

## Progress with regulators and technology and a pivot from the franchise model

<b>Company/ASX Code</b>	Bank of Queensland / BOQ
<b>AGM time and date</b>	10am (AEST Brisbane Time) Tuesday, 3 December 2024
<b>Location</b>	Sofitel Hotel, 249 Turbot Street, Brisbane
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid
<b>Monitor</b>	Paul Donohue assisted by Noel Ambler
<b>Pre-AGM Meeting</b>	Yes, with Warwick Negus (Chair) and Patrick Allaway (CEO)

Monