

2019 SUSTAINABILITY REPORT

Year ended 31 August 2019

BOQ
GROUP



ABOUT THIS REPORT

This Sustainability Report for the year ended 31 August 2019 forms part of BOQ Group's 2019 reporting suite. It supplements the 'Our approach to sustainability' summary provided in the 2019 Annual Review with further commentary and metrics related to BOQ's sustainable business practices. Further detail about BOQ's approach to sustainable lending, sustainability focus areas, non-financial measures and stakeholder engagement can be found in the Sustainability section of BOQ's website. BOQ Group's full financial statements are contained within the 2019 Annual Report and the 2019 Corporate Governance Statement can be found on the Corporate Governance Statement page of BOQ's website.

Other documents in our 2019 reporting suite

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

Annual Report

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

Annual Review

The 2019 Annual Review provides an overview of BOQ's operations across the Group and outlines our strategies for creating long-term value for shareholders, customers, employees, suppliers and the community. It is located on the Annual Reports page of our website.

Corporate Governance Statement

BOQ's 2019 Corporate Governance Statement discloses compliance with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles & Recommendations (3rd edition) and can be found on the Corporate Governance page of our website.



We are always looking for ways to evolve and improve our reporting. Please send your questions, comments or suggestions to our Investor Relations team at InvestorRelations@boq.com.au

Bank of Queensland Limited
ABN 32 009 656 740
AFSL NO. 244616

Right: Stars Foundation girls from Heatley Secondary College taking part in the Townsville NAIDOC march earlier this year.





WELCOME

A social licence to operate must not be taken for granted and needs to be earned every day. BOQ is committed to creating positive social, economic and environmental impacts for our customers and the communities in which we operate.

We recognise that our decisions have both direct and indirect impacts in a variety of ways. Because of this, we believe that business decisions made based on purely financial information is not sufficient; our assessment of risk and opportunity depends on a wide range of environmental, social and governance (ESG) matters that span the short, medium and long-term.

Reporting on our sustainability performance demonstrates our commitment to transparent communication and building a resilient business that is sustainable.

Guide to navigating this Sustainability Report

[Go to next page](#)

[Go to previous page](#)



[Return to contents page](#)



[Reference to other pages within report](#)

CONTENTS

Our Approach to Sustainability	4
Sustainability Focus Areas	5
Non-Financial Performance Measures	10
Approach to Sustainable Lending	12
Our Stakeholder Engagement	14





OUR APPROACH TO SUSTAINABILITY

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

As a financial services provider, our core function is gathering deposits from and lending to customers. This is why our sustainability efforts focus on BOQ's economic and customer impacts. And because our business contributes to how capital is allocated in the economy, we are conscious of how our customers use funds that we lend. You can find out more about this by visiting the [Approach to sustainable lending](#) section of this report.

BOQ's approach to sustainability is based on how we deliver our business strategy to contribute to the interests of BOQ's stakeholders. The framework is based around our key stakeholders: customers, shareholders and governance, people and culture, community and environment.

United Nations Sustainability Development Goals (SDGs)

The United Nations Sustainability Development Goals are a collection of 17 global goals set by the UN General Assembly in 2015 for the year 2030. BOQ recognises the importance of playing a part in furthering the global effort to ensure dignity, peace and prosperity for people and the planet, now and in the future. Over the next twelve months we plan to work toward identifying how to best incorporate the goals into our broader sustainability strategy. The SDGs identified with the highest potential for alignment (but are dependent upon the direction of our broader sustainability strategy) include: #5 gender equality, #8: decent work and economic growth, #10: reduced inequalities, and #11: sustainable cities and communities. Further detail will be provided in FY20 with regard to how we are aligning our efforts with the SDGs.



CUSTOMERS

- Providing a secure place for people and businesses to receive, store and save money, earn interest and make payments
- Providing funding that allows people and businesses to buy assets, invest or meet cash flow or business expansion requirements
- Delivering human, empathetic experiences that support financial wellbeing and help customers to achieve their financial goals and prosper

SHAREHOLDERS & GOVERNANCE

- Delivering a steady stream of dividends over the long term
- Continuing to strengthen the Bank through effective risk management and sound corporate governance

PEOPLE & CULTURE

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

COMMUNITY

- Contributing to improving the wellbeing of vulnerable Australians through our community partnerships, workplace giving program and volunteering initiatives
- Contributing to public policy to improve the financial system and customer outcomes
- Supporting our business partners and suppliers
- Paying our fair share of taxes

ENVIRONMENT

- Identify ways to reduce the environmental footprint of our direct operations as well as through our supply chain
- Understand and minimise the environmental impact that our lending activities have through our customers' operations



SUSTAINABILITY FOCUS AREAS

The issues that matter most

We manage a range of sustainability issues as part of our everyday business operations.

The full list can be found on the Sustainability Focus Areas page of our website. While all of these issues are important, priorities may change over time.

To determine the most important sustainability issues for us, we conduct an annual assessment of industry trends – referencing internal and external reports and independent research. We also conduct a materiality assessment by engaging with internal and external stakeholders. The assessment offers a clear picture of the issues that have the potential to impact our value creation over the short, medium and long-term. As a result, we are able to direct our efforts and resources to these most pressing emerging risks and opportunities.

