conversion Conditions are as follows:</p> <ul style="list-style-type: none"> • First Mandatory Conversion Condition: the VWAP of Ordinary Shares on the 25th Business Day before a possible Mandatory Conversion Date⁸ is greater than 56% of the VWAP of Ordinary Shares during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding but not including the date Capital Notes 2 are issued (as adjusted in accordance with the Capital Notes 2 Terms (Issue Date VWAP)); • Second Mandatory Conversion Condition: the VWAP of Ordinary Shares during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) a possible Mandatory Conversion Date (VWAP Period) is greater than 50.51% of the Issue Date VWAP; and • Third Mandatory Conversion Condition: no Delisting Event applies to Ordinary Shares in respect of a possible Mandatory Conversion Date (broadly, a Delisting Event occurs when BOQ is delisted from ASX, its Ordinary Shares have been suspended from trading for a certain period or it is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting Capital Notes 2). 	Clause 3 of Capital Notes 2 Terms

The diagram illustrates the timeline for the Mandatory Conversion Conditions. It features a horizontal orange arrow pointing right, representing the progression of time. Below the arrow, three blue boxes are arranged horizontally, representing key dates: 6 April 2029 (25th Business Day before a Mandatory Conversion Date), 13 April – 14 May 2029 (the 20 Business Day VWAP Period), and 15 May 2029 (Mandatory Conversion Date). Below these boxes, three blue boxes describe the conditions: First Mandatory Conversion Condition (VWAP on 10 April 2029 > 56% of Issue Date VWAP), Second Mandatory Conversion Condition (VWAP during 20 Business Day VWAP Period > 50.51% of Issue Date VWAP), and Third Mandatory Conversion Condition (Ordinary Shares are quoted on ASX). Blue downward-pointing triangles connect the dates to their respective conditions.

Note: The above diagram dates assume that during the VWAP Period, trading takes place on each of the Business Days, which may not be the case if trading in Ordinary Shares is suspended during the period leading up to the possible Mandatory Conversion Date.

⁸ If no trading in Ordinary Shares took place on that date, the VWAP is the VWAP on the first Business Day preceding that date on which trading in Ordinary Shares took place.

TOPIC	SUMMARY	FURTHER INFORMATION
2.2.4 What is the purpose of the Mandatory Conversion Conditions?	<ul style="list-style-type: none"> The purpose of the Mandatory Conversion Conditions is to ensure that the Conversion will not occur unless the number of Ordinary Shares that Holders will receive will be worth \$101.01 per Capital Note 2 (calculated as described below) and the Ordinary Shares are capable of being sold on ASX. The number of Ordinary Shares to be issued on Mandatory Conversion is to be determined by applying a formula reflecting the VWAP of Ordinary Shares described in Section 2.2.6. There is a cap on the maximum number of Ordinary Shares that a Holder can be issued upon Conversion. The cap is the Maximum Conversion Number. The cap arises from the prudential standards issued by APRA which govern the characteristics of instruments which may qualify as regulatory capital, and also from the equivalent criteria of certain rating agencies for such instruments. Where the number of Ordinary Shares issued is less than the Maximum Conversion Number, the effect of the formula is that the value of these Ordinary Shares (calculated on a VWAP basis) will be \$101.01 per Capital Note 2. If the Ordinary Share price at the time for Conversion has fallen below certain levels, the number of Ordinary Shares received would be limited to the Maximum Conversion Number and would be worth less than \$101.01 per Capital Note 2. The Maximum Conversion Number is calculated in accordance with the following formula: 	Clause 3 of Capital Notes 2 Terms
	$\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$	
	<p>where:</p> <ul style="list-style-type: none"> Relevant Fraction is 0.5 in relation to a Mandatory Conversion and 0.2 in the case of any other Conversion. The First Mandatory Conversion Condition and the Second Mandatory Conversion Condition are intended to help protect Holders against receiving a number of Ordinary Shares limited to the Maximum Conversion Number and, accordingly, are worth less than \$101.01 per Capital Note 2 (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date). The Third Mandatory Conversion Condition is intended to protect Holders from the risk of receiving Ordinary Shares that are not capable of being sold on ASX by making Conversion conditional on Ordinary Shares being quoted on ASX. 	
2.2.5 What can happen if the Mandatory Conversion Conditions are not satisfied?	<ul style="list-style-type: none"> If any of the Mandatory Conversion Conditions are not satisfied, Capital Notes 2 continue to be on issue and Conversion is deferred until the next Distribution Payment Date on which all the Mandatory Conversion Conditions are satisfied. This may mean that Capital Notes 2 remain on issue indefinitely. 	Clause 3 of Capital Notes 2 Terms

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION						
<p>2.2.6 How many Ordinary Shares will a Holder receive on the Mandatory Conversion Date?</p>	<ul style="list-style-type: none"> Where the Mandatory Conversion Conditions are satisfied, a Holder will receive, on a Mandatory Conversion Date, a number of Ordinary Shares per Capital Note (Conversion Number) calculated in accordance with the following formula: $\text{Conversion Number} = \frac{\text{Face Value}}{99\% \times \text{VWAP}}$ <p>where:</p> <p>VWAP broadly is the volume weighted average price of Ordinary Shares. For a Mandatory Conversion, VWAP is calculated over a VWAP Period that is the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date.</p> <p>Illustrative example of Conversion</p> <ul style="list-style-type: none"> Assuming the VWAP is \$6.00, the number of Ordinary Shares a Holder would receive following Conversion on a Mandatory Conversion Date would be calculated as follows: <table border="1" data-bbox="435 929 1236 1052"> <tr> <td>Face Value</td> <td style="text-align: right;">\$100</td> </tr> <tr> <td>Divided by VWAP x 0.99</td> <td style="text-align: right;">÷ 5.94</td> </tr> <tr> <td>Ordinary Shares per Capital Note</td> <td style="text-align: right;">16.835</td> </tr> </table>	Face Value	\$100	Divided by VWAP x 0.99	÷ 5.94	Ordinary Shares per Capital Note	16.835	<p>Clauses 3 and 7 of Capital Notes 2 Terms</p>
Face Value	\$100							
Divided by VWAP x 0.99	÷ 5.94							
Ordinary Shares per Capital Note	16.835							
<p>2.2.7 What adjustments to the Issue Date VWAP are made to account for changes to BOQ's capital?</p>	<ul style="list-style-type: none"> The Issue Date VWAP, and consequently the Maximum Conversion Number and the price at which the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition would be satisfied, may be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues as set out in the Capital Notes 2 Terms (but not other transactions, including rights issues, which may affect the capital of BOQ). However, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than 1% of the Issue Date VWAP then in effect. 	<p>Clause 7 of Capital Notes 2 Terms</p>						

2.3 AUTOMATIC CONVERSION FOLLOWING A LOSS ABSORPTION EVENT

Capital Notes 2 are required to be Converted following the occurrence of a Loss Absorption Event.

The Mandatory Conversion Conditions do not apply to a Conversion following a Loss Absorption Event. The number of Ordinary Shares that Holders will receive on a Conversion in these circumstances will not be greater than the Maximum Conversion Number.

A Loss Absorption Event may occur where BOQ encounters severe financial difficulty. In the event of a Conversion following a Loss Absorption Event, depending on the market price of Ordinary Shares at the relevant time, Holders are likely to receive Ordinary Shares that are worth significantly less than \$101.01 for each Capital Note 2 they hold and may suffer loss as a consequence. If Capital Notes 2 are not Converted for any reason (including an Inability Event) they will be Written Off, which means those Capital Notes 2 will never be Converted, Redeemed or Resold, all rights in relation to those Capital Notes 2 will be terminated, and Holders will not have their capital repaid.

TOPIC	SUMMARY	FURTHER INFORMATION
2.3.1 What is a Loss Absorption Event?	<p>There are two types of Loss Absorption Events:</p> <ul style="list-style-type: none"> › a Common Equity Trigger Event; and › a Non-Viability Trigger Event. <p>Common Equity Trigger Event</p> <ul style="list-style-type: none"> • A Common Equity Trigger Event will occur when either or both of the Common Equity Tier 1 Capital Ratio in respect of the BOQ Level 1 Group and the BOQ Level 2 Group as determined by BOQ or APRA at any time is equal to or less than 5.125%. • BOQ must immediately notify APRA in writing if it makes such a determination. • The Common Equity Tier 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital of the BOQ Level 1 Group or the BOQ Level 2 Group (as applicable) (including Ordinary Shares, retained earnings and certain reserves but net of Common Equity Tier 1 Capital Deductions) to the risk weighted assets of the BOQ Level 1 Group or the BOQ Level 2 Group respectively, as prescribed by APRA. • See Section 2.3.2 below and Section 3.3 for more information about BOQ's Common Equity Capital Tier 1 Ratio. <p>A Non-Viability Trigger Event</p> <ul style="list-style-type: none"> • A Non-Viability Trigger Event will occur if, at any time: <ul style="list-style-type: none"> › APRA notifies BOQ in writing that conversion or write off of Relevant Tier 1 Capital Instruments is necessary because, without it, APRA considers that BOQ would become non-viable; or › APRA notifies BOQ in writing that it has determined that without a public sector injection of capital (or equivalent support) BOQ would become non-viable. • APRA has not provided guidance on when it will consider an entity to be non-viable. However, it is likely that APRA will consider an entity to be non-viable when, for example, the entity is suffering from significant financial stress, is insolvent or cannot raise capital in the public or private market. In the context of authorised deposit-taking institutions (ADIs), APRA indicated on 9 July 2019 that it may regard non-viability as occurring well before an ADI is at risk of becoming insolvent. 	Clause 4 of the Capital Notes 2 Terms

SECTION 2 ABOUT CAPITAL NOTES 2

2.3 AUTOMATIC CONVERSION FOLLOWING A LOSS ABSORPTION EVENT (CONTINUED)

TOPIC	SUMMARY	FURTHER INFORMATION
2.3.2 What is the Common Equity Tier 1 Capital Ratio?	<ul style="list-style-type: none"> The Common Equity Tier 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital, to the total risk weighted assets of BOQ, as prescribed by APRA under its Prudential Capital Requirements. At 31 August 2020, BOQ's Common Equity Tier 1 Capital Ratio was 9.78% based on APRA's Prudential Capital Requirements⁹, which equates to a surplus of capital of approximately A\$1,471 above the Common Equity Trigger Event level of 5.125%. BOQ's Common Equity Tier 1 Capital Ratio is well above the Common Equity Trigger Event level of Common Equity Tier 1 Capital Ratio of 5.125%, on a Level 1 and Level 2 basis. Based on APRA's Prudential Capital Requirements, BOQ is well in excess of the minimum Common Equity Tier 1 requirement of 4.5% and the minimum combined Common Equity Tier 1 plus capital conservation buffer (2.5%) of 7.0%. BOQ gives no assurance as to what its Common Equity Tier 1 Capital Ratio will be at any time as it may be significantly impacted by unexpected events affecting its business, operations and financial condition. 	Clause 24.1 of the Capital Notes 2 Terms
2.3.3 What happens after a Loss Absorption Event?	<ul style="list-style-type: none"> BOQ will be required to Convert a number of Capital Notes 2 into Ordinary Shares following the occurrence of a Loss Absorption Event. If a Loss Absorption Event occurs, BOQ must Convert Capital Notes 2 immediately on that day (the "Loss Absorption Event Conversion Date"). BOQ must notify Holders as soon as practicable of that event occurring, but the Conversion occurs whether or not that notice is given. Conversion in these circumstances is not subject to any conditions and so cannot be stopped for those reasons. If Conversion has not been effected within 5 Business Days after the Loss Absorption Event Conversion Date for any reason (including an Inability Event), the Capital Notes 2 will be Written Off with effect on and from the Loss Absorption Event Conversion Date and a Holder will suffer loss as a consequence. If a Capital Note 2 is Written Off: <ul style="list-style-type: none"> the Capital Note 2 will not be Converted on that date and will not be Converted, Redeemed or Resold on any other date; and the relevant Holder's rights (including to payment of Distributions and Face Value) in relation to such Capital Note are immediately and irrevocably terminated and Written Off. 	Clause 4 of the Capital Notes 2 Terms
2.3.4 How many Ordinary Shares will Holders receive if Capital Notes 2 are Converted on a Loss Absorption Event Conversion Date?	<ul style="list-style-type: none"> If Capital Notes 2 are Converted on a Loss Absorption Event Conversion Date, Holders will receive a number of Ordinary Shares per Capital Note 2 that is equivalent to the number calculated using the following formula, but subject to a cap so that the number of Ordinary Shares received is limited to the Maximum Conversion Number: $\text{Conversion Number} = \frac{\text{Face Value}}{99\% \times \text{VWAP}}$ The cap imposed by the Maximum Conversion Number is likely to mean that fewer, and possibly significantly fewer, Ordinary Shares would be received by a Holder than if this cap did not exist. For this purpose, VWAP is calculated over a VWAP Period that is the 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Loss Absorption Event Conversion Date (when the price of Ordinary Shares may be low). In the above calculation there is a small Conversion discount since selling costs are likely to apply to the sale of Ordinary Shares on ASX. 	Clauses 4 and 7 of the Capital Notes 2 Terms

9 BOQ only discloses Common Equity Tier 1 Capital at Level 2. The difference between the calculation at Level 1 and Level 2 is not material.

TOPIC	SUMMARY	FURTHER INFORMATION
2.3.5 What is the Maximum Conversion Number?	<ul style="list-style-type: none">The Maximum Conversion Number in the case of a Loss Absorption Event is determined using the following formula: $\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP} \times 0.2}$This formula is derived from market precedents and the cap on the number of Ordinary Shares that are permitted to be issued in these circumstances under APRA's Prudential Capital Requirements and certain ratings agency requirements.This means that, depending on the market price of Ordinary Shares at the relevant time, a Holder is likely to receive significantly less than approximately \$101.01 worth of Ordinary Shares per Capital Note 2 and is likely to suffer a loss as a consequence.	

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION																
<p>2.3.6</p> <p>Is there a worked example illustrating how many Ordinary Shares a Holder will receive on Conversion following a Loss Absorption Event?</p>	<p>Illustrative example of Conversion</p> <ul style="list-style-type: none"> This example illustrates how many Ordinary Shares a Holder will receive per Capital Note 2 following Conversion on account of a Loss Absorption Event. Assumptions used in this example: <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Issue Date VWAP</td> <td style="text-align: right;">\$6.00</td> </tr> <tr> <td>VWAP</td> <td style="text-align: right;">\$1.00</td> </tr> </table> <ul style="list-style-type: none"> This example is for illustrative purposes only. The actual VWAP, Issue Date VWAP and Maximum Conversion Number may be higher or lower than in this example and the Issue Date VWAP may be adjusted after the Issue Date in limited circumstances. <p>Step 1 - Calculate the number of Ordinary Shares using the Conversion mechanics</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Face Value</td> <td style="text-align: right;">\$100</td> </tr> <tr> <td>Divided by VWAP x 0.99</td> <td style="text-align: right;">÷ \$0.99</td> </tr> <tr> <td>Ordinary Shares per Capital Note 2</td> <td style="text-align: right;">101.01</td> </tr> </table> <p>Step 2 - Calculate the Maximum Conversion Number</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Face Value</td> <td style="text-align: right;">\$100</td> </tr> <tr> <td>Divided by Issue Date VWAP x 0.20</td> <td style="text-align: right;">÷ \$1.20</td> </tr> <tr> <td>Maximum Conversion Number of Ordinary Shares per Capital Note 2</td> <td style="text-align: right;">83.33</td> </tr> </table> <p>Step 3 - Assess the effect of the Maximum Conversion Number</p> <p>In this example, the Maximum Conversion Number is lower than the number of Ordinary Shares a Holder would receive per Capital Note 2 calculated using the Conversion formula. As a result, the Maximum Conversion Number would cap the number of Ordinary Shares a Holder would receive per Capital Note 2 at 83.33 Ordinary Shares. If the Holder holds 100 Capital Notes 2 (having an aggregate Face Value of \$10,000) they would receive (after disregarding any fraction of an Ordinary Share) 8,333 Ordinary Shares. If those Ordinary Shares were sold on ASX at the same price as the VWAP (being \$1.00), the Holder in this example would receive approximately \$8,333, which is less than \$10,000.</p>	Issue Date VWAP	\$6.00	VWAP	\$1.00	Face Value	\$100	Divided by VWAP x 0.99	÷ \$0.99	Ordinary Shares per Capital Note 2	101.01	Face Value	\$100	Divided by Issue Date VWAP x 0.20	÷ \$1.20	Maximum Conversion Number of Ordinary Shares per Capital Note 2	83.33	<p>Clauses 4 and 7 of the Capital Notes 2 Terms</p>
Issue Date VWAP	\$6.00																	
VWAP	\$1.00																	
Face Value	\$100																	
Divided by VWAP x 0.99	÷ \$0.99																	
Ordinary Shares per Capital Note 2	101.01																	
Face Value	\$100																	
Divided by Issue Date VWAP x 0.20	÷ \$1.20																	
Maximum Conversion Number of Ordinary Shares per Capital Note 2	83.33																	
<p>2.3.7</p> <p>Is Conversion on account of a Loss Absorption Event subject to the Mandatory Conversion Conditions?</p>	<ul style="list-style-type: none"> No. Conversion following a Loss Absorption Event is not subject to the Mandatory Conversion Conditions (or any other conditions) being satisfied. This means that, due to the application of the Maximum Conversion Number, depending on the market price of Ordinary Shares at the time, Holders are likely to receive significantly less than \$101.01 worth of Ordinary Shares per Capital Note 2 and to suffer loss as a consequence. 	<p>Clause 4 of the Capital Notes 2 Terms</p>																

TOPIC	SUMMARY	FURTHER INFORMATION
2.3.8 How many Ordinary Shares will Holders receive on the Loss Absorption Event Conversion Date?	<ul style="list-style-type: none"> • If a Loss Absorption Event occurs, BOQ must convert or write off sufficient Relevant Tier 1 Capital Instruments (including some or all Capital Notes 2) to restore the Common Equity Capital Ratio to a percentage above 5.125%, or to satisfy APRA that BOQ is viable without further conversion or write off (as applicable). • If BOQ is required to Convert some Capital Notes 2, BOQ must treat Holders on an approximately pro-rata basis among themselves and other Relevant Tier 1 Capital Instruments or in a manner that is otherwise, in the opinion of BOQ, fair and reasonable. This is subject to such adjustment as BOQ may determine to take account of the effect on marketable parcels of Capital Notes 2 and the need to round to whole numbers the number of Ordinary Shares and any Capital Notes 2 or other Relevant Tier 1 Capital Instruments remaining on issue. However, this determination must not impede the immediate Conversion of the relevant number of Capital Notes 2. • Holders should be aware that: <ul style="list-style-type: none"> › Relevant Tier 1 Capital Instruments such as Capital Notes 1 and Capital Notes 2 will be converted or written off before any Tier 2 Capital instruments are converted or written off; › BOQ has no Relevant Tier 1 Instruments on issue other than Capital Notes 1; › BOQ has no obligation to maintain on issue Capital Notes 1 or any Relevant Tier 1 Capital Instruments and does not, and may never, have on issue Relevant Tier 1 Capital Instruments which require them to be converted or written off before Capital Notes 2 or in full; › if Capital Notes 2 are Written Off, all rights in relation to those Capital Notes 2 will be terminated and the Holders will lose the entire amount of their investment, without compensation; and › where a Non-Viability Loss Absorption Event occurs because APRA determines that, without a public sector injection of capital or equivalent support, BOQ would become non-viable, all Capital Notes 2 will be Converted. 	Clauses 4 and 7 of the Capital Notes 2 Terms

Worked example on Conversion following a Loss Absorption Event:

The more the VWAP is below the Issue Date VWAP *0.2 at the time of Conversion on account of a Loss Absorption Event, the bigger the Holder's loss as the number of shares is limited to the Maximum Conversion Number. The below table illustrates the Holder's loss at various VWAPs, assuming an Issue Date VWAP of \$6.00, and illustrates that Holders will suffer a loss if the VWAP at Conversion is greater than 80% below the Issue Date VWAP (assumingly illustratively a \$6.00 Issue Date VWAP).

VWAP @ Conversion	VWAP	Maximum Conversion Number per Capital Note 2	Conversion Number per Capital Note 2	Value per Capital Note 2 if sold @ VWAP (before selling costs)	Loss on \$10,000 investment in Capital Notes 2 (before selling costs)
10% below Issue Date VWAP	\$ 5.40	83.33	18.71	\$ 101.01	—
50% below Issue Date VWAP	\$ 3.00	83.33	33.67	\$ 101.01	—
80% below Issue Date VWAP	\$ 1.20	83.33	83.33	\$ 100.00	\$ 0.00
81% below Issue Date VWAP	\$ 1.14	83.33	83.33	\$ 95.00	\$(500.00)
90% below Issue Date VWAP	\$ 0.60	83.33	83.33	\$ 50.00	\$(5,000.00)
95% below Issue Date VWAP	\$ 0.30	83.33	83.33	\$ 25.00	\$(7,500.00)
99% below Issue Date VWAP	\$ 0.06	83.33	83.33	\$ 5.00	\$(9,500.00)

If Capital Notes 2 are not Converted within 5 Business Days then they are written off and the Holder will lose all their investment in the Capital Note 2.

SECTION 2 ABOUT CAPITAL NOTES 2

2.4 MANDATORY CONVERSION ON ACQUISITION EVENT

BOQ is also required to Convert Capital Notes 2 into Ordinary Shares where BOQ is taken over by way of takeover bid or scheme of arrangement which meets certain requirements described below.

As with Mandatory Conversion and Optional Conversion, there are conditions to Conversion in these circumstances which are designed to ensure that Holders receive a number of Ordinary Shares worth \$101.01 for each Capital Note 2 they hold and that those Ordinary Shares are capable of being sold on ASX.

These conditions may never be satisfied; accordingly, Capital Notes 2 may never Convert into Ordinary Shares.

TOPIC	SUMMARY	FURTHER INFORMATION
2.4.1 What is an Acquisition Event?	<ul style="list-style-type: none"> • An Acquisition Event will occur where: <ul style="list-style-type: none"> › a takeover bid is made to acquire all or some of the Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or › a court approves a scheme of arrangement under Part 5.1 of the Corporations Act, which scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented, provided that in each case, all regulatory approvals necessary for the acquisition to occur have been obtained. • Notwithstanding the foregoing, an Acquisition Event will not have occurred where BOQ is replaced as the ultimate holding company of the BOQ Group by an Approved NOHC – see Section 2.8.15. • In addition, there may be ways in which control of BOQ or its business operations change, including as a result of regulatory intervention, which do not amount to an Acquisition Event. 	Clauses 5 and 24.1 of the Capital Notes 2 Terms
2.4.2 What must BOQ do on the occurrence of an Acquisition Event?	<ul style="list-style-type: none"> • If an Acquisition Event occurs, subject to certain requirements BOQ must give an Acquisition Conversion Notice and Convert all Capital Notes 2 on issue into a number of Ordinary Shares with a value of \$101.01 per Capital Note 2 (based on the VWAP during a period before the Acquisition Conversion Date. The VWAP Period in this case is usually 20 Business Days but a lesser period if trading in Ordinary Shares in the period after the Acquisition Event and before the Acquisition Conversion Date is less than 20 Business Days). The number of Ordinary Shares received will not be greater than the Maximum Conversion Number. • If certain requirements for Conversion to occur have not been satisfied, BOQ will not be required to give an Acquisition Conversion Notice to Holders, and will not be required to Convert Capital Notes 2 at that time. However, BOQ must Convert Capital Notes 2 on the next Distribution Payment Date in respect of which the conditions to Conversion are satisfied. 	Clauses 5 and 7 of the Capital Notes 2 Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.4.3 What are the restrictions on Conversion occurring following an Acquisition Event?	<ul style="list-style-type: none"> • There are two types of restrictions which apply in relation to Conversion in connection with an Acquisition Event: <ol style="list-style-type: none"> 1. BOQ is not required to give an Acquisition Conversion Notice if, on the second Business Day before the date on which an Acquisition Conversion Notice is to be sent: <ul style="list-style-type: none"> › the VWAP on that date is less than or equal to 22.50% of the Issue Date VWAP; or › a Delisting Event applies; and 2. If BOQ has given an Acquisition Conversion Notice, BOQ may not proceed to Convert Capital Notes 2 if, on the Acquisition Conversion Date specified in the notice: <ul style="list-style-type: none"> › the VWAP during the VWAP Period is less than or equal to 20.21% of the Issue Date VWAP; or › a Delisting Event applies. • Without these conditions, Conversion could occur in situations where Holders would receive a number of Ordinary Shares limited to the Maximum Conversion Number and, accordingly, those Ordinary Shares could be worth less than \$101.01 per Capital Note 2. • The Maximum Conversion Number in the case of Conversion in these circumstances is set by dividing the Face Value of the Capital Notes 2 by 20% of the Issue Date VWAP (as such number may be adjusted as described in Section 2.2.7). 	Clause 5 of the Capital Notes 2 Terms
2.4.4 What happens if Conversion does not occur?	<ul style="list-style-type: none"> • If BOQ is not required to give an Acquisition Event Notice or the further Conversion restrictions prevent Conversion, BOQ must: <ul style="list-style-type: none"> › notify Holders as soon as practicable that Conversion will not occur; and › give, unless the restrictions on Conversion apply, an Acquisition Conversion Notice on or before the 25th Business Day prior to the following Distribution Payment Date which is at least 25 Business Days after the notice to Holders and the conditions described above will be tested again in respect of that date. This process will be repeated until a Conversion occurs so long as Capital Notes 2 remain on issue. 	Clause 5 of the Capital Notes 2 Terms
2.4.5 What other obligations does BOQ have in connection with a takeover or scheme of arrangement?	<ul style="list-style-type: none"> • On the occurrence of a recommended takeover or scheme of arrangement which would result in an Acquisition Event or Potential Acquisition Event, if the Directors consider that BOQ will not be permitted to Convert Capital Notes 2 or the VWAP during the VWAP Period would be less than or equal to 20.21% of the Issue Date VWAP or a Delisting Event applies in respect of the relevant Acquisition Conversion Date, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to Holders or that Holders are entitled to participate in the scheme of arrangement or a similar transaction. 	Clause 20.4 of the Capital Notes 2 Terms

SECTION 2 ABOUT CAPITAL NOTES 2

2.5 CONVERSION, REDEMPTION OR RESALE AT BOQ'S OPTION

On 14 May 2027, BOQ may elect to Convert, Redeem or Resell Capital Notes 2 with APRA's prior written approval. Subject to APRA's prior written approval, BOQ may also elect to Convert Capital Notes 2 into Ordinary Shares following the occurrence of certain events (related to tax and regulation). Subject to APRA's prior written approval, BOQ may also elect to Convert all (but not some only) of Capital Notes 2 on the occurrence of a Potential Acquisition Event.

Holders should not expect that APRA's approval, if requested, will be given for any Optional Conversion, Redemption or Resale.

As with a Mandatory Conversion, there are conditions to an Optional Conversion which are designed to ensure that Holders receive \$101.01 worth of Ordinary Shares for each Capital Note 2 they hold, and that Holders receive Ordinary Shares that are capable of being sold on ASX. The number of Ordinary Shares that Holders will receive on a Conversion in these circumstances will not be greater than the Maximum Conversion Number. The conditions to an Optional Conversion may never be satisfied and accordingly, Capital Notes 2 may never Convert into Ordinary Shares.

If a Redemption or Resale occurs, a Holder will receive the Face Value (\$100) in cash for each Capital Note 2 that it holds. There are restrictions on BOQ's ability to Redeem Capital Notes 2 for cash. Most importantly, BOQ may only elect to Redeem Capital Notes 2 if APRA is satisfied that BOQ's regulatory capital position will remain adequate following the Redemption. This is intended to protect BOQ's creditors (including depositors).

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.1 What is Optional Conversion, Optional Redemption or Optional Resale?	<ul style="list-style-type: none"> Subject to APRA's prior written approval, BOQ may elect to Convert, Redeem or Resell (or a combination of these) some or all of Capital Notes 2: <ul style="list-style-type: none"> on 14 May 2027; or following the occurrence of a Regulatory Event or Tax Event. Subject to APRA's prior written approval, BOQ may elect to Convert all (but not some only) of Capital Notes 2 on the occurrence of a Potential Acquisition Event. Holders should not expect that APRA's prior written approval for any such Conversion, Redemption or Resale will be given. 	Clauses 6, 8, 9, 10, 11 and 12 of the Capital Notes 2 Terms
2.5.2 Are there restrictions on how BOQ may choose between Optional Conversion, Optional Redemption or Optional Resale (or a combination of these)?	<ul style="list-style-type: none"> At any time that BOQ may elect for the Capital Notes 2 to be Converted, Redeemed or Resold, BOQ may specify which of Conversion, Redemption and Resale applies to a particular Capital Note 2. BOQ may select any one or more of Conversion, Redemption or Resale to apply to the Capital Note 2 held by a Holder and may select a different combination of Conversion, Redemption and Resale in respect of Capital Notes 2 held by different Holders, but otherwise BOQ must endeavour to treat Holders in approximate proportion to their holdings of Capital Notes 2 (except that BOQ may discriminate to take account of the effect on marketable parcels and other logistical considerations). 	Clause 12 of the Capital Notes 2 Terms
2.5.3 What is a Tax Event?	<p>Broadly, a Tax Event will occur if BOQ receives professional advice that, as a result of:</p> <ul style="list-style-type: none"> a change in the tax law in Australia; or an administrative pronouncement or ruling affecting taxation in Australia, <p>on or after the Issue Date (and which BOQ did not expect at the Issue Date), there is more than an insubstantial risk that BOQ would be exposed to more than an insignificant increase in its costs in connection with Capital Notes 2 or any Distribution would not be a frankable distribution for tax purposes.</p>	Clauses 24.1 of the Capital Notes 2 Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.4 What is a Regulatory Event?	<p>Broadly, a Regulatory Event will occur if BOQ receives legal advice that, as a result of a change of Australian law or regulation or any statement of APRA on or after the Issue Date (and which BOQ did not expect at the Issue Date) (a “Regulatory Change”), more than de minimis additional requirements would be imposed on BOQ in relation to Capital Notes 2 (which were not expected by BOQ at the Issue Date) which the Directors determine to be unacceptable, or the Directors determine that, as a result of a Regulatory Change, BOQ is not or will not be entitled to treat some or all Capital Notes 2 as Additional Tier 1 Capital, except where the reason BOQ is not or will not be entitled to treat some or all Capital Notes 2 as Additional Tier 1 Capital is because of a limit or other restriction on the recognition of Additional Tier 1 Capital which is in effect on the Issue Date or which on the Issue Date is expected by BOQ may come into effect.</p>	Clauses 24.1 of the Capital Notes 2 Terms
2.5.5 What is a Potential Acquisition Event?	<p>Broadly, a Potential Acquisition Event will occur if:</p> <ul style="list-style-type: none"> • a takeover bid is made to acquire all or some Ordinary Shares and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue and the offer is, or becomes, unconditional except that all regulatory approvals necessary for the acquisition to occur have not been obtained; or • a court orders the holding of meetings to approve a scheme of arrangement with respect to BOQ which would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented. <p>A proposed replacement of BOQ as the ultimate holding company of the BOQ Group by an Approved NOHC is not a Potential Acquisition Event – see Section 2.8.15.</p>	Clauses 24.1 and 19 of the Capital Notes 2 Terms
2.5.6 What are the Optional Conversion Restrictions?	<p>Broadly, in addition to APRA approval, there are two categories of restrictions that may prevent an Optional Conversion from occurring:</p> <ul style="list-style-type: none"> • Restrictions that may prevent BOQ from sending a notice to Holders advising them that BOQ wishes to Convert Capital Notes 2; and • Restrictions that may prevent BOQ from actually Converting Capital Notes 2. <p>Restrictions that may prevent BOQ from sending conversion notice BOQ may not elect to Convert Capital Notes 2 if on the Non-Conversion Test Date (broadly, the second Business Day before the date on which BOQ is to send a notice advising Holders that it wishes to Convert Capital Notes 2):</p> <ul style="list-style-type: none"> • The VWAP of Ordinary Shares on the Non-Conversion Test Date is less than or equal to 22.50% of the Issue Date VWAP; or • A Delisting Event applies. <p>Further restrictions that may prevent BOQ from Converting Capital Notes 2 on Conversion Date In addition, if, on the date on which Conversion is to occur (Optional Conversion Date) either:</p> <ul style="list-style-type: none"> • The VWAP during the VWAP Period¹⁰ is less than or equal to 20.21% of the Issue Date VWAP; or • a Delisting Event applies, <p>the proposed Conversion must be deferred until the first Distribution Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Distribution Payment Date were a Mandatory Conversion Date (with those conditions applied as if the percentage of the Issue Date VWAP were 22.50% for the First Mandatory Conversion Condition and 20.21% for the Second Mandatory Conversion Condition).</p> <p>The percentages used in the above restrictions are derived from market precedents and the cap on the number of Ordinary Shares that is permitted to be issued under applicable prudential rules.</p>	Clauses 6.4 and 6.5 of the Capital Notes 2 Terms

10 Usually 20 Business Days, but a lesser period if trading in Ordinary Shares is for a lesser period after the Potential Acquisition Event.

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.7 What is the Conversion Number for an Optional Conversion?	If an Optional Conversion proceeds, the Conversion Number of Ordinary Shares will be calculated in the same manner as for a Mandatory Conversion – see Section 2.2.6. However, for the purposes of the Optional Conversion calculations, the Relevant Fraction is 0.2 rather than 0.5 and in the case of Conversion on account of a Potential Acquisition Event, the VWAP is calculated over the applicable VWAP Period.	Clause 7.1 of the Capital Notes 2 Terms
2.5.8 What happens if Conversion does not occur on the Optional Conversion Date?	If BOQ elects to but cannot Convert Capital Notes 2 on the Optional Conversion Date, BOQ will notify Holders and, unless Capital Notes 2 are otherwise Converted, Written Off, Redeemed or Resold, the Conversion will be deferred until the next Distribution Payment Date for which the Mandatory Conversion Conditions would be satisfied as if that Distribution Payment Date were a possible Mandatory Conversion Date (with those conditions applied as if the percentage of the Issue Date VWAP were 22.50% for the first Mandatory Conversion Condition and 20.21% for the Second Mandatory Conversion Condition). If Optional Conversion proceeds, the Conversion Number will be calculated in the same manner as for Mandatory Conversion. For the purposes of the Conversion calculations in these circumstances, the Relevant Fraction is 0.2 rather than 0.5.	Clauses 6.4 and 6.5 of the Capital Notes 2 Terms
2.5.9 What are the restrictions on BOQ's ability to Redeem the Capital Notes 2?	BOQ may only elect to Redeem Capital Notes 2 if APRA is satisfied that either: <ul style="list-style-type: none"> • Capital Notes 2 proposed to be Redeemed are replaced concurrently or beforehand with a capital instrument of the same or better quality and the replacement of the instrument is done under conditions that are sustainable for BOQ's income capacity; or • The capital position of the BOQ Level 1 Group and BOQ Level 2 Group will remain adequate after BOQ elects to Redeem Capital Notes 2. 	Clause 8.4 of the Capital Notes 2 Terms
2.5.10 What happens if the Capital Notes are Redeemed?	If, subject to APRA's prior written approval, BOQ elects to Redeem a Capital Note 2 in accordance with the Capital Notes 2 Terms, Capital Notes 2 will be redeemed by payment on the Redemption Date of an amount equal to the Face Value (being \$100 per Capital Note 2) to the Holder.	Clause 9 of the Capital Notes 2 Terms
2.5.11 What happens if the Capital Notes 2 are Resold?	If BOQ elects to Resell Capital Notes 2, it must appoint one or more third party purchasers (Nominated Purchasers) to purchase Capital Notes 2 offered for Resale. If BOQ elects to Resell Capital Notes 2, each Holder is taken irrevocably to offer to sell Capital Notes 2 the subject of a Resale to the Nominated Purchaser(s) on the Resale Date for the Resale Price (being \$100 per Capital Note 2). If BOQ appoints more than one Nominated Purchaser in respect of a Resale, all or any Capital Notes 2 held by a Holder which are being Resold may be purchased by any one or any combination of the Nominated Purchasers, as determined by BOQ. A Nominated Purchaser must have a long term counterparty credit rating from one of S&P Global Ratings, Moody's Investors Service, Inc. or Fitch Ratings of not less than investment grade, and must not be BOQ or any Related Entity of BOQ.	Clause 11 of the Capital Notes 2 Terms
2.5.12 What happens if a Nominated Purchaser fails to pay the Resale Price?	If a Nominated Purchaser does not pay the Resale Price when the Resale Price is due, the Resale to that Nominated Purchaser will not occur and Holders will continue to hold Capital Notes 2 in accordance with the Capital Notes 2 Terms until Capital Notes 2 are otherwise Redeemed, Converted or Resold in accordance with the Capital Notes 2 Terms.	Clause 11.6 of the Capital Notes 2 Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.13 Can Holders require Optional Conversion, Optional Redemption or Optional Resale?	Holders do not have a right to require Conversion, Redemption or Resale.	Clause 12.2 of the Capital Notes 2 Terms

2.6 RANKING

Capital Notes 2 are not guaranteed by BOQ or secured in any way against any asset of BOQ. Capital Notes 2 do not represent a deposit liability of BOQ and are not protected accounts for the purposes of the depositor protection provisions of Australian banking legislation. Capital Notes 2 are not guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction, or by any other person.

In a winding-up of and in respect of payment of Distributions, Capital Notes 2 rank in priority to Ordinary Shares, equally and without preference amongst themselves and Equal Ranking Instruments, and junior to Senior Ranking Creditors (which includes depositors).

TOPIC	SUMMARY	FURTHER INFORMATION
2.6.1 Ranking for the payment of Distributions	<ul style="list-style-type: none"> In respect of payment of Distributions, Capital Notes 2 rank ahead of Ordinary Shares, equally and without preference among themselves and other Equal Ranking Instruments (including Capital Notes 1), but behind the claims of all Senior Ranking Creditors (including holders of securities or instruments ranking ahead of Capital Notes 2 and all depositors). Any return in the form of Distributions may be adversely affected if Capital Notes 2 are Converted or Written Off as a result of a Common Equity Trigger Event or Non-Viability Trigger Event. 	Clauses 4 and 16.1 of the Capital Notes 2 Terms
2.6.2 Ranking on winding-up	<ul style="list-style-type: none"> In a winding-up of BOQ, Capital Notes 2 rank for payment of capital ahead of Ordinary Shares, equally with Capital Notes 1 and other Equal Ranking Instruments, but behind the claims of all Senior Ranking Creditors (including depositors and unsubordinated and subordinated creditors). If there is a shortfall of funds on a winding-up of BOQ to pay all amounts ranking ahead of or equally with Capital Notes 2, Holders will lose all or some of their capital. Any return in a winding-up may be adversely affected if Capital Notes 2 have been Converted or Written Off as a result of a Loss Absorption Event. After Conversion, Holders become holders of Ordinary Shares and will rank equally with all other Ordinary Securityholders in a winding-up. After a Write Off, all rights in relation to Capital Notes 2 (including in respect of Distributions and return of capital) will be immediately and irrevocably terminated and Holders will lose all of the value of those Capital Notes 2 without compensation. 	Clauses 4 and 16.2 of the Capital Notes 2 Terms

SECTION 2 ABOUT CAPITAL NOTES 2

2.7 REGULATORY TREATMENT

APRA has confirmed to BOQ that Capital Notes 2 are capable of being recognised as Additional Tier 1 Capital of BOQ under APRA's Prudential Capital Requirements.

TOPIC	SUMMARY	FURTHER INFORMATION
2.7.1 Who is APRA?	<ul style="list-style-type: none"> APRA is the prudential regulator of the Australian financial services industry. APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies, and most members of the superannuation industry. APRA's mission is to establish and enforce Prudential Standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA's website at www.apra.gov.au includes further details of its functions and Prudential Standards. 	
2.7.2 What is regulatory capital?	<ul style="list-style-type: none"> Any business requires capital to support its income generating activities in its chosen industry. APRA's Prudential Capital Requirements aim to ensure that authorised deposit-taking institutions (ADIs) such as BOQ as well as other regulated groups (including life insurers, general insurers and regulated registrable superannuation entities), maintain adequate capital to support the risks associated with their activities and to protect depositors and creditors. APRA has detailed guidelines and restrictions on the types of capital instruments that are permitted to form the capital base. The types of capital deemed capable of being recognised in the capital base are referred to as regulatory capital. APRA classifies ADIs' regulatory capital into two tiers for its supervisory purposes – referred to as Tier 1 Capital and Tier 2 Capital. Tier 1 Capital is generally considered a higher quality capital than Tier 2 Capital. 	
2.7.3 What is Tier 1 Capital?	<ul style="list-style-type: none"> Under APRA's regulatory capital requirements, Tier 1 Capital is comprised of: <ul style="list-style-type: none"> Common Equity Tier 1 Capital; and Additional Tier 1 Capital. Common Equity Tier 1 Capital is recognised as the highest quality component of capital for BOQ. Common Equity Tier 1 Capital for ADIs (and their non-operating holding companies) will comprise of paid-up ordinary shares, retained earnings, other disclosed reserves permitted for inclusion by APRA and certain other items permitted by APRA less regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital. The non-common equity components of Tier 1 Capital which do not satisfy all of the criteria for inclusion in Common Equity Tier 1 Capital are referred to as Additional Tier 1 Capital. These instruments must be able to absorb losses on a going-concern basis, and can include both equity instruments and capital instruments classified as liabilities for accounting purposes. The Capital Notes 2 Terms include terms necessary to meet APRA's requirements for Additional Tier 1. 	

TOPIC	SUMMARY	FURTHER INFORMATION
2.74 What is the regulatory treatment of Capital Notes 2?	<ul style="list-style-type: none">• APRA has confirmed to BOQ that Capital Notes 2 are capable of being recognised as Additional Tier 1 Capital of BOQ under APRA's Prudential Capital Requirements.• If APRA's capital treatment of Capital Notes 2 changes, a Regulatory Event may occur in which case BOQ would have an option to Convert, Redeem or Resell the Capital Notes 2 as described in Section 2.5.4.• Capital Notes 2 and BOQ's other regulatory capital help to protect BOQ's depositors and other creditors by providing a loss absorbing capital buffer which support losses that may be incurred on BOQ's assets.	

SECTION 2 ABOUT CAPITAL NOTES 2

2.8 OTHER

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.1 Can BOQ issue further Capital Notes 2, or other instruments?	<ul style="list-style-type: none"> BOQ reserves the right to issue further Capital Notes 2 or other securities which rank behind, equal with or ahead of Capital Notes 2, whether in respect of distributions, return of capital in a winding-up of BOQ or otherwise. 	Clause 20.1 of the Capital Notes 2 Terms
2.8.2 Do Capital Notes 2 carry rights to participate in further issues of securities by BOQ?	<ul style="list-style-type: none"> Holding Capital Notes 2 does not confer any right to participate in further issues of securities by BOQ. 	Clause 20.3 of the Capital Notes 2 Terms
2.8.3 Will Capital Notes 2 be guaranteed?	<ul style="list-style-type: none"> Capital Notes 2 do not represent a deposit liability of BOQ and are not protected accounts for the purposes of the Banking Act. Capital Notes 2 are not guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction, or by any other person. 	Clause 1.6 of the Capital Notes 2 Terms
2.8.4 Are Capital Notes 2 secured?	<ul style="list-style-type: none"> Capital Notes 2 are not secured in any way against any asset of BOQ. 	Clauses 1.1 and 16.5 of the Capital Notes 2 Terms
2.8.5 Do Holders or BOQ have any set-off rights?	<ul style="list-style-type: none"> No. Holders are not entitled to set-off any amounts due to a Holder in respect of Capital Notes 2 against any amount of any nature owed by a Holder to BOQ. BOQ is not entitled to set off any amount of any nature due to BOQ by a Holder against any amount owed by BOQ to the Holder in respect of Capital Notes 2. 	Clause 14.8 of the Capital Notes 2 Terms
2.8.6 Do Capital Notes 2 entitle Holders to vote at a general meeting of BOQ?	<ul style="list-style-type: none"> A Capital Note 2 does not entitle its Holder to vote at a general meeting of BOQ. 	Clause 17.2 of the Capital Notes 2 Terms
2.8.7 Can BOQ amend the Capital Note 2 Terms?	<ul style="list-style-type: none"> Subject to complying with all applicable laws, BOQ may amend the Capital Notes 2 Terms and the Capital Notes 2 Deed Poll without the approval of Holders in certain circumstances. That may include amendments which affect the rights of Holders, including changes to dates or time periods stated, required or permitted in connection with any Conversion, Redemption or Resale. BOQ may make other amendments that in its opinion are not materially prejudicial to the interests of Holders as a whole. BOQ may also amend the Capital Notes 2 Terms and the Capital Notes 2 Deed Poll if the amendment has been approved by a Special Resolution. Amendments which may affect the eligibility of Capital Notes 2 as Additional Tier 1 Capital require APRA's prior written approval. 	Clause 17.3 and 18 of the Capital Notes 2 Terms
2.8.8 What is the time limit for a Holder to make a claim against BOQ?	<ul style="list-style-type: none"> Holders should be aware that a claim against BOQ for payment in respect of a Capital Note 2 is void, to the fullest extent permitted by applicable law, unless made within five years of the date for payment. 	Clause 14.5 of the Capital Notes 2 Terms
2.8.9 Are BOQ's determinations binding?	<ul style="list-style-type: none"> Except where there is a manifest error, calculations, elections and determinations made by BOQ under the Capital Notes 2 Terms are binding on Holders. 	Clause 24.2(h) of the Capital Notes 2 Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.10 What is the power of attorney?	<ul style="list-style-type: none"> Each Holder appoints each of BOQ, its Authorised Officers and any External Administrator of BOQ (each an Attorney) severally to be the attorney of the Holder with power in the name and on behalf of the Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Holder to observe or perform the Holder's obligations under the Capital Notes 2 Terms including, but not limited to, effecting any Conversion, Redemption or Resale, making any entry in the Register or the register of any Ordinary Shares or exercising any voting power in relation to any consent or approval required for Conversion, Redemption or Resale. 	Clause 23 of the Capital Notes 2 Terms
2.8.11 Will Capital Notes 2 have a credit rating?	<ul style="list-style-type: none"> BOQ has not sought a credit rating for Capital Notes 2. 	
2.8.12 What are the taxation implications of investing in Capital Notes 2?	<ul style="list-style-type: none"> The taxation implications of investing in Capital Notes 2 will depend on an investor's individual circumstances. Prospective investors should obtain their own taxation advice. A general outline of the Australian taxation implications is included in the Australian taxation summary in Section 6. 	Section 6
2.8.13 Is brokerage, commission or stamp duty payable?	<ul style="list-style-type: none"> No brokerage, commission or stamp duty is payable on Applications for Capital Notes 2. Holders may have to pay brokerage on any subsequent sale of Capital Notes 2 on ASX after quotation. 	
2.8.14 What are the ongoing costs?	<ul style="list-style-type: none"> You will generally not be required to pay any ongoing fees or other costs (other than payments subject to law) following the issue of Capital Notes 2. The costs of carrying out the Offer and maintaining an ASX listing for Capital Notes 2 will be paid by BOQ. 	

