



Tumultuous year with many senior management changes

Company/ASX Code	Bank of Queensland/BOQ
AGM date	Tuesday 10 December 2019
Time and location	10am Level 5 Hilton Hotel Brisbane City, 190 Elizabeth Street
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan assisted by Mike Stalley and Noel Ambler
Pre AGM Meeting?	Yes, with Chair Patrick Allaway

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Financial performance

Last year Directors commented that the year ahead (2019) would be tough. This year's results have, unfortunately, validated those comments.

The table below demonstrates the adverse financial outcome. The five-year table shows Financial Year 2019 (FY19) **was the worst in the last five years**. A further point to note is the overall trend. The financial performance in the three years from 2015 to 2017 shows improved outcomes each year. However, the last two years, 2018 and 2019, have reversed that trend.

An immediate impact on the shareholders is the fall in the share price from \$11.49 in FY18 to \$9.17 in FY19, a reduction of 20% and a dividend that reduced by 14% from FY18's 76 cents per share (cps) to FY19's 65cps (2018 -8.7% and 0%).

The statutory NPAT of \$298 million (m) is down 11% from 2018's \$336m. A significant component of the NPAT reduction is the increase in the impairment cost, which is up 80% from \$41m to \$74m 2019. The increase in impairment cost was primarily driven by the implementation of AASB9 *Financial Instruments Standard*.

The banking sector emphasises cash reporting and measurement. BOQ's cash earnings after tax were \$320m 2019, down 14% and cash at year-end was \$1,274m, an increase of 5%.

BOQ remains in a sound financial position with several segments showing growth in 2019. Banks are operating in challenging conditions with margins and competition under constant scrutiny by industry regulators, customers and the Federal Government. BOQ continues to emphasise conservative management as in previous years. The board recognises the changing banking

environment and in 2019 commenced a strategic review to change into a more sustainable business model, with growth as a significant strategy.

Combined with appropriate strategies, sound control and the existing good culture, the future for the Bank to turn around the financial results trend is a challenge that should be achievable.

Governance and Culture

The Bank is subject to two regulatory developments. The Australian Transaction Reports and Analysis Centre (AUSTRAC) have concerns about controls for Anti-Money Laundering compliance and the Australian Securities and Investments Commission (ASIC) has commenced proceedings about unfair small business contracts.

Additionally, the Bank has some issues with data collection for Statistical Agencies. The attempted collection of this data has revealed the need for better and more appropriate software to allow for efficient and effective data queries and data mining.

The Directors' report makes an unequivocal stand about previous, current and future cooperation with governance bodies to ensure the Bank is compliant in all regulatory matters.

Buybacks and Capital Raisings

An additional 8,472,959 shares (around \$78m) were issued in the FY19 Dividend Reinvestment Plan (DRP). Just prior to our pre-AGM the company announced an institutional placement and SPP. At the pre-AGM meeting the Chair stated they had asked the institutional buyers to give large allocations to their individual clients to help boost individual shareholders' allocations. As well they will consider issuing more shares if the Share Purchase Plan (SPP) is oversubscribed. At the same time the Chair expressed a desire to increase large institutions as a percentage of the shareholder base in the belief that they are more stable owners of the business.

Key Board or senior management changes

Former CEO Jon Sutton resigned in December 2018 for health reasons and was replaced in the interim by former CFO Anthony Rose who will resign at the end of 2019. New CEO George Frazis was appointed in September 2019. Mr Ewen Stafford commenced as CFO and COO in November 2019.

Non Executive Director (NED) Richard Haire retired at the half-year results announcement. Chair Roger Davis retired at the end of October and NED David Willis will resign at this year's AGM. Patrick Allaway was appointed to the board in May and took over as Chair from Davis in October. And two new NEDs have been appointed, see below.

Summary

The Bank of Queensland is facing several challenges, and not least is the sustainability of the current business model which continues to be plagued by slow adoption of digitisation. The board has initiated a strategic review which includes the development of strategies to return to a growth path. Given the results and trends in the below table, this decisive analysis of the business is urgent and appropriate.

(As at FYE) 31 August	2019	2018	2017	2016	2015
NPAT (\$m)	298	336	352	338	318
Cash Earnings (\$m)	320	372	378	360	357
Share price (\$)	9.17	11.49	12.59	10.55	12.67
Dividend (cents)	65	76	84	76	74
TSR (%)	-14.5%	-2.7%	+26.5%	-10.7%	+6.3%
EPS (cents)	74	89.3	93.9	90.7	92.2
CEO total remuneration, actual (\$m)	See Item 4 below	2.7	3.3	3.1	2.8

Item 2 (a)	Re-election of Mr John Lorimer as a Director
ASA Vote	Against

Summary of ASA Position

Mr Lorimer was appointed to the Board in January 2016 and elected at the AGM in the same year. He has more than 20 years' experience in financial services, including high-level management positions with Standard Chartered Bank and Citigroup in the UK. He is a member of BOQ's Risk Committee and the Information Technology Committee. Outside of BOQ, Mr Lorimer is Chair of BUPA's Hong Kong listed arm and NED of two unlisted businesses, BUPA Aged Care Holdings and Aberdeen New Dawn Investment Trust.

ASA believes NEDs should have an equity holding in the company equal to approximately one year's director's fees after three years on the board. Mr Lorimer's remuneration is in excess of \$225,000 and he owns shares in BOQ to the value of around \$133,000 (at 29 November 2019). Pleasingly he intends to take up \$30,000 in the upcoming SPP. We have repeatedly encouraged and cajoled directors of this company to increase their shareholdings and Mr Lorimer still has a fair way to go. We encourage Mr Lorimer to invest further in BOQ so that his interests are more closely aligned with those of shareholders.

Item 2 (b)	Re-election of Mr Warwick Negus as a Director
ASA Vote	For

Summary of ASA Position

Mr Negus was appointed to the Board in September 2016 and comes to BOQ with more than 30 years of finance industry experience, more specifically in executive roles with Colonial First State, Bankers Trust, and Goldman Sachs both here in Australia and overseas. He serves on the Audit Committee, the Human Resources & Remuneration Committee and the Investment Committee.

Mr Negus appears to be well qualified for his BOQ role. Mr Negus is also a NED of Washington H Soul Pattinson, Virgin Australia and Terrace Tower Group. We are pleased to see that his time as Chair of Pengana Capital will conclude before the end of this year leaving him more time to focus on BOQ. He is on the board of UNSW and is Chair of UNSW Global Limited.

ASA believes NEDs should have an equity holding in the company equal to approximately one year's director's fees after three years on the board. In October this year after three years on the board Mr Negus finally began investing in BOQ and has now acquired around \$178,000 (at 29 November 2019). He intends to take up \$30,000 in the upcoming SPP which will put his ownership above his circa \$191,500 remuneration. We congratulate Mr Negus for increasing his holdings and aligning his interests to those of shareholders.

Item 2 (c)	Re-election of Ms Karen Penrose as a Director
ASA Vote	Against

Summary of ASA Position

Ms Penrose was appointed in November 2015. She has over 30 years' business experience, including 20 years in banking with CBA and HSBC. She is also a NED of Vicinity Centres Limited, Spark Infrastructure Group, AWE Limited, Future General Global Investment Company Limited and UrbanGrowth NSW. She is Chair of the BOQ Audit Committee and a member of the Human Resources & Remuneration Committee and the Risk and Investment Committees

ASA believes NEDs should have an equity holding in the company equal to approximately one year's director's fees after three years on the board. Ms Penrose's remuneration is approximately \$245,000 and she owns BOQ shares with current value of around \$106,000. Company policy requires her to own at least \$150,000 (equal to base NED fees). We have repeatedly encouraged and cajoled directors of this company to increase their shareholdings. We will vote against Ms Penrose to protest her mediocre shareholding in the company and encourage Ms Penrose to increase her holdings so that her interests are more closely aligned with those of shareholders.

Item 2 (d)	Re-election of Mr Patrick Allaway as a Director
ASA Vote	For

Summary of ASA Position

Mr Allaway was appointed to the Board in May 2019 and succeeded Roger Davis as Chair in October 2019. He has 30 years executive and non-executive experience in the financial services, property, media and retail sectors working for large companies such as Citibank and Swiss Bank. He has held NED positions at Macquarie Goodman Industrial Trust, Metcash, Fairfax Media, David Jones, and Country Road.

At BOQ Mr Allaway is Chair of the Nomination & Governance Committee and the Investment Committee and is a member of each of the Human Resources & Remuneration, Risk, Audit and Information Technology Committees. He also holds NED positions at Nine Entertainment and Domain.

We are pleased to see that Mr Allaway acquired 50,000 shares in October 2019 under BOQ's new NED Fee Sacrifice Rights Plan and look forward to him increasing his holdings in the future.

Item 2 (e)	Election of Ms Kathleen Bailey-Lord as a Director
ASA Vote	For

Summary of ASA Position

Ms Bailey-Lord was appointed as a NED in May 2019. She is a member of the Information Technology Committee and the Human Resources & Remuneration Committee. Ms Bailey-Lord has twenty years executive experience in Australia, New Zealand and Asia spanning the technology industry at IBM, financial services at ANZ, and professional and marketing services. She has a passion for and experience in digital technology and leading businesses through complex change.

In addition to her role at BOQ, Ms Bailey-Lord is currently a NED of QBE, Melbourne Water and Monash College.

We are pleased to see that Ms Bailey-Lord acquired 3,132 shares in October 2019 under BOQ's new NED Fee Sacrifice Rights Plan and look forward to her increasing her holdings in the future.

Item 3	Approval of Grant of Performance Award Rights to the Managing Director & Chief Executive Officer Mr George Frazis
ASA Vote	For

Summary of ASA Position

George Frazis commenced with BOQ on 5 September 2019 as MD & CEO. His remuneration package is consistent with that of the previous MD & CEO incentives previously approved by the ASA.

In accordance with ASX rule 10.14, BOQ is seeking shareholder approval of the grant of 143,214 performance award rights to Mr George Frazis. This is equivalent in value to \$1,300,000 being 100% of Mr Frazis fixed remuneration. In order to avoid the dilutionary effect of issuing shares, we strongly urge BOQ to acquire the shares on market, if and when they are granted.

BOQ from 2019 has now a performance/vesting period of four years which meets ASA requirements and is required by the Bank Executive Accountability Regime. Both STI and LTI meet the ASA guidelines. Both the STI cash and deferred Shares do not exceed his base salary as recommended by ASA.

The ASA will vote for the resolution.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.300	34.48%	1.300	28.57%
STI - Cash	0.585	15.52%	0.975	21.43%
STI - Equity	0.585	15.52%	0.975	21.43%
LTI	1.300	34.48%	1.300	28.57%
Total	3.770	100%	4.550	100%

Note: FY19 was a transitional year in which the company was served by an outgoing CEO, an interim CEO and an incoming CEO. For FY20 the CEO's total actual remuneration could range between 42 and 51 times the Australian Full-time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

The core principals and structure of BOQ's Remuneration structure remain unchanged. We are delighted with its presentation as it is even more clearly described than in previous years. The CEO receives fixed pay (34%), STI (32%) which is paid 50% cash and 50% deferred equity vesting progressively over four years (FY18 - 3 years), and LTI (34%) which consists of Performance Award Rights which will vest over four years (FY18 – 4 years).

We are pleased that BOQ recognizes senior managers' importance during this transitional time. It has added a retention tool for senior managers granting them 'conditional equity' with 50% vesting in 18 months and the balance vesting in three years (pool capped at \$5m). Awards are subject to continued employment, earnings growth, and progression of specific transformation projects.

Also new this year is the introduction of a NED Fee Sacrifice Rights Plan that allows NEDs to sacrifice a portion of their board fees to acquire BOQ shares. Equity acquired under the plan is subject to a minimum three-year disposal restriction. BOQ continues with its rather unwieldy and unfair NED share ownership requirement requiring NEDs to own shares to the value of their *base* fees. Committee fees make up a substantial proportion of the NED's overall income, except for the Chair who receives no committee fees. We encourage BOQ to review this and adopt a policy that asks NEDs to own shares equivalent to their *total* fees after three years on the board.

BOQ continues to provide a welcome table of actual take-home pay.

There will be no increases to key management personnel (KMP) fixed remuneration in FY20. The new CEO's remuneration package is consistent with the former CEO's. No STI bonuses were paid for FY19 as financial gateways were not met. The 2015 LTI grant was tested this year with 16% of it vesting.

ASA can still see room for improvement in BOQ's remuneration framework and reporting. Where an STI scheme is in effect ASA prefers that at least 50% be based on verifiable financial metrics. Although many of the metrics for STI's are financial we are not privy to the levels of performance required to earn a short-term bonus. We would prefer to see for ourselves whether the hurdles are knee-high or sky-high.

Like last year, no mention is made of whether LTI would be awarded in a performance period in which actual TSR was negative, which is ASA's preference. We understand the board intends to apply its discretion on this issue, but we would prefer a policy where if actual TSR is negative KMP would suffer with shareholders.

LTI TSR vesting hurdles are a little lower than ASA would like. ASA prefers no LTI be awarded where performance against peers is at the 50th percentile or lower. BOQ would award 50% of LTI where performance is at the 50th percentile. BOQ would award 100% of the LTI that is based on TSR if performance is in the top 25% of comparators. ASA prefers 100% vesting only if performance is in the top 15% of comparators. The portion of LTI based on relative growth in EPS versus peers has much more difficult hurdles that fall well within ASA's preferred guidelines in that vesting starts at the 60th percentile with maximum award where BOQ is in the top 10%. The Annual Report fails to mention 'growth' with regard to this hurdle and is very confusing; we encourage the board to fix this minor but important detail.

BOQ's remuneration framework and reporting are generally very good and are continuing to improve. A few small tweaks could make the BOQ report an ASA star and we look forward to more improvement in the future.

The individuals or their associates involved in the preparation of this voting intention have shareholdings in this company.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.