



Shareholders continue to hope for better days ahead

Company/ASX Code	Bank of Queensland/BOQ
AGM date	Tuesday 6 December 2022
Time and location	10am, Hilton Hotel Brisbane
Registry	Link Market Services
Type of meeting	Physical with live webcast
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan assisted by Mike Stalley
Pre AGM Meeting?	Yes with Chair Patrick Allaway, Rem Committee Chair Warwick Negus and Cherie Bell, General Manager of Investor Relations

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have no shareholdings in this company.

Summary of issues for meeting

There's been tremendous turnover in the executive suite this year with three of the six previous KMP moving on.

Remuneration: the Group Scorecard gives the impression that the STI paid to executives is much higher than their levels of performance. Specific hurdles are unclear to shareholders.

Shareholders are still living on promises about this company's lagging tech offering. Old accounts work on the new ME Bank app but new accounts won't be supported until sometime in FY24.

Proposed Voting Summary

No.	Resolution description	
2(a)	Re-election of Patrick Allaway as a Director	For
2(b)	Re-election of Karen Penrose as a Director	For
2(c)	Re-election of Warwick Negus as a Director	For
3	Adoption of Remuneration Report	Against
4	Grant of Securities to the Managing Director and Chief Executive Officer George Frazis	Against

Summary of ASA Position

Consideration of accounts and reports - No vote required

The ME merger has now been completed with FY22 the first full year of operations for the combined entity.

Management reports that the planned integration process is on track or ahead of the planned implementation schedule. Good synergies and cost savings have been achieved. A full detailed statement about the integration is available on page 24 of the BoQ 2022 Annual Report.

The ASA notes the progress report provided and has high expectations about further achievements that will increase operational efficiencies and contribute to financial success of the combined entity. Shareholders have been very patient as the BoQ has previously reported strategies each year that have been generally ineffectual in moving the bank forward.

Governance and culture

In our pre-AGM meeting the Chairman stated that the Board refresh project was now complete. They have instituted a three-term-limit policy for all board members.

Financial performance

The financial year ended 31 August 2022 is the first full year for the BoQ and the ME merged entity.

As the merger with ME was late in the 2021 financial year, the Bank has provided pro-forma year end results as at 31 August 2021, to enable comparatives with FY22.

Whilst the pro-forma information is useful, underlying data necessary for this comparison is not subject to audit or compliance with the accounting standards. The data is consistent with treatment in previous years, and as such reliance is placed on the pro-forma data.

Key metrics are shown in the table below.

The overall statutory and underlying results are heading in the right direction and the results are consistent with the second half 2022. Shareholders have been very patient and the continued growth of the entity, along with expense management and other gains will ultimately drive the share price up to a reasonable value.

The ASA looks forward to a better future following the merger with ME. Eventually the Bank will develop/obtain more modern and suitable software consistent with expectations of their clients, a critical path for growth.

Overall, a good base to go forward. Customer deposits are up, the Balance Sheet is sound with an increase in equity and the cash position is also satisfactory.

Key events

The company is still absorbing last year's acquisition of ME Bank and working toward integrating the two systems. And it continues with its never-ending quest to improve its antiquated technological offering. New accounts will work on the BOQ app but legacy accounts will not migrate to the new technology platforms until FY24.

Key Board or senior management changes

During the year the company appointed a new Group Executive, Business Banking, a new Group Chief Risk Officer, a new Chief Operations Officer and a new Chief Financial Officer. This is a loss of three of the previous six Senior Executives, a very high turnover rate. The previous CFO was

replaced by the new CFO and by a second person who took on the role of Chief Operations Officer expanding the number Senior Executives to seven.

The Board welcomed a new NED, Jenny Fagg.

