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BOQ Capital Notes Prospectus

Prospectus for the issue of Bank of Queensland Limited
Capital Notes to raise \$300 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
Commonwealth Bank of Australia
Morgans
National Australia Bank

Co-Managers

JBWere
Ord Minnett

Important Notices

About This Prospectus

This Prospectus is dated 22 November 2017 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 (Capital Notes) by Bank of Queensland Limited (ABN 32 009 656 740) (Bank of Queensland or BOQ) at \$100 per Capital Note to raise \$300 million with the ability to raise more or less (Offer).

This Prospectus expires on the date which is 13 months after 22 November 2017 (Expiry Date) and no Capital Notes 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.

This Prospectus also contains information in relation to the Reinvestment Offer. Neither BOQ nor any other person is providing any investment advice or making any recommendation to Eligible CPS Holders in respect of the Reinvestment Offer.

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

Capital Notes 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 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 or any return on any investment made pursuant to this Prospectus.

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

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

Capital Notes 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 are complex and involve more risks than a simple debt or ordinary equity security. Capital Notes are not suitable for all investors and contain features which may make the Capital Note 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 (including pursuant to the Reinvestment Offer).

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/capitalnotes. 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 9.11 for details of the selling restrictions that apply to the Capital Notes in foreign jurisdictions.

Providing personal information and privacy

You will be asked to provide personal information to BOQ (directly or via the Registry) if you apply for Capital Notes. See Section 9.12 for information on how BOQ (and the Registry 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 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 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.

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 (Capital Notes).

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. It is one of the top 100 companies by market capitalisation on the ASX.

BOQ intends to raise \$300 million through the offer of Capital Notes (Offer) with the ability to raise more or less. The proceeds of Capital Notes will be used for BOQ's general corporate and funding purposes, including the partial refinancing of BOQ's Convertible Preference Shares (CPS) under the Reinvestment Offer (see below). This issue of Capital Notes is being made as part of BOQ's capital management strategy. The Australian Prudential Regulation Authority (APRA), the prudential regulator of the Australian financial services industry, has confirmed that the Capital Notes are eligible for inclusion as Additional Tier 1 Capital of BOQ for the purposes of APRA's prudential standards.

Capital Notes 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 to be quoted on the ASX.

Capital Notes must Convert into fully paid ordinary shares of BOQ (Ordinary Shares) on 15 August 2026 (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 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 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 into Ordinary Shares on 15 August 2024 if there are certain changes in regulation or taxation. BOQ also has an option to Convert all Capital Notes 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 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 returns on Capital Notes. In these circumstances, if Conversion does not occur for any reason within 5 Business Days, the Capital Notes that are required by APRA to be Converted will be written off, which means that all rights in relation to those Capital Notes will be terminated and Capital Note holders will not get back their capital or receive any compensation in relation to those Capital Notes.

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

Reinvestment Offer

As part of the Reinvestment Offer, Eligible CPS Holders as at 7:00pm (Sydney time) on 17 November 2017 can apply to have their CPS bought back by BOQ and have the proceeds applied to the acquisition of Capital Notes. If you are an Eligible CPS Holder and you apply under the Reinvestment Offer, you will receive a priority allocation of Capital Notes in relation to your Reinvestment CPS over Securityholder Applicants.

BOQ currently has an option to convert, redeem or transfer the CPS on 16 April 2018 and will consider converting, redeeming or transferring the outstanding CPS that are not reinvested in Capital Notes on that date, subject to various factors (including satisfactory completion of the Offer, receipt of all required regulatory and Ordinary Securityholder approvals and market conditions closer to 16 April 2018).

The buy-back of CPS under the Reinvestment Offer is subject to approval by Ordinary Securityholders to be proposed at the BOQ Annual General Meeting on 30 November 2017. The Reinvestment Offer will not proceed unless this approval is obtained, in which case all Eligible CPS Holders will continue holding CPS, subject to the CPS Terms.

Details of the Reinvestment Offer for Eligible CPS Holders are set out in Section 5.

Securityholder Offer

As part of the Offer, Eligible Securityholders of BOQ as at 7:00pm (Sydney time) on 17 November 2017 have the opportunity to apply for an allocation of Capital Notes. Details of the Securityholder Offer are set out in Section 6.4.2. No assurance is given that any Securityholder Applicant will receive an allocation of Capital Notes.

Conclusion

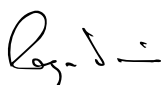
The key dates for the Offer are summarised on page 6. The Offer may close early, so you are encouraged to submit your Application as soon as possible after the Opening Date.

On behalf of the Directors, I encourage you to read this Prospectus carefully. The terms of Capital Notes are more complex than a simple debt instrument or ordinary equity instrument and trading volumes on ASX in instruments such as Capital Notes are typically lower than in BOQ's Ordinary Shares. In particular, you should consider the risk factors set out in Section 4 before deciding whether to apply for Capital Notes.

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 sincerely,

A handwritten signature in black ink, appearing to read 'Roger Davis', with a stylized flourish at the end.

Roger Davis
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 in Section 2;
- Information about BOQ in Section 3;
- Investment Risks in Section 4; and
- Capital Note Terms in Appendix A.

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

Understand the risks

Capital Notes 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 as an alternative to investments such as deposits. In particular:

- the overall complexity of Capital Notes may make the Capital Note Terms difficult to understand;
- Capital Notes 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 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 may not be paid;
- Capital Notes may never Convert or be Redeemed or Resold and may remain on issue indefinitely;
- the market price of Capital Notes may fluctuate; and
- the liquidity of Capital Notes may be low and you may be unable to sell your Capital Notes.

If you do not fully understand how the Capital Note Terms work, or the risks associated with the Capital Notes, 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" 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. You can find this guidance under the "Investing" 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

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.

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	7:00pm (Sydney time), 17 November 2017
Lodgement of the original Prospectus with ASIC	22 November 2017
Bookbuild	29 November 2017
Announcement of the Margin	29 November 2017
Annual General Meeting (approval of CPS buy-back under the Reinvestment Offer)	30 November 2017
Lodgement of replacement Prospectus with ASIC	30 November 2017
Opening Date of Offer	30 November 2017
Closing Date for the Reinvestment Offer, Securityholder Offer, Broker Firm Offer applications in respect of Reinvestment CPS	5:00pm (Sydney time), 15 December 2017
Closing Date for the Broker Firm Offer (excluding applications in respect of Reinvestment CPS)	10:00am (Sydney time), 21 December 2017
Issue Date	28 December 2017
Capital Notes commence trading on ASX (deferred settlement basis)	29 December 2017
Expected despatch of Holding Statements	29 December 2017
Capital Notes commence trading on ASX (normal settlement basis)	3 January 2018

KEY DATES FOR CAPITAL NOTES

	DATE
First quarterly Distribution Payment Date	15 February 2018
Optional Conversion / Redemption / Resale Date	15 August 2024
Scheduled Mandatory Conversion Date	15 August 2026 ¹

KEY DATES FOR CPS HOLDERS

	DATE
CPS Record Date for determining Eligible CPS Holders for Reinvestment Offer (relevant CPS must also be held on the Reinvestment Date for the Reinvestment Offer)	7:00pm (Sydney time), 17 November 2017
Opening Date for the Reinvestment Offer	30 November 2017
Closing Date for the Reinvestment Offer (including the Broker Firm Offer in respect of Reinvestment CPS)	5:00pm (Sydney time), 15 December 2017
Record Date for Pro-Rata Dividend payment for Reinvestment CPS ²	7:00pm (Sydney time), 19 December 2017
Number of Reinvestment CPS confirmed and announced	28 December 2017
Reinvestment Date	28 December 2017
Issue Date	28 December 2017
Payment date for Pro-Rata Dividend for Reinvestment CPS ²	28 December 2017

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 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 to be quoted on ASX within seven days of the date of this Prospectus and Capital Notes are expected to trade under ASX code "BOQPE". Quotation of Capital Notes is not guaranteed. If ASX does not grant permission for Capital Notes to be quoted, then Capital Notes 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 under the Offer and how to make an Application see Section 6 and the Application Forms for full details.

¹ As this day is not a Business Day it will be postponed to the next Business Day expected to be 17 August 2026.

² Payment of the Pro-Rata Dividend is subject to the payment tests in the CPS Terms.

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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. 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

TOPIC	SUMMARY	FURTHER INFORMATION
What is the Offer?	The Offer is for the issue of Capital Notes at a Face Value of \$100 each to raise approximately \$300 million with the ability to raise more or less.	Section 6.1
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); Eligible CPS Holders; and Eligible Securityholders. 	Section 6.2
Who is the issuer?	The issuer is Bank of Queensland Limited.	Section 3
What are Capital Notes?	Capital Notes are: <ul style="list-style-type: none"> fully paid — at \$100 Face Value per Capital Note; subordinated — although Capital Notes 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 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 by paying an amount equal to their Face Value or may require Holders to Resell their Capital Notes 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); convertible — in certain circumstances, Capital Notes will Convert into Ordinary Shares; unguaranteed and unsecured — Capital Notes 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 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 to be quoted on ASX and Capital Notes are expected to trade under ASX code "BOQPE". <p>The Capital Note 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, 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?	BOQ is issuing Capital Notes to raise funds in a manner that generates Additional Tier 1 Capital for the purposes of APRA's Prudential Capital Requirements. <p>The proceeds of Capital Notes will be used for BOQ's general corporate and funding purposes, including the partial refinancing of CPS under the Reinvestment Offer.</p>	-

TOPIC	SUMMARY	FURTHER INFORMATION
Regulatory capital treatment	<ul style="list-style-type: none"> APRA has confirmed that the Capital Notes are eligible for inclusion as Additional Tier 1 Capital of BOQ under APRA's Prudential Capital Requirements. Capital Notes 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
Distributions	<ul style="list-style-type: none"> Distributions on Capital Notes are discretionary and are only payable subject to no Payment Condition existing. 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: $(\text{BBSW Rate} + \text{Margin}) \times (1 - t)$ 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 3.75% and 3.95% 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%.³ 	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. 	Section 2.1
Will I get my capital back?	<ul style="list-style-type: none"> Capital Notes are perpetual and have no maturity date. While Capital Notes are scheduled to Mandatorily Convert into Ordinary Shares on 15 August 2026, that Conversion is subject to conditions which may never be met. As a result, Capital Notes could remain on issue indefinitely and Holders have no right to request or require Conversion, Redemption or Resale. What will happen to Capital Notes is therefore uncertain and depends on a number of factors including whether BOQ elects to Convert, Redeem or Resell Capital Notes when permitted under the Capital Note 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 are expected to be quoted on ASX. If quoted on ASX, Capital Notes can be bought or sold on ASX. There is no guarantee of a liquid market for Capital Notes or the price at which Capital Notes may trade and whether Holders will be able to recover their capital by selling on market. 	Section 2.2


³ The Commonwealth Government has proposed a reduction of the corporate tax rate which will reduce "t". See section 4.3.6.

Section 1 Investment Overview

TOPIC	SUMMARY	FURTHER INFORMATION
When will my Capital Notes Convert to Ordinary Shares?	<ul style="list-style-type: none"> • Capital Notes will Convert to Ordinary Shares: <ul style="list-style-type: none"> › On 15 August 2026 if the Mandatory Conversion Conditions are satisfied, unless Capital Notes 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 15 August 2024 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 a number of Ordinary Shares that would be worth less than \$101.01 per Capital Note (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 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 2017, BOQ's Common Equity Tier 1 Capital Ratio was 9.39% based on APRA's Prudential Capital Requirements⁴, which equates to a surplus of capital of approximately A\$1,222 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 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) 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, non-viable. • 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 that they held. 	Section 2.3
What is Write Off?	<ul style="list-style-type: none"> • If a Loss Absorption Event occurs and Conversion of Capital Notes has not been effected within five Business Days after the relevant event for any reason, then Conversion will not occur and each Capital Note of a Holder which would be required to be Converted will be Written Off with effect on and from the Loss Absorption Event Conversion Date. All rights in relation to Capital Notes (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 without compensation. • In the Capital Note Terms and this Prospectus, this is referred to as Capital Notes being Written Off. 	Section 2.3
When can Capital Notes 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 15 August 2024. • Subject to APRA's prior written approval, BOQ may elect to Convert, Redeem or Resell all or some Capital Notes 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

⁴ 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.

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TOPIC	SUMMARY	FURTHER INFORMATION																					
Where do Capital Notes rank in a winding-up of BOQ?	<ul style="list-style-type: none"> In a winding-up of BOQ, Capital Notes rank for payment of capital ahead of Ordinary Shares, equally with CPS, Wholesale Capital Notes 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, Holders will lose all or some of their capital. Any return in a winding-up may be adversely affected if Capital Notes 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 (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 without compensation.⁵ 	Sections 2.6 and 4.3.10																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #0056b3; color: white;"> <th style="width: 30%;">Higher Ranking</th> <th style="width: 40%;">Illustrative Examples</th> <th style="width: 30%;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Preferred and secured debt</td> <td>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> <td></td> </tr> <tr> <td style="text-align: center;">Unsubordinated and unsecured debt</td> <td>Unsubordinated and unsecured bonds and notes, trade and general creditors</td> <td></td> </tr> <tr> <td style="text-align: center;">Subordinated and unsecured debt</td> <td>Subordinated and unsecured debt obligations</td> <td></td> </tr> <tr style="background-color: #e6f2ff;"> <td style="text-align: center;">Capital notes and preference securities</td> <td>Capital Notes and other Equal Ranking Instruments (including CPS and Wholesale Capital Notes)</td> <td></td> </tr> <tr> <td style="text-align: center;">Ordinary shares</td> <td>BOQ Ordinary Shares</td> <td></td> </tr> <tr style="background-color: #0056b3; color: white;"> <th style="text-align: left;">Lower Ranking</th> <th></th> <th></th> </tr> </tbody> </table> <p style="text-align: center; margin-top: 10px;">  </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 and preference securities	Capital Notes and other Equal Ranking Instruments (including CPS and Wholesale Capital Notes)		Ordinary shares	BOQ Ordinary Shares		Lower Ranking		
Higher Ranking	Illustrative Examples																						
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Is Ordinary Securityholder approval required?	<p>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 other obligations that rank ahead of, equally with or subordinated to, Capital Notes.</p> <p>The buy-back of CPS under the Reinvestment Offer is subject to approval by Ordinary Securityholders to be proposed at the BOQ Annual General Meeting on 30 November 2017. The Reinvestment Offer will not proceed unless this approval is obtained, in which case all Eligible CPS Holders will continue holding CPS, subject to the CPS Terms.</p>	Section 5.8 and Section 5.10.4																					

⁵ If Capital Notes are Written-Off, Holders will have no rights and will likely be worse off than holders of CPS, even though CPS ranks equally with Capital Notes. This is further described in Sections 2.3.8 and 4.3.16.

Section 1 Investment Overview

Table 1: Summary of certain events that may occur during the life of Capital Notes

The table below summarises certain events that may occur during the life of Capital Notes, 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? ⁶	IS APRA APPROVAL REQUIRED? ⁷	DO CONDITIONS APPLY?	WHAT VALUE WILL A HOLDER RECEIVE? ⁸	IN WHAT FORM WILL THAT VALUE BE PROVIDED TO A HOLDER?	FURTHER INFORMATION
Mandatory Conversion on specified dates	On 15 August 2026	No	Yes	\$101.01 per Capital Note	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	Variable number (capped at the Maximum Conversion Number) of Ordinary Shares or, if Conversion does not occur Capital Notes will be Written Off ⁹	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 15 August 2024 or following a Tax Event, Regulatory Event or Potential Acquisition Event	Yes	Yes	\$101.01 per Capital Note	Variable number of Ordinary Shares	Section 2.5
Optional Redemption of Resale	On 15 August 2024 or following a Tax Event or Regulatory Event	Yes	Yes	\$100 per Capital Note (Face Value)	Cash	Section 2.5

⁶ 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.

⁷ Holders should not assume that APRA's approval will be given, if requested.

⁸ 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.

⁹ If a Capital Note is Written-Off, all rights (including to Distributions) in respect of that Capital Note are terminated and the Holder will not get back their capital.

1.2 Comparison between Capital Notes and other investments in BOQ

Capital Notes are different from other investments in BOQ, such as term deposits and Ordinary Shares. The table below compares the key features of Capital Notes 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. BOQ strongly recommends that you seek professional advice, which takes into account your particular investment objectives and circumstances, from a licensed adviser. For a more detailed comparison of Capital Notes and CPS, refer to Section 5.5

FEATURE	BOQ STANDARD TERM DEPOSIT	CPS	CAPITAL NOTES	ORDINARY SHARES
ASX code	Not applicable	BOQPD	Expected to be BOQPE	BOQ
Issuer	BOQ	BOQ	BOQ	BOQ
Legal form	Bank deposit	Preference share	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), and junior to the claims of all Senior Ranking Creditors (including depositors and unsubordinated and subordinated creditors)	Senior to Ordinary Shares, ranks equally with Equal Ranking Instruments (including CPS), and junior to the claims of all Senior Ranking Creditors (including depositors and unsubordinated and subordinated creditors) ²	Junior to all creditors, including Capital Notes and CPS
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 + 5.10% p.a.)*(1-t)	Floating (BBSW + Margin)*(1-t). Margin expected to be in the range of 3.75%-3.95% to be determined under the Bookbuild	Variable dividends
Distribution / dividend frequency	Monthly, quarterly, semi-annually, annually or on maturity depending on the term	Semi-annually	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 semi-annual dividend 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
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

Section 1 Investment Overview

FEATURE	BOQ STANDARD TERM DEPOSIT	CPS	CAPITAL NOTES	ORDINARY SHARES
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 are not Converted when required, those Capital Notes are Written Off and all obligations are terminated. In this scenario, Holders will likely be worse off than holders of CPS or Ordinary Shares as further described in Sections 2.3.8 and 4.3.16.
- Optional redemption, resale and conversion of Capital Notes and CPS are on specified dates and following a tax or regulatory event.

1.3 Key risks associated with Capital Notes

Before applying for Capital Notes, you should consider whether Capital Notes are a suitable investment for you. There are risks associated with an investment in Capital Notes 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.

1.3.1 Key risks associated with an investment in Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION
Capital Notes are not deposit liabilities or protected accounts	<ul style="list-style-type: none"> Capital Notes 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	<ul style="list-style-type: none"> The price at which Holders are able to sell Capital Notes on ASX is uncertain. It is possible that Capital Notes may trade at a market price below their Face Value of \$100. The market price of Capital Notes 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. Unlike Ordinary Shares, Capital Notes 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 (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. BOQ's credit rating may be revised, withdrawn or suspended by ratings agencies at any time. 	Section 4.3.2
Liquidity	<ul style="list-style-type: none"> There may be no liquid market for Capital Notes and the market for Capital Notes 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 and Holders who wish to sell their Capital Notes may be unable to do so at an acceptable price, or at all. 	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 are Converted. That market may also be volatile depending on securities markets conditions at that time. 	Section 4.3.4

TOPIC	SUMMARY	FURTHER INFORMATION
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, 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, 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. 	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, 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
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 rank for payment of capital ahead of Ordinary Shares, equally with CPS, Wholesale Capital Notes 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, Holders will lose all or some of their capital. Any return in a winding-up may be adversely affected if your Capital Notes 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 Non-Operating Holding Company (NOHC), see Section 4.3.22. 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

Section 1 Investment Overview

TOPIC	SUMMARY	FURTHER INFORMATION
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 be Converted, Redeemed or Resold. Unless their Capital Notes are Converted, Redeemed or Resold, in order to realise their investment, Holders would need to sell their Capital Notes 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. 	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 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 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, and 4.3.19
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. Where Conversion does not occur for any reason (including an Inability Event) within 5 Business Days after the Loss Absorption Event, those Capital Notes which are required to be Converted will be Written Off. If Capital Notes are Written-Off, all rights in relation to those Capital Notes will be terminated (and Holders will not get back their capital or receive compensation in relation to those Capital Notes). 	Section 4.3.16
BOQ may issue further securities	<ul style="list-style-type: none"> There is no limit on the amount of senior debt, deposits or other obligations or securities that may be incurred or issued by BOQ at any time, which may affect a Holder's ability to be repaid on a winding-up of BOQ. 	Section 4.3.21
Amendment of Capital Note Terms	<ul style="list-style-type: none"> Subject to complying with all applicable laws, BOQ may amend the Capital Note Terms 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 Note Terms if the amendment has been approved by a Special Resolution. Amendments which may affect the eligibility of Capital Notes 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

1.4 Reinvestment Offer for CPS holders

This Section sets out information for current holders of CPS, who may be eligible to apply under the Reinvestment Offer to reinvest their CPS in Capital Notes.

