



Enormous board and changes hopefully lead to improved performance

Company/ASX Code	Bank of Queensland
AGM date	Tuesday 8 December 2020
Time and location	10am (Brisbane Time) Online
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 Chairman Patrick Allaway, Rem Committee Chairman Warwick Negus, and General Manager Investor Relations Cherie Bell

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

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

Summary of ASA Position

The Bank of Queensland (the Bank) has had another disappointing year. The financial position has been exacerbated by the COVID-19 issue, which has affected many businesses adversely.

The financial position is demonstrated in the table below using the standard suite of ASA financial indicators. The trend downward, unfortunately, continues. The COVID-19 effect has had a significant impact on the results for the 2020 year.

The directors have taken a prudent approach with a massive increase in impairment costs. The increase from 2019 of \$69m to \$174m in 2020, an extraordinary rise of \$106m attributable to the COVID-19 issue. When combined with a 7% increase in operating costs, the statutory net profit after tax is down 61% from 2019 \$298m to \$115m for 2020.

This report acknowledges that the unique trading circumstances for 2020 make some comparisons with previous years less objective. However, when comparing income, the first half of 2020, pre-COVID-19, is less than 2020 second half-year.

After allowing for the 2020 extra costs, the data suggest that the downward trend of the last five years may be slowing or even found a bottom. The new approach by the CEO and executive management team (EMT) and implementation of the transitional plan may provide a more prosperous future for the Bank and its long-suffering shareholders.

Governance and culture

The Bank has been pro-active in refreshing the senior executive roles as the opportunity arises and also with the board.

The change in senior executive positions during 2020 was extensive: Managing Director and CEO, CFO, COO, Group Executive BOQ Business, CIO and upcoming a CCO to start in 2021.

The board needed the EMT to focus on a performance-based approach and the strengthening of the depth of talent and experience.

The Chairman noted that a material difference had already started at the Bank.

The Bank focused on the welfare of staff and customers during the pandemic. It has described it as a purpose-led culture and provided solutions and financial relief for customers and ensuring the safety and well being of employees.

Financial performance

Apart from the below discussion about the cash position, further financial analysis will not add any more value for the reader of this report. The discussion above and the economic indicators in the table below are sufficient to show a dismal outcome.

The management of the Bank has ensured that the balance sheet maintains a strong position. As with many businesses, it is a strategic move to increase the cash position in the pandemic to ensure continuity of operation and to provide a buffer for any other adverse circumstances.

The cash flow statement provides details of cash movements. Some points to note are closing cash balances, \$1,353m 2020 and \$1,274m 2019, a reduction of \$647m or 5.4% in borrowings 2020 compared to 2019. Cash proceeds from the issue of shares \$336m, decrease in dividends paid of \$115m and a significant change in net cash flow from operating activities, \$592m 2020 compared to (\$1479m) 2019.

Balance sheet, items to note: 2020 Deposits up \$1,256m or 3.3%, Loans and advances up \$691m or 1.5% and Equity up \$372m or 9.6%

Key events

Institutional placement of \$250m, dividend reinvestment \$31m and the issue of the share purchase plan \$90m are the main items.

Key Board and senior management changes

Senior management changes are discussed above.

Mr Patrick Allaway was appointed Chairman October 2019.

Mr Richard Haire and Ms Michelle Tredenick retire from the board in 2020.

Non-executive board membership has reduced from ten to seven members

ASA focus

COVID-19 notwithstanding, shareholders have seen the value of their Bank investment declining each year for three consecutive years. With the transition plan, a new focus on efficiencies and the significant EMT changes, there is an anticipation of better things to come, eventually

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	\$115	\$298	\$336	\$352	\$338
Cash Earnings (\$m)	\$225	\$320	\$372	\$378	\$360
Share price (\$)	\$6.13	\$9.17	\$11.49	\$12.59	\$12.67
Dividend (cents)	\$0.12	\$0.65	\$0.76	\$0.84	\$0.76
TSR (%)	-31.8%	-14.50%	-2.70%	26.50%	-10.70%
EPS (cents)	\$0.26	\$0.74	\$0.89	\$0.94	\$0/91
CEO total remuneration, actual (\$m)	\$1.34m	Transition year w/3 acting CEO's	\$2.7m	\$3.3m	\$3.1m

For FY2020, the CEO's total actual remuneration was **14.5 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	Re-election of Bruce Carter as a Director
ASA Vote	For

Summary of ASA Position

A member of the Board since 2014, Mr Carter is Chair of the Risk Committee and a member of the Audit, Information Technology, Investment, Nomination & Governance and People culture & Remuneration Committees.

After three years on the Board at BOQ the value of his shareholding is approximately double that of his Board Fees demonstrating he has aligned his personal interests with those of shareholders.

He has had an extensive career in corporate advisory and restructuring across a number of industries in both the public and private sectors. He has held a number of positions in key government reviews. Mr Carter is currently Chairman of Australian Submarine Corporation, Deputy Chairman of ASX listed Sky City Entertainment, Chairman of AIG Australia Limited and holds non-executive directorships at Eudunda Farmers Ltd. and Sage Group Holdings.

ASA will support directors who sit on a maximum of five company boards with a chairmanship assessed as the equivalent of serving on two boards. Mr Carter's workload, even if discounting his roles with Sage and Eudunda, equates to seven. We have been assured by BOQ Chairman Allaway that Mr Carter is diligent and professional in his work for BOQ and very available to the company. Although we will support the re-election of Mr Carter this year, in future, we urge him to reduce his workload so can more fully concentrate his efforts on fewer pursuits.

Item 3	Approval of Grant of Securities to the Managing Director and Chief Executive Officer Mr George Frazis
ASA Vote	Against

Summary of ASA Position

BOQ seeks approval of the grant of \$1,140,000 in Performance Shares and \$760,000 in Premium Priced Options to its CEO, each of which, if hurdles are cleared, will entitle Mr Frazis to one share of BOQ. The company will use a VWAP to determine the number of Shares/Options granted. This represents a significant change to BOQ's FY21 Remuneration Framework.

Performance shares may convert to restricted shares based on an assessment of performance against a Group Scorecard over the coming year. The Scorecard is weighted 50%/50% to financial and non-financial measures. However, from the Notice of Meeting, we have no idea what items this Scorecard might contain, nor the level of achievement required. If the CEO's performance comports with the unknown items and hurdles on the Scorecard, the Performance Shares will vest as Restricted Shares in three equal tranches over three years. Because the earn-out of the Performance Shares is tested over one year, we consider them to be akin to a Short Term Incentive. Given that there are no quantifiable or disclosed performance metrics, we cannot support the grant of these Performance Shares.

The company also seeks to award Mr Frazis Premium Priced Options that will become valuable to Mr Frazis if the company's share price increases by more than 20% over the vesting period (50% vest in four years, 50% vest in five years).

Given the testing period of the Premium Priced Options is over four and five years we consider them to be akin to a Long Term Incentive. ASA prefers that LTI hurdles be based on at least two hurdles, one of which is TSR and no payment if absolute TSR is negative. Although we could envisage that a 20% increase in share price over four or five years would be a positive for shareholders, this is not enough. We can see a scenario where the CEO has brought great success to the bank's operations but fails to be rewarded for his efforts because the market doesn't ascribe adequate value to the shares for the CEO's hard work at the required time.

In summary, we strongly urge the company to improve disclosure of STI hurdles to shareholders in next year's Remuneration Report. As well, we urge the company to add performance metrics to the LTI framework that are within the CEO's control and more closely related to business performance.

Item 4	Amendment to the Constitution of the Company
ASA Vote	Against

Summary of ASA Position

Directors have asked shareholders to approve NINE separate changes to the Constitution in this one agenda item. Had Item two discussed below been less objectionable we would have supported this resolution.

The first item seeks to expand the meaning of “Relevant Officer” such that indemnity and insurance provisions may be more broadly extended. We don’t oppose this item.

Item two proposes to provide that a person’s attendance at a general meeting waives any objection which that person may have had in relation to consideration of a particular matter which is not within the business referred to in the NOM unless the person objects to the holding of the meeting at the beginning of the meeting. How is a person supposed to know such items will arise and object to them before the meeting begins? When queried at the pre-AGM, and after “further explanation” and after considerable re-reading, this item seems just as unfair and murky as in the first reading.

Item three seeks to bring the Constitution into line with ASX listing rules regarding the prohibition on charging fees on transfers of shares and we support this item.

