

Conservative management yields solid results

Company/ASX Code	Bank of Queensland/BOQ
AGM date	Thursday 29 November 2018
Time and location	10am Hilton Hotel, Elizabeth Street, Brisbane
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan, Sally Mellick, Mike Stalley
Pre AGM Meeting?	Yes with Chair Roger Davis and Remuneration Committee Chair David Willis

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

Summary of ASA Position

In what has been a challenging year for the industry, Bank of Queensland (BOQ) has maintained the core business with a sound year and good demonstratable governance.

Most comparative 2018 to 2017 figures are positive when allowing for the one-off sale of the vendor finance company for \$16M profit in 2017.

The statutory net profit after tax 2018 was \$336M, down 4.5%.

However, the banking industry places significant reliance on 'cash earnings after-tax' which is used by many analysts when examining the comparable performance of banks. For the benefit of some readers, an explanation of this measure is as follows: It is a measure of financial performance that examines the entity's ability to generate cash from the operating activities. It does not account for cash used for capital expenditure. Note that this cash result is only comparable in like industries, in this case, the banking sector.

The BOQ cash earning after tax result was \$372M for 2018, down 1.6%, however, allowing for the one-off sale in 2017, the adjusted figure is an increase of 2.8% year on year.

Other group financial highlights include Cash Basic Earnings per Share down 3% to 94.7 cents, dividends per ordinary share remains flat at 76 cents. Operating expenses have been constrained to an increase of 2.7% for 2018, although the operating expense to income ratio has increased from 46.6% 2017 to 47.5% in 2018, which in cash terms represents approximately \$10M for the ratio increase. Total income is up just under 1% for 2018. The loan impairment expense of \$41M continues the downward trend for this important indices. The figure is 15% lower than 2017 and less than half the amount in 2014, an excellent result. The asset impairment also reduced by 15% to \$164M.

The closing cash and cash equivalents position for 2018 is a strong \$1,218M, up 33%. The overall financial position is sound with all results positive: Gross loans and advances 3.3%, total assets 2.6%, customer deposits 3.8%, total liabilities 2.6% (consistent with other balance sheet movements) and total equity 1.8%.

Total shareholder return is negative at minus 2.7%, due to the share price at balance date of \$11.49, down 8.7% from the comparable figure 2017 of \$12.59. Share prices across the banking sector have continued to decline since the 2018 balance date.

Key Events

The Directors continue to emphasise conservative lending practices without compromising credit quality and have stated that the year ahead will be tough. The previous year's investment in appropriate strategies and system development will assist BOQ in this uncertain banking environment.

In April 2018, BOQ announced the sale of St Andrews Insurance business, subject to regulatory approval.

Pleasingly BOQ's diligent loan approval process, their attitude towards customers and their "It's possible to Love a Bank" culture have seen it avoid most issues and costs arising from the Royal Commission, unlike the Big Four.

Key Board or Senior Management Changes

Director Margaret (Margie) Seale resigned in June 2018 and the board is actively seeking a replacement. As well, the Board is seeking shareholder approval (see below) to amend the Constitution to increase the maximum number of Directors from 10 to 12 and to allow for easier notice provisions for lost shareholders.

Summary

Bank of Queensland is achieving its strategic plans and has continued to improve crucial business support systems. The bank has provided a sound performance for 2018, see the comparative table of key indicators below.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	336	352	338	318
Cash PAT (\$m)	372	378	360	357
Share price (\$)	11.49	12.59	10.55	12.67
Dividend (cents)	76	84	76	74
TSR (%)	-2.7	26.5	-10.7	6.3
Cash Basic EPS (cents)	94.7	97.6	95.6	97.3
CEO total remuneration, actual (\$m)	2.77	2.84	Unreported	Unreported

For 2018, the CEO's total actual remuneration was **33 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Item 2	Re-election of Mr Richard Haire as a Director
ASA Vote	For

Summary of ASA Position

Richard Haire was appointed to the Bank of Queensland Board in April 2012. He is an economist by training he has extensive experience in agribusiness and related banking in Australia and overseas. He is Chair of Reef Corporate Services Limited and Cotton Research and Development P/L and is a Director of BEC Stockfeed Solutions P/L. He is Chair of the Audit Committee and sits on each of the Risk, Human Resources, Remuneration and Information Technology Committees.