ASA focus issues (not discussed under remuneration report or re-election of directors)

None noted

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	\$426	\$369	\$115	\$298	\$336
UPAT (\$m)	\$508	\$389	\$225	\$320	\$372
Share price (\$)	\$7.03	\$9.46	\$6.13	\$9.17	\$11.49
Dividend (cents)	\$0.46	\$0.39	\$0.12	\$0.65	\$0.76
Simple TSR (%)	-18.6%	60.7%	-31.8%	-14.5%	-2.7%
EPS (cents)	\$0.66	\$0.67	\$0.26	\$0.74	\$0.89
CEO total remuneration, actual (\$m)	\$1.86m	\$1.41m	\$1.34m	Transition yr w/3 CEOs	\$2.7m

Simple TSR is calculated by dividing the change in share price plus dividends paid during the year, (excluding franking) by the share price at the start of the year.

Election or re-election of directors

The Board has a majority of independent directors and gender diversity is good. A Board Skills Matrix is published in BOQ’s Corporate Governance Statement on p.8. Although we’ve seen worse, it fails to indicate which directors possess which skills. During discussion at our pre-AGM meeting the Chairman indicated they would consider our suggestions for improvement.

Patrick Allaway joined the Board in May 2019 and became Chairman in October 2019. He has over 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 People, Culture & Remuneration, Transformation & Technology, Audit and Risk Committees. He also holds NED positions at Allianz Australia and Dexus Funds Management.

We are pleased to see that Mr Allaway now owns over 200,000 shares in BOQ well exceeding the value of his Director’s Fees.

Warwick Negus was appointed to the Board in September 2016 and has more than 30 years of finance industry experience, more specifically in executive roles with Colonial First State, Bankers Trust, and Goldman Sachs both in Australia and overseas. He is Chair of the People, Culture &

Remuneration Committee and serves on the Audit, Risk, Transformation & Technology, Investment, and Nomination & Governance committees.

Mr Negus is also Chairman of ASX listed Pengana Capital and NED at Washington H Soul Pattinson, and Dexus Funds Management. Other commitments include board roles with Virgin Australia (not publicly listed), Terrace Tower Group, UNSW and Chair of UNSW Global Limited.

ASA prefers a maximum director workload of five NED roles where a Chairmanship counts as two. Roles with unlisted companies also count. Mr Negus now holds the equivalent of five NED roles at ASX listed companies plus his involvement with Virgin, UNSW and Terrace Tower.

During our pre-AGM Mr Negus indicated he will step down from his role at Soul Patts next month and from his Chairmanship of UNSW Global Limited. We are confident in Mr Negus' abilities and experience and are delighted that he will be able to give more time to BOQ and its shareholders in the future.

Karen Penrose was appointed in November 2015. She has over 30 years' business experience, including 20 years in banking with CBA and HSBC. She is a NED of Cochlear, Ramsay Health Care, and Estia Health. She also serves on the Board of Rugby Australia and is a member of Chief Executive Women.

She is Chair of the BOQ Audit Committee and a member of the People, Culture & Remuneration, Risk, Transformation & Technology, Investment, and Nomination & Governance Committees.

We voted against Ms Penrose's re-election in 2019 in protest of her then mediocre shareholding in BOQ. We are pleased to see that she has increased her ownership to over 120% of her base NED fees.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

Last year we decided not to support the Remuneration Report and we will do so again. There are elements we do like including the long-term nature of both the STI and LTI components. However, we are critical of the lack of quantifiable performance metrics and the lack of a financial gateway for the Performance Shares (STI.) While this year's report had more disclosure of STI hurdles, we still found them a bit vague and we strongly urge the company to further improve disclosure of STI hurdles to shareholders in next year's 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 rather than share price appreciation which currently applies to the award of the Premium Priced Options (LTI). See details below in Appendix 1.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY22	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	\$1.5	41%	\$1.5	33.3%
STI - Cash	0	0%	0	0%
STI - Equity	\$1.32	36%	\$1.808	40.2%
LTI	\$0.870	24%	\$1.191	26.5%
Total	\$3.69	100.0%	\$4.5	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. Maximum Opportunity amounts are subject to Fair Value considerations on the value of the options that make up the LTI grant. Maximum STI and LTI opportunities are valued at 200% of Fixed Remuneration.