SECTION 2 ABOUT CAPITAL NOTES 2

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.15 What may happen if a successor holding company is put in place?	<ul style="list-style-type: none"> • A NOHC Event is an event initiated by the Directors which would result in BOQ having an ultimate holding company which is a “non-operating holding company” within the meaning of the Banking Act (NOHC) and where following the occurrence of that event: <ul style="list-style-type: none"> › The ordinary shares of the Approved NOHC are quoted on an Australian stock exchange; and › The Approved NOHC undertakes to Convert Capital Notes 2 into ordinary shares in the Approved NOHC whenever BOQ would otherwise have been required to deliver Ordinary Shares and on the occurrence of an Acquisition Event with respect to the Approved NOHC. • If a NOHC Event occurs, with APRA’s prior written approval the Capital Notes 2 Terms may be amended by BOQ (and without the consent of Holders) to enable the substitution of the Approved NOHC as the issuer of ordinary shares on Conversion. The Approved NOHC will use all reasonable endeavours to procure quotation on the relevant securities exchange of all these shares at the time of Conversion. • The occurrence of a NOHC Event does not allow BOQ to elect to Convert, Redeem or Resell Capital Notes 2. Holders may not have any right to vote on a NOHC Event. • Following the substitution of an Approved NOHC as issuer of the ordinary shares on Conversion but prior to Conversion, Holders continue to hold a note in BOQ which ranks for payment of distributions and in a winding-up of BOQ as described in Section 2.6 and which is convertible into ordinary shares in the Approved NOHC in the same circumstances in which it would have otherwise been converted into Ordinary Shares in BOQ. • Where a NOHC Event is accompanied by a transfer of assets from BOQ to the Approved NOHC or another subsidiary of the Approved NOHC, BOQ may as a result have reduced assets to meet the claims of its creditors (including Holders) and Shareholders. • There is no restriction on an Approved NOHC declaring or paying a dividend on, or buying back or reducing capital on its ordinary shares if BOQ does not pay a Distribution on Capital Notes 2. If BOQ does not pay a Distribution BOQ would remain subject to the restriction on it declaring or paying dividends on Ordinary Shares or buying back or reducing capital on its Ordinary Shares as described in Section 2.1.9 above. • BOQ expects that the rights attaching to the Approved NOHC shares would be substantially equivalent to the rights attaching to Ordinary Shares. 	Clause 19 of the Capital Notes 2 Terms

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.16 What if I do not wish to receive Ordinary Shares on Conversion or if I am a Foreign Holder?	<ul style="list-style-type: none"> If you do not wish to receive Ordinary Shares as a result of a Conversion, you can notify BOQ of this at any time on or after the Issue Date and no less than 15 Business Days prior to the Conversion Date. If Conversion occurs and you have notified BOQ that you do not wish to receive Ordinary Shares, or if you are a Foreign Holder, then BOQ will issue the relevant number of Ordinary Shares to a nominee (which must not be BOQ or a Related Entity) on terms that the nominee will sell the Ordinary Shares at the first reasonable opportunity and pay the net proceeds of sale to the Holder. No guarantee is given in relation to the timing or price at which any sale will occur. BOQ will treat you as a Foreign Holder if your address in the Register is a place outside of Australia or BOQ otherwise believes you may not be a resident of Australia. 	Clause 7.10 of the Capital Notes 2 Terms
2.8.17 What is the Capital Notes 2 Deed Poll?	<ul style="list-style-type: none"> A trustee has not been appointed for Capital Notes 2. Instead, there is a Capital Notes 2 Deed Poll made by BOQ in favour of each person who is from time to time a Holder. The Capital Notes 2 Deed Poll gives legal effect to BOQ's obligations in the Capital Notes 2 Terms. Under the Capital Notes 2 Deed Poll, BOQ also undertakes to appoint the Registrar and procure the Registrar to establish and maintain a principal Register. The Capital Notes 2 Deed Poll also includes provisions for convening meetings of the Holders to consider any matter affecting their interests, including any variation of the Capital Notes 2 Terms. Any action which may affect the eligibility of Capital Notes 2 as Additional Tier 1 Capital of BOQ cannot be sanctioned or approved by Holders without the prior written approval of APRA. An Ordinary Resolution or a Special Resolution passed at a meeting of the Holders duly called and held under the meeting provisions will be binding on all the Holders whether or not present at the meeting. Each Holder will be entitled to one vote on a show of hands. On a poll, each Holder will be entitled to one vote for each Capital Note 2 with respect to which it is the registered Holder. A Holder has no entitlement to attend or vote at a general meeting of BOQ or to receive a copy of the BOQ annual report or other financial information sent to holders of Ordinary Shares. Holders will be bound by the terms of the Capital Notes 2 Deed Poll, the Capital Notes 2 Terms and this Prospectus when Capital Notes 2 are issued or transferred to them or they purchase Capital Notes 2. The Registrar will hold the original executed Capital Notes 2 Deed Poll on behalf of Holders. Each Holder can enforce BOQ's obligations under the Capital Notes 2 Deed Poll, including the Capital Notes 2 Terms and the provisions for meetings, independently of the Registrar and each other. A copy of the Capital Notes 2 Deed Poll can be obtained from BOQ's website. 	
2.8.18 Is Ordinary Securityholder approval required?	<ul style="list-style-type: none"> No. 	
2.8.19 What happens if Ordinary Securityholder approval is not obtained?	<ul style="list-style-type: none"> N/A. 	

SECTION 3

ABOUT BOQ

3.1 OVERVIEW OF BOQ

3.1.1 Introduction

BOQ is a full service financial institution whose primary function is gathering deposits and lending. It is listed on the ASX and regulated by APRA as an ADI. BOQ is included in the ASX 100 index.

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, highly specialised bankers, and branches run by small business owners who are anchored in their communities.

3.1.2 Our 2020 Results

Despite significant headwinds in FY20, BOQ has made good progress in delivering strategic initiatives to transform the bank and drive business momentum through revenue growth. Cash NPAT for FY20 was \$225m, down 30% on FY19. This was largely the result of the \$133m COVID-19 collective provision.

Net interest income of \$986 million increased by \$25 million or three per cent on the prior year. This was driven by a four per cent growth in average interest earning assets, offset by a two basis point reduction in net interest margin to 1.91 per cent. While NIM declined two basis points compared to FY19, there was a three basis points increase in 2H20 driven by the benefit of loan repricing actions and lower hedging costs. These were partially offset by the impact of a low interest rate environment on the returns on capital and the low cost deposit portfolio.

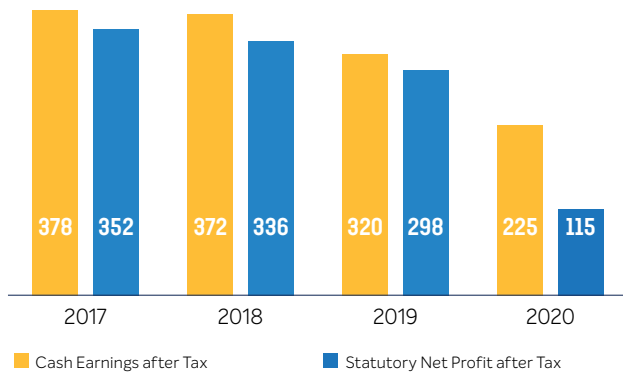
Cash operating expenses of \$594 million increased by \$39 million or seven per cent on the prior year driven by investments in risk and regulatory programs and strategic technology projects. Excluding these uplifts, underlying operating expenses were down approximately one per cent, including \$30 million of productivity savings.

Statutory NPAT decreased by 61% to \$115m, impacted by restructuring expenses and costs associated with the intangible asset review.

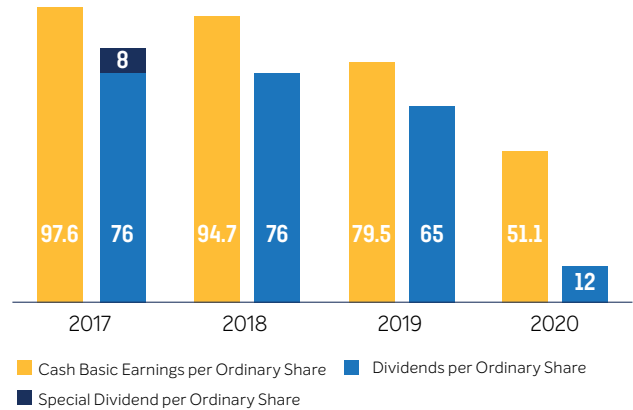
Following guidance issued by APRA, BOQ has determined to pay a dividend of 12c, which represents 6c from 1H20 profits and 6c from 2H20 profits, which is 47.4 per cent of full year statutory earnings.

SECTION 3 ABOUT BOQ

PROFIT RESULTS
(\$m)



EARNINGS & DIVIDENDS
(¢ per ordinary share)



2020 CASH EARNINGS
AFTER TAX

\$225m
↓30% from FY19

STATUTORY NET PROFIT
AFTER TAX

\$115m
↓61% from FY19

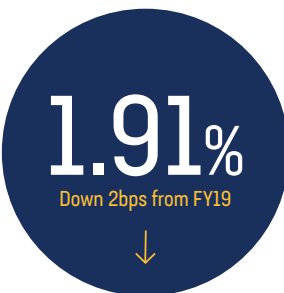
CASH BASIC EARNINGS
PER ORDINARY SHARE
(¢ PER SHARE)

51.1¢
↓36% from FY19

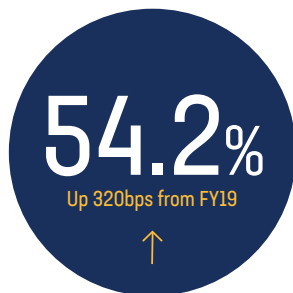
DIVIDENDS
PER ORDINARY SHARE
(¢ PER SHARE)

12¢
↓82% from FY19

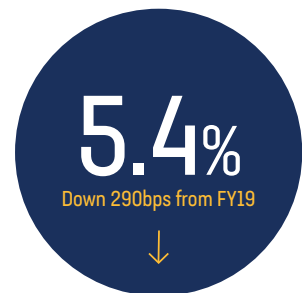
NET INTEREST MARGIN



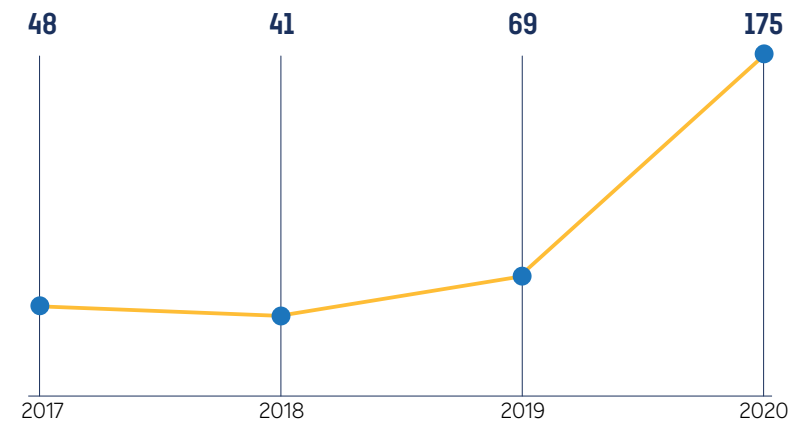
CASH COST TO INCOME RATIO



CASH RETURN ON EQUITY

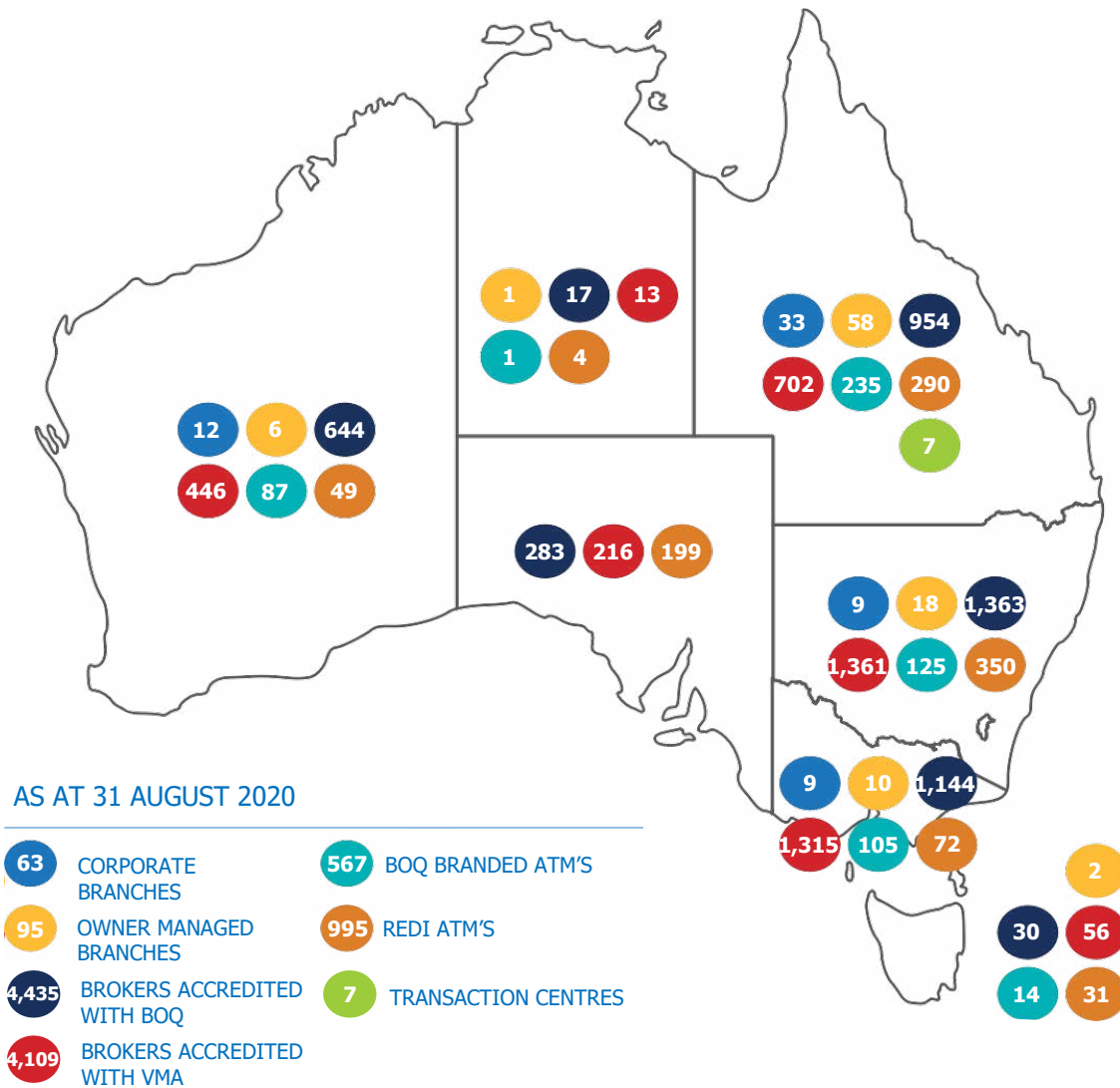


LOAN IMPAIRMENT EXPENSE
(\$m)



3.1.3 Presence in Australia

BOQ operates nationwide, through specialist bankers and digital channels, a network of 165 branches throughout Australia (as at 31 August 2020) including both owner managed and corporate branches, accredited brokers, and contact centres.



SECTION 3 ABOUT BOQ

3.1.4 Distinctive brands serving niche customer segments

BOQ has a portfolio of brands in niche segments which form the basis of its multi brand strategy as set out below. BOQ's business operations are conducted through the Retail Banking and Business Banking divisions, supported by the Group functions.

BOQ'S RETAIL BANKING



BOQ

BOQ is the retail banking arm of the BOQ Group and is comprised of 165 branches across Australia offering a range of banking products including 93 Owner-Managed branches (OMB) run by local Owner-Managers



Virgin Money Australia (VMA)

VMA is a digital first retail financial services company, which provides a wide range of financial products as an alternative to the big banks. BOQ acquired VMA in 2013 and it operates as a standalone brand within the BOQ Group.

BUSINESS BANKING



BOQ Business

BOQ Business is a relationship led business with specialist bankers providing client solutions across Small Business, Agribusiness, Corporate Banking, Property Finance, Healthcare & Retirement and Tourism, Leisure & Hospitality.



BOQ Finance

BOQ Finance is a wholly owned subsidiary of BOQ specialising in asset finance and leasing solutions. BOQ Finance is a mid-market financier which 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) from Investec Bank (Australia) Limited in 2014. BOQ Specialist operates as a niche brand within BOQ's Business Bank.

GROUP FUNCTIONS

BOQ's business lines are supported by a number of Group functions including Enterprise Services, Risk, Finance, Transformation & Operations and the People & Culture teams. These key functions support BOQ by managing our operations, property, strategy, finance, treasury, technology architecture, infrastructure & operations, risk, compliance, legal, human resources and corporate affairs.

3.1.5 Strategic priorities and value drivers

BOQ's purpose is 'creating prosperity for our customers, shareholders and people through empathy, integrity, and by making a difference'. This is reinforced by BOQ's ambition 'to be known as the bold challenger bank with multi-brands that are digitally enabled with a personal touch'. The purpose is the foundation for BOQ's refreshed strategy delivered during 2020 which aims to deliver exceptional customer experience through specialised bankers to create long term shareholder value. The strategy was informed by BOQ's key differentiators: unique brands with proud history, an innovative digital offering and loyalty programme, deeply anchored in local communities with a strong customer focus and highly specialised industry expertise. BOQ continues to work towards a distinctive approach for its customers and people, a comprehensive digital transformation and a focus on delivering sustainable profitable growth and attractive returns. BOQ's corporate strategy is based on five strategic pillars focused on customers, people and shareholders as set out below.

Our empathetic culture sets us apart is about providing a superior customer experience, helping customers into their homes, helping them save, and making their banking intuitive. BOQ's focus is to provide customers with enhanced experiences and build the capability of its people, to set BOQ apart from its competitors and to provide BOQ with a competitive advantage.

Distinctive brands service attractive niche customer segments is about BOQ's focus on niche areas. The portfolio of brands encompassing BOQ, Virgin Money Australia, BOQ Business, BOQ Specialist and BOQ Finance provides it with the ability to target complementary segments through niche offerings. BOQ's strategy also includes a focus on the small and medium enterprise (SME) segment, supported by specialised bankers with strong relationship banking skills, SME capability across the owner managed branches, industry expertise delivered through BOQ Specialist and asset finance capability in the BOQ Finance business line.

Digital bank of the future with a personal touch is about digital underpinning BOQ's business transformation. BOQ aims to deliver a comprehensive digital transformation which will utilise cloud based technologies to build a next generation core platform to support its growth. The digital transformation is directed at enabling BOQ to leverage data and analytics to provide differentiated experiences for the customer at the digital front end, and to drive efficiencies across the business lines.

In addition to the BOQ digital transformation, the strategy also encompasses BOQ building a digital bank under the Virgin Money Australia brand. This forms the basis for the BOQ Group's future digital banking platform.

Simple and intuitive business with strong execution capability focuses on the transformation program to reduce the product set, streamline processes, and leveraging technology to seek to improve the customer experience, drive efficiencies, and reduce costs. The strategy includes a key focus on the home buying transformation program, which incorporates an uplift in culture and capability, optimisation of BOQ's distribution channels, and simplification of process, products and systems. The strategy includes a significant transformation agenda and enhancing BOQ's execution capability is critical to the success of delivering this program of work.

Strong financial and risk positions, with attractive returns is aimed at BOQ's growth being underpinned by a strong balance sheet, liquidity and a robust risk and regulatory compliance framework.

3.1.6 Responding to COVID-19

BOQ responded quickly to the evolving COVID-19 circumstances to ensure the stability of the BOQ business through the maintenance of strong levels of capital and liquidity, while providing support to employees to ensure the ongoing operations of BOQ.

In response to the COVID-19 pandemic, BOQ worked swiftly and decisively to establish the Banking Relief Package for customers impacted by COVID-19 and announced a number of financial support measures for both small business and retail customers across its brands. Examples of such financial support measures include the following assistance packages:

- *Business Banking Relief Package* which offered small business customers a deferred repayment period of up to six months on small business loans;
- *Personal Banking Relief Package* which enabled BOQ's retail customers to either defer their mortgage repayments for up to six months or switch to interest only repayments for up to twelve months;
- *Australian Government SME Guarantee Scheme* whereby the Australian Government will provide a 50 per cent guarantee to lenders, such as BOQ, to support unsecured loans to small and medium sized businesses to meet their cash flow needs up to a maximum size of A\$250,000 with a six month repayment holiday; and
- A number of other product changes providing customers with support to manage their cash flow needs during the pandemic such as fee relief and reduced interest rates on some products.

For further details about specific risks associated with the volatility, uncertainty and disruption caused by the evolving COVID-19 pandemic, see Sections 4.4.2 and 4.4.5.

3.1.7 Other developments

On 14 October 2020, BOQ announced that it had entered into an agreement to sell St Andrew's Insurance business (**St Andrew's**) to Farmcove Investment Holdings (**Farmcove**) for total proceeds of \$23 million (**Transaction**).

The Transaction is expected to result in an indicative post-tax statutory loss on sale of approximately \$27 million to \$30 million and be broadly neutral to BOQ's Common Equity Tier 1 ratio. Completion of the Transaction is subject to certain conditions, including regulatory approval from APRA. Dependent upon the timing of regulatory approvals, completion is expected to occur before the end of FY21.

There are risks associated with undertaking potential divestments, such as the Transaction. Refer to Section 4.4.27 of the "Risks" section below.

3.1.8 Directors of BOQ

As at the date of this Prospectus, the Directors of BOQ are:

- Patrick Allaway, Chairman, Non-Executive Independent Director
- George Frazis, Managing Director & Chief Executive Officer
- Kathleen Bailey-Lord, Non-Executive Independent Director
- Bruce Carter, Non-Executive Independent Director
- Michelle Tredenick, Non-Executive Independent Director
- John Lorimer, Non-Executive Independent Director
- Warwick Negus, Non-Executive Independent Director
- Karen Penrose, Non-Executive Independent Director

The Directors of BOQ may change from time to time due to the appointment or resignation of Directors, and if this occurs, BOQ will make an announcement to the ASX. As announced on the ASX on 24 September 2020, Michelle Tredenick will retire from the Board at the conclusion of the 2020 Annual General Meeting on 8 December 2020.

The roles and responsibilities of the Directors are set out in the Board Charter. A description of the Board Charter and further information on the Directors, including their experience, qualifications and expertise is available at www.boq.com.au.

3.1.9 Management of the businesses of BOQ

As at the date of this Prospectus, BOQ's executive management team include:

- George Frazis, Managing Director & Chief Executive Officer
- Ewen Stafford, Chief Financial Officer & Chief Operating Officer
- Adam McAnalen, Chief Risk Officer
- Craig Ryman, Chief Information Officer
- Fiamma Morton, Group Executive BOQ Business
- Lyn McGrath, Group Executive Retail
- Debra Eckersley, Group Executive People and Culture

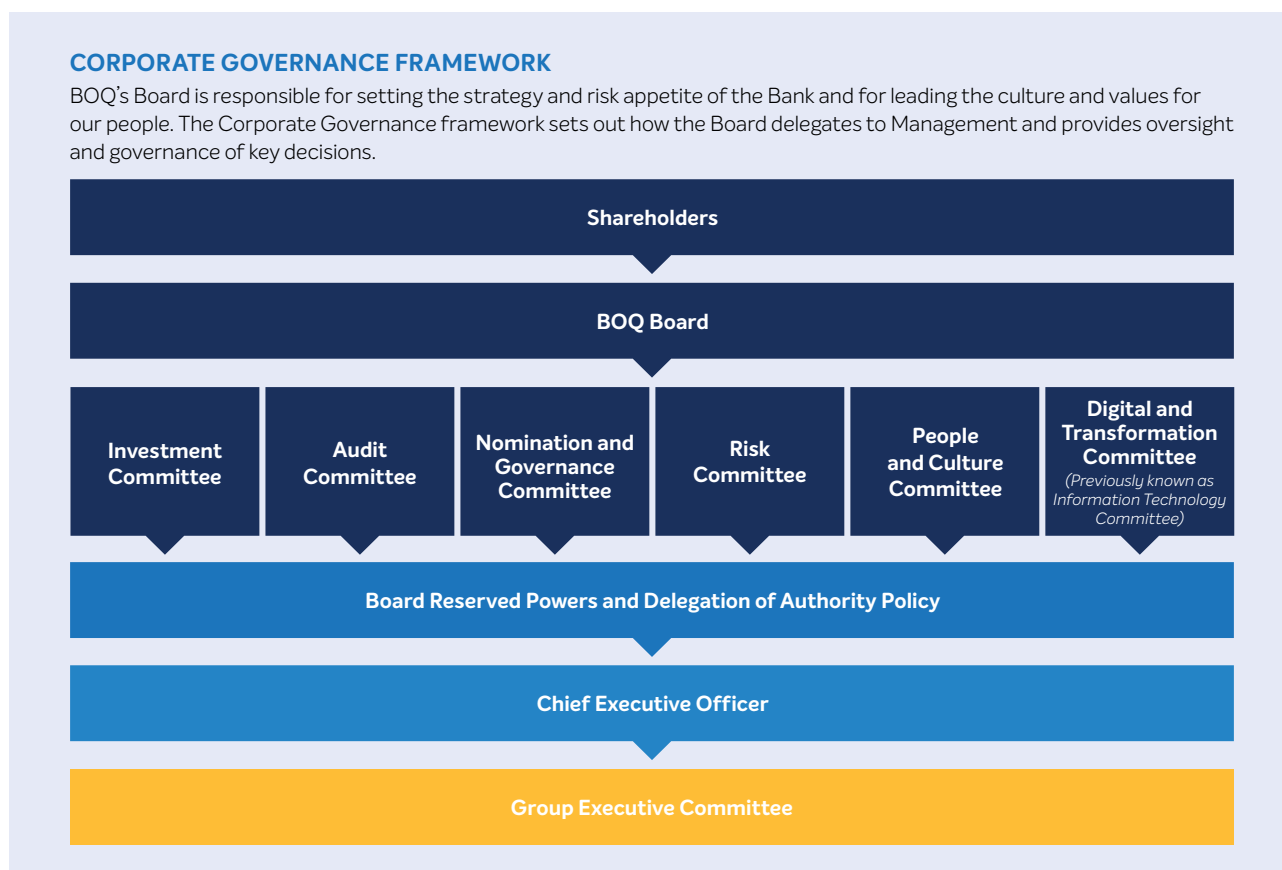
The roles and composition of the executive management team (and the individual executives comprising that team) may change from time to time and any key changes will be notified to ASX. In

SECTION 3 ABOUT BOQ

September 2020, Lyn McGrath announced her retirement as Group Executive Retail. However, she will continue in her position into early 2021 whilst a comprehensive search for her replacement is undertaken.

3.1.10 Corporate governance of BOQ

BOQ is continuing to focus on enhancing its governance and risk management practices to meet the expectations of stakeholders. Further details on BOQ's Corporate Governance policies and practices are set out in its Corporate Governance Statement which has been prepared in accordance with the ASX Corporate Governance Council's Corporate Governance Principles & Recommendations (4th edition) and is available at www.boq.com.au/2020.



3.2 SELECTED FINANCIAL INFORMATION ABOUT BOQ

This section provides a summary of actual historical financial information and a summary of pro-forma financial information for BOQ.

The summary of historical financial information presented in this section has been extracted from BOQ's audited financial statements for the years ended 31 August 2019 and 31 August 2020. These reports are available at www.boq.com.au.

The historical and pro-forma financial information presented in this section has been presented in abbreviated form and does not contain all of the disclosures usually provided in an annual report prepared in accordance with the Corporations Act.

BOQ is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These include continuous disclosure obligations.

BOQ's most recent audited financial report was the annual financial report for the year ended 31 August 2020, a copy of which can be obtained from www.boq.com.au/2020 and www.asx.com.au. It is recommended that the annual financial report be read in conjunction with any announcements made by BOQ and its subsidiaries since 31 August 2020 in accordance with BOQ's continuous disclosure obligations.

The information in this section is historical information and is not a forecast of results to be expected in future periods. Past performance is not a reliable indicator of future performance.

3.2.1 Consolidated income statements

The following table sets out BOQ's audited consolidated income statements for the years ended 31 August 2019 and 31 August 2020. Notes to the audited consolidated income statements are set out in the annual financial report for the year ended 31 August 2020.

A\$M	REPORTED 2019	REPORTED 2020
Interest income	2,058	1,796
Less: Interest expense	(1,097)	(810)
Net interest income	961	986
Other operating income	126	103
Net banking operating income	1,087	1,089
Premiums from insurance contracts	55	50
Investment revenue	2	1
Less: Claims and policyholder liability expense from insurance contracts	(48)	(40)
Net insurance operating income	9	11
Total operating income before impairment and operating expenses	1,096	1,100
Less: Expenses	(592)	(752)
Less: Impairment on loans and advances ¹	(69)	(175)
Profit before income tax	435	173
Less: Income tax expense	(137)	(58)
Profit for the year	298	115

¹ Includes a \$5 million prior period restatement of employee costs from Impairment on loans and advances to Expenses.

3.2.2 Pro-forma consolidated balance sheet as at 31 August 2020

The following table sets out the consolidated balance sheet of BOQ as at 31 August 2020, and the pro-forma consolidated balance sheet as at 31 August 2020 (Pro-Forma Balance Sheet). Notes to the consolidated balance sheet are set out in BOQ's annual financial report for the year ended 31 August 2020. The Pro-Forma Balance Sheet is unaudited and has been prepared using the relevant accounting policies as disclosed in the 31 August 2020 annual financial report and based on the following assumptions:

- Pro-forma adjustments prior to the Offer:
 - › None
- Pro-forma adjustments related to the Offer:
 - › Up to A\$200 million is assumed to be raised through the Offer net of estimated issue costs of \$5 million (pre-tax). BOQ may raise more or less than this amount through the Offer which would have a corresponding impact on the Pro-Forma Balance Sheet.
 - › The pro-forma adjustments do not adjust for the impact of the sale of St Andrew's as outlined in Section 3.1.7 or the full year dividend declared on 14 October 2020 to be paid on 25 November 2020.

Included in BOQ's \$350 million Additional Tier 1 Capital as at 31 August 2020 is \$350 million Capital Notes 1 issued by BOQ on 28 December 2017. Under the terms of Capital Notes 1, BOQ may elect to convert, redeem or transfer Capital Notes 1 on 15 August 2024. Any decision to convert, redeem or transfer Capital Notes 1 will be made closer to that date and be based on a number of factors, including the capital position of BOQ at the time and the prevailing market conditions. Any conversion, redemption or transfer of Capital Notes 1 would also be subject to APRA approval.

SECTION 3 ABOUT BOQ

	REPORTED 2020 \$M	PRO-FORMA ADJUSTMENTS RELATED TO THE OFFER	PRO-FORMA 2020 \$M	NOTE
Assets				
Cash and cash equivalents	1,353	195	1,548	1
Due from other financial institutions	860		860	
Derivative financial assets	154		154	
Financial assets at fair value through profit or loss (FVTPL)	1,854		1,854	
Debt instruments at FVOCI	4,530		4,530	
Equity instruments at FVOCI	6		6	
Loans and advances	46,674		46,674	
Other assets	148		148	
Current tax assets	2		2	
Property, plant and equipment	148		148	
Deferred tax assets	122		122	
Intangible assets	908		908	
Investments in joint arrangements and associates	13		13	
Total assets	56,772	195	56,967	
Liabilities				
Due to other financial institutions – accounts payable at call	296		296	
Deposits	39,593		39,593	
Derivative financial liabilities	803		803	
Accounts payable and other liabilities	458		458	
Provisions	47		47	
Amounts due to controlled entities	-		-	
Insurance policy liabilities	5		5	
Borrowings	11,339	195	11,534	1
Total liabilities	52,541	195	52,736	
Net assets	4,231		4,231	
Equity				
Issued capital	3,869		3,869	
Reserves	184		184	
Retained profits	178		178	
Total equity	4,231		4,231	

Notes

- These adjustments assume \$200 million of Capital Notes 2 were issued on 31 August 2020, net of issue transaction costs of \$5 million. The actual issue amount may be more or less than \$200 million and, consequently, the issue transaction costs may be more or less than \$5 million.

3.3 CAPITAL MANAGEMENT STRATEGY AND CAPITAL RATIOS

3.3.1 Prudential regulation

APRA is the prudential regulator of the Australian financial services industry. APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies and most members of the superannuation industry. APRA's website (www.apra.gov.au) includes further details of its functions and Prudential Standards.

BOQ is regulated by APRA as an ADI. APRA's Prudential Standards aim to ensure that ADIs (including BOQ) remain adequately capitalised to support the risks associated with their activities and generally to protect Australian depositors.

BOQ must currently comply with APRA's Prudential Standards implementing Basel III, which is a comprehensive set of reform measures, developed by the Basel Committee to strengthen the capital adequacy, liquidity, regulation, supervision and risk management of the banking sector globally.

3.3.2 Prudential capital classification

For regulatory capital adequacy purposes, APRA classifies a bank's capital base in two tiers for its supervisory purposes, these are as follows:

- Tier 1 Capital (including Common Equity Tier 1 Capital and Additional Tier 1 Capital); and
- Tier 2 Capital.

The aggregate of Tier 1 Capital and Tier 2 Capital is classified as Total Capital.

APRA has confirmed that Capital Notes 2 are capable of being recognised as Additional Tier 1 Capital of BOQ for purposes of APRA's Prudential Capital Requirements (PCR).

The effect of the Offer on BOQ's capital adequacy ratio is set out in Section 3.3.5.

3.3.3 Prudential capital requirements

Minimum capital ratios

APRA currently requires an ADI to maintain a Common Equity Tier 1 Capital Ratio of at least 7.0%. The ratio comprises a minimum requirement of 4.5% and a capital conservation buffer above that of 2.5%.

APRA may determine higher minimum capital requirements for an ADI and may change their requirements at any time. APRA may also further increase the required Common Equity Tier 1 Capital Ratio by imposing an additional counter-cyclical capital buffer. As of the date of this prospectus, there is no counter-cyclical capital buffer in effect. The aggregate of the capital conservation buffer and counter-cyclical capital buffer is the Capital Buffer.

Volatility in the Common Equity Tier 1 Capital Ratios can be expected to arise in the future reflecting the build-up of current year earnings in normal conditions which increase the ratio and the subsequent payment of Ordinary Share Dividends (generally in May and November of each year if they are paid) which decreases the ratio.

Restrictions on the payment of Distributions

If the Common Equity Capital Ratio for an ADI on a Level 1 or Level 2 basis falls below the aggregate of APRA's minimum capital requirements for the ADI and the Capital Buffer, then the ADI is limited in the amount of relevant current year post-tax earnings (adjusted to add back expenses for Tier 1 capital distributions paid in the immediately preceding 12 months) that it can pay as discretionary bonuses to staff, Distributions and dividends on Additional Tier 1 Capital instruments (including the Capital Notes 2) and dividends and share buy-backs on ordinary shares (Tier 1 capital distributions). The amount of adjusted current year post tax earnings that can be paid as Tier 1 capital distributions (including Distributions on the Capital Notes 2) (Maximum Distributable Amount) is limited in accordance with the table below, after taking into account other Tier 1 capital distributions paid in the 12-month period immediately preceding the relevant payment date and actual and forecast capital raisings agreed with APRA.

The Capital Buffer is divided into four quartiles for determining the maximum percentage of adjusted current year post-tax earnings that an ADI is able to distribute when its Common Equity Capital Ratio falls within the relevant quartile:

COMMON EQUITY CAPITAL RATIO	MAXIMUM DISTRIBUTABLE AMOUNT
Above the top of the Capital Buffer >(PCR + Capital Buffer)	100%
Within the fourth quartile of the Capital Buffer >(PCR +75% of the Capital Buffer) to ≤(PCR + Capital Buffer)	60%
Within the third quartile of the Capital Buffer >(PCR +50% of the Capital Buffer) to ≤(PCR + 75% of the Capital Buffer)	40%
Within the second quartile of the Capital Buffer >(PCR +25% of the Capital Buffer) to ≤(PCR + 50% of the Capital Buffer)	20%
Within the first quartile of the Capital Buffer PCR to ≤(PCR + 25% of the Capital Buffer)	0%

SECTION 3 ABOUT BOQ

An ADI may apply to APRA to make payments in excess of the constraints imposed by the Capital Conservation Buffer. APRA will only grant approval where it is satisfied that an ADI has established measures to raise capital equal to or greater than the amount above the constraint that it wishes to distribute. Australian Corporations law does not limit the sources of payment of Distributions on Capital Notes 2 to the profits of a particular year or period.

3.3.4 Capital management strategy

BOQ's approach to capital management considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans. The key objectives are to hold sufficient capital in excess of prudential requirements at levels which support the risks of BOQ and enable BOQ to pursue business opportunities. BOQ aims to optimise securityholder value by managing the level, the composition and use of capital across the business.

3.3.5 Pro-forma consolidated capital adequacy position as at 31 August 2020

The following table sets out the pro-forma capital adequacy position based on BOQ's audited consolidated balance sheet as at 31 August 2020, adjusted for the pro-forma adjustments related to the Offer set out in Section 3.2.2, including the issue of \$200 million of Capital Notes 2 (net of costs associated with the Offer) as if it was completed as at that date.

BOQ reported and pro-forma consolidated capital adequacy position

	REPORTED AUG-2020 \$M	PRO-FORMA ADJUSTMENTS	PRO-FORMA AUG-2020 \$M	NOTE
Common Equity Tier 1 (CET1)	3,089	(5)	3,084	1
Additional Tier 1 Capital	350	200	550	1
Total Tier 2	580		580	
Total Capital Base	4,019	195	4,214	1
Total risk weighted assets	31,576		31,576	
Common Equity Tier 1 Ratio	9.78%		9.77%	2
Tier 1 Ratio	10.89%		11.51%	2
Total Capital Adequacy Ratio	12.73%		13.35%	2

1 Change in CET1, Additional Tier 1 Capital and Total Capital Base assumes \$200m Capital Notes 2 are issued, with \$5m costs associated with the Offer.

2 Change in Common Equity Tier 1 Ratio, Tier 1 Ratio and Total Capital Adequacy ratio assumes \$200m Capital Notes 2 are issued, with \$5m costs associated with the Offer.

3.4 LIQUIDITY AND FUNDING RISK MANAGEMENT

3.4.1 Liquidity risk management

BOQ's liquidity and funding risks are governed by a detailed policy framework that is reviewed by BOQ's Asset and Liability Committee, endorsed by the Board's Risk Committee and approved by the Board. BOQ's liquidity risk management framework uses scenario analysis to model its ability to fund under both normal and stressed conditions.

A key component of this framework is the Liquidity Coverage Ratio (LCR) implemented in Australia on 1 January 2015 and the Net Stable Funding Ratio (NSFR) implemented on 1 January 2018. The LCR, a severe short-term liquidity stress scenario and the NSFR, a longer term measure of balance sheet resilience, were introduced as part of the Basel III international framework for liquidity-risk measurements, standards and monitoring. As part of meeting the LCR requirements, BOQ has a Committed Liquidity Facility (CLF) with the RBA. The CLF was established as a solution to a High Quality Liquid Assets (HQLA) shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set annually by APRA.

BOQ seeks to strictly observe its prudential obligations in relation to liquidity and funding risk as required by APRA Prudential Standard APS 210.

3.4.1.1 Liquidity ratios

The Basel III liquidity requirements of APRA are: (i) the Liquidity Coverage Ratio (LCR) and (ii) the Net Stable Funding Ratio (NSFR) as per APRA Prudential Standard APS210.

The objective of the LCR is to ensure that an ADI maintains an adequate level of unencumbered HQLA that can be converted into cash to meet its liquidity needs for a 30 calendar day time period under a severe liquidity stress scenario. An ADI must include an appropriate buffer of HQLA over the LCR requirement in line with its liquidity risk tolerance.

The NSFR is a ratio of available stable funding relative to the amount of required stable funding and banks have to meet a minimum ratio requirement of 100%.

As at 31 August 2020, BOQ's LCR was 164%. BOQ's consolidated NSFR was 119% for year ended 31 August 2020.

3.4.2 Funding risk management

BOQ's Treasury undertakes a Board-approved three year funding plan which is updated annually. This strategy is continuously reviewed to take account of changing market conditions, investor sentiment and estimations of asset and liability growth rates. The strategy is reviewed and supported by BOQ's Asset and Liability Committee and endorsed by the Board's Risk Committee prior to final approval by the Board.

BOQ maintains a contingency funding plan that details the broad actions to be taken in response to scenarios of severe disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost. This plan is reviewed annually and defines a committee of senior executives to manage a crisis and allocates responsibility to individuals for key tasks.

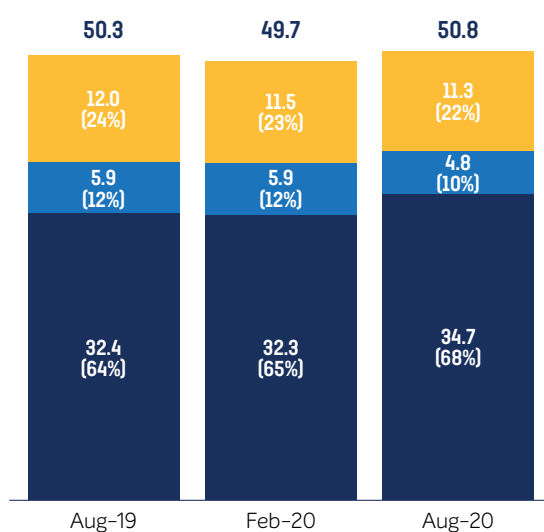
BOQ also has access to the Term Funding Facility (**TFF**), which was introduced by the RBA in March 2020 as part of a package to support the Australian economy facing headwinds as a result of the impact of COVID-19. The TFF is a low cost three year funding facility offered to Authorised Depository Institutions (**ADI's**) at a fixed rate of 0.25%. Under the TFF, BOQ is entitled to three funding allowances:

- An Initial Allowance, of which BOQ was entitled to draw up to \$1,238 million until September 2020;
- An Additional Allowance, which is the sum of large business credit growth and a multiple of SME lending growth and can be drawn up to June 2021; and
- A Supplementary Allowance, of which BOQ is entitled to draw up to approximately \$830 million until June 2021.

Further information on the TFF can be found on the RBA website.

BOQ's diverse funding mix is represented in the graph below.

Funding Mix (A\$bn)



■ Customer Deposits¹

■ Short term Wholesale

■ Long term Wholesale²

¹ The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS 210 Liquidity.

² Foreign currency balances have been translated at end of day spot rates.

SECTION 4

INVESTMENT RISKS

4.1 INTRODUCTION

Before applying for Capital Notes 2, you should consider whether Capital Notes 2 are a suitable investment for you. You should be aware that there are risks associated with an investment in Capital Notes 2, many of which are outside the control of BOQ.