TOPIC	SUMMARY	FURTHER INFORMATION
What are CPS?	<ul style="list-style-type: none"> CPS are convertible preference shares issued by BOQ on 24 December 2012 that trade on ASX under the code "BOQPD". 	Section 5.1.1
What is the Reinvestment Offer?	<ul style="list-style-type: none"> Under the Reinvestment Offer, Eligible CPS Holders are invited to offer some or all of their CPS held at 7:00pm (Sydney time) on 17 November 2017 for sale to BOQ through a selective buy-back for \$100 each (Buy-Back Price). The Buy-Back Price will be directly applied to the Application Payment for Capital Notes (\$100 per Capital Note). The reinvestment mechanism is described in Section 5, including steps that Eligible CPS Holders authorise BOQ to take on their behalf when they apply to reinvest their CPS. 	Section 5.1.2
Who is eligible to participate in the Reinvestment Offer?	<ul style="list-style-type: none"> To participate in the Reinvestment Offer, you must: <ul style="list-style-type: none"> have been a registered holder of CPS at 7:00pm (Sydney time) on 17 November 2017 (CPS Record Date); be shown on the CPS register as having an address in Australia; and not be in the US or be 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 Reinvestment Offer or receiving Capital Notes under the laws of any jurisdiction (Eligible CPS Holder). If you are an Eligible CPS Holder and elect for any CPS to be reinvested in Capital Notes (Reinvestment CPS), a holding lock will be placed on those Reinvestment CPS preventing you from dealing with those Reinvestment CPS until the Issue Date. You must hold your Reinvestment CPS on the Reinvestment Date of 28 December 2017. The holding lock will be released from any CPS not successfully reinvested via the Reinvestment Offer as soon as practicable after the Issue Date. 	Section 5.1.3
Is the Reinvestment Offer subject to any conditions?	<ul style="list-style-type: none"> The buy-back of CPS under the Reinvestment Offer is subject to approval by Ordinary Securityholders to be proposed at the BOQ Annual General Meeting on 30 November 2017. The Reinvestment Offer will not proceed unless this approval is obtained, in which case all Eligible CPS Holders will continue holding CPS, subject to the CPS Terms. 	Section 5.8
If I am an Eligible CPS Holder, what are my options?	<ul style="list-style-type: none"> If you are an Eligible CPS Holder, in addition to reinvesting your CPS in Capital Notes, you have a number of other choices. If you are an Eligible CPS Holder you may wish to: <ul style="list-style-type: none"> reinvest all of the CPS registered in your name on the CPS Record Date in Capital Notes; reinvest all of the CPS registered in your name on the CPS Record Date and apply for additional Capital Notes; reinvest some, but not all, of the CPS registered in your name on the CPS Record Date in Capital Notes, in which case you will continue to hold the balance of your CPS; take no action and continue to hold CPS, subject to the CPS Terms; or sell CPS on market through your broker. Ineligible CPS Holders are limited to the choices set out in Section 5.2.2. 	Section 5.2
Is there a minimum Application size for the Reinvestment Offer?	<ul style="list-style-type: none"> If you are an Eligible CPS Holder and own 50 CPS or fewer, you must apply to reinvest all your CPS in Capital Notes if you wish to participate in the Reinvestment Offer. If you are an Eligible CPS Holder and own more than 50 CPS, you must apply for a minimum number of 50 Capital Notes (\$5,000). You may wish to apply for more Capital Notes than the number of CPS that you hold – but you will have to make an Application Payment for those additional Capital Notes. 	Section 5.10.1

Section 1 Investment Overview

TOPIC	SUMMARY	FURTHER INFORMATION
If I elect to participate in the Reinvestment Offer, what dividends will I receive?	<ul style="list-style-type: none"> If you are an Eligible CPS Holder and elect for any CPS to be reinvested in Capital Notes, you will be entitled to receive a Pro-Rata Dividend on your Reinvestment CPS (subject to the payment tests in the CPS Terms) up to but not including the Reinvestment Date. The Pro-Rata Dividend cannot be reinvested in Capital Notes. 	Section 5.4
Will I receive a guaranteed allocation of Capital Notes?	<ul style="list-style-type: none"> There is no guaranteed Allocation under the Offer, but BOQ will give priority to applications received by Eligible CPS holders to reinvest their CPS under the Reinvestment Offer over Securityholder Applicants. 	Section 5.3
How are Capital Notes different from CPS?	<ul style="list-style-type: none"> Capital Notes and CPS are similar in that they both qualify as Additional Tier 1 Capital for BOQ under APRA's Prudential Capital Requirements. However, they do differ considerably in several key respects. 	Section 5.5
What are the risks associated with participating in the Reinvestment Offer?	<ul style="list-style-type: none"> If you are an Eligible CPS Holder and you apply under the Reinvestment Offer, you may receive an allocation of Capital Notes and as such, you will be subject to the risks associated with an investment in Capital Notes and in BOQ, many of which are outside the control of BOQ and its Directors. There are both similarities and differences between CPS and Capital Notes. Capital Notes are complex and involve more risks than a simple debt or ordinary equity security. Capital Notes are not suitable for all investors and contain features which may make the Capital Note Terms difficult to understand. BOQ strongly recommends that you seek professional guidance, which takes into account your particular investment objectives and circumstances, from a licensed adviser before you make an investment decision. 	Section 4
What happens to my CPS if I do not participate in the Reinvestment Offer?	<ul style="list-style-type: none"> Eligible CPS Holders who elect not to participate in the Reinvestment Offer in full will continue holding CPS, or the balance of their CPS not reinvested, subject to the CPS Terms. 	Section 5.10.4
What are the risks of not fully participating in the Reinvestment Offer?	<ul style="list-style-type: none"> There is no guarantee that BOQ will redeem CPS or pay dividends on CPS at a future date and CPS Holders have no right to require BOQ to redeem CPS or pay dividends. Following the Reinvestment Offer, it is anticipated that the number of CPS on issue will decline as a result of the buy-back of CPS. This may lead to a less liquid market for the CPS that remain outstanding, which could negatively impact the ability for remaining CPS Holders to sell their CPS on-market at an acceptable price, or at all. If you hold both Capital Notes and CPS you will hold two securities with different issue terms and different risk profiles. If there is an insufficient number and spread of CPS Holders after completion of the Reinvestment Offer, ASX has discretion to remove CPS from official quotation. 	Section 5.7
What are the tax implications of having my CPS bought back?	<ul style="list-style-type: none"> You should obtain your own tax advice regarding the implications of the buy-back of your CPS, having regard to your individual circumstances. A general description of the Australian taxation consequences for CPS Holders upon the buy-back of their CPS is set out in Section 7, including the capital gains tax (CGT) implications for Eligible CPS Holders of the buy-back of CPS under the Reinvestment Offer. Selling your CPS into the Reinvestment Offer may lead to a capital gain or loss or be neutral for CGT purposes depending on the cost base of your CPS and your personal tax circumstances. 	Section 7
Where can I find more information about the Reinvestment Offer?	<ul style="list-style-type: none"> If you have any questions in relation to the Reinvestment Offer, please contact your Syndicate Broker or 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). 	Section 5

1.5 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; a Reinvestment Offer to Eligible CPS Holders on the register as at the CPS Record Date and, where applicable, through the Broker Firm Offer; and a Securityholder Offer to Eligible Securityholders on the register as at 7:00pm (Sydney time) on 17 November 2017. 	Section 6
When is the Offer Period?	<ul style="list-style-type: none"> The Offer opens on 30 November 2017. The Reinvestment Offer, Securityholder Offer and Broker Firm Offer applications in respect of Reinvestment CPS close at 5:00pm (Sydney time) on 15 December 2017. The Broker Firm Offer (excluding applications in respect of Reinvestment CPS) closes at 10:00am (Sydney time) on 21 December 2017. 	Key Dates and Section 6
Is there a minimum application size?	<ul style="list-style-type: none"> Applications must be for a minimum of 50 Capital Notes (\$5,000) and, after that, in multiples of 10 Capital Notes (\$1,000). 	Section 6.4.1
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 6. 	Section 6.4
How will Capital Notes 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. Eligible CPS Holders applying to reinvest their CPS under the Reinvestment Offer will receive a priority allocation of Capital Notes over Securityholder Applicants. Allocations under the Reinvestment Offer (in respect of any additional Capital Notes applied for) and the Securityholder Offer will be determined by BOQ and the Joint Lead Managers after the relevant Closing Date, and may be scaled back. The allocation policy is described in Section 6.5. 	Section 6.5
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 on ASX after Capital Notes have been quoted on ASX. 	Section 6.4.5
What are the tax implications of investing in Capital Notes?	<ul style="list-style-type: none"> A general description of the Australian taxation consequences of investing in Capital Notes is set out in Section 7. 	Section 7
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 +61 1800 779 639 (outside Australia). If you are a Broker Firm Applicant, you should contact your Syndicate Broker. 	Section 6.7
Consider and consult	<ul style="list-style-type: none"> Consider all risks and other information regarding an investment in Capital Notes 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 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, Reinvestment 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 6.4

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About Capital Notes

2

Section 2 About Capital Notes

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

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

The full Capital Note Terms are contained in Appendix A.

2.1 Distributions

Capital Notes 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 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 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	<p>What are Distributions?</p> <ul style="list-style-type: none"> Distributions on Capital Notes 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 Note Terms										
2.1.2	<p>How will the Distribution Rate be calculated?</p> <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 3.75% and 3.95% 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 1.70% per annum and the Margin is 3.75% per annum and t is 30%, then the Distribution Rate for that Distribution Period would be calculated as follows:</p> <table border="0"> <tr> <td>BBSW Rate</td> <td>1.70% per annum</td> </tr> <tr> <td>plus Margin</td> <td>3.75% per annum</td> </tr> <tr> <td>Equivalent unfranked Distribution rate</td> <td>5.45% per annum</td> </tr> <tr> <td>Multiplied by (1 – t)</td> <td>x 0.70</td> </tr> <tr> <td>Indicative fully franked Distribution Rate</td> <td>3.815% per annum</td> </tr> </table> 	BBSW Rate	1.70% per annum	plus Margin	3.75% per annum	Equivalent unfranked Distribution rate	5.45% per annum	Multiplied by (1 – t)	x 0.70	Indicative fully franked Distribution Rate	3.815% per annum	Clause 2 of the Capital Note Terms
BBSW Rate	1.70% per annum											
plus Margin	3.75% per annum											
Equivalent unfranked Distribution rate	5.45% per annum											
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Indicative fully franked Distribution Rate	3.815% per annum											

TOPIC

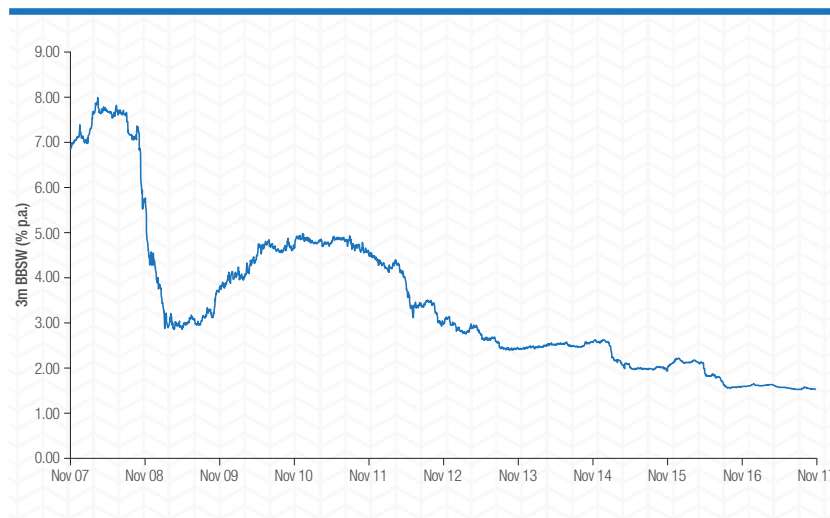
2.1.3 What is the BBSW Rate?

SUMMARY

- 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 for prime bank eligible securities having a term of 3 months, which is designated as the “AVG MID” on the Thomson Reuters Screen BBSW Page (or any designation which replaces that designation on that page, or any page that replaces that page) on the first Business Day of that Distribution Period.
- The graph below illustrates the movement in the BBSW Rate over the past 10 years. The rate on 8 November 2017 was 1.70% per annum.

FURTHER
INFORMATION

Clause 2.4 of the
Capital Note Terms



(Source: Thomson Reuters)

- 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. 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).

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Section 2 About Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION										
2.1.4	<p>How will the Distribution be calculated for each Distribution Period?</p> <ul style="list-style-type: none"> Distributions scheduled to be paid on each Distribution Payment Date will be calculated using the following formula: $(\text{Distribution Rate} \times \\$100 \times D) / 365$ where: <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 Note Terms. As an example, following the formula above, if the Distribution Rate was 3.82% per annum, then the Distribution on each Capital Note for that Distribution Period (if the Distribution Period was 91 days) would be calculated as follows: <table border="1" style="margin-left: 20px;"> <tr> <td>Indicative fully franked Distribution Rate</td> <td>3.815% per annum</td> </tr> <tr> <td>Multiplied by \$100</td> <td>x \$100.00</td> </tr> <tr> <td>Multiplied by the number of days in the Distribution Period¹⁰</td> <td>x 91</td> </tr> <tr> <td>Divided by 365</td> <td>÷ 365</td> </tr> <tr> <td>Illustrative fully franked Distribution payment per Capital Note for a Distribution Period of 91 days</td> <td>\$0.9511</td> </tr> </table> 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	3.815% per annum	Multiplied by \$100	x \$100.00	Multiplied by the number of days in the Distribution Period ¹⁰	x 91	Divided by 365	÷ 365	Illustrative fully franked Distribution payment per Capital Note for a Distribution Period of 91 days	\$0.9511	Clause 2.4 of the Capital Note Terms
Indicative fully franked Distribution Rate	3.815% per annum											
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Multiplied by the number of days in the Distribution Period ¹⁰	x 91											
Divided by 365	÷ 365											
Illustrative fully franked Distribution payment per Capital Note for a Distribution Period of 91 days	\$0.9511											
2.1.5	<p>What is the impact of franking credits?</p> <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 7 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 Note Terms and Sections 4.3.9 and 7 of this Prospectus										
2.1.6	<p>When are the Distribution Payment Dates?</p> <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 2018. If Capital Notes are Converted, Redeemed or Resold, the date on which that occurs will be a Distribution Payment Date for those Capital Notes. 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. 	Clause 2.2 of the Capital Note Terms										
2.1.7	<p>What is the Record Date for Distributions?</p> <ul style="list-style-type: none"> Distribution is 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 Note Terms										

¹⁰ Distribution Periods will generally contain 90 to 92 days with the exception of the first Distribution Period which is expected to contain 49 days.

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 Note 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 2.8 and 2.9 of the Capital Note Terms

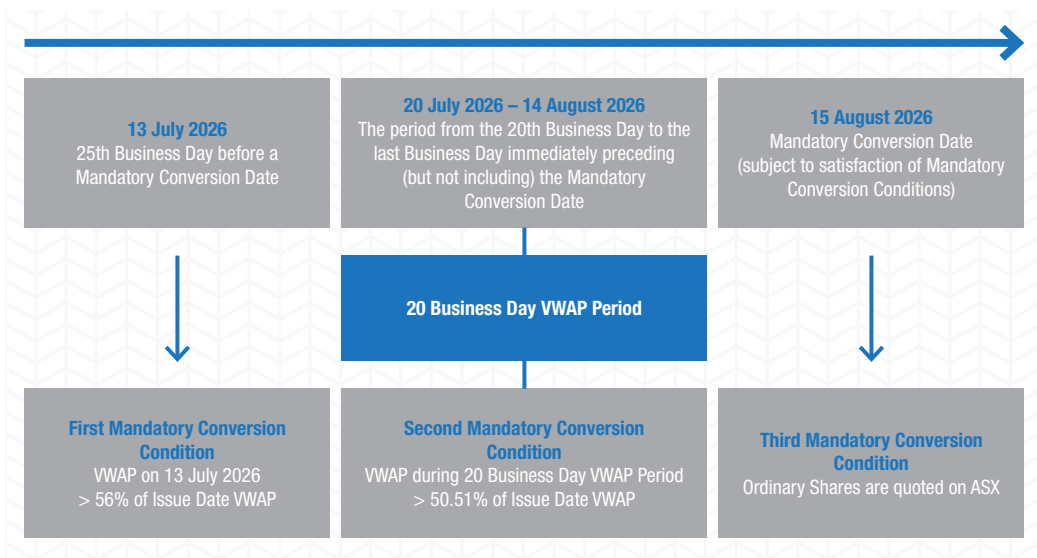
2.2 Mandatory Conversion on a Mandatory Conversion Date

Capital Notes do not have a maturity date but are scheduled to be Converted into Ordinary Shares on 15 August 2026 if the Capital Notes 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 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 on the Mandatory Conversion Date unless the Mandatory Conversion Conditions are not satisfied or Capital Notes 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 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 Note Terms

Section 2 About Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION
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 August 2026) 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 Note Terms
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 Date¹¹ 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 are issued (as adjusted in accordance with the Capital Note 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). 	Clause 3 of Capital Note Terms



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.

¹¹ 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
<p>2.2.4 What is the purpose of the Mandatory Conversion Conditions?</p>	<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 (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. 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. <p>The Maximum Conversion Number is calculated in accordance with the following formula:</p> $\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$ <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 (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. 	<p>Clause 3 of Capital Note Terms</p>
<p>2.2.5 What can happen if the Mandatory Conversion Conditions are not satisfied?</p>	<ul style="list-style-type: none"> If any of the Mandatory Conversion Conditions are not satisfied, Capital Notes 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 remain on issue indefinitely. 	<p>Clause 3 of Capital Note Terms</p>

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Section 2 About Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION						
2.2.6	<p>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><i>Illustrative example of Conversion</i></p> <ul style="list-style-type: none"> Assuming the VWAP is \$13.00, the number of Ordinary Shares a Holder would receive following Conversion on a Mandatory Conversion Date would be calculated as follows: <table border="0" data-bbox="430 929 1085 1064"> <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;">÷ 12.87</td> </tr> <tr> <td>Ordinary Shares per Capital Note</td> <td style="text-align: right;">7.77</td> </tr> </table> Assuming the price of those Ordinary Shares on the Mandatory Conversion Date is also \$13.00, the aggregate value of those Ordinary Shares (calculated by multiplying 7.77 by \$13.00) on the Mandatory Conversion Date would be \$101.01 Assuming a Holder has 100 Capital Notes, the total number of Ordinary Shares to which they would be entitled would be 777 (i.e. 100 x 7.77. The number would be rounded down to disregard any fraction of an Ordinary Share in respect of an aggregate holding). The above example is for illustrative purposes only. The actual VWAP and the number of Ordinary Shares that Holders might receive on Conversion on the Mandatory Conversion Date may be higher or lower than in this example. Where the Ordinary Share Price has fallen such that the VWAP during the VWAP Period described in Section 2.2.3 is less than or equal to 50.51% of the Issue Date VWAP, the Second Mandatory Conversion Condition will not be met and, therefore, Conversion will not occur on that date. The Mandatory Conversion Date will be the next Distribution Payment Date on which the Mandatory Conversion Conditions are satisfied. 	Face Value	\$100	Divided by VWAP x 0.99	÷ 12.87	Ordinary Shares per Capital Note	7.77	Clauses 3 and 7 of Capital Note Terms
Face Value	\$100							
Divided by VWAP x 0.99	÷ 12.87							
Ordinary Shares per Capital Note	7.77							
2.2.7	<p>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 Note 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. 	Clause 7 of Capital Note Terms						

2.3 Automatic Conversion following a Loss Absorption Event

Capital Notes 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 they hold and may suffer loss as a consequence. If the Capital Notes are not Converted for any reason (including an Inability Event) they will be Written Off, which means those Capital Notes will never be Converted, Redeemed or Resold, all rights in relation to those Capital Notes 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> <p>A Non-Viability Trigger Event will occur if, at any time:</p> <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. <p>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.</p>	Clause 4 of the Capital Note Terms
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 2017, BOQ's Common Equity Tier 1 Capital Ratio was 9.39% based on APRA's Prudential Capital Requirements¹², which equates to a surplus of capital of approximately A\$1,222 million 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 Note Terms

12 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.

Section 2 About Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION
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 into Ordinary Shares following the occurrence of a Loss Absorption Event. If a Loss Absorption Event occurs, BOQ must Convert the Capital Notes 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 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 is Written Off: <ul style="list-style-type: none"> the Capital Note 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 Note Terms
2.3.4 How many Ordinary Shares will Holders receive if Capital Notes are Converted on a Loss Absorption Event Conversion Date?	<ul style="list-style-type: none"> If Capital Notes are Converted on a Loss Absorption Event Conversion Date, Holders will receive a number of Ordinary Shares per Capital Note 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 Note Terms
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 and is likely to suffer a loss as a consequence. 	

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TOPIC	SUMMARY	FURTHER INFORMATION																
2.3.6 Is there a worked example illustrating how many Ordinary Shares a Holder will receive on Conversion following a Loss Absorption Event?	<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 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: 70%;">Issue Date VWAP</td> <td style="text-align: right;">\$13.00</td> </tr> <tr> <td style="border-top: 1px solid black;">VWAP</td> <td style="text-align: right; border-top: 1px solid black;">\$1.30</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: 70%;">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;">÷ \$1.287</td> </tr> <tr> <td style="border-top: 1px solid black;">Ordinary Shares per Capital Note</td> <td style="text-align: right; border-top: 1px solid black;">77.7001</td> </tr> </table> <p>Step 2 - Calculate the Maximum Conversion Number</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Face Value</td> <td style="text-align: right;">\$100</td> </tr> <tr> <td>Divided by Issue Date VWAP × 0.20</td> <td style="text-align: right;">÷ \$2.60</td> </tr> <tr> <td style="border-top: 1px solid black;">Maximum Conversion Number of Ordinary Shares per Capital Note</td> <td style="text-align: right; border-top: 1px solid black;">38.4615</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 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 at 38.4615 Ordinary Shares. If the Holder holds 100 Capital Notes (having an aggregate Face Value of \$10,000) they would receive (after disregarding any fraction of an Ordinary Share) 3,846 Ordinary Shares. If those Ordinary Shares were sold on ASX at the same price as the VWAP (being \$1.30), the Holder in this example would receive approximately \$5,000, which is significantly less than \$10,000.</p>	Issue Date VWAP	\$13.00	VWAP	\$1.30	Face Value	\$100	Divided by VWAP x 0.99	÷ \$1.287	Ordinary Shares per Capital Note	77.7001	Face Value	\$100	Divided by Issue Date VWAP × 0.20	÷ \$2.60	Maximum Conversion Number of Ordinary Shares per Capital Note	38.4615	Clauses 4 and 7 of the Capital Note Terms
Issue Date VWAP	\$13.00																	
VWAP	\$1.30																	
Face Value	\$100																	
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Face Value	\$100																	
Divided by Issue Date VWAP × 0.20	÷ \$2.60																	
Maximum Conversion Number of Ordinary Shares per Capital Note	38.4615																	
2.3.7 Is Conversion on account of a Loss Absorption Event subject to the Mandatory Conversion Conditions?	<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 and to suffer loss as a consequence. 	Clause 4 of the Capital Note Terms																

Section 2 About Capital Notes

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) 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, 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 and the need to round to whole numbers the number of Ordinary Shares and any Capital Notes 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. Holders should be aware that: <ul style="list-style-type: none"> Relevant Tier 1 Capital Instruments such as Capital Notes, CPS and Wholesale Capital Notes 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 CPS and Wholesale Capital Notes. BOQ has no obligation to maintain on issue CPS, Wholesale Capital Notes 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 or in full; BOQ has on issue Relevant Tier 1 Securities (being CPS) that take the form of convertible preference shares. Due to the requirements of the Corporations Act, if CPS are written-off, the rights of holders of these securities are not terminated but are instead varied so as to give a holder rights equivalent to the rights in respect of Ordinary Shares it would have received if conversion had occurred. By contrast, if Capital Notes are Written Off, all rights in relation to those Capital Notes will be terminated and the Holders will lose the entire amount of their investment, without compensation. Accordingly, if Capital Notes are Written Off, Holders will have no rights and will likely be worse off than holders of CPS, even though CPS rank equally with Capital Notes; 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 will be Converted. 	Clauses 4 and 7 of the Capital Note 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 \$13.00, 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 \$13.00 Issue Date VWAP).