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

CONDUCT AND TRUST

CUSTOMER EXPERIENCE

ADAPTING TO CHANGE

WORKPLACE CULTURE



CONDUCT AND TRUST

Banks are vital to society as they are financial intermediaries of the economy. This role is heavily reliant on trust – particularly between customers and their banks. Lending responsibly and ensuring the security of data are areas that are particularly critical for a healthy economy. Because of this, sound conduct is critical. Improving conduct is an essential part of building trust and supporting future sustainable growth. We have continued to focus our efforts on building trust by doing the right thing by our customers, people and the broader community.

Sound conduct relies on integrity, which is one of the four BOQ values: **we show we care, we achieve together, we act with integrity, and we make a difference.** At BOQ, we define integrity as doing what is right and doing what we say we will do. We recognise that delivering on our purpose, **to deliver more human, empathetic experiences that help customers and communities prosper,** requires a commitment to upholding this value daily. Only then can we truly deliver upon our goal to create long-term value for our customers, people, shareholders and our wider community. The important role that culture plays in setting up a business for success is explored in detail under the ‘Workplace culture’ theme on page 9 of this report.

Corporate governance

BOQ is committed to improving conduct within the industry, as it is an essential part of building trust within society and supporting future sustainable growth. One important way we drive this commitment is through sound corporate governance.

The ASX Corporate Governance Council defines it as ‘the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled by corporations’. This definition encompasses the mechanisms by which companies, and those in control, are held to account. Ethics, risk management and compliance are also elements of corporate governance. Ultimately, corporate governance dictates the shared philosophy, practices and culture of an organisation.

If corporate governance is compromised, companies risk a breakdown in philosophy, corner-cutting, soliciting of inappropriate products, and complacent management. In an effort to minimise potential risk in relation to the above issues occurring at BOQ, we focused on the following initiatives in FY19.

A new Banking Code of Practice standard was rolled out across BOQ in 2019 with the aim to promote greater transparency for our customers and to ensure that customer needs always come first. BOQ has developed targeted training to assist our people in supporting customers as they go through periods of vulnerability and financial difficulty.

New dashboard metrics around risk appetite were established, focusing on risks that may impact reputation and/or cultural integrity. Additions include a ‘Risk Culture Index’, which monitors the risk of losses due to the behaviour of individuals or groups that fail to identify, understand, openly discuss and act on current and future risks. Another measure was the ‘Voice of the Customer Matrix’, which monitors customer outcomes.

We encouraged employees to participate in the Banking and Finance Oath, an industry-led initiative facilitated by The Ethics Centre to build trust and confidence in the finance industry. We also leveraged the ongoing effectiveness of our Ethics Committee, which is comprised of representatives from People and Culture, Legal, Risk, Retail and the Customer Advocate. The Ethics Committee examines issues relating to inappropriate conduct and applies an even-handed consistent approach to enforcing outcomes. At this forum, significant customer enquiries and complaints are discussed as well as strategies impacting vulnerable customers, collection activity for minors and domestic and family violence customer assistance programs.

These initiatives are combined with an ongoing effort of maintaining transparency with all stakeholders and fostering a culture where our people feel comfortable to call out any behaviours that do not meet the standards we expect.

Whistleblower program

BOQ’s Whistleblower Program, informed by legislative and regulatory requirements, endeavours to maintain a culture that enables and supports speaking up. In addition to BOQ’s cultural objectives, BOQ’s Whistleblower Program has been drafted having regard to three sources of obligation and recommendation: the Corporations Act (as amended by the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act); the 4th edition of the ASX Corporate Governance Principles and Recommendations; and the Australian Banking Association’s (ABA) Guiding Principles – Improving Protections for Whistleblowers.

The legislation commenced on 1 July 2019, and requires a compliant policy to be in place by 1 January 2020. Given the cultural importance of the reforms, BOQ adopted its revised policy almost 6 months earlier than required (in July 2019).

BOQ believes it is a matter of good corporate governance to have a Whistleblower Policy and is committed to protecting whistleblowers. A transparent policy benefits both BOQ’s employees and BOQ’s stakeholders. BOQ’s Whistleblower Policy identifies:

- protections available to whistleblowers;
- how and to whom disclosures that qualify for protection may be made;
- how BOQ will support whistleblowers and protect them from detriment;
- how BOQ will investigate disclosures that qualify for protection;
- how BOQ will ensure fair treatment of employees mentioned in disclosures or to whom such disclosures relate; and
- how the policy is to be made available to officers and employees.

Banking code of practice

The new Banking Code of Practice provides additional safeguards and protections not set out in the law, and, in some areas, sets higher standards than the law.

BOQ has reviewed, developed and implemented a revised suite of terms and conditions for its consumer and small business customers, effective from 1 July 2019. The revised terms and conditions comply with the new Banking Code of Practice and will ensure that BOQ’s banking services continue to meet community expectations and standards.

A copy of the revised terms and conditions is available on BOQ’s website.

Banking executive accountability regime

The Banking Executive Accountability Regime (BEAR), which took effect from 1 July 2019, established heightened standards of accountability among authorised deposit-taking institutions (ADI) and their most senior executives and directors. BEAR seeks to ensure there are clear consequences in the event of a material failure by an ADI to meet those expectations.

BOQ has recognised BEAR as an opportunity to genuinely strengthen accountability and drive improvement in the way BOQ governs itself.

The BEAR has been embedded within BOQ’s internal accountability framework and accountability statements have been adopted by each of the accountable persons within BOQ. Through this process BOQ has reviewed its end to end business processes and identified gaps, areas of overlap or points of handover that required clarification.