There are a number of factors, both specific to BOQ and of a general nature, which may affect the future operating and financial performance of BOQ, its investment returns and the value of its shares and Capital Notes 2. Many of the circumstances giving rise to these risks are beyond the control of BOQ.

This section describes certain specific areas that are believed to be the major risks associated with an investment in BOQ and in Capital Notes 2. Each of the risks described below could, if they eventuate, have a material adverse effect on BOQ's operating and financial performance and the value of an investment in Capital Notes 2.

The risks to which Capital Notes 2 are subject can be categorised as:

- risk associated with investing in Capital Notes 2;
- risk associated with BOQ; and
- general risks.

The summary of risks below is not exhaustive. You should read this Prospectus in its entirety and consult your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to apply for Capital Notes 2.

4.2 CAPITAL NOTES 2 ARE NOT DEPOSIT LIABILITIES

Capital Notes 2 are not:

- Deposit liabilities of BOQ;
- Protected accounts for the purposes of depositor protection provisions in Division 2 of Part II of the Banking Act or the Financial Claims Scheme established under division 2AA of Part II of the Banking Act;
- Guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction; or
- Secured over any of BOQ's assets.

The investment performance of Capital Notes 2 is not guaranteed by BOQ. A Holder has no claim on BOQ in respect of Capital Notes 2 except as provided in the Capital Notes 2 Terms and the Capital Notes 2 Deed Poll.

4.3 CAPITAL NOTES 2 SPECIFIC RISKS

Set out below are the risks associated with an investment in Capital Notes 2.

4.3.1 Market price of Capital Notes 2

The market price of Capital Notes 2 may fluctuate due to various factors, including poor performance by BOQ, a change in BOQ's financial position, investor perceptions, Australian and worldwide economic conditions, (including, but not limited to, the impact of and continued uncertainty surrounding the COVID-19 pandemic), interest rates, movements in foreign exchange rates, movements in the market price of Ordinary Shares or senior or subordinated debt, the availability of better rates of return on other securities, impacts of regulatory change (including intervention by ASIC in the market for Capital Notes 2 or similar securities), changes in the laws relating to the taxation treatment of Capital Notes 2, including the availability of franking, movements in the market price of Ordinary Shares or senior or subordinated debt, the occurrence or potential occurrence of a Loss Absorption Event, factors that could limit BOQ's ability to make payments on Capital Notes 2, the method of calculating the outstanding amount (if any) of Capital Notes 2 following a Conversion or Write Off, the outstanding amount of Capital Notes 2, the risk of early Redemption following a Tax Event or Regulatory Event, and factors that may affect BOQ's financial performance and position.

Capital Notes 2 may trade at a market price below the Face Value. There is no guarantee that Capital Notes 2 will remain continuously quoted on ASX. Trading of ASX listed securities may be suspended in certain circumstances.

The market price of Capital Notes 2 may be more sensitive than that of Ordinary Shares to changes in interest rates and credit spreads. Increases in relevant interest rates or BOQ's credit spreads may adversely affect the market price of Capital Notes 2.

Where Capital Notes 2 are to be Converted, Redeemed or Resold for any reason, the announcement of these events may have a significant impact on the market price and/or liquidity of Capital Notes 2 and the Ordinary Shares.

In recent years, securities markets have sometimes been volatile. The economic consequences of the COVID-19 pandemic have also given rise to increased levels of volatility in financial markets. The expected duration and magnitude of the COVID-19 pandemic and its full economic impact remains unclear. Volatility risk is the potential for fluctuations in the price of securities, sometimes materially, and over a short period. Investing in volatile conditions usually implies a greater level of volatility risk for investors than an investment in a more stable market.

You should carefully consider this additional volatility risk before making any investment in Capital Notes 2.

The market price of Capital Notes 2 (as well as the Ordinary Shares) may fluctuate as a result of the information disclosed to the market by BOQ in order to comply with its continuous disclosure requirements.

SECTION 4 INVESTMENT RISKS

4.3.2 Exposure to BOQ's financial performance and position

If BOQ's financial performance or position declines, or if market participants anticipate that it may decline, an investment in Capital Notes 2 could decline in value even if Capital Notes 2 have not been Converted. Accordingly, when you evaluate whether to invest in Capital Notes 2, you should carefully evaluate the investment risks associated with an investment in BOQ – see Section 4.4.

4.3.3 Liquidity of Capital Notes 2

Although BOQ intends to have Capital Notes 2 quoted on ASX, there is no guarantee that a liquid market will develop for Capital Notes 2. The market for Capital Notes 2 is likely to be less liquid than the market for BOQ's Ordinary Shares and may be less liquid than the market for comparable securities issued by other entities. Holders who wish to sell their Capital Notes 2 may be unable to do so at an acceptable price, if at all, if insufficient liquidity exists in the market for Capital Notes 2.

Where Capital Notes 2 are Converted, there may be no liquid market for Ordinary Shares at the time of Conversion or the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities at the time of Conversion.

The liquidity of the market for Capital Notes 2 may be negatively impacted by a number of factors, including changes in law, including law relating to franking credits or other laws, or if pursuant to the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (**DDOPIP Legislation**), ASIC exercises its product intervention powers in relation to Capital Notes 2 or comparable securities issued by BOQ or other entities. The liquidity of the market for Capital Notes 2 may also be impacted as a result of market volatility due to the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and the potential impact on the liquidity of the market for Capital Notes 2 is unclear.

The DDOPIP Legislation imposes design and distribution obligations on the issuers, providers and distributors of financial products and provide ASIC with a product intervention power (see Section 4.3.29 for further detail). The impact of these new obligations remains untested, however there is a risk that they may adversely impact the issue, distribution and reinvestment of financial products in the future, including instruments like Capital Notes 2. These changes may also affect the liquidity of funding instruments (including hybrids such as Capital Notes 2), if they lead to a material reduction in future issuance volumes or secondary trading activity by investors.

4.3.4 Ranking of Ordinary Shares

The Ordinary Shares held as a result of any Conversion will, following Conversion, rank equally with existing Ordinary Shares. Accordingly, the ongoing value of any Ordinary Shares received upon Conversion will depend upon the market price of Ordinary Shares after the Mandatory Conversion Date or other date on which Capital Notes 2 are Converted. That market is also subject to the factors outlined above and may also be volatile depending on securities market conditions at that time.

4.3.5 Fluctuation in Ordinary Share price

The number of Ordinary Shares that Holders receive on Conversion is calculated by reference to a VWAP for Ordinary Shares during a period before Conversion. The VWAP may differ from the market price for Ordinary Shares on or after the date of Conversion. This means that the value of Ordinary Shares received may be more or less than anticipated when they are issued or thereafter.

In particular, on Conversion, other than Conversion resulting from a Common Equity Trigger Event or Non-Viability Trigger Event, Holders will receive \$101.01 worth of Ordinary Shares per Capital Note 2 based on the VWAP during a period before the Mandatory Conversion Date or other date on which Capital Notes 2 are Converted. At the time they are issued, the market price of the Ordinary Shares will likely vary from that used to determine the Maximum Conversion Number and consequently the value of Ordinary Shares received will be more or less than \$101.01. The number of Ordinary Shares to be received by a Holder in respect of its aggregate holding of Capital Notes 2 will be rounded down to a whole number (with entitlements of the Holder to a part only of an Ordinary Share disregarded).

Additionally, the market price of Ordinary Shares is used to determine whether Conversion can occur in various conditions through the Mandatory Conversion Conditions and Optional Conversion Restrictions. Therefore, fluctuations in the market price of Ordinary Shares can impact the timing of Conversion occurring (and may mean that Conversion never occurs).

The market price of Ordinary Shares may fluctuate due to various factors, including poor financial performance by BOQ, a change in BOQ's financial position, investor perceptions, Australian and worldwide economic conditions (including, but not limited to, the impact of and continued uncertainty surrounding the COVID-19 pandemic), interest rates, foreign exchange rates, debt market conditions, the availability of better rates of return on other securities or investments, BOQ's financial performance and position, and transactions affecting the share capital of BOQ and other factors that may affect BOQ's financial performance and position. As a result, the value of Ordinary Shares received on Conversion may be greater than or less than \$101.01 per Capital Note 2 when they are issued or thereafter, and could be less than the Face Value. In relation to Conversion on account of a Loss Absorption Event – see further detail in Section 2.3.

After Conversion, there may be Holders wishing to dispose of their Ordinary Shares issued on Conversion which may have a negative effect on the price at which Ordinary Shares trade on ASX.

Other events and conditions may affect the ability of Holders to trade or dispose of the Ordinary Shares issued on Conversion, for example, the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for listing or any practical issues which affect that listing, any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time, or laws of general application, including securities law and laws relating to the holding of shares and other interests in financial institutions, which limit a person's ability to acquire or dispose of Ordinary Shares.

In addition, there is no guarantee that BOQ Ordinary Shares will remain continuously quoted on ASX. Trading of ASX listed securities may be suspended in certain circumstances.

4.3.6 Changes in Distributions

The Distributions payable on Capital Notes 2 are based on a floating rate plus a fixed Margin.

The Distributions will fluctuate in line with movements in the BBSW Rate and is influenced by a number of factors. Refer to the chart below for historical movements in the BBSW Rate.



(Source: Thomson Reuters)

Note: Historical levels are not indicative of future performance. The above graph is for illustrative purposes only and does not indicate, guarantee or forecast the actual BBSW. The actual BBSW for the Distribution Periods may be higher or lower than the rates in the above graph.

As Distributions fluctuate, there is a risk that they may become less attractive when compared to the returns available on comparable securities issued by BOQ or other entities or other investments. It is possible for the BBSW to be negative. If this occurs, the negative amount will be taken into account in calculating Distributions (but there is no obligation on Holders to pay BOQ if the Distributions become negative). Further, if there is a Rate Disruption Event, the Replacement Rate may not be economically equivalent to BBSW or be positively correlated to BBSW and may adversely affect the market price of or return on Capital Notes 2.

BOQ does not guarantee any particular rate of return on Capital Notes 2.

Changes in the corporate tax rate will also affect the Distribution Rate. If the corporate tax rate were to change, the cash amount of Distributions and the amount of any franking credits will change.

4.3.7 Distributions may not be paid

There is a risk that Distributions will not be paid. The Capital Notes 2 Terms do not oblige BOQ to pay Distributions.

The payment of Distributions on Capital Notes 2 is subject to the discretion of BOQ, which means they may not be paid and failure to pay a Distribution when scheduled will not constitute an event of default. Distributions are also only payable if a Payment Condition does not exist on the Distribution Payment Date.

The circumstances in which a Payment Condition will exist are described in Section 2.1. They include the cases where the payment of a Distribution will result in a breach of APRA's Prudential Capital Requirements as they apply to BOQ, or will result in BOQ becoming, or being likely to become insolvent for the purposes of the Corporations Act, where APRA otherwise objects to the payment of a Distribution or where BOQ is not permitted to pay the Distribution under the Corporations Act.

The Prudential Standards also impose restrictions on the proportion of profits that can be paid through ordinary dividends, Additional Tier 1 capital distributions (including Distributions on Capital Notes 2) and discretionary staff bonuses if the Common Equity Capital Ratio falls into its Capital Buffer – see Section 3.3.3.

Changes in laws and regulations applicable to BOQ, or its other obligations, may impose additional requirements which prevent BOQ from paying a Distribution in additional circumstances.

APRA has stated in response to the uncertainty resulting from the COVID-19 pandemic that APRA expects ADIs (such as BOQ) to limit or materially reduce discretionary capital distributions until the economic outlook is clearer. APRA's guidance on capital management does not prohibit BOQ from paying Distributions, however there is a risk that if the economic outlook remains negative or uncertain for a prolonged period of time, an objection to the payment of a Distribution may occur.

The Capital Notes 2 Terms contain no events of default and non-payment of a Distribution is not an event of default. A Holder:

- has no right to apply for BOQ to be wound up or placed in administration, or to cause a receiver or a receiver and manager to be appointed in respect of BOQ merely on the grounds that BOQ does not or is or may become unable to pay a Distribution; and
- has no right to set-off any amount owing to it by BOQ in connection with Capital Notes 2 against any amount owing by it to BOQ.

Distributions on Capital Notes 2 are non-cumulative. Therefore, if a Distribution is not paid in full for any particular Distribution Period, Holders will not be entitled to receive that Distribution and will not receive that Distribution.

Subject to certain exceptions, if for any reason a Distribution has not been paid on a relevant Distribution Payment Date, BOQ must not, until and including the next Distribution Payment Date:

- declare, determine to pay or pay any Ordinary Share Dividend; or
 - undertake any Buy-Back or Capital Reduction,
- unless:
- the Distribution is paid in full within three Business Days of the Relevant Distribution Payment Date;
 - all Capital Notes 2 have been Converted or Redeemed; or
 - a Special Resolution of the Holders has been passed approving such action.

SECTION 4 INVESTMENT RISKS

Changes in regulations application to BOQ may impose additional requirements which prevent BOQ from paying Distributions in additional circumstances.

4.3.8 The restrictions on Ordinary Share Dividend payments and Buy-Backs and Capital Reductions only apply in limited circumstances

These restrictions apply only to payments on, or buybacks or capital reductions in respect of, Ordinary Shares and not to payments on, or buybacks or capital reductions in respect of, securities ranking equally with Capital Notes 2 (such as Capital Notes 1) or any other class of security (if on issue).

Accordingly, a failure to make a scheduled payment on Capital Notes 2 may not restrict the making of payments in respect of instruments that may in the future rank equally with Capital Notes 2.

Further, the restriction only applies until the next quarterly Distribution Payment Date and is subject to certain exceptions. The dates for distribution with respect to Ordinary Shares are determined by BOQ in its discretion, and do not bear a fixed relationship to the Distribution Payment Dates for Capital Notes 2. Accordingly, as soon as the restriction ceases to apply (as will be the case if the next scheduled quarterly Distribution on Capital Notes 2 is paid) BOQ will not be restricted from paying an Ordinary Share Dividend.

Where an Approved NOHC is substituted as the issuer of Ordinary Shares on Conversion, there is no restriction on the Approved NOHC declaring or paying a dividend on, or buying back or reducing capital on, its ordinary shares if BOQ does not pay a Distribution on a Capital Note 2.

4.3.9 Distributions may not be fully franked

It is expected that Distributions on Capital Notes 2 will be fully franked. However, it is possible that Distributions paid on Capital Notes 2 may not be fully franked. The effect of Distributions being franked is to reduce the cash amount received by Holders on each Distribution Payment Date by an amount equal to the relevant level of franking. If a Distribution is not fully franked, it will be grossed up by a cash amount to compensate for the unfranked amount, subject to no Payment Condition existing.

BOQ's ability to frank Distributions on Capital Notes 2 is affected by BOQ's level of available franking credits and BOQ's distributable profits. BOQ's level of franking credits may be affected by a wide range of factors, including its business performance, the jurisdictions in which BOQ makes profits and pays tax, the applicable Australian corporate tax rate and the amount of other frankable distributions. BOQ's distributable profits may also be impacted by a wide range of factors, including its level of earnings and other distributions it makes.

The value and availability of franking credits to be utilised by a Holder will differ depending on the Holder's particular tax circumstances and the tax laws at the time of distribution. Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. Holders should also be aware that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Holder and applicable Australian taxation laws.

Holders should refer to the Australian taxation summary in Section 6 and seek professional advice in relation to their tax position.

4.3.10 Ranking of Capital Notes 2

In respect of payment of Distributions and in a winding-up of BOQ, Capital Notes 2 rank ahead of Ordinary Shares, equally and without preference among themselves and other Equal Ranking Instruments (including Capital Notes 1), but behind the claims of all creditors (including depositors and holders of Tier 2 capital instruments) other than holders of Equal Ranking Instruments.

If there is a shortfall of funds on a winding-up of BOQ to pay all amounts ranking ahead of or equally with Capital Notes 2, Holders will lose all or some of their capital.

Any return in a winding-up may be adversely affected if Capital Notes 2 have been Converted or Written Off as a result of a Loss Absorption Event.

After Conversion, Holders become holders of Ordinary Shares and will rank equally with all other Ordinary Securityholders in a winding-up.

After a Write Off, all rights in relation to Capital Notes 2 (including in respect of Distributions and return of capital) will be immediately and irrevocably terminated and Holders will lose all of the value of those Capital Notes 2 without compensation.

Although Capital Notes 2 may pay a higher rate of distribution than comparable securities and instruments which are not subordinated, there is a significant risk that a Holder will lose all or some of their investment should BOQ become insolvent or in a winding up of BOQ. Where Capital Notes 2 are Written Off, as Ordinary Shares will still be on issue, a Holder is likely to be worse off than a holder of Ordinary Shares.

4.3.11 Capital Notes 2 are perpetual and Mandatory Conversion may not occur on the Scheduled Mandatory Conversion Date or at all

Capital Notes 2 are scheduled to Convert into Ordinary Shares on 15 May 2029 (subject to the Mandatory Conversion Conditions being satisfied).

However, there is a risk that Conversion will not occur because the Mandatory Conversion Conditions are not satisfied due to a large fall in the Ordinary Share price relative to the Issue Date VWAP, or where a Delisting Event applies. For example, the market price of Ordinary Shares is relevant to determining whether Conversion will occur, and the number of Ordinary Shares a Holder will receive on Conversion. Depending on the market price of Ordinary Shares at the relevant time, Conversion may not occur. The Ordinary Share price may be affected by transactions affecting the share capital of BOQ, such as rights issues, placements, returns of capital, certain buy-backs and other corporate actions. The Maximum Conversion Number is adjusted only for transactions by way of a reconstruction and pro-rata bonus issues of Ordinary Shares (not involving any cash payment or other distribution to or by Ordinary Securityholders) as described in the Capital Notes 2 Terms and not for other transactions, including rights issues, placements, returns of capital, buy-backs or special dividends. The Capital Notes 2 Terms do not limit the transactions which BOQ may undertake with respect to its share capital and any such action may affect whether Conversion will occur and may adversely affect the position of Holders.

If Mandatory Conversion does not occur on the Scheduled Mandatory Conversion Date, Mandatory Conversion would then occur on the next Distribution Payment Date on which all of the Mandatory Conversion Conditions are satisfied unless Capital Notes 2 are otherwise Converted or Redeemed on or before that date. If Mandatory Conversion does not occur on a possible Mandatory Conversion Date and Capital Notes 2 are not otherwise Converted or Redeemed, Distributions may continue to be paid on Capital Notes 2, subject to BOQ electing to pay a Distribution and no Payment Condition existing on the relevant Distribution Payment Date(s).

Capital Notes 2 are a perpetual instrument. If the Ordinary Share price deteriorates significantly and never recovers, it is possible that the Mandatory Conversion Conditions will never be satisfied and, if this occurs, unless Capital Notes 2 are otherwise Converted, Capital Notes 2 will never Convert and will remain on issue indefinitely.

4.3.12 Redemption, Conversion or Resale at BOQ's Option

Capital Notes 2 are perpetual securities and Holders do not have a right to require BOQ to Convert, Redeem or Resell their Capital Notes 2. BOQ may, subject to APRA approval, elect to Convert, Redeem or Resell some or all Capital Notes 2 on 14 May 2027 or following the occurrence of a Tax Event or Regulatory Event. In addition, BOQ may also Convert all (but not some) Capital Notes 2 on the occurrence of a Potential Acquisition Event. Whether any action takes place or which action is taken at these times is entirely at the option of BOQ (and subject to various restrictions and conditions).

Any Conversion, Redemption or Resale at BOQ's option may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to Capital Notes 2 (such as Distributions) is unknown.

The method of Conversion, Redemption or Resale chosen by BOQ may be disadvantageous to Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date. Holders have no right to request any of Redemption, Conversion or Resale at any time.

For example, if APRA approves an election by BOQ to Redeem Capital Notes 2, Holders will receive cash equal to \$100 per Capital Note 2 rather than Ordinary Shares and accordingly, they will not benefit from any subsequent increases in the Ordinary Share price after the Redemption occurs. In addition, where Holders receive cash on Redemption, the rate of return at which they could reinvest their funds may be lower than the Distribution Rate at the time.

Although, as at the date of this Prospectus, no Regulatory Events or Tax Events are expected by BOQ, these events are beyond the control of BOQ and could occur at any future time. Any Redemption, Conversion or Resale at the option of BOQ is subject to various restrictions and conditions, including, that APRA must give written approval for any Redemption or Resale of Capital Notes 2. The granting of this approval is at the complete discretion of APRA.

Upon any Resale, it will be the Nominated Purchaser's obligation to pay the Resale Price to the Holders. BOQ does not guarantee the Nominated Purchaser will pay this amount and if it does not the Holders will continue to hold Capital Notes 2.

Where Holders receive Ordinary Shares on Conversion, they will have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to Capital Notes 2.

4.3.13 Optional Conversion, Redemption and Resale subject to certain events occurring

If BOQ elects to Convert (other than where it is obliged to Convert), Redeem or Resell Capital Notes 2, APRA's prior written approval is required. Holders should not expect that APRA will give its approval to any Conversion, Redemption or Resale.

Optional Conversion

The Optional Conversion of Capital Notes 2 by BOQ is also subject to the level of the Ordinary Share price on the second Business Day before the date on which BOQ is to send a notice advising Holders that it wishes to Convert Capital Notes 2 (or if trading in Ordinary Shares did not occur on that date, the Business Day prior to that date on which trading in Ordinary Shares occurred). If the VWAP on that date is less than or equal to 22.50% of the Issue Date VWAP (see Section 2.5.6), BOQ is not permitted to elect to Convert Capital Notes 2. Also, if a Delisting Event applies, BOQ is not permitted to elect to Convert Capital Notes 2.

In addition, Conversion on an Optional Conversion Date is subject to both the Second Mandatory Conversion Condition (applied as if it referred to 20.21% of the Issue Date VWAP) and the Third Mandatory Conversion Condition being satisfied in respect of the Optional Conversion Date as if the Optional Conversion Date were a possible Mandatory Conversion Date.

If the requirements for Conversion on the Optional Conversion Date are not satisfied, BOQ will notify Holders and the Conversion will be deferred until the next Distribution Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Distribution Payment Date were a possible Mandatory Conversion Date (with this condition applied as if the percentage of the Issue Date VWAP were 22.50% for the First Mandatory Conversion Condition and 20.21% for the Second Mandatory Conversion Condition).

Optional Redemption

The Optional Redemption of Capital Notes 2 is subject to the condition that APRA is satisfied that either Capital Notes 2 the subject of the Redemption are replaced concurrently or beforehand with a capital instrument of the same or better quality and the replacement of Capital Notes 2 is done under conditions that are sustainable for BOQ's income capacity, or that the capital position of the BOQ Level 1 Group and the BOQ Level 2 Group will remain adequate after BOQ elects to Redeem Capital Notes 2.

BOQ is not permitted to elect to Redeem or Resell Capital Notes 2 on account of an Acquisition Event or a Potential Acquisition Event.

4.3.14 Cash payment only in limited circumstances

Capital Notes 2 Holders will only receive a cash payment for their Capital Notes 2 where BOQ chooses to Redeem or Resell Capital Notes 2. This choice of Redeeming or Reselling Capital Notes 2 is only available on specific dates or upon the occurrence of specific events and is entirely at the discretion of BOQ. Further, these options are subject to conditions and restrictions, including the election to Redeem requiring the written approval of APRA. It is not certain whether or not these tests will be met or the

SECTION 4 INVESTMENT RISKS

relevant events will occur, that APRA would give any approval, or that BOQ would choose to Redeem or Resell Capital Notes 2 (or instead elect that Capital Notes 2 will be Converted (if permitted at the relevant time)). As a consequence, there is no certainty that Capital Notes 2 Holders will receive a cash payment for their Capital Notes 2.

4.3.15 Conversion on an Acquisition Event

BOQ, the issuer of Capital Notes 2, is an ASX-listed company and may be affected by merger and acquisition activity, including the possibility of being acquired by, or merged with, another company or group of companies, potentially resulting in a change of Control.

Where this corporate activity constitutes an Acquisition Event, as defined in the Capital Notes 2 Terms, subject to certain conditions, BOQ is required to Convert all Capital Notes 2 in accordance with the Capital Notes 2 Terms. Conversion may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to Capital Notes 2 (such as Distributions) is unknown.

Not all corporate activities that have the effect of a change of Control of BOQ or its business operations will be an Acquisition Event. In particular, it would not be an Acquisition Event if APRA were to require the compulsory transfer of BOQ's business. Where the corporate activity is not an Acquisition Event, BOQ is not obliged to Convert Capital Notes 2. Therefore, the outcomes for Holders arising from that corporate activity will be uncertain and Holders may suffer loss or face increased or different risks in holding Capital Notes 2.

In addition, if an Acquisition Event occurs and the applicable conditions to Conversion are not satisfied, and so Capital Notes 2 do not Convert, Holders may be left holding Capital Notes 2 and Conversion may never occur.

4.3.16 Other events affecting Conversion

Although one condition to Conversion is that a Delisting Event does not apply, other events and conditions may affect the ability of Holders to trade or dispose of the Ordinary Shares issued on Conversion (e.g. the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation), including any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time.

4.3.17 Conversion on account of a Loss Absorption Event.

BOQ must immediately Convert Capital Notes 2 into Ordinary Shares if a Loss Absorption Event occurs. A Loss Absorption Event may occur at any time and on any day (whether or not the day is a Business Day). Accordingly, any such Conversion on account of a Loss Absorption Event may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing.

A Loss Absorption Event is each of:

- a Common Equity Trigger Event; and
- a Non-Viability Trigger Event.

See Section 2.3 for a description of Common Equity Trigger Events and Non-Viability Trigger Events. If a Loss Absorption Event occurs:

- Conversion is not subject to any conditions being satisfied;
- Conversion may occur automatically without the need for any further act or step by BOQ. In that case, BOQ will treat a Holder in respect of its Capital Notes 2 as having been issued the Conversion Number of Ordinary Shares. BOQ expects that any ASX trades in Capital Notes 2 that have not settled on the date a Loss Absorption Event occurs will continue to settle in accordance with the normal ASX T+2 settlement, although BOQ expects the seller will be treated as having delivered, and the buyer will be treated as having acquired, the Conversion Number of Ordinary Shares into which Capital Notes 2 have been Converted as a result of the occurrence of the Loss Absorption Event;
- BOQ may also seek a trading halt to prevent further trading in Capital Notes 2 on ASX, and if ASX permits, may refuse to register transfers of Capital Notes 2 that have not settled – this may result in disruption or failures in trading or dealings in Capital Notes 2 (which may cause a Holder to suffer loss);
- Holders will not receive prior notice of Conversion or have any rights to vote or right of approval in respect of the Conversion; and
- the Ordinary Shares issued on Conversion may not be quoted at the time of issue, or at all.

If a Loss Absorption Event were to occur, depending on how much Common Equity Tier 1 Capital BOQ needs, BOQ may be:

- permitted to Convert only a proportion of Capital Notes 2 and other Relevant Tier 1 Capital Instruments; or
- required to either convert or write off all Relevant Tier 1 Capital Instruments (such as Capital Notes 2).

Holders should be aware that all relevant Tier 1 Capital instruments such as Capital Notes 2 will be converted or written off before any Relevant Tier 2 Capital Instruments are converted or written off. BOQ has no obligation to maintain any Relevant Tier 1 Capital Instruments on issue and gives no assurance that it will do so.

All Relevant Tier 1 Capital Instruments must be converted or written off where the Loss Absorption Event is a Non-Viability Trigger Event involving a determination by APRA that a public sector injection of capital would be required.

APRA determinations in relation to Loss Absorption Events

Where BOQ is permitted to Convert only a proportion of Capital Notes 2 and other Relevant Tier 1 Capital Instruments following a Loss Absorption Event, BOQ must endeavour to treat Holders on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels of Capital Notes 2 and other logistical considerations, provided that nothing in the making of the selection or the adjustments is to delay or impede the Conversion taking effect.

Where the Relevant Tier 1 Capital Instruments are not all in the same currency BOQ may treat them as if converted into a single currency of BOQ's choice at such rate of exchange as BOQ considers reasonable. BOQ may make adjustments among Holders and holders of other Relevant Tier 1 Capital Instruments having regard to the need to effect conversion immediately.

Accordingly, should a Loss Absorption Event occur, and BOQ is permitted to Convert only some and not all Capital Notes 2, not all Holders may have their Capital Notes 2 Converted into Ordinary Shares.

Holders should be aware that:

- Relevant Tier 1 Capital Instruments such as Capital Notes 1 and Capital Notes 2 will be converted or written off before any Tier 2 Capital instruments are converted or written off;
- BOQ has no Relevant Tier 1 Capital Instruments on issue other than Capital Notes 1. BOQ has no obligation to maintain on issue Capital Notes 1 or any Relevant Tier 1 Capital Instruments and does not, and may never, have on issue Relevant Tier 1 Capital Instruments; and
- if Capital Notes 2 are Written Off, all rights in relation to those Capital Notes 2 will be terminated and the Holders will lose the entire amount of their investment, without compensation.

In relation to Common Equity Trigger Events, see Section 3.3.5 for information on BOQ's Common Equity Tier 1 Capital. BOQ's level of Common Equity Tier 1 Capital may be affected by risks associated with its business and its ability to raise and maintain levels of capital which are outside its control.

In relation to Non-Viability Trigger Events, APRA has not provided guidance as to how it would determine non-viability. Non-viability could be expected to include serious impairment of BOQ's financial position and insolvency; however, it is possible that APRA's definition of non-viable may not necessarily be confined to solvency or capital measures and APRA's position on these matters may change over time. In the context of ADIs, APRA has recently indicated that it may regard non-viability as occurring well before an ADI is at risk of becoming insolvent. Non-viability may be significantly impacted by a number of factors, including factors which affect the business, operation and financial condition of BOQ. For instance, systemic and non-systemic macroeconomic, environmental and operational factors, domestically or globally, may affect the viability of BOQ. As the occurrence of a Non-Viability Trigger Event is at the discretion of APRA, there can be no assurance given as to the factors and circumstances that may give rise to this event.

Conversion following a Loss Absorption Event

The number of Ordinary Shares that a Holder will receive on Conversion following a Loss Absorption Event is calculated in accordance with the Conversion Number formula which provides for a calculation based on a discounted five Business Day VWAP but cannot be more than the Maximum Conversion Number.

Accordingly, this is likely to result in a Holder receiving significantly less than \$101.01 worth of Ordinary Shares per Capital Note 2 and losing a significant amount of the money they invested in Capital Notes 2 as a result.

This is because:

- the number of Ordinary Shares is limited to the Maximum Conversion Number and this number of Ordinary Shares is likely to have a value of significantly less than \$101.01;
- the number of shares is calculated by reference to the price of Ordinary Shares on the five Business Days before the Loss Absorption Event Conversion Date which may differ from the Ordinary Share price on or after that date. The Ordinary Shares may not be listed or may not be able to be sold at prices

representing their value based on the VWAP. In particular, VWAP prices will be based wholly or partly on trading days which occurred before the Loss Absorption Event; and

- as noted in Section 4.3.11, the Maximum Conversion Number may be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues. However, no adjustment will be made to it on account of other transactions which may affect the price of Ordinary Shares, including for example rights issues, returns of capital, buy-backs or special dividends. The Capital Note Terms do not limit the transactions that BOQ may undertake with respect to its share capital and any such action may increase the risk that Holders receive only the Maximum Conversion Number and so may adversely affect the position of Holders.

Failure to Convert

If, following a Loss Absorption Event, Conversion has not been effected within 5 days of the Loss Absorption Event Conversion Date for any reason (including an Inability Event), Capital Notes 2 which would otherwise be Converted, will not be Converted but instead will be Written Off.

If a Write Off occurs following a Loss Absorption Event, the rights of Holders to Distributions and returns of capital will be terminated, Capital Notes 2 that are Written Off will not be Converted, Redeemed or Resold on any subsequent date and a Holder will not have their capital repaid. Holders will suffer loss as a result.

This may occur for any reason, including an Inability Event. The laws under which an Inability Event may arise include laws relating to the insolvency, winding-up or other external administration of BOQ. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of Capital Notes 2 may change and the change may be adverse to the interests of Holders.

Recent changes to the law have given statutory recognition to conversion and write off provisions in regulatory capital instruments such as Capital Notes 2, subject to limited exceptions.

4.3.18 Changes to credit ratings

BOQ's cost of funds, margins, access to capital markets and competitive position and other aspects of its performance may be affected by its credit ratings (including any long-term credit ratings or the ratings assigned to any class of its securities). Credit rating agencies may withdraw, revise or suspend credit ratings or change the methodology by which securities are rated. Even though Capital Notes 2 will not be rated, such changes could adversely affect the market price, liquidity and performance of Capital Notes 2 or Ordinary Shares received on Conversion.

4.3.19 Regulatory classification

APRA has confirmed that Capital Notes 2 are capable of being recognised as Additional Tier 1 Capital of BOQ for purposes of APRA's Prudential Capital Requirements. However, if BOQ subsequently determines that, as a result of a Regulatory Change, some or all Capital Notes 2 are not or will not qualify in that category of regulatory capital (and BOQ did not expect this prior to the Issue Date), BOQ may decide that a Regulatory Event has occurred. This will allow Conversion, Redemption or Resale (subject to APRA's prior written approval) at BOQ's discretion.

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The timing of Conversion, Redemption or Resale may not coincide with your individual preference, and may be disadvantageous in light of market conditions or your individual circumstances at the time. The rate of return at which Holders may reinvest their funds or receive in connection with any Ordinary Shares, may be lower than the Distribution Rate on Capital Notes 2. The choice of Conversion, Redemption or Resale when they are available, is entirely at the option of BOQ. The choice of these actions may be disadvantageous to Holders and may not coincide with their individual preference or intended investment outcomes.

4.3.20 Taxation treatment and consequences

A general description of the taxation consequences of investing in Capital Notes 2 is set out in Section 6. This discussion is in general terms and is not intended to provide specific advice in relation to the circumstances of any particular investor. Accordingly, investors should seek independent advice in relation to their individual tax position.

If there is a change in any laws or regulations affecting taxation in Australia, judicial interpretations or administrative pronouncements thereof, or a challenge is asserted or threatened in connection with Capital Notes 2 in writing from the Australian Taxation Office, that adversely affects the tax position of BOQ, a Tax Event may occur. This may give BOQ the right (subject to APRA's prior written approval) to elect to Convert, Redeem or Resell Capital Notes 2.

The timing of Conversion, Redemption or Resale may not coincide with your individual preference, and may be disadvantageous in light of market conditions or your individual circumstances at the time. The rate of return at which Holders may reinvest their funds may be lower than the Distribution Rate on Capital Notes 2.

The choice of Conversion, Redemption or Resale when they are available, is entirely at the option of BOQ (subject to APRA approval). The choice of these actions may be disadvantageous to Holders and may not coincide with their individual preferences or intended investment outcomes.

If the corporate tax rate in Australia changes, the cash amount of Distributions and any associated franking credits may change.

4.3.21 Accounting standards

New, or amendments to existing, accounting standards issued by either the International Accounting Standards Board or Australian Accounting Standards Board applicable to BOQ's financial reporting may affect the reported earnings and financial position of BOQ in future financial periods. This may adversely affect the ability of BOQ to make Distribution payments with respect to Capital Notes 2.

4.3.22 Future issues or redemptions of securities by BOQ

BOQ may in the future issue securities that:

- rank for Distributions or payments of capital (including on the winding-up of BOQ) equally with, behind or ahead of Capital Notes 2;
- have the same or different dividend, interest or distribution rates as those for Capital Notes 2;
- have payment tests and distribution restrictions or other covenants which affect Capital Notes 2 (including by restricting circumstances in which Distributions can be paid or Capital Notes 2 can be Converted, Redeemed or Resold); or
- have the same or different terms and conditions as Capital Notes 2.

BOQ may incur or guarantee further indebtedness and may issue further securities including further Tier 1 Capital securities before, during or after the issue of Capital Notes 2. Future issues of securities or debts by BOQ may dilute the claim of Holders or reduce the value of their investment or liquidity of Capital Notes 2. The future issue of such securities may be on terms such that they would be exchanged, converted or written off other than on a proportionate basis with the Capital Notes 2 and affect the proportions of Capital Notes 2 Converted or written off upon Mandatory Conversion.

No prediction can be made as to the effect, if any, such future issues of securities by BOQ may have on the market price or liquidity of Capital Notes 2 or of the likelihood of BOQ making payments on Capital Notes 2. Similarly, Capital Notes 2 do not restrict any member of the Group from redeeming, buying back or undertaking a reduction of capital or otherwise repaying its other securities (whether existing securities or those that may be issued in the future). However, BOQ may be restricted from declaring or paying a dividend, buying back or reducing capital on Ordinary Shares in certain circumstances (see clause 2.8 of the Capital Notes 2 Terms).

An investment in Capital Notes 2 carries no right to participate in any future issue of securities (whether equity, Additional Tier 1 Capital, subordinated or senior debt or otherwise) by BOQ.

BOQ may redeem or otherwise repay existing securities including existing equal or junior ranking Tier 1 Capital securities before, during or after the issue of Capital Notes 2. An investment in Capital Notes 2 carries no right to be redeemed or otherwise repaid at the same time as BOQ redeems or otherwise repays other securities (whether equity, Additional Tier 1 Capital, subordinated, senior debt, covered bond or otherwise). No prediction can be made as to the effect, if any, which the future redemption or repayment by BOQ of existing securities may have on the market price or liquidity of Capital Notes 2 or on BOQ's financial position or performance.

4.3.23 NOHC Event

As described in Section 2.5.5, certain merger and acquisition activity in relation to BOQ will constitute an Acquisition Event, as defined in the Capital Notes 2 Terms. In this case, subject to certain conditions, BOQ is required to Convert all Capital Notes 2 in accordance with the Capital Notes 2 Terms.

However, certain events which would otherwise constitute Acquisition Events are categorised under the Capital Notes 2 Terms as NOHC Events. Where a NOHC Event occurs and certain other conditions are satisfied, the NOHC Event will not trigger a Conversion of Capital Notes 2. Instead, BOQ will be permitted to make certain amendments to the Capital Notes 2 Terms in order to substitute the Approved NOHC as the issuer of the ordinary shares issued on Conversion (subject to APRA's prior written approval).

Accordingly, potential investors should be aware that, if a NOHC Event occurs and a substitution of the issuer of the ordinary shares on Conversion is effected under the Capital Notes 2 Terms, Holders will be obliged to accept the Approved NOHC ordinary shares and will not receive Ordinary Shares of BOQ on Conversion. Potential investors should also be aware that Holders may not have a right to vote on any proposal to approve, implement or give effect to a NOHC Event.

At this time, BOQ has made no decision to implement a NOHC structure.

In the event that a NOHC Event were to occur, BOQ would continue to be regulated by APRA. However, depending on the structure of the acquirer following a NOHC Event and the capital framework which APRA determines to apply to it, the composition of BOQ's capital measurement levels may be affected, which in turn may affect BOQ's ability to pay Distributions on Capital Notes 2.

After a NOHC Event Holders will remain note holders in BOQ with the same rights to distributions and to payment in a winding-up of BOQ as before the NOHC Event, but on Conversion Holders will receive ordinary shares in the Approved NOHC and not Ordinary Shares in BOQ. Capital Notes 2 should remain quoted on ASX, but BOQ's Ordinary Shares will cease to be quoted.

Where a NOHC Event is accompanied by a transfer of assets from BOQ or a subsidiary to the Approved NOHC or another subsidiary of the Approved NOHC, BOQ may as a result have reduced assets which may affect its credit rating and the likelihood Holders will receive their claims in full if BOQ is wound up. Holders do not have any claim on the assets of the Approved NOHC or any other subsidiary of the Approved NOHC other than following Conversion as a holder of ordinary shares in the Approved NOHC.

Where an Approved NOHC is substituted as the issuer of ordinary shares on Conversion, there is no restriction on the Approved NOHC declaring or paying a dividend on or, buying back or reducing capital on its ordinary shares if BOQ does not pay a Distribution on a Capital Note 2.

4.3.24 Powers of a statutory manager and of APRA and APRA secrecy rules

Under the Banking Act, APRA has power to issue directions to BOQ. These powers of APRA are broad and may be exercised to interfere with the performance of obligations and the exercise of rights under the Capital Notes 2, including in certain circumstances power to statutory manager (a Banking Act statutory manager) to take control of the business. Those circumstances are set out in the Banking Act and include (but are not limited to):

- (a) where the ADI becomes unable to meet its obligations or suspends payment;
- (b) where the ADI informs APRA that it is likely to become unable to meet its obligations, or is about to suspend payment;
- (c) where APRA considers that, in the absence of external support:
 - > the ADI may become unable to meet its obligations;
 - > the ADI may suspend payment;
 - > it is likely that the ADI will be unable to carry on banking business in Australia consistently with the interests of its depositors;
 - > it is likely that the ADI will be unable to carry on banking business in Australia consistently with the stability of the financial system in Australia; or
- (d) where, in certain circumstances, the ADI is in default of compliance with a direction by APRA to comply with the Banking Act or regulations made under it and the Federal Court authorises APRA to assume control of, and to carry on, the ADI's business.

The powers of a Banking Act statutory manager include the power to alter an ADI's constitution, to issue, cancel or sell shares (or rights to acquire shares) in the ADI and to vary or cancel rights or restrictions attached to shares in a class of shares in the ADI. A Banking Act statutory manager is authorised to do so despite the Corporations Act, the ADI's constitution, any contract or arrangement to which the ADI is party or the ASX Listing Rules. The Banking Act statutory manager may also dispose of the whole or part of an ADI's business. In the event that a Banking Act statutory manager is appointed to BOQ in the future, these broad powers of the Banking Act statutory manager may be exercised in a way which adversely affects the rights attaching to Capital Notes 2 and the position of Holders.

APRA may, in certain circumstances, require BOQ to transfer all or part of its business to another entity under the *Financial Sector (Transfer and Restructure) Act 1999 (Cth)* (FSTR Act).

A transfer under the FSTR Act overrides anything in any contract or agreement to which BOQ is party (including the Capital Notes 2 Terms) and thus may have an adverse effect on BOQ's ability to comply with its obligations under Capital Notes 2 and the position of Holders.

In addition, Holders should be aware that secrecy obligations may apply to action taken by APRA. This means that information about action taken by APRA (including in exercise of its powers under the Banking Act) may not be publicly disclosed.

These powers of APRA may be exercised in a way which adversely affects the ability of BOQ to comply with its obligations in respect of the Capital Notes 2 (including in connection with the Conversion of Capital Notes 2), and this may adversely affect the position of Holders.

4.3.25 Amendment of Capital Notes 2 Terms

BOQ may in certain circumstances amend the Capital Notes 2 Terms or the Capital Notes 2 Deed Poll without the approval of Holders.

That may include amendments which affect the rights of Holders, including changes to dates or time periods stated, required or permitted in connection with any Conversion, Redemption or Resale. BOQ may make other amendments that in its opinion are not materially prejudicial to the interests of Holders as a whole.

BOQ may also amend the Capital Notes 2 Terms or the Capital Notes 2 Deed Poll if the amendment has been approved by a Special Resolution. Any amendments which may affect the eligibility of Capital Notes 2 as Additional Tier 1 Capital require APRA's prior written approval.

Amendments under these powers are binding on all Holders despite the fact that a Holder may not agree with the amendment, has voted against making the amendment or may be disadvantaged by the amendment.

BOQ may also, with APRA's written approval, amend the Capital Notes 2 Terms in circumstances where the BBSW ceases to be available and replace the BBSW with an alternative rate that BOQ considers to be appropriate, and make certain other amendments to the Capital Notes 2 Terms. Such amendments could adversely affect the interests of Holders.

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4.3.26 Shareholding limits

The Financial Sector (Shareholdings) Act 1998 (Cth) restricts ownership by people (together with their associates) of ADIs, such as BOQ, to a 20% stake. A securityholder may apply to the Treasurer to extend their ownership beyond 20%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 20% is in the national interest.

Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as BOQ) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. In addition, Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

These limits may prevent Capital Notes 2 of a Holder being Converted and therefore cause them to be Written Off in the event of a Loss Absorption Event.

Holders should take care to ensure that by acquiring any Capital Notes 2 (taking into account any Ordinary Shares into which they may Convert), Holders do not breach any applicable restrictions on ownership.

Holders who do not wish to receive Ordinary Shares on Conversion may notify BOQ of this no less than 15 Business Days prior to the Conversion Date. In addition, if you are a Foreign Holder, you will not receive Ordinary Shares on Conversion (unless BOQ is satisfied that it may issue them to you). Instead, in these cases, the relevant number of Ordinary Shares will be issued to a nominee (which must not be BOQ or a Related Entity), on terms that the nominee will sell the Ordinary Shares at the first reasonable opportunity and pay the net proceeds of any sale to you (after deduction of any applicable brokerage, stamp duty and other taxes, charges and expenses). No guarantee is given in relation to the timing or price at which any sale will occur. BOQ will treat you as a Foreign Holder if your address in the Register is a place outside of Australia or BOQ otherwise believes you may not be a resident of Australia.