VWAP @ CONVERSION	VWAP	Maximum Conversion Number per Capital Note	Conversion Number per Capital Note	Value per Capital Note if sold @ VWAP (before selling costs)	Loss on \$10,000 investment in Capital Notes (before selling costs)
10% below Issue Date VWAP	\$ 11.70	38.4615	8.6333	\$ 101.01	—
50% below Issue Date VWAP	\$ 6.50	38.4615	15.5400	\$ 101.01	—
80% below Issue Date VWAP	\$ 2.60	38.4615	38.4615	\$ 100.00	\$ 0.00
81% below Issue Date VWAP	\$ 2.47	38.4615	38.4615	\$ 95.00	\$(500.00)
90% below Issue Date VWAP	\$ 1.30	38.4615	38.4615	\$ 50.00	\$(5,000.00)
95% below Issue Date VWAP	\$ 0.65	38.4615	38.4615	\$ 25.00	\$(7,500.00)
99% below Issue Date VWAP	\$ 0.13	38.4615	38.4615	\$ 5.00	\$(9,500.00)

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

2.4 Mandatory Conversion on Acquisition Event

BOQ is also required to Convert Capital Notes 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 they hold and that those Ordinary Shares are capable of being sold on ASX.

These conditions may never be satisfied; accordingly, Capital Notes 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 Note 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 on issue into a number of Ordinary Shares with a value of \$101.01 per Capital Note (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 at that time. However, BOQ must Convert Capital Notes on the next Distribution Payment Date in respect of which the conditions to Conversion are satisfied. 	Clause 5 of the Capital Note Terms

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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 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. • The Maximum Conversion Number in the case of Conversion in these circumstances is set by dividing the Face Value of the Capital Notes 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 Note 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 remain on issue. 	Clause 5 of the Capital Note 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 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 Note Terms

2.5 Conversion, Redemption or Resale at BOQ's option

On 15 August 2024, BOQ may elect to Convert, Redeem or Resell Capital Notes with APRA's prior written approval. Subject to APRA's prior written approval, BOQ may also elect to Convert Capital Notes 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 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 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 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 that it holds. There are restrictions on BOQ's ability to Redeem Capital Notes for cash. Most importantly, BOQ may only elect to Redeem Capital Notes 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: <ul style="list-style-type: none"> on 15 August 2024; 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 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 Note 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 to be Converted, Redeemed or Resold, BOQ may specify which of Conversion, Redemption and Resale applies to a particular Capital Note. BOQ may select any one or more of Conversion, Redemption or Resale to apply to the Capital Note held by a Holder and may select a different combination of Conversion, Redemption and Resale in respect of Capital Notes held by different Holders, but otherwise BOQ must endeavour to treat Holders in approximate proportion to their holdings of Capital Notes (except that BOQ may discriminate to take account of the effect on marketable parcels and other logistical considerations). 	Clause 12 of the Capital Note 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 or any Distribution would not be a frankable distribution for tax purposes.</p>	Clauses 24.1 of the Capital Note Terms
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"), additional requirements would be imposed on BOQ in relation to Capital Notes 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 as Additional Tier 1 Capital, except where the reason BOQ is not or will not be entitled to treat some or all Capital 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.</p>	Clauses 24.1 of the Capital Note Terms

Section 2 About Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.5	<p>What is a Potential Acquisition Event?</p> <ul style="list-style-type: none"> Broadly, a Potential Acquisition Event will occur if: <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. 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. 	Clauses 24.1 and 19 of the Capital Note Terms
2.5.6	<p>What are the Optional Conversion Restrictions?</p> <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; and Restrictions that may prevent BOQ from actually Converting Capital Notes. <p>Restrictions that may prevent BOQ from sending conversion notice</p> <p>BOQ may not elect to Convert Capital Notes 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):</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 on Conversion Date</p> <p>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 Period¹³ 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 Note Terms
2.5.7	<p>What is the Conversion Number for an Optional Conversion?</p> <p>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.</p>	Clause 7.1 of the Capital Note Terms
2.5.8	<p>What happens if Conversion does not occur on the Optional Conversion Date?</p> <p>If BOQ elects to but cannot Convert Capital Notes on the Optional Conversion Date, BOQ will notify Holders and, unless Capital Notes 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.</p>	Clauses 6.4 and 6.5 of the Capital Note Terms

¹³ Usually 20 Business Days, but a lesser period if trading in Ordinary Shares is for a lesser period after the Potential Acquisition Event.

TOPIC	SUMMARY	FURTHER INFORMATION
2.5.9 What are the restrictions on BOQ's ability to Redeem the Capital Notes?	<p>BOQ may only elect to Redeem Capital Notes if APRA is satisfied that either:</p> <ul style="list-style-type: none"> Capital Notes 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. 	Clause 8.4 of the Capital Note 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 in accordance with the Capital Note Terms, Capital Notes will be redeemed by payment on the Redemption Date of an amount equal to the Face Value (being \$100 per Capital Note) to the Holder.	Clause 9 of the Capital Note Terms
2.5.11 What happens if the Capital Notes are Resold?	<p>If BOQ elects to Resell Capital Notes, it must appoint one or more third party purchasers (Nominated Purchasers) to purchase Capital Notes offered for Resale.</p> <p>If BOQ elects to Resell Capital Notes, each Holder is taken irrevocably to offer to sell Capital Notes the subject of a Resale to the Nominated Purchaser(s) on the Resale Date for the Resale Price (being \$100 per Capital Note).</p> <p>If BOQ appoints more than one Nominated Purchaser in respect of a Resale, all or any Capital 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.</p> <p>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.</p>	Clause 11 of the Capital Note 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 in accordance with the Capital Note Terms until Capital Notes are otherwise Redeemed, Converted or Resold in accordance with the Capital Note Terms.	Clause 11.6 of the Capital Note Terms
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 Note Terms

Section 2 About Capital Notes

2.6 Ranking

Capital Notes are not guaranteed by BOQ or secured in any way against any asset of BOQ. Capital Notes 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 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 rank in priority to Ordinary Shares, equally and without preference amongst themselves and Equal Ranking Instruments, and junior to Senior 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 rank ahead of Ordinary Shares, equally and without preference among themselves and other Equal Ranking Instruments (including CPS and Wholesale Capital Notes), but behind the claims of all Senior Ranking Creditors (including holders of securities or instruments ranking ahead of Capital Notes and all depositors). Any return in the form of Distributions may be adversely affected if Capital Notes 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 Note Terms
2.6.2 Ranking on winding-up	<ul style="list-style-type: none"> In a winding-up of BOQ, Capital Notes rank for payment of capital ahead of Ordinary Shares, equally with CPS, Wholesale Capital Notes 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, Holders will lose all or some of their capital. Any return in a winding-up may be adversely affected if Capital Notes 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 (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 without compensation. 	Clauses 4 and 16.2 of the Capital Note Terms

2.7 Regulatory treatment

APRA has confirmed to BOQ that Capital Notes are eligible for inclusion 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 (ADI) 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 eligible for inclusion 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 Note Terms include terms necessary to meet APRA's requirements for Additional Tier 1 Capital (including Conversion (or Write Off) following a Loss Absorption Event, subordination provisions and certain limitations on the rights of Holders). 	
2.7.4 What is the regulatory treatment of Capital Notes?	<ul style="list-style-type: none"> APRA has confirmed to BOQ that Capital Notes are eligible for inclusion as Additional Tier 1 Capital of BOQ under APRA's Prudential Capital Requirements If APRA's capital treatment of Capital Notes changes, a Regulatory Event may occur in which case BOQ would have an option to Convert, Redeem or Resell the Capital Notes as described in Section 2.5.4. Capital Notes 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

2.8 Other

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.1 Can BOQ issue further Capital Notes, or other instruments?	<ul style="list-style-type: none"> BOQ reserves the right to issue further Capital Notes or other securities which rank behind, equal with or ahead of Capital Notes, whether in respect of distributions, return of capital in a winding-up of BOQ or otherwise. 	Clause 20.1 of the Capital Note Terms
2.8.2 Do Capital Notes carry rights to participate in further issues of securities by BOQ?	<ul style="list-style-type: none"> Holding Capital Notes does not confer any right to participate in further issues of securities by BOQ. 	Clause 20.3 of the Capital Note Terms
2.8.3 Will Capital Notes be guaranteed?	<ul style="list-style-type: none"> Capital Notes do not represent a deposit liability of BOQ and are not protected accounts for the purposes of the Banking Act. Capital Notes 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 Note Terms
2.8.4 Are Capital Notes secured?	<ul style="list-style-type: none"> Capital Notes are not secured in any way against any asset of BOQ. 	Clauses 1.1 and 16.5 of the Capital Note 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 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. 	Clause 14.8 of the Capital Note Terms
2.8.6 Do Capital Notes entitle Holders to vote at a general meeting of BOQ?	<ul style="list-style-type: none"> A Capital Note does not entitle its Holder to vote at a general meeting of BOQ. 	Clause 17.2 of the Capital Note Terms
2.8.7 Can BOQ amend the Capital Note Terms?	<ul style="list-style-type: none"> Subject to complying with all applicable laws, BOQ may amend the Capital Note Terms 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 Note Terms if the amendment has been approved by a Special Resolution. Amendments which may affect the eligibility of Capital Notes as Additional Tier 1 Capital require APRA's prior written approval. 	Clause 18 of the Capital Note Terms
2.8.8 What is the time limit for a Holder to make a claim against BOQ?	<ul style="list-style-type: none"> Holdes should be aware that a claim against BOQ for payment in respect of a Capital Note 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 Note 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 Note Terms are binding on Holders. 	Clause 24.2(h) of the Capital Note Terms
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 Note 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 Note Terms
2.8.11 Will Capital Notes have a credit rating?	<ul style="list-style-type: none"> BOQ has not sought a credit rating for Capital Notes. 	

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.12 What are the taxation implications of investing in Capital Notes?	<ul style="list-style-type: none"> The taxation implications of investing in Capital Notes 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 7. 	Section 7
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. Holder may have to pay brokerage on any subsequent sale of Capital Notes 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 following the issue of Capital Notes. The costs of carrying out the Offer and maintaining an ASX listing for Capital Notes will be paid by BOQ. 	
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 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 Note 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. 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. 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 Note Terms

Section 2 About Capital Notes

TOPIC	SUMMARY	FURTHER INFORMATION
2.8.16	<p>What if I do not wish to receive Ordinary Shares on Conversion or if I am a Foreign Holder?</p> <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 Note Terms
2.8.17	<p>What is the Capital Notes Deed Poll?</p> <ul style="list-style-type: none"> A trustee has not been appointed for Capital Notes. Instead, there is a Capital Notes Deed Poll made by BOQ in favour of each person who is from time to time a Holder. The Capital Notes Deed Poll gives legal effect to BOQ's obligations in the Capital Note Terms. Under the Capital Notes Deed Poll, BOQ also undertakes to appoint the Registry and procure the Registry to establish and maintain a principal Register. The Capital Notes Deed Poll also includes provisions for convening meetings of the Holders to consider any matter affecting their interests, including any variation of the Capital Note Terms. Any action which affects the eligibility of Capital Notes 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 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 Deed Poll, the Capital Note Terms and this Prospectus when Capital Notes are issued or transferred to them or they purchase Capital Notes. The Registry will hold the original executed Capital Notes Deed Poll on behalf of Holders. Each Holder can enforce BOQ's obligations under the Capital Notes Deed Poll, including the Capital Note Terms and the provisions for meetings, independently of the Registry and each other. A copy of the Capital Notes Deed Poll can be obtained from BOQ's website. 	
2.8.18	<p>Is Ordinary Securityholder approval required?</p> <p>The buy-back of CPS under the Reinvestment Offer is subject to approval by Ordinary Securityholders to be proposed at the BOQ Annual General Meeting on 30 November 2017.</p>	Section 5.8 and Section 5.10.4
2.8.19	<p>What happens if Ordinary Securityholder approval is not obtained?</p> <p>The Reinvestment Offer will not proceed unless the required Ordinary Securityholder approval is obtained, in which case all Eligible CPS Holders will continue holding CPS, subject to the CPS Terms.</p>	Section 5.8 and Section 5.10.4

2.9 Comparison of Capital Notes with CPS

Capital Notes and CPS are similar in that they both qualify as Additional Tier 1 Capital for BOQ under APRA's Capital Requirements. However, they do differ considerably in several key respects. Section 5.5 includes a table that provides a summary comparison of Capital Notes and CPS.

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About BOQ

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Section 3 About BOQ

3.1 Overview of BOQ

3.1.1 Introduction

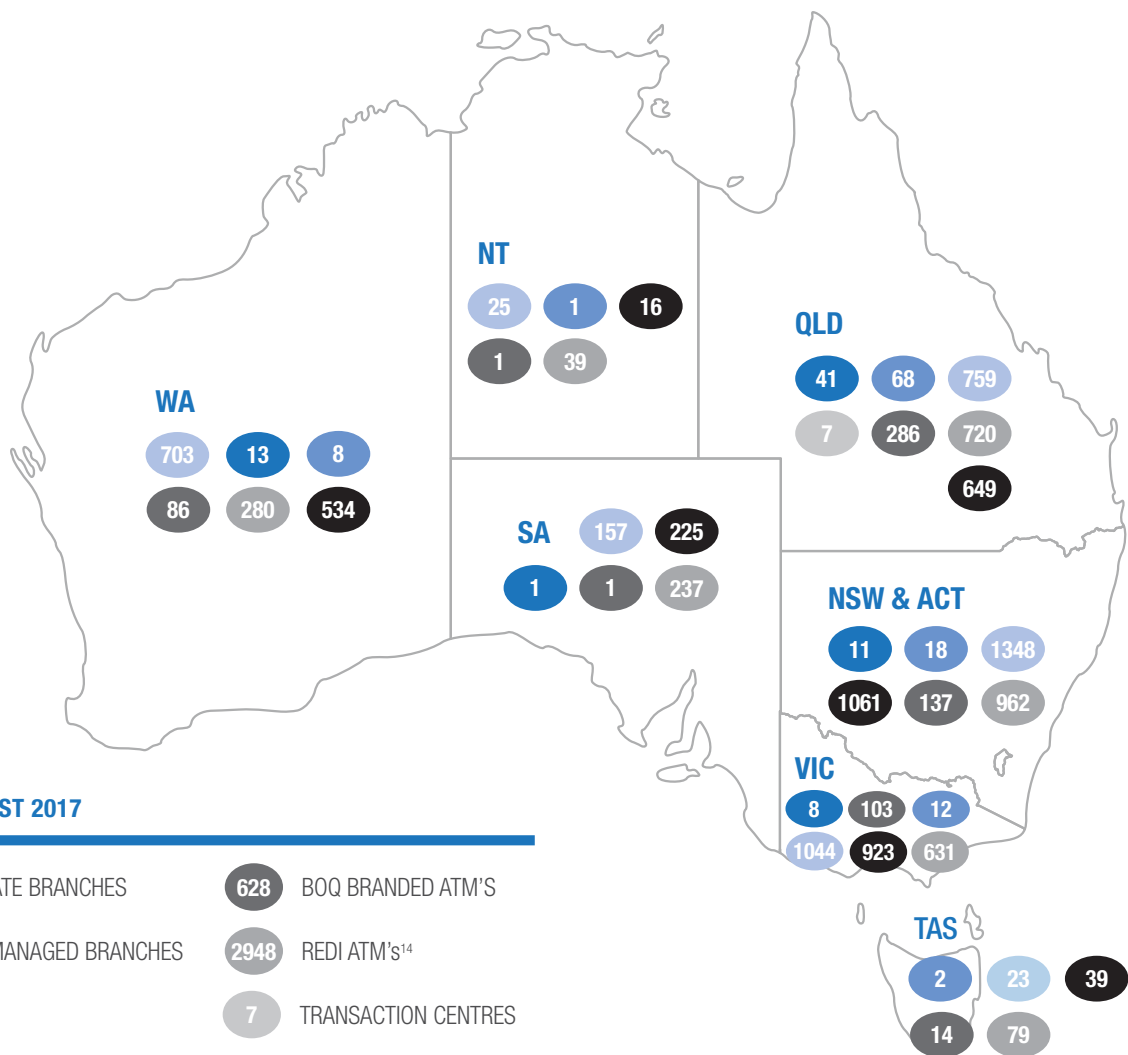
BOQ is a full service financial institution whose primary function is gathering deposits and lending. It is listed on the ASX and regulated by APRA as an ADI. It is one of the top 100 companies by market capitalisation on the ASX. BOQ was established in 1874 and was the first permanent building society in Queensland. It has evolved into a national bank with a network of retail branches, brokers and brands spanning every state and territory in Australia.

3.1.2 Results highlights for the year ended 31 August 2017

BOQ delivered a 5% uplift in cash earnings to \$378 million for the 2017 financial year and increased statutory net profit after tax 4% to \$352 million. This result was achieved in a difficult operating environment, while a significant transformation of the business was underway.

Other highlights of the 2017 financial results include:

- Net Interest Margin (NIM) down 7 basis points to 1.87%.
- Cash operating expenses of \$513 million representing an underlying 1% increase on the prior year.
- Loan impairment expense of \$48 million or 11 basis points of gross loans and advances, a 28% reduction from the prior year.
- Cash return on average equity of 10.4%.
- Common Equity Tier 1 Ratio of 9.39%, an increase of 39 basis points over the year.
- Fully franked final dividend of 38 cents per ordinary share, taking ordinary dividends for the full year to 76 cents per share.
- Following clarity from APRA on “unquestionably strong” in July 2017, and given BOQ’s very strong capital position, BOQ’s Board determined to pay a special dividend of 8 cents per Ordinary Share.



AS AT 31 AUGUST 2017

74	CORPORATE BRANCHES	628	BOQ BRANDED ATM'S
109	OWNER MANAGED BRANCHES	2948	REDI ATM'S ¹⁴
4059	BROKERS	7	TRANSACTION CENTRES
3447	VIRGIN MONEY BROKERS		

3.1.3 Presence in Australia and the Owner-Managed Branch (OMB) model

BOQ operates a widespread network of 190 locations throughout Australia (as at 31 August 2017). This includes 109 owner managed branches using BOQ's OMB model, 74 corporate branches owned and operated by BOQ and 7 transaction centres.

BOQ customers have access to over 2,900 ATMs¹⁴ throughout Australia as part of the RediATM network.

The OMB model is a key part of BOQ's distribution capability. The Owner Manager generates retail banking business usually in their local area and then shares in the success of that business through receiving upfront commissions, a share of net interest income, as well as sharing in fee and transaction income. BOQ centrally manages brand, credit policy, pricing, compliance and procedures. OMBs are encouraged to build their own business and manage their local market and are full service branches.

3.1.4 Business Model

BOQ's operating model incorporates a number of business lines including retail banking, business banking, Virgin Money Australia, BOQ Finance, BOQ Specialist and St Andrew's Insurance.



14 BOQ branded ATMs are included in this RediATM figure

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Section 3 About BOQ

Banking - Retail

BOQ Retail Banking provides banking and insurance services to households.

BOQ has a comprehensive product offering which encompasses deposit products such as transactional accounts, saving accounts and term deposits, and lending products including mortgages, overdrafts, personal lending and credit card products. BOQ has branches and accredited brokers in each state and territory in Australia and customers have access to rediATMs and BOQ-branded ATMs across Australia.

Banking - Business

BOQ, with its long history as a fully licensed commercial bank, has for some time had a significant proportion of its lending portfolio in the SME sector.

An extensive suite of products is offered to business customers and includes transactional accounts, treasury and foreign exchange risk management services, merchant services and lending products such as overdrafts, commercial loans and trade finance facilities. BOQ also offers various products to agribusiness customers across Australia.

BOQ Finance

BOQ Finance is an established provider of equipment, inventory, receivables, debtor and insurance premium financing. BOQ Finance provides BOQ with the opportunity to sell product through the retail and business bank as well as through broker, manufacturer, vendor and dealer distribution channels.

St Andrew's Insurance

St Andrew's Insurance provides consumer credit insurance and life insurance.

BOQ acquired St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd on 1 July 2010. St Andrew's Insurance is regulated by APRA and although it utilises the shared services of BOQ, this business operates separately and outside of BOQ's extended licensed entity for APRA prudential purposes.

Virgin Money Australia

BOQ acquired Virgin Money Australia from the Virgin Group in 2013. Virgin Money Australia is a retail financial services company that provides a wide range of financial products including home loans, credit cards, insurance and superannuation. BOQ has an agreement with the Virgin Group for the exclusive use of the Virgin Money brand in Australia for up to 40 years in return for an ongoing royalty. Key partnerships are with Citigroup, Mercer, Allianz Worldwide Partners, TAL and Auto & General.

BOQ Specialist

BOQ Specialist delivers distinctive banking solutions to niche market segments with a focus on the medical, dental and veterinarian sectors. BOQ acquired this business from Investec in 2014.