Modern Slavery

On 28 June 2018, the Government introduced the Modern Slavery Bill 2018. This Bill requires certain organisations based in, or operating in Australia, which have an annual consolidated revenue of more than \$100m (defined as ‘reporting entities’), to annually report on the risks of modern slavery in their operations and supply chains, and to address those risks. The annual statements will need to address mandatory criteria set out in the Bill, including the entity’s key modern slavery risks and describing their actions to address those risks. These criteria will provide certainty for business about how to report and ensure statements can be easily compared.

The Modern Slavery Act was passed by Parliament on 29 November 2018 and the reporting requirement entered into force on 1 January 2019. BOQ will submit its first Modern Slavery Statement to the Minister of Home Affairs within 6 months after the end of BOQ’s FY20 reporting period (by the end of February 2021).



CUSTOMER EXPERIENCE

Customer expectations are changing. We must continue to meet these expectations by delivering personal, timely, relevant and seamless customer service. Providing great and appropriate customer outcomes underpin everything we do. We will continue to drive engagement and advocacy efforts across the bank.

Changing customer expectations

We live in a 24/7 world characterised by constant connectivity. Customer expectations have evolved in parallel with the technological innovations driving this connectivity. This is true of all segments, but is especially true of the fastest growing segment – millennials – often referred to as the connected generation.

Customers expect more transparency, especially with regard to product terms and conditions. They want simple and easy to use banking services that do not require extensive time to understand and that make it easy to get more information or talk to a real person. Customers also value rapid responses to queries and concerns and expect to be able to speak to a banking representative, whenever the need arises through whatever device/channel is of most convenience.

To ensure BOQ continues to meet customer expectations and remains a competitive player well into the future, we will continue to fulfill our 'Customer in charge' pillar goals, which are:

- achieving digital parity and meeting more of our customers' digital needs;
- delivering a seamless customer experience across all channels; and
- tilting to niche segments.

Progress against these goals as well as forward looking plans are explored in detail under the Our FY19 Initiatives – 4 Pillars section of our FY19 Annual Review.

Lending responsibly

Lending responsibly is a top priority for BOQ. We have an obligation to always act in the best interest of our customers by ensuring affordability, transparency of terms and conditions, and supporting a borrower if they experience financial hardship. Key to this, is that credit licensees (such as the Bank) must not enter into a credit contract with a customer if the credit contract is unsuitable for the consumer.

When loan serviceability is not adequately assessed, there may be significant consequences. Loan portfolios risk being compromised but, more importantly, borrowers can experience extreme financial stress, which has a very real impact on a customer's physical and psychological wellbeing, quality of relationships, and, ultimately, the capacity to secure a stable financial future.

Regulatory guidance with regard to lending responsibly is overseen by the Australian Securities & Investments Commission (ASIC). Responsible lending obligations are set out in Chapter 3 of the National Consumer Credit Protection Act 2009 (National Credit Act). At BOQ, we pride ourselves on taking regulatory guidance seriously and maintain an unwavering commitment to our conduct obligations. Our robust credit assessment process looks carefully at individual needs and circumstances to ensure the loan amount is suitable for the individual's circumstances.

We will continue to aim to understand and respect our customers by complying with regulatory guidance and evolving internal credit policies and frameworks to ensure best practices are upheld and responsible customer outcomes are realised.

Competitive products

For BOQ to increase market share we must continue to offer competitive products with fair fees and charges. The competitive landscape in banking is shifting with the entry of new participants, particularly fintech companies. At BOQ, we are embracing change and understand that we need to keep a close eye on industry developments, both domestically and internationally, to ensure we stay competitive and relevant in the lives of our customers.

As a result of listening to customer needs and our commitment to ensuring we stay ahead of industry trends, we delivered the following suite of products and product enhancements in FY19:

- the look and capability of the internet banking website and mobile banking app for BOQ Specialist was upgraded, providing customers with a better digital banking experience;
- VMA launched a credit card mobile app, allowing customers to manage their everyday credit card functions on the go;
- BOQ introduced new deposit products this year that link transactional accounts with savings accounts and that are eligible to receive a bonus interest rate; and
- a refreshed partnership with BOQ Business and our merchant partner was successfully executed, bringing new products to our customers including e-commerce, integrated EFTPOS, China Union Pay, dynamic currency conversion and customer preferred routing.

In addition to the above, we are preparing to introduce the following initiatives in the 2020 calendar year with the goal of lifting our digital capability to meet the modern needs of our customers:

- participation in the New Payments Platform (NPP) that will enable real time payments and enhance visibility into payments, cash management and liquidity;
- a new Financial Markets digital platform that will further strengthen our product offering by enabling international payments and foreign exchange hedging, targeting SME customers;
- an online and mobile banking application for our BOQ Retail customers that will provide a significantly better digital experience;
- a VMA Digital Bank to offer our customers the myriad benefits that come with a market leading technology platform; and
- an online banking platform for BOQ Specialist with Apple Pay, Google Pay and an updated mobile banking application to provide customers with an improved digital offering.

For more information about BOQ's competitive strategy and product delivery, please refer to the Our FY19 Initiatives – 4 Pillars section of our FY19 Annual Review.