4.3.27 FATCA withholding and information reporting

FATCA imposes a reporting regime and potentially a 30% withholding tax with respect to certain payments.

The Australian Government and the US Government signed an intergovernmental agreement which may require that Australian financial institutions involved in the Capital Notes 2 payment processes, such as custodians or nominees, provide the ATO with information about investors. As such, certain information may be requested from Capital Notes 2 Holders or beneficial owners of Capital Notes 2 which may be provided to the ATO. BOQ does not anticipate any financial institutions involved in the payment processes (including BOQ itself) being obliged to deduct any withholding for or on account of FATCA, but there can be no assurance that BOQ or any relevant financial institution will not be required to deduct or withhold amounts on payments made to Capital Notes 2 Holders as a result of FATCA in the future.

If an amount was to be deducted or withheld in respect of FATCA from payments on Capital Notes 2 or deliveries of BOQ Ordinary Shares made in respect of Capital Notes 2, neither BOQ nor any paying agent nor any other person would, pursuant to the conditions of Capital Notes 2, be required to pay additional amounts as a result of the deduction or withholding. As a result, Capital Notes 2 Holders may receive less Distributions, principal or BOQ Ordinary Shares than expected.

FATCA is particularly complex. Investors should consult their own tax advisers to determine how these rules may apply to payments they will receive under Capital Notes 2, particularly if they are a U.S. person or have financial dealings with a U.S. person.

4.3.28 No rights with respect to Ordinary Shares

Holders have no voting or other rights in relation to Ordinary Shares until Ordinary Shares are issued to them. In addition, Capital Notes 2 do not confer on Holders any right to subscribe for new securities in BOQ or to participate in any bonus issue of securities. The rights attaching to Ordinary Shares if Ordinary Shares are issued will be the rights attaching to Ordinary Shares at that time. Holders have no right to vote on or otherwise to approve any changes to BOQ's constitution in relation to the Ordinary Shares that may in the future be issued to them. Therefore, Holders will not be able to influence decisions that may have adverse consequences for them.

4.3.29 Design and distribution obligations

On 5 April 2019, the DDOPIP Legislation came into force. The DDOPIP Legislation imposes additional obligations on BOQ regarding the design and distribution of certain financial products offered to retail investors (including hybrid securities), and grants product intervention powers to ASIC if it believes significant consumer detriment may occur. The DDOPIP Legislation is supplemented by the Corporations Amendment (Design and Distribution Obligations) Regulations 2019 (**DDOPIP Regulations**), which were enacted in December 2019.

The DDOPIP Legislation provides for the design and distribution obligations to come into force in October 2021 and therefore these obligations do not apply to the Offer. The design and distribution obligations in the DDOPIP Legislation are also limited to an initial offering of securities, which means that even if the obligations become effective while Capital Notes 2 are on issue, they will not apply to secondary market trading of Capital Notes 2.

The DDOPIP Legislation gives ASIC a significant, proactive power to issue a product intervention order if it believes that a financial product has resulted in or will, or is likely to, result in significant detriment to retail clients or customers. It is uncertain whether ASIC would perceive significant consumer detriment in relation to Capital Notes 2 or similar securities. The DDOPIP Legislation requires ASIC to undertake a consultation process before it makes a product intervention order.

In December 2019, ASIC released draft regulatory guidance in respect of the design and distribution obligations and opened consultation on its proposed guidance. The consultation process closed in March 2020 and the final form of the regulatory guidance is expected to be released this year.

As noted at Section 4.3.3, the impact of these new obligations remains untested, however there is a risk that they may adversely impact the issue, distribution and reinvestment of financial products in the future, including instruments like Capital Notes 2. These changes may also affect the liquidity of funding instruments (including hybrids such as Capital Notes 2), if they lead to a material reduction in future issuance volumes or secondary trading activity by investors.

4.4 BOQ GROUP SPECIFIC RISKS

4.4.1 Introduction

The BOQ Group's activities are subject to risks that can adversely impact its business, operations and financial condition. Certain risks and uncertainties that the BOQ Group may face are summarised below.

Additional risks and uncertainties that the BOQ Group is unaware of, or that the BOQ Group currently deems to be immaterial, may also become important factors that affect it. If any of the listed or unlisted risks actually occur, the BOQ Group's business, operations, financial condition, or reputation could be materially and adversely affected, with the result that the trading price of the BOQ Group's equity or debt securities could decline, and investors could lose all or part of their investment.

4.4.2 Credit risk

As a financial institution, BOQ is exposed to the risks associated with extending credit to other parties. Credit risk is the risk of financial loss arising from a debtor or counterparty failing to meet their contractual debts and obligations or the failure to recover the recorded value of secured assets. Credit risk arises from both BOQ's lending activities as well as markets and trading activities.

BOQ's lending activities cover a broad range of sectors, customers and products, including mortgages, consumer loans, commercial loans (including commercial property), equipment finance, vendor finance and other finance products. Less favourable economic or business conditions or a deterioration in commercial and residential property markets, whether generally or in a specific industry sector or geographic region, or external events such as climatic, biological, pandemics (such as the COVID-19 pandemic) or geological disasters, could cause customers to experience an adverse financial situation, thereby exposing BOQ to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms. An increase in the failure of customers to meet their obligations could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

BOQ's markets and trading activities exposes BOQ to counterparty risk on other market counterparties that BOQ may face when entering into transactions such as interest rate swaps or cross currency swaps, should those counterparties be unable to honour their contractual obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Such counterparty risk is more acute in difficult market conditions where the risk of failure of counterparties is higher which could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

4.4.3 Dependence on the Australian and Queensland economies

BOQ's revenues and earnings are dependent on economic activity and the level of financial services its customers require. In particular, lending is dependent on customer and investor confidence, the state of the economy, the residential lending market and prevailing market interest rates in Australia and in Queensland in particular. These factors are, in turn, impacted by both domestic and international economic and political events, natural disasters and the general state of the global and Australian economy.

A downturn in the Australian or Queensland economy may give rise to an increase in customer defaults, ultimately affecting BOQ's financial performance, profitability and return to investors.

4.4.4 Dependence on real estate markets

Residential and commercial property lending, together with property finance, including real estate development and investment property finance, constitute important businesses to BOQ.

A significant decrease in commercial property valuations or a significant slowdown in Australian commercial real estate markets could result in a decrease in the amount of new lending BOQ is able to write and/or increase the losses that BOQ may experience from existing loans, which in either case, could adversely impact BOQ's financial performance, financial position, capital resources and prospects. The social and economic impacts of the COVID-19 pandemic have the potential to drive a material decline in residential and commercial property prices because, amongst other things, increased unemployment. As a result of the COVID-19 pandemic, increases to rental property arrears and tenant vacancy periods are possible as well as requests for rental relief.

Further, should BOQ's regulators impose new supervisory measures impacting BOQ's residential lending or if Australian housing price growth subsides or property valuations decline, the demand for BOQ's home lending products may decrease, which may adversely affect BOQ's financial performance, financial position, capital resources and prospects.

4.4.5 The Coronavirus (COVID-19) pandemic

On 11 March 2020, the World Health Organisation declared a pandemic following the emergence in China, and subsequent spread to the rest of the world, of a severe acute respiratory illness caused by a novel coronavirus (**COVID-19**).

The COVID-19 pandemic had a sudden and significant adverse effect on global markets, operations and activity generally. As government measures in Australia and globally continue to be aimed at controlling the spread of COVID-19 such as travel and border restrictions, closure of schools and businesses, restrictions on public gatherings and social distancing, it is expected that these measures will have a continued and prolonged negative impact on global economic activity. This has resulted in and is likely to further result in increased volatility and negative investor sentiment in financial, capital and retail markets both in Australia and globally.

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The expected duration and magnitude of COVID-19 and its potential impacts on the economy and financial markets remains unclear however, should the impact of the COVID-19 pandemic be severe or prolonged, it may lead to reduced client activity and demand for BOQ's products and services, higher credit and valuation losses in its loan and investment portfolios, impairments of financial assets, trading losses and other negative impacts on its operations, financial position and prospects.

In particular, the volatility and dislocation seen recently in global markets has had a negative impact on certain mark-to-market valuations in the markets and treasury portfolios and may continue to do so. The broader economic impact of the COVID-19 pandemic is expected to impact on asset quality, leading to increased provisioning and risk weights over time. Further, some capital markets continue to be significantly disrupted, despite action taken by central banks, which the BOQ Group would otherwise access to diversify its funding base and maintain adequate capital levels.

Despite government measures and assistance introduced to limit the severity of the impact of COVID-19 on businesses and individuals, including those support measures provided by BOQ to its customers, there is the increased risk that the COVID-19 pandemic will cause customers to experience an adverse financial situation thereby exposing the BOQ Group to an increased risk that those customers will fail to meet their obligations. The extent to which these packages mitigate and/or defer the economic impact, including any credit losses BOQ may incur, is uncertain. The short term measures introduced may also create longer-term risks to the economy and an increase in credit risks facing BOQ.

In addition, the COVID-19 pandemic has disrupted the provision of services, activities and products delivered to the BOQ Group by third party vendors and the timelines of strategic projects and may continue to do so.

With respect to the potential future impacts of the COVID-19 pandemic on BOQ's financial performance, any adjustment or provisioning made by BOQ to reflect the impact of COVID-19 is based on circumstances that continue to evolve, making any definitive assessment difficult. There is a risk that the assessments or stress testing used by BOQ to determine any forward looking adjustments prove to be subsequently incorrect with the impact on the Group's financial performance or position materially different to that forecasted.

All of the above together with any other epidemics or pandemics that may arise in the future have the ability to impact BOQ Group's financial performance, financial position, capital resources and prospects.

4.4.6 Climate change risk

BOQ, its customers and external suppliers, may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact BOQ and its customers through reputational damage, environmental factors, insurance risk and business disruption and may have an adverse impact on financial performance (including through an increase in defaults in credit exposures).

Initiatives to mitigate or respond to adverse impacts of climate change may impact market and asset prices, economic activity, and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes. Failure to effectively manage these transition risks could adversely affect BOQ's financial performance, financial position, capital resources and prospects. In addition, natural disasters as a result of climate change such as (but not restricted to) cyclones, floods and earthquakes, and the economic and financial market implications of such disasters on domestic and global market conditions could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

4.4.7 Environmental risk

BOQ and its customers operate businesses and hold assets in a diverse range of sectors, asset types and geographical locations which are exposed to environmental risks as well as risks related to climate change, which is a growing risk to both BOQ and the Australian and global economies.

Environmental risk may arise from lending to customers in certain industries, with the potential to impact BOQ's reputation. In the event BOQ takes possession of collateral with environmental damage it may also become responsible for site remediation.

4.4.8 Disruption to financial markets

In recent years, global credit and equity markets have experienced periods of uncertainty, followed by periods of stability and low volatility. More recently, financial markets globally have been impacted by the COVID-19 pandemic (see risk factor titled "The Coronavirus (COVID-19) Pandemic" for further details), which has seen governments and central banks around the world implement both monetary and fiscal policy to reduce volatility and increase liquidity in financial markets, whilst also promoting growth to severely impacted economies.

The monetary policy tools utilised have included quantitative easing, including the lowering of interest rates, which can result in challenging market conditions when major central banks begin the process of normalising monetary policy settings in future years.

The uneven pace of economic growth and deflation risks in Europe, concerns about the strength of the US economy, the sustainability of economic growth in China and broader geopolitical risks such as the potential for, or actual conflict, all pose risks to global financial markets. There are significant and ongoing global political developments that have the potential to impact major global economies, including Brexit and the introduction of tariffs and other protectionist measures by various countries such as the US and China. A shock to one of the major global economies could result in currency and interest rate fluctuations and operational disruptions that negatively impact the BOQ Group.

Financial markets globally may also be disrupted by future biological hazards, pandemics and contagious diseases.

Any such market and economic disruptions could have an adverse effect on financial institutions such as the BOQ Group because consumer and business confidence may decrease, unemployment may rise and demand for the products and services the BOQ Group provides may decline, thereby reducing the BOQ Group's earnings. These conditions may also affect the ability of its borrowers to repay their loans, or the BOQ Group's counterparties to meet their obligations, causing it to incur higher credit losses. These events could also result in the undermining of confidence in the financial system, reducing liquidity and impairing the BOQ Group's access to funding and impairing its customers and counterparties and their businesses.

The nature and consequences of any such event are difficult to predict and there can be no guarantee that the BOQ Group could respond effectively to any such event. Any such event and/or the effectiveness of the BOQ Group's response could adversely affect the BOQ Group's financial performance, financial position, capital resources and prospects.

4.4.9 Funding and liquidity risk

Financial institutions (including the BOQ Group) are currently subject to global credit and capital market conditions, which experienced extreme volatility, disruption and decreased liquidity following the global financial crisis and the more recent COVID-19 market disruptions.

If market conditions deteriorate due to economic, financial, political, health or other reasons, the BOQ Group's funding costs may be adversely affected and its liquidity and its funding of lending activities may be constrained. There is no assurance that the BOQ Group will be able to obtain adequate funding at acceptable prices or at all.

Funding and liquidity risk is the risk that the BOQ Group, although balance sheet solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms. Funding risk can occur due to an increase in competition for funding, or a change in risk premiums required by investors, which cause an increase in funding costs or increased difficulty accessing funding markets. The BOQ Group mitigates this risk by sourcing a diversified investor base through a number of different funding programmes in a number of different markets. Additionally, the BOQ Group's 'Contingent Funding Plan' is used to manage this risk.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity needs and meet internal and regulatory requirements. BOQ raises funding from a variety of sources, including customer deposits and wholesale funding in Australia and offshore markets to meet its funding obligations and to maintain or grow its business generally. If confidence in BOQ is damaged and BOQ's sources of funding prove to be insufficient or so expensive as to be uncompetitive, it may be forced to seek alternative funding arrangements or curtail its business operations and limit loan growth. The BOQ Group may also experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios. The ability for BOQ to secure alternative funding will depend on a variety of factors, including prevailing market conditions, the availability of credit and BOQ's credit ratings.

The financial performance of the BOQ Group may also be significantly impacted by changes in monetary policy both in Australia and globally through the impact of broader economic conditions, as well as the change in stimulus provided by central banks. The actions of central banks, such as interest rate settings (including very low and negative interest rates) and quantitative easing, can potentially impact the BOQ Group's access to funding markets, liquidity levels, cost of funding, margin on products and, as a result, could adversely impact the BOQ Group's financial performance, financial position, capital resources and prospects.

4.4.10 Challenges in managing capital base

BOQ's capital base is critical to the management of its businesses and access to funding. BOQ is required by APRA to maintain adequate regulatory capital. Capital risk is the risk that BOQ does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses.

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as a counterparty's risk grade worsens. These additional regulatory capital requirements compound any reduction in capital resulting from increased provisions for loan losses and lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require BOQ to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

4.4.11 Credit ratings risk

Credit ratings are opinions on the BOQ Group's creditworthiness. The BOQ Group's credit ratings affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating its products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to the BOQ Group and its subsidiaries by rating agencies are based on an evaluation of a number of factors, including financial strength, support from members of the BOQ Group and structural considerations regarding the Australian financial system. A credit rating downgrade could be driven by the occurrence of one or more of the other events identified as risks in this section of the Prospectus or by other events, including changes to the methodologies used by the rating agencies to determine ratings.

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If BOQ fails to maintain its current credit ratings, this could adversely affect the BOQ Group's cost of funds and related margins, competitive position and its access to capital and funding markets. This could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether the ratings of BOQ differ among agencies (split ratings) and whether any ratings changes also impact the BOQ Group's peers or the banking and insurance sectors.

4.4.12 Market risk

The BOQ Group is exposed to market risk as a consequence of both its investments and trading activities in financial markets and through the asset and liability management of its balance sheet. The BOQ Group is exposed to losses arising from adverse movements in levels and volatility of market factors, including interest rates, foreign exchange rates, equity prices and credit spreads.

The BOQ Group, through its investment portfolios, is exposed to risk and volatility in the markets, securities and other assets in which it invests. Those risks include, but are not limited to:

- Interest rate risk arising from a variety of sources, including mismatches between the repricing periods of assets and liabilities and the investment of the low cost deposit and capital portfolio. As a result of these mismatches, movements in interest rates may affect earnings or the value of the BOQ Group;
- Currency risk, i.e. the risk of loss of earnings due to adverse movements in foreign exchange rates;
- Basis risk arising where the cash rate and bank bill rates do not move in tandem which arises primarily from variable retail assets repricing off the cash rate whilst the wholesale funding liabilities price off the bank bill rates. As a result of these mismatches between the base rate that assets price off and the base rate that liabilities price off, movements in basis markets may affect earnings or the value of the BOQ Group;
- asset/liability risk, i.e. the risk that the value of an investment portfolio will decrease relative to the value of the liabilities as a result of fluctuation in investment factors including share prices, interest rates, credit spreads, counterparty default, exchange rates or commodity prices; and
- liquidity risk, including that assets cannot be sold without a significant impairment in value.

Such risks can be heightened during periods of high volatility, market disruption and periods of sustained low interest rates and if the BOQ Group was to suffer substantial losses due to any market volatility, it could adversely affect the BOQ Group's financial performance, financial position, capital resources and prospects.

4.4.13 Regulatory legal and compliance risk

Regulation in Australia

As a financial services provider, BOQ is subject to substantial regulatory and legal oversight in Australia. The key agencies with regulatory oversight of BOQ and its subsidiaries include, among others, APRA, the RBA, the Australian Competition and Consumer Commission (ACCC), ASX, ASIC, the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the ATO.

Global economic conditions have led to increased supervision and regulation, as well as changes in the regulation in markets in which BOQ and the BOQ Group operate, particularly for financial institutions, and will lead to further significant changes of this kind. In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation. For example, the current political and regulatory environment that the BOQ Group is operating in has also seen (and may in the future see) BOQ's regulators receive new powers. Recently, legislation was passed by the Australian Parliament that provided ASIC with a product intervention power, which enables ASIC to make orders that prevent issuers of financial products from engaging in certain conduct. Additionally, BOQ may be impacted by changes enacted by these regulators in response to the ongoing COVID-19 pandemic. The nature and extent of these future changes and impacts cannot be predicted with any certainty.

In addition, legislation has been passed that materially increases the penalties that can be imposed for corporate and financial sector misconduct. In particular, ASIC can commence civil penalty proceedings and seek significant civil penalties against an Australian Financial Services licensee (such as BOQ) for failing to do all things necessary to ensure that financial services provided under the licence are provided efficiently, honestly and fairly. This trend towards increasingly severe penalties for failing to meet compliance obligations could continue in the future and be expanded into other areas of regulation that the BOQ Group is subject to.

Changes may also occur in the oversight approach of regulators, which could result in a regulator preferring its enforcement powers over a more consultative approach. In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators.

This dynamic is apparent, with ASIC committing to conducting more enforcement actions against large financial institutions and adopting a 'why not litigate?' enforcement stance. ASIC has also continued to implement its 'Close and Continuous Monitoring' program, which has seen ASIC proposing to have staff embedded within the institutions they supervise, including BOQ.

APRA has stated that it will use enforcement where appropriate to prevent and address serious prudential risks and hold entities and individuals to account. The current environment may see a shift in the nature of enforcement proceedings commenced by regulators. As well as conducting more civil penalty proceedings, BOQ's regulators may be more likely to bring criminal proceedings against institutions and/or their representatives in the future. Alternatively, regulators may elect to make criminal referrals to the Commonwealth Department of Public Prosecutions or other prosecutorial bodies.

The provision of new powers to regulators, coupled with the increasingly active supervisory and enforcement approaches adopted by them, increases the risk of adverse regulatory action being brought against the BOQ Group. Further, the severity and consequences of that action may now be greater, given the expansion of penalties for corporate and financial sector misconduct. Regulatory action brought against the BOQ Group may expose the BOQ Group to an increased risk of litigation brought by third parties (including through class action proceedings), which may require the BOQ Group to pay compensation to third parties and/or undertake further remediation activities.

The nature and impact of future changes are not predictable and beyond BOQ's control and there is operational and compliance risk and cost associated with the implementation of any new laws and regulations that apply to BOQ as a financial institution. In particular, changes in applicable laws, regulations, government policies or accounting standards, including changes in interpretation or implementation of laws, regulations, government policies or accounting standards could adversely affect one or more of BOQ Group's businesses and could require BOQ and/or the BOQ Group to incur substantial costs. Further impacts include required levels, or the measurement, of bank liquidity and capital adequacy, limiting the types of financial services and products that can be offered, and/or reducing the fees which banks can charge on their financial services. APRA may introduce new prudential regulations or modify existing regulations, including those that apply to BOQ as an ADI. Any such event could adversely affect the business or financial performance of the BOQ Group. Any new or amended rules may result in changes to BOQ's capital adequacy ratio.

BOQ is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards, where applicable, as well as rules and regulations relating to corrupt and illegal payments and money laundering) and industry codes of practice (such as the Banking Code of Practice), as well as meeting its ethical standards. The failure to comply with applicable regulations could result in suspensions, restrictions of operating licenses, fines and penalties or limitations on its ability to do business. They could also have adverse reputational consequences. These costs, expenses and limitations could have an adverse effect on BOQ's and the BOQ Group's financial performance, financial position, capital resources and prospects. The legal and regulatory requirements described above could also adversely affect the profitability and prospects of BOQ and the BOQ Group or their businesses to the extent that they limit BOQ's and BOQ Group's operations and flexibility of BOQ's and BOQ Group's businesses. The nature and impact of future changes in such requirements are not predictable and are beyond BOQ's and the BOQ Group's control.

Significant domestic and global legislative and regulatory developments and industry reforms which will, or may, impact on the BOQ Group's operations in Australia are further set out below. Depending on the nature, implementation or enforcement of any regulatory requirements, they may have an adverse impact on BOQ's financial performance, financial position, capital resources and prospects.

4.4.13 Regulatory Legal and Compliance Risk (continued)

The nature, timing and impact of future regulatory reforms or changes are not predictable and are beyond the BOQ Group's control. Regulatory compliance and the management of regulatory change is an increasingly important part of the BOQ Group's strategic planning. Regulatory change may also impact the BOQ Group's operations by requiring it to have higher levels, and better quality of capital as well as place restrictions on the businesses the BOQ Group operates or require the BOQ Group to alter its product or service offerings. If regulatory change has any such effect, it could adversely affect one or more of the BOQ Group's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more of the BOQ Group's businesses.

Banking Executive Accountability Regime

The *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* (Cth) (**BEAR legislation**) established accountability obligations for ADIs and their senior executives and directors. The BEAR legislation applied to BOQ from 1 July 2019.

The Royal Commission recommended implementing the Financial Accountability Regime (FAR) to replace BEAR. FAR will have BEAR-like accountability requirements and will apply to other APRA-regulated entities and directors/senior executives. It is also proposed that civil penalties for breach be increased and that individual penalties be introduced.

The Australian Government has announced a delay of six months to the implementation of the Royal Commission recommendations including FAR. The Government now intends to introduce legislation to implement the FAR by 30 June 2021, with a public consultation on the draft legislation in early 2021.

Primary risks to the BOQ Group potentially emerging from the introduction of the FAR relate to the substantial penalties for breaching the FAR legislation, and the ability to attract and retain high quality executives.

Royal Commission into misconduct in the banking, superannuation and financial services industry

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (**Royal Commission**) was established on 14 December 2017 and conducted through 2018 and 2019. The Commissioner, the Honourable Kenneth Madison Hayne AC QC, submitted an Interim Report to the Governor-General on 28 September 2018 which was tabled in Parliament on 28 September 2018. The final report was submitted to the Governor-General on 1 February 2019 and was tabled in Parliament on 4 February 2019.

The Australian government and regulators have accepted the majority of the recommendations from the Royal Commission and are in the process of implementation. The Royal Commission has led to, and may continue to lead to, regulatory enforcement activity, litigation and changes in laws, regulations or regulatory policy and has resulted in, and may continue to result in, ongoing reputational damage to the banking industry, all of which has had, and may continue to have, an adverse effect on the banking industry's business and prospects.

The nature, timing and impact of future regulatory reforms or changes are not predictable and are beyond the BOQ Group's control. Regulatory compliance and the management of

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regulatory change is an increasingly important part of the BOQ Group's strategic planning. Regulatory change may also impact the BOQ Group's operations by requiring it to have higher levels, and better quality of capital as well as place restrictions on the businesses the BOQ Group operates or require the BOQ Group to alter its product or service offerings. If regulatory change has any such effect, it could adversely affect one or more of the BOQ Group's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more of the BOQ Group's businesses. Any such costs or restrictions could adversely affect BOQ's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

In May 2020, the Australian Government announced the delay of six months to the implementation of the Royal Commission recommendations to allow the industry to focus its efforts on supporting bank customers and the economy more broadly during the COVID-19 pandemic.

Financial Crime Obligations

The BOQ Group is subject to anti-money laundering and counter-terrorism financing (AML/CTF) laws, anti-bribery and corruption laws, economic and trade sanctions laws and tax transparency laws in the jurisdictions in which it operates. These laws can be complex and, in some circumstances, impose a diverse range of obligations. For example, AML/CTF laws require BOQ and other regulated institutions to (amongst other things) undertake customer identification and verification, conduct ongoing due diligence on customers, maintain and implement as AML/CTF program and undertake ongoing risk assessments. AML/CTF laws also require BOQ to report certain matters and transactions to regulators (including in relation to International Funds Transfer Instructions, Threshold Transaction Reports and Suspicious Matter Reports) and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CTF legislation.

In recent years there has been increased focus on compliance with financial crime obligations, with regulators around the globe commencing large-scale investigations and taking enforcement action where they have identified noncompliance (often seeking significant monetary penalties). As reported in BOQ Group's 2020 Annual Report and 2019 Annual Report, in 2018 BOQ received a compliance assessment report from the AUSTRAC which identified potential compliance contraventions of the AML/CTF legislation. BOQ continues to engage, consult with and update AUSTRAC about the progress that has been made in relation to BOQ's AML/CTF systems, program and controls in response to the issues identified in the report.

Due to the volume of transactions that the BOQ Group processes, the undetected failure or the ineffective implementation, monitoring or remediation of a system, policy, process or control (including in relation to a regulatory reporting obligation) could result in breaches of AML/CTF obligations. This in turn could lead to significant monetary penalties. If BOQ fails, or where BOQ has failed, to comply with these obligations, BOQ could face regulatory enforcement action such as litigation, significant fines, penalties and the revocation, suspension or variation of licence conditions.

Non-compliance with financial crime obligations could also lead to litigation commenced by third parties (including class action proceedings) and cause reputational damage. These actions could, either individually or in aggregate, adversely affect BOQ's business, prospects, reputation, financial performance or financial condition.

Crisis Management Risk

The Financial System Inquiry report recommended that APRA's crisis management powers be expanded. On 5 March 2018, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* (Cth) (the "Crisis Management Act") came into effect. The Crisis Management Act amends the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance certain of APRA's powers. Specifically, the Crisis Management Act enhances APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers given to APRA under the Crisis Management Act which could impact BOQ, include greater oversight, management and directions powers in relation to BOQ which were previously not regulated by APRA, increased statutory management powers over regulated entities within the BOQ Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments.

International regulation

There continues to be proposals and changes by global regulatory advisory and standard-setting bodies, such as the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board, which, if adopted or followed by domestic regulators, may increase operational and capital costs or requirements (see "Basel III" below for further information).

The BOQ Group's businesses may also be affected by changes to the regulatory framework in other jurisdictions, including the cost of complying with regulation that has extra-territorial application such as the *Bribery Act 2010* (UK), FATCA (clause 7 of the Capital Notes 2 Terms), General Data Protection Regulation (EU), Dodd-Frank Wall Street Reform (US) and *Consumer Protection Act 2010* (US) and other reforms.

There has also been increased regulator expectation and focus in relation to a number of other areas such as data quality and controls, governance and culture and conduct. Changes in international regulation could increase costs and or restrict BOQ from operating in certain businesses, which could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

Regulatory review and investigations

From time to time, BOQ may be exposed to regulatory reviews or investigations. The nature of those reviews and investigations are wide ranging and, for example, include a range of matters including responsible lending practices, risk governance, product suitability, and conduct in financial markets and capital markets transactions. Currently, APRA has indicated that it is likely to schedule a retail credit risk and technology risk review with BOQ over the next 12 months in addition to industry thematic reviews focused on aspects of risk governance.

Although BOQ intends to comply with all regulatory reviews and investigations, the outcomes of these reviews and investigations are uncertain. If any of these reviews lead to legislative or other regulatory change, this could have an impact on BOQ's business. In addition, enforcement action may result in fines, remediation or other regulatory action or reputation impacts, which could have an adverse impact on the overall financial position and performance of BOQ.

For further details on APRA planned policy and supervisions initiatives please see 'Directors' Report – Governance and Risk Management – Regulatory Developments' on page 50 of the Group's 2020 Annual Report, which is incorporated by reference in this Prospectus.

Basel III

Basel III is a comprehensive set of reform measures, developed by the BCBS, to strengthen the regulation, supervision and risk management of the banking sector globally.

The International Standards for Basel III have been finalised, however, certainty around BOQ's capital requirements won't be known until APRA outlines its jurisdictional approach to their implementation in Australia. A significant recalibration of risk-weighted assets (**RWAs**) was initially expected under the requirements of the APRA discussion paper "Revisions to the capital framework for authorised deposit-taking institutions" issued 14 February 2018. APRA released its "Response to Submissions – Revisions to the Capital Framework of Authorised Deposit Taking Institutions" on 12 June 2019. There have been subsequent discussion papers and a quantitative impact study across the industry.

On 19 July 2017, APRA released its discussion paper on its approach to meeting the Financial Systems Enquiry "Unquestionably Strong" (**UQS**) recommendation. The paper outlines APRA's key considerations for calibrating prudential limits across the industry, including the requirements for:

- Standardised banks to hold an extra 50 basis points on their Prudential Capital Requirement (**PCR**) + Capital Conservation Buffer (**CCB**) limits; and
- Advanced banks to hold an additional 100 basis points of capital more than standardised banks and those that are also domestic systemically important banks (**DSIBs**), a further 100 basis points (total of 200 basis points higher). The market expectation is that the major banks will target a 10.5 per cent. CET1 ratio.

This announced change for UQS effectively increases BOQ's CET1 minimum by 50 basis points. APRA expected that ADIs would meet UQS requirements by 1 January 2020. BOQ is adopting a management target range for CET1 between 9.0% and 9.5% until the final impacts of APRA's RWA and capital calibration are understood.

Discussions held with APRA subsequent to the release of the UQS paper have indicated that for standardised ADIs, it is likely that the 50 basis point increase in requirements will be as a result of changes to risk weights under the revisions to prudential standards, rather than just being added on as an increase to PCR or the CCB. The 50 basis points presented in their paper was intended to provide a benchmark to assist in capital planning ahead of the implementation of APRA framework changes in 2022, with the actual change based on each individual ADI's exposures. Changes to regulatory capital requirements could

adversely impact BOQ's financial performance, financial position, capital resources and prospects.

On 19 March 2020 APRA advised all banks that, given the prevailing circumstances, it envisages they may need to utilise some of their current large buffers to facilitate ongoing lending to the economy. This is especially the case for banks wishing to take advantage of new facilities announced on 19 March 2020 by the Reserve Bank of Australia to promote the continued flow of credit. Provided banks are able to demonstrate they can continue to meet their various minimum capital requirements APRA will not be concerned if they were not meeting the additional benchmarks announced in 2017 during the period of disruption caused by COVID-19.

4.4.14 Regulatory fines and sanctions

The upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for BOQ.

In particular, the risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the current environment in which BOQ operates. A failure to develop and implement a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions and market conduct laws and regulations could have serious legal and reputational consequences for BOQ and its employees. Consequences can include fines, criminal and civil penalties (including custodial sentences), civil claims, reputational harm and possible limitations or amendments to banking licences and limitations on doing business in certain jurisdictions.

4.4.15 Customer remediation risk

Operational risk, technology risk, conduct risk or compliance risk events have required, and could in the future require, BOQ to undertake customer remediation activity. BOQ relies on a large number of policies, processes, procedures, systems and people to conduct its business. Breakdowns or deficiencies in one of these areas (arising from one or more operational risk, technology risk, conduct risk or compliance risk events) have resulted, and could in the future result in, adverse outcomes for customers which BOQ is required to remediate.

These events could require BOQ to incur significant remediation costs (which may include compensation payments to customers and costs associated with correcting the underlying issue) and result in reputational damage.

There are significant challenges and risks involved in customer remediation activities. BOQ's ability to investigate an adverse customer outcome that may require remediation could be impeded if the issue is a legacy matter spanning beyond BOQ's record retention period, or if BOQ record keeping is otherwise inadequate. Depending on the nature of the issue, it may be difficult to quantify and scope the remediation activity.

Determining how to properly and fairly compensate customers can also be a complicated exercise involving numerous stakeholders, such as the affected customers, regulators and industry bodies. BOQ's proposed approach to a remediation may be affected by a number of events, such as a group of affected customers commencing class action proceedings on behalf of the broader population of affected customers, or a regulator exercising their powers to require that a particular approach to remediation be taken. These factors could impact the timeframe

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for completing the remediation activity, potentially resulting in BOQ failing to execute the remediation in a timely manner. A failure of this type could lead to a regulator commencing enforcement action against BOQ or result in customer or class action litigation against BOQ. The ineffective or slow completion of a remediation also exposes BOQ to reputational damage, with BOQ potentially being criticised by regulators, affected customers, the media and other stakeholders, resulting in reputational damage.

The significant challenges and risks involved in scoping and executing remediations in a timely way also create the potential for remediation costs actually incurred to be higher than those initially estimated by BOQ.

If BOQ cannot effectively scope, quantify or implement a remediation activity in a timely way, there could be an adverse impact to BOQ's financial performance, financial position, capital resources and prospects.

4.4.16 Operational risk

Operational risk is the risk of loss, other than those captured in the credit and market risk categories, resulting from inadequate or failed internal processes, people or systems (including information security systems), or from external events. The BOQ Group is exposed to a variety of risks including those arising from process error, fraud, technology failure, security and physical protection, franchise agreements entered into with owners of OMBs, customer services, staff skills, workplace safety, compliance, business continuity, crisis management, processing errors, mis-selling of products and services and performance and product development and maintenance. Financial crime, in particular, is an inherent risk within the financial services industry. In response to COVID-19, a proportion of BOQ's workforce is now working from home. This exposes BOQ to additional operating risk, including increased risk of fraud, technology and related risks and employee health and safety risks.

BOQ manages these operational risks through appropriate reporting lines, defined responsibilities, policies and procedures and an operational risk program incorporating regular risk monitoring and reporting by each business unit. Operational risks are documented in risk databases which provide the basis for business unit and bank-wide risk profiles, the latter being reported to the Board on a regular basis. Although these steps are in place, there is no guarantee that the BOQ Group will not suffer loss as a result of these risks (and an inherent risk also exists due to systems and internal controls failing to identify or prevent losses relating to these operational risks). Such losses can include fines, penalties, loss or theft of funds or assets, customer compensation, loss of shareholder value, reputational losses, loss of life or injury to people and loss of property and information. Loss from such risks could affect the BOQ Group's financial performance, financial position capital resources and prospects.

The BOQ Group includes a number of subsidiaries that are trading entities. Dealings and exposures between the members of the BOQ Group (which principally arise through the provision of administrative, corporate and distribution services, as well as through the provision of funding and equity contributions) also give rise to a risk of loss to BOQ.

4.4.17 Reputation risk

Reputation risk may arise through the actions of BOQ or other financial services market participants and adversely affect perceptions of BOQ held by the public, holders of its securities, regulators or rating agencies. These issues include inappropriately dealing with potential conflicts of interests, pricing policies, legal and regulatory requirements, ethical issues, litigation, money laundering laws, employment laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices, technology failures, security breaches and risk management failures. Damage to BOQ's reputation may have an adverse impact on BOQ's financial performance, financial position, capital resources and prospects.

4.4.18 Changes in technology

In order to continue to deliver new products and better services to customers, comply with regulatory obligations (such as obligations to report certain data and information to regulators) and meeting the demands of customers in a highly competitive banking environment, BOQ needs to regularly renew and enhance its technology.

Currently there are a number of large key strategic technology programs underway, that form a key component of BOQ's overarching strategy to simplify and modernise its technology infrastructure, application and operations environment. These programs of work comprise both remedial activity to ensure the technology environment remains secure and stable, and transformational activity to drive customer growth such as the build-out of a new digital bank.

Failure to successfully deliver these projects could result in substantial cost overruns, unrealised productivity, operational and system instability, failure to meet compliance obligations, reputational damage and/or result in the loss of market share to competitors.

The delivery of these technology programs can have a direct impact to the BOQ Group's financial performance.

4.4.19 Cyber security risks

BOQ is highly dependent on information systems and technology. Therefore, there is a risk that these, or services BOQ uses or is dependent upon, might fail, including because of unauthorised access or use. Most of BOQ's daily operations are computer-based and information systems applications and technology are essential to maintaining effective communications with customers. BOQ is also conscious that threats to information systems applications and technology are continuously evolving and cyber threats and risk of attacks are increasing.

Cyber security means protecting the cyber environment and information from threats including unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. By its nature, BOQ handles a considerable amount of personal and confidential information about its customers. The exposure to systems risks include the complete or partial failure of information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate growth, prevent unauthorised access and integrate existing and future acquisitions and alliances. There is a risk that information may be inadvertently or inappropriately accessed or distributed or illegally accessed or stolen.

To manage these risks, BOQ employs a cyber security team which is responsible for the development and implementation of BOQ's information security policies, operational procedures and cyber security specialist partners. BOQ is conscious that threats to cyber security are continuously evolving and as such BOQ conducts regular internal and external reviews to ensure new threats are identified, evolving risks are mitigated, policies and procedures are updated and good practice is maintained. However, BOQ may not be able to anticipate all attacks as they may be dynamic in nature or implement effective measures to prevent or minimise disruptions that may be caused by all cyber threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. As there can be no guarantee that the steps taken by BOQ to manage the risks will be fully effective, any failure of these systems could result in business interruption, customer dissatisfaction, legal or regulatory breaches and liability, loss of customers, financial compensation, damage to reputation and/or a weakening of BOQ's competitive position, which could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

4.4.20 Failure to recruit and retain key executives, employees and Directors

Key executives, employees and Directors play an integral role in the operation of BOQ's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or BOQ's failure to recruit and retain appropriately skilled and qualified persons into these roles, could each have an adverse effect on BOQ's business, prospects, reputation, financial performance or financial condition.

The BOQ Group has implemented risk management strategies and internal controls involving processes and procedures intended to identify, assess, measure, monitor, report and mitigate the risks to which it is subject as noted above.

However, there are inherent limitations with any risk management framework as there may exist, or develop in the future, risks that the BOQ Group has not anticipated or identified or controls that may not operate effectively.

If any of the BOQ Group's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the BOQ Group could suffer unexpected losses and reputational damage which could adversely impact the BOQ Group's financial performance, financial position, capital resources and prospects.

4.4.21 Breach of industrial practices

Failure by an employer to comply with relevant employment laws, awards or enterprise agreements can lead to potential regulatory investigations or enforcement actions or other civil or criminal fines or penalties. As disclosed on 29 September 2020, BOQ identified irregularities in superannuation payments and potential underpayment and entitlement issues relating to employees employed under the 2010, 2014 and 2018 Enterprise Agreements.

Although BOQ has advised the Fair Work Ombudsman and the Financial Services Union and has engaged external third parties to assist with the analysis and remediation process, the impact of the underpayment errors remains under investigation with further work to be done to determine the full impact. Accordingly, there is a risk that the full impact may be more than BOQ has currently provisioned for and this may create further risk of regulatory enforcement action and associated penalty payments in relation to these underpayments.

4.4.22 Changes to accounting policies and/or methods in which they are applied may adversely affect BOQ's business, operations and financial condition

The accounting policies and methods that BOQ applies are fundamental to how it records and reports its financial position and results of operations. Management of BOQ must exercise judgment in selecting and applying many of these accounting policies and methods as well as estimates and assumptions applied so that they not only comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, and/or incorrect assumptions or judgments made, resulting in a misstatement of financial position and results of operations leading to an adverse impact on BOQ's financial performance, financial position, capital resources and prospects.

4.4.23 Changes to BOQ's banking licence

BOQ is licensed to operate in the various states and territories in which it conducts business. Unexpected changes in the conditions of the licences may prohibit or restrict BOQ from operating in a manner that was previously permitted and may adversely impact BOQ's financial results.

The failure of BOQ to adhere to the BOQ Group's business strategy, as a result of any of the factors outlined above, could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

4.4.24 Insurance risk

The BOQ Group maintains insurance that it considers to be prudent for the scope and scale of its activities. If the BOQ Group's third-party providers fail to perform their obligations and/or its third-party insurance cover is insufficient for a particular matter or group or related matters, the net loss to the BOQ Group could adversely impact BOQ's financial performance, financial position, capital resources and prospects.

4.4.25 Strategic risk

Risks to BOQ growth strategy

Strategic risk is the risk associated with the pursuit of BOQ's strategic objectives including the risk that it fails to execute its chosen strategy effectively or within a timely manner.

There are a number of interrelated risks that relate to BOQ's growth strategy and include risk of local market saturation, risks associated with geographical diversification, changes in wholesale or retail funding markets, changes in general economic conditions, regulatory reform and risk of its ability to diversify its distribution channels satisfactorily.

SECTION 4 INVESTMENT RISKS

A failure to execute BOQ's strategic objectives may result in a failure to achieve anticipated benefits and ultimately adversely impact BOQ's operations, financial performance, financial position, capital resources and prospects.

Implementation of transformation strategy

BOQ has previously announced its transformation strategy. There is a risk that the transformation strategy may not achieve or realise BOQ's key priorities, as well as the risk that the proposed timetable for implementation may be delayed. If the business does not perform as anticipated or if there are changes in the business, economic, legislative or regulatory environment, wholesale or retail funding markets or customer behaviour changes, this may also affect the effectiveness of the strategy. These could lead to BOQ underperforming market expectations regarding growth and profit, which may have an impact on BOQ's financial performance, financial position, capital resources and prospects. In addition, if internal or external stakeholders do not support the strategy, then this may have an impact on BOQ's businesses, financial performance, financial position, capital resources and prospects. Further, if the costs and expenses associated with implementing the strategy, including increased costs associated with technology projects, are not managed as planned, then this may impact on the ability to successfully implement the strategy. The increased costs could also have an adverse effect on BOQ's and the BOQ Group's financial performance, financial position, capital resources and prospects. It is also possible that implementation of the transformation strategy may involve a disruptive impact on the operations of BOQ, including possible changes in key executives and employees.

4.4.26 Increased industry competition

There is substantial competition for the provision of financial services in the markets in which BOQ operates. Existing participants or potential new entrants to the market, especially in BOQ's main markets and products, could heighten competition and reduce margins or increase costs of participation, which would adversely affect the BOQ Group's financial performance and position. As the financial services industry is a licensed and regulated industry, the prudential framework across industry participants creates its own challenges such as the RG209 which provides scope for competitive advantage depending on interpretation and access to technology to support the requirement contained within the guide. Changes in the regulatory environment will potentially influence the industry's competitive dynamic which may in turn adversely affect the BOQ Group's financial performance, financial position, capital resources and prospects.

4.4.27 Mergers, acquisitions and divestments

BOQ may engage in merger, acquisition or divestment activities which facilitate BOQ's strategic direction. These activities may involve entering new markets, exiting products and/or offering third party manufactured products or expanding the BOQ Group's current product suite and may affect the BOQ Group's risk profile through changes to, or to the relative importance of, the geographies and/or product types to which it has exposures. Whilst BOQ recognises that benefits may arise from merger, acquisition or divestment activities, significant risks exist in both the execution and implementation of such activities.

It is likely that BOQ would raise additional debt or raise equity to finance any major merger or acquisition and this would cause BOQ to face the financial risks and costs associated with additional debt or equity. Where BOQ decides to divest a business or asset, this may involve a loss against book value, particularly of any goodwill or other intangibles.

Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for BOQ to realise the financial benefits of the transaction, if any.

Any acquisition or divestment may result in a material positive or negative impact on the BOQ Group's financial position, including reported profit and loss and capital ratios. There can be no assurance that any acquisition (or divestment) would have the anticipated positive results, including results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), the amount of longer-term cost savings, the overall performance of the combined (or remaining) entity, or an improved price for BOQ's securities. BOQ's operating performance, risk profile and capital structure may be affected by these corporate opportunities and there is a risk that BOQ's credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources. This could adversely affect BOQ's ability to conduct its business successfully and impact BOQ's financial performance, financial position, capital resources and prospects. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post-divestment), and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect BOQ's financial performance, financial position, capital resources and prospects.

Additionally and as announced on 14 October 2020, BOQ has entered into an agreement to sell St Andrew's Insurance (St Andrew's) to Farmcove Investment Holdings (Farmcove), as described in Section 3.1.7 of the "About BOQ" section (Transaction). The Transaction is subject to the satisfaction of certain conditions including regulatory approval from APRA. The Transaction may not proceed or may be delayed. There is a risk that as a result of adjustments the final purchase consideration could be lower than expected, or that separation and transaction costs are higher than expected. BOQ's operating results may be adversely affected by these risks. In addition, the post-tax statutory loss on sale could be larger than anticipated.