Item four would change the Constitution to comply with Listing Rules with regard to the transfer or disposition of restricted shares. We have no objection to this change.

Item five gives the Chair greater flexibility with respect to the conduct of meetings including refusal to allow amendments to items in the Notice of Meeting, disregarding votes cast in contravention of Applicable Law, withdrawal of resolutions, and security arrangements at meetings. These changes are reasonable.

Item six would give the company greater flexibility in dealing with proxies, attorney and representative appointments where the documents are not properly executed or authenticated. These changes are reasonable.

Item seven proposes that nominations for election as a Director may not be made more than 90 business days prior to a meeting. It also proposes changes that would give greater flexibility and efficiently to Board operations including expanded use of technology.

Item eight proposes that the Board be allowed to rescind or alter any determination or declaration to pay a Dividend at any time before payment is made. Further, it would allow any dividend amounts represented by un-presented cheques or unsuccessful direct credits to be returned to the Company until claimed or disposed of according to law. These changes, especially in light of the world’s recent Covid-19 dramas, are reasonable.

Item nine is a blanket approval of additional minor Constitution changes to reflect current law and practice. We approve.

Item 5	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.3	34.5	1.3	28.6
STI - Cash	0.585	15.5	0.975	21.4
STI - Equity	0.585	15.5	0.975	21.4
LTI	1.3	34.5	1.3	28.6
Total	3.77		4.55	

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

The basic remuneration structure of Fixed/STI/LTI has remained in place this year with a few minor changes. Surprisingly, and despite Cash NPAT declining from \$320m to \$225m (\$95m), the company paid over \$315,000 in STI bonuses, 100% of which was paid in equity that was purchased on market. Last year's smaller \$52m decline in NPAT saw KPI receive \$0 in STI. In this COVID year of much lower earnings and shareholder returns an increase in STI bonuses, even if paid in equity, is a bit hard to swallow.

The company continues to provide a table of actual take home pay that is a model for others and all equity-based incentives are granted on a face value calculation.

LTI for next year is changing substantially, and in our opinion for the worse, which is discussed above in Item 3. This year's LTI was based on relative TSR (80%), relative EPS (20%) hurdles. Consistent with the bank's declining performance in the past four years, the level of LTI's earned (vested) has shrunk from 100% in FY16 to 0% in FY20

The CEO George Frazis has been with the company for just over a year and owns no shares outright but does hold 143,215 Performance Award Rights granted in 2019 as a long-term incentive. They are not scheduled to vest (pending clearance of hurdles) until 2023

The CEO's mix of Fixed/STI/LTI at target level is 34%/32%/34% respectively. Senior executives' mix is 36%/28%/36%. This FY, the board exercised its discretion to change the payment method of STI from 50% cash/50% equity to 100% equity with a progressive holding lock vesting at 40%/30%/30% over the next three years. We applaud this increase in equity-based compensation.

Last year ASA noted its preference that at least 50% of STI be based on verifiable financial metrics. We noted that many of the metrics for STI's are financial but that we are not privy to

the levels of performance required to earn a short-term bonus and that we would prefer to see for ourselves whether the hurdles are knee-high or sky-high. This year's report has not improved.

Last year a financial gateway to receipt of STI required basic cash EPS to be above 90% of budget. This year no financial gateway is disclosed, there is no disclosure of performance targets, and no clear calculation of managers' performance on those targets. Rather the board decided that "an STI award of approximately 60% of target was appropriate". ASA advocates that the majority of STIs be based on quantifiable and disclosed performance metrics. BOQ's STI plan clearly does not do this. This report is even more opaque than last year's.

We are pleased with the equity component of the FY20 STI plan. However, to garner ASA's support in the future, we encourage the company to adopt a financial gateway for STI payment, to clearly disclose performance targets and hurdles. We understand the company doesn't want to be seen as giving guidance to the market with its remuneration program. However, shareholders should be more clearly informed about targets and management's achievement of their targets.

BOQ has foreshadowed a change to their cumbersome NED fee structure where very large percentages of directors' fees were earned as committee fees. For the future, board members will receive fees based on their position as a director, rather than as bits and pieces of fees for membership and chairmanships of various committees. We look forward to this less complicated component of the Remuneration framework.

If next year's remuneration report continues in the direction foreshadowed this year we will find it difficult to support.

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.