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BOQ ANNOUNCES ACQUISITION OF ME BANK AND CAPITAL RAISING

- **BOQ to acquire 100% of ME Bank for \$1.325bn, creating a compelling alternative to the big banks**
- **A transformational acquisition which is strategically aligned**
 - **Expected to deliver material scale, broadly doubling the Retail bank and providing geographic diversification**
 - **Strong complementary trusted brands, with shared customer-centric cultures and differentiated customer segments**
 - **Clear pathway to a scaled, common, cloud based digital Retail bank technology platform**
- **Financially compelling**
 - **Expected to be low double-digit to mid-teens cash EPS accretive including full run-rate synergies in the first year (FY22)¹**
 - **Expected to be cash ROE accretive, by over 100bps including full run-rate synergies in the first year¹**
 - **Anticipated annualised pre-tax synergies of \$70 - \$80m**
- **Acquisition to be fully funded through a \$1.35bn equity raising**
- **BOQ's transformation is continuing to deliver results with improved FY21 outlook and third consecutive half of improved performance²**

Monday, 22 February 2021, Brisbane: Bank of Queensland Limited (**BOQ**) today announced it has entered into an agreement to acquire 100% of Members Equity Bank Limited (ACN 070 887 679) (**ME Bank**) for cash consideration of \$1.325bn. The acquisition will be funded by an underwritten capital raising of \$1.35bn.

¹ FY2022 pro forma EPS accretion on an underlying cash EPS basis assuming the Acquisition is effective from 1 September 2021. Excludes transaction and integration costs and amortisation of acquired intangibles. ME Bank AT1 capital notes are treated as equity for accounting purposes. Associated dividend payments are not reflected in earnings and therefore not reflected in the EPS calculations. Calculated in accordance with AASB 133, with adjustments to reflect the bonus element of the Offer. Based on market consensus earnings for BOQ.

² Excluding the impacts of the Acquisition and subject to no material change in market conditions.

Chairman Patrick Allaway stated, "Today's announcement is another major step in our strategy to be the leading customer-centric alternative to the big banks. With the addition of the ME Bank business, BOQ now has material scale and a compelling growth platform to support this ambition. The combination of our highly complementary businesses brings together two organisations with a shared purpose and values generating greater value for customers, employees and shareholders. This is underpinned by the successful revitalisation of the bank since early 2020 with the team's strong execution capabilities being reflected in our earnings progress to the half."

Managing Director and CEO Mr George Frazis said, "This is a defining acquisition in our ongoing transformation of BOQ, benefitting our shareholders, customers, and people. Critically, ME Bank delivers material scale, broadly doubles our Retail bank, and provides geographic diversification. The ME Bank brand is also a great fit with the BOQ and Virgin Money brands, creating customer-centric alternatives in Australia.

"It is an exciting day to see two strategically and culturally-aligned businesses come together and we look forward to continuing to build ME Bank's strong brand, accelerate growth and create new opportunities for our people and the Group.

"We are on track with our strategic transformation and we anticipate that the combination of the two businesses will enable us to accelerate our digital strategy towards a cloud based common digital Retail bank technology platform," Mr Frazis said.

Financially compelling transaction

"Combined, the Group will have pro forma total assets over \$88bn, with total deposits of more than \$56bn. We believe the synergies and alignment will deliver sustainable, profitable growth," Mr Frazis said.

The acquisition price represents an implied acquisition multiple of 1.05x ME's FY20 reported book value³ and 11.9x ME Bank's FY20 cash underlying earnings⁴.

Pre-tax annualised synergy benefits of approximately \$70 - \$80m are expected by the end of year 3, with approximately 75% of synergies to be delivered on an annualised basis by the end of the second year post-completion. Pre-tax integration costs are estimated to be \$130 - \$140m, with the majority to be incurred in the first two years.

The acquisition is expected to be low double-digit to mid-teens cash EPS accretive including full run-rate synergies in the first year (FY22). The acquisition is also expected to be cash ROE accretive, by over 100bps including full run-rate synergies in the first year⁵.

Completion of the acquisition is targeted before the end of BOQ's 2021 financial year, subject to regulatory approval pursuant to the Financial Sector (Shareholdings) Act 1998 (Cth).

³ Based on reported ME Bank book equity (excluding capital notes)

⁴ Based on reported ME Bank underlying cash earnings, before COVID-19 overlays. Earnings adjusted for preference share dividends.