A breach of warranties and/or indemnities may result in BOQ being liable to Farmcove. As a part of the Transaction, a vendor loan has been agreed between BOQ and Farmcove which will become effective on the completion date. The duration and nature of this arrangement gives rise to certain risks, for example, if Farmcove were to default under the terms of the loan.

4.4.28 Conduct risk

Conduct risk is the risk that BOQ's provision of services and products results in unsuitable or unfair outcomes for its stakeholders or undermines market integrity. Conduct risk could occur through the provision of products and services to BOQ's customers that do not meet their needs or do not support market integrity, as well as the poor conduct of BOQ's employees, contractors, agents, authorised representatives and external service providers, which could include deliberate attempts by such individuals to circumvent BOQ's controls, processes and procedures. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, failure to adequately consider customer needs or selling products and services outside of customer target markets. Conduct risk may also arise where there has been a failure to adequately provide a product or services that BOQ had agreed to provide a customer.

While BOQ has frameworks, policies, processes and controls that are designed to manage poor conduct outcomes, these policies and processes may not always have been or continue to be effective. The failure of these policies and processes could result in financial losses and reputational damage and this could adversely affect BOQ's financial performance, financial position, capital resources and prospects.

4.4.29 Reliance on external parties

BOQ's operations depend on performance by a number of external parties under contractual arrangements with BOQ including its OMB network, brokers and agents. Non-performance of contractual obligations and poor operational performance of OMBs may have an adverse effect on BOQ's business and financial performance.

In addition, BOQ also has key outsourcing agreements including in relation to its IT platforms and systems where certain activities or products can be more effectively provided. Although BOQ has taken steps to protect it from the effects of defaults under these contractual arrangements and outsourcing agreements, such defaults may have an adverse effect on BOQ's business continuity and financial performance.

4.4.30 Litigation and regulatory proceedings

BOQ (like all entities in the banking, insurance or finance sectors) is exposed to the risk of litigation and/or regulatory reviews or proceedings brought by or on behalf of policyholders, deposit holders, reinsurers, government agencies or other potential claimants. If the BOQ Group fails to meet its legal or regulatory requirements, or the requirements of industry codes of practice (such as the Banking Code of Practice), or its ethical standards, it may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, or enforced suspension of operations or loss of licence to operate all or part of the BOQ Group's business.

The BOQ Group may be exposed to risks relating to the provision of advice, recommendations or guidance about financial products and services, or behaviours which do not appropriately consider the interests of consumers, the integrity of the financial markets and the expectations of the community, in the course of its business activities.

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of those investigations, reviews and enforcement actions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability, wealth advice and conduct in financial markets and capital markets transactions.

On 4 September 2019, ASIC commenced proceedings in the Federal Court of Australia against BOQ alleging that certain terms in BOQ's small business contracts are unfair contract terms in breach of the *Australian Securities and Investments Commission Act 2019* (Cth). The outcome of this litigation is uncertain, and it is difficult to predict the ultimate impact and timing of any potential consequences on BOQ. Depending on the outcome of the litigation, BOQ may be required to comply with broad court orders, including compliance orders, enforcement orders or costs orders.

There can be no assurance that significant litigation will not arise in the future and that the outcome of legal proceedings from time to time will not have an adverse effect on the BOQ Group's businesses, financial performance, financial condition or prospects.

4.4.31 Share price risk

There are general risks associated with an investment in the share market. Broader market factors affecting the price of Capital Notes 2 or Ordinary Shares are unpredictable and may be unrelated or disproportionate to the financial or operating performance of BOQ. Such factors may include the economic conditions in Australia and overseas (including, but not limited to, the impact of and continued uncertainty surrounding the COVID-19 pandemic), investor sentiment in the local and international stock markets, consumer sentiment, changes in fiscal, monetary, regulatory and other government policies, national and international political and economic instability or the instability of national and international financial markets, interest and inflation rates and foreign exchange rates.

SECTION 5

ABOUT THE OFFER

5.1 THE OFFER

The Offer is for the issue of Capital Notes 2 with a Face Value of \$100 each to raise approximately \$200 million with the ability to raise more or less.

All Capital Notes 2 issued will be allotted under disclosures made in this Prospectus.

5.2 STRUCTURE OF THE OFFER

The Offer comprises:

- an Institutional Offer made to certain Institutional Investors;
- a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; and
- a Securityholder Offer made to Eligible Securityholders.

5.3 OBTAINING A PROSPECTUS AND APPLICATION FORM

During the Exposure Period, an electronic version of this Prospectus (without an Application Form) will be available at www.boq.com.au/capitalnotes2. Application Forms will not be made available until after the Exposure Period.

During the Offer Period, an electronic version of this Prospectus with an Application Form will be available through www.boq.com.au/capitalnotes2 and may be available through your Syndicate Broker. You can also request a free paper copy of this Prospectus and an Application Form by calling the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays).

Eligible Securityholders will also have access to download an electronic version of this Prospectus as well as be able to download a personalised Application Form through www.boq.com.au/capitalnotes2.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, a printed copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications will only be considered where Applicants have applied pursuant to an Application Form (either electronic or paper) that was attached to, or accompanied by, a copy of this Prospectus, and have provided an Application Payment.

5.3.1 Electronic access to this Prospectus

The following conditions apply if this Prospectus is accessed electronically:

- you must access and download the entire Prospectus;
- your Application will only be considered where you have applied pursuant to an Application Form (either electronic or paper) that was attached to or accompanied by a complete electronic copy of the Prospectus. By making an Application, you declare that you were given access to the complete Prospectus together with the Application Form; and
- the Prospectus is available electronically to you only if you are accessing and downloading or printing the electronic Prospectus in Australia.

5.4 APPLYING FOR CAPITAL NOTES 2

For all Offers (Institutional Offer, Broker Firm Offer and Securityholder Offer), Applications must be for a minimum of 50 Capital Notes 2 (\$5,000) and after that in multiples of 10 Capital Notes 2 (\$1,000).

5.4.1 Minimum application

For all Offers (Institutional Offer, Broker Firm Offer and Securityholder Offer), Applications must be for a minimum of 50 Capital Notes 2 (\$5,000) and after that in multiples of 10 Capital Notes 2 (\$1,000).

SECTION 5 ABOUT THE OFFER

5.4.2 HOW TO APPLY

OFFER	WHO CAN APPLY?	WHEN TO APPLY	HOW TO APPLY
Institutional Offer	Institutional Investors who are invited by the Joint Lead Managers to bid for Capital Notes 2 in the Bookbuild.	The Bookbuild will be conducted on or before 2 November 2020.	<ul style="list-style-type: none"> Application and settlement procedures for Institutional Investors will be advised by the Joint Lead Managers.
Broker Firm Offer	Broker Firm Applicants. <ul style="list-style-type: none"> Australian resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer. 	<ul style="list-style-type: none"> Applications will only be accepted during the Offer Period, which is expected to open on 3 November 2020. The Closing Date for the Broker Firm Offer is 10:00am (Sydney time) on 23 November 2020. 	<ul style="list-style-type: none"> Contact your Syndicate Broker directly for instructions as to how to participate in the Broker Firm Offer (including how to submit the paper Application Form and your Application Payment (if any) to your Syndicate Broker). You must not return your paper Application Form to the Registrar. Your Syndicate Broker must have received your completed paper Application Form and Application Payment (as applicable) in accordance with arrangements made between you and your Syndicate Broker in time to arrange settlement on your behalf by the relevant Closing Date for the Broker Firm Offer. Your Syndicate Broker will act as your agent in processing your paper Application Form and providing your Application details and Application Payment to BOQ. If you are a Broker Firm Applicant you may not apply online.

OFFER	WHO CAN APPLY?	WHEN TO APPLY	HOW TO APPLY
Securityholder Offer	<ul style="list-style-type: none"> Securityholder Applicant. Eligible Securityholders who are applying through the Securityholder Offer. 	<ul style="list-style-type: none"> Applications will only be accepted during the Offer Period, which is expected to open on 3 November 2020. The Closing Date for the Securityholder Offer is 5:00pm (Sydney time) on 17 November 2020. Your completed personalised paper Application Form or online Application Form and Application Payment must be received by the Registrar by the Closing Date and time. 	<ul style="list-style-type: none"> Eligible Securityholders will have the ability to apply online at www.boq.com.au/capitalnotes2 by following the instructions provided. When applying online, you will be required to pay for Capital Notes 2 using BPAY®. Once you have completed your online Application Form, you will be given a BPAY® biller code and unique Customer Reference Number for that Application. Follow the BPAY® instructions below to complete your Application. If you apply online, you will not be required to return a personalised paper Application Form. You can also apply by completing a paper Application Form. Follow the instructions to complete and return the personalised Application Form. You can request a paper copy of the Prospectus and your personalised Application Form by calling the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays). If you are applying for Capital Notes 2 and completing a paper personalised Application Form, you may pay your Application Payment by BPAY® (using details on your personalised paper Application Form) or by cheque(s), money order(s) drawn on an Australian dollar account of an Australian financial institution and made payable to "BOQ Capital Notes 2 Offer". Cheque(s) should be crossed "Not Negotiable". Cash payments will not be accepted. If you pay by BPAY® using the details on your personalised paper Application Form, you will not be required to return a personalised paper Application Form.

All dates are indicative only and may change without notice. You are encouraged to apply as soon as possible after the Opening Date.

SECTION 5 ABOUT THE OFFER

5.4.3 Delivering paper Application Forms

Broker Firm Applicants

Your Application Forms and Application Payment (if applicable) should be sent to your broker or controlling participant. You must not return your paper Application Form to the Registrar. Please contact your Syndicate Broker for further instructions.

Securityholder Offer (non-Broker Firm)

You should return your completed paper Application Form and Application Payment (if applicable) to one of the addresses below so that they are received by the Registrar before the Closing Date and time, which is expected to be 5:00pm (Sydney time) on 17 November 2020.

Securityholder Offer Applicants

Postal Delivery:

BOQ Capital Notes 2 Offer
C/- Link Market Services Limited
GPO Box 3560
Sydney NSW 2001

Hand Delivery:

BOQ Capital Notes 2 Offer
C/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

Please note that paper Application Forms and Application Payments will not be accepted at any other address or office and will not be accepted at BOQ's registered office or any other BOQ office or branch or at other offices or branches of the Registrar.

How to use BPAY®

If you apply for Capital Notes 2 using an online Application Form and an Application Payment is required, you must complete your Application by making a BPAY® payment. If you are an Eligible Securityholder and applying for Capital Notes 2 under the Securityholder Offer, you may elect to pay your Application Payment by BPAY®. Applicants will not be required to return a personalised Application Form if paying by BPAY®.

Using the BPAY® details provided, you need to:

- access your participating BPAY® financial institution either through telephone banking or internet banking;
- select BPAY® and follow the prompts;
- enter the biller code supplied;
- enter the unique Customer Reference Number supplied for each Application;
- enter the total amount to be paid which corresponds to the number of Capital Notes 2 you wish to apply for under each Application (i.e. a minimum of \$5,000 (50 Capital Notes 2) and incremental multiples of \$1,000 (10 Capital Notes 2) after that);
- note that your financial institution may apply limits on your use of BPAY® and that you should make enquiry about the limits that apply in your own personal situation;
- select the account you wish your payment to be made from;
- schedule your payment for the same day that you complete your online Application Form since Applications without payment cannot be accepted; and
- record your BPAY® receipt number and date paid. Retain these details for your records.

BPAY® payments must be made from an Australian dollar account of an Australian financial institution. You will need to check with your financial institution in relation to their BPAY® closing times to ensure that your Application Payment will be received prior to the Closing Date and time.

5.4.4 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable on your Application. You may have to pay brokerage, but will not have to pay any stamp duty, on any later sale of your Capital Notes 2 on ASX after Capital Notes 2 have been quoted on ASX.

5.4.5 Application Payments held on trust

All Application Payments received before Capital Notes 2 are issued will be held by BOQ on trust in an account established solely for the purposes of depositing Application Payments received. After Capital Notes 2 are issued to successful Applicants, the Application Payments held on trust will be payable to BOQ.

5.4.6 Refunds

Applicants who are not allotted any Capital Notes 2, or are allotted fewer Capital Notes 2 than the number applied and paid for as a result of a scale back, will have all or some of their Application Payments (as applicable) refunded (without interest) as soon as practicable after the Issue Date.

In the event that the Offer does not proceed for any reason, all Applicants will have their Application Payments refunded (without interest) as soon as practicable.

Any amount of \$5 or less in aggregate will not be refunded to an Applicant, but instead paid to a charitable cause of BOQ's choice.

5.5 BOOKBUILD AND ALLOCATION POLICY

5.5.1 Bookbuild

The Bookbuild is a process that will be conducted by the Arranger and the Joint Lead Managers before the Opening Date to determine the Margin and firm Allocations of Capital Notes 2 to Bookbuild participants (being Syndicate Brokers and certain Institutional Investors). In this process, the Bookbuild participants are invited to lodge bids for a number of Capital Notes 2. On the basis of those bids, the Arranger, the Joint Lead Managers and BOQ will determine the Margin. The Arranger and the Joint Lead Managers, in consultation with BOQ, will determine the firm Allocations to Syndicate Brokers and to certain Institutional Investors.

The Bookbuild will be conducted in the manner contemplated in this Prospectus and, otherwise, on the terms and conditions set out in the Offer Management Agreement.

BOQ, the Arranger and the Joint Lead Managers may agree to increase or decrease the size of the Offer following the close of the Bookbuild.

5.5.2 WHAT IS THE ALLOCATION POLICY?

Institutional Offer	<ul style="list-style-type: none"> • Allocations to Institutional Investors will be agreed by BOQ, the Arranger and the Joint Lead Managers following completion of the Bookbuild.
Broker Firm Offer	<ul style="list-style-type: none"> • Allocations to Syndicate Brokers will be agreed by BOQ, the Arranger and the Joint Lead Managers following completion of the Bookbuild. • Allocations to Broker Firm Applicants by a Syndicate Broker are at the discretion of that Syndicate Broker.
Securityholder Offer	<ul style="list-style-type: none"> • Allocations for the Securityholder Offer will be determined by BOQ, the Arranger and the Joint Lead Managers after the relevant Closing Date. • BOQ, the Arranger and the Joint Lead Managers have absolute discretion to determine the method and extent of the Allocations. • BOQ, the Arranger and the Joint Lead Managers have absolute discretion to determine the method and extent of the priority Allocation to Securityholder Applicants. • BOQ, the Arranger and the Joint Lead Managers reserve the right to scale back Applications from Securityholder Applicants. Any scale back will be announced on ASX on the day Capital Notes 2 commence trading on a normal settlement basis – expected to be 1 December 2020. • BOQ, the Arranger and the Joint Lead Managers reserve the right to: <ul style="list-style-type: none"> › Allocate to any Securityholder Applicant all Capital Notes 2 for which they have applied; › Reject any Application by a Securityholder Applicant; or › Allocate to any Securityholder Applicant a lesser number of Capital Notes 2 than that applied for, including less than the minimum Application of Capital Notes 2, or none at all. • No assurance is given that any Securityholder Applicant will receive an Allocation of Capital Notes 2.

5.5.3 HOW WILL THE FINAL ALLOCATION POLICY BE ANNOUNCED?

Institutional Offer	<ul style="list-style-type: none"> • Allocations to Institutional Investors will be advised to those investors under the Bookbuild.
Broker Firm Offer	<ul style="list-style-type: none"> • Allocations to Syndicate Brokers will be advised to those brokers under the Bookbuild. • Applicants under the Broker Firm Offer will also be able to confirm their firm Allocation through the Syndicate Broker from whom they received their Allocation. • However, if you sell Capital Notes 2 before receiving a Holding Statement, you do so at your own risk, even if you confirmed your firm Allocation through a Syndicate Broker.
Securityholder Offer	<ul style="list-style-type: none"> • After the Issue Date, Applicants in the Securityholder Offer will be able to call the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays) to confirm your Allocation. • However, if you sell Capital Notes 2 before receiving a Holding Statement, you do so at your own risk, even if you obtained details of your holding by calling the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays).

SECTION 5 ABOUT THE OFFER

5.6 OTHER INFORMATION

5.6.1 Application to ASX for quotation of Capital Notes 2

BOQ will apply to ASX for Capital Notes 2 to be quoted on ASX within seven days after the date of this Prospectus. If ASX does not grant permission for Capital Notes 2 to be quoted within three months after the date of this Prospectus (or any longer period permitted by law), Capital Notes 2 will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as practicable.

5.6.2 CHES and issuer sponsored holdings

BOQ will apply for Capital Notes 2 to participate in CHES. No certificates will be issued for Capital Notes 2. BOQ expects that Holding Statements for issuer sponsored holders and confirmations for CHES holders will be despatched to successful Applicants by 1 December 2020.

5.6.3 Trading and Selling Capital Notes 2 on market

It is expected that Capital Notes 2 will begin trading on ASX on a normal settlement basis on 1 December 2020 under ASX code "BOQPF".

You are responsible for confirming your holding before trading in Capital Notes 2. If you are a successful Applicant and sell your Capital Notes 2 before receiving your Holding Statement, you do so at your own risk.

You may call the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays) or your Syndicate Broker, after the Issue Date to enquire about your Allocation.

5.6.4 Provision of bank account details for Distributions

BOQ's current policy is that Holders with a registered address in Australia will be paid Distributions by direct credit into nominated Australian financial institution accounts (excluding credit card accounts) and for all other Holders, payments will be made by Australian dollar cheque.

5.6.5 Provision of TFN or ABN

Holders of Capital Notes 2 will be invited to quote or update their TFN, ABN or both. A Holder may, but is not required to, quote their TFN or ABN. If a Holder does not quote a TFN (or in certain circumstances an ABN) or proof of exemption, BOQ may be required to withhold Australian tax at the maximum marginal tax rate including the Medicare Levy (currently 47% of the unfranked amount) from any Distribution payable on Capital Notes 2 which is not fully franked and remit the amount withheld to the ATO. You should also read the information about Australian tax consequences for Holders in 6.

If your Capital Notes 2 are issued under an existing holding number with BOQ, your current elections, including TFN or ABN details, will apply to the Capital Notes 2 unless you advise otherwise.

5.6.6 Discretion regarding the Offer

BOQ reserves the right not to proceed with, and may withdraw, the Offer at any time before the issue of Capital Notes 2 to successful Applicants.

If the Offer, or any part of it, does not proceed, all relevant Application Payments will be refunded (without interest).

BOQ, the Arranger and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or Allocate to any Applicant or bidder fewer Capital Notes 2 than applied or bid for. This is at BOQ's, the Arranger's and the Joint Lead Managers' discretion, and neither BOQ, the Arranger nor the Joint Lead Managers are under any obligation to exercise that discretion in any particular case.

Investors should also note that no cooling off rights (whether by law or otherwise) apply to an investment in Capital Notes 2. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

5.7 ENQUIRIES

5.7.1 Securityholder Applicants

You can call the BOQ Offer Information Line on 1800 779 639 (within Australia) or +61 1800 779 639 (outside Australia) (8:30am to 7:30pm (Sydney time) Monday to Friday, excluding public holidays) if you:

- have further questions on how to apply for Capital Notes 2;
- require assistance to complete your Application Form;
- require additional copies of this Prospectus and Application Forms; or
- have any other questions about the Offer.

If you are unclear in relation to any matter relating to the Offer or are uncertain whether Capital Notes 2 are a suitable investment for you, you should consult your stockbroker, solicitor, accountant or other independent and qualified professional adviser.

5.7.2 Broker Firm Applicants

If you have further questions about the Offer or your Application under the Broker Firm Offer, call your Syndicate Broker.

SECTION 6

AUSTRALIAN TAXATION SUMMARY

SECTION 6 AUSTRALIAN TAXATION SUMMARY

The following is a summary of the Australian income tax, goods and services tax (**GST**) and stamp duty consequences for certain Australian tax resident Holders (**Resident Holders**) and Holders who are not tax residents of Australia (**Non-Resident Holders**) who hold Capital Notes 2 on capital account for tax purposes.

The following is general in nature and should be treated with appropriate caution. It is not exhaustive and, in particular, does not deal with the position of certain classes of Holders (including, dealers in securities, custodians or other third parties who hold Capital Notes 2 on behalf of any other person). Prospective Holders who are in any doubt as to their tax position should consult their professional advisers on the tax implications of an investment in Capital Notes 2 for their particular circumstances. This summary should not be read as constituting advice to any particular Holder.

BOQ has applied for a public class ruling from the Australian Taxation Office (ATO) on a number of Australian taxation implications for certain Resident Holders. The information provided below is consistent with that application. Resident Holders should refer to the ATO's class ruling once it is published. The ATO class ruling is expected to be available at law.ato.gov.au by following the links to class rulings.

6.1 DISTRIBUTIONS ON CAPITAL NOTES 2

The Capital Notes 2 should be characterised as non-share equity interests for Australian income tax purposes. Distributions should be treated as non-share dividends and not as interest income for income tax purposes.

Distributions on the Capital Notes 2 are frankable distributions and may carry franking credits. Distributions are expected to be franked at the same rate as dividends on BOQ's Ordinary Shares. The rate of franking depends on BOQ's available franking credits. BOQ will provide distribution statements to Holders in respect of the Distributions on the Capital Notes 2. Holders may refer to the distribution statement to ascertain:

- (a) the amount of the Distributions;
- (b) the amount of franking credits attached to the Distributions;
- (c) the amount of the unfranked part of the Distributions that is declared by BOQ to be conduit foreign income; and
- (d) the amount of tax withheld from the Distributions (if any).

6.1.2 Resident Holders

The amount of Distributions will be included in the assessable income of a Resident Holder.

Provided the Resident Holder is a 'qualified person' (see discussion below) in relation to a Distribution, the franking credit should also be included in the assessable income of the Resident Holder and the Resident Holder should be entitled to a tax offset equal to the amount of the franking credit.

For some Resident Holders (i.e. individuals or complying superannuation entities), if the tax offset exceeds their income tax liability for an income year, the excess tax offset may be refunded. A Resident Holder that is a company should not be entitled to a tax refund of any excess franking credits. Rather, any surplus franking credits may be converted to a tax loss which may be carried forward to future years (subject to satisfaction of certain tax loss carry forward rules).

Resident Holders who are not individuals, trustees of complying superannuation entities or companies should consider and seek advice on how they should be treated in relation to the taxation of Distributions. Such Resident Holders include exempt bodies and the trustees of trusts other than complying superannuation entities.

A Resident Holder will be a 'qualified person' in relation to a Distribution if the Resident Holder has held the Capital Notes 2 'at risk' for a continuous period of at least 90 days during the relevant qualification period.

The qualification period will depend on whether the Resident Holder has made a 'related payment' in relation to the Distribution. Generally, this occurs where the Resident Holder makes a payment which passes the benefit of the Distribution to another person.

In determining whether a Resident Holder has held their Capital Notes 2 'at risk', all 'positions' in respect of Capital Notes 2 must be taken into account in identifying the Resident Holder's 'net position', to determine whether there has been a material diminution of risk.

Alternatively, a Resident Holder who is an individual will automatically be taken to be a qualified person in relation to Distributions if the total amount of their franking tax offsets for an income year (from all sources) is \$5,000 or less, unless they are under an obligation to make a 'related payment'.

The Commissioner of Taxation may also apply anti-avoidance rules to deny the benefit of franking credits to Holders in limited circumstances.

One such rule, being the so called "anti-hybrid" provision in section 207-158 of the Tax Act, can apply when a franked distribution gives rise to a foreign income tax deduction for the issuer of certain types of equity instruments. However, following a recent legislative amendment to section 207-158, it is now clear that this provision should not apply to deny franking credits or tax offsets to Holders on their Distributions on Capital Notes 2 on the basis that they will form part of BOQ's Additional Tier 1 capital for the purposes of applicable prudential standards.

These issues are being addressed in the ATO class ruling requested by BOQ. Resident Holders should refer to the ATO class ruling once it is published.

6.1.3 Non-Resident Holders

Non-Resident Holders who do not hold the Capital Notes 2 at or through a permanent establishment in Australia may be subject to Australian dividend withholding tax on the Distributions.

Dividend withholding tax should generally not apply to Non-Resident Holders to the extent that:

- the Non-Resident Holder derives the Distribution in carrying on a business at or through a permanent establishment in Australia;
- the Distribution is franked; or
- the amount of the unfranked part of the Distribution is declared by BOQ to be conduit foreign income.

Australian dividend withholding tax is imposed at a general rate of 30% but the rate may be reduced under a double tax treaty between Australia and the jurisdiction where the Holder is resident.

If any dividend withholding tax is applicable, BOQ will not increase the amount of the Distribution to account for that withholding.

6.2 ABN/TFN WITHHOLDING TAX

Holders may choose to notify BOQ of their tax file number (TFN), Australian Business Number (ABN), or a relevant exemption from ABN/TFN withholding tax with respect to Distributions.

If BOQ does not receive such notification, withholding tax may be deducted at the rate of (currently) 47%.

Holders may be able to claim a tax credit in respect of any tax withheld on the Distributions in their income tax returns.

6.3 CGT CONSEQUENCES OF ORDINARY DISPOSAL

Gains and losses made on the disposal of Capital Notes 2 should be taxed under the capital gains tax (CGT) provisions. This is on the basis that the Capital Notes 2 should not be treated as 'traditional securities' for income tax purposes.

The cost base of each Capital Note 2 acquired by a Holder should include the Face Value of the Capital Note 2 which the Holder pays on subscription. The cost base of each Capital Note 2 should also include certain incidental costs (eg legal costs, broker fees) associated with the purchase and disposal of the Capital Note 2.

A Holder who acquires Capital Notes 2 pursuant to the offering under this Prospectus should be taken to acquire the Capital Notes 2 on the Issue Date.

6.3.1 Resident Holders

A Resident Holder should make a capital gain on the sale of Capital Notes 2 if the sale proceeds exceed their cost base in the Capital Notes 2. If the sale proceeds are less than their reduced cost base, the Resident Holder should make a capital loss. Capital losses may only be offset against capital gains (and not other income) in the same or later years of income.

A Resident Holder may be entitled to the CGT discount in respect of a capital gain made on the sale of Capital Notes 2 if they have held the Capital Notes 2 for at least 12 months. A Resident Holder who is an individual or trust is entitled to a discount percentage of 50% and complying superannuation entities are entitled to a discount percentage of 33 1/3%. Companies are generally not entitled to the CGT discount.

The Australian Government has announced that Managed Investment Trusts (MITs) and Attribution MITs (AMITs) will not be entitled to the CGT discount at the trust level. This change was previously scheduled to apply from 1 July 2020, but has now been delayed and will instead apply for income years commencing on or after three months after the date of Royal Assent of the enabling legislation. While there can be no certainty at this time in relation to when this change will come into effect, the Australian Government has indicated that it is committed to legislating this measure. Once this change comes into effect, MITs and AMITs that derive capital gains will continue to be able to distribute those amounts as capital gains that may be subject to the CGT discount in the hands of those beneficiaries who are entitled to the CGT discount.

Again, these issues are being addressed in the ATO class ruling requested by BOQ. Resident Holders should refer to the ATO class ruling once it is published.

6.3.2 Non-Resident Holders

Any capital gain or capital loss made in respect of the Capital Notes 2 by a Non-Resident Holder who does not hold the Capital Notes 2 at or through a permanent establishment in Australia is likely to be disregarded for Australian tax purposes on the basis that Capital Note 2 are not likely to be "taxable Australian property".

6.4 CGT CONSEQUENCES OF CONVERSION, REDEMPTION, RESALE AND WRITE OFF

6.4.1 Conversion

Any capital gain or loss made by a Resident Holder on Conversion should be disregarded for Australian tax purposes. Instead, the Resident Holder's cost base in the Ordinary Shares acquired on Conversion will be determined by reference to their cost base in the Capital Notes 2 which were Converted.

The Resident Holder will be taken to acquire the Ordinary Shares at the time of Conversion. In order to be eligible for the CGT discount in respect of a capital gain made on the sale of the Ordinary Shares, a Resident Holder who is an individual, trust or complying superannuation entity will need to hold the ordinary shares for at least 12 months from the time of Conversion.

Again, these issues are being addressed in the ATO class ruling requested by BOQ. Resident Holders should refer to the ATO class ruling once it is published.

SECTION 6 AUSTRALIAN TAXATION SUMMARY

6.4.2 Redemption

A Redemption of the Capital Notes 2 should constitute a redemption of Capital Notes 2 for CGT purposes.

As Resident Holder should make a capital gain on redemption of Capital Notes 2 if the capital proceeds exceed their cost base in the Capital Notes 2. If the capital proceeds are less than their reduced cost base, the Resident Holder should make a capital loss. Capital losses may only be offset against capital gains (and not other income) in the same or later years of income.

The capital proceeds from a Redemption will be an amount equal to the Face Value of each Capital Note 2, unless the market value of a Capital Note 2 on the Redemption Date (determined as if its Redemption had not occurred or been proposed) is greater or less than the Face Value. In that case, the greater or lesser market value amount will be deemed to be the capital proceeds of the Redemption, instead of the Face Value actually received. The Redemption proceeds should not be treated as a dividend to the extent to which (as is expected to be the case) they are debited against an amount standing to the credit of BOQ's non-share capital account. Certain Resident Holders may be entitled to CGT discount treatment for any capital gain, similar to the manner discussed in section 6.3.1 above for a disposal.

Non-Resident Holders should refer to the consequences set out above at Section 6.3.2 in relation to the CGT consequences on a disposal of Capital Notes 2.

6.4.3 Resale

A Resale of the Capital Notes 2 should constitute a disposal of Capital Notes 2 for CGT purposes. Holders should refer to the consequences set out above at Section 6.3 in relation to the CGT consequences on a disposal of Capital Notes 2.

6.4.4 Write Off

The Capital Notes 2 will only be written off in limited circumstances if a Loss Absorption Event, as defined in the Capital Note 2 Terms, occurs and Conversion of the Capital Notes 2 into Ordinary Shares has not been effected within five Business Days after the relevant event for any reason. A Write Off of Capital Notes 2 may cause Resident Holders to make a capital loss. This is on the basis that no capital proceeds will be provided to Resident Holders on a Write Off of their Capital Notes 2. As discussed above, capital losses may only be offset against capital gains (and not other income) of the same or later years of income.

6.5 TAXATION OF FINANCIAL ARRANGEMENTS

The 'taxation of financial arrangements' (TOFA) regime contains tax timing rules for certain taxpayers to bring to account gains and losses from 'financial arrangements'. The TOFA regime does not generally apply to an investment in Capital Notes 2 unless the Holder has made certain elections under the TOFA regime.

Holders who are subject to the TOFA regime and have made one of the TOFA elections should obtain specific tax advice relating to their individual circumstances regarding the application of the TOFA regime to their investment in Capital Notes 2.

6.6 GOODS AND SERVICES TAX

Holders should not be liable for GST in respect of their investment in Capital Notes 2 or the disposal, Conversion or Write Off of Capital Notes 2.

Additionally, input tax credits are unlikely to be available for any GST paid by a Holder in respect of costs (eg legal fees) incurred in relation to the acquisition of Capital Notes 2.

6.7 STAMP DUTY

Neither the issue to nor the receipt by a Holder should give rise to a stamp duty liability in any Australian State or Territory provided that following the issue or receipt of Capital Notes 2, no Holder will, either alone or together with any associated persons, be entitled to a distribution of 90% or more of the property of BOQ on a notional distribution of all the property of BOQ.

The Conversion, Redemption or Write Off of Capital Notes 2 in accordance with the Capital Note 2 Terms should also not give rise to any stamp duty liability in any Australian State or Territory following the Conversion, Redemption or Write Off of Capital Notes 2 in accordance with the Capital Note Terms, provided that no Holder will, either alone or together with any associated person, hold an interest in BOQ of 90% or more.

SECTION 7

KEY PEOPLE, INTERESTS AND BENEFITS

SECTION 7 KEY PEOPLE, INTERESTS AND BENEFITS

7.1 INTERESTS OF DIRECTORS

Other than as set out in this Prospectus, no Director or proposed Director holds at the time of lodgement of this Prospectus with ASIC, or has held in the 2 years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of BOQ;
- the Offer; or
- any property acquired or proposed to be acquired by BOQ in connection with the formation or promotion of BOQ or the Offer.

Other than as set out in this Prospectus, no amount (whether in cash, Ordinary Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any Director or proposed Director:

- to induce a person to become, or qualify as, a director of BOQ; or
- for services provided by a Director or proposed Director in connection with the formation or promotion of BOQ or the Offer.

7.1.1 Interests in BOQ securities

The Directors' interests in Ordinary Shares and performance award rights of BOQ as at the date of this Prospectus are as follows. This excludes any rights to acquire Ordinary Shares granted under the Non-Executive Director Fee Sacrifice Rights Plan from time to time in the ordinary course. See Section 7.1.2 for further details.

NAME	ORDINARY SHARES	PERFORMANCE AWARD RIGHTS
Patrick Allaway	142,737	Nil
Bruce Carter	75,620	Nil
Warwick Negus	51,872	Nil
		143,215
		Performance Award Rights ^{11,12}
George Frazis	50,000	
John Lorimer	21,128	Nil
Karen Penrose	19,828	Nil
Michelle Tredenick	19,762	Nil
Kathleen Bailey-Lord	13,903	Nil

None of the Directors has an interest in Capital Notes 1.

7.1.2 Directors' remuneration

The Non-Executive Directors are paid fees in accordance with the Constitution as determined by the Board subject to a maximum aggregate amount determined by resolution of securityholders, which is currently \$2,800,000. The Non-Executive Directors are also eligible to participate in the Non-Executive Director Fee Sacrifice Rights Plan, which allows Non-Executive Directors to sacrifice a portion of their Board fees in exchange for the right (if exercised) to acquire Ordinary Shares. Any participation by Non-Executive Directors in the Non-Executive Director Fee Sacrifice Rights Plan will be notified to the ASX in accordance with the Listing Rules. Details of Director's remuneration (including the Non-Executive Director Fee Sacrifice Rights Plan) are set out in the remuneration report contained in BOQ's annual report for the year ended 31 August 2020, which was lodged with ASX on 14 October 2020 and is available at www.boq.com.au or see Section 8.1 for further details about accessing this and other documents lodged by BOQ.

7.1.3 Participation in the Offer

The Directors and certain related persons may acquire Capital Notes 2 offered under this Prospectus subject to a collective limit of 0.2% of the total number of Capital Notes 2 issued under the Offer – see relevant ASX waivers described in Section 8.10.

7.2 Interests of experts and advisers

Goldman Sachs Australia Pty Ltd has acted as the Arranger for the Offer, and each of ANZ Securities Limited, National Australia Bank Limited and Morgans Financial Limited have acted as the Joint Lead Managers for the Offer, in respect of which they will receive fees from BOQ. The estimated aggregate fees payable by BOQ to the Arranger and the Joint Lead Managers (and other Syndicate Brokers) are approximately \$3.5 million (exclusive of GST), making certain assumptions as to the allocations of Capital Notes 2 between the Broker Firm Offer, Institutional Offer and Securityholder Offer. The aggregate fees include an arranger fee payable to Goldman Sachs Australia Pty Ltd, other fees payable to the Joint Lead Managers (determined either on the basis of their Capital Notes 2 allocation or split proportionately between each Joint Lead Manager) and broker firm selling fees payable to the Syndicate Brokers.

The Joint Lead Managers and their respective affiliates (the Dealer Groups) are involved in a wide range of financial services and businesses in respect of which they may receive fee and other benefits and out of which conflicting interests or duties may arise. These services may include securities trading, brokerage activities, provision of commercial and investment banking, investment management, corporate finance, credit and derivative, trading and research products and services or the provision of finance, including in respect of securities of, or loans to the BOQ Group entities. In the ordinary course of these activities, each Dealer Group may at any time hold long or short positions and may trade or otherwise effect transactions, for its own account or the accounts of investors or any other party that may be involved in the Offer.

11 The MD & CEO will receive \$585,000 STI award for FY20 which will be delivered in the form of 85,442 restricted shares. The restricted shares for the STI award will not be granted before 6 November 2020.

12 The grant of further variable performance incentives may be put to Ordinary Securityholders for approval at the BOQ Annual General Meeting on 8 December 2020. These additional variable performance incentives have not yet been determined and distributed in a notice of meeting to Ordinary Securityholders and accordingly have not yet been approved, and therefore the type and number of variable performance incentives cannot be included in the figure above.

KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd) has acted as BOQ's accounting adviser and has provided due diligence services on certain financial disclosures in relation to the Offer. BOQ estimates that fees of approximately \$85,000 (excluding disbursements and GST) will be payable to KPMG Transaction Services for the work performed by it until the date of this Prospectus. KPMG Transaction Services may receive further fees for any additional work done in accordance with its normal time based charges.

King & Wood Mallesons has acted as legal adviser to BOQ and has provided a range of legal services in connection with the Offer. BOQ estimates that fees of approximately \$350,000 (excluding disbursements and GST) will be payable to King & Wood Mallesons for the work performed by it until the date of this Prospectus. King & Wood Mallesons may receive further fees for any additional work done in accordance with its normal time based charges.

Greenwoods & Herbert Smith Freehills has acted as tax adviser to BOQ and has provided a range of tax legal services in connection with the Offer. BOQ estimates that fees of approximately \$40,000 (excluding disbursements and GST) will be payable to Greenwoods & Herbert Smith Freehills for the work performed by it until the date of this Prospectus. Greenwoods & Herbert Smith Freehills may receive further fees for any additional work done in accordance with its normal time based charges.

Except as set out in this Prospectus :

- no person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or
- no Arranger, Joint Lead Manager or Co-Manager,

holds, at the time of lodgement of this Prospectus with ASIC, or has held in the 2 years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of BOQ;
- the Offer; or
- any property acquired or proposed to be acquired by BOQ in connection with the formation or promotion of BOQ or the Offer,

nor has anyone paid or agreed to pay, or given or agreed to give any benefit to such persons in connection with the formation or promotion of BOQ or the Offer.

7.3 Expenses of the Offer

The total expenses for the Offer will be paid out of the proceeds of the Offer. Assuming the Offer raises \$200 million, then the net proceeds of the Offer are expected to be \$195 million and the total expenses of the Offer (including fees paid to the Joint Lead Managers and Arranger, offer management, structuring, advisory, legal, accounting, tax, listing and administrative fees as well as printing, advertising and other expenses incurred in preparing and issuing this Prospectus) are, at the date of this Prospectus, estimated to be approximately \$5 million. All of these expenses have been, or will be, borne by BOQ.

SECTION 8

ADDITIONAL INFORMATION

This Section provides information about a number of other matters not covered elsewhere in this Prospectus.

8.1 DISCLOSING ENTITY INFORMATION AND/OR INCORPORATION BY REFERENCE INFORMATION

As a disclosing entity for the purposes of the Corporations Act and the ASX Listing Rules, BOQ is subject to regular reporting and continuous disclosure obligations. These obligations include compliance with the requirements of the Corporations Act and the ASX Listing Rules concerning notification of information to the market operated by ASX. Subject to limited exceptions for certain categories of confidential information set out in the ASX Listing Rules, BOQ must notify ASX immediately of any information concerning it which it is, or becomes aware of, and which a reasonable person would expect to have a material effect on the price or value of its listed securities. That information is kept on public file with ASX and ASIC. BOQ must also prepare and lodge with ASIC full year and half yearly financial statements accompanied by a Directors' statement and report, and an audit or review report.

Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office.

BOQ will provide a copy of any of the following documents free of charge to any person who requests a copy during the Offer Period in relation to this Prospectus:

- the financial statements of BOQ for the year ended 31 August 2020 (being the most recent annual financial report lodged with ASIC before the lodgement of this Prospectus);
- the Constitution; and
- any document lodged by BOQ under the continuous disclosure reporting requirements in the period after the lodgement of its last annual financial report and before the lodgement of the Prospectus.

Copies of the above documents may be obtained in person or in writing from BOQ at:

ATTN: Investor Relations

Bank of Queensland Limited
Level 6, 100 Skyring Terrace
NEWSTEAD QLD 4006

Copies of these documents are also available online via the BOQ website at www.boq.com.au.

8.2 RESTRICTIONS ON OWNERSHIP FOR BOQ

The *Financial Sector (Shareholdings) Act 1998* (Cth) restricts the aggregate voting power of a person and their associates in an Australian authorised deposit-taking institution to 20%. A securityholder may apply to the Treasurer to extend its stake beyond 20%, however approval cannot be granted unless the Treasurer is satisfied that it is in the national interest to approve a holding of greater than 20%.

Acquisitions of interests in shares in Australian companies by foreign persons are subject to review and approval by the Treasurer under the Foreign Acquisitions and Takeovers Act 1975 (Cth) in certain circumstances. Potential investors should consult their professional advisers to determine whether the Foreign Acquisitions and Takeovers Act may affect their holding or ownership of Capital Notes 2 or Ordinary Shares.

8.3 U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT AND OECD COMMON REPORTING STANDARD

8.3.1 FATCA

Under FATCA, a 30% withholding (FATCA withholding) may be required if (i)(A) an investor does not provide information sufficient for BOQ or any other non-U.S. financial institution (FFI) through which payments on the Capital Notes 2 are made to determine the Holder's status under FATCA, or (B) an FFI to or through which payments on the Capital Notes 2 are made is a "non-participating FFI"; and (ii) the Capital Notes 2 are treated as debt for U.S. federal income tax purposes and the payment is made in respect of Capital Notes 2 issued or modified after the date that is six months after the date on which final regulations defining the term "foreign passthru payment" are filed with the U.S. Federal Register, or the Capital Notes 2 are treated as equity for U.S. federal income tax purposes, whenever issued.

Reporting Australian Financial Institutions (RAFI) under the Australia-U.S. FATCA Intergovernmental Agreement dated 28 April 2014 (Australian IGA) must comply with specific due diligence procedures to identify their account holders and provide the Australian Taxation Office (ATO) with information on financial accounts held by U.S. persons and recalcitrant account holders. The ATO is required to provide such information to the U.S. Internal Revenue Service. Consequently, Holders may be requested to provide certain information and certifications to BOQ and to any other financial institutions through which payments on the Capital Notes 2 are made. A RAFI that complies with its obligations under the Australian IGA will not be subject to FATCA withholding on amounts it receives, and will not be required to deduct FATCA withholding from payments it makes, other than in certain prescribed circumstances.

In the event that any amount is required to be withheld or deducted from a payment on the Capital Notes 2 (or from an issue of Ordinary Shares) as a result of FATCA, pursuant to the terms and conditions of the Capital Notes 2, no additional amounts will be paid (and no further Ordinary Shares will be issued) by BOQ as a result of the deduction or withholding.

SECTION 8 ADDITIONAL INFORMATION

8.3.2 Common Reporting Standard

The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (CRS) requires certain financial institutions to report information regarding certain accounts (which may include the Capital Notes 2) to their local tax authority and follow related due diligence procedures. The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the CRS. Accordingly, Holders may be requested to provide certain information and certifications to ensure compliance with the CRS. This information would then be provided to the ATO. The ATO may provide this information to other jurisdictions that, like Australia, have signed the CRS Competent Authority Agreement.

8.4 CONSENTS TO BE NAMED / TO INCLUDE STATEMENTS

Except as set out below, each of the parties referred to in the table below (each a Consenting Party):

- has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named;
- has not authorised or caused the issue of this Prospectus;
- does not make, or purport to make, any statement in this Prospectus or any statement on which a statement made in this Prospectus is based, other than a statement or report included in this Prospectus as specified in the paragraphs below; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus, other than the reference to its name in the form and context in which it is named.

The Consenting Parties are:

ROLE	CONSENTING PARTIES
Arranger	Goldman Sachs Australia Pty Ltd
Joint Lead Managers	ANZ Securities Limited National Australia Bank Limited Morgans Financial Limited
Co-Managers	JBWere Limited
Accounting adviser	KPMG Transaction Services
Legal Adviser	King & Wood Mallesons
Tax Adviser	Greenwoods & Herbert Smith Freehills
Registry	Link Market Services
Auditor	KPMG

Greenwoods & Herbert Smith Freehills has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of statements by it, consisting of the Australian taxation summary in Section 6 in the Prospectus in the form and context in which it appears in Section 6.

8.5 RIGHTS AND LIABILITIES ATTACHING TO CAPITAL NOTES 2

The rights and liabilities attaching to Capital Notes 2 are contained in the Capital Notes 2 Terms set out in Appendix A. Rights and liabilities attaching to Capital Notes 2 may also arise under the Corporations Act, the ASX Listing Rules, the Constitution and other laws. Amendments to the Constitution are being considered by the BOQ Board and may be put to special Ordinary Securityholder approval at the BOQ Annual General Meeting on 8 December 2020.

8.6 RIGHTS AND LIABILITIES ATTACHING TO ORDINARY SHARES

Holders of Capital Notes 2 will receive Ordinary Shares on Conversion. The rights and liabilities attaching to Ordinary Shares are set out in the Constitution¹³ and are also regulated by the Corporations Act, the ASX Listing Rules and the general law.