Assisting customers experiencing financial difficulty

We know that sometimes circumstances change, and customers might face financial difficulties in keeping their commitments. If customers are concerned about their financial position and feel they might struggle to meet their financial commitments, we can offer financial difficulty support. Assistance may include:

- temporary deferral of loan repayments;
- capitalisation of arrears;
- extending the term of the contract; and/or
- providing interest only repayment options.

We also offer a 'fast track' option for customers experiencing financial difficulty as a result of natural disasters. This service is in place to provide affected customers with a same day outcome and suitable assistance during a difficult time. We have a dedicated Customer Assistance Team that assesses each individual circumstance and works to achieve a mutually acceptable outcome. The primary goal is to support the resilience of our communities by ensuring customers are able to meet their financial obligations despite life's ups and downs. For more information about our financial difficulty application processes please visit the Financial Difficulty Assistance page on our website.

BOQ is committed to providing extra care for customers experiencing vulnerability, which may be temporary, fluid or permanent. The Customer Advocate Office was established in 2017 to provide our customers with an alternative avenue to dispute resolution through the delivery of:

- direct or indirect assistance with the customer;
- consultation and advisory; and
- recommendations on outcomes and assistance.

The Customer Advocate Office has evolved during FY19 to include recommendations to the organisation around fairness and transparency in BOQ's operations. We also commenced the roll out of training this year for employees assisting customers experiencing vulnerability, which will be further enhanced during FY20.

Customer satisfaction and advocacy

Independent research commissioned by BOQ shows our customer satisfaction and advocacy scores remain ahead of the major banks, but we are not satisfied with this and we want to do better. We strive to improve customer experience by addressing the challenges and opportunities under our, 'Customer in charge' and 'Loved like no other' strategic pillars, detailed in our FY19 Annual Review under 'Our Strategy – 4 Pillars'. These pillars focus on improving customers' experience and expanding BOQ's avenues for growth by putting customers in charge of when, where and how they choose to engage with us.

More details on customer satisfaction can be found in the Non-financial Performance Measures on page 10 of this report.



ADAPTING TO CHANGE

There is one certainty about the future. The pace of technological change will only accelerate. We are also facing significant changes on the regulatory front as government and industry consider new standards of practice for Australia's banks. Organisations that value and foster resilience, agility and innovative thinking will be best positioned to navigate both the challenges and opportunities that accompany technological and regulatory change.

Keeping up with the accelerating pace of change also demands leadership that embraces strategies to build organisational resilience, which we understand to be the ability to quickly recover from setbacks and adapt well to change. This section explores how BOQ considers and is responding to a range of important technological and regulatory developments impacting our business.

Cyber security and customer data privacy

Cyber security has become a key operational risk for organisations across the globe. It is broadly acknowledged that cyber is a major threat to the protection of customer data and, ultimately, to the profitability and reputation of organisations. As we move to a new era in banking by harnessing technology to transform, lift efficiencies, and offer better services to our customers, we need to ensure we have an adequate control environment that can withstand the ever increasing cyber-attacks we are experiencing across the financial services sector in Australia.

We have taken steps to ensure BOQ is well positioned to operate effectively within an elevated cyber risk environment by strengthening our cyber security function in combination with our cyber security service providers. This means we have more control and visibility over how the business protects customer data and assets and, very importantly, have better flexibility and agility to ensure cyber security at BOQ evolves as cyber threats become more sophisticated. To support the protection of data, the cyber security team collaborates with industry-leading threat intelligence partners and other security teams from financial services organisations to keep abreast of trends related to cyber-criminal activities. Additionally, BOQ has established a new and enhanced governance framework ensuring that cyber related issues or risks are dealt with in an effective and efficient manner.

BOQ is also investing in automation and threat intelligence to implement more proactive methods of managing cyber threats. It is important to us that we prevent incidents from occurring in the first place, rather than managing incidents post-event.

Automation and robotics

BOQ is continuing to explore automation and robotics opportunities to support all areas across the bank. This function is tasked with improving productivity, efficiency and customer experience. BOQ is exploring Robotics Process Automation (RPA) and other solutions involving machine learning and artificial intelligence. We are already seeing the benefits from automation across our retail lending and risk processes, as well as throughout IT support and customer on-boarding.

Innovation

BOQ's digital strategy involves delivering value in the form of digital products, services and experiences through dynamic and evolving channels. To keep in step with the rapidly changing environment, innovation is a crucial capability for BOQ. In parallel, BOQ has conducted a number of proof of concepts over the past year, testing customer sentiment around automated savings, personalised digital communication and new product ideas. Design thinking and agile capabilities have also been a key focus with the development of an innovation toolkit and the facilitation of design sprints across many areas of the business.

Digital bank

In delivering digital transformation for BOQ, Virgin Money Australia (VMA) is embarking on building a digital bank of the future. Given the rapid speed of change and to better meet the needs and expectations of VMA's target customer segments, investment is being made into a new customer proposition and technology solution to enable enhanced levels of growth over the coming years.

This year, a rigorous selection process was undertaken, including a 12 week proof of concept to select the technology partner of choice. Also, a proposition design stage including numerous rounds of customer testing was completed to better position the VMA brand and to support the launch of the new transaction and savings accounts.

Application Program Interface (API)

BOQ has continued to develop its internal and external API to support our digital transformation journey. API's are the functionality that supports the way systems communicate with each other, both internally and externally.