3.1.5 Business strategies and prospects for the future

BOQ aims to build a differentiated position in the Australian financial services sector by demonstrating to customers that "It's Possible to Love a Bank". BOQ's corporate strategy is to focus on niche customer segments that value a more intimate banking relationship than they receive from the major banks. BOQ delivers this strategy as one of Australia's leading regional banks, and one of the few not owned by one of the major banks. Most BOQ branches are run by local Owner-Managers, meaning the person running the branch owns the branch. As small business owners, BOQ Owner-Managers know what it means to deliver personal service. Through its specialists from niche commercial segments including corporate healthcare & retirement living, hospitality, franchising and agribusiness, BOQ provides a level of support to business banking customers rarely offered by the major banks. BOQ's corporate strategy is delivered through its four strategic pillars: Customer in Charge; Grow the Right Way; There's Always a Better Way; and Loved Like No Other.

'Customer in Charge' is about 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 BOQ. This is regardless of whether they come into a branch, use online services, call on the phone or buy products through a third party intermediary.

BOQ's products, including Virgin Money Australia home loans, are distributed by more than 7,500 accredited brokers, making the bank more accessible to customers who prefer to use brokers. In FY17, Virgin Money Australia launched a website that improves customers' digital experience by personalising customer content. BOQ will roll out a similar upgrade early next calendar year. BOQ also continued to modernise other customer-facing channels by upgrading its branch fleet of ATMs.

'Grow the Right Way' is about building a strong and profitable business by making the right decisions about where and how to grow. This includes focusing on niche customer segments that value an intimate banking relationship. This year, BOQ expanded its offering to niche segments through the acquisition of Centrepoint Alliance Premium Funding Pty Ltd to create a new Cashflow Finance team within BOQ Finance, boosting the team's specialist skills. BOQ also further diversified its sources of funding with the launch of the first conditional pass-through covered bond program by an Australian bank. BOQ continued its conservative approach to lending, which has given it a high-quality portfolio. As existing franchise agreements expire, BOQ is moving Owner-Managers onto a new balanced scorecard agreement that includes a wider range of metrics, such as customer and compliance measures. As part of this strategic pillar, BOQ also assesses strategic alternatives (including investment and divestment opportunities as they arise) in response to changing market conditions and customer needs and may from time to time engage in merger, acquisition or divestment activities which facilitate BOQ's strategic direction. BOQ expects to continue to assess strategic opportunities as they arise, along with exploring opportunities for organic growth. There are risks associated with both the execution and implementation of mergers, acquisitions and divestments (refer to Section 4.4.15).

'There's Always a Better Way' is about BOQ's commitment to making its systems and processes simpler, faster and smarter. The bank aims to improve efficiency, reduce costs and deliver better customer service. BOQ has continued to digitise its lending platforms with improvements to its retail, commercial and lease management lending systems. BOQ has also introduced investment and change management frameworks that improve its ability to respond to emerging opportunities.

'Loved Like No Other' is about how BOQ maintains positive stakeholder relationships by living its values, creating a place where people love to work and contributing to the communities in which it operates. These are just some of the things BOQ does to prove "It's Possible to Love a Bank".

This year BOQ reinforced its commitment to ethical conduct through an industry-leading commitment to the Banking and Finance Oath. The bank also built on its internal ethics training and conduct reporting, and introduced a range of team-based initiatives to embed company values and drive a culture of continuous improvement. BOQ also continued to demonstrate its commitment to providing a diverse and inclusive workforce by making significant progress on its reconciliation journey.

3.1.6 Directors of BOQ

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

- Roger Davis, Chairman, Non-Executive Independent Director
- Jon Sutton, Managing Director & Chief Executive Officer
- Bruce Carter, Non-Executive Independent Director
- Richard Haire, Non-Executive Independent Director
- John Lorimer, Non-Executive Independent Director
- Warwick Negus, Non-Executive Independent Director
- Karen Penrose, Non-Executive Independent Director
- Margaret Seale, Non-Executive Independent Director
- Michelle Tredenick, Non-Executive Independent Director
- David Willis, 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.

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.

3.1.7 Management of the businesses of BOQ

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

- Jon Sutton, Managing Director & Chief Executive Officer
- Anthony Rose, Chief Financial Officer
- Peter Deans, Chief Risk Officer
- Brendan White, Group Executive BOQ Business
- Matthew Baxby, Group Executive Retail Banking
- Donna-Maree Vinci, Group Executive Enterprise Solutions
- Michelle Thomsen, General Counsel & Company Secretary
- Belinda Jeffreys, 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.

3.1.8 Corporate governance of BOQ

The Directors and Management are committed to excellence in corporate governance and support the Corporate Governance Principles & Recommendations (3rd ed) as developed by the ASX Corporate Governance Council as the basis for enhancing the credibility and transparency of capital markets.

Further information about BOQ's corporate governance guidelines and practices are available at www.boq.com.au.

3.2 Selected financial information about BOQ

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

The summary historical financial information presented in this section has been extracted from BOQ's audited financial statements for the years ended 31 August 2016 and 31 August 2017. 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 2017, a copy of which can be obtained from www.boq.com.au 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 2017 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.

Section 3 About BOQ

3.2.1 Consolidated income statements

The following table sets out BOQ's audited consolidated income statements for the years ended 31 August 2016 and 31 August 2017. Notes to the audited consolidated income statements are set out in the annual financial report for the year ended 31 August 2017.

A\$M	REPORTED 2016	REPORTED 2017
Interest income	2,157	2,046
Less: Interest expense	1,221	1,120
Net interest income	936	926
Other operating income	155	156
Net banking operating income	1,091	1,082
Premiums from insurance contracts	70	68
Investment revenue	3	2
Less: Claims and policyholder liability expense from insurance contracts	47	49
Net insurance operating income	26	21
Total operating income before impairment and operating expenses	1,117	1,103
Less: Expenses	554	548
Less: Impairment on loans and advances	67	48
Profit before income tax	496	507
Less: Income tax expense	158	155
Profit for the year	338	352

3.2.2 Pro-forma consolidated balance sheet as at 31 August 2017

The following table sets out the consolidated balance sheet of BOQ as at 31 August 2017, and the pro-forma consolidated balance sheet as at 31 August 2017 (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 2017. The Pro-Forma Balance Sheet is unaudited and has been prepared using the relevant accounting policies as disclosed in the 31 August 2017 annual financial report and based on the following assumptions:

- Pro-forma adjustments prior to the Offer:
 - › payment of \$7.4 million CPS dividend on 16 October 2017; and
 - › \$149.2 million final dividend and \$31.4 million special dividend on Ordinary Shares paid on 23 November 2017; and
 - › \$50.0 million Tier 2 notes to be redeemed on 20 December 2017; and
- Pro-forma adjustments related to the Offer:
 - › \$300 million is assumed to be raised through the Offer net of estimated issue costs of \$6 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; and
 - › The buy-back of \$300m of CPS through the Reinvestment Offer on 16 April 2018 subject to APRA approval.

Included in BOQ's \$450 million Additional Tier 1 Capital as at 31 August 2017 is \$300 million CPS issued by BOQ on 24 December 2012. Under the terms of CPS, BOQ may elect to convert, redeem or transfer CPS on 16 April 2018. Any decision to convert, redeem or transfer CPS 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 CPS would also be subject to APRA approval.

	REPORTED 2017 \$M	PRO-FORMA ADJUSTMENTS PRIOR TO THE OFFER	PRO-FORMA ADJUSTMENTS RELATED TO THE OFFER	PRO-FORMA 2017 \$M	NOTE
Assets					
Cash and liquid assets	914	(237)	(6)	671	1
Due from other financial institutions - term deposits	58			58	
Financial assets available-for-sale	3,934			3,934	
Financial assets held for trading	1,837			1,837	
Derivative financial assets	109			109	
Loans and advances at amortised cost	43,590			43,590	
Other assets	214			214	
Property, plant and equipment	60			60	
Deferred tax assets	55			55	
Intangible assets	872			872	
Investments in joint arrangements	15			15	
Total assets	51,658	(237)	(6)	51,415	
Liabilities					
Due to other financial institutions - accounts payable at call	262			262	
Deposits	37,169			37,169	
Derivative financial liabilities	333			333	
Accounts payable and other liabilities	390	(5)		385	2
Current tax liabilities	7			7	
Provisions	42			42	
Insurance policy liabilities	16			16	
Borrowings	9,651	(50)	(6)	9,595	3
Total liabilities	47,870	(55)	(6)	47,809	
Net assets	3,788	(182)	-	3,606	
Equity					
Issued capital	3,360			3,360	
Reserves	57			57	
Retained profits	371	(182)		189	4
Total equity	3,788	(182)		3,606	

Notes:

1. Decrease in cash and cash equivalents relates to the payment of the CPS dividend on 16 October 2017, the final dividend and special dividend on Ordinary Shares paid on 23 November 2017, costs associated with the Offer and the redemption of \$50m Tier 2 Notes on 20 December 2017 (notice has been provided to the noteholder for the \$50m Subordinated Notes issued on 20 December 2012 that they will be redeemed on 20 December 2017).
2. Reduction in accounts payable and other liabilities relates to the payment of accrued CPS dividends on 16 October 2017.
3. Decrease in borrowings assumes \$6m issue costs associated with the Offer, \$300m Capital Notes are issued replacing \$300m CPS currently on issue and the redemption of \$50m Tier 2 Notes on 20 December 2017.
4. Decrease in retained profits relates to the payment of the CPS dividend on 16 October 2017 and the final dividend and special dividend on Ordinary Shares paid on 23 November 2017.

Section 3 About BOQ

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 three tiers for its supervisory purposes, these are as follows:

- Common Equity Tier 1 Capital;
- 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 the Capital Notes are eligible for inclusion 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.

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%

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 to the profits of a particular year or period.

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) 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) 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) (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.

Financial System Inquiry

The Australian Government conducted a comprehensive inquiry into Australia's financial system and released a final report (the "FSI Report") on 7 December 2014 which is available from www.fsi.gov.au. One of the recommendations of the FSI Report was that APRA set capital standards for ADIs such that capital ratios are "unquestionably strong".

On 19 July 2017, APRA proposed changes to capital level benchmarks to satisfy "unquestionably strong" requirements set out in the Financial Services Inquiry of 2014. In these proposed changes, APRA estimated that for ADIs using the standardised approach to capital adequacy, such as BOQ, they would need to increase minimum Common Equity Tier 1 capital requirements by the equivalent of approximately 50 basis points by 1 January 2020. APRA intends to release a discussion paper on proposed revisions to the capital framework later this year and draft prudential standards, which will define exact levels and be implemented by the end of 2021. The discussion paper will outline the direction of APRA's implementation of forthcoming Basel III changes to risk weights as well as measures to address Australian ADI's structural concentration of exposures to residential mortgages. In response to APRA's July announcement, BOQ noted that it supports and welcomes APRA's clear recognition that differences in risk weights between internal ratings-based approach banks and Standardised banks (as defined by the Basel Committee) are reflected in their required Common Equity Tier 1 ratios. See Section 4.4 for further details.

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 2017

The following table sets out the pro-forma capital adequacy position based on BOQ's audited consolidated balance sheet as at 31 August 2017, adjusted for the pro-forma adjustments related to the Offer set out in Section 3.2.2, including the issue of \$300 million of Capital Notes (net of costs associated with the Offer) as if it was completed as at that date, and assuming CPS are either bought back through the Reinvestment Offer or on 16 April 2018, subject to APRA approval.

Included in BOQ's \$450 million Additional Tier 1 Capital as at 31 August 2017 is \$300 million CPS issued by BOQ on 24 December 2012. Under the terms of CPS, BOQ may elect to convert, redeem or transfer CPS on 16 April 2018. Any decision to convert, redeem or transfer CPS 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 CPS would also be subject to APRA approval.

BOQ reported and pro-forma consolidated capital adequacy position

	REPORTED AUG-2017 \$M	PRO-FORMA ADJUSTMENTS	PRO-FORMA AUG-2017 \$M	NOTE
Common Equity Tier 1 ('CET1')	2,690	(6)	2,684	1
Additional Tier 1 Capital	450		450	
Total Tier 2	402		402	
Total Capital Base	3,542	(6)	3,536	1, 3
Total risk weighted assets	28,644		28,644	
Common Equity Tier 1 Ratio	9.39%		9.37%	2, 3
Tier 1 Ratio	10.96%		10.94%	2, 3
Total Capital Adequacy Ratio	12.37%		12.34%	2, 3, 4

Notes

- Change in CET1 and Total Capital Base assumes \$300m Capital Notes are issued, net of \$6m costs associated with the Offer, replacing \$300m CPS currently on issue.
- Change in Common Equity Tier 1 Ratio, Tier 1 Ratio and Total Capital Adequacy Ratio assumes \$300m Capital Notes are issued, net of \$6m costs associated with the Offer, replacing \$300m CPS currently on issue.
- The final dividend and special dividend on Ordinary Shares paid on 23 November 2017 will also decrease the Total Capital Base and Common Equity Tier 1 Ratio, Tier 1 Ratio and Total Capital Adequacy Ratio.
- Notice has been provided to the noteholder for the \$50m Subordinated Notes issued on 20 December 2012 that they will be redeemed on 20 December 2017.

Section 3 About BOQ

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) that was implemented in Australia on 1 January 2015. The LCR is a severe short-term liquidity stress scenario, 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.

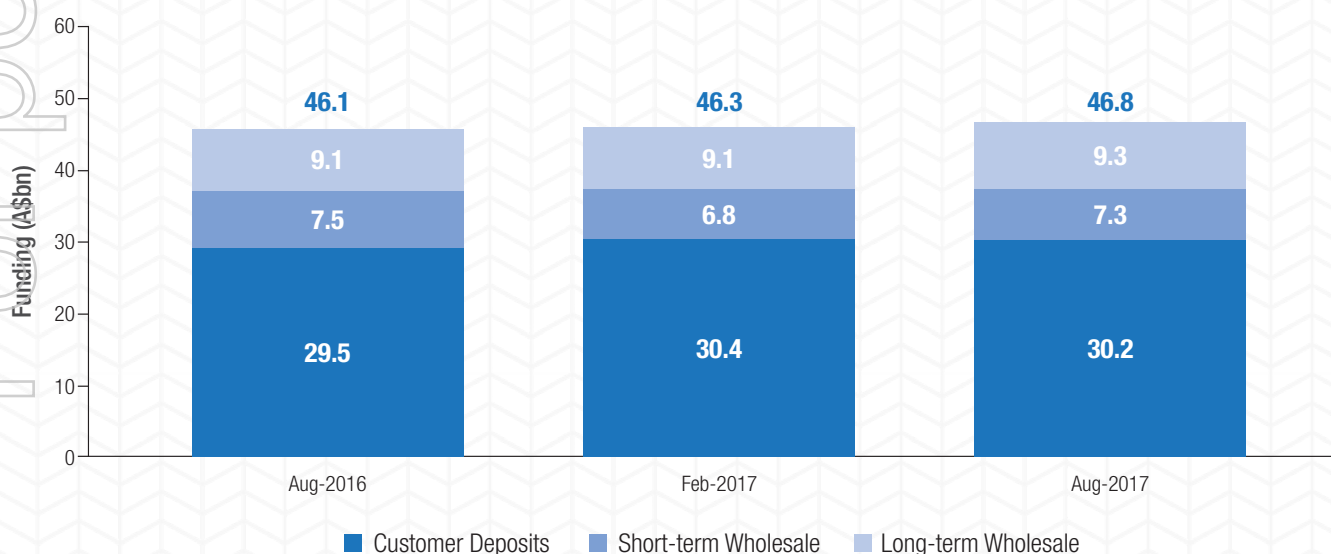
3.4.2 Funding risk management

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

BOQ Funding Mix



3.4.1.1 Liquidity ratios

The Basel III liquidity requirements of APRA are: (i) the LCR that became effective on 1 January 2015 and (ii) the Net Stable Funding Ratio (NSFR).

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% on 1 January 2018. APRA has finalised its NSFR requirements for Australian ADIs and confirmed that the NSFR will become a minimum requirement on 1 January 2018. As part of managing future liquidity requirements, the Bank monitors the NSFR in its internal reporting and believes the Bank is well placed to meet this requirement by the implementation date.

As at 31 August 2017, BOQ's LCR was 132%. BOQ's consolidated NSFR averaged 107% during the year ended 31 August 2017, positioning BOQ well to have a prudential buffer in place by 1 January 2018 when the NSFR regulatory standard comes into place.

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Investment Risks

4

Section 4 Investment Risks

4.1 Introduction

Before applying for Capital Notes, you should consider whether Capital Notes are a suitable investment for you. You should be aware that there are risks associated with an investment in Capital Notes, 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. 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. 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.

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

- risk associated with investing in Capital Notes;
- 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 or other independent and qualified professional adviser before deciding whether to apply for Capital Notes.

4.2 Capital Notes are not deposit liabilities

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

4.3 Capital Notes specific risks

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

4.3.1 Market price and liquidity of Capital Notes

The market price of Capital Notes may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, 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, the occurrence or potential occurrence of a Loss Absorption Event, factors that could limit BOQ's ability to make payments on Capital Notes, the method of calculating the outstanding amount (if any) of the Capital Notes following a Conversion or Write Off, the outstanding amount of Capital Notes, 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 may trade at a market price below the Face Value. There is no guarantee that Capital Notes will remain continuously quoted on ASX.

The market price of Capital Notes 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.

In recent years, securities markets have sometimes been volatile. 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.

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 could decline in value even if Capital Notes have not been Converted. Accordingly, when you evaluate whether to invest in Capital Notes, you should carefully evaluate the investment risks associated with an investment in BOQ – see Section 4.4.

4.3.3 Liquidity

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

Where Capital Notes 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.

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 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 based on the VWAP during a period before the Mandatory Conversion Date or other date on which Capital Notes are Converted.

The market price of Ordinary Shares may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions and BOQ's financial performance and position and transactions affecting the share capital of BOQ. As a result, the value of Ordinary Shares received on Conversion may be greater than or less than \$101.01 per Capital Note 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.

4.3.6 Changes in Distributions

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

The Distributions will fluctuate in line with movements in the BBSW Rate. 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.

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

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. The Commonwealth Government has proposed as part of the 2016-17 Federal Budget a staggered reduction of the corporate tax rate to 25% for all corporate entities by the 2026-27 income year, with the reductions to take effect on dates dependent on the amount of annual aggregated turnover of the relevant company. These proposed measures have been included in the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017 which was introduced into the House of Representatives on 11 May 2017 and is currently before Parliament. In the case of BOQ, the initial reduction from 30% to 27.5% is not expected to take effect until the 2023-24 income year, with further reductions in the corporate tax rate to take effect in subsequent income years until the tax rate reaches 25% in the 2026-27 income year.

Section 4 Investment Risks

4.3.7 Distributions may not be paid

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

The payment of Distributions on Capital Notes 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 or where APRA otherwise objects to the payment of a Distribution.

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 the Capital Notes) and discretionary staff bonuses if the Common Equity Capital Ratio falls into its Capital Buffer – see Section 3.3.3.

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

The Capital Note 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; and
- has no right to set-off any amount owing to it by BOQ in connection with Capital Notes against any amount owing by it to BOQ.

Distributions on Capital Notes 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 have been Converted or Redeemed; or
- a Special Resolution of the Holders has been passed approving such action.

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 (such as CPS and Wholesale Capital Notes) or any other class of security (if on issue).

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

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, generally occur twice a year and do not bear a fixed relationship to the Distribution Payment Dates for Capital Notes. Accordingly, as soon as the restriction ceases to apply (as will be the case if the next scheduled quarterly Distribution on Capital Notes 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.

4.3.9 Distributions may not be fully franked

It is expected that Distributions on Capital Notes will be fully franked. However, it is possible that Distributions paid on Capital Notes may not be fully franked. 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.

The value and availability of franking credits to be utilised by a Holder will differ depending on the Holder's particular tax circumstances. 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 7 and seek professional advice in relation to their tax position.

4.3.10 Ranking of Capital Notes

In respect of payment of Distributions and in a winding-up of BOQ, Capital Notes rank ahead of Ordinary Shares, equally and without preference among themselves and other Equal Ranking Instruments (including CPS and Wholesale Capital Notes), but behind the claims of all Senior Ranking Creditors (including holders of securities or instruments ranking ahead of Capital Notes and all depositors).

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, Holders will lose all or some of their capital.

Any return in a winding-up may be adversely affected if Capital Notes 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 (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 without compensation.

Although Capital Notes 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.

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

Capital Notes are scheduled to Convert into Ordinary Shares on 15 August 2026 (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 Note Terms and not for other transactions, including rights issues, placements, returns of capital, buy-backs or special dividends. The Capital Note 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 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 are not otherwise Converted or Redeemed, Distributions may continue to be paid on Capital Notes, subject to BOQ electing to pay a Distribution and no Payment Condition existing on the relevant Distribution Payment Date(s).

Capital Notes 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 are otherwise Converted, Capital Notes will never Convert.

4.3.12 Redemption, Conversion or Resale at BOQ's Option

Capital Notes are perpetual securities and Holders do not have a right to require BOQ to Convert, Redeem or Resell their Capital Notes. BOQ may, subject to APRA approval, elect to Convert, Redeem or Resell some or all Capital Notes on 15 August 2024 or following the occurrence of a Tax Event or Regulatory Event. In addition, BOQ may also Convert all (but not some) Capital Notes on the occurrence of a Potential Acquisition Event.

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 (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.

For example, if APRA approves an election by BOQ to Redeem Capital Notes, Holders will receive cash equal to \$100 per Capital Note 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.

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.

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.

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, 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 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 (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. Also, if a Delisting Event applies, BOQ is not permitted to elect to Convert Capital Notes.

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.

Section 4 Investment Risks

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 is subject to the condition that APRA is satisfied that either Capital Notes 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 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.

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

4.3.14 Conversion on an Acquisition Event

BOQ, the issuer of Capital Notes, 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 Note Terms, subject to certain conditions, BOQ is required to Convert all Capital Notes in accordance with the Capital Note 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 (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. 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.