This Section 8.6 briefly summarises the key rights attaching to Ordinary Shares. It is not intended to be an exhaustive summary of the rights and obligations of holders of Ordinary Shares. Investors who wish to inspect the Constitution may do so at the registered office of BOQ during normal business hours or may obtain a copy as provided under Section 8.1.

The key rights attaching to Ordinary Shares are as follows:

- the right to receive notice of, attend and vote at general meetings of BOQ (either in person or by proxy, attorney or representative) on the basis of one vote on a show of hands or one vote per fully paid Ordinary Share (or a fraction of a vote in proportion to the capital paid up on that Ordinary Share) on a poll;
- the holder of a fully paid Ordinary Share has the right to receive dividends from time to time, as determined by the Board, in its judgment, as the financial position of BOQ justifies (subject to the rights of holders of securities carrying preferred rights in accordance with the Constitution and the Corporations Act). BOQ may also be restricted from paying dividends on Ordinary Shares by Prudential Standards or, potentially, in particular circumstances by the terms of certain of its regulatory capital instruments;
- the right to receive information required to be distributed under the Corporations Act and the ASX Listing Rules; and
- the right to participate in a surplus of assets on a winding-up of BOQ remaining after the payment of its debts in proportion to the capital paid up on the Ordinary Shares.

8.7 RIGHTS AND LIABILITIES ATTACHING TO APPROVED NOHC ORDINARY SHARES

If a NOHC Event occurs and the Capital Notes 2 Terms are amended to enable substitution of an Approved NOHC as the issuer of ordinary shares on Conversion (including Mandatory Conversion), BOQ expects that the rights and liabilities of the Approved NOHC ordinary shares will be substantially equivalent to the rights and liabilities of Ordinary Shares. It is a requirement under the Capital Notes 2 Terms that any Approved NOHC must use all reasonable endeavours in order to procure quotation of all ordinary shares in the capital of the Approved NOHC.

¹³ Amendments to the Constitution are being considered by the BOQ Board and may be put to special Ordinary Securityholder approval at the BOQ Annual General Meeting on 8 December 2020.

8.8 SUMMARY OF THE OFFER MANAGEMENT AGREEMENT

BOQ, the Arranger and the Joint Lead Managers have entered into the Offer Management Agreement (OMA). Under the OMA, the Joint Lead Managers have agreed to manage the Offer, including the Bookbuild, and to provide settlement support for the settlement obligations of Syndicate Brokers and Institutional Investors under the Bookbuild.

The following is a summary of the key provisions of the OMA.

8.8.1 Fees

The fees payable to the Arranger and Joint Lead Managers (which also includes the selling fees and other amounts payable by the Joint Lead Managers to the Syndicate Brokers on BOQ's behalf) are set out in Section 7.2.

BOQ must also pay or reimburse the Arranger and each Joint Lead Manager for reasonable costs of and incidental to the Offer (including reasonable legal costs), subject to certain limits.

8.8.2 Representations, warranties and undertakings

BOQ gives various representations, warranties and undertakings to the Arranger and Joint Lead Managers, including that the documents issued or published by or on behalf of BOQ in respect of the Offer comply with all applicable laws, including the Corporations Act and the ASX Listing Rules.

With the exception of the Capital Notes 2 and certain other corporate actions (including an issue of Ordinary Shares under a dividend reinvestment plan), BOQ has agreed that it will not (and will ensure that other members of the BOQ Group do not), without the prior written consent of the Arranger and Joint Lead Managers, issue or agree to issue (or announce an issue of) any hybrid or preference securities in Australia with Tier 1 capital status before the expiration of 90 days after the Issue Date.

8.8.3 Indemnity

BOQ agrees to indemnify the Arranger, the Joint Lead Managers, each of their affiliates and each of their directors, officers, employees, partners, agents and advisers from and against all damage, loss, cost, expense or liability directly or indirectly suffered by, and all claims, actions, proceedings or damages made against, them arising out of or in connection with the Offer (subject to certain limited exceptions).

8.8.4 Termination events

The Arranger and each Joint Lead Manager may terminate, at any time, its obligations under the OMA on the occurrence of a number of customary termination events, including (among others) if one or more of the following events occur:

- a credit rating assigned to BOQ is downgraded or withdrawn, or that credit rating is placed on credit watch negative;
- ASIC issues a stop order in relation to the Offer;
- approval is refused or not granted for the official quotation of Capital Notes 2 on ASX;
- trading in Ordinary Shares is suspended for more than 2 Business Days (or is suspended at the close of trading on the last trading day prior to the Settlement Date) or Ordinary Shares cease to be quoted on ASX;
- BOQ withdraws the Prospectus or the Offer;
- BOQ is required, in the reasonable opinion of the Arranger or

the Joint Lead Manager, to lodge a supplementary Prospectus;

- there is a specified fall in the S&P/ASX All Ordinaries Index or the S&P/ASX 200;
- BOQ makes an unauthorised alteration to its share capital, the Capital Notes 2 Deed Poll or its constitution excluding any alteration to its constitution as a direct consequence of a vote at the 2020 Annual General Meeting on 8 December 2020; and
- there is an adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the BOQ Group.

Certain of these events (and other specified termination events) will only give rise to a right to terminate if the Arranger or Joint Lead Manager (as applicable) reasonably believes that the event has had, or is likely to have, a material adverse effect on the success, marketing or settlement of the Offer, or could give rise to a liability to the Arranger or a Joint Lead Manager under the Corporations Act or any other applicable law. If a Joint Lead Manager terminates its obligations under the OMA, that Joint Lead Manager will no longer be obliged to conduct the Bookbuild, provide settlement support or subscribe for Capital Notes 2 under the Bookbuild.

If one Joint Lead Manager terminates its obligations under the OMA, the remaining Joint Lead Managers must elect whether to also terminate their obligations under the OMA or assume the obligations of the terminating Joint Lead Manager.

8.9 DESCRIPTION OF THE CAPITAL NOTES 2 DEED POLL

A trustee has not been appointed for Capital Notes 2. Instead, there is a Capital Notes 2 Deed Poll made by BOQ in favour of each person who is from time to time a Holder. The Capital Notes 2 Deed Poll gives legal effect to BOQ's obligations in the Capital Notes 2 Terms.

Under the Capital Notes 2 Deed Poll, BOQ also undertakes to appoint the Registrar and procure the Registrar to establish and maintain a principal Register.

The Capital Notes 2 Deed Poll also includes provisions for convening meetings of the Holders to consider any matter affecting their interests, including any variation of the Capital Notes 2 Terms. Any action which may affect the eligibility of Capital Notes 2 as Additional Tier 1 Capital of BOQ cannot be sanctioned or approved by Holders without the prior written approval of APRA.

An Ordinary Resolution or a Special Resolution passed at a meeting of the Holders duly called and held under the meeting provisions will be binding on all the Holders whether or not present at the meeting. Each Holder will be entitled to one vote on a show of hands. On a poll, each Holder will be entitled to one vote for each Capital Note 2 with respect to which it is the registered holder.

A Holder has no entitlement to attend or vote at a general meeting of BOQ or to receive a copy of the BOQ annual report or other financial information sent to holders of Ordinary Shares.

SECTION 8 ADDITIONAL INFORMATION

Holders will be bound by the terms of the Capital Notes 2 Deed Poll, the Capital Notes 2 Terms and this Prospectus when Capital Notes 2 are issued or transferred to them or they purchase Capital Notes 2.

The Registrar will hold the original executed Capital Notes 2 Deed Poll on behalf of Holders. Each Holder can enforce BOQ's obligations under the Capital Notes 2 Deed Poll, including the Capital Notes 2 Terms and the provisions for meetings, independently of the Registrar and each other.

A copy of the Capital Notes 2 Deed Poll can be obtained from BOQ's website.

8.10 ASX WAIVERS AND CONFIRMATIONS

ASX has classified the Capital Notes 2 as equity securities for the purposes of the ASX Listing Rules and has confirmed that:

- ASX Listing Rule 3.20.2 and 3.20.5 will not apply to the Conversion of Capital Notes 2 following the occurrence of a Non-Viability Trigger Event or a Common Equity Trigger Event;
- the Capital Notes 2 Terms are, in ASX's opinion, appropriate and equitable for the purposes of ASX Listing Rule 6.1;
- ASX Listing Rules 6.4 to 6.7 (inclusive) do not apply to the Capital Notes 2, as ASX does not consider Capital Notes 2 to be preference securities for the purposes of the ASX Listing Rules;
- the terms of the APRA constraints on the payment of Distributions do not amount to the removal of rights for the purposes of ASX Listing Rule 6.10;
- Conversion, Redemption, Resale or write off of Capital Notes 2, as provided in the Capital Notes 2 Terms, is appropriate and equitable for the purposes of ASX Listing Rule 6.12;
- ASX does not consider the Capital Notes 2 to be options for the purposes of ASX Listing Rules 6.14 to 6.23 (inclusive);
- for the purposes of ASX Listing Rule 7.1, the "relevant date" will be the date Capital Notes 2 are issued and the "relevant period" is the 12 month period immediately preceding the date Capital Notes 2 are issued;
- in accordance with ASX Listing Rule 7.2 (Exception 9), there is no further requirement for member approval, or further absorption of placement capacity under ASX Listing Rule 7.1, at the time that Capital Notes 2 are Converted;
- the issue of Ordinary Shares on Conversion of Capital Notes 2 falls within Listing Rule 10.12, Exception 7;
- ASX Listing Rule 10.11 has been waived to permit Directors, their related parties (and their associates) to participate in the Offer, without Ordinary Securityholder approval, on the condition that the Directors (and their related parties and associates) are collectively restricted to being issued no more than 0.2% of the total number of Capital Notes 2 issued under the Offer; and
- the timetable for the Offer is acceptable and Capital Notes 2 are expected to trade under the ASX trading code "BOQPF".

8.11 FOREIGN SELLING RESTRICTIONS

As at the date of this Prospectus, no action has been taken to register or qualify Capital Notes 2 or the Offer or to otherwise permit a public offering of Capital Notes 2 outside Australia.

The distribution of this Prospectus (including an electronic copy) outside Australia may be restricted by law. If you come into possession of this Prospectus outside Australia, you should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may violate securities laws. This Prospectus does not constitute an offer or invitation in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

In particular, Capital Notes 2 have not been and will not be registered under the US Securities Act or the securities law of any state of the United States, and may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, a US Person unless an exemption from such registration requirements applies.

Any offer, sale or resale of Capital Notes 2 in the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act.

Capital Notes 2 may (at BOQ's discretion) be offered in a jurisdiction outside Australia under the Broker Firm Offer where such offer is made in accordance with the laws of that jurisdiction.

Each person submitting an Application Form will be deemed to have acknowledged that they are aware of the restrictions referred to in this Section 8.11 and to have represented and warranted that it is able to apply for and acquire Capital Notes 2 in accordance with those restrictions.

8.12 PRIVACY STATEMENT

By making an Application for Capital Notes 2, you are providing personal information to BOQ through BOQ's service provider, Link Market Services Limited (Registrar), which is contracted by BOQ to manage Applications. BOQ, and the Registrar on its behalf, collect, hold and use that personal information to process your Application, service your needs as a Holder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested, BOQ and the Registrar may not be able to process or accept your Application. By submitting an Application, each Applicant agrees that BOQ and the Registrar may use the information provided by an Applicant (including in an Application Form) for the purposes set out in this privacy disclosure statement and may disclose it in accordance with BOQ's privacy policy for those purposes to BOQ, and to its related bodies corporate, the Arranger, the Joint Lead Managers, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and other regulatory authorities.

The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Registrar (or another service provider) for ongoing administration of the securityholder registers;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;

8.12 PRIVACY STATEMENT (CONTINUED)

- market research companies for the purpose of analysing BOQ's securityholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, BOQ's securities and for associated actions.

If an Applicant becomes a Holder, the Corporations Act requires BOQ to include information about the Holder (including name, address and details of the Capital Notes 2 held) in its public register of members. The information contained in BOQ's register of members must remain there for the period of time set out in the Corporations Act, even if that person ceases to be a securityholder.

Information contained in BOQ's register of members is also used to facilitate dividend payments and corporate communications (including BOQ's financial results, annual reports and other information that BOQ may wish to communicate to its securityholders) and compliance by BOQ with legal and regulatory requirements. An Applicant has a right to gain access to the information that BOQ and the Registrar hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests can be made in the manners set out in BOQ's privacy policy. Applicants can obtain a copy of BOQ's privacy policy by visiting the BOQ website - www.boq.com.au.

8.13 ACKNOWLEDGEMENTS

Each person submitting an Application Form and/or Application Payment will be deemed to have:

- › acknowledged having read and understood the Terms and having had an opportunity to consider the suitability of an investment in Capital Notes 2 with the Applicant's professional advisers;
- › agreed to be bound by the Terms and the terms and conditions of the Offer and, on Conversion of Capital Notes 2, agrees to become a member of BOQ and to be bound by the terms of BOQ's Constitution;
- › acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement document) accompanying the Application Form and having read them all in full;
- › declared that all details and statements in their Application Form are complete and accurate;
- › consented to the use and disclosure of their personal information as described in Section 8.12 and understood and agreed that the use and disclosure of their personal information applies to any personal information collected by BOQ in the course of the Applicant's relationship with BOQ;
- › declared that the Applicant, if a natural person, is over 18 years of age;
- › acknowledged that once BOQ receives an Application, it may not be withdrawn, except as is permitted by law;
- › acknowledged that, in some circumstances, BOQ may not pay Distributions or any other amount payable on Capital Notes 2;

- › applied for the number of Capital Notes 2 at the Australian dollar amount specified in the Application Form submitted or represented by the Application Payment;
- › agreed to being allocated the number of Capital Notes 2 applied for (or a lower number allocated in a way described in this Prospectus) or no Capital Notes 2 at all;
- › authorised BOQ and the Joint Lead Managers, and their respective officers or agents, to do anything on the Applicant's behalf necessary for Capital Notes 2 to be allocated to the Applicant, including to act on instructions received by the Registrar upon using the contact details in the Application Form;
- › acknowledged that the information contained in this Prospectus (or any supplementary or replacement document) is not investment advice or a recommendation that Capital Notes 2 are suitable for the Applicant, given the Applicant's investment objectives, financial situation or particular needs;
- › declared that the Applicant is an Australian resident or otherwise a person to whom the Offer can be made, and Capital Notes 2 issued, in accordance with Section 5.4.2;
- › acknowledged that Capital Notes 2 have not been, and will not be, registered under the U.S. Securities Act or pursuant to the securities laws of any other jurisdiction outside Australia;
- › represented and warranted that the Applicant is not in the United States and is not a U.S. Person (as defined in Regulation S of the U.S. Securities Act) (and not acting for the account or benefit of a U.S. Person) and the Applicant will not offer, sell or resell Capital Notes 2 in the United States to, or for the account or benefit of, any U.S. Person;
- › represented and warranted that the laws of any other place, including the restrictions set out in Section 5.4.2 of this Prospectus, do not prohibit the Applicant from being given the Prospectus (or any supplementary or replacement Prospectus) or making an Application or being issued with Capital Notes 2; and
- › acknowledged that Capital Notes 2 are not protected accounts or deposit liabilities of BOQ for the purposes of the Banking Act or protected policies for the purposes of the Insurance Act. Investments can be subject to investment risk, including possible delays in repayment and loss of income and principal invested. BOQ does not in any way guarantee or stand behind the capital value or performance of Capital Notes 2.

8.14 GOVERNING LAW

This Prospectus and the contracts that arise from the acceptance of the Applications are governed by the laws applicable in Queensland and each Applicant submits to the exclusive jurisdiction of the courts of Queensland.

8.15 AUTHORISATION OF THIS PROSPECTUS

Each Director has authorised the issue of this Prospectus and has consented to the lodgement of this Prospectus with ASIC.

SECTION 9

APPENDICES

1 FORM AND ISSUE PRICE

1.1 Forms

The BOQ Capital Notes 2 are fully paid mandatorily convertible subordinated perpetual debt securities in the form of unsecured notes issued by BOQ (**BOQ Capital Notes 2 or Notes**). BOQ Capital Notes 2 are issued in registered form by entry in the Register. They may be Redeemed, Converted or Resold by BOQ according to these Terms.

1.2 Face Value and Issue Price

The **Face Value** and **Issue Price** of each Note is A\$100.

1.3 CHESS

The Notes will be registered in CHESS. While the Notes remain in CHESS:

- a) the rights and obligations of a person holding the Notes; and
- b) all dealings (including transfers, transmissions and payments) in relation to the Notes within CHESS,

will be subject to and governed by the rules and regulations of CHESS (but without affecting any provisions in these Terms which affect the eligibility of the Notes as Additional Tier 1 Capital).

No certificates will be issued to Holders unless BOQ determines that certificates should be available or if certificates are required by any applicable law or directive.

1.4 Quotation

BOQ agrees to use all reasonable endeavours to procure that the Notes are quoted on ASX until all Notes have been Converted or Redeemed.

1.5 Independent obligations

Each entry in the Register constitutes a separate and individual acknowledgement to the relevant Holder of the obligations of BOQ to the relevant Holder under these Terms. Without prejudice to any provision requiring a Special Resolution or an Ordinary Resolution, the Holder to whom those obligations are owed is entitled to enforce them without having to join any other Holder or any predecessor in title of a Holder.

1.6 Nature of obligations

The Notes are not:

- a) deposits with, nor deposit liabilities of, BOQ or any other member of the Group for the purposes of the Banking Act;
- b) protected accounts for the purposes of the depositor protection provisions of the Banking Act or the financial claims scheme established under the Banking Act;
- c) guaranteed or insured by the Australian government or under any compensation scheme of the Australian government, or by any other government, under any other compensation scheme or by any Government Agency or any other party; or
- d) investments in any superannuation or other fund managed by a member of the Group.

2 DISTRIBUTIONS

2.1 Entitlement to Distributions

Subject to clause 2.6, each Note entitles each person who is the Holder on a Record Date to receive on the Distribution Payment Date a cash distribution (**Distribution**) calculated according to the formula set out in clause 2.4.

2.2 Distribution Payment Dates

Subject to these Terms, BOQ shall pay a Distribution in respect of a Note in arrears on the following dates (each a **Distribution Payment Date**):

- a) each 15 February, 15 May, 15 August and 15 November commencing on 15 February 2021 until (but not including) the date on which the Note is Converted or Redeemed in accordance with these Terms; and
- b) each date on which a Conversion, Redemption or Resale of that Note occurs in accordance with these Terms.

If a Distribution Payment Date is a day which is not a Business Day, then the Distribution Payment Date is the next Business Day, except where the Distribution Payment Date is 15 May 2027, which shall be the preceding Business Day.

2.3 Record Dates

A Distribution is only payable on a Distribution Payment Date to those persons registered as Holders on the Record Date for that Distribution.

2.4 Calculation of Distribution on Notes

The Distribution payable in respect of each Note on a Distribution Payment Date is calculated in accordance with the following formula:

$$\text{Distribution} = \frac{\text{Distribution Rate} \times \text{A\$100} \times \text{N}}{365}$$

where **N** is the number of days in the Distribution Period.

The **Distribution Rate** (expressed as a percentage per annum) in respect of a Note for a Distribution Period is the rate calculated according to the following formula:

$$\text{Distribution Rate} = (\text{BBSW Rate} + \text{Margin}) \times (1 - \text{Tax Rate})$$

where:

BBSW Rate means:

- a) subject to paragraph (b):
 - (i) for a Distribution Period, the rate (expressed as a percentage per annum) designated "BBSW" in respect of prime bank eligible securities having a tenor of 3 months which ASX (or its successor as administrator of that rate) publishes through information vendors at approximately 10:30am Sydney time (or such other time at which such rate is accustomed to be so published) (**Publication Time**) on:
 - (A) in the case of the first Distribution Period, the Issue Date; and
 - (B) in the case of any other Distribution Period, the 1st Business Day of that Distribution Period,

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and provided that where a Note is Resold on a day which is not a scheduled Distribution Payment Date, the BBSW Rate for the Distribution Period commencing on the Resale Date in respect of the Resold Note is the BBSW Rate for the Distribution Period preceding the Resale Date; or

- (ii) if BOQ determines that such rate as is described in paragraph (i) above:
 - (A) is not published by midday (or such other time that BOQ considers appropriate on that day); or
 - (B) is published, but is affected by an obvious error, such other rate that BOQ determines having regard to comparable indices then available (and provided that where a Note is Resold on a day which is not a scheduled Distribution Payment Date, the BBSW Rate for the Distribution Period commencing on the Resale Date in respect of the Resold Note is the BBSW Rate for the Distribution Period preceding the Resale Date);
- b) if BOQ determines that a Rate Disruption Event has occurred, then, subject to APRA's prior written approval, BOQ:
 - (i) shall use as the BBSW Rate such Replacement Rate as it may determine;
 - (ii) shall make such adjustments to the Terms as it determines are reasonably necessary to calculate Distributions in accordance with such Replacement Rate; and
 - (iii) in making the determinations under paragraphs (i) and (ii) above:
 - (A) shall act in good faith and in a commercially reasonable manner;
 - (B) may consult with such sources of market practice as it considers appropriate; and
 - (C) may otherwise make such determination in its discretion;

Holders should note that APRA's approval may not be given for any Replacement Rate it considers to have the effect of increasing the rate of Distributions contrary to applicable prudential standards.

Margin (expressed as a percentage per annum) means, for a Note, the margin specified in, or determined in accordance with, the Bookbuild;

Rate Disruption Event means that, in BOQ's opinion, the rate described in paragraph (a) of the definition of "BBSW Rate":

- a) has been discontinued or otherwise ceased to be calculated or administered; or
- b) is no longer generally accepted in the Australian market as a reference rate appropriate to floating rate debt securities of a tenor and interest period comparable to that of the Notes;

Replacement Rate means a rate other than the rate described in paragraph (a) of the definition of "BBSW Rate" that is generally accepted in the Australian market as the successor to the BBSW Rate, or if BOQ is not able, after making reasonable efforts, to ascertain such rate, or there is no such rate:

- a) a reference rate that is, in BOQ's opinion, appropriate to floating rate debt securities of a tenor and interest period most comparable to that of the Notes; or

- b) such other rate as BOQ determines having regard to available comparable indices; and

Tax Rate means the Australian corporate tax rate applicable to the franking account of BOQ on the relevant Distribution Payment Date (expressed as a decimal).

2.5 Franking adjustments

If a Distribution is not franked to 100% under Part 3-6 of the Tax Act (and any provisions that revise or replace that Part), the Distribution will be calculated according to the following formula:

$$\text{Distribution} = \frac{D}{1 - [\text{Tax Rate} \times (1 - F)]}$$

where:

D means the Distribution calculated under clause 2.4;

Tax Rate has the meaning given in clause 2.4; and

F means the applicable Franking Rate.

2.6 Conditions to payment of Distributions

A Distribution will be paid only if:

- a) BOQ in its absolute discretion elects to pay the relevant Distribution on the relevant Distribution Payment Date; and
- b) a Payment Condition does not exist on the relevant Distribution Payment Date.

2.7 Distributions are non-cumulative

Distributions are non-cumulative. If all or any part of a Distribution is not paid in full because of the restrictions in clause 2.6 or for any other reason:

- a) BOQ has no liability to pay the unpaid amount of the Distribution;
- b) Holders have no claim or entitlement in respect of such non-payment (including, without limitation, on a winding-up of BOQ); and
- c) such non-payment does not constitute an event of default.

No interest accrues on any unpaid Distributions and the Holder has no claim or entitlement in respect of interest on any unpaid Distributions.

2.8 Restrictions in the case of non-payment

Subject to clause 2.9, if a Distribution on a Note has not been paid in full (**Relevant Distribution**) on a Distribution Payment Date (**Relevant Distribution Payment Date**) for any reason (including because of the restrictions in clause 2.6), BOQ must not, without the approval of a Special Resolution, until and including the next Distribution Payment Date:

- a) declare, determine to pay or pay any Ordinary Share Dividend; or
- b) undertake any Buy-Back or Capital Reduction, unless the Relevant Distribution is paid in full within 3 Business Days of the Relevant Distribution Payment Date.

2.9 Exceptions to restrictions

The restrictions in clause 2.8 do not apply to:

- a) repurchases (including buy backs), redemptions or other acquisitions of shares of BOQ in connection with:
 - (i) any employment contract, employee share scheme, award rights plan, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors, consultants or contractors (including contractor's employees) of BOQ or of any member of the Group; or
 - (ii) a dividend reinvestment plan, bonus option plan, bonus share plan, shareholder share purchase plan or top-up facility or shareholder sale facility or disposal plan;
- b) the extent that at the time a Distribution has not been paid on the Relevant Distribution Payment Date, BOQ is legally obliged to pay on or after that date an Ordinary Share Dividend or is legally obliged to complete on or after that date a Buy-Back or Capital Reduction;
- c) an exchange, redemption or conversion of any class or series of BOQ's shares, or any shares of a member of the Group, for any class or series of BOQ's shares, or of any class or series of BOQ's indebtedness for any class or series of BOQ's shares;
- d) the purchase of fractional interests in shares of BOQ under the conversion or exchange provisions of the shares or the security being converted or exchanged; or
- e) any payment or declaration of a dividend in connection with any shareholders' rights plan, or the issue of rights, shares or other property under any shareholders' rights plan, or the redemption or repurchase of rights pursuant to the plan.

Nothing in these Terms prohibits BOQ or any Controlled Entity of BOQ from purchasing (or arranging for the purchase of) Ordinary Shares or any other shares in the capital of BOQ (or an interest therein) in connection with a transaction for the account of a customer of BOQ or a customer of a Controlled Entity of BOQ or in connection with the distribution or trading of Ordinary Shares or any other shares in the capital of BOQ in the ordinary course of business. This includes:

- a) taking security over Ordinary Shares or any other shares in the capital of BOQ in the ordinary course of business;
- b) acting as trustee for another person where neither BOQ nor any Controlled Entity of BOQ has a beneficial interest in the trust (other than a beneficial interest that arises from a security given for the purposes of a transaction entered into in the ordinary course of business); and
- c) where a Controlled Entity of the Issuer is a life insurance company and acquires Ordinary Shares or any other shares in the capital of BOQ in respect of a statutory fund which are allocated to policyholder liabilities in accordance with the Life Insurance Act and other applicable law.

2.10 Notification of Distribution, Distribution Rate and other items

- a) In respect of each Distribution Period, BOQ must:
 - (i) determine the Distribution Rate and the Distribution for that Distribution Period in respect of any Note; and
 - (ii) notify the Registrar and ASX as soon as practicable after its determination but, in any event, no later than the 4th Business Day of the Distribution Period.
- b) BOQ must notify the Registrar and ASX at least 5 Business Days before the relevant Record Date (or, if later, as soon as it decides not to pay a Distribution or as soon as a Payment Condition exists) if payment of the Distribution will not be made because of clause 2.6.
- c) BOQ may amend its calculation or determination of any date, rate or amount (or make appropriate alternative arrangements by way of adjustment) including as a result of the extension or reduction of the Distribution Period or calculation period without prior notice but must notify the Registrar and ASX promptly after doing so.

3 MANDATORY CONVERSION ON MANDATORY CONVERSION DATE

3.1 Mandatory Conversion

Subject to clauses 4 and 5, on the Mandatory Conversion Date BOQ must Convert all (but not some) Notes on issue at that date into Ordinary Shares in accordance with clause 7 and this clause 3.

3.2 Mandatory Conversion Date

The **Mandatory Conversion Date** will be the first to occur of the following dates (each a **Relevant Mandatory Conversion Date**) on which the Mandatory Conversion Conditions are satisfied:

- a) 15 May 2029 (the **Scheduled Mandatory Conversion Date**); or
- b) the first Distribution Payment Date after the Scheduled Mandatory Conversion Date.

3.3 Mandatory Conversion Conditions

The Mandatory Conversion Conditions for each Relevant Mandatory Conversion Date are:

- a) the VWAP on the 25th Business Day immediately preceding (but not including) the Relevant Mandatory Conversion Date (the **First Test Date**, provided that if no trading in Ordinary Shares took place on that date, the First Test Date is the first Business Day before the 25th Business Day immediately preceding (but not including) the Relevant Mandatory Conversion Date on which trading in Ordinary Shares took place) is greater than 56% of the Issue Date VWAP (the **First Mandatory Conversion Condition**);
- b) the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Relevant Mandatory Conversion Date is greater than 50.51% of the Issue Date VWAP (the **Second Mandatory Conversion Condition**); and

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- c) no Delisting Event applies in respect of the Relevant Mandatory Conversion Date (the **Third Mandatory Conversion Condition** and together with the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition, the **Mandatory Conversion Conditions**).

3.4 Non-Conversion Notices

If:

- a) the First Mandatory Conversion Condition is not satisfied in relation to a Relevant Mandatory Conversion Date, BOQ will give notice to Holders between the 25th and the 21st Business Day before the Relevant Mandatory Conversion Date; or
- b) the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition is not satisfied in relation to a Relevant Mandatory Conversion Date, BOQ will give notice to Holders on or as soon as practicable after the Relevant Mandatory Conversion Date,

(each such notice a **Non-Conversion Notice**) that Mandatory Conversion will not (or, as the case may be, did not) occur on the Relevant Mandatory Conversion Date.

4 MANDATORY CONVERSION ON LOSS ABSORPTION EVENT

4.1 Loss Absorption Event

A **Loss Absorption Event** is each of:

- a) a Common Equity Trigger Event; and
- b) a Non-Viability Trigger Event.

4.2 Common Equity Trigger Event

- a) A **Common Equity Trigger Event** occurs when either or both of the Common Equity Tier 1 Capital Ratio in respect of the BOQ Level 1 Group and the BOQ Level 2 Group as determined by BOQ or APRA at any time is equal to or less than 5.125%.
- b) BOQ must immediately notify APRA in writing if it makes a determination under clause 4.2(a).
- c) If a Common Equity Trigger Event occurs, BOQ must immediately convert into Ordinary Shares or write off:
- (i) all Relevant Tier 1 Capital Instruments; or
 - (ii) a proportion of the Relevant Tier 1 Capital Instruments sufficient to return each of the Common Equity Tier 1 Capital Ratio in respect of the BOQ Level 1 Group and the Common Equity Tier 1 Capital Ratio in respect of the BOQ Level 2 Group to a percentage above 5.125% determined by BOQ for that ratio.

4.3 Non-Viability Trigger Event

- a) A **Non-Viability Trigger Event** means APRA has provided a written determination to BOQ that:
- (i) the conversion into Ordinary Shares or write off of Relevant Tier 1 Capital Instruments in accordance with their terms or by operation of law is necessary because without the conversion or write off, APRA considers that BOQ would become non-viable; or
 - (ii) without a public sector injection of capital into, or equivalent support with respect to, BOQ, APRA considers that BOQ would become non-viable.

- b) If a Non-Viability Trigger Event occurs under clause 4.3(a)(i), BOQ must immediately convert into Ordinary Shares or write off:

- (i) all Relevant Tier 1 Capital Instruments; or
- (ii) where APRA is satisfied that conversion or write off of a proportion of Relevant Tier 1 Capital Instruments will be sufficient to ensure that BOQ will not become non-viable, that proportion of Relevant Tier 1 Capital Instruments.

- c) Where a Non-Viability Trigger Event occurs under clause 4.3(a)(ii), BOQ must immediately convert or write off all Relevant Tier 1 Capital Instruments then outstanding (including the Notes).

APRA has stated that it will not approve partial conversion or partial write off in those exceptional circumstances where a public sector injection of funds is deemed necessary.

4.4 Loss Absorption Event Conversion

- a) On the date on which a Loss Absorption Event occurs (the **Loss Absorption Event Conversion Date**) BOQ must immediately determine:

- (i) the number of Notes that will Convert and the number of other Relevant Tier 1 Capital Instruments which will convert into Ordinary Shares or be written off (in accordance with clause 4.2 or clause 4.3, as applicable); and
- (ii) the identity of Holders whose Notes will Convert on the Loss Absorption Event Conversion Date and in making that determination may make any decisions with respect to the identity of the Holders at that time as may be necessary or desirable to ensure Conversion occurs in an orderly manner, including disregarding any transfers of Notes that have not been settled or registered at that time.

- b) Where BOQ is required to Convert some but not all Notes on account of a Loss Absorption Event:

- (i) BOQ must endeavour to select the Notes of Holders to be Converted on an approximately proportionate basis among all Holders, but may make adjustments among Holders to take account of the effect on marketable parcels and other logistical considerations; and
- (ii) where the specified currency of Relevant Tier 1 Capital Instruments is not the same for all Relevant Tier 1 Capital Instruments, BOQ may treat them as if converted into a single currency of BOQ's choice at such rate of exchange as BOQ considers reasonable but may make adjustments among Holders and holders of other Relevant Tier 1 Capital Instruments having regard to the need to effect conversion immediately.

- c) Despite any other provision in these Terms, on the Loss Absorption Event Conversion Date the relevant number (as determined under this clause 4.4) of Notes will Convert immediately and irrevocably.

- d) A Loss Absorption Event occurs immediately on the day when BOQ determines or is notified by APRA of the event whether or not the day is a Business Day and BOQ must perform the obligations in respect of it on that day accordingly.

- e) None of the following shall prevent, impede or delay the Conversion of Notes as required by this clause 4.4:

- (i) any failure to convert into Ordinary Shares or write off, or delay in the conversion into Ordinary Shares or write off of, other Relevant Tier 1 Capital Instruments;
 - (ii) any failure or delay in giving a Loss Absorption Event Notice;
 - (iii) any failure or delay in quotation of the Ordinary Shares to be issued on Conversion;
 - (iv) any decision as to the identity of Holders where Notes are to be Converted or Written Off; and
 - (v) any requirement to treat Holders as required by, or any decision to make adjustments contemplated by, clause 4.4(b).
- f) From the Loss Absorption Event Conversion Date BOQ shall treat the Holder in respect of its Notes as the holder of the Conversion Number of Ordinary Shares without the need for any further act or step by BOQ or the Holder or any other person and BOQ will thereafter take all such steps, including updating any register, required to record the Conversion.

4.5 Write Off following failure to Convert

If a Conversion is required in respect of a Note on account of a Loss Absorption Event and has not been effected within five Business Days after the Loss Absorption Event Conversion Date for any reason (including, without limitation, an Inability Event), then the Conversion will not occur and the Note will be Written Off with effect on and from the Loss Absorption Event Conversion Date.

Written Off means that, in respect of a Note and a Loss Absorption Event Conversion Date:

- a) the Note will not be Converted in respect of the Loss Absorption Event Conversion Date and will not be Converted, Redeemed or Resold under these Terms on any subsequent date;
- b) the relevant Holders' rights (including to Distributions and payment of Face Value and to be issued with the Conversion Number of Ordinary Shares) in relation to such Note are immediately and irrevocably terminated and written off with effect on and from the Loss Absorption Event Conversion Date.

4.6 Loss Absorption Event Notice

As soon as practicable following the occurrence of a Loss Absorption Event, BOQ must give notice of the Loss Absorption Event (a **Loss Absorption Event Notice**) to the Registrar, ASX and the Holders which states the Loss Absorption Event Conversion Date, the number of Notes Converted or Written Off and the relevant number of Relevant Tier 1 Capital Instruments converted into Ordinary Shares or written off.

4.7 Priority of Conversion obligations

- a) Conversion on account of the occurrence of a Loss Absorption Event is not subject to the matters described in clause 3.3 as Mandatory Conversion Conditions.
- b) Conversion required on account of a Loss Absorption Event takes place on the date, and in the manner, required by clause 4.4, notwithstanding any other provision for Conversion, Redemption or Resale in these Terms.
- c) In the event of any conflict between the requirements of clauses 4.3 and 4.2, clause 4.3 prevails.

5 MANDATORY CONVERSION ON ACQUISITION EVENT

5.1 Conversion on occurrence of Acquisition Event

If an Acquisition Event occurs, BOQ must Convert all (but not some only) Notes on the Acquisition Conversion Date by notice (an **Acquisition Conversion Notice**) to the Registrar, ASX and the Holders in accordance with this clause 5 and clause 7.

5.2 Acquisition Conversion Notice

Subject to clause 5.3, BOQ must give an Acquisition Conversion Notice to the Registrar, ASX and the Holders as soon as practicable after becoming aware of an Acquisition Event.

An Acquisition Conversion Notice must specify:

- a) the details of the Acquisition Event to which the Acquisition Conversion Notice relates;
- b) the date on which Conversion is to occur (the **Acquisition Conversion Date**), which must be:
 - (i) the Business Day prior to the date reasonably determined by BOQ to be the last date on which holders of Ordinary Shares are likely to be able to participate in the bid or scheme concerned or such other earlier date as BOQ may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or
 - (ii) such later date as APRA may require; and
- c) whether any Distribution will be paid in respect of the Notes on the Acquisition Conversion Date.

5.3 Where Acquisition Conversion Notice not required

Notwithstanding any provision of clause 5.1 or clause 5.2, BOQ is not required to give an Acquisition Conversion Notice if either or both of the Optional Conversion Restrictions would apply (reading those restrictions as if a reference to an Optional Conversion Notice were a reference to an Acquisition Conversion Notice). In those circumstances, clause 5.4 will apply.

5.4 Deferred Conversion on Acquisition Event

If clause 5.3 applies or BOQ has given an Acquisition Conversion Notice but, if the Acquisition Conversion Date were a Relevant Mandatory Conversion Date for the purposes of clause 3.2, either the Second Mandatory Conversion Condition (applied as if it referred to 20.21% of the Issue Date VWAP and the VWAP is calculated over a VWAP Period applicable to an Acquisition Event) or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then notwithstanding any other provision of these Terms (but without limitation to the operation of clause 4.7):

- a) the Acquisition Conversion Notice, if given, is taken to be revoked and Conversion will not occur on the Acquisition Conversion Date specified in the Acquisition Conversion Notice;
- b) BOQ will notify the Holders as soon as practicable that Conversion will not (or, as the case may be, did not) occur (a **Deferred Acquisition Conversion Notice**); and

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- c) BOQ must, unless clause 5.3 then applies, give an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) on or before the 25th Business Day prior to the immediately succeeding Distribution Payment Date which is at least 25 Business Days after the date on which the Deferred Acquisition Conversion Notice was given.

The Acquisition Conversion Notice given in accordance with paragraph (c) above must comply with the requirements in clause 5.2.

If this clause 5.4 applies but:

- (i) clause 5.3 applies in respect of the Distribution Payment Date referred to in paragraph (c) such that no Acquisition Conversion Notice (or, as the case may be, no new Acquisition Conversion Notice) is given under this clause 5.4; or
- (ii) an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) is given under this clause 5.4 but, if the Acquisition Conversion Date specified in the Acquisition Conversion Notice were a Relevant Mandatory Conversion Date for the purpose of clause 3.2, either the Second Mandatory Conversion Condition (applied as if it referred to 20.21% of the Issue Date VWAP) or the Third Mandatory Conversion Condition would not be satisfied in respect of that date,

then this clause 5.4 will be reapplied in respect of each subsequent scheduled Distribution Payment Date until a Conversion occurs.

6 OPTIONAL CONVERSION

6.1 Optional Conversion by BOQ

BOQ may, with APRA's prior written approval, by notice to the Registrar, ASX and the Holders (an **Optional Conversion Notice**) elect to Convert:

- a) all or some Notes on an Optional Conversion Date following the occurrence of a Tax Event or a Regulatory Event;
- b) all (and not some of) Notes on an Optional Conversion Date following the occurrence of a Potential Acquisition Event; or
- c) all or some Notes on the Business Day preceding 15 May 2027.

Holders should not expect that APRA's approval will be given for a Conversion of Notes under these Terms.

6.2 When an Optional Conversion Notice may be given

An Optional Conversion Notice under this clause 6 may be given:

- a) in the case of clause 6.1(a), on any day following the occurrence of the Tax Event or Regulatory Event (as applicable);
- b) in the case of clause 6.1(b), on any day following the occurrence of the Potential Acquisition Event;
- c) in the case of clause 6.1(c), no earlier than 50 Business Days and no later than 25 Business Days before the date specified in that clause,

provided that an Optional Conversion Notice cannot be given under clause 6.2(a) or 6.2(b) in the period of 20 Business Days preceding (and not including) a Relevant Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Mandatory Conversion Date.

Subject to clause 4.7, an Optional Conversion Notice once given is irrevocable unless a Loss Absorption Event occurs after the giving of such notice, in which case, such notice will be taken to be revoked immediately and automatically and clause 4 shall apply.

6.3 Contents of Optional Conversion Notice

An Optional Conversion Notice must specify:

- a) in the case of clause 6.1(a) or clause 6.1(b), the details of the Tax Event, Regulatory Event or Potential Acquisition Event to which the Optional Conversion Notice relates;
- b) the date on which Conversion is to occur (the **Optional Conversion Date**) which:
 - (i) in the case of a Tax Event or a Regulatory Event, is the last Business Day of the month following the month in which the Optional Conversion Notice is given by BOQ, unless BOQ determines an earlier date having regard to the best interests of Holders as a whole and the relevant event; or
 - (ii) in the case of a Potential Acquisition Event, is:
 - (A) the Business Day prior to the date reasonably determined by BOQ to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned; or
 - (B) such other earlier date as BOQ may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or
 - (C) such later date as APRA may require; or
 - (iii) in the case of clause 6.1(c), is the date specified in that clause.
- c) if less than all Notes are subject to Conversion, the proportion of the Notes that are to be Converted; and
- d) whether any Distribution will be paid in respect of the Notes to be Converted on the Optional Conversion Date.

6.4 Restrictions on election of Conversion

BOQ may not elect to Convert the Notes under this clause 6 if:

- a) on the 2nd Business Day before the date on which an Optional Conversion Notice is to be sent by BOQ (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) (the **Non-Conversion Test Date**) the VWAP on that date is less than or equal to 22.50% of the Issue Date VWAP (the **First Optional Conversion Restriction**); or
- b) a Delisting Event applies in respect of the Non-Conversion Test Date (the **Second Optional Conversion Restriction** and together with the First Optional Conversion Restriction, the **Optional Conversion Restrictions**).

6.5 Deferred Conversion on Optional Conversion Date

If BOQ has given an Optional Conversion Notice but, if the Conversion Date were a Relevant Mandatory Conversion Date for the purposes of clause 3.2, either the Second Mandatory Conversion Condition (applied as if it referred to 20.21% of the Issue Date VWAP and in the case of a Potential Acquisition Event the VWAP is calculated over a VWAP Period applicable to a Potential Acquisition Event) or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these Terms:

- a) the Optional Conversion Date will be deferred until the first Distribution Payment Date on which the Mandatory Conversion Conditions (applied as if the percentage of the Issue Date VWAP were 22.50% for the First Mandatory Conversion Condition and 20.21% for the Second Mandatory Conversion Condition) would be satisfied if that Distribution Payment Date were a Relevant Mandatory Conversion Date for the purposes of clause 3.2 (the **Deferred Conversion Date**);
- b) BOQ must Convert the Notes on the Deferred Conversion Date (unless the Notes are Converted, Written Off, Redeemed or Resold earlier in accordance with these Terms); and
- c) until the Deferred Conversion Date, all rights attaching to the Notes will continue as if the Optional Conversion Notice had not been given.

BOQ will notify the Holders on or as soon as practicable after an Optional Conversion Date in respect of which this clause 6.5 applies that Conversion did not occur on that Conversion Date.

7 CONVERSION MECHANICS

7.1 Conversion

If BOQ elects to Convert Notes (with APRA's prior written approval) or must Convert Notes in accordance with these Terms, then, subject to this clause 7, the following provisions shall apply:

- a) each Holder will be issued a number of Ordinary Shares for each Note that is being Converted on the Conversion Date equal to the Conversion Number, where the **Conversion Number** is the lesser of the number calculated according to the following formula and the Maximum Conversion Number:

$$\frac{\text{Face Value}}{99\% \times \text{VWAP}}$$

where:

VWAP (expressed in dollars and cents) means the VWAP during the VWAP Period;

Maximum Conversion Number means a number calculated according to the following formula:

$$\text{Maximum Conversion Number} = \frac{\text{Face Value}}{(\text{Issue Date VWAP} \times \text{Relevant Fraction})}$$

where:

Relevant Fraction means:

- (A) if Conversion is occurring on a Mandatory Conversion Date, 0.5; and
- (B) if Conversion is occurring for any other reason, 0.2.

- b) each Holder's rights (including to payment of Distributions, other than the Distribution if any, payable on a Conversion Date that is not a Loss Absorption Event Conversion Date) in relation to each Note that is being Converted will be immediately and irrevocably terminated for an amount equal to the Face Value of that Note and BOQ will apply the Face Value by way of payment for subscription for the Conversion Number of Ordinary Shares to be issued under clause 7.1(a). Each Holder is taken to have irrevocably directed that any amount payable under this clause 7.1(b) is to be applied as provided for in this clause 7.1(b) and no Holder has any right to payment in any other way;
- c) if the total number of Ordinary Shares to be issued to a Holder in respect of their aggregate holding of Notes upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and
- d) the rights attaching to the Ordinary Shares issued upon Conversion do not take effect until 5.00pm Sydney time on the Mandatory Conversion Date, Acquisition Conversion Date or the Optional Conversion Date (as the case may be) or, in the case of a Conversion on the Loss Absorption Event Conversion Date, the time at which such Conversion occurs on that date. At that time:
 - (i) all other rights conferred or restrictions imposed on that Note under these Terms will no longer have effect (except for rights relating to a Distribution which has been determined to be payable on a Conversion Date (that is not a Loss Absorption Event Conversion Date), which rights will continue); and
 - (ii) the Ordinary Shares issued upon the Conversion will rank equally with all other Ordinary Shares.