Mr Haire has a holding of 16,603 Bank of Queensland shares, a 126% increase on his holding last year. At the end of year price, while still substantial, his interest in BOQ was worth some 76% of his annual fees. At the present price his holding is worth quite a bit less. The share price would need to rise to \$15.05, a level not seen for over ten years, for his holding to reach the value of his Director fees last year.

We strongly support the Board proposal of a fee sacrifice equity plan as proposed in the Annual Report, p77, and encourage the Board to ensure any such shares are purchased on market and not issued.

Item 3	Adoption of new or amended constitution
ASA Vote	For

Summary of ASA Position

BOQ seeks shareholder approval to amend its constitution in two ways. The first amendment sought is to allow for the expansion of the maximum number of Board members from ten to twelve. The proposed increase will enable the Company to appoint additional non-executive directors if considered appropriate as part of the Board's succession planning strategy and to ensure that the Board continues to have the right balance of skills, knowledge and experience. The second change sought involves giving notice to shareholders who cannot be found. If approved this item would allow any notice required to be given to a 'missing' shareholder (i.e., one who does not have a registered address with BOQ) can be given by BOQ displaying the notice at its address for 48 hours. Of course, if a previously 'missing' shareholder informs BOQ of his address, this provision would not apply.

We are pleased to see the Board preparing for Board renewal. And we approve the new notice provisions.

Item 4	Approval of LTI grant to CEO/Managing Director Mr Jon Sutton
ASA Vote	For

Summary of ASA Position

ASX Listing Rules require the approval of shareholders where a company intends to issue securities to a Director under an employee incentive scheme. BOQ seeks shareholder approval of the grant of 128,571 Performance Award Rights (PARs) to Managing Director and CEO Jon Sutton under the BOQ Award Rights Plan. If performance hurdles are met the PARs will vest after four years. The number of PARs was calculated based on a face value of \$1,365,000, being 105% of Mr Sutton's fixed remuneration, divided by the Volume Weighted Average Price of BOQ shares over the five business days following release of FY18 results. The performance hurdles are set out below in Item 5. BOQ states that it is not currently intended that shares will be issued (as opposed to being acquired on market); approval is sought to give flexibility to issue the shares should that be desirable at the relevant time.

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 to Mr Sutton.

Item 5	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

BOQ's remuneration report is substantially similar to previous years and the well-reasoned core principals remain the same. Its structure consists of fixed pay (34%), short-term incentive (STI) (32%) which is paid as 50% cash and 50% deferred equity vesting progressively over three years, and long-term incentive (LTI) (34%) which consists of PARs which, as of next year, will vest over four years.

Remuneration at BOQ has improved on last year. STI's are marginally lower and the deferred equity component now vests progressively over three years. The LTI PAR testing and vesting periods have moved from three to four years. MD Jon Sutton holds in excess of 177,000 shares in BOQ. BOQ continues to provide the very useful table of actual take-home pay. And it continues to avoid using 'fair value' shenanigans to determine the number of LTI PARs to grant.

Fixed remuneration for all key management personnel (KMP) remained unchanged in FY18. Group Executive STI payments were at between 41% and 52% of maximum opportunity, 10-15% lower relative to maximum STI, year on year. LTI's awarded in 2014 vested this year with the vesting hurdle of total shareholder return (TSR) ranking of at least 50th percentile just cleared at 52% resulting in vesting of 55% of the LTI grant.

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. When queried the Board said that information is confidential and to 'trust us'. We would prefer to see for ourselves whether the hurdles are knee-high or sky-high.

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 raised this again with the Chair at our pre-AGM meeting and it is his opinion that if such a scenario arose the Board would wisely apply its discretion. We do indeed expect the Board would apply its discretion wisely but we would prefer a policy that where actual TSR is negative KMP would suffer equally with shareholders.

LTI 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 earnings per share (EPS) has much more difficult hurdles that fall well within ASA's preferred guidelines (vesting starts at the 60th percentile with maximum award where BOQ is in the top 10%). Although the TSR hurdles are a bit lower than we'd like, EPS hurdles are higher than expected.

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 individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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