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

4.3.15 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.

4.3.16 Conversion on account of a Loss Absorption Event

BOQ must immediately Convert Capital Notes 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 as having been issued the Conversion Number of Ordinary Shares. BOQ expects that any ASX trades in Capital Notes 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 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 on ASX, and if ASX permits, may refuse to register transfers of Capital Notes that have not settled – this may result in disruption or failures in trading or dealings in Capital Notes (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, BOQ may be:

- permitted to Convert only a proportion of Capital Notes 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).

Holders should be aware that all relevant Tier 1 Capital instruments such as Capital Notes will be converted or written off before any Relevant Tier 2 Capital Instruments are converted or written off.

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 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 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.

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

Holders should be aware that:

- Relevant Tier 1 Capital Instruments such as Capital Notes, CPS and Wholesale Capital Notes 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 CPS and Wholesale Capital Notes. BOQ has no obligation to maintain on issue CPS, Wholesale Capital Notes 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 or in full; and
- BOQ has on issue Relevant Tier 1 Securities (being CPS) that take the form of convertible preference shares. Due to the requirements of the Corporations Act, if CPS are written-off, the rights of holders of these securities are not terminated but are instead varied so as to give a holder rights equivalent to the rights in respect of Ordinary Shares it would have received if conversion had occurred. By contrast, if Capital Notes are Written Off, all rights in relation to those Capital Notes will be terminated and the Holders will lose the entire amount of their investment, without compensation. Accordingly, if Capital Notes are Written Off, Holders will have no rights and will likely be worse off than holders of CPS, even though CPS rank equally with Capital Notes.

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. 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.

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 and losing a significant amount of the money they invested in Capital Notes 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 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, the Capital Notes 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.

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 may change and the change may be adverse to the interests of Holders.

4.3.17 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 will not be rated, such changes could adversely affect the market price, liquidity and performance of Capital Notes or Ordinary Shares received on Conversion.

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4.3.18 Regulatory classification

APRA has confirmed that Capital Notes are eligible for inclusion 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 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.

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.

4.3.19 Taxation treatment and consequences

A general description of the taxation consequences for an Australian resident of investing in Capital Notes is set out in Section 7. 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 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.

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.

4.3.20 Accounting standards

A change in accounting standards 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.

4.3.21 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;
- have the same or different dividend, interest or distribution rates as those for Capital Notes;
- have payment tests and distribution restrictions or other covenants which affect Capital Notes (including by restricting circumstances in which Distributions can be paid or Capital Notes can be Converted, Redeemed or Resold); or
- have the same or different terms and conditions as Capital Notes.

BOQ may incur further indebtedness and may issue further securities including further Tier 1 Capital securities before, during or after the issue of Capital Notes.

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 or of the likelihood of BOQ making payments on Capital Notes. Similarly, Capital Notes 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).

An investment in Capital Notes 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. An investment in Capital Notes carries no right to be redeemed or otherwise repaid at the same time as BOQ redeems or otherwise repays other securities (whether equity, Tier 1 Capital, subordinated or senior debt 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 or on BOQ's financial position or performance.

4.3.22 Non-Operating Holding Company (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 Note Terms. In this case, subject to certain conditions, BOQ is required to Convert all Capital Notes in accordance with clauses 5 and 7 of the Capital Note Terms.

However, certain events which would otherwise constitute Acquisition Events are categorised under the Capital Note 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. Instead, BOQ will be permitted to make certain amendments to the Capital Note Terms in order to substitute the Approved NOHC as the issuer of the ordinary shares issued on Conversion.

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 Note 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.

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 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.

4.3.23 Powers of an ADI statutory manager and of APRA

In certain circumstances APRA may appoint a statutory manager to take control of the business of an ADI, such as BOQ. Those circumstances are defined in the Banking Act to include:

- (a) where the ADI informs APRA that it is likely to become unable to meet its obligations, or is about to suspend payment or becomes unable to meet its obligations or suspends payment;
- (b) 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 or 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; and
- (c) 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 the ADI's business.

The powers of an ADI 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. The ADI 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. In the event that a statutory manager is appointed to BOQ in the future, these broad powers of an ADI statutory manager may be exercised in a way which adversely affects the rights attaching to Capital Notes 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 (Business Transfer and Group Restructure) Act 1999* (Cth) (FSBT Act).

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

APRA's powers may be enhanced by changes in law. On 19 October 2017 the Federal Government introduced into Parliament the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017 (Crisis Measures Bill)*, which is intended to enhance APRA's crisis resolution powers in relation to certain entities. Broadly, the Crisis Measures Bill, if passed into law by Parliament, will (amongst other things):

- grant APRA the power to appoint a statutory manager to BOQ and certain of its related entities in the event of financial difficulty, or in the event its financial position seriously deteriorates;
- permit APRA to make a broader range of directions to BOQ and certain of its related entities; and
- ensure that an exercise of a power by APRA in relation to an entity (including the appointment of a statutory manager) does not give rise to termination rights or other rights (that is, denying an obligation, accelerating a debt, closing-out on a transaction, or enforcing a security) on the part of contractual counterparties of that entity (or its related entities) and give statutory recognition to the conversion and write-off of regulatory capital instruments.

At this stage, the direct impacts of the Crisis Measures Bill on the BOQ Group are unknown.

4.3.24 Amendment of Capital Note Terms

BOQ may in certain circumstances amend the Capital Note Terms 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 Note Terms if the amendment has been approved by a Special Resolution. Amendments which may affect the eligibility of Capital Notes 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.

4.3.25 Shareholding limits

The Financial Sector (Shareholdings) Act 1998 (Cth) restricts ownership by people (together with their associates) of ADIs, such as BOQ, to a 15% stake. A securityholder may apply to the Treasurer to extend their ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest. The Australian Government announced as part of the 2017-18 Federal Budget that it will look to relax the 15% ownership cap for 'innovative new entrants' whether through existing ministerial discretion or legislative change.

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 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 (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. 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. 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.

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4.3.26 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 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.

4.4 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 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:

- 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;
- liquidity risk, including that assets cannot be sold without a significant impairment in value; and
- inflation risks, i.e. the risk that inflation levels and consequently, claims are higher than expected.

Such risks can be heightened during periods of high volatility, market disruption and periods of sustained low interest rates and could adversely affect the BOQ Group's businesses, financial performance, capital resources and financial condition.

If the BOQ Group was to suffer substantial losses due to any market volatility, it could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

4.4.3 Global market and economic volatility

The financial performance of the BOQ Group is significantly affected by changes in investment markets and economic conditions both globally and in Australia.

The financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility and uncertainty as to the outlook for

global economic conditions. 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. This could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

4.4.4 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.

If market conditions deteriorate due to economic, financial, political 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. BOQ's Contingent Funding Plan is used to manage this risk.

The BOQ Group has made progress overtime in strengthening its balance sheet, creating a sustainable funding profile and improving internal capital generation.

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.

Interest rate risk arises from a variety of sources, including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates may affect earnings or the value of BOQ.

Currency risk is the risk of loss of earnings due to adverse movements in foreign exchange rates. BOQ's foreign exchange rate exposures are managed through detailed policies set by the Board and monitored by BOQ's Asset and Liability Committee and BOQ's treasury department.

Counterparty risk is the risk that BOQ's counterparties are unable to honour their contractual obligations. A counterparty may default on its obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap contracts under which counterparties have obligations to make payments to BOQ executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Such counterparty risk is more acute in difficult market conditions where the risk of failure of counterparties is higher.

BOQ continues to review its pricing model and funding mix in light of market conditions to ensure products are appropriately priced.

4.4.5 Credit and impairment 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.

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, debtor finance and other finance products. Less favourable economic or business conditions or 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 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.

4.4.6 A weakening of the real estate market in Australia or Queensland may adversely affect BOQ's business, operations and financial condition

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

Recently, prompted by Australian housing price appreciation and rising Australian household debt, APRA introduced a new supervisory measure instructing Australian banks, including BOQ, to limit new residential interest only mortgages to 30 per cent of total new residential mortgage lending. Should BOQ's regulators impose further 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 business, operations and financial condition.

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 materially and adversely impact BOQ's financial condition and operations.

4.4.7 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.

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). Loss from such risks could affect the BOQ Group's financial results. 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.

The BOQ Group includes a number of subsidiaries that are trading entities. Dealings and exposures between BOQ and other 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.

The BOQ Group's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The BOQ Group may in the future have difficulty attracting highly qualified people to fill important roles, which could adversely affect its business, operations and financial condition.

4.4.8 Insurance business

St Andrew's Insurance provides consumer credit insurance and life insurance. These insurance contracts involve the acceptance of significant insurance risk including those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness, or involuntary unemployment. Insurance risk accepted under these insurance contracts is, in part, mitigated through the implementation of a reinsurance programme. In addition, the insured benefit is not linked to the market value of the investments held for the purpose of meeting that benefit and any financial risks are substantially borne by the separately prudentially regulated insurance entities within the BOQ Group, of which BOQ is the ultimate securityholder. This risk is mitigated by the insurance entities employing conservative investment strategies with limited capital value at risk. Any reduction in the value of those investments and any increase in claims could adversely affect the financial performance and position of the insurance entities and the BOQ Group. In such an event, the BOQ Group's provisions for insurance liabilities may prove inadequate to cover the ultimate liability for claims or other policy benefits, which may adversely affect the financial performance and position of BOQ.

4.4.9 Reliance on external parties

BOQ's operations depend on performance by a number of external parties under contractual arrangements with BOQ. 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 outsources a number of operational services such as information technology and banking platforms, and a number of customer facing products such as ATMs, credit cards, general insurance products and wealth management services. Although BOQ has taken steps to protect it from the effects of defaults under these arrangements, such defaults may have an adverse effect on BOQ's business continuity and financial performance.

4.4.10 Changes in regulation and government policy

As a financial services provider, BOQ is subject to substantial regulatory and legal oversight in Australia. The 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.

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Global economic conditions have led to increased supervision and regulation, as well as changes in the regulation in markets in which BOQ and 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.

Furthermore, the nature and impact of future changes are not predictable and beyond BOQ's control and there is operational and compliance and cost risk 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, 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 business, results of operations, financial performance or financial condition. 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.

Some examples of the domestic and global legislative and regulatory changes and industry reforms which will, or may, impact on the BOQ Group's operations in Australia are set out below.

APRA – On 19 October 2017, the Federal Government introduced into Parliament the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017* (Cth) (BEAR Measures) which relate to executive remuneration and accountability. Primary risks to the BOQ Group emerging from the changes in legislation relate to penalties for breaching the BEAR Measures, and the ability to attract and retain high quality executives. The BEAR Measures currently only apply to ADIs and ADI subsidiaries (including BOQ and its subsidiaries) – but may ultimately be extended to other parts of the financial services industry, impacting the BOQ Group more broadly.

Open banking - The Australian Government announced as part of the 2017-18 Federal Budget that it will introduce an open banking regime in Australia. Open banking will require banks to share product and customer data with consent of

the customer and will change the way Australians use and benefit from their data. It will drive competition in financial services by increasing consumer choice and empower customers to seek out products that better suit their needs.

Life insurance industry reforms – *The Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016* (Cth) was passed by Parliament in early February 2017. The proposed reforms encompass a significant impact on the types of commission that can be paid for life risk insurance products. ASIC has also undertaken a review of the claims handling procedures in the life insurance industry and, in conjunction with APRA, will be introducing enhanced reporting measures regarding life insurance claims.

ASIC focus on add-on insurance industry - ASIC is undertaking an industry-wide review of the add-on insurance sector. ASIC has released reports detailing findings and possible improvements to the add-on insurance industry. The BOQ Group is working with industry to determine the impacts from the findings. At this stage, the reforms are likely to be multi-faceted and include pricing, product design and distribution initiatives. The BOQ Group has already implemented a number of changes and continues to liaise with ASIC on further improvements.

Financial advisers – The Federal Government is developing a legislative framework aimed at improving the professional, ethical and education standards of advisers in the financial services industry.

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 and the Financial Stability Board, which, if adopted or followed by domestic regulators, may increase operational and capital costs or requirements.

Federal Government's Bank Levy – *The Major Bank Levy Act 2017* (Cth) and the *Treasury Laws Amendment (Major Bank Levy) Act 2017* (Cth) impose a levy on liabilities for certain large banks with effect from 1 July 2017. The levy will be payable on a quarterly basis, with the first payment to be made in relation to the September 2017 quarter.

Based on the BOQ's 31 August 2017 balance sheet, the BOQ Group is not currently subject to the levy. There is some risk that Australian State or Territory Governments may introduce similar levies.

Australian Bankers' Association Banking Reform Program – Since April 2016, the Australian Bankers' Association has been delivering a range of initiatives designed to improve consumer trust and confidence in the banking sector. These initiatives include a commitment by member banks to remove variable sales incentives that are directly linked to product sales and a complete re-write of the industry's Code of Banking Practice to provide greater protections to customers.

Other foreign regulations – The BOQ Group's businesses may 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, Dodd-Frank Wall Street Reform 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. In addition, there have been calls for a Royal Commission to investigate the Australian banking sector.

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. Any such costs or restrictions could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

4.4.11 Financial System Inquiry

Over the course of 2014 and 2015 the Australian Government undertook a review of the Australian financial system. The Financial System Inquiry, which was established by the Australian Government in connection with this review, has released its final report containing a number of observations and potential policy options and has made a number of recommendations for policy changes including in respect of regulatory capital requirements for ADIs and strengthening the management powers of Australia's financial regulators.

On 20 October 2015 the Australian Government released the Government's response to the Financial System Inquiry, which accepted in principle most of the Financial System Inquiry's recommendations which are likely to affect (among other things) superannuation, capital and leverage ratios and financial system technology. In particular, the response stated "Australia's financial sector regulatory framework needs to be stronger than those of comparable economies".

In July 2017, APRA released an information paper which outlines APRA's conclusions with respect to the quantum and timing of capital increases that will be required for ADI's to achieve "unquestionably strong" capital ratios. BOQ noted that APRA has determined that the necessary increase to minimum capital requirements will apply differently between internal ratings-based approach and standardised banks.

Minimum Common Equity Tier 1 requirements are to be increased by:

- 150 basis points for IRB banks; and
- 50 basis points for Standardised banks like BOQ.

BOQ indicated that it supports and welcomes APRA's clear recognition that differences in risk weights between IRB banks and Standardised banks are reflected in their required Common Equity Tier 1 ratios, and that based upon its assessment of the announcement, already meets the prescribed threshold.

APRA's implementation of the prudential standards to produce unquestionably strong capital ratios may also result in further changes to the risk weighting framework for certain asset classes and other risks (such as operational risk). Whilst APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, it is not clear how APRA will implement these changes. APRA's Prudential Standards may also be supplemented by proposals to implement other key FSI Report recommendations such as the introduction of a minimum leverage ratio or a minimum total loss absorption capital requirement, where certain debt could be "bailed in" to recapitalise a stressed financial institution to avoid the government needing to support that financial institution.

At this stage, it is difficult to judge the potential future impact of such changes or any other impacts of the FSI Report, government response and regulator action, including whether there may be increased capital or other regulatory requirements for the BOQ Group.

The FSI Report also recommended that APRA's crisis management powers be expanded and the Commonwealth Government has responded by proposing enhancements to APRA's powers as described in 4.3.23 above.

4.4.12 Changes in technology

Technology plays an increasingly important role in the delivery of financial services to customers in a cost effective manner. BOQ's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate technology platform for the efficient delivery of its products and services.

BOQ is currently working with its IT vendors/partners to modernise its IT infrastructure, application architecture and operating environment.

4.4.13 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. Changes in the regulatory environment will potentially influence the industry's competitive dynamic.

4.4.14 Risks to BOQ growth strategy

Risks that relate to BOQ's growth strategy are interrelated and include risk of local market saturation, risks associated with geographical diversification, changes in wholesale funding markets, changes in general economic conditions, regulatory reform and the availability of appropriate franchisees to operate and grow the OMB network.

Risk of local market saturation: Despite the size of the Queensland market, BOQ faces the challenge of maintaining a high penetration rate in that market in order to achieve continued growth. In addition, BOQ will continue to be exposed to fluctuations in the Queensland economy and property market in particular.

Risk of geographical diversification: The market is aware that BOQ has completed mergers with Pioneer Permanent Building Society (North Queensland) in 2006 and Home Building Society (Western Australia) in 2007, and the acquisition of Virgin Money (Australia) Pty Limited in April 2013 and Investec Bank (Australia) Limited (now renamed BOQ Specialist Bank Limited (BOQ Specialist) in July 2014). BOQ Specialist has a substantial market share of medical and accounting professionals and combining this with access to BOQ's products and funding will create significant growth opportunities. On 30 December 2016, BOQ acquired Centrepoint Alliance Premium Funding Pty Ltd, a provider of niche insurance premium funding products to small business and commercial customers.

Funding for growth: Changes in wholesale funding markets may cause an inability to raise sufficient wholesale funds to fund BOQ's asset growth strategies.

Effect of economic conditions: General economic conditions in Australia and Queensland in particular may worsen which could stifle credit growth and restrict BOQ's ability to grow in line with its growth strategy, or result in an increase in impairment expense that could adversely impact profitability.

Section 4 Investment Risks

4.4.15 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 BOQ Group's current product suite and may affect 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 the BOQ's operations or results. 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 operations or results.

4.4.16 Contingent Liabilities

Guarantees, indemnities and letters of credit

There are contingent liabilities arising in the normal course of business and against which no loss is anticipated. Guarantees are provided to third parties on behalf of customers. The credit risks of such facilities are similar to the credit risks of loans and advances.

Legal proceedings

From time to time, the BOQ Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the BOQ Group's results.

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.

Regulatory investigations, fines, other penalties or regulator imposed conditions could adversely affect the BOQ Group's business, reputation, prospects, financial performance or financial condition.

On 11 March 2016, BOQ was served with class action proceedings commenced in the New South Wales Registry of the Federal Court. The proceedings have been commenced by Petersen Superannuation Fund Pty Ltd (the Applicant) on behalf of an open class against BOQ and DDH Graham Limited and relate to the affairs of the Sherwin group of companies, including Wickham Securities Limited (in Liquidation), Sherwin Financial Planners Pty Ltd (in Liquidation), DIY Superannuation Services Pty Ltd (in Liquidation) and certain of their related entities, with respect to the operation of some of BOQ's Money Market Deposit Accounts. BOQ is defending the proceedings and has filed a defence and cross-claims. It is currently not practicable for BOQ to provide an estimate of any potential liability in relation to the proceedings. The trial in the case is listed for 12 March 2018 (for 3 weeks). The court has ordered the parties to attend a mediation prior to 31 January 2018, and set 14 December 2017 as the date for class members to opt out of the class action and to register details of their claims.

4.4.17 Regulatory fines and sanctions

Anti-money laundering, counter-terrorist financing, sanctions compliance and market manipulation have been the subject of increasing regulatory change and enforcement in recent years. 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.

The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the scale and complexity of BOQ. A failure to operate a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions and market conduct norms could have serious legal and reputational consequences for BOQ and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions.

4.4.18 Litigation and regulatory proceedings

As noted above, 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, 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.

Except as set out in Section 4.4.16, the BOQ Group is not currently involved in any other legal proceedings that BOQ believes will result, individually or in the aggregate, in a material adverse effect on the BOQ Group's financial condition or results of operations.

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.

4.4.19 Reputation

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, securityholders, regulators or rating agencies. These issues include appropriately dealing with potential conflicts of interests, pricing policies, legal and regulatory requirements, ethical issues, litigation, money laundering 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, capacity to source funding and liquidity, cost of sourcing funding and liquidity and by constraining business opportunities.

4.4.20 Credit ratings

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.

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.

4.4.21 Changes to accounting policies 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 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, resulting in a misstatement of financial position and results of operations.

In some cases, management must select an accounting policy or method from two or more alternatives, any of which might comply with generally accepted accounting principles and is reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under another alternative.

4.4.22 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 economy.

A downturn in the Australian or Queensland economy could adversely impact BOQ's results of operations, liquidity, capital resources and financial condition.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world may also adversely affect global financial markets, general economic and business conditions and, in turn, BOQ's business, operations and financial condition.

4.4.23 Risk of natural disasters

Natural disasters such as (but not restricted to) cyclones, floods and earthquakes, and the economic and financial market implications of such disasters on domestic and global conditions can adversely affect BOQ's business, operations and financial condition.

4.4.24 Environmental risk

BOQ and its customers operate businesses and hold assets in a diverse range of geographical locations. Any significant environmental change or external event (including fire, storm, flood, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact on BOQ's operations, damage property and otherwise affect the value of assets held in the affected locations and BOQ's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, which could adversely affect BOQ's businesses, financial performance, capital resources, financial condition and prospects.

4.4.25 BOQ is exposed to risks associated with cyber security, which may adversely impact its business, operations and potentially, financial condition

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.

Section 4 Investment Risks

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 who are 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 business and have a material adverse effect on BOQ's operations and financial condition.

BOQ's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. If BOQ had difficulty retaining or attracting highly qualified people for important roles, this could adversely affect its business, operations and financial condition.

4.4.26 Unexpected changes to BOQ's licence to operate in any jurisdiction may adversely affect its business, operations and financial condition

BOQ is licensed to operate in the various states and territories in which it operates. Unexpected changes in the conditions of the licences to operate by governments, administrations or regulatory agencies which prohibit or restrict BOQ from trading in a manner that was previously permitted may adversely impact BOQ's financial results.

4.4.27 Risk of a major systemic shock to the Australian or other financial systems

In recent years, global credit and equity markets have been characterised by uncertainty and volatility. More recently, the global backdrop has improved and volatility in global financial markets has receded. There is a possibility that more challenging market conditions return when major central banks begin the process of normalising monetary policy settings. 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 all pose risks to global financial markets. Any such market and economic disruptions could have an adverse effect on financial institutions such as BOQ because consumer and business confidence may decrease, unemployment

may rise and demand for the products and services BOQ provides may decline, thereby reducing BOQ's earnings. These conditions may also affect the ability of BOQ's borrowers to repay their loans, or BOQ'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 BOQ'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 BOQ could respond effectively to any such event. If BOQ were not to respond effectively, BOQ's businesses, financial performance, financial condition and prospects could be adversely affected.

4.4.28 BOQ may experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios

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.

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.

4.4.29 Share price risk

There are general risks associated with an investment in the share market. Broader market factors affecting the price of Capital Notes 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, 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.

4.4.30 Failure of risk management strategies

The BOQ Group has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor 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 affect the BOQ Group's businesses, financial performance, capital resources, financial condition and prospects.

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About the Reinvestment Offer

5

Section 5 About the Reinvestment Offer

This section provides information on BOQ's invitation to Eligible CPS Holders to reinvest their CPS in Capital Notes under the Reinvestment Offer and the options available to CPS Holders. It is important that you read this Prospectus in full before deciding to participate in the Reinvestment Offer and invest in Capital Notes.

5.1 Overview

5.1.1 What are Convertible Preference Shares (CPS)?

CPS are convertible preference shares issued by BOQ in 2012 that trade on ASX under code "BOQPD".

5.1.2 What is the Reinvestment Offer?

Under the Reinvestment Offer, Eligible CPS Holders have the opportunity to reinvest some or all of their CPS (Reinvestment CPS) in Capital Notes.

Eligible CPS Holders are invited to offer some or all of their CPS held at 7:00pm (Sydney time) on 17 November 2017 (CPS Record Date) for sale to BOQ through a selective buy-back and have the Buy-Back Price (i.e. \$100 per CPS) automatically reinvested in Capital Notes.

For those CPS that an Eligible CPS Holder elects to reinvest in Capital Notes under the Reinvestment Offer, no Application Payment is required.

By participating in the Reinvestment Offer (or, where applicable, electing to reinvest CPS through the Broker Firm Offer) you irrevocably authorise BOQ to apply the Buy-Back Price of your Reinvestment CPS towards the Application Payment for Capital Notes into which the CPS are being reinvested. You will not be entitled to receive payment for any Reinvestment CPS except in this way, and so will not receive any cash payment in respect of the buy-back of those Reinvestment CPS.

Eligible CPS Holders must make an Application Payment in respect of any additional Capital Notes applied for (that is, any Capital Notes in excess of the number of CPS registered in your name on the CPS Record Date).

Eligible CPS Holders will receive a copy of this Prospectus with a personalised Application Form showing the number of CPS held on the CPS Record Date.

Eligible CPS Holders have a number of other options, in addition to reinvesting CPS in Capital Notes, which are set out in further detail in Section 5.2.1.

The buy-back of CPS under the Reinvestment Offer is subject to approval by Ordinary Securityholders to be proposed at the BOQ Annual General Meeting on 30 November 2017. The Reinvestment Offer will not proceed unless this approval is obtained, in which case all Eligible CPS Holders will continue holding CPS, subject to the CPS Terms.

5.1.3 Am I eligible to participate in the Reinvestment Offer?

Only Eligible CPS Holders may participate in the Reinvestment Offer.

To participate in the Reinvestment Offer, you must:

- have been a registered holder of CPS on the CPS Record Date;
- be shown on the CPS register as having an address in Australia; and
- not be in the US or be 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 Reinvestment Offer or receiving Capital Notes under the laws of any jurisdiction.

If you elect to participate in the Reinvestment Offer, you must ensure that you do not otherwise sell or dispose of the Reinvestment CPS. Eligible CPS Holders who apply to participate in the Reinvestment Offer are taken to agree to a holding lock being placed on their Reinvestment CPS until the Issue Date. The holding lock will be released from any CPS not successfully reinvested via the Reinvestment Offer as soon as practicable after the Issue Date.

5.1.4 How will the Reinvestment Offer be implemented?

On the Reinvestment Date BOQ will, subject to all necessary approvals to effect a buy-back of the CPS having been received (and in the following order):

- determine allocations under the Reinvestment Offer (including any scale back that will apply in respect of the CPS to be bought back and any additional Capital Notes applied for under the Reinvestment Offer);
- (subject to the payment tests in the CPS Terms) pay the Pro-Rata Dividend in respect of those Reinvestment CPS to be bought back under the Reinvestment Offer - this is a separate amount paid by BOQ to Eligible CPS Holders which is in addition to, and does not form part of, the Buy-Back Price;
- based on the allocations determined by BOQ, accept the offers made by Eligible CPS Holders to have their Reinvestment CPS bought back under the Reinvestment Offer (and Eligible CPS Holders authorise BOQ to accept those offers based on the allocations and any applicable scale back);
- buy-back those Reinvestment CPS for which it has accepted an offer pursuant to a selective buy-back in accordance with Part 2J.1 of the Corporations Act; and
- on behalf of Eligible CPS Holders whose offers to participate in the Reinvestment Offer have been accepted, reinvest the Buy-Back Price for each Reinvestment CPS in Capital Notes.

As soon as the buy-back offer is accepted on the Reinvestment Date, all rights attached to Reinvestment CPS are suspended – accordingly, the Pro-Rata Dividend in respect of the Reinvestment CPS will be paid (subject to the payment tests in the CPS Terms) immediately prior to the buy-back offers being accepted by BOQ. The CPS that are bought back by BOQ under the Reinvestment Offer will be cancelled on completion of the buy-back.

5.2 What are the options available to CPS Holders?

This section sets out the options available to Eligible CPS Holders and those CPS Holders who are not eligible to participate in the Reinvestment Offer.

5.2.1 What are the options available to Eligible CPS Holders?

OPTION	WHAT SHOULD ELIGIBLE CPS HOLDERS DO?
<p>Option 1 – apply under the Reinvestment Offer for some or all of your CPS to be reinvested in Capital Notes</p>	<p>Eligible CPS Holders may apply for some of all of their CPS to be reinvested in Capital Notes under the Reinvestment Offer.</p> <p>Eligible CPS Holders who participate in the Reinvestment Offer will receive a priority allocation of Capital Notes over Securityholder Applicants. Applications for additional Capital Notes may also be scaled back if there is excess demand.</p> <p>Unless an Eligible CPS Holder applies for more Capital Notes than the number of CPS held on the CPS Record Date, Eligible CPS Holders will not be required to make a separate Application Payment for Capital Notes, as the Buy-Back Price for the Reinvestment CPS will be applied directly towards the Application Payment for Capital Notes (see Section 5.1.2).</p> <p>Once you have submitted an Application Form to reinvest your CPS, a holding lock will be placed on those Reinvestment CPS preventing you from dealing with those Reinvestment CPS until the Issue Date. The holding lock will be released from any CPS not successfully reinvested into Capital Notes as soon as practicable after the Issue Date.</p> <p>An Application to participate in the Reinvestment Offer is irrevocable once made, unless BOQ gives notice that it will not accept the Application (including where the Reinvestment Offer does not proceed).</p> <p>For further instructions on how to apply see Section 6.4.</p> <p>Option A. Full reinvestment</p> <p>Eligible CPS Holders may apply to reinvest all of the CPS registered in their name on the CPS Record Date in Capital Notes. To choose this option, Eligible CPS Holders must indicate “full reinvestment” on their personalised Application Form.</p> <p>If, on the Reinvestment Date, an Eligible CPS Holder holds a different number of CPS than shown on their personalised Application Form, and the Eligible CPS Holder selects the full reinvestment option, they will be taken to have applied to participate in the Reinvestment Offer for the lower of the number of CPS specified on the personalised Application Form and the number of CPS held on the Reinvestment Date.</p> <p>Option B. Apply for additional Capital Notes</p> <p>Eligible CPS Holders who elect full reinvestment under the Reinvestment Offer may also apply for additional Capital Notes. To choose this option, Eligible CPS Holders must reinvest all of the CPS held on the CPS Record Date and specify the number of additional Capital Notes they wish to apply for on their personalised Application Form. Eligible CPS Holders will receive a priority allocation of Capital Notes applied for, over Securityholder Applicants, if there is excess demand for Capital Notes. However, an Eligible CPS Holder’s Application for additional Capital Notes may be scaled back if there is excess demand – see Section 5.3 for further details.</p> <p>Eligible CPS Holders are required to submit an Application Payment for the additional Capital Notes applied for – see Section 5.1.2 for further details.</p> <p>Option C. Partial reinvestment</p> <p>Eligible CPS Holders may apply to have only some of their CPS reinvested in Capital Notes.</p> <p>To choose this option, Eligible CPS Holders must specify the number of CPS to be reinvested on their personalised Application Form (subject to the minimum requirement of 50 CPS in certain circumstances - see Section 5.10.1). If an Eligible CPS Holder does not indicate the number of CPS to be reinvested, they will be taken to have elected to reinvest all of their CPS held on the CPS Record Date.</p> <p>If, on the Reinvestment Date, an Eligible CPS Holder holds a different number of CPS than shown on their personalised Application Form, they will be taken to have applied to participate in the Reinvestment Offer for the lower of the number of CPS specified on the personalised Application Form and the number of CPS held on the Reinvestment Date.</p>

Section 5 About the Reinvestment Offer

OPTION	WHAT SHOULD ELIGIBLE CPS HOLDERS DO?
Option 2 – apply under the Broker Firm Offer to reinvest your CPS in Capital Notes	<p>If you are an Eligible CPS Holder and are an Australian resident retail or high net worth client of a Syndicate Broker, you may apply to reinvest your CPS under the Broker Firm Offer.</p> <p>You may apply to reinvest all or some of the CPS registered in your name on the CPS Record Date in Capital Notes. You may also choose to apply for additional Capital Notes if you choose to reinvest all of your CPS. If making a partial reinvestment, a minimum requirement of 50 CPS will apply in certain circumstances - see Section 5.10.1.</p> <p>Eligible CPS Holders will not be required to make a separate Application Payment unless additional Capital Notes are applied for.</p> <p>Eligible CPS Holders should contact their Syndicate Broker for instructions on how to submit an Application Form and, if applicable, an Application Payment.</p>
Option 3 – take no action	<p>Eligible CPS Holders are not required to participate in the Reinvestment Offer and as such are not required to take any action.</p> <p>If you choose to take no action, you will continue to hold CPS, subject to the CPS Terms. You will not receive the Pro-Rata Dividend if you choose to take no action.</p> <p>Refer to Section 5.7 for some of the risks associated with not participating in the Reinvestment Offer.</p>
Option 4 – sell your CPS on market	<p>You may choose to sell some or all of your CPS on market through your broker at the prevailing market price.</p> <p>Under this option, you may have to pay brokerage and may receive a price greater or less than the face value of \$100 per CPS.</p> <p>If you choose this option, you will no longer be entitled to receive CPS dividends on the CPS you sell and you will not receive the Pro-Rata Dividend. In respect of the CPS you sell, you have the option to use the sale proceeds to subscribe for Capital Notes or you can choose not to.</p>

5.2.2 What are the options available to CPS Holders who are ineligible to participate in the Offer?

CPS Holders who are not an Eligible CPS Holder are ineligible to participate in the Reinvestment Offer. In these circumstances, CPS Holders may either:

- sell CPS on market through their broker at the prevailing market price; or
- take no action and continue to hold CPS, subject to the CPS Terms.

5.3 Will I receive a priority allocation of Capital Notes under the Reinvestment Offer?

If you are an Eligible CPS Holder and you apply under the Reinvestment Offer, you will receive a priority allocation of Capital Notes over Securityholder Applicants.

If an Eligible CPS Holder applies for additional Capital Notes, any Allocation of additional Capital Notes may be scaled back if there is excess demand. Details on the allocation policy are set out in Section 6.5.

5.4 What dividends will I receive as a CPS Holder?

If you are an Eligible CPS Holder and elect for any CPS to be reinvested in Capital Notes, you will be entitled to receive a Pro-Rata Dividend on the Reinvestment Date in respect of those Reinvestment CPS, subject to the payment tests in the CPS Terms. The CPS Terms of issue will be amended by the Board of BOQ to facilitate payment of the Pro-Rata Dividend. The Pro-Rata Dividend is a separate payment which does not form part of the Buy-Back Price.

The Pro-Rata Dividend will be calculated in accordance with the CPS Terms (as amended) and will be paid in respect of the period from (and including) 16 October 2017 to (but excluding) the Reinvestment Date.

The Pro-Rata Dividend will only be paid in respect of Reinvestment CPS. Accordingly, you will not receive the Pro-Rata Dividend in respect of any CPS that you do not reinvest in Capital Notes. However, a dividend is scheduled to be paid on all CPS on 16 April 2018¹⁵. If you hold CPS on the record date for that dividend, you will receive that dividend (subject to the payment conditions in the CPS Terms, including that the Board resolves to pay the relevant dividend).

5.4.1 Can I elect to reinvest the Pro-Rata Dividend in Capital Notes?

No. The Pro-Rata Dividend will be paid (subject to the payment tests in the CPS Terms) to Eligible CPS Holders in respect of their Reinvestment CPS via direct credit or cheque on the Reinvestment Date, in accordance with their existing CPS payment instructions.

¹⁵ The CPS Terms specify a dividend payment date of 15 April 2018 but as that day is not a Business Day the scheduled date is adjusted to the next Business Day.

5.5 What are the key differences between Capital Notes and CPS?

A comparison of the key features of Capital Notes and CPS is set out in summary form below. These comparisons are not intended to be exhaustive.

	CAPITAL NOTES	CPS
Legal form	Capital note	Preference share
Term	Perpetual, no maturity date but subject to Mandatory Conversion to Ordinary Shares	Perpetual, no maturity date but subject to mandatory conversion into Ordinary Shares
Issuer	BOQ	BOQ
Issue Date	28 December 2017	24 December 2012
Face Value	\$100 per Capital Note	\$100 per CPS
Amount to be issued/currently on issue	\$300 million with the ability to raise more or less	\$300 million
Quotation on ASX	Yes – expected to trade under “BOQPE”	Yes – “BOQPD”
Nature of dividends/Distributions	Quarterly, preferred, discretionary, non-cumulative, subject to Payment Conditions	Semi-annual, preferred, discretionary, non-cumulative, subject to dividend payment conditions
Dividend/Distribution rate	Floating rate	Floating rate
Reference rate	3-month BBSW	6-month BBSW
Margin	3.75–3.95% p.a. to be determined by the Bookbuild	5.10% p.a.
Expected to be fully franked	Yes	Yes
Rights if dividend/Distribution is not fully franked	Franked, subject to gross-up for any non-franked portion	Franked, subject to gross-up for any non-franked portion
Distribution/dividend payment conditions	Yes, subject to BOQ’s absolute discretion and Payment Conditions	Yes, subject to Directors’ absolute discretion and certain payment conditions
Restriction if scheduled Distributions/dividends not paid	BOQ must, unless approved by Special Resolution of Holders, not resolve to pay or pay an Ordinary Share Dividend or buy-back or reduce the capital on Ordinary Shares until and including the next Distribution Payment Date, unless the scheduled Capital Note Distribution is paid in full within three Business Days.	BOQ must, unless approved by special resolution of CPS Holders, not resolve to pay or pay a dividend or distribution on Ordinary Shares or buy-back or reduce the capital on Ordinary Shares until and including the next dividend payment date, unless the scheduled CPS dividend is paid in full within three Business Days.
Mandatory Conversion	Capital Notes will Mandatorily Convert on: <ul style="list-style-type: none"> 15 August 2026 (if the Mandatory Conversion Conditions are satisfied) or the first Distribution Payment Date after that date on which date the Mandatory Conversion Conditions are satisfied; or the occurrence of an Acquisition Event, subject to certain conditions being satisfied. 	CPS will mandatorily convert on: <ul style="list-style-type: none"> 15 April 2020 (if the mandatory conversion conditions are satisfied) or a dividend payment date after that date on which date the mandatory conversion conditions are satisfied; or the occurrence of an acquisition event, subject to certain conditions being satisfied.

Section 5 About the Reinvestment Offer

	CAPITAL NOTES	CPS
Conversion, Redemption or Resale at BOQ's option	<p>Capital Notes may be Converted (subject to certain conditions being satisfied), Redeemed or Resold at BOQ's option, following:</p> <ul style="list-style-type: none"> • A Tax Event; • A Regulatory Event; or • On 15 August 2024. <p>Capital Notes may be Converted (subject to certain conditions being satisfied), at BOQ's option, following a Potential Acquisition Event.</p> <p>Holders have no right to require Redemption, Conversion or Resale.</p>	<p>CPS may be converted (subject to certain conditions being satisfied), redeemed or transferred at BOQ's option, following:</p> <ul style="list-style-type: none"> • A tax event; • A regulatory event; or • On 16 April 2018. <p>CPS may be converted (subject to certain conditions being satisfied), at BOQ's option, following a potential acquisition event.</p> <p>CPS Holders have no right to require redemption, conversion or transfer of CPS.</p>
Conversion discount	1.00%	1.00%
Loss Absorption Event (being a Common Equity Trigger Event or a Non-Viability Trigger Event) ¹⁶	Yes. As a result, all (or in some cases, some) of the Capital Notes must be Converted and, if not Converted within five Business Days, those Capital Notes must be Written Off, in which case the Holders' rights in respect of the relevant Capital Notes are terminated.	Yes. As a result, all (or in some cases, some) of the CPS must be converted into a number of Ordinary Shares and, if not converted within five business days, those CPS must be written-off, in which case the rights of CPS Holders in respect of the CPS become broadly equivalent to the rights they would have had if the CPS had been converted into the relevant number of Ordinary Shares.
Ranking in a winding-up	<p>Senior to Ordinary Shares, ranks equally with Equal Ranking Instruments (including CPS), and junior to the claims of all Senior Ranking Creditors (including depositors and unsubordinated and subordinated creditors).</p> <p>Return in a winding-up may be adversely affected on account of a Loss Absorption Event.</p>	<p>Senior to Ordinary Shares, ranks equally with Equal Ranking Instruments (including Capital Notes), and junior to the claims of all senior ranking creditors (including depositors and unsubordinated and subordinated creditors).</p> <p>Return in a winding-up may be adversely affected on account of a Loss Absorption Event.</p>
Voting rights	No right to vote at general meetings of holders of Ordinary Shares.	No right to vote at general meetings of holders of Ordinary Shares, except in limited circumstances.
Regulatory Treatment	Additional Tier 1 Capital under APRA's Prudential Capital Requirements.	Additional Tier 1 Capital under APRA's Prudential Capital Requirements.

¹⁶ If Capital Notes are Written Off, Holders will have no rights and will likely be worse off than holders of CPS, even though CPS ranks equally with Capital Notes. This is further described in Section 2.3.8.

5.6 What are the risks associated with participating in the Reinvestment Offer?

If you are an Eligible CPS Holder and you apply under the Reinvestment Offer, you may receive an Allocation of Capital Notes. As such, you will be subject to the risks associated with an investment in Capital Notes and in BOQ, many of which are outside the control of BOQ and its Directors. These risks are outlined in Section 4 and should be considered before you apply under the Reinvestment Offer.

The Reinvestment Offer is not a simple rollover into a similar investment. Capital Notes and CPS have different benefits and risks, which must be evaluated separately (see Section 5.5).

The Buy-Back Price paid to an Eligible CPS Holder for a Reinvestment CPS may be less than the market value of CPS. Rather than participating in the Reinvestment Offer, Eligible CPS Holders may obtain a better financial outcome by selling CPS on-market and investing the proceeds in Capital Notes.

5.7 What are the risks associated with not fully participating in the Reinvestment Offer?

If you are an Eligible CPS Holder and you do not reinvest in full under the Reinvestment Offer, you will continue to hold CPS, or the balance of your CPS. The risks associated with this option are that:

- there is no guarantee BOQ will redeem CPS or pay dividends at a future date and CPS Holders will have no right to require BOQ to redeem CPS, as any election to redeem is at the sole discretion of BOQ and is subject to APRA's prior written approval, and payment of dividends is subject to the payment tests in the CPS Terms;
- following the Reinvestment Offer, it is anticipated that there will be fewer CPS outstanding, which may reduce liquidity in the market for CPS; and
- if you hold both Capital Notes and CPS, you will hold two securities with different issue terms and different risk profiles.

5.8 Ordinary Securityholder approval and conditional agreement

The buy-back of CPS under the Reinvestment Offer is subject to approval by Ordinary Securityholders to be proposed at the BOQ Annual General Meeting on 30 November 2017.

No agreement will be made to buy-back CPS unless the required approval of Ordinary Securityholders is obtained and offers to sell CPS by CPS Holders applying under the Reinvestment Offer are accepted by BOQ on the Reinvestment Date (see Section 5.1.4 for details on how the Reinvestment Offer will be implemented).

5.9 What happens if the Reinvestment Offer does not proceed?

If you have elected to reinvest some or all of your CPS in Capital Notes and the Reinvestment Offer does not proceed, your CPS will not be bought back and you will continue to hold CPS, subject to the CPS Terms.

However, if you have applied for additional Capital Notes and the Reinvestment Offer does not proceed, your application for the number of additional Capital Notes applied for will be processed and you will be Allocated Capital Notes in accordance with the allocation policy as set out in Section 6.5.

5.10 Further information about CPS and participating in the Reinvestment Offer

5.10.1 Do you need to apply for a minimum number of Capital Notes?

There is no minimum number of CPS that you must hold to be able to participate in the Reinvestment Offer.

If you are an Eligible CPS Holder and own 50 CPS or fewer, you must apply to reinvest all your CPS in Capital Notes if you wish to participate in the Reinvestment Offer.

If you are an Eligible CPS Holder and own more than 50 CPS, you must apply for a minimum number of 50 Capital Notes (\$5,000).

5.10.2 What do you do if you have sold some of your CPS but wish to apply for Capital Notes?

If you hold fewer CPS than set out on your personalised Application Form, you may still reinvest in Capital Notes the remaining CPS registered in your name on the Reinvestment Date.

If you wish to apply for more Capital Notes than the number of CPS registered in your name on the CPS Record Date, you will need to make a full reinvestment and a separate Application Payment for the number of additional Capital Notes applied for.

You may also apply for partial reinvestment in the manner outlined in Section 5.2.1.

5.10.3 Can you sell your CPS after you have completed and returned your Application Form?

If you apply to have your CPS reinvested in Capital Notes, it is your responsibility to ensure that you do not sell or dispose of any of those CPS that you wish to reinvest, other than as part of the Reinvestment Offer.

CPS Holders are taken to agree to a holding lock being placed on those CPS, pending completion of the Reinvestment Offer – but it is your obligation to ensure that you do not resell those CPS. If you do, the number of Capital Notes you may be allocated will be reduced to the extent the required number of CPS are not available on the Reinvestment Date.

Once you have submitted an Application Form to reinvest your CPS, a holding lock will be placed on those Reinvestment CPS preventing you from dealing with those Reinvestment CPS until the Issue Date.

The holding lock will be released from any CPS not successfully reinvested into Capital Notes as soon as practicable after the Issue Date.

Section 5 About the Reinvestment Offer

5.10.4 What will happen to CPS which are not bought back?

Any CPS which are not bought back, including where the Reinvestment Offer does not proceed, will remain on issue, subject to the CPS Terms.

BOQ currently has an option to convert, redeem or transfer the CPS on 16 April 2018¹⁷. If the CPS are not converted, redeemed or transferred on or before 15 April 2020, the CPS will automatically convert into Ordinary Shares where the mandatory conversion conditions set out in the CPS Terms are satisfied. If those conditions are not satisfied, the CPS will remain on issue until the first CPS dividend payment date on which the conditions are satisfied (unless otherwise dealt with in accordance with their terms).

At the BOQ Annual General Meeting on 30 November 2017, BOQ will seek Ordinary Securityholder approval in respect of resolutions to:

- buy-back CPS under the Reinvestment Offer by way of a selective buy-back, as outlined in Section 5.8 (Reinvestment Offer Resolution); and
- implement an additional selective buy-back of the CPS in accordance with the CPS Terms in order to facilitate a potential redemption of the CPS on 16 April 2018 (Redemption Resolution).

The approvals to be sought at the Annual General Meeting will provide maximum flexibility for BOQ to manage its capital position in relation to the CPS going forward. However, as at the date of this Prospectus, BOQ has not made any decision as to how it will deal with the CPS which are not bought back under the Reinvestment Offer.

BOQ may consider converting, redeeming or transferring the outstanding CPS that are not reinvested in Capital Notes on 16 April 2018, subject to various factors (including satisfactory completion of the Offer, receipt of all required regulatory and Ordinary Securityholder approvals and market conditions closer to 16 April 2018).

if:

- both the Reinvestment Offer Resolution and the Redemption Resolution are passed at the Annual General Meeting, the Reinvestment Offer will proceed and BOQ will have maximum flexibility with respect to any outstanding CPS that are not reinvested in Capital Notes;
- neither the Reinvestment Offer nor the Redemption Resolution are passed at the Annual General Meeting, the Reinvestment Offer will not proceed and BOQ will not be able to redeem the CPS on 16 April 2018 by way of a selective buy-back;
- the Reinvestment Offer Resolution is passed, but the Redemption Resolution is not, BOQ may still proceed with the Offer (including the Reinvestment Offer), however will not be able to redeem the CPS on 16 April 2018 by way of a selective buy-back; and
- the Reinvestment Offer Resolution is not passed, but the Redemption Resolution is passed, the Reinvestment Offer will not proceed, although BOQ would be able to redeem the outstanding CPS on 16 April 2018 by way of a selective buy-back, should it elect to do so.

5.10.5 What are the tax implications of having your CPS bought back?

A general outline of the taxation implications for certain investors who are Australian residents for tax purposes investing in the Offer can be found in the Australian taxation summary in Section 7, including the CGT implications for Eligible CPS Holders of the buy-back of CPS under the Reinvestment Offer.

Selling your CPS into the Reinvestment Offer may lead to a capital gain or loss or be neutral for CGT purposes depending on the cost base of your CPS and your personal tax circumstances.

5.10.6 Can you change your CPS payment instructions?

If you elect to reinvest some or all of your CPS in Capital Notes and you wish to change your CPS payment instructions for the payment of the Pro-Rata Dividend on your Reinvestment CPS you must provide updated instructions to the Registry by the Closing Date for the Reinvestment Offer of 5:00pm (Sydney time) on 15 December 2017.

5.10.7 Is brokerage or stamp duty payable?

No brokerage or stamp duty is payable on the buy-back of your CPS or your Application for Capital Notes.

CPS Holders who choose to sell their CPS on market through their broker may be required to pay applicable brokerage.

¹⁷ The CPS Terms specify this date to be 15 April 2018 but as that day is not a Business Day the scheduled date is adjusted to the next Business Day.

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About the Offer

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Section 6 About the Offer

6.1 The Offer

The Offer is for the issue of Capital Notes with a Face Value of \$100 each to raise approximately \$300 million with the ability to raise more or less.

All Capital Notes issued will be allotted under and subject to the disclosures made in this Prospectus.

6.2 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, where applicable, Eligible CPS Holders;
- a Reinvestment Offer made to Eligible CPS Holders; and
- a Securityholder Offer made to Eligible Securityholders.

6.3 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/capitalnotes.

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/capitalnotes 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 CPS Holders and 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/capitalnotes.

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, unless the Application is under the Reinvestment Offer in which case no Application Payment is required.

6.3.1 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.

6.4 Applying for Capital Notes

6.4.1 Minimum application

For all Offers (Institutional Offer, Broker Firm Offer, Reinvestment Offer and Securityholder Offer), Applications must be for a minimum of 50 Capital Notes (\$5,000) (provided that an Eligible CPS Holder who holds less than 50 CPS may participate in the Reinvestment Offer in respect of all CPS held on the CPS Record Date) and after that in multiples of 10 Capital Notes (\$1,000).

6.4.2 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 in the Bookbuild.	The Bookbuild will be conducted on 29 November 2017.	Application and settlement procedures for Institutional Investors will be advised by the Joint Lead Managers.
Broker Firm Offer	<p>Broker Firm Applicants.</p> <p>Australian resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer.</p> <p>Eligible CPS Holders electing to reinvest in Capital Notes and invited to participate through the Broker Firm Offer.</p>	<p>Applications will only be accepted during the Offer Period, which is expected to open on 30 November 2017.</p> <p>The Closing Date for the Broker Firm Offer in relation to Reinvestment CPS is 5:00pm (Sydney time) on 15 December 2017.</p> <p>The Closing Date for the Broker Firm Offer (excluding Applications in respect of Reinvestment CPS) is 10:00am (Sydney time) on 21 December 2017.</p>	<p>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).</p> <p>You must not return your paper Application Form to the Registry.</p> <p>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.</p> <p>Your Syndicate Broker will act as your agent in processing your paper Application Form and providing your Application details and Application Payment to BOQ.</p> <p>If you are a Broker Firm Applicant you may not apply online.</p>
Reinvestment Offer	<p>Reinvestment Applicants.</p> <p>Eligible CPS Holders who are applying to reinvest their CPS in Capital Notes through the Reinvestment Offer.</p>	<p>Applications will only be accepted during the Offer Period, which is expected to open on 30 November 2017.</p> <p>The Closing Date for the Reinvestment Offer, including Applications for Reinvestment CPS under the Broker Firm Offer is 5:00pm (Sydney time) on 15 December 2017.</p> <p>Your completed personalised paper Application Form or online Application Form and Application Payment (if applicable) must be received by the Registry by the Closing Date and time.</p>	<p>If you are an issuer sponsored Eligible CPS Holder and wish to reinvest your CPS or apply for additional Capital Notes using BPAY®, you can apply online at www.boq.com.au/capitalnotes by following the instructions provided. 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.</p> <p>If you are a CHESS sponsored Eligible CPS Holder, you should seek instructions from your broker or controlling participant as to how to apply. If you are a client of a Syndicate Broker applying under the Broker Firm Offer, you may not apply or make a payment online. Please contact your Syndicate Broker directly for instructions as to how to participate.</p> <p>You can also apply by completing a paper Application Form. Follow the instructions to complete and return the personalised Application Form.</p> <p>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).</p> <p>If you are applying for additional Capital Notes and completing a paper personalised Application Form, you will be required to pay your Application Payment by cheque(s) and/or money order(s) drawn on an Australian dollar account of an Australian financial institution and made payable to "BOQ Capital Notes Offer." You cannot pay by BPAY®.</p> <p>Cheque(s) should be crossed "Not Negotiable". Cash payments will not be accepted.</p> <p>If your Application indicating full reinvestment is not accompanied by an Application Payment for any additional Capital Notes, you will be taken to have applied for reinvestment of that number of CPS that you hold on the Reinvestment Date.</p>

Section 6 About the Offer

OFFER	WHO CAN APPLY?	WHEN TO APPLY	HOW TO APPLY
Securityholder Offer	Securityholder Applicant Eligible Securityholders who are applying through the Securityholder Offer.	Applications will only be accepted during the Offer Period, which is expected to open on 30 November 2017. The Closing Date for the Securityholder Offer is 5:00pm (Sydney time) on 15 December 2017. Your completed personalised paper Application Form or online Application Form and Application Payment must be received by the Registry by the Closing Date and time.	Eligible Securityholders that are not also Eligible CPS Holders will have the ability to apply online at www.boq.com.au/capitalnotes by following the instructions provided. When applying online, you will be required to pay for Capital Notes 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 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 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.

6.4.3 Delivering paper Application Forms

Broker Firm Applicants, including Eligible CPS Holders (where applicable)

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 Registry. Please contact your Syndicate Broker for further instructions.

Securityholder Offer and Reinvestment 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 Registry before the Closing Date and time, which is expected to be 5:00pm (Sydney time) on 15 December 2017.

Securityholder Offer Applicants

Postal Delivery:

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

Hand Delivery:

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

Reinvestment Offer Applicants

Postal Delivery:

BOQ Capital Notes Offer
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

Hand Delivery:

BOQ Capital Notes 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 Registry.

6.4.4 How to use BPAY®

If you apply for Capital Notes 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 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®.

You **cannot** pay by BPAY® if you are an Eligible CPS Holder applying for additional Capital Notes and completing a personalised Application Form.

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 you wish to apply for under each Application (i.e. a minimum of \$5,000 (50 Capital Notes) and incremental multiples of \$1,000 (10 Capital Notes) 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.

6.4.5 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 on ASX after Capital Notes have been quoted on ASX.

6.4.6 Application Payments held on trust

All Application Payments received before Capital Notes 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 are issued to successful Applicants, the Application Payments held on trust will be payable to BOQ.

6.4.7 Refunds

Applicants who are not allotted any Capital Notes, or are allotted fewer Capital Notes 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 Children's Hospital Foundations Australia as a donation, within a reasonable time after the Offer Period. More information on Children's Hospital Foundations Australia is available at www.childrenshospitals.org.au.

6.5 Bookbuild and Allocation policy

6.5.1 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 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. 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.

Section 6 About the Offer

6.5.2 What is the Allocation policy?

Institutional Offer Allocations to Institutional Investors will be agreed by BOQ, the Arranger and the Joint Lead Managers following completion of the Bookbuild.

Broker Firm Offer 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.

Eligible CPS Holders are taken to agree to a holding lock being placed on those CPS applied to be reinvested, pending completion of the Reinvestment Offer. If you resell any CPS, the number of Capital Notes you may be allocated will be reduced to the extent the required number of CPS are not available on the Reinvestment Date. The holding lock will be released from any CPS not successfully reinvested via the Reinvestment Offer as soon as practicable after the Issue Date.

Reinvestment Offer If you are an Eligible CPS Holder and you apply under the Reinvestment Offer, you will receive a priority allocation of Capital Notes in relation to your Reinvestment CPS over Securityholder Applicants.

If an Eligible CPS Holder applies for additional Capital Notes, Allocations will be determined by BOQ, the Arranger and the Joint Lead Managers and may be scaled back if there is excess demand for the Offer. In the event of excess demand, BOQ's current intention is to give preference to Eligible CPS Holders participating in the Reinvestment Offer over other Securityholder Applicants. No assurance is given that any CPS Holder Applicant will receive an Allocation of additional Capital Notes.

Eligible CPS Holders are taken to agree to a holding lock being placed on those CPS applied to be reinvested, pending completion of the Reinvestment. If you resell any CPS, the number of Capital Notes you may be Allocated will be reduced to the extent the required number of CPS are not available on the Reinvestment Date. The holding lock will be released from any CPS not successfully reinvested via the Reinvestment Offer as soon as practicable after the Issue Date.

Securityholder Offer 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 commence trading on a deferred settlement basis – expected to be 29 December 2017.

BOQ, the Arranger and the Joint Lead Managers reserve the right to:

- Allocate to any Securityholder Applicant all Capital Notes for which they have applied;
- Reject any Application by a Securityholder Applicant; or
- Allocate to any Securityholder Applicant a lesser number of Capital Notes than that applied for, including less than the minimum Application of Capital Notes, or none at all.

No assurance is given that any Securityholder Applicant will receive an Allocation of Capital Notes.

6.5.3 How will the final Allocation policy be announced?

Institutional Offer	Allocations to Institutional Investors will be advised to those investors under the Bookbuild.
Broker Firm Offer	<p>Allocations to Syndicate Brokers will be advised to those brokers under the Bookbuild.</p> <p>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.</p> <p>However, if you sell Capital Notes before receiving a Holding Statement, you do so at your own risk, even if you confirmed your firm Allocation through a Syndicate Broker.</p>
Reinvestment Offer	<p>After the Issue Date, Applicants in the Reinvestment 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. It is expected that this information will be advertised in The Australian and The Australian Financial Review on or about 28 December 2017.</p> <p>However, if you sell Capital Notes before receiving a Holding Statement, you do so at your own risk, even if you obtained details of your holding from 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).</p>
Securityholder Offer	<p>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. It is expected that this information will be advertised in The Australian and The Australian Financial Review, on or about 28 December 2017.</p> <p>However, if you sell Capital Notes 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).</p>

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Section 6 About the Offer

6.6 Other information

6.6.1 Application to ASX for quotation of Capital Notes

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

6.6.2 CHESS and issuer sponsored holdings

BOQ will apply for Capital Notes to participate in CHESS. No certificates will be issued for Capital Notes. BOQ expects that Holding Statements for issuer sponsored holders and confirmations for CHESS holders will be despatched to successful Applicants by 29 December 2017.

6.6.3 Deferred settlement trading and selling Capital Notes on market

It is expected that Capital Notes will begin trading on ASX on a deferred settlement basis on 29 December 2017 under ASX code "BOQPE". Trading is expected to continue on that basis until 3 January 2018, when it is anticipated that trading of Capital Notes will begin on a normal settlement basis. Deferred settlement will occur as a consequence of trading which takes place before Holding Statements are despatched to successful Applicants.

You are responsible for confirming your holding before trading in Capital Notes. If you are a successful Applicant and sell your Capital Notes 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.

6.6.4 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.

6.6.5 Provision of TFN or ABN for Australian tax residents

If you are a Securityholder Applicant who has not already quoted your TFN or ABN and are issued any Capital Notes, then you may be contacted in relation to quoting your TFN or ABN.

The collection and quotation of TFNs and ABNs are authorised, and their use and disclosure is strictly regulated, by tax laws and the *Privacy Act 1988* (Cth).

Successful Applicants who do not have an address in Australia registered with the Registry, or who direct the payment of any Distribution to an address outside of Australia, may have an amount deducted for Australian withholding tax from any Distribution paid, to the extent that the Distribution is not fully franked.

6.6.6 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 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 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. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

6.7 Enquiries

6.7.1 Reinvestment Applicants and 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;
- 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 are a suitable investment for you, you should consult your stockbroker, solicitor, accountant or other independent and qualified professional adviser.

6.7.2 Broker Firm Applicants

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

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Australian Taxation Summary



Section 7 Australian Taxation Summary

The following is a summary of the Australian income tax, goods and services tax (GST) and stamp duty consequences for Australian tax resident Holders (Resident Holders) and Holders who are not tax residents of Australia (Non-Resident Holders) who hold Capital Notes on capital account for tax purposes. This summary also addresses the income tax consequences for certain Eligible CPS Holders who participate in the Reinvestment Offer, and who are Australian tax residents.

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 and Eligible CPS Holders (including, dealers in securities, custodians or other third parties who hold Capital Notes on behalf of any Holder, and, in relation to the Reinvestment Offer, Eligible CPS Holders who are not tax residents of Australia). 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 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 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.

7.1 Distributions on Capital Notes

The Capital Notes 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 are frankable distributions and may carry franking credits. Distributions are expected to be franked at the same rate as 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 each Distribution on the Capital Notes. Holders may refer to the distribution statement to ascertain:

- (a) the amount of the Distribution;
- (b) the amount of franking credits attached to the Distribution; and
- (c) the amount of the unfranked part of the Distribution that is declared by BOQ to be conduit foreign income.

7.1.1 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, if the tax offset exceeds their income tax liability for an income year, the excess tax offset may be refunded.

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

The length of 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.

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

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.

7.1.2 Non-Resident Holders

Non-Resident Holders who do not hold the Capital Notes 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.

7.2 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%. A withholding rate of 47.5% is expected to apply from 1 July 2019.

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

7.3 CGT consequences of ordinary disposal

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

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

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

7.3.1 Resident Holders

A Resident Holder should make a capital gain on the sale of Capital Notes if the sale proceeds exceed their cost base in the Capital Notes. 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 if they have held the Capital Notes 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 $\frac{1}{3}$ %. Companies are generally not 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.

7.3.2 Non-Resident Holders

Any capital gain or capital loss made in respect of the Capital Notes by a Non-Resident Holder who does not hold the Capital Notes at or through a permanent establishment in Australia should be disregarded for Australian tax purposes.

7.4 CGT consequences of Conversion, Redemption, Resale and Write Off

7.4.1 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 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 on the sale of the Ordinary Shares, the Resident Holder 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.

7.4.2 Redemption

A Redemption of the Capital Notes should constitute a disposal of Capital Notes for CGT purposes. Holders should refer to the consequences set out above at Section 7.3 in relation to the CGT consequences on a disposal of Capital Notes.

7.4.3 Resale

A Resale of the Capital Notes should constitute a disposal of Capital Notes for CGT purposes. Holders should refer to the consequences set out above at Section 7.3 in relation to the CGT consequences on a disposal of Capital Notes.

7.4.4 Write Off

The Capital Notes will only be written off in limited circumstances if a Loss Absorption Event, as defined in the Capital Note Terms, occurs and Conversion of the Capital Notes into Ordinary Shares has not been effected within five Business Days after the relevant event for any reason. A Write Off of Capital Notes 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. As discussed above, capital losses may only be offset against capital gains (and not other income) of the same or later years of income.

7.5 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 unless the Holder has made certain elections under the TOFA regime.

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

7.6 Goods and services tax

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

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.

7.7 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, 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 in accordance with the Capital Note 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 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 Australian Taxation Summary

7.8 Income tax consequences of exchanging CPS

Eligible CPS Holders who participate in the Reinvestment Offer will have their CPS bought back for \$100 each on 28 December 2017 and have the buy-back proceeds (i.e. \$100 per CPS) applied to the Face Value for Capital Notes. In addition, those Eligible CPS Holders will also receive the Pro-Rata Dividend for their Reinvestment CPS, subject to the payment tests in the CPS Terms.

As a general matter, the income tax implications of the exchange for each Eligible CPS Holder who is an Australian tax resident should be as follows.

7.8.1 Disposal of CPS

A CGT event will happen to an Eligible CPS Holder upon exchange of their CPS. The buy-back proceeds should be treated as consideration for capital gains tax purposes. This means that a capital gain would arise if the buy-back proceeds exceeded the cost base of the CPS to the Eligible CPS Holder. A capital loss may arise if the buy-back proceeds were less than the reduced cost base for the CPS.

If an Eligible CPS Holder acquired CPS upon issue by BOQ (as opposed to an Eligible CPS Holder who acquired CPS from a previous CPS Holder), their cost base would include the \$100 issue price of the CPS, and certain non-deductible incidental costs such as brokerage fees.

If the Eligible CPS Holder derives a capital gain upon exchange of their CPS, the 50% CGT discount may be available in circumstances where the Eligible CPS Holder acquired the CPS at least 12 months prior to the exchange. The CGT discount is not available to Eligible CPS Holders which are companies, and will be available only at a 33 $\frac{1}{3}$ % rate for complying superannuation entities.

7.8.2 Pro-Rata Dividend on CPS

The Pro-Rata Dividend will be included in the Eligible CPS Holder's assessable income as a distribution for those Eligible CPS Holders who participate in the Reinvestment Offer. To the extent that the Pro-Rata Dividend is franked, the Eligible CPS Holder will also be required to include in their assessable income the attached franking credits.

Subject to the comments above at Section 7.1 regarding 'qualified persons', an Eligible CPS Holder who is an individual or a complying superannuation entity may be entitled to tax offsets based on the franking credits attached to the Pro-Rata Dividend, or to a tax refund to the extent that the tax offsets exceed the tax that is otherwise payable by the Eligible CPS Holder.

If an Eligible CPS Holder is a company, a franking credit should arise in its franking account to the extent that the Pro-Rata Dividend is franked, subject to the comments in Section 7.1 regarding 'qualified persons'.

The application of the qualified person rules will depend upon the particular circumstances of each Eligible CPS Holder. Accordingly, an Eligible CPS Holder should obtain independent tax advice as to whether they will be treated as a qualified person in relation to the Pro-Rata Dividend.

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Key people, interests
and benefits



Section 8 Key people, interests and benefits

8.1 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.

8.1.1 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:

NAME	ORDINARY SHARES	PERFORMANCE AWARD RIGHTS
Jon Sutton	251,484	215,639 ¹⁸
Roger Davis	18,043	Nil
Bruce Carter	17,503	Nil
Richard Haire	7,347	Nil
Karen Penrose	9,500	Nil
Margaret Seale	11,043	Nil
Michelle Tredenick	10,635	Nil
David Willis	2,132	Nil
John Lorimer	12,000	Nil

None of the Directors has an interest in CPS. Roger Davis and David Willis hold 20 and 7 Wholesale Capital Notes, respectively.