7.2 Adjustments to VWAP

For the purposes of calculating the VWAP in these Terms:

- a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and Notes will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (the Cum Value) equal to:
 - (i) (in case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;
 - (ii) (in the case of any other entitlement that is not a dividend or other distribution under clause 7.2(a)(i) which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business Days on which those entitlements were traded; or
 - (iii) (in the case of any other entitlement which is not traded on ASX during the VWAP Period), the value of the entitlement as reasonably determined by the Directors; and

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- b) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Notes will Convert into Ordinary Shares in respect of which the relevant dividend or other distribution or entitlement would be payable, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value.

7.3 Adjustments to VWAP for divisions and similar transactions

- a) Where during the relevant VWAP Period there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, in calculating the VWAP for that VWAP Period the VWAP on each Business Day in the relevant VWAP Period which falls before the date on which trading in Ordinary Shares is conducted on a post Reorganisation basis shall be adjusted by multiplying such VWAP by the following formula:

$$\frac{A}{B}$$

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- b) Any adjustment made by BOQ in accordance with clause 7.3(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly. Any such adjustment must be promptly notified to the Holders.

7.4 Adjustments to Issue Date VWAP

For the purposes of determining the Issue Date VWAP, adjustments to the VWAP will be made in accordance with clauses 7.2 and 7.3 during the VWAP Period for the Issue Date VWAP. On and from the Issue Date, adjustments to the Issue Date VWAP:

- a) may be made in accordance with clauses 7.5 to 7.7 (inclusive); and
- b) if so made, will correspondingly:
- (i) affect the application of the Mandatory Conversion Conditions and the Optional Conversion Restrictions; and
 - (ii) cause an adjustment to the Maximum Conversion Number.
- c) Any adjustment made by BOQ in accordance with clause 7.5(a) or 7.6(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.

7.5 Adjustments to Issue Date VWAP for bonus issues

- a) Subject to clause 7.5(b), if BOQ makes a pro rata bonus issue of Ordinary Shares to holders of Ordinary Shares generally, the Issue Date VWAP will be adjusted in accordance with the following formula:

$$V = V_o \times \frac{RD}{RD + RN}$$

where:

V means the Issue Date VWAP applying immediately after the application of this formula;

V_o means the Issue Date VWAP applying immediately prior to the application of this formula;

RD means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the bonus issue; and

RN means the number of Ordinary Shares issued pursuant to the bonus issue.

- b) Clause 7.5(a) does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan, share purchase plan or a dividend reinvestment plan.
- c) For the purpose of clause 7.5(a), an issue will be regarded as a pro rata issue notwithstanding that BOQ does not make offers to some or all holders of Ordinary Shares with registered addresses outside Australia, provided that in so doing BOQ is not in contravention of the ASX Listing Rules.
- d) No adjustments to the Issue Date VWAP will be made under this clause 7.5 for any offer of Ordinary Shares not covered by clause 7.5(a), including a rights issue or other essentially pro rata issue.
- e) The fact that no adjustment is made for an issue of Ordinary Shares except as covered by clause 7.5(a) shall not in any way restrict BOQ from issuing Ordinary Shares at any time on such terms as it sees fit nor be taken to constitute a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence.

7.6 Adjustment to Issue Date VWAP for divisions and similar transactions

- a) If at any time after the Issue Date there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, BOQ shall adjust the Issue Date VWAP by multiplying the Issue Date VWAP applicable on the Business Day immediately before the date of any such Reorganisation by the following formula:

$$\frac{A}{B}$$

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

- b) Each Holder acknowledges that BOQ may consolidate, divide or reclassify securities so that there is a lesser or greater number of Ordinary Shares at any time in its absolute discretion without any such action constituting a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence.

7.7 No adjustment to Issue Date VWAP in certain circumstances

Despite the provisions of clauses 7.5 and 7.6, no adjustment shall be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one per cent of the Issue Date VWAP then in effect.

7.8 Announcement of adjustments

BOQ will notify the Registrar, ASX and the Holders of any adjustment to the Issue Date VWAP under this clause 7 within 10 Business Days of BOQ determining the adjustment.

7.9 Ordinary Shares

Each Ordinary Share issued or arising upon Conversion ranks equally with all other fully paid Ordinary Shares.

7.10 Holders whose Ordinary Shares are to be sold

- a) If Notes of a Holder are required to be Converted and if:
- (i) the Notes are held by a Foreign Holder and BOQ is not satisfied that the laws of the Foreign Holder's country of residence (as to which BOQ is not bound to enquire) permit the issue of Ordinary Shares to the Foreign Holder, either unconditionally or after compliance with conditions which BOQ in its absolute discretion regards as acceptable and not unduly onerous;
 - (ii) the Holder has notified BOQ that it does not wish to receive Ordinary Shares as a result of Conversion, which notice may be given by the Holder at any time on or after the Issue Date and no less than 15 Business Days prior to the Conversion Date then, on the Conversion Date; or
 - (iii) a FATCA Withholding is required to be made in respect of any Ordinary Shares to be delivered as a result of that Conversion then to the extent of that withholding, the relevant Ordinary Shares will be issued to a nominee (which must not be BOQ or any Related Entity of BOQ) but otherwise in accordance with clause 7.1 and on terms that, where paragraph (i) or (ii) applies, at the first reasonable opportunity to sell the Ordinary Shares, the nominee will arrange for their sale and pay to the relevant Holder on a date determined by the nominee a cash amount equal to the Attributable Proceeds of such Holder and where paragraph (iii) applies, the nominee will arrange for their sale or otherwise deal with the Ordinary Shares in accordance with FATCA.
- b) The issue of Ordinary Shares to the nominee will satisfy all obligations of BOQ in connection with the Conversion, the Notes will be deemed Converted and dealt with in accordance with clause 7.1 and, on and from the issue of Ordinary Shares, the rights of a Holder the subject of this clause 7.10 are limited to its rights in respect of the Ordinary Shares or the Attributable Proceeds as provided in this clause 7.10.
- c) If Conversion is occurring because of the occurrence of a Loss Absorption Event and the Conversion has not been effected within five Business Days after the Loss Absorption Event Conversion Date for any reason (including an Inability Event), then clause 4.5 will apply.

- d) For the purposes of this clause 7.10, none of BOQ or the nominee owes any obligations or duties to Holders in relation to the price at which Ordinary Shares are sold or has any liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares.

7.11 Listing Ordinary Shares issued on Conversion

BOQ shall use all reasonable endeavours to list the Ordinary Shares issued upon Conversion of Notes on ASX.

7.12 Failure to Convert (other than on account of a Loss Absorption Event)

If on a Conversion Date (other than a Loss Absorption Event Conversion Date), an Ordinary Share is not issued or delivered in respect of a Note, that Note remains on issue (and will continue to entitle the Holder to Distributions in accordance with clause 2) until the Ordinary Share is issued to the Holder (which date shall be the Conversion Date in respect of that Note) or the Note is Redeemed (which date shall be the Redemption Date in respect of that Note) or Resold (which date shall be the Resale Date in respect of that Note), and a Holder shall have no claim in respect of that failure other than for specific performance of the obligation to issue or deliver the Ordinary Shares. This clause 7.12 does not affect the obligation of BOQ to issue or deliver the Ordinary Shares when required in accordance with these Terms.

8 OPTIONAL REDEMPTION

8.1 Optional Redemption by BOQ

BOQ may, with APRA's prior written approval, by notice to the Registrar, ASX and the Holders (an **Optional Redemption Notice**), elect to Redeem:

- a) all or some Notes on a Redemption Date following the occurrence of a Tax Event or a Regulatory Event; or
- b) all or some Notes on the Business Day preceding 15 May 2027.

Holders should not expect that APRA's approval will be given for any Redemption of Notes under these Terms.

8.2 When Optional Redemption Notice may be given

An Optional Redemption Notice under this clause 8 may be given:

- a) in the case of clause 8.1(a), on any day following the occurrence of the Tax Event or Regulatory Event (as applicable) provided that an Optional Redemption Notice cannot be given in the period of 20 Business Days preceding (and not including) a Relevant Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Mandatory Conversion Date; and
- b) in the case of clause 8.1(b), no earlier than 50 Business Days and no later than 15 Business Days before the date specified in that clause.

Subject to clause 4.7, an Optional Redemption Notice once given is irrevocable unless a Loss Absorption Event occurs after the giving of such notice, in which case, such notice will be taken to be revoked immediately and automatically and clause 4 shall apply.

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8.3 Contents of Optional Redemption Notice

An Optional Redemption Notice must specify:

- a) in the case of clause 8.1(a), the details of the Tax Event or Regulatory Event to which the Optional Redemption Notice relates;
- b) the date on which Redemption is to occur (the **Redemption Date**), which:
 - (i) in the case of a Tax Event or a Regulatory Event, is the last Business Day of the month following the month in which the Optional Conversion Notice is given by BOQ, unless BOQ determines an earlier Redemption Date having regard to the best interests of Holders as a whole and the relevant event; or
 - (ii) in the case of clause 8.1(b), the date specified in that clause;
- c) if less than all Notes are subject to Redemption, the proportion of the Notes that are to be Redeemed; and
- d) whether any Distribution will be paid in respect of the Notes to be Redeemed on the Redemption Date.

8.4 Restrictions on election by BOQ of Redemption

BOQ may only elect to Redeem the Notes if APRA is satisfied that either:

- a) Notes the subject of the Redemption are replaced concurrently or beforehand with a capital instrument eligible for inclusion as Tier 1 Capital and the replacement of the instrument is done under conditions that are sustainable for BOQ's income capacity; or
- b) the capital position of the BOQ Level 1 Group and the BOQ Level 2 Group will remain adequate after BOQ elects to Redeem the Notes.

9 REDEMPTION MECHANICS

9.1 Redemption mechanics to apply to Redemption

If, subject to APRA's prior written approval and compliance with the conditions in clause 8.4, BOQ elects to Redeem a Note in accordance with these Terms, the provisions of this clause 9 apply to that Redemption.

9.2 Redemption

Notes will be redeemed by payment on the Redemption Date of an amount equal to the Face Value to the Holder.

9.3 Effect of Redemption on Holders

On the Redemption Date the only right Holders will have in respect of Notes will be to obtain the Face Value payable in accordance with these Terms and any Distribution BOQ has determined is payable on that date. Upon payment of the Face Value, all other rights conferred, or restrictions imposed, by Notes will no longer have effect.

10 OPTIONAL RESALE

10.1 Optional Resale by BOQ

BOQ may, with APRA's prior written approval, by notice to the Registrar, ASX and the Holders (an **Optional Resale Notice**), elect to Resell:

- a) all or some Notes on a Resale Date following the occurrence of a Tax Event or a Regulatory Event; or
- b) all or some Notes on the Business Day preceding 15 May 2027.

Holders should not expect that APRA's approval will be given for any Resale of Notes under these Terms.

10.2 When Optional Resale Notice may be given

An Optional Resale Notice under this clause 10 may be given:

- a) in the case of clause 10.1(a), on any day following the occurrence of the Tax Event or Regulatory Event (as applicable) provided that an Optional Resale Notice cannot be given in the period of 20 Business Days preceding (and not including) a Relevant Mandatory Conversion Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Mandatory Conversion Date; or
- b) in the case of clause 10.1(b), no earlier than 50 Business Days and no later than 15 Business Days before the date specified in that clause.

Subject to clause 4.7, an Optional Resale Notice once given is irrevocable unless a Loss Absorption Event occurs after the giving of such notice, in which case, such notice will be taken to be revoked immediately and automatically and clause 4 shall apply.

10.3 Contents of Optional Resale Notice

An Optional Resale Notice must specify:

- a) in the case of clause 10.1(a), the details of the Tax Event or Regulatory Event to which the Optional Resale Notice relates;
- b) the date on which Resale is to occur (the **Resale Date**), which:
 - (i) in the case of a Tax Event or a Regulatory Event, is the last Business Day of the month following the month in which the Optional Conversion Notice is given by BOQ, unless BOQ determines an earlier Resale Date having regard to the best interests of Holders as a whole and the relevant event; or
 - (ii) in the case of clause 10.1(b), the date specified in that clause;
- c) if less than all Notes are subject to Resale, the proportion of the Notes that are to be Resold;
- d) the identity of the Nominated Purchasers for that Resale and the Resale Price; and
- e) whether any Distribution will be paid in respect of the Notes to be Resold on the Resale Date.

11 RESALE MECHANICS

11.1 Resale mechanics

If BOQ elects to Resell Notes in accordance with these Terms, the provisions of this clause 11 apply to that Resale.

11.2 Appointment of Nominated Purchaser

BOQ must appoint one or more Nominated Purchasers for the Resale on such terms as may be agreed between BOQ and the Nominated Purchasers. If BOQ appoints more than one Nominated Purchaser in respect of a Resale, all or any of the Notes held by a Holder which are being Resold may be purchased by any one or any combination of the Nominated Purchasers, as determined by BOQ for the Resale Price.

11.3 Identity of Nominated Purchasers

BOQ may not appoint a person as a Nominated Purchaser unless:

- a) that person is not BOQ or any Related Entity of BOQ; and
- b) that person has a long term counterparty credit rating from one of S&P Global Ratings, Moody's Investors Service, Inc. or Fitch Ratings of not less than investment grade.

11.4 Irrevocable offer to sell Notes

Each Holder on the Resale Date is taken irrevocably to offer to sell Notes the subject of an Optional Resale Notice to the Nominated Purchaser or Nominated Purchasers on the Resale Date for the Resale Price.

11.5 Effect of Resale

On the Resale Date subject to payment by the Nominated Purchaser of the Resale Price to the Holders, all right, title and interest in such Notes (excluding the right to any Distribution payable on that date) will be transferred to the Nominated Purchaser free from Encumbrances.

11.6 Effect of failure by Nominated Purchaser or Nominated Purchasers to pay

If a Nominated Purchaser does not pay the Resale Price to the Holders on the Resale Date (a **Defaulting Nominated Purchaser**):

- a) the Optional Resale Notice as it relates to the Defaulting Nominated Purchaser will be void;
- b) Notes will not be transferred to the Defaulting Nominated Purchaser on the Resale Date; and
- c) Holders will continue to hold the Notes referable to the Defaulting Nominated Purchaser until they are otherwise Redeemed, Converted or Resold in accordance with these Terms.

12 GENERAL PROVISIONS RELATING TO OPTIONAL CONVERSION, REDEMPTION AND RESALE

12.1 Treatment of Holders

At any time that BOQ may elect for the Notes to be Converted, Redeemed or Resold, BOQ may specify which of Conversion, Redemption and Resale applies to a particular Note. Without limitation to the foregoing:

- a) BOQ may select any one or more of Conversion, Redemption or Resale to apply to the Note held by a Holder; and

- b) BOQ may select a different combination of Conversion, Redemption and Resale in respect of Notes held by different Holders,

but otherwise BOQ must endeavour to treat Holders in approximate proportion to their holdings of Notes (except that BOQ may discriminate to take account of the effect on marketable parcels and other logistical considerations).

12.2 Holder acknowledgements relating to Conversion

Each Holder irrevocably:

- a) upon Conversion of Notes in accordance with these Terms, consents to becoming a member of BOQ and agrees to be bound by the Constitution, in each case in respect of the Ordinary Shares issued on Conversion;
- b) acknowledges and agrees that it is obliged to accept Ordinary Shares upon a Conversion notwithstanding anything that might otherwise affect a Conversion of Notes including:
 - (i) any change in the financial position of BOQ since the Issue Date;
 - (ii) any disruption to the market or potential market for the Ordinary Shares or to capital markets generally; or
 - (iii) any breach by BOQ of any obligation in connection with the Notes;
- c) acknowledges and agrees that:
 - (i) where clause 4.4 applies:
 - (A) there are no other conditions to a Loss Absorption Event occurring as and when provided in clauses 4.2, 4.3 and 4.4;
 - (B) Conversion must occur immediately on the Loss Absorption Event and that may result in disruption or failures in trading or dealings in the Notes;
 - (C) it will not have any rights to vote or right of approval in respect of any Loss Absorption Event Conversion; and
 - (D) the Ordinary Shares issued on Loss Absorption Event Conversion may not be quoted at the time of issue, or at all;
 - (ii) the only conditions to a Mandatory Conversion are the Mandatory Conversion Conditions;
 - (iii) the only conditions to a Conversion under clause 5 or a Conversion under clause 6 are the conditions expressly applicable to such Conversion as provided in clauses 5 and 6 and no other conditions or events will affect Conversion;
 - (iv) clause 4.5 is a fundamental term of the Notes and where this applies, no other conditions or events will affect its operation; and
 - (v) a Holder has no right to request a Conversion, Redemption or Resale of any Note or to determine whether (or in what combination) Notes are Converted, Redeemed or Resold; and
- d) agrees to provide to BOQ any information necessary to give effect to a Conversion and, if applicable, to surrender any certificate relating to Notes on the occurrence of the Conversion.

APPENDIX A CAPITAL NOTE TERMS

13 TITLE AND TRANSFER

13.1 Title

Title to a Note passes when details of the transfer are entered in the Register.

13.2 Register conclusive as to ownership

Entries in the Register in relation to a Note constitute conclusive evidence that the person so entered is the absolute owner of the Note subject to correction for fraud or error.

13.3 Non-recognition of interests

Except as required by law or directive and as provided in these Terms, BOQ and the Registrar must treat the person whose name is entered in the Register as the holder of a Note as the absolute owner of that Note.

No notice of any trust, Encumbrance or other interest in, or claim to, any Notes will be entered in the Register. Neither BOQ nor the Registrar need take notice of any trust, Encumbrance or other interest in, or claim to, any Notes, except as ordered by a court of competent jurisdiction or required by law, and no trust, Encumbrance or other interest in, or claim to, any Notes will in any way affect any provision of these Terms (including without limitation any transfer of the Notes contemplated by this clause 13).

This clause 13.3 applies whether or not a payment has been made when scheduled on a Note and despite any notice of ownership, trust or interest in the Note.

13.4 Joint Holders

Where two or more persons are entered in the Register as joint Holders of a Note, they are taken to hold the Note as joint tenants with a right of survivorship, but the Registrar is not bound to register more than three persons as joint Holders of a Note.

13.5 Dealings in whole

At all times, the Notes may be held or transferred only in whole Notes.

13.6 Transfer

Subject to the ASX Listing Rules, the Notes will be transferable only in accordance with these Terms and the rules and regulations of CHES.

13.7 Instruments of transfer

A Holder may transfer a Note:

- a) by a proper transfer according to the rules and regulations of CHES;
- b) by a proper transfer under any other computerised or electronic system recognised by the Corporations Act;
- c) under any other method of transfer which operates in relation to the trading of securities on any securities exchange outside Australia on which the Notes are quoted or which is applicable to BOQ; or
- d) by any proper or sufficient instrument of transfer of marketable securities under applicable law.

13.8 Transfer on the occurrence of certain events

The Registrar must register a transfer of a Note to or by a person who is entitled to make or receive the transfer as a consequence of:

- a) death, bankruptcy, liquidation or winding up of a Holder; or
- b) a vesting order by a court or other body with power to make the order,

on receipt of such evidence of entitlement that the Registrar or BOQ requires.

13.9 Power to refuse to register

If permitted by the ASX Listing Rules, BOQ may:

- a) request any applicable CS Facility Operator to apply a holding lock to prevent a transfer of Notes from being registered on the CS Facility's subregister; or
- b) refuse to register a transfer of Notes to which paragraph (a) does not apply.

13.10 Obligation to refuse to register

BOQ must:

- a) request any applicable CS Facility Operator to apply a holding lock to prevent a transfer of Notes from being registered on the CS Facility's subregister; or
- b) refuse to register a transfer of Notes to which paragraph (a) does not apply;
if:
 - c) the ASX Listing Rules require BOQ to do so; or
 - d) the transfer is in breach of the ASX Listing Rules.

13.11 Written notice to holder of holding lock or refusal

If in the exercise of its rights under clause 13.9 or 13.10, BOQ requests the application of a holding lock to prevent a transfer of Notes or refuses to register a transfer of Notes, BOQ must give written notice of the request or refusal to the holder of the Notes, the transferee and the broker lodging the transfer, if any. Failure to give such notice does not invalidate BOQ's decision.

14 PAYMENTS

14.1 Payments to Holders

Each payment in respect of a Note will be made to the person that is recorded in the Register as the Holder of that Note as at 7.00pm on the Record Date for that payment.

14.2 Payments to accounts

Payments will be made by crediting on the relevant payment date the amount due to an Australian Dollar bank account maintained in Australia with a financial institution, specified by the Holder to the Registrar by close of business on the Record Date for that payment.

14.3 Payments by cheque

BOQ may decide that payments in respect of a Note will be made by cheque sent by prepaid post on the relevant payment date, at the risk of the Holder, to the Holder (or to the first named joint holder of the Note) at its address appearing in the Register at 7.00pm on the Record Date. Cheques sent to the nominated address of a Holder will be taken to have been received by the Holder on the payment date and, no further amount will be payable by the Issuer in respect of the Notes as a result of the Holder not receiving payment on the due date.

14.4 Uncompleted payments

If:

- a) a Holder has not notified the Registrar by close of business on the Record Date of an Australian Dollar bank account maintained in Australia with a financial institution to which payments in respect of the Note may be credited; or
- b) the transfer of any amount for payment to the credit of the nominated account does not complete for any reason,

BOQ will send a notice to the address most recently notified by the Holder advising of the uncompleted payment. In that case, the amount of the uncompleted payment will be held as a deposit in a non-interest bearing, special purpose account maintained by BOQ or the Registrar until the first to occur of the following:

- (i) the Holder nominates a suitable Australian Dollar account maintained in Australia with a financial institution to which the payment may be credited;
- (ii) claims may no longer be made in respect of that amount, in which case the monies shall be paid to and be the property of BOQ; or
- (iii) BOQ becomes entitled or obliged to deal with the amount in accordance with the law relating to unclaimed monies.

When this clause 14.4 applies the amount payable in respect of the Notes shall be treated as having been paid on the date scheduled for payment and no interest is payable in respect of any delay in payment.

14.5 Time limit on claims

A claim against BOQ for a payment under a Note is void unless made within 5 years from the date on which payment first became due.

14.6 Rounding

For the purposes of any calculations required under these Terms:

- a) all percentages resulting from the calculations must be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent being rounded up to 0.00001 per cent.);
- b) all figures must be rounded to four decimal places (with halves being rounded up); and
- c) all amounts that are due and payable in respect of a Holder's aggregate holding of Notes must be rounded to the nearest cent (with halves being rounded up).

14.7 Joint Holders

A payment to any one joint Holder of a Note will discharge BOQ's liability in respect of the payment.

14.8 No set-off

A Holder does not have any right to set-off any amounts owing to it by BOQ in connection with the Notes against any amount owing by it to BOQ in connection with the Notes or otherwise.

BOQ does not have any right to set-off any amounts owing to it by a Holder against any amount owing by it to the Holder in connection with the Notes.

14.9 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 15. Without limitation, BOQ, in its absolute discretion, may withhold payment to a Holder where it is required to do so under any law prohibiting dealings with terrorist organisations or money laundering, or any other type of sanction, or where it has reasonable grounds to suspect that the Holder may be subject to such law or sanction or involved in acts of terrorism or money laundering, and may deal with the payment and the Holder's BOQ Capital Notes 2 in accordance with that applicable law or the requirements of any relevant governmental authority or regulatory body. BOQ is not liable for any costs or loss suffered by a Holder in exercising BOQ's discretion under this clause 14.9, even where a Holder later demonstrates that they were not subject to the applicable law or sanction.

14.10 Payments on Business Days

If a payment:

- a) is due on a Note on a day which is not a Business Day, then the due date for payment will be postponed to the next day that is a Business Day; or
- b) is to be made to an account on a Business Day on which banks are not open for general banking business in the place in which the account is located, then the due date for payment will be the next day on which banks are open for general banking business in that place,

and in either case, the Holder is not entitled to any additional payment in respect of that delay.

Nothing in this clause 14.10 applies to any payment referred to in clause 7.1(b) on a Loss Absorption Event Conversion Date.

15 TAXATION

15.1 Withholdings and deductions

All payments in respect of Notes must be made without set-off or counterclaim and without any withholding or deduction in respect of Taxes, unless the withholding or deduction is required by law or permitted by this clause 15.

15.2 FATCA

BOQ, in its absolute discretion, may withhold or deduct from payments or from the issue of Ordinary Shares to a Holder where it is required to do so under or in connection with FATCA, or where it has reasonable grounds to suspect that the Holder or a beneficial owner of Notes may be subject to FATCA, and may deal with such payment, the issue of Ordinary Shares and the Holder's Notes in accordance with FATCA.

BOQ, in its absolute discretion, may require information from the Holder to be provided to the IRS or any other relevant authority, to determine the applicability of any withholding under or in connection with FATCA.

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15.3 No gross up

If any withholding or deduction arises under or in connection with applicable law or FATCA, BOQ will not be required to pay any further amounts or issue any further Ordinary Shares on account of such withholding or deduction or otherwise reimburse or compensate, or make any payment to, a Holder or a beneficial owner of Notes for or in respect of any such withholding or deduction and it will be taken to have made the payment or issue of Ordinary Shares to the Holder in full by accounting for the withholding or deduction to the relevant revenue authority and paying the balance to the Holder.

15.4 Tax file number

BOQ will, if required, withhold an amount from payments of Distributions on the Notes at the highest marginal tax rate plus the highest Medicare levy if a Holder has not supplied an appropriate tax file number, Australian business number or exemption details.

16 RANKING AND SUBORDINATION

16.1 Ranking of Distributions

Notes rank in respect of payment of Distributions:

- a) in priority to Ordinary Shares;
- b) equally and without any preference amongst themselves and all Equal Ranking Instruments; and
- c) junior to the claims of all Senior Ranking Creditors.

16.2 Ranking in a winding up

- a) If an order is made by a court of competent jurisdiction in Australia (other than an order successfully appealed or permanently stayed within 30 days), or an effective resolution passed, for the winding up of BOQ in Australia, the Notes are redeemable for their Face Value in accordance with, and subject to, this clause 16.2.
- b) In a winding up of BOQ in Australia, a Note confers upon the Holder, subject to clauses 4.4 and 4.5, the right to payment in cash of the Face Value on a subordinated basis in accordance with clause 16.2(c), but no further or other claim on BOQ in the winding up of BOQ in Australia.
- c) Holders will rank for payment of the Face Value in a winding up of BOQ in Australia:
 - (i) in priority to Ordinary Shares;
 - (ii) equally among themselves and with the claims of all Equal Ranking Instruments; and
 - (iii) junior to the claims of all Senior Ranking Creditors with respect to priority of payment in a winding up in that:
 - (A) all claims of Senior Ranking Creditors must be paid in full (including in respect of any entitlement to interest under section 563B of the Corporations Act) before the claims of Holders are paid; and
 - (B) until the Senior Ranking Creditors have been paid in full, the Holders must not claim in the winding up of BOQ in competition with the Senior Ranking Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Ranking Creditors would have been entitled to receive,

so that the Holder receives, for each Note it holds, an amount equal to the amount it would have received if, in the winding up of BOQ, it had held an issued and fully paid Preference Share.

- d) Nothing in this clause 16.2:
 - (i) creates a charge or security interest on or over any right of the Holder; or
 - (ii) requires the consent of any Senior Ranking Creditor to any amendment of these Terms made in accordance with clause 18.

16.3 Agreements of Holders as to subordination

Each Holder irrevocably agrees:

- a) that clause 16.2 is a debt subordination for the purposes of section 563C of the Corporations Act;
- b) that it does not have, and waives to the maximum extent permitted by law, any entitlement to interest under section 563B of the Corporations Act to the extent that a holder of a Preference Share would not be entitled to such interest;
- c) that it shall not have, and is taken to have waived, to the fullest extent permitted by law, any right to prove in a winding-up of the Issuer as a creditor in respect of the Notes so as to diminish any distribution, dividend or payment that any Senior Ranking Creditor would otherwise receive;
- d) not to exercise any voting or other rights as a creditor in the winding up of BOQ in any jurisdiction:
 - (i) until after all Senior Ranking Creditors have been paid in full; or
 - (ii) otherwise in a manner inconsistent with the subordination contemplated by clause 16.2;
- e) that it must pay or deliver to the liquidator any amount or asset received on account of its claim in the winding up of BOQ in respect of a Note in excess of its entitlement under clause 16.2;
- f) that the debt subordination effected by clause 16.2 is not affected by any act or omission of BOQ or a Senior Ranking Creditor which might otherwise affect it at law or in equity; and
- g) that it has no remedy for the recovery of the Face Value other than to prove in the winding-up in accordance with this clause 16.

16.4 Further agreements of Holders

Each Holder irrevocably acknowledges and agrees that:

- a) a Holder has no right to apply for BOQ to be wound up, or placed in administration, or to cause a receiver, or a receiver and manager, to be appointed in respect of BOQ merely on the grounds that BOQ does not or is or may become unable to pay a Distribution when scheduled in respect of Notes; and
- b) these Terms contain no events of default. Accordingly (but without limitation) failure to pay in full, for any reason, a Distribution on a scheduled Distribution Payment Date will not constitute an event of default.

16.5 Unsecured

Notes are unsecured.

17 MEETINGS OF HOLDERS AND VOTING RIGHTS

17.1 Meetings of Holders

Meetings of Holders may be held in accordance with the Meetings Provisions. A meeting may consider any matter affecting the interests of Holders, including any amendment to these Terms proposed by BOQ in accordance with clause 18.

17.2 Voting rights

A Note does not entitle its Holder to attend or vote at a general meeting of BOQ.

17.3 Requirement for APRA approval

An amendment or addition to these Terms or to the BOQ Capital Notes 2 Deed Poll which may affect the eligibility of the Notes as Additional Tier 1 Capital may not be approved by Holders without the prior written approval of APRA.

18 AMENDMENT OF THESE TERMS

18.1 Amendments without consent

- a) Subject to complying with all applicable laws and to obtaining APRA's prior written approval where required in accordance with clause 18.4, BOQ may without the authority, assent or approval of the Holders, amend these Terms and the BOQ Capital Notes 2 Deed Poll if BOQ is of the opinion that the amendment:
- (i) is of a formal, minor or technical nature;
 - (ii) is made to cure any ambiguity or correct any manifest error;
 - (iii) is necessary or expedient for the purpose of enabling the Notes to be listed or to remain listed on a stock or securities exchange or lodged in a clearing system or to remain lodged in a clearing system or to be offered for sale or for subscription under the laws for the time being in force in any place;
 - (iv) is necessary or expedient for the purpose of complying with the provisions of any statute, the requirements of any statutory authority or regulatory authority, ASX Listing Rules or the listing or quotation requirements of any securities exchange on which BOQ may propose to seek a listing or quotation of the Notes;
 - (v) is necessary and appropriate to effect the substitution under clause 19;
 - (vi) is made to amend any date or time period stated, required or permitted in connection with any Conversion, Redemption or Resale (including, without limitation, when the proceeds of Redemption are to be reinvested in a new security to be issued by BOQ or a member of the Group);
 - (vii) is made to:
 - (A) amend the terms of the Notes to align them with any Relevant Tier 1 Capital Instruments issued after the Issue Date; or
 - (B) amend the definition of Relevant Tier 1 Capital Instruments on account of the issue after the Issue Date of capital instruments of any member of the Group; or

- (viii) made in accordance with BOQ's adjustment rights in clause 7; or
- (ix) is not materially prejudicial to the interests of Holders as a whole.

For the purposes of determining whether the amendment is not materially prejudicial to the interests of Holders as a whole, the taxation and regulatory capital consequences to Holders (or any class of Holders) and other special consequences which are personal to a Holder (or any class of Holders) do not need to be taken into account.

- b) Subject to complying with all applicable laws and with APRA's prior written approval where required in accordance with clause 18.4, BOQ may without the authority, assent or approval of the Holders, amend these Terms if BOQ is of the reasonable opinion that the amendment is necessary and appropriate to effect the substitution of an Approved NOHC as issuer of the Ordinary Shares on Conversion in the manner contemplated by these Terms including without limitation amendments and additions to effect a substitution in accordance with clause 19.

18.2 Amendment with consent

Without limiting clause 18.1, BOQ may amend or add to these Terms or the BOQ Capital Notes 2 Deed Poll if the amendment or addition has been approved by a Special Resolution of Holders. An amendment or addition to these Terms or the BOQ Capital Notes 2 Deed Poll which may affect the eligibility of the Notes as Additional Tier 1 Capital cannot be approved by Holders under this clause 18 without the prior written approval of APRA.

18.3 Notification of amendment to APRA

BOQ will promptly notify APRA of any amendments made in accordance with this clause 18.

18.4 Requirement for APRA approval

A requirement in this clause 18 for an amendment to be made with APRA's prior written approval applies only where the amendment may affect the eligibility of Notes as Additional Tier 1 Capital.

18.5 Meaning of amend and amendment

In this clause 18, **amend** includes modify, cancel, alter or add to and **amendment** has a corresponding meaning.

19 SUBSTITUTION OF APPROVED NOHC

19.1 Substitution of Approved NOHC as issuer of Ordinary Shares

Where:

- a) BOQ proposes to implement a NOHC Event involving an Approved NOHC; and
- b) the Approved NOHC agrees for the benefit of Holders:
 - (i) to deliver fully paid ordinary shares in its capital under all circumstances when BOQ would otherwise have been required to deliver Ordinary Shares and upon the occurrence of an Acquisition Event with respect to the Approved NOHC, subject to the same terms and conditions as set out in these Terms (with all necessary modifications); and

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- (ii) to use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure quotation of all ordinary shares in the capital of the Approved NOHC issued under these Terms (with all necessary modifications) on the securities exchange on which the other ordinary shares in the capital of the Approved NOHC are quoted at the time of a Conversion,

BOQ may give a notice (an **Approved NOHC Substitution Notice**) to the Holders (which, if given, must be given as soon as practicable before the NOHC Event and in any event no later than 10 Business Days before the NOHC Event occurs) specifying the amendments to these Terms which will be made in accordance with clause 19.2 to effect the substitution of an Approved NOHC as the issuer of ordinary shares on Conversion (the **Approved NOHC Substitution Terms**). An Approved NOHC Substitution Notice, once given, is irrevocable. If BOQ gives an Approved NOHC Substitution Notice to Holders in accordance with clause 19.4, the Approved NOHC Substitution Terms will have effect on and from the date specified in the Approved NOHC Substitution Notice. No proposal to implement a NOHC shall prevent, impede or delay a Conversion required on account of a Loss Absorption Event.

19.2 Amendment without consent for substitution of an Approved NOHC

Subject to complying with all applicable laws and with APRA's prior written approval, if the circumstances described in clauses 19.1(a) and 19.1(b) apply, without the authority, assent or approval of Holders, BOQ may give an Approved NOHC Substitution Notice which:

- a) amends the definition of "Conversion" such that, unless APRA otherwise agrees, on the date Notes are to be Converted:
 - (i) each Note that is being Converted will be automatically transferred by each Holder free from Encumbrance to the Approved NOHC (or another member of the Group which is a holding company of BOQ) (the **Transferee**) on the date the Conversion is to occur;
 - (ii) each Holder (or in the circumstances contemplated in clause 7.10, the nominee) will be issued a number of ordinary shares in the capital of the Approved NOHC equal to the Conversion Number; and
 - (iii) as between BOQ and the Transferee, each Note held by the Transferee as a result of the transfer will be automatically Converted into Ordinary Shares, in a number such that the total number of Ordinary Shares held by the Transferee increases by the number which equals the number of ordinary shares in the capital of the Approved NOHC issued by the Approved NOHC to Holders on Conversion; and
- b) makes such other amendments as in BOQ's reasonable opinion are necessary and appropriate to effect the substitution of an Approved NOHC as the provider of the ordinary shares on Conversion in the manner contemplated by these Terms, including without limitation:
 - (i) amendments and additions to the definition of "Group", "Acquisition Event", "Common Equity Trigger Event", "Non-Viability Trigger Event", "Loss Absorption Event", "Regulatory Event", "Tax Event" and "Mandatory Conversion";

- (ii) where the terms upon which the Approved NOHC acquires BOQ are such that the number of ordinary shares in the capital of the Approved NOHC on issue immediately after the substitution differs from the number of Ordinary Shares on issue immediately before the substitution (not involving any cash payment, or other distribution (or compensation) to or by the holders of any such shares), an adjustment to any relevant VWAP or Issue Date VWAP consistent with the principles of adjustment set out in clause 7;
- (iii) amendments to the mechanics for adjusting the Conversion Number; and
- (iv) any term defining the rights of Holders if the Conversion is not effected which is appropriate for the Notes to remain as Tier 1 Capital.

19.3 Further substitutions

After a substitution under clause 19.1, the Approved NOHC may, without the consent of the Holders, effect a further substitution in accordance with clause 19.1 (with necessary changes).

19.4 Notice to Holders

BOQ or the Approved NOHC must notify the Registrar, ASX and the Holders of the particulars of any substitution according to clause 19.1 or clause 19.3 in writing as soon as practicable after the substitution.

19.5 Acknowledgement of Holders

- a) Each Holder irrevocably acknowledges and agrees that an Approved NOHC may in accordance with these Terms be substituted for BOQ as issuer of the Ordinary Shares on Conversion and that if such a substitution is effected, the Holder is obliged to accept ordinary shares in that Approved NOHC on a Conversion, and will not receive Ordinary Shares in BOQ.
- b) Nothing in this clause 19 prevents BOQ from proposing, or limits, any scheme of arrangement or other similar proposal that may be put to Holders or other members of BOQ.

20 FURTHER ISSUES AND NO OTHER RIGHTS

20.1 Further issues permitted

Each of the following is expressly permitted and authorised by these Terms:

- a) the allotment or issue of notes, preference shares or other securities, or the conversion of existing securities into preference shares or other securities, ranking equally with or in priority to or junior to, or having different rights from, the Notes then on issue for participation in profits or assets of BOQ;
- b) a redemption, conversion, buy-back or return or distribution of capital in respect of any share capital (except as provided by clause 2.8) or any other securities issued by BOQ, whether ranking behind, equally with, or in priority to, the Notes; and
- c) the incurring or guaranteeing by BOQ of any indebtedness upon such terms as BOQ thinks fit in its sole discretion.

20.2 Purchase by agreement

Subject to APRA's prior written approval, BOQ or any member of the Group may purchase Notes in the open market or otherwise at any time and at any price or consideration. Any Note purchased by or on behalf of BOQ shall be cancelled.

20.3 No other rights

A Holder of the Notes has no right to participate in the issue of any other securities of BOQ and has no claim on BOQ or any member of the Group other than as expressly set out in these Terms.

20.4 Takeovers and schemes of arrangement

If:

- a) a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors; or
- b) the Directors recommend a scheme of arrangement in respect of the Ordinary Shares which will result in a person other than BOQ having a relevant interest in more than 50% of the Ordinary Shares,

in each case which would result in an Acquisition Event then, if the Directors consider that BOQ will not be permitted to elect to Convert the BOQ Capital Notes 2 in accordance with clause 5, or the Second Mandatory Conversion Condition or Third Mandatory Conversion Condition will not be satisfied in respect of the Conversion Date relating to an Acquisition Event in accordance with clause 5, the Directors will use all reasonable endeavours to procure that:

- a) takeover offers are made to Holders which, in respect of each BOQ Capital Note, are for a consideration at least equal to the Redemption Price of that BOQ Capital Note; or
- b) Holders are entitled to participate in the scheme of arrangement or a similar transaction.

21 NOTICES

21.1 Notices to Holders

All notices, certificates, consents, approvals, waivers and other communications in connection with a Note to the Holders must be in writing and may be:

- a) so long as the Notes are quoted on ASX, given by publication of an announcement on ASX;
- b) given by an advertisement published in the Australian Financial Review or The Australian, or any other newspaper nationally circulated within Australia; or
- c) sent by prepaid post (airmail if appropriate) or left at the address of the relevant Holder (as shown in the Register at the close of business on the day which is 3 Business Days before the date of the relevant notice or communication).

21.2 Notices to BOQ and the Registrar

All notices, and other communications to BOQ and the Registrar must be in writing and may be sent by prepaid post or left at the address of the registered office of BOQ or the Registrar or such other address as is notified to Holders from time to time.

21.3 When effective

Communications take effect from the time they are received or taken to be received (whichever happens first) unless a later time is specified in them.

21.4 Receipt – publication on ASX

If published by an announcement on ASX, communications are taken to be received when the announcement is made on ASX.

21.5 Receipt – publication in newspaper

If published in a newspaper, communications are taken to be received on the first date that publication has been made in all the required newspapers.

21.6 Receipt – postal

Unless a later time is specified in it, a notice, if sent by post, is taken to be received on the sixth succeeding Business Day in the place of the addressee.

21.7 Non-receipt of notice

If there are two or more Holders, the non-receipt of any notice by, or the accidental omission to give any notice to, a Holder does not invalidate the giving of that notice.

22 GOVERNING LAW AND JURISDICTION

22.1 Governing law

The Notes are governed by the laws in force in Queensland, Australia.

22.2 Jurisdiction

BOQ submits to the non-exclusive jurisdiction of the courts of Queensland and courts of appeal from them. BOQ waives any right it has to object to an action being brought in those courts including by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

22.3 Serving documents

Without preventing any other method of service, any document in any action in connection with the Notes may be served on BOQ by being delivered or left at BOQ's address as set out below:

Attention: Company Secretary

Address: Level 6, 100 Skyring Terrace, Newstead, QLD, 4006

or such other address or fax number as BOQ notifies to ASX as its address or fax number (as the case may be) for notices or other communications in respect of the Notes from time to time.

23 POWER OF ATTORNEY

- a) Each Holder appoints each of BOQ, its Authorised Officers and any External Administrator of BOQ (each an **Attorney**) severally to be the attorney of the Holder with power in the name and on behalf of the Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Holder to observe or perform the Holder's obligations under these Terms including, but not limited to, effecting any transfers of Notes, making any entry in the Register or the register of any Ordinary Shares or exercising any voting power in relation to any consent or approval required for Conversion, Redemption or Resale.
- b) The power of attorney given in this clause 23 is given for valuable consideration and to secure the performance by the Holder of the Holder's obligations under these Terms and is irrevocable.

APPENDIX A CAPITAL NOTE TERMS

24 INTERPRETATION AND DEFINITIONS

24.1 Definitions

Acquisition Conversion Date has the meaning given in clause 5.2.

Acquisition Conversion Notice has the meaning given in clause 5.1.

Acquisition Event means:

- a) either:
 - (i) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
 - (ii) a court approves a scheme of arrangement under Part 5.1 of the Corporations Act which scheme would result in a person having a relevant interest in more than 50% of Ordinary Shares that will be on issue after the scheme is implemented,
- b) and all regulatory approvals necessary for the acquisition to occur have been obtained.

Notwithstanding the foregoing, the replacement or proposed replacement of BOQ as the ultimate holding company of the Group at the initiation of the Directors shall not constitute an Acquisition Event if:

- a) the proposed successor holding company complies with all applicable legal requirements and obtains any necessary regulatory approvals (including APRA's prior written approval as a "non-operating holding company" within the meaning of the Banking Act);
- b) the proposed successor holding company agrees to take any necessary action to give effect to an amendment to the Terms as contemplated in clause 18; and
- c) the ordinary shares of the proposed successor holding company are to be listed on an Australian stock exchange.

Additional Tier 1 Capital means the additional tier 1 capital of the BOQ Level 1 Group or the BOQ Level 2 Group as defined by APRA from time to time.

Amend for the purposes of clause 18, has the meaning given in clause 18.5.

Approved NOHC means a NOHC of the Group arising from a NOHC Event in circumstances where the proviso to the definition of Acquisition Event will be satisfied.

Approved NOHC Substitution Notice has the meaning given in clause 19.1.

Approved NOHC Substitution Terms has the meaning given in clause 19.1.

APRA means the Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities.

ASX means ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor.

ASX Listing Rules means the listing rules of ASX as amended, varied or waived (whether in respect of BOQ or generally) from time to time.

ASX Operating Rules means the market operating rules of ASX as amended, varied or waived (whether in respect of BOQ or generally) from time to time.

Attorney has the meaning given in clause 23(a).

Attributable Proceeds means, in respect of a Holder to whom clause 7.10 applies, an amount equal to the Net Proceeds per Ordinary Share multiplied by the number of Ordinary Shares issued and sold in accordance with clause 7.10 in respect of that Holder.

Australian Dollar means the lawful currency of the Commonwealth of Australia.

Authorised Officers means each director and secretary of BOQ and any person delegated on the authority of the board of directors of BOQ to exercise the power of attorney conferred by clause 23.