This year saw new APIs created to allow internal integrations as well as the ability to connect externally to third parties. With Open Banking requirements being delivered over the course of 2020 and 2021, this will assist BOQ to embrace the change by ensuring we have the necessary capability to share and received data effortlessly.

Building partnerships and investing in fintech opportunities

Over the past 12 months, BOQ has continued to build out its partnership and collaboration approach to achieve better customer outcomes and test new propositions and technologies.

This year saw the establishment of a 12 month Entrepreneur in Residence program to bring in new capabilities. Partnerships in Queensland have continued to be fostered through two-way share opportunities with River City Labs, and expansion of the

relationship with Queensland University of Technology (QUT) including the lease of new space at the Gardens Point campus in Brisbane and a partnership with QUT Creative Enterprise Australia (QUT CEA).

Through the QUT CEA partnership we launched our pilot program, BOQ #WITHSTARTUPS. This provided three start-ups with a dedicated BOQ relationship manager to support them in setting up banking facilities. We also provided mentorship to start-ups participating in the QUT CEA Collider Accelerator program.

Keeping abreast of domestic and international start-ups is key to understanding the changing landscape, with many connections being made locally and through our partnership with Plug and Play in Silicon Valley. Plug and Play is a start-up hub that attracts a large pool of start-ups across many industries. As a partner of Plug and Play, we have voting rights to determine who is selected to join their accelerator program, have access to their diverse cohort of start-ups, gain attendance at demo days, and can arrange deal flows and partnerships. BOQ is currently running a pilot for an innovative initiative with a start-up that was identified through Plug and Play.

Open Banking

In 2019, major banks in Australia became the first sector required to comply with the Consumer Data Right law and the transition to Open Banking. Open Banking is intended to reduce the barriers that currently prevent customers from switching between banks and will give customers more control over their information. Banks will be expected to provide open access to data on product terms and conditions and customer transaction use, and customers will have the ability to direct that their data be shared with other bank and non-bank service providers. Open Banking is designed to be customer focused, to encourage competition and create opportunities for new innovation in the sector.

Revisions to Open Banking implementation timelines were recently announced. Smaller banks like BOQ will now be provided with a consistent 12 month implementation extension, relative to the timeframes applied to the major banks. Under this new timeline, non-majors that do not elect to participate early will commence sharing consumer data on 1 February 2021.



WORKPLACE CULTURE

Culture is critical. It can strengthen or undermine our business and the objectives we are trying to achieve. BOQ understands workplace culture to be the characteristics and personalities that set the overall tone of the working environment. Culture plays a powerful role in determining work satisfaction, and ultimately, the financial health and sustainability of our business.

Employee engagement

A key indicator of the cultural health of an organisation is employee engagement, which is indicative of the commitment an employee has to an organisation and its goals. We measure engagement at BOQ through the administration of an annual Group-wide survey that explores a wide variety of metrics that feed into one, aggregated engagement score.

Our score increased from 53% in FY18 to 56% in FY19 as illustrated in the Non-financial Performance Measures on page 11 of this report. Although our employee engagement score is moving in the right direction, this is not where we would like it to be. We are undertaking a thorough process to understand the key drivers behind this score and, ultimately, determine what needs to be done to lift this score to a level we can be proud of. While there is some impact from the broader external scrutiny the banking sector has faced this year, there is a lot we can do ourselves to improve.

With regard to external factors, intense public scrutiny of banking practices and its people has continued to dominate media headlines over the past year. Negativity arising from the Royal Commission has no doubt continued to have an impact on employee morale.

Our own internal challenges play an important role in determining employee engagement. One of the most material factors for our business is the perception of progress and differentiation relative to peers.

In an effort to address the above, we have been focused on laying the groundwork for the modernisation of infrastructure and processes, although the retirement of legacy systems has demanded a slower than ideal execution of front-end systems where our customers and people see the benefit most.

In FY20 we plan to focus on delivering on the execution phase of our internal technology projects, which will see an uplift in capabilities across the business. More detail on initiatives planned for FY20 can be found under Our FY19 Initiative section

of our FY19 Annual Review. The modernisation of our technology infrastructure will greatly enhance agility and it is anticipated that this will assist in lifting employee engagement.

We will continue to monitor employee engagement through regular team feedback surveys and our annual group-wide survey. And to ensure we have the agility required to respond quickly to feedback we have renewed our focus on reviewing and enhancing our approach to listening and responding to our people. We will also continue to host regular town halls and online forums which offer employees the opportunity to engage directly and candidly with management around any pressing concerns.

Purpose-led culture

Clarity of the purpose of an organisation – why it exists – has become increasingly important to customers, employees and the communities in which we operate. We embarked on a purpose-led journey this year that included representation from hundreds of people across the whole business who took part in focus groups, interviews and workshops to help develop our collective purpose and refresh our values. Our purpose articulates why we exist, what makes BOQ special, and defines the impact we strive to have on our people, customers and communities.

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

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

As an organisation and as individuals, we are committed to ensuring our purpose and values are reflected in all aspects of what we do – including how we recruit, communicate, think about product offerings, and develop our people. We take our values seriously and expect our leaders to not only successfully embed our values within their teams, but also act as custodians – ensuring those who act contrary to our values are held accountable.

This initiative should have a positive impact on employee engagement as a clear understanding of the value we create and to what end is critical for extracting meaning from our work.