⁵ FY2022 pro forma EPS accretion on an underlying cash EPS basis assuming the Acquisition is effective from 1 September 2021. Excludes transaction and integration costs and amortisation of acquired intangibles. ME Bank AT1 capital notes are treated as equity for accounting purposes. Associated dividend payments are not reflected in earnings and therefore not reflected in the EPS calculations. Calculated in accordance with AASB 133, with adjustments to reflect the bonus element of the Offer. Based on market consensus earnings for BOQ.

Strategically aligned businesses

The organisations are highly complementary and share a similar customer-centric culture as well as purpose and values that are focused on helping all our customers get ahead and create prosperity.

Mr Frazis said, “The addition of ME Bank is expected to broadly double the size of the Retail Bank, increase Retail earnings contribution from approximately 36% to greater than 50%⁶ and balance out our East Coast presence. The increase in customer numbers means BOQ Group can now provide a genuine banking alternative to approximately 1.45 million people.

“BOQ’s digital transformation is well underway, and the acquisition of ME Bank is expected to accelerate the pathway to a scaled common cloud based digital Retail bank technology platform. We believe that the benefits of a single platform are significant, but are largely underpinned by the ability to leverage global capability with evergreen upgrades via cloud software.

“BOQ, Virgin Money and ME are all customer-centric brands, evidenced by high NPS, a loyal customer base and aligned purpose and values, which we believe makes ME the ideal addition to BOQ Group’s stable of brands. We believe the BOQ Group is the perfect home for both ME’s customers and employees, and we look forward to welcoming them to the Group,” Mr Frazis said.

The ME Bank base in Melbourne will remain and the ME brand will be maintained and grown.

Delivering on our strategy

The Group is in the second year of a multi-year, multi-brand digital transformation strategy after revitalising the business and announcing a refreshed strategy in February 2020.

Mr Frazis said, “ME Bank joins the Group at a time when we have made good progress against our strategic priorities. We have an experienced leadership team in place which has delivered an important turnaround in the Retail Banking business, as well as above system growth in 1H21, while also improving the net interest margin. We have increased our Retail NPS to 4th and have made significant progress in remediating legacy issues.

“Our digital transformation remains on track with Virgin Money’s Digital Bank soft launch completed in December 2020, and the go-live scheduled for next month,” Mr Frazis said.

Trading Update

BOQ is on track for a strong 1H21 operating and financial result, which would represent the third consecutive half of improved performance. BOQ currently expects to announce 1H21 statutory net profit growth of 60% - 65% and 1H21 cash net profit growth of 8% – 10%⁷.

Highlights of the forecast 1H21 result are expected to include⁸:

- Housing GLA growth of 5% annualised in 1H21 (1.2x system), with increasing momentum, and slightly negative to flat business banking GLA growth against a declining system
- NIM is expected to be ~3bps up on 2H20

⁶ Cash NPAT BOQ (August YE), ME Bank (June YE) and Pro Forma figures based on reported FY20 numbers. Excludes COVID-19 provisions of \$133m for BOQ and \$42m for ME Bank as disclosed in respective FY20 financial statements.

⁷ Excluding the impacts of the acquisition and the capital raising and subject to no material change in market conditions. Final result is subject to usual end of period processes and audit. Refer to the disclaimer and risk factors in the Investor Presentation in relation to forward looking statements.

⁸ All comparisons are 1H21 vs 1H20 unless otherwise noted.

- 1H21 expense growth of 4% compared to 1H20, 2% up compared to 2H20
- Around 1% positive jaws for the half vs PCP driven by revenue growth and improved productivity
- 1H21 loan impairment expense to GLAs of ~10bps
- Loan deferrals due to COVID support have decreased to 0.6% for home loan balances and 0.7% for business lending balances
- CET1 expected to be above 10.0% at the end of 1H21, well above the target range of 9.0% – 9.5%, excluding the impacts of the capital raising
- 1H21 dividend expected to be 17cps⁹ inclusive of new shares issued through capital raise

As a result of the strong 1H21 performance, BOQ is updating its outlook for FY21.

“We expect to deliver around 1% positive jaws in FY21, with the uplift driven by above system growth in lending, an improved margin outlook to slightly positive, offset by approximately 3% cost growth required to support the growth momentum of the business. We believe that BOQ maintains a relatively prudent collective provision that sees BOQ well placed to withstand anticipated lifetime losses arising from COVID-19,” Mr Frazis said.

Details of the Equity Raising

In order to fund the acquisition, BOQ is undertaking an underwritten 1 for 3.34 accelerated pro-rata non-renounceable entitlement offer (**Entitlement Offer**) to raise \$1.0bn and an underwritten \$350m institutional placement (**Placement**), together raising approximately \$1.35bn (**Equity Raising**).

The offer price for the Placement and the Entitlement Offer will be \$7.35 per share (**Offer Price**), representing:

- a 9.3% discount to the theoretical ex-rights price (**TERP**) of \$8.11; and
- a 12.6% discount to BOQ’s closing price of \$8.41 on 18 February 2021.

The Equity Raising will result in the issue of up to approximately 184 million new ordinary shares (**New Shares**), representing approximately 40.4% of BOQ’s existing securities on issue. The New Shares issued under the Equity Raising will rank equally with existing BOQ shares as at their date of issue.

The BOQ Directors who are eligible shareholders have each confirmed their intention to participate in the Entitlement Offer by taking up their pro rata entitlement for New Shares.

The Entitlement Offer is non-renounceable and rights are not transferrable and will not be traded on the ASX or other exchange.

Eligible shareholders who do not take up their Entitlement under the Entitlement Offer in full or in part, will not receive any value in respect of those Entitlements not taken up.

⁹ The amount of any dividend paid will be at the discretion of the Board and will depend on several factors, including (a) the recognition of profits and availability of cash for distributions; (b) the anticipated future earnings of the Company; or (c) when the forecast timeframe for capital demands of the business allows for a prudent distribution to Shareholders.

Placement

All shares offered under the Placement will be issued at the same price as New Shares issued under the Entitlement Offer (\$7.35 per share). New Shares issued under the Placement do not have rights to participate in the Entitlement Offer.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer. Under the Institutional Entitlement Offer, eligible institutional shareholders can choose to take up all, part or none of their Entitlement. Entitlements not taken up under the Institutional Entitlement Offer and those that would otherwise have been offered to ineligible institutional shareholders will be offered to certain eligible institutional investors and existing eligible institutional shareholders through an institutional bookbuild at the Offer Price.

Retail Entitlement Offer

Eligible retail shareholders in Australia or New Zealand on the Record Date of 7.00pm (Sydney time) (among other criteria), Wednesday, 24 February 2021, have the opportunity to invest in New Shares at the Offer Price, on the terms and conditions outlined in the Retail Offer Booklet to be dispatched to eligible retail shareholders on the day the Retail Entitlement Offer opens, being Monday 1 March 2021.

Please note that shareholders outside Australia or New Zealand (among other criteria) are ineligible to participate in the Retail Entitlement Offer. Further details as to eligibility will be set out in the Retail Offer Booklet.

Under the Retail Entitlement Offer, eligible retail shareholders that take up their full Entitlement may also apply for additional New Shares in excess of their Entitlement.

Details of Acquisition

The acquisition by BOQ is for 100% of the issued share capital in Members Equity Bank Limited (ACN 070 887 679) from 26 Australian industry superannuation funds (the "Sellers") for a purchase consideration of \$1.325bn payable at Completion, subject to completion account adjustments. BOQ has a right to terminate the share sale and purchase deed if the underwriting agreement is terminated by the Underwriters, resulting in BOQ not receiving sufficient funds to fund the acquisition.

The Sellers indemnify BOQ (and ME Bank) in relation to certain legacy regulatory matters for a defined time period. A balanced suite of business and tax related warranties and indemnities otherwise apply which are subject to various limitations and qualifications and subject to certain exceptions. Please see slide 31 of the Investor Presentation for further details about the acquisition and slides 42 - 45 for the Key Risks associated with the Acquisition.

Retail Investor Enquiries

For further information in regard to the Entitlement Offer, please do not hesitate to contact the Registry from 8.30am to 5.00pm (Sydney time) Monday to Friday on 1800 779 639 (callers within Australia) or +61 1800 779 639 (callers outside Australia).

Key Dates

<i>Event</i>	<i>Date¹⁰</i>
Announcement of the Placement and Accelerated Non-Renounceable Entitlement Offer	Monday, 22 February 2021
Entitlement Offer Record Date (7:00pm Sydney time)	Wednesday, 24 February 2021
Institutional Entitlement Offer and Placement	
Institutional Entitlement Offer and Placement opens	Monday, 22 February 2021
Institutional Entitlement Offer and Placement closes	Monday, 22 February 2021
Announcement of results of Institutional Entitlement Offer and Placement	Tuesday, 23 February 2021
Shares recommence trading	Tuesday, 23 February 2021
Settlement of New Shares issued under the Institutional Entitlement Offer and Placement	Tuesday, 2 March 2021
Issue and commencement of trading of New Shares under the Institutional Entitlement Offer and Placement	Wednesday, 3 March 2021
Retail Entitlement Offer	
Retail offer booklet dispatched to Eligible Retail Shareholders and Retail Entitlement Offer opens	Monday, 1 March 2021
Retail Entitlement Offer closes (5:00pm Sydney time)	Wednesday, 10 March 2021
Announcement of results of Retail Entitlement Offer	Monday, 15 March 2021
Settlement of New Shares issued under the Retail Entitlement Offer	Tuesday, 16 March 2021
Issue of New Shares under the Retail Entitlement Offer	Wednesday, 17 March 2021
Commencement of trading of New Shares issued under the Retail Entitlement Offer	Thursday, 18 March 2021
Holding statements in respect of New Shares issued under the Retail Entitlement Offer dispatched	Thursday, 18 March 2021

Additional Details

Further details of the Offer are set out in the ASX announcement and Investor Presentation provided to ASX on Monday, 22 February 2021 (**Investor Presentation**). The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Offer.

¹⁰ The above timetable is indicative only and subject to change. The commencement and quotation of securities is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable rules, Bank of Queensland reserves the right to amend this timetable at any time subject to the written consent of the Underwriters (such consent not to be unreasonably withheld or delayed), including extending the period for the Entitlement Offer or accepting late applications, either generally or in particular cases, without notice.

Definitions

Unless otherwise defined, capitalised words used in this announcement have the meaning given to them in the Investor Presentation.

Advisors

Luminis Partners is acting as financial advisor on the Acquisition and King & Wood Mallesons is acting as legal advisor to BOQ on the transaction.

Investor Call

A briefing call will take place via audio webcast at 10:30am (Sydney time) on Monday, 22 February 2021.

Teleconference details:

The webcast address is:

<https://edge.media-server.com/mmc/p/pyv2ax3z>

Teleconference registration for analysts:

<https://s1.c-conf.com/diamondpass/10012672-p48db2.html>

Important Notice

This announcement contains certain “forward-looking statements”. The words “forecast”, “estimate”, “likely”, “anticipate”, “believe”, “expect”, “project”, “opinion”, “predict”, “outlook”, “guidance”, “intend”, “should”, “could”, “may”, “target”, “plan”, “project”, “consider”, “foresee”, “aim”, “will”, “seek” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements, and include statements in this announcement regarding the potential impact and duration of the global COVID-19 pandemic (defined below), the timing, impact and outcome of the Acquisition (including integration), the conduct and outcome of the Offer, the use of proceeds, the future performance of BOQ and ME Bank post-Acquisition, estimated net synergies and scale benefits after combination with ME Bank and BOQ’s outstanding debt and BOQ’s outlook for 1H21 and FY21.

Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks, uncertainties, assumptions, contingencies and other factors, many of which are beyond the control of BOQ and its related bodies corporate and affiliates and each of their respective directors, securityholders, officers, employees, partners, agents, advisers and management. This includes statements about market and industry trends, which are based on interpretations of current market conditions.

Investors are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of

future performance. Actual results, performance or achievements may vary materially from those expressed or implied in those statements and any projections and assumptions on which these statements are based. These statements may assume the success of BOQ's business strategies and the integration of ME Bank following completion of the Acquisition, the success of which may not be realised within the period for which the forward-looking statements may have been prepared, or at all.

No guarantee, representation or warranty, express or implied, is made as to the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, returns, statements or tax treatment in relation to future matters contained in this announcement. The forward-looking statements are based only on information available to BOQ as at the date of this announcement. Except as required by applicable laws or regulations, none of BOQ, its representatives or advisers undertake any obligation to provide any additional or updated information or revise the forward-looking statements or other statements in this announcement, whether as a result of a change in expectations or assumptions, new information, future events, results or circumstances.

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States.

Neither the entitlements nor the New Shares have been, or will be, registered under the U.S. Securities Act of 1933, as amended ("**U.S. Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the entitlements may not be taken up or exercised by, and the New Shares may not be offered or sold to, directly or indirectly, persons in the United States, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws of any state or other jurisdiction of the United States.

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