8.1.2 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 \$2,600,000.

The Managing Director & Chief Executive Officer's remuneration is fixed by the Board and may consist of salary, bonuses or other elements but must not be a commission on or percentage of profits or operating revenue. Details of Directors' remuneration are set out in the remuneration report contained in BOQ's annual report for the year ended 31 August 2017, which was lodged with ASX on 12 October 2017 and is available at www.boq.com.au or see Section 9.1 for further details about accessing this and other documents lodged by BOQ.

8.1.3 Participation in the Offer

The Directors and certain related persons may acquire Capital Notes offered under this Prospectus subject to a collective limit of 0.2% of the total number of Capital Notes issued under the Offer - see relevant ASX waivers described in Section 9.10.

8.2 Interests of experts and advisers

Goldman Sachs Australia Pty Ltd has acted as the Arranger for the Offer, and each of ANZ Securities Limited, Commonwealth Bank of Australia, 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 \$4,600,000 (exclusive of GST), making certain assumptions as to the allocations of Capital Notes between the Broker Firm Offer, Institutional Offer, Reinvestment 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 allocation or split proportionately between each Joint Lead Manager) and broker firm selling fees payable to the Syndicate Brokers.

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 \$88,636 (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 and tax adviser to BOQ and has provided a range of legal services in connection with the Offer. BOQ estimates that fees of approximately \$440,000 (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.

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
- 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.

8.3 Expenses of the Offer

The total expenses for the Offer will be paid out of the proceeds of the Offer. Assuming the Offer raises \$300 million, then the net proceeds of the Offer are expected to be \$294 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 \$6 million. All of these expenses have been, or will be, borne by BOQ.

¹⁸ A resolution to approve the grant of 99,239 additional performance award rights to Jon Sutton will be voted on at the BOQ Annual General Meeting on 30 November 2017.

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Additional information

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Section 9 Additional information

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

9.1 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 2017 (being the most recent annual financial report lodged with ASIC before the lodgement of this Prospectus); and
- 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:

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.

9.2 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 15%. A securityholder may apply to the Treasurer to extend its stake beyond 15%, however approval cannot be granted unless the Treasurer is satisfied that it is in the national interest to approve a holding of greater than 15%.

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 or Ordinary Shares.

9.3 U.S. Foreign Account Tax Compliance Act and OECD Common Reporting Standard

9.3.1 FATCA

Under sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (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 are made to determine the Holder's status under FATCA, or (B) an FFI to or through which payments on the Capital Notes are made is a "non-participating FFI"; and (ii) the Capital Notes are treated as debt for U.S. federal income tax purposes and the payment is made in respect of Capital Notes 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 are treated as equity for U.S. federal income tax purposes, whenever issued. This withholding is not expected to apply prior to 1 January 2019.

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 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 (or from an issue of Ordinary Shares) as a result of FATCA, pursuant to the terms and conditions of the Capital Notes, no additional amounts will be paid (and no further Ordinary Shares will be issued) by BOQ as a result of the deduction or withholding.

9.3.2 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) to their local tax authority and follow related due diligence procedures. Holders may be requested to provide certain information and certifications to ensure compliance with the CRS. A jurisdiction that has signed a CRS Competent Authority Agreement may provide this information to other jurisdictions that have signed the CRS Competent Authority Agreement. The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the CRS.

9.4 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 Commonwealth Bank of Australia National Australia Bank Limited Morgans Financial Limited
Co-Managers	JBWere Limited Ord Minnett Limited
Accounting adviser	KPMG Transaction Services
Legal and Tax Adviser	King & Wood Mallesons
Registry	Link Market Services
Auditor	KPMG

King & Wood Mallesons 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 7 in the Prospectus in the form and context in which it appears in Section 7.

9.5 Rights and liabilities attaching to Capital Notes

The rights and liabilities attaching to Capital Notes are contained in the Capital Note Terms set out in Appendix A. Rights and liabilities attaching to Capital Notes may also arise under the Corporations Act, the ASX Listing Rules, the Constitution and other laws.

9.6 Rights and liabilities attaching to Ordinary Shares

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

This Section 9.6 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 9.1.

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 right to receive dividends declared from time to time, as determined by the Board, in its judgment, as the financial position of BOQ justifies, in proportion to the capital paid up on the Ordinary Shares held by each shareholder (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 in proportion to the capital paid up on the Ordinary Shares (subject to the rights of holders of securities carrying preferred rights on winding-up, including Capital Notes).

9.7 Rights and liabilities attaching to Approved NOHC ordinary shares

If a NOHC Event occurs and the Capital Note 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 Note 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.

Section 9 Additional information

9.8 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.

9.8.1 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 8.2.

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 and travel costs), subject to certain limits.

9.8.2 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 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.

9.8.3 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).

9.8.4 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 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 (other than the withdrawal of the Reinvestment Offer if the required approval of Ordinary Securityholders is not obtained);
- 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 Deed Poll or its constitution; 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 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.

9.9 Description of the Capital Notes Deed Poll

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

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

The Capital Notes Deed Poll also includes provisions for convening meetings of the Holders to consider any matter affecting their interests, including any variation of the Capital Note Terms. Any action which affects the eligibility of Notes 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 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 Deed Poll, the Capital Note Terms and this Prospectus when Capital Notes are issued or transferred to them or they purchase Capital Notes.

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

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

9.10 ASX waivers and confirmations

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

- ASX Listing Rule 3.20.2 will not apply to the Conversion of Capital Notes following the occurrence of a Non-Viability Trigger Event;
- the Capital Note Terms are 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;
- the terms of the APRA constraints on the payment of Distributions do not amount to a removal of a right to a distribution for the purposes of ASX Listing Rule 6.10;
- Conversion, Redemption or Resale of Capital Notes, as provided in the Capital Note Terms, is appropriate and equitable for the purposes of ASX Listing Rule 6.12;
- ASX does not consider the Capital Notes to be options or preference securities for the purposes of the ASX Listing Rules;
- for the purposes of ASX Listing Rule 7.1, it is acceptable that the maximum number of Ordinary Shares into which Capital Notes can be Converted in accordance with ASX Listing Rules 7.1 and 7.1B.1 will be calculated by notionally Converting Capital Notes at the Issue Date VWAP;
- 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 are Converted in accordance with ASX Listing Rule 7.2 (Exception 4);
- ASX Listing Rule 10.11 has been waived to permit Directors (and their associates) to participate in the Offer, without Ordinary Securityholder approval, on the condition that the Directors (and their associates) are collectively restricted to being issued no more than 0.2% of the total number of Capital Notes issued under the Offer; and
- the timetable for the Offer is acceptable.

In relation to the Reinvestment Offer, ASX has confirmed that:

- the amendments to the CPS Terms are appropriate and equitable for the purposes of ASX Listing Rule 6.1;
- the early Pro-Rata Dividend payment is permitted under ASX Listing Rule 6.10;
- Reinvestment Applicants will be taken to have agreed to the application of a holding lock to their Reinvestment CPS for the purposes of ASX Listing Rule 8.10.1; and
- the timetable for the Reinvestment Offer is acceptable.

ASX has also agreed to allow the Capital Notes to trade on a deferred settlement basis for a short time following the issue of Capital Notes under the Offer.

9.11 Foreign selling restrictions

As at the date of this Prospectus, no action has been taken to register or qualify Capital Notes or the Offer or to otherwise permit a public offering of Capital Notes 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 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 in the United States or to, or for the account or benefit of, a US Person.

Any offer, sale or resale of Capital Notes 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 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 9.11 and to have represented and warranted that it is able to apply for and acquire Capital Notes in accordance with those restrictions.

Section 9 Additional information

9.12 Privacy Statement

By making an Application for Capital Notes, you are providing personal information to BOQ through BOQ's service provider, Link Market Services Limited (**Registry**), which is contracted by BOQ to manage Applications. BOQ, and the Registry 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 Registry may not be able to process or accept your Application. By submitting an Application, each Applicant agrees that BOQ and the Registry 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 Registry (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;
- 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 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 Registry 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.

9.13 Amendments to the CPS Terms

To facilitate the Reinvestment Offer, certain amendments have been made to the CPS Terms under clause 18.1 of those terms. These amendments have been released to the ASX.

The amendments include terms in order to permit the payment of a Pro-Rata Dividend on the CPS.

9.14 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.

9.15 Authorisation of this Prospectus

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

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Appendices

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Appendix A Capital Note Terms

1. Form and Issue Price

1.1 Form

The BOQ Capital Notes are fully paid mandatorily convertible subordinated perpetual debt securities in the form of unsecured notes issued by BOQ (BOQ Capital Notes or Notes). BOQ Capital Notes 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 of these Terms, 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 2018 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.

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 (expressed as a percentage per annum) means, for a Distribution Period, the rate for prime bank eligible securities having a term of 3 months, which is designated as the "AVG MID" on the Thomson Reuters Screen BBSW Page (or any designation which replaces that designation on that page, or any page that replaces that page) at approximately 10:30am Sydney time (or such other time at which such rate customarily appears on that page) on the relevant day (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;

or if there is a manifest error in the calculation of that average rate or that average rate is not displayed on the Thomson Reuters Screen BBSW Page by the Publication Time on that date, the rate specified in good faith by BOQ at or around that time on that date 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);

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

Appendix A Capital Note Terms

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 August 2026 (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
- 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 if APRA is satisfied that conversion or write off of that proportion will have the result that 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 is at 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.

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- 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).
- (iv) any decision as to the identity of Holders where Notes are to be Converted is in accordance with clause 4.4(a)(ii); 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.

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 clause 4.3(b)(ii) applies, 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.
- 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;

4.5 Write Off following failure to Convert

If Conversion 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 Conversion will not occur and each Note of a Holder which, but for this clause 4.5, would be required to be Converted, 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.

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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
- 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 15 August 2024.

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 15 August 2024,

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 15 August 2024.
- 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;

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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
- 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.

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:

$$V = V_0 \times \frac{RD}{RD + RN}$$

where:

V means the Issue Date VWAP applying immediately after the application of this formula;

V_0 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.

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- 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) Any adjustment made by BOQ in accordance with clause 7.6(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.
- c) 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 percent 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.

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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 15 August 2024.

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 15 August 2024.

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.

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), 15 August 2024.
- 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 an 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 15 August 2024.

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 15 August 2024.

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), 15 August 2024.
- 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.

Appendix A Capital Note 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 of these Terms 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.

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 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.

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.

Appendix A Capital Note Terms

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 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 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.

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 deduct tax from payments of Distributions on the Notes at the highest marginal tax rate plus the highest medicare levy if an Australian resident investor or a non-resident investor carrying on business in Australia at or through a permanent establishment of the non-resident in Australia 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 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 that:

- a) clause 16.2 is a debt subordination for the purposes of section 563C of the Corporations Act;
- b) 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:

- 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.

Appendix A Capital Note Terms

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 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 if the amendment or addition has been approved by a Special Resolution of Holders. An amendment or addition to these Terms 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
 - (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 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.

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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 preference shares or other securities, or the conversion of existing shares into preference shares or other securities, ranking equally with or in priority to, or having different rights from, the Notes then on issue for participation in profits or assets of BOQ; and
- b) a redemption, 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.

20.2 Purchase by agreement

Subject to APRA's prior written approval, BOQ or any member of the Group may purchase Notes at any time and at any price. 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 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.

Appendix A Capital Note Terms

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, 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 next 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.

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 2015 Capital Notes means the mandatorily convertible subordinated perpetual debt securities in the form of unsecured notes issued by BOQ on 26 May 2015.

BOQ Capital Notes has the meaning given in clause 1.1.

BOQ CPS means convertible preference shares, being fully paid preference shares issued by BOQ on 24 December 2012.

BOQ Capital Notes Deed Poll means the deed poll relating to the Notes made by BOQ on or about 22 November 2017.

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.

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.

Appendix A Capital Note Terms

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 Ltd (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) the BOQ CPS;
- b) the BOQ 2015 Capital Notes; and
- c) 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 any of the securities listed in (a) and (b) 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).

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.

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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 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.

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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 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.

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 CHESS; 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 additional requirements would be imposed on BOQ in relation to or in connection with Notes 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.

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, 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); and
- b) any other Act setting the rate of income tax payable and any regulation promulgated under it.

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.

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.

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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 includes a reference to a replacement or substitute of the party according to that agreement or deed.
- 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 Note Terms.

Acquisition Conversion Notice has the meaning given in clause 5.1 of the Capital Note 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 Note 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 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 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.

Application Form means the application form (including the Application Forms for the Securityholder Offer, the Broker Firm Offer and the Reinvestment 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 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 Note 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.

ATM means an automated teller machine.

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 Note 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 Note Terms.

BEAR means the proposed Banking Executive Accountability Regime, to be administered by APRA.

Bookbuild means the process described in Section 6.5 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 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 Note 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 means the fully paid mandatorily convertible subordinated perpetual debt securities to be issued by BOQ according to the Capital Note Terms.

Capital Notes Deed Poll means the deed poll relating to the Capital Notes made by BOQ on or about 22 November 2017.

Capital Note Terms means the terms of issue of Capital Notes as set out in Appendix A.

Appendix B Glossary

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.

CHESS 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 Reinvestment Offer and Securityholder Offer, 5:00pm (Sydney time) on 15 December 2017;
- for the Broker Firm Offer applications in respect of Reinvestment CPS, 5:00pm (Sydney time) on 15 December 2017; and
- for the Broker Firm Offer (excluding applications in respect of Reinvestment CPS), 10:00am (Sydney time) on 21 December 2017.

Co-Managers means JBWere Limited and Ord Minnett 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, the conversion of that Capital Note into a number of Ordinary Shares in accordance with clause 7 of the Capital Note Terms. **Convert**, **Converted**, and **Converting** have corresponding meanings.

Conversion Number has the meaning given in clause 7.1 of the Capital Note Terms.

Corporations Act means the *Corporations Act 2001* (Cth).

CPS means the BOQ Convertible Preference Shares issued by BOQ on 24 December 2012 that trade on ASX under the code "BOQPD".

CPS Holder means a person whose name is for the time being registered in the register of CPS as a holder of CPS.

CPS Record Date means 7:00pm (Sydney time) on 17 November 2017.

CPS Terms means the terms of issue of CPS as set out in the CPS Prospectus.

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 of Holders generally. For the full definition – see clause 24.1 of the Capital Note 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 Note Terms.

Distribution Payment Date has the meaning given in clause 2.2 of the Capital Note 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 Note Terms.

Distribution Rate means the distribution rate on Capital Notes calculated using the formula described in Section 2.1. For the full definition – see clause 2.4 of the Capital Note Terms.

Eligible CPS Holder means a CPS holder who is:

- a registered holder of CPS on the CPS Record Date;
- shown on the CPS 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 Reinvestment Offer or receiving Capital Notes under the laws of any jurisdiction.

Eligible Securityholder means an Ordinary Share or CPS holder who is:

- a registered holder of Ordinary Shares or CPS (as applicable) at 7:00pm (Sydney time) on 17 November 2017;
- shown on the applicable register as having an address in Australia; and
- not in the US or acting as a nominee 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 under the laws of any jurisdiction.

Equal Ranking Instruments has the meaning given in clause 24.1 of the Capital Note 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, being \$100 per Capital Note.

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 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.

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.

Holding Statement means a statement issued to Holders by the Registry which sets out details of Capital Notes 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 the Capital Notes.

Institutional Investor means an investor to whom offers or invitations in respect of Capital Notes 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 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 in the Bookbuild.

Insurance Act means the *Insurance Act 1973* (Cth).

Issue Date means the date Capital Notes are issued, expected to be 28 December 2017.

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 Note Terms.

Issue Price means for a Capital Note, \$100.00

Joint Lead Managers means ANZ Securities Limited, Commonwealth Bank of Australia, 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 to Ordinary Shares on the Loss Absorption Event Conversion Date in accordance with clause 4.4 of the Capital Note Terms.

Loss Absorption Event Conversion Date has the meaning given in clause 4.4 of the Capital Note Terms.

Mandatory Conversion means the mandatory conversion of Capital Notes to Ordinary Shares on the Mandatory Conversion Date in accordance with clause 3 of the Capital Note Terms.

Mandatory Conversion Conditions has the meaning given in clause 3.3 of the Capital Note Terms.

Mandatory Conversion Date has the meaning given in clause 3.2 of the Capital Note Terms.

Margin means the margin to be determined under the Bookbuild. For the full definition—see clause 2.4 of the Capital Note Terms.

Maximum Conversion Number has the meaning given in clause 7.1 of the Capital Note 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 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 Note 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 Note Terms.

Non-Conversion Test Date has the meaning given in clause 6.4 of the Capital Note 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 Note Terms.

NSFR means Net Stable Funding Ratio as defined in the APS 210 Prudential Standard effective from 1 January 2018.

Offer means the invitation made pursuant to this Prospectus for investors to offer to subscribe for Capital Notes and includes the Institutional Offer, Broker Firm Offer, Securityholder Offer and Reinvestment Offer.

Offer Period means the period from (and including) the Opening Date to (and including) the Closing Date.

OMB means Owner-Managed Branch™.

Appendix B Glossary

Opening Date is 30 November 2017.

Optional Conversion Date has the meaning given in clause 6.3 of the Capital Note Terms.

Optional Conversion Restrictions has the meaning given in clause 6.4 of the Capital Note 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,

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 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 Note 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.

Pro-Rata Dividend means the dividend accrued over the period from (and including) 16 October 2017 to (but excluding) the Reinvestment Date, in respect of each CPS on issue, expected to be paid on the Reinvestment Date (subject to the payment tests in the CPS Terms).

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, redemption in accordance with clause 9.2 of the Capital Note Terms. **Redeem**, **Redeemable** and **Redeemed** have corresponding meanings.

Redemption Date means the date on which Capital Notes are to be redeemed or, if Capital Notes are not redeemed on that day, the date on which the Capital Notes are Redeemed.

Register means the official register of Ordinary Shares, CPS and Capital Notes (if issued) maintained by BOQ or on BOQ's behalf, and includes any sub-register established and maintained under CHESS.

Registry 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 Note Terms.

A **Regulatory Event** broadly occurs if BOQ receives legal advice that, as a result of a Regulatory Change, additional requirements would be imposed on BOQ in relation to Capital Notes 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 as Additional Tier 1 Capital, except where the reason BOQ is not or will not be entitled to treat some or all Capital 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. For the full definition – see clause 24.1 of the Capital Note Terms.

Reinvestment Applicant means an Eligible CPS Holder who applies under the Reinvestment Offer.

Reinvestment Offer means the invitation to Eligible CPS Holders to reinvest their CPS in Capital Notes under this Prospectus in accordance with Section 5.

Reinvestment CPS means the CPS held by an Eligible CPS Holder that are reinvested in Capital Notes, under the terms of the Reinvestment Offer.

Reinvestment Date is 28 December 2017.

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 Note Terms.

Relevant Distribution Payment Date has the meaning given in clause 2.8 of the Capital Note Terms.

Relevant Fraction has the meaning given in clause 7.1 of the Capital Note Terms.

Relevant Mandatory Conversion Date has the meaning given in clause 3.2 of the Capital Note Terms.

Relevant Tier 1 Capital Instruments means Tier 1 Capital instruments of BOQ (on a Level 1 or Level 2 basis) (including the Capital 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.

Resale means, in relation to a Capital Note, the taking effect of the rights specified in clause 11 of the Capital Note Terms in relation to that Capital Note.

Resold and **Resell** have corresponding meanings.

Resale Date has the meaning given in clause 10.3 of the Capital Note Terms.

Resale Price means, for a Capital Note, a cash amount equal to its Issue Price.

Resident Holders are Australian tax resident Holders.

Scheduled Mandatory Conversion Date is 15 August 2026.

Second Mandatory Conversion Condition has the meaning given in clause 3.3 of the Capital Note Terms (but in clauses 5.4 and 6.5 of the Capital Note Terms, as adjusted in those clauses).

Second Optional Conversion Restriction has the meaning given in clause 6.4 of the Capital Note 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 under this Prospectus.

Senior Ranking Creditors means all present and future creditors of BOQ, including all depositors, 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,

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-Managers.

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 Act setting the rate of income tax payable and any regulation promulgated under it.

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 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 Note Terms.

Tax Rate has the meaning given in clause 2.4 of the Capital Note 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.

Third Mandatory Conversion Condition has the meaning given in clause 3.3 of the Capital Note 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.

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.

Wholesale Capital Notes means the mandatorily convertible subordinated perpetual debt securities in the form of unsecured notes issued by BOQ on 26 May 2015.

VWAP means, subject to any adjustments under clause 7 of the Capital Note 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 Note Terms.

Written Off has the meaning given in clause 4.5 of the Capital Note Terms. **Written Off** has a corresponding meaning.

Registered Office and Head Office

Bank of Queensland Limited
Level 6,
100 Skyring Terrace
Newstead QLD 4006
Website: www.boq.com.au

Legal and Tax Adviser

King & Wood Mallesons
Level 50, Bourke Place
600 Bourke Street
Melbourne VIC 3000

Auditor

KPMG
Level 38, Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

Accounting Advisor

KPMG Transaction Services
(a division of KPMG Advisory Services
(Australia) Pty Ltd)
Level 16, Riparian Plaza
71 Eagle Street
Brisbane QLD 4000

Registry

Link Market Services Limited
Level 15
324 Queen 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 Street
Docklands VIC 3008

Commonwealth Bank of Australia
Ground Floor
Tower 1, 201 Sussex Street
Sydney NSW 2000

National Australia Bank Limited
Level 25, NAB House
255 George Street
Sydney NSW 2000

Morgans Financial Limited
Level 29
123 Eagle Street
Brisbane QLD 4000

Co-Managers

JBWere Limited
Level 42, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Ord Minnett Limited
Level 8, NAB House
255 George Street
Sydney NSW 2000

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