Banking Act means the Banking Act 1959 (Cth).

BBSW Rate has the meaning given in clause 2.4.

Bookbuild means the process conducted by BOQ or its agents before the opening of the Offer whereby certain institutional investors and brokers lodge bids for Notes and, on the basis of those bids, BOQ determines the Margin and announces its determination on ASX before the opening of the Offer.

BOQ means Bank of Queensland Limited (ABN 32 009 656 740).

BOQ Capital Notes 1 means the mandatorily convertible subordinated perpetual debt securities in the form of unsecured notes issued by BOQ on 28 December 2017.

BOQ Capital Notes 2 has the meaning given in clause 1.1.

BOQ Capital Notes 2 Deed Poll means the deed poll relating to the Notes made by BOQ on or about 26 October 2020.

BOQ Level 1 Group means BOQ and those of its controlled entities included by APRA from time to time in the calculation of BOQ's capital ratios on a Level 1 basis.

BOQ Level 2 Group means BOQ and together with each other Related Entity included by APRA from time to time in the calculation of BOQ's capital ratios on a Level 2 basis.

Business Day means a day which:

- a) for the purpose of determining a Conversion Date (except when the Conversion is on account of a Loss Absorption Event), the calculation or payment of a Distribution or any other sum, a day on which banks are open for general banking business in Brisbane and Sydney (not being a Saturday, Sunday or public holiday in that place); and
- b) a day which is a business day for the purposes of the ASX Listing Rules.

Buy-Back means a transaction involving the acquisition by BOQ of its Ordinary Shares pursuant to an offer made at BOQ's discretion in accordance with the provisions of Part 2J of the Corporations Act.

Capital Reduction means a reduction in capital initiated by BOQ in its discretion in respect of its Ordinary Shares in any way permitted by the provisions of Part 2J of the Corporations Act.

CHESS means the Clearing House Electronic Subregister System operated by ASX or its affiliates or any system that replaces it

relevant to the Notes (including in respect of the transfer or Conversion of the Notes).

Common Equity Tier 1 Capital means in respect of each of the BOQ Level 1 Group and the BOQ Level 2 Group has the meaning determined for that term (or its equivalent) by APRA from time to time.

Common Equity Tier 1 Capital Ratio means:

- a) in respect of the BOQ Level 1 Group, the ratio of Common Equity Tier 1 Capital in respect of the BOQ Level 1 Group to risk weighted assets of the BOQ Level 1 Group; and
- b) in respect of the BOQ Level 2 Group, the ratio of Common Equity Tier 1 Capital in respect of the BOQ Level 2 Group to risk weighted assets of the BOQ Level 2 Group,

in each case as calculated by the methodology prescribed by APRA from time to time.

Common Equity Trigger Event has the meaning given in clause 4.2.

Constitution means the constitution of BOQ as amended from time to time.

Control has the meaning given in the Corporations Act.

Controlled Entity means, in respect of BOQ (or any NOHC that is the holding company of BOQ), an entity that BOQ (or such NOHC) Controls.

Conversion means, in relation to a Note, to convert that Note into a number of Ordinary Shares in accordance with clause 7, and **Convert**, **Converted** and **Converting** have corresponding meanings.

Conversion Date means a Mandatory Conversion Date, a Loss Absorption Event Conversion Date, Acquisition Conversion Date or an Optional Conversion Date in respect of a Conversion.

Conversion Number has the meaning given in clause 7.1.

Corporations Act means the Corporations Act 2001 (Cth).

CS Facility means ASX Settlement Pty Limited (ABN 49 008 504 532) or such other applicable clearing and settlement facility prescribed as a CS Facility under the Corporations Act from time to time.

CS Facility Operator means the operator of a CS Facility.

Cum Value has the meaning given in clause 7.2.

Defaulting Nominated Purchaser has the meaning given in clause 11.6.

Deferred Conversion Date has the meaning given in clause 6.5.

Delisting Event means, in respect of a date, that:

- a) BOQ has ceased to be listed or Ordinary Shares have ceased to be quoted on ASX on or before that date (and where the cessation occurred before that date, BOQ or the Ordinary Shares continue not to be listed or quoted (as applicable) on that date);
- b) trading of Ordinary Shares on ASX is suspended for a period of consecutive days which includes:
 - (i) at least 5 consecutive Business Days prior to that date; and
 - (ii) that date; or

- c) an Inability Event subsists preventing BOQ from Converting Notes of Holders generally.

Directors mean the directors of BOQ acting as a board or an authorised committee of the board.

Distribution has the meaning given in clause 2.1.

Distribution Payment Date has the meaning given in clause 2.2.

Distribution Period means in respect of:

- a) the first Distribution Period, the period from (and including) the Issue Date until (but not including) the first Distribution Payment Date after the Issue Date; and
- b) each subsequent Distribution Period, the period from (and including) the preceding Distribution Payment Date until (but not including) the next Distribution Payment Date.

Distribution Rate has the meaning given in clause 2.4.

Encumbrance means any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement (including any security interest under the Personal Property Securities Act 2009 (Cth)) and any other arrangement of any kind having the same effect as any of the foregoing.

Equal Ranking Instruments means in respect of the payment of distributions or the payment in a winding up:

- a) BOQ Capital Notes 1; and
- b) each other preference share, security or other instrument that BOQ has issued or may issue that ranks with respect to priority of payment of dividends or distributions or payment in a winding up of BOQ equally with the security listed in (a) above.

External Administrator means, in respect of a person:

- a) a liquidator, a provisional liquidator, an administrator or a statutory manager of that person; or
- b) a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertakings of that person, or in either case any similar official.

Face Value has the meaning given in clause 1.2.

FATCA means sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (**the Code**) (or any consolidation, amendment, re-enactment or replacement of those sections) and including any current or future regulations or official interpretations issued, agreements entered into pursuant to section 1471(b) of the Code or non-US laws enacted or regulations or practices adopted pursuant to any intergovernmental agreement in connection with the implementation of those sections.

FATCA Withholding means any deduction or withholding imposed or required pursuant to FATCA.

First Mandatory Conversion Condition has the meaning given in clause 3.3.

First Optional Conversion Restriction has the meaning given in clause 6.4.

First Test Date has the meaning given in clause 3.3(a).

APPENDIX A CAPITAL NOTE TERMS

Foreign Holder means a Holder whose address in the Register is a place outside Australia or who BOQ otherwise believes may not be a resident of Australia.

Franking Rate (expressed as a decimal) means the franking percentage (within the meaning of Part 3–6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of BOQ at the relevant Distribution Payment Date.

Government Agency means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

Group means BOQ (or any NOHC that is the holding company of BOQ) and the Controlled Entities of BOQ (or of such NOHC).

Holder means a person for the time being Registered as the holder of a Note.

Inability Event means BOQ is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency, winding up or other external administration of BOQ) or any other reason from Converting the Notes.

IRS means the United States Internal Revenue Service or any authority succeeding to its powers and responsibilities.

Issue Date means the date on which the Notes are issued.

Issue Date VWAP means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Issue Date, as adjusted in accordance with clauses 7.4 to 7.7 (inclusive).

Issue Price has the meaning given in clause 1.2.

Level 1 and Level 2 mean those terms as defined by APRA from time to time.

Life Insurance Act means the Life Insurance Act 1995 (Cth).

Loss Absorption Event has the meaning given in clause 4.1.

Loss Absorption Event Conversion means the Conversion of Notes to Ordinary Shares on the Loss Absorption Event Conversion Date in accordance with clause 4.4.

Loss Absorption Event Conversion Date has the meaning given in clause 4.4.

Loss Absorption Event Notice has the meaning given in clause 4.6.

Mandatory Conversion means the mandatory conversion of Notes to Ordinary Shares on the Mandatory Conversion Date in accordance with clause 3.

Mandatory Conversion Conditions has the meaning given in clause 3.3.

Mandatory Conversion Date has the meaning given in clause 3.2.

Margin has the meaning given in clause 2.4.

Maximum Conversion Number has the meaning given in clause 7.1.

Meetings Provisions means the provisions for the convening of meetings and passing of resolutions by Holders set out in Schedule 2 of the BOQ Capital Notes 2 Deed Poll.

Net Proceeds per Ordinary Share means, in respect of Ordinary Shares issued and sold in accordance with clause 7.10, an amount equal to the proceeds of sale of such Ordinary Shares actually received by the nominee after deduction of any applicable brokerage, stamp duty and other taxes, charges and expenses (including the nominee's reasonable out of pocket costs, expenses and charges properly incurred by it or on its behalf in connection with such sale from the sale price of the Ordinary Shares), divided by the number of such Ordinary Shares issued and sold.

NOHC means a "non-operating holding company" within the meaning of the Banking Act.

NOHC Event means an event which would otherwise be an Acquisition Event which is initiated by the Directors, acting as a board, and the result of which is that the ultimate holding company of BOQ would be a NOHC.

Nominated Purchaser means, subject to clause 11.3, one or more third parties selected by BOQ in its absolute discretion, provided that such party cannot be BOQ or any Related Entity of BOQ.

Non-Conversion Notice has the meaning given in clause 3.4.

Non-Conversion Test Date has the meaning given in clause 6.4.

Non-Viability Trigger Event has the meaning given in clause 4.3.

Notes has the meaning given in clause 1.1.

Offer means the invitation made under the Prospectus issued by BOQ for persons to subscribe for Notes.

Optional Conversion Date has the meaning given in clause 6.3.

Optional Conversion Notice has the meaning given in clause 6.1.

Optional Conversion Restrictions has the meaning given in clause 6.4.

Optional Redemption Notice has the meaning given in clause 8.1.

Optional Resale Notice has the meaning given in clause 10.1.

Ordinary Resolution means a resolution:

- a) passed at a meeting of Holders by a simple majority of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution; or
- b) made in writing by Holders representing more than 50% of the outstanding Notes,

in each case in accordance with the Meetings Provisions.

Ordinary Share means a fully paid ordinary share in the capital of BOQ.

Ordinary Share Dividend means any interim, final or special dividend payable in accordance with the Corporations Act and the Constitution in relation to Ordinary Shares.

Payment Condition means in respect of Distributions on Notes scheduled to be paid on a Distribution Payment Date:

- a) the payment of Distributions will result in BOQ or the Group not complying with APRA's then current Prudential Capital Requirements;

- b) unless APRA otherwise approves in writing, the payment of Distributions would result in BOQ or the Group exceeding any limit on distributions of earnings applicable under (and calculated in accordance with) APRA's then current capital conservation requirements as they are applied to BOQ or the Group (as the case may be) at the time;
- c) APRA otherwise objects to the payment of Distributions; or
- d) paying the Distributions would result in BOQ becoming, or being likely to become, insolvent for the purposes of the Corporations Act.

Potential Acquisition Event means any one of the following events:

- a) an event within paragraph (a) of the definition of Acquisition Event occurs (without the need that all regulatory approvals necessary for the acquisition to occur have been obtained); or
- b) a court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act and the scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented,

in each case other than where such event is a NOHC Event.

Preference Share means a notional preference share in the capital of BOQ conferring a claim in the winding up of BOQ equal to the Face Value and ranking equally in respect of return of capital in a winding up with each of the preference shares, securities or other instruments which is an Equal Ranking Instrument in respect of payment in a winding up.

Prospectus means the prospectus for the Offer including these Terms.

Prudential Capital Requirements means at any time the requirements of APRA with respect to the ratio of Common Equity Tier 1 Capital, Tier 1 Capital or Total Capital to total risk weighted assets as applicable to BOQ or the Group at that time.

Publication Time has the meaning given in clause 2.4.

Rate Disruption Event has the meaning given in clause 2.4.

Record Date means, in the case of:

- a) payments of a Distribution, the date which is 11 Business Days before the date of payment (or as otherwise prescribed by the ASX Listing Rules or if not prescribed by the ASX Listing Rules, a date determined by BOQ and notified to ASX); and
- b) payments of any other amount, a date determined by BOQ and notified to ASX (or such other date as may be prescribed by ASX).

Redemption means, in relation to a Note, redemption in accordance with clause 9.2 and **Redeem, Redeemable** and **Redeemed** have corresponding meanings.

Redemption Date means the date on which Notes are to be redeemed or, if Notes are not redeemed on that day, the date on which the Notes are Redeemed.

Register means a register of Holders of Notes established and maintained by the Registrar. The term Register includes:

- a) any sub-register maintained by, or on behalf of BOQ under the Corporations Act, the ASX Listing Rules or the rules and regulations of CHES; and
- b) any branch register, provided that, in the event of any inconsistency, the principal register will prevail over any sub-register or branch register.

Registered means recorded in the Register.

Registrar means Link Market Services Limited (ABN 54 083 214 537) or any other person who from time to time maintains the Register on behalf of BOQ.

Regulatory Change means any amendment to, clarification of or change (including any announcement of any change that will be introduced) in any law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations or any direction, order, standard, requirement, guideline or statement of APRA (whether or not having the force of law) in each case which event is announced on or after the Issue Date and which BOQ did not expect at the Issue Date.

Regulatory Event means:

- a) the receipt by the Directors of an opinion from a reputable legal counsel that, as a result of a Regulatory Change, more than de minimis additional requirements would be imposed on BOQ in relation to or in connection with Notes (which were not expected by BOQ at the Issue Date) which the Directors determine, in their absolute discretion, to be unacceptable; or
- b) the determination by the Directors that, as a result of a Regulatory Change, BOQ is not or will not be entitled to treat some or all Notes as Additional Tier 1 Capital except where the reason BOQ is not or will not be entitled to treat some or all Notes as Additional Tier 1 Capital is because of a limit or other restriction on the recognition of Additional Tier 1 Capital which is in effect on the Issue Date or which on the Issue Date is expected by BOQ may come into effect.

Related Entity has the meaning given to it by APRA from time to time.

Relevant Distribution has the meaning given in clause 2.8.

Relevant Distribution Payment Date has the meaning given in clause 2.8.

Relevant Fraction has the meaning given in clause 7.1.

Relevant Mandatory Conversion Date has the meaning given in clause 3.2.

Relevant Tier 1 Capital Instruments means Tier 1 Capital instruments of BOQ (on a Level 1 or Level 2 basis) (including the Notes) that, in accordance with their terms or by operation of law, are capable of being converted into Ordinary Shares or written off at the Loss Absorption Event Conversion Date.

Reorganisation means, in relation to BOQ, a division, consolidation or reclassification of BOQ's share capital not involving any cash payment or other distribution (or compensation) to or by the holders of Ordinary Shares.

Replacement Rate has the meaning given in clause 2.4.

APPENDIX A CAPITAL NOTE TERMS

Resale means, in relation to a Note, the taking effect of the rights specified in clause 11 in relation to that Note, and Resold and Resell have corresponding meanings.

Resale Date has the meaning given in clause 10.3.

Resale Price means, for a Note, a cash amount equal to its Issue Price.

Scheduled Mandatory Conversion Date has the meaning given in clause 3.2.

Second Mandatory Conversion Condition has the meaning given in clause 3.3 (but in clauses 5.4 and 6.5, as adjusted in those clauses).

Second Optional Conversion Restriction has the meaning given in clause 6.4.

Senior Ranking Creditors means all present and future creditors of BOQ, including all depositors and holders of Tier 2 Capital Instruments, whose claims are:

- a) entitled to be admitted in the winding up of BOQ; and
- b) not in respect of Equal Ranking Instruments.

Special Resolution means a resolution:

- a) passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution; or
- b) made in writing by Holders representing at least 75% of the outstanding Notes,

in each case in accordance with the Meetings Provisions.

Taxes means taxes, levies, imposts, deductions or charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties and expenses in connection with them.

Tax Act means:

- a) the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as the case may be and a reference to any section of the Income Tax Assessment Act 1936 (Cth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cth);
- b) any other law setting the rate of income tax payable; and
- c) any regulation promulgated under any of those laws.

Tax Event means on or after the Issue Date, BOQ receives an opinion from a reputable legal counsel or other tax adviser in Australia experienced in such matters that there is more than an insubstantial risk that, as a result of a Tax Law Change:

- a) BOQ or another member of the Group would be exposed to more than a de minimis increase in its costs (including without limitation through the imposition of any amount of other Taxes, duties, assessments or other governmental charges) in connection with the Notes; or
- b) BOQ or the tax consolidated group of which it is a member would not be entitled to treat any Distribution as a frankable distribution within the meaning of Division 202 of the Tax Act (or may do so only subject to requirements which the Directors determine, in their absolute discretion, to be unacceptable).

Tax Law Change means:

- a) an amendment to, change (including any announcement of any change that will be introduced) in any laws or regulations under those laws affecting taxation in Australia;
- b) a judicial decision interpreting, applying or clarifying laws or regulations affecting taxation in Australia;
- c) an administrative pronouncement, ruling, confirmation, advice or action (including a failure or refusal to provide a ruling) affecting taxation in Australia that represents an official position, including a clarification of an official position of the governmental authority or regulatory body in Australia making the administrative pronouncement or taking any action; or
- d) a challenge asserted or threatened in connection with the Notes in writing from the Australian Taxation Office,

which amendment or change is announced or which action or clarification or challenge occurs on or after the Issue Date and which BOQ did not expect as at the Issue Date.

Tax Rate has the meaning given in clause 2.4.

Terms means these terms of issue of Notes.

Third Mandatory Conversion Condition has the meaning given in clause 3.3.

Tier 1 Capital means tier 1 capital as defined by APRA from time to time.

Tier 2 Capital means tier 2 capital as defined by APRA from time to time.

Tier 2 Capital Instruments means securities issued by BOQ which qualify as Tier 2 Capital.

Total Capital means total capital as defined by APRA from time to time.

Transferee has the meaning given in clause 19.2.

VWAP means, subject to any adjustments under clause 7, the average of the daily volume weighted average sale prices (such average being rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period means:

- a) in the case of a Conversion resulting from a Potential Acquisition Event or an Acquisition Event, the lesser of:
 - (i) 20 Business Days on which trading in Ordinary Shares takes place; and
 - (ii) the number of Business Days on which trading in Ordinary Shares takes place that the Ordinary Shares are quoted for trading on ASX or the principal securities exchange on which Ordinary Shares are then quoted after the occurrence of the Potential Acquisition Event or Acquisition Event (as the case may be);

in each case immediately preceding (but not including) the Business Day before the Optional Conversion Date or Acquisition Conversion Date in respect of that event (as the case may be);

- b) in the case of a Conversion resulting from a Loss Absorption Event, the period of 5 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Loss Absorption Event Conversion Date;
- c) in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the date on which Conversion is to occur in accordance with these Terms; or
- d) otherwise, the period for which VWAP is to be calculated in accordance with these Terms.

Written Off has the meaning given in clause 4.5 and **Write Off** has a corresponding meaning.

24.2 Interpretation

- a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms and the Constitution then, to the maximum extent permitted by law, the provisions of these Terms will prevail.
- b) Unless otherwise specified, a reference to a clause or paragraph is a reference to a clause or paragraph of these Terms.
- c) Headings and boldings are for convenience only and do not affect the interpretation of these Terms.
- d) The singular includes the plural and vice versa.
- e) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- f) Other than in relation to a Loss Absorption Event and a conversion on a Loss Absorption Event Conversion Date and other than as otherwise specified in these Terms, if an event under these Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.
- g) A reference to dollars, AUD, A\$, \$ or cents is a reference to the lawful currency of Australia.
- h) Calculations, elections and determinations made by or on behalf of BOQ under these Terms are binding on Holders in the absence of manifest error.
- i) Any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply only if BOQ is an entity, or the holding company of an entity, or is a direct or indirect subsidiary of an entity (including a NOHC), subject to regulation and supervision by APRA at the relevant time.
- j) Any provisions which require APRA's consent or approval will apply only if APRA requires that such consent or approval be given at the relevant time.
- k) Any provisions in these Terms requiring the prior approval of APRA for a particular course of action to be taken do not imply that APRA has given its consent or approval to the particular action as of the Issue Date or that it will at any time give its consent or approval to the particular action.
- l) The terms "holding company", "wholly-owned subsidiary" and "subsidiary", when used in these Terms have the meaning given in the Corporations Act.

- m) A reference to a party to an agreement or deed or an appointee includes a reference to a replacement or substitute of the party or appointee according to that agreement or deed or terms of appointment.
- n) A reference to an agreement or deed includes a reference to that agreement or deed as amended, added to or restated from time to time.
- o) The words "includes" or "including", "for example" or "such as" do not exclude a reference to other items, whether of the same class or genus or not.
- p) Words importing any gender include all other genders.
- q) The terms "takeover bid", "relevant interest", "scheme of arrangement", and "buy-back", when used in these Terms have the meaning given in the Corporations Act.
- r) A reference to any term defined by APRA (including, without limitation, "Additional Tier 1 Capital", "Common Equity Tier 1 Capital", "Level 1", "Level 2", "Prudential Capital Requirements", "Tier 1 Capital" and "Total Capital") shall, if that term is replaced or superseded in any of APRA's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term.
- s) A reference to a term defined by the ASX Listing Rules or the ASX Operating Rules shall, if that term is replaced in those rules, be taken to be a reference to the replacement term.
- t) If the principal securities exchange on which Ordinary Shares are listed becomes other than ASX, unless the context otherwise requires a reference to ASX shall be read as a reference to that principal securities exchange and a reference to the ASX Listing Rules, ASX Operating Rules or any term defined in any such rules, shall be read as a reference to the corresponding rules of that exchange or corresponding defined terms in such rules (as the case may be).
- u) Where BOQ is required to give or serve a notice by a certain date under these Terms, BOQ is required to despatch the notice by that date (including at BOQ's discretion, by posting or lodging notices with a mail house) and delivery or receipt (or deemed delivery) is permitted to occur after that date.
- v) Where a Holder is required to give or deliver a notice to BOQ by a certain date under these Terms, the notice must be received by BOQ by that date.
- w) A reference to time is to Brisbane time unless otherwise specified.

24.3 Inconsistency with ASX Listing Rules

So long as Notes are quoted on ASX, these Terms as they relate to those Notes are to be interpreted in a manner consistent with applicable ASX Listing Rules, except to the extent that an interpretation consistent with the ASX Listing Rules would affect the eligibility of Notes as Additional Tier 1 Capital.

APPENDIX B GLOSSARY

ABN means Australian business number.

ACCC means the Australian Competition and Consumer Commission.

Acquisition Conversion Date means date on which Conversion as a result of an Acquisition Event is to occur. For the full definition – see clause 5.2 of the Capital Notes 2 Terms.

Acquisition Conversion Notice has the meaning given in clause 5.1 of the Capital Notes 2 Terms.

Acquisition Event broadly means the occurrence of certain takeover bids or schemes of arrangement in relation to BOQ. For the full definition – see clause 24.1 of the Capital Notes 2 Terms.

Additional Tier 1 Capital means the additional tier 1 capital of the BOQ Level 1 Group or the BOQ Level 2 Group as defined by APRA from time to time.

ADI means an authorised deposit-taking institution which is authorised under the Banking Act to take deposits from customers.

Allocation means the number of Capital Notes 2 allocated under the Offer to:

- Applicants at the end of the Offer Period; and
- Syndicate Brokers and Institutional Investors under the Bookbuild,

and Allocate and Allocated have the corresponding meanings.

Allotment means the issue of Capital Notes 2 to Applicants on the Issue Date under their Allocation. **Allotted** and **Allot** have the corresponding meanings.

Applicant means a person who submits an Application in accordance with this Prospectus.

Application means a valid application made under this Prospectus by using the relevant Application Form to apply for a specified number of Capital Notes 2.

Application Form means the application form (including the Application Forms for the Securityholder Offer, and the Broker Firm Offer) attached to or accompanying this Prospectus, or an online version of the Application Form, upon which an Application may be made.

Application Payment means the monies payable on Application, calculated as the number of Capital Notes 2 applied for multiplied by the Face Value.

Approved NOHC means a NOHC of the Group arising from a NOHC Event in circumstances where the proviso to the definition of Acquisition Event in clause 24.1 of the Capital Notes 2 Terms will be satisfied.

APRA means the Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities.

Arranger means Goldman Sachs Australia Pty Ltd.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or the market operated by it, as the context requires.

ASX Listing Rules means the listing rules of ASX from time to time with any modifications or waivers in their application to BOQ, which ASX may grant.

ATO means Australian Taxation Office.

Authorised Officers means each director and secretary of BOQ and any person delegated on the authority of the board of directors of BOQ to exercise the power of attorney conferred by clause 23 of the Capital Notes 2 Terms.

Bank of Queensland or **BOQ** means Bank of Queensland Limited (ABN 32 009 656 740).

Banking Act means Banking Act 1959 (Cth).

Basel Committee means the Bank for International Settlements' **Basel Committee** on Banking Supervision.

Basel III means the comprehensive set of reform measures, developed by the Basel Committee, to strengthen the capital adequacy, liquidity, regulation, supervision and risk management of the banking sector globally.

BBSW Rate has the meaning given in clause 2.4 of the Capital Notes 2 Terms.

BEAR means the proposed Banking Executive Accountability Regime, to be administered by APRA.

Bookbuild means the process described in Section 5.5 to determine the Margin.

BOQ means Bank of Queensland Limited (ABN 32 009 656 740).

BOQ Group or **Group** means BOQ and each of its Controlled Entities.

BOQ Level 1 Group means BOQ and those of its Controlled Entities included by APRA from time to time in the calculation of BOQ's capital ratios on a Level 1 basis.

BOQ Level 2 Group means BOQ and together with each other Related Entity included by APRA from time to time in the calculation of BOQ's capital ratios on a Level 2 basis.

Broker Firm Applicant means an Australian resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer.

Broker Firm Application Form means the invitation made to Australian resident retail clients of the Syndicate Brokers to apply for a broker firm Allocation from the relevant Syndicate Broker under this Prospectus.

Broker Firm Offer means the offer of Capital Notes 2 under this Prospectus to retail and high net worth clients of Syndicate Brokers who have received a broker firm allocation from their Syndicate Broker.

Business Day has the meaning given in clause 24.1 of the Capital Notes 2 Terms.

Buy-Back means a transaction involving the acquisition by BOQ of its Ordinary Shares pursuant to an offer made at BOQ's discretion in accordance with the provisions of Part 2J of the Corporations Act.

Capital Buffer means the aggregate of the capital conservation buffer plus any countercyclical buffer that APRA determines from time to time.

Capital Notes 1 means the mandatorily convertible subordinated perpetual debt securities in the form of unsecured notes issued by BOQ on 28 December 2017.

Capital Notes 2 means the fully paid mandatorily convertible subordinated perpetual debt securities to be issued by BOQ according to the Capital Notes 2 Terms.

Capital Notes 2 Deed Poll means the deed poll relating to the Capital Notes 2 made by BOQ on or about 26 October 2020.

Capital Notes 2 Terms means the terms of issue of Capital Notes 2 as set out in Appendix A.

Capital Reduction means a reduction in capital initiated by BOQ in its discretion in respect of its Ordinary Shares in any way permitted by the provisions of Part 2J of the Corporations Act.

CGT means capital gains tax.

CHES means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Closing Date means the last day on which Applications will be accepted, which is, for the Broker Firm Offer, 10:00am (Sydney time) on 23 November 2020 and for the Securityholder Offer, 5:00pm (Sydney time) on 17 November 2020.

Co-Managers means JBWere Limited.

Common Equity Tier 1 Capital has the meaning determined for that term (or its equivalent) by APRA from time to time in respect of each of the BOQ Level 1 Group and the BOQ Level 2 Group.

Common Equity Tier 1 Capital Deduction means the amounts of regulatory adjustments deducted in determining an ADI's Common Equity Tier 1 Capital as prescribed by APRA.

Common Equity Tier 1 Capital Ratio means:

- in respect of the BOQ Level 1 Group, the ratio of Common Equity Tier 1 Capital in respect of the BOQ Level 1 Group to risk weighted assets of the BOQ Level 1 Group; and
- in respect of the BOQ Level 2 Group, the ratio of Common Equity Tier 1 Capital in respect of the BOQ Level 2 Group to risk weighted assets of the BOQ Level 2 Group,

in each case as calculated by the methodology prescribed by APRA from time to time.

A Common Equity Trigger Event occurs when the Common Equity Tier 1 Capital Ratio of BOQ at any time is equal to or less than 5.125%.

Constitution means the constitution of BOQ as amended from time to time.

Control has the meaning given in the Corporations Act.

Controlled Entity means, in respect of BOQ (or any NOHC that is the holding company of BOQ), an entity that BOQ (or such NOHC) Controls.

Conversion means, in relation to a Capital Note 2, the conversion of that Capital Note 2 into a number of Ordinary Shares in accordance with clause 7 of the Capital Notes 2 Terms. **Convert**, **Converted**, and **Converting** have corresponding meanings.

Conversion Number has the meaning given in clause 7.1 of the Capital Notes 2 Terms.

Corporations Act means the Corporations Act 2001 (Cth).

DDOPIP Legislation means the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (Cth).

A **Delisting Event** broadly occurs when BOQ is delisted, its Ordinary Shares have been suspended from trading for a certain period, or BOQ is prevented by applicable law or order of any court or action of any government authority or any other reason from Converting Capital Notes 2 of Holders generally. For the full definition – see clause 24.1 of the Capital Notes 2 Terms.

Directors means the directors of BOQ acting as a board or an authorised committee of the board.

Distribution has the meaning given in clause 2.1 of the Capital Notes 2 Terms.

Distribution Payment Date has the meaning given in clause 2.2 of the Capital Notes 2 Terms.

Distribution Period means the period in respect of which a Distribution is scheduled. The first Distribution Period is from (and including) the Issue Date until (but not including) the first Distribution Payment Date. Each subsequent Distribution Period is from (and including) the preceding Distribution Payment Date until (but not including) the next Distribution Payment Date. For the full definition – see clause 24.1 of the Capital Notes 2 Terms.

Distribution Rate means the distribution rate on Capital Notes 2 calculated using the formula described in Section 2.1. For the full definition – see clause 2.4 of the Capital Notes 2 Terms.

Eligible Securityholder means an Ordinary Share or Capital Notes 1 holder who is:

- a registered holder of Ordinary Shares or Capital Notes 1 (as applicable) at 7:00pm (Sydney time) on 23 October 2020;
- shown on the applicable register as having an address in Australia; and
- not in the US or acting as a nominee for, or for the account or benefit of, a US Person, or not otherwise prevented from receiving the invitation to participate in the Offer or receiving Capital Notes 2 under the laws of any jurisdiction.

Equal Ranking Instruments has the meaning given in clause 24.1 of the Capital Notes 2 Terms.

Expiry Date means the date this Prospectus expires.

Exposure Period means the seven day period after the date this Prospectus was lodged with ASIC during which the Corporations Act prohibits the processing of Applications.

Face Value means the issue price for Capital Notes 2, being \$100 per Capital Note 2.

APPENDIX B GLOSSARY

FATCA means sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the Code) (or any consolidation, amendment, re-enactment or replacement of those sections) and including any current or future regulations or official interpretations issued, agreements entered into pursuant to section 1471(b) of the Code or non-US laws enacted or regulations or practices adopted pursuant to any intergovernmental agreement in connection with the implementation of those sections.

First Mandatory Conversion Condition has the meaning given in clause 3.3 of the Capital Notes 2 Terms.

Foreign Holder means a Holder whose address in the Register is a place outside Australia or who BOQ otherwise believes may not be a resident of Australia.

Franking Rate (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of BOQ at the relevant Distribution Payment Date.

GST has the meaning given to it in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

High Quality Liquid Assets means assets which qualify as high quality liquid assets under APRA Prudential Standard 210.

Holder means a person whose name is for the time being registered in the Register as a holder of Capital Notes 2.

Holding Statement means a statement issued to Holders by the Registrar which sets out details of Capital Notes 2 Allotted to them under the Offer.

Inability Event means BOQ is prevented by applicable law or order of any court or action of any government authority (including regarding the insolvency, winding-up or other external administration of BOQ) or any other reason from Converting Capital Notes 2.

Institutional Investor means an investor to whom offers or invitations in respect of Capital Notes 2 can be made without the need for a lodged Prospectus (or other formality, other than a formality which BOQ is willing to comply with), including Australian persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act and who has been invited by the Joint Lead Managers to bid for Capital Notes 2 in the Bookbuild, provided that such investor may not be in the United States or acting for the account or benefit of a person in the United States.

Institutional Offer means the invitation by the Joint Lead Managers to Institutional Investors to bid for Capital Notes 2 in the Bookbuild.

Insurance Act means the Insurance Act 1973 (Cth).

Issue Date means the date Capital Notes 2 are issued, expected to be 30 November 2020.

Issue Date VWAP means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Issue Date, as adjusted in accordance with clauses 7.4 to 7.7 (inclusive) of the Capital Notes 2 Terms.

Issue Price means for a Capital Note 2, \$100.00.

Joint Lead Managers means ANZ Securities Limited, National Australia Bank Limited and Morgans Financial Limited.

Level 1 and Level 2 mean those terms as defined by APRA from time to time.

Loss Absorption Event means each of a Common Equity Trigger Event and a Non-Viability Trigger Event.

Loss Absorption Event Conversion means the Conversion of Capital Notes 2 to Ordinary Shares on the Loss Absorption Event Conversion Date in accordance with clause 4.4 of the Capital Notes 2 Terms.

Loss Absorption Event Conversion Date has the meaning given in clause 4.4 of the Capital Notes 2 Terms.

Mandatory Conversion means the mandatory conversion of Capital Notes 2 to Ordinary Shares on the Mandatory Conversion Date in accordance with clause 3 of the Capital Notes 2 Terms.

Mandatory Conversion Conditions has the meaning given in clause 3.3 of the Capital Notes 2 Terms.

Mandatory Conversion Date has the meaning given in clause 3.2 of the Capital Notes 2 Terms.

Margin means the margin to be determined under the Bookbuild. For the full definition—see clause 2.4 of the Capital Notes 2 Terms.

Maximum Conversion Number has the meaning given in clause 7.1 of the Capital Notes 2 Terms.

Meetings Provisions means the provisions for the convening of meetings and passing of resolutions by Holders set out in Schedule 2 of the Capital Notes 2 Deed Poll.

NOHC means a “non-operating holding company” within the meaning of the Banking Act.

NOHC Event means an event which would otherwise be an Acquisition Event which is initiated by the Directors, acting as a board, and the result of which is that the ultimate holding company of BOQ would be a NOHC.

Nominated Purchaser means, subject to clause 11.3 of the Capital Notes 2 Terms, one or more third parties selected by BOQ in its absolute discretion, provided that such party cannot be BOQ or any Related Entity of BOQ.

Non-Conversion Notice has the meaning given in clause 3.4 of the Capital Notes 2 Terms.

Non-Conversion Test Date has the meaning given in clause 6.4 of the Capital Notes 2 Terms.

Non-Resident Holders means Holders who are not tax residents of Australia.

Non-Viability Trigger Event is discussed in Sections 2.3.1 and 4.3.16. For the full definition, see clause 4.3 of the Capital Notes 2 Terms.

NSFR means Net Stable Funding Ratio as defined in the APS 210 Prudential Standard.

Offer means the invitation made pursuant to this Prospectus for investors to offer to subscribe for Capital Notes 2 and includes the Institutional Offer, Broker Firm Offer and Securityholder Offer.

Offer Period means the period from (and including) the Opening Date to (and including) the Closing Date.

OMB means Owner-Managed Branch™.

Opening Date is 3 November 2020.

Optional Conversion Date has the meaning given in clause 6.3 of the Capital Notes 2 Terms.

Optional Conversion Restrictions has the meaning given in clause 6.4 of the Capital Notes 2 Terms.

Ordinary Resolution means a resolution:

- passed at a meeting of Holders by a simple majority of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution; or
- made in writing by Holders representing more than 50% of the outstanding Capital Notes 2,

in each case in accordance with the Meetings Provisions.

Ordinary Securityholder means a registered holder of Ordinary Shares from time to time.

Ordinary Share means a fully paid ordinary share in BOQ.

Ordinary Share Dividend means any interim, final or special dividend payable in accordance with the Corporations Act and the Constitution in relation to Ordinary Shares.

Payment Condition means in respect of Distributions on Capital Notes 2 scheduled to be paid on a Distribution Payment Date:

- the payment of Distributions will result in BOQ or the Group not complying with APRA's then current Prudential Capital Requirements;
- unless APRA otherwise approves in writing, the payment of Distributions would result in BOQ or the Group exceeding any limit on distributions of earnings applicable under (and calculated in accordance with) APRA's then current capital conservation requirements as they are applied to BOQ or the Group (as the case may be) at the time;
- APRA otherwise objects to the payment of Distributions; or
- paying the Distributions would result in BOQ becoming, or being likely to become, insolvent for the purposes of the Corporations Act.

Potential Acquisition Event means any one of the following events:

- an event within paragraph (a) of the definition of Acquisition Event in clause 24.1 of the Capital Notes 2 Terms occurs (without the need that all regulatory approvals necessary for the acquisition to occur have been obtained); or
- a court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act and the scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented,

in each case other than where such event is a NOHC Event.

Prospectus means this prospectus as lodged with ASIC (including any copy of this prospectus accessed electronically from BOQ's website) and any supplementary or replacement prospectus in relation to it.

Prudential Capital Requirements or **PCR** means at any time the requirements of APRA with respect to the ratio of Common Equity Tier 1 Capital, Tier 1 Capital or Total Capital to total risk weighted assets as applicable to BOQ or the Group at that time.

Prudential Standard means a prudential standard issued by APRA under its powers in the Banking Act.

RBA means the Reserve Bank of Australia.

Record Date means, in the case of:

- payments of a Distribution, the date which is 11 Business Days before the date of payment (or as otherwise prescribed by the ASX Listing Rules or if not prescribed by the ASX Listing Rules, a date determined by BOQ and notified to ASX); and
- payments of any other amount, a date determined by BOQ and notified to ASX (or such other date as may be prescribed by ASX).

Redemption means, in relation to a Capital Note 2, redemption in accordance with clause 9.2 of the Capital Notes 2 Terms.

Redeem, Redeemable and **Redeemed** have corresponding meanings.

Redemption Date means the date on which Capital Notes 2 are to be redeemed or, if Capital Notes 2 are not redeemed on that day, the date on which Capital Notes 2 are Redeemed.

Register means the official register of Ordinary Shares, Capital Notes 1 and Capital Notes 2 (if issued) maintained by BOQ or on BOQ's behalf, and includes any sub-register established and maintained under CHES.

Registrar means Link Market Services Limited (ABN 54 083 214 537) or any other person who from time to time maintains the Register on behalf of BOQ.

Regulatory Change broadly means a change of Australian law or regulation or any statement of APRA on or after the Issue Date (and which BOQ did not expect at the Issue Date). For the full definition – see clause 24.1 of the Capital Notes 2 Terms.

A **Regulatory Event** broadly occurs if BOQ receives legal advice that, as a result of a Regulatory Change, more than de minimis additional requirements would be imposed on BOQ in relation to Capital Notes 2 (which were not expected by BOQ at the Issue Date) which the Directors determine to be unacceptable, or the Directors determine that, as a result of a Regulatory Change, BOQ is not or will not be entitled to treat some or all Capital Notes 2 as Additional Tier 1 Capital, except where the reason BOQ is not or will not be entitled to treat some or all Capital Notes 2 as Additional Tier 1 Capital is because of a limit or other restriction on the recognition of Additional Tier 1 Capital which is in effect on the Issue Date or which on the Issue Date is expected by BOQ may come into effect. For the full definition – see clause 24.1 of the Capital Notes 2 Terms.

Related Entity has the meaning given to it by APRA from time to time.

Relevant Distribution has the meaning given in clause 2.8 of the Capital Notes 2 Terms.

Relevant Distribution Payment Date has the meaning given in clause 2.8 of the Capital Notes 2 Terms.

APPENDIX B GLOSSARY

Relevant Fraction has the meaning given in clause 7.1 of the Capital Notes 2 Terms.

Relevant Mandatory Conversion Date has the meaning given in clause 3.2 of the Capital Notes 2 Terms.

Relevant Tier 1 Capital Instruments means Tier 1 Capital instruments of BOQ (on a Level 1 or Level 2 basis) (including Capital Notes 2) that, in accordance with their terms or by operation of law, are capable of being converted into Ordinary Shares or Written Off at the Loss Absorption Event Conversion Date.

Resale means, in relation to a Capital Note 2, the taking effect of the rights specified in clause 11 of the Capital Notes 2 Terms in relation to that Capital Note 2. Resold and Resell have corresponding meanings.

Resale Date has the meaning given in clause 10.3 of the Capital Notes 2 Terms.

Resale Price means, for a Capital Note 2, a cash amount equal to its Issue Price.

Resident Holders are Australian tax resident Holders.

Scheduled Mandatory Conversion Date is 15 May 2029.

Second Mandatory Conversion Condition has the meaning given in clause 3.3 of the Capital Notes 2 Terms (but in clauses 5.4 and 6.5 of the Capital Notes 2 Terms, as adjusted in those clauses).

Second Optional Conversion Restriction has the meaning given in clause 6.4 of the Capital Notes 2 Terms.

Securityholder Applicant means an Eligible Securityholder who applies under the Securityholder Offer.

Securityholder Offer means the invitation to Eligible Securityholders to apply for Capital Notes 2 under this Prospectus.

Senior Ranking Creditors means all present and future creditors of BOQ, including all depositors and holders of Tier 2 Capital Instruments, whose claims are:

- entitled to be admitted in the winding-up of BOQ; and
- not in respect of Equal Ranking Instruments.

SME means small and medium enterprises.

Special Resolution means a resolution:

- passed at a meeting of Holders by a majority of at least 75% of the votes validly cast by Holders in person or by proxy and entitled to vote on the resolution; or
- made in writing by Holders representing at least 75% of the outstanding Capital Notes 2,

in each case in accordance with the Meetings Provisions.

Syndicate Brokers means any of the Joint Lead Managers (or their affiliated retail brokers) and any other participating broker in the Offer, including the Co-Manager.

Tax Act means:

- the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as the case may be and a reference to any section of the Income Tax Assessment Act 1936 (Cth) includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 (Cth); and
- any other law setting the rate of income tax payable and any regulation promulgated under any of those laws.

A **Tax Event** broadly occurs if BOQ receives professional advice that, as a result of:

- a change in the tax law in Australia; or
- an administrative pronouncement or ruling affecting taxation in Australia,

on or after the Issue Date (and which BOQ did not expect at the Issue Date), there is more than an insubstantial risk that BOQ would be exposed to more than an insignificant increase in its costs in relation to Capital Notes 2 being on issue or any Distribution would not be a frankable distribution for tax purposes. For the full definition – see clause 24.1 of the Capital Notes 2 Terms.

Taxes means taxes, levies, imposts, deductions or charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties and expenses in connection with them.

Tax Rate has the meaning given in clause 2.4 of the Capital Notes 2 Terms.

Third Mandatory Conversion Condition has the meaning given in clause 3.3 of the Capital Notes 2 Terms.

TFN means tax file number.

Tier 1 Capital means tier 1 capital as defined by APRA from time to time.

Tier 2 Capital means tier 2 capital as defined by APRA from time to time.

Tier 2 Capital Instruments means securities issued by BOQ which qualify as Tier 2 Capital.

TOFA refers to the Taxation of Financial Arrangements regime.

Total Capital refers to the sum of Tier 1 Capital and Tier 2 Capital.

Treasurer means the Treasurer of the Commonwealth of Australia.

United States or **US** means the United States of America.

US Person has the meaning given in Regulation S under the US Securities Act.

US Securities Act means the United States Securities Act of 1933, as amended.

VWAP means, subject to any adjustments under clause 7 of the Capital Notes 2 Terms, the average of the daily volume weighted average sale prices (such average being rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days but does not include any “Crossing” transacted outside the “Open Session State” or any “Special Crossing” transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period has the meaning given in clause 24.1 of the Capital Notes 2 Terms.

Written Off has the meaning given in clause 4.5 of the Capital Notes 2 Terms.

Write Off has a corresponding meaning.

CORPORATE DIRECTORY

Registered Office and Head Office

Bank of Queensland Limited
Level 6,
100 Skyring Terrace
Newstead QLD 4006
Website: www.boq.com.au

Legal Adviser

King & Wood Mallesons
Level 33, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Auditor

KPMG
Level 38, Tower Three, International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

Accounting adviser

KPMG Transaction Services
(a division of KPMG Financial Advisory Services
(Australia) Pty Ltd)
Level 16, Riparian Plaza
71 Eagle Street
Brisbane QLD 4000

Tax adviser

Greenwoods & Herbert Smith Freehills
Level 34, ANZ Tower
161 Castlereagh St
Sydney NSW 2000

Registrar

Link Market Services Limited
Level 21
10 Eagle Street
Brisbane QLD 4000

Arranger

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Joint Lead Managers

ANZ Securities Limited
ANZ Centre Melbourne
Level 9, 833 Collins St
Docklands VIC 3008

Morgans Financial Limited
Level 29, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

National Australia Bank Limited
Level 25, NAB House
255 George Street
Sydney NSW 2000

Co-Managers

JBWere Limited
Level 16, 101 Collins Street
Melbourne VIC 3000



www.boq.com.au