Supporting our people

We will continue to foster a culture that attracts and retains the best people by ensuring our employees feel valued and supported. Efforts this year to ensure we deliver upon this commitment include: (1) changes made to our Parental Leave Entitlements to better align with our focus on Inclusion and Diversity, providing greater support for working families and more flexible working options, (2) an enhanced framework to supporting diversity when recruiting new talent, when providing development opportunities for employees, and when framing our talent and succession planning strategy, (3) the roll out of various Inclusion Working Group initiatives, such as 'Lean in Sessions', which are internal round table events featuring senior females leaders who share insights about how to manage potential gender bias in the workplace.

We also launched 'BOQ Thrive', a capability framework that helps our people identify opportunities for personal and professional growth. In addition, we ran a Group wide 'Driving my Development' month that was designed to prompt our people to take ownership of their career development by participating in a range of workshops focusing on personal and professional development.

We continue to work hard to establish and maintain healthy franchise partnerships through continued efforts to simplify the way we operate and by developing a more flexible path to branch ownership.

Overall, we understand the importance of getting culture right. Especially in light of an ever-increasing environment of uncertainty and impending structural and technological changes that will fundamentally transform the future banking landscape. The degree to which our people feel aligned and supported will directly impact levels of resiliency, loyalty and innovative thinking – all critical for successfully navigating challenging future waters.

We address these challenges and opportunities under our strategic pillar, 'Loved like no other', which focuses on maintaining positive stakeholder relationships by living our values, creating a place where people love to work and contributing to the communities in which we operate.





NON-FINANCIAL PERFORMANCE MEASURES

Metric	2019	2018	2017	2016	2015
Our customers					
Total customers ('000)	BOQ – 596 VMA – 275 BOQ S – 34 BOQ F – 90	BOQ – 578 VMA – 236 BOQ S – 33 BOQ F – 90	BOQ – 589 VMA – 259 BOQ S – 31 BOQ F – 90	BOQ – 624 VMA – 237 BOQ S – 28 BOQ F – 73	BOQ – 662 VMA – 218 BOQ S – 24 BOQ F – 68
Number of customers actively using internet banking ¹	222,300	216,700	211,100	214,800	214,400
Number of customers actively using mobile banking ¹	190,000	175,000	153,800	142,500	120,700
Product application submissions received via website (year-on-year change) ²	130.08%	19.58%	15.88%	13.89%	-3.36%
Number of branches	167	183	190	211	234
Number of ATMs	571 BOQ; 1,604 rediATM	596 BOQ; 2,789 rediATM	628 BOQ; 2,948 rediATM	548 BOQ; 2,432 rediATM	588 BOQ; 2,455 rediATM
Net Promoter Score ³	3	8	12	19	24
Customer complaints (year-on-year % change) ⁴	55%	13%	-10%	-6%	7%
Percentage of complaints resolved within 5 business days	76%	77%	89%	72%	62%
Customer complaints referred to external dispute resolution (year-on-year % change)	7%	4%	-23%	-4%	-5%
Number of financial difficulty applications approved ⁵	2,592	3,000	2,765	2,947	2,377
Our communities					
Total community investment ⁶	\$471,000	\$636,000	\$577,000	\$709,000	\$608,000
Money raised in support of children's health	\$70,000	\$299,000	\$355,000	\$356,000	\$271,000
Money donated in support of education	\$315,000	\$260,000	\$130,000	\$230,000	\$230,000
Money donated in support of the arts	\$30,000	\$30,000	\$30,000	-	-
Money donated through Workplace Giving program	\$14,000	\$12,000	\$13,000	\$13,000	\$2,000
Dollar matching	\$42,000	\$35,000	\$48,000	\$50,000	\$45,000

Notes

¹ excludes BOQ Finance, BOQ Specialist and VMA.

² increase due to the introduction of three new linked bonus saver deposit products launched in Q1 FY19 – excludes BOQ Finance, BOQ Specialist and VMA.

³ source: RFI Group XPRT Report – August 2019 6 Month Rolling Average (BOQ Retail only).

⁴ in FY19, focus was on increasing the capture and recording of customer complaints across the business. This has included the implementation of a new customer complaints database and refreshed complaint handling training. As a result of our increased capacity to capture customer complaints, an increase in recorded complaints was expected.

⁵ excludes BOQS.

⁶ total community investment is down this year due to a change in the community investment strategy – focus shifted from healthcare to supporting vulnerable Australians, which saw the omission of the annual 'Banking on our Kids' fundraising appeal.



NON-FINANCIAL PERFORMANCE MEASURES (CONTINUED)

Metric	2019	2018	2017	2016	2015
Our people – BOQ Group					
Employee numbers ⁷	2,495	2,564	2,374	2,252	2,234
Employee numbers – excluding contractors ⁸	2,387	-	-	-	-
Franchise network employees ⁹	749	788	855	987	1,120
Percentage of workforce full time ¹⁰	80%	73%	77%	76%	75%
Percentage of workforce part time ¹⁰	12%	11%	12%	13%	13%
Percentage of workforce casual ¹⁰	5%	5%	5%	5%	6%
Percentage of women in the workforce ¹⁰	61%	59%	61%	61%	60%
Percentage of leadership roles held by women ¹¹	40%	41%	39%	33%	28%
Percentage of women on Board	30%	22%	30%	33%	33%
Percentage of Aboriginal & Torres Strait Islander people ¹²	0.8%	1%	1%	-	-
Percentage of employees identifying as having a disability ¹²	1.5%	1%	3%	-	-
Percentage of employees over 55	11%	11%	10%	11%	11%
Employee engagement ¹³	56%	53%	60%	61%	67%
Average tenure (years)	4.62 years	4.22 years	4.66 years	4.06 years	3.93 years
Average days absenteeism per employee per year (excludes OMBs)	5.4 days	4.9 days	4.7 days	5.3 days	4.4 days
Voluntary turnover (excludes OMBs, contractors)	17.1%	19.9%	16.8%	18.4%	19%
WH&S incidents reported within 24 hours and investigated within 48 hours	92% / 99%	95% / 98%	86% / 90%	85% / 70%	86% / 72%
Lost time injury (number of incidents) ¹⁴	3	3	3	6	9
Our environment – Group					
Electricity consumption (t(CO ₂ -e)) ¹⁵	4,082	4,102	4,891	5,278	5,910
Energy usage – purchased electricity (GJ) ¹⁵	18,368	18,459	19,894	21,469	24,039
Fuel consumption for work vehicles (kL) ¹⁶	121	122	124	129	132
Air travel ('000 kms)	12,510	13,467	14,008	14,358	11,814
Paper usage (reams)	36,314	41,286	45,946	53,270	56,556
Shred X waste (tonnes) all diverted from landfill	159	162	169	169	212
Comingled recycling (tonnes) ¹⁷	8.99	10.33	-	-	-

Notes

⁷ employee numbers of BOQ Group (excluding employees of Owner Manager branches) and includes permanent and fixed term full time and part time employees, casual employees, and contractors (engaged by an agency or individual agreement).

⁸ employee numbers of BOQ Group (excluding employees of Owner Manager branches) and includes permanent and fixed term full time and part time employees and casual employees. Excludes all contractors.

⁹ employee numbers of Owner Manager branches and includes permanent and fixed term full time and part time employees and casual employees.

¹⁰ includes OMB and BOQ Group. Excludes all forms of contractors.

¹¹ proportion of women in leadership roles across BOQ. Excludes OMB employees and all forms of contractors.

¹² data captured for the first time in 2017.

¹³ changed methodology in 2017 to align with best practice measures for engagement.

¹⁴ lost time injury is an incident that results in the loss of a full work shift after the day of injury and results in an accepted workers compensation claim (data includes incidents which are work related and excludes journey and recess claims).

¹⁵ excludes facilities where energy is provided by the landlord (56 branches in FY19).

¹⁶ tool of trade and pool cars only (excludes BOQS and VMA).

¹⁷ data captured for the first time in 2018 Newstead (QLD) and Chifley Tower (NSW) offices only.



APPROACH TO SUSTAINABLE LENDING

At BOQ we recognise our corporate and social responsibility to maintain a lending portfolio comprised of sustainable assets. To this end we have identified a number of industries that fall outside of our risk appetite, or for which we require additional risk assessments to be completed.

Our process

Part of our standard process for managing risk is to consider the economic, environmental and social sustainability of our customers and potential customers. We do this by:

- working closely with our customers to understand their businesses;
- having a clearly expressed and communicated risk appetite in relation to reputational and environmental matters;
- undertaking a comprehensive analysis throughout the credit decision and management process to identify potential issues; and
- having a suite of credit policies and practices that ensure risks and issues are identified.

While reputation and environmental risk can arise from a number of areas, from a lending perspective we focus on:

- the nature and operation of the borrower's business and income sources;
- the nature and location of the property where the business operates (both leased and owner-occupied property) on which the activity occurs or where security property is located;
- contamination issues arising from land use; and
- potential risk of animal welfare issues.

All lending decisions are referred to a credit decision team who closely evaluate:

- the legislative or regulatory restrictions or controls under which the business must operate;
- compliance with legislation and regulation, both historical and ongoing;
- the potential for liability for environmental issues to be assumed by BOQ at some future date; and
- the sustainability of income sources relied upon to make loan repayments and the sustainability of asset values utilised as security.

Throughout this process we work closely with customers and potential customers to understand how they are able to manage sustainability risks and reduce their impact. We may also engage independent third parties to make assessments on our behalf. Where we have concerns as to the customer's ability to comply with their legal obligations or determine that our association with the business or industry poses substantial economic or reputation risk, then BOQ will decline to be involved. Final authority for the credit team's decisions rest with the Executive Credit Committee chaired by our Chief Risk Officer.

Evolving our risk management

We are aware this is an area that is attracting increasing focus from our stakeholders and as a result we have taken a number of steps in recent years:

- we introduced a Conduct and Reputational Risk Framework to outline BOQ's prudent and proactive approach to managing reputation risk;
- as part of our Lending policies, we also have a Prohibited List of Industries and Activities for which we have no risk appetite; and
- we introduced an Ecological Care and Sustainability Lending Policy, which helps guide our lending decisions and strengthen controls when considering lending in a range of industries that have the potential for environmental and animal welfare impact.

We regularly monitor emerging sustainability concerns and will continue to evolve our risk management and reporting accordingly.



Climate change

BOQ acknowledges the increased community concern about climate change and the impact that businesses have on the environment they operate in. These impacts arise both directly through physical footprint, resource utilisation and output and indirectly through supply chain and customer support. Climate change is one of the most significant issues that will impact the long term prosperity of our economy, environment and society. We support the goal of governments around the world to limit global warming to less than 2 degrees Celsius (and as close to 1.5 degrees Celsius as possible) above pre-industrial levels and to transition to net zero emissions by 2050 as outlined in the Paris Agreement. As part of the banking industry, we believe we have role to play in assisting the transition to a lower carbon economy, through both the resources we utilise directly and through our financing activities.

The transition to a lower-carbon economy requires significant and, in some cases, disruptive changes across economic sectors and industries. We understand the financial sector must take action now to identify where financial dislocations and sudden losses in asset value may occur. In order to help identify the information needed by stakeholders to appropriately assess and price climate-related risks and opportunities, BOQ's Risk team is conducting a review of its current approach to managing climate-related risk with a view to making recommendations, which will be considered for implementation in 2020, to better embed climate-related risk in BOQ's policies and processes.

In developing this plan, BOQ will consider the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which aims to ensure clear, comparable and consistent climate-related financial risk disclosures are available to stakeholders. Further detail about potential climate-related risks and our approach toward alignment with the TCFD is available on page 24 of our FY19 Annual Report. As part of its annual portfolio stress testing simulation, in 2018 BOQ included a weather-related event as a scenario to be tested. This involved a severe flood scenario in South-East Queensland, with inundation to a level of seven metres (compared to the 2011 Brisbane flood level of four metres). The financial impact of this scenario was immaterial in terms of direct physical impact on BOQ's lending portfolio.

BOQ's 2019 stress testing scenarios include a severe long term drought scenario and a long term sea-level rise analysis (based on data from the Intergovernmental Panel on Climate Change's (IPCC) RCP8.5 high emissions scenario). The final results of these scenarios are expected to be available later in the 2019 calendar year and will be included in BOQ's ICAAP Report.

Lending to the fossil fuel mining sector

BOQ does not directly fund mining projects. As at 31 August 2019 ~\$31m (less than 0.1% of our loan book) has been provided through equipment financing to companies directly involved in fossil fuel mining.

In 2018 BOQ committed to cease funding equipment directly involved in the extraction of fossil fuels. The terms of current lending facilities do not exceed 5 years, which means BOQ will have no exposure to fossil fuel extraction equipment by the end of 2023.

We will continue to support business and consumer loan applicants in regional areas who may be reliant on income from the mining industry, within the context of our group risk appetite. When assessing any new lending, a key element of the lending assessment is the sustainability of income sources to service the debt as well as the value of the borrower's assets, both of which can be impacted by changes in economic conditions. BOQ will continue to monitor changes in economic conditions, related to climate change and a host of other factors, when determining our appetite for lending across the economy.

Our actions

In FY19, BOQ Finance established a new Energy Efficient Equipment Finance Program, by joining the Clean Energy Finance Corporation (CEFC) co-financing program. The CEFC is a government entity established to facilitate increased flows of finance into Australian based renewable energy, energy efficiency and low emissions technology. The program will allow BOQ to provide small business owners with competitive finance for eligible equipment.

In addition to the above BOQ aims to make a positive environmental contribution to the communities in which we operate by:

- considering the environment in relevant business decisions;
- improving measurement and reporting of our operational environmental impact via BOQ's non-financial performance table;
- building out disclosures that align with the Task Force on Climate-related Financial Disclosures' recommendations; and
- actively managing and improving our sustainability approach by engaging with stakeholders to understand impacts, trends and attitudes relating to climate change.

Animal welfare

We are conscious of the industries we support through our lending and this consideration extends to those industries whose business activities involve the treatment, production, breeding, transport or housing of animals.

The World Organisation for Animal Health (OIE) sets the international standard and provides an effective framework for animal welfare management. The OIE is an intergovernmental organisation with the global mandate to improve animal health, animal welfare and veterinary public health. OIE standards have become the de facto international reference for animal welfare in the trade of animals and their products in developed and developing markets. OIE standards act as a guide for the development of assurance programs and it is envisaged that they will be increasingly used as a basis for bilateral agreements between OIE member countries.

We align our practices with the OIE's five freedoms of animal welfare and their general principals of animal welfare. We encourage all our borrowers to adhere to these standards and this has become part of our business as usual lending practice.





OUR STAKEHOLDER ENGAGEMENT

It is only through thoughtful consideration of the issues raised and perceived by our stakeholders that future sustainability risks and opportunities can be effectively predicted and responded to. In an effort to capture our stakeholders' voices the following sets out our approach to ensure meaningful engagement is captured throughout the year.

Customers

Ongoing monitoring and analysis of customer feedback and complaints through our call centres, online, surveys, social media, focus groups and regular engagement by branch teams.

Shareholders

Direct feedback from shareholders, regular briefings and meetings with investors, analysts, governance agencies, proxy advisors and through our Annual General Meetings.

Employees

Annual Group-wide employee engagement survey, Yammer (internal social media platform), blogs, Town Hall forums and regular team meetings.

Government and regulators

Cooperative approach with regulators and active participation in policy development through lodgement of submissions to relevant government inquiries and reviews, and engagement with key State and Federal political and Departmental stakeholders.

Non-governmental organisations

Direct discussion on ESG issues (industry trends and community expectations) and Bank strategy/policy developments.

Suppliers

Regular communication with new suppliers throughout the tender process and periodic governance meetings with top quartile suppliers.

Community

Ongoing communication via: organisational engagement and volunteering, fundraising initiatives and events, involvement in workshops and funded programs and ongoing partnership meetings.