*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.

FRAMEWORK

Senior Executives receive Fixed Pay, Performance Rights (STI) and Premium Priced Options (LTI). The Performance Rights are measured over one year and may vest as Restricted Shares in tranches over the following three years (33%/33%/34%). The Premium Priced Options are options which the executive can elect to exercise after four years (50%) and five years (50%). Participants derive zero value from these options unless the share price at vesting (four and five years from grant) exceeds the exercise price which is set at 120% of the share price at the time of grant.

We find the Scorecard used to determine whether an executive's Performance Rights will convert to Restricted Shares wanting. ASA prefers that quantifiable performance metrics be disclosed to shareholders. As it stands, we don't know what levels of performance are required for an executive to be rewarded. Are they indeed challenging enough to be meaningful or perhaps too high so as to be unachievable? We just don't know. We also prefer that where non-financial hurdles are used, no STI be earned unless a financial gateway is cleared. We do like the long-term nature of the Performance Rights and that executives are ultimately rewarded with shares rather than cash.

Like the Performance Rights, we also like the long-term nature of the Premium Priced Options. However, ASA prefers that LTI hurdles be based on at least two metrics, one of which is TSR and no payment if absolute TSR is negative. These Options only have one measurement hurdle, that of share price. Although we agree that a greater than 20% increase in share price over four or five

years would be a positive for shareholders, this is not enough especially in light of the share price movement since 2018 and 2019.

The market can be fickle which means the share price might not reward a CEO who has brought great success to the bank's operations. Equally concerning, the market could price the shares at a high level on hype rather than on actual business results.

OUTCOMES THIS FY

The CEO's Fixed Remuneration was increased this year by over 15% from \$1.3m to \$1.5m.

For FY22 the CEO proposed that 75% of his Performance Shares (STI) and that 90% of the Senior Executives' FY22 Performance Shares (STI) convert to Restricted Shares and the Board deemed this to be fair. This effectively gave the CEO and the executives 75% and 90% respectively of their STI. We can see no clear-cut hurdles or performance metrics for making this determination; the hurdles in the Group Scorecard used to make this decision are not quantifiable.

The Group Scorecard indicates overall performance was below the "Achieving" level. We queried this in our pre-AGM meeting and were informed that the "Achieving" level in the Group Scorecard equates to the "Target" level of performance for earning 100% of STIs. Performance above the "Achieving" mark would warrant a higher level of STI, often known as 'stretch targets' or 'maximum opportunity'. So 'doing your job' earns 100% of STIs, and 'doing your job very well' will be rewarded with extras.

In several places the Remuneration Report stated that the CEO proposed the level of his and his team's STI which looks like the tail wagging the dog. We were assured that the tail does not wag the dog and that the Board makes all decisions with regard to levels of STI paid. In this case it was convenient that there was agreement between the CEO and the Board.

No LTI granted in previous years vested this year.

KUDOS

Several years ago BOQ started to include a table of actual take home pay for its KMP in the Annual Report. We are delighted and often refer other companies to this table as an excellent template.

We applaud the company for its NED fee sacrifice plan allowing them to seamlessly and tax effectively acquire more shares with each pay packet.

We also like the BOQ ThankQ Shares program under which employees receive \$1,000 in BOQ shares. However, some of these shares were issued rather than being purchased on market which dilutes the interests of other shareholders. We encourage the company to purchase these shares on market.

SUMMARY

In summary, we are critical of the lack of quantifiable performance metrics and the lack of a financial gateway for the Performance Shares. This year's report had more disclosure of STI hurdles but we still found them a bit vague. If no financial metrics will be used in future, we would like to see a financial gateway added as the first hurdle.

Last year our favorable vote for the Remuneration Report was a 'close call' as it is again this year. We had hoped for a few more strategic improvements. Going forward we would like to see the LTI have more than one measure one of which is TSR, and the STI, if not based on quantifiable performance metrics, to have a financial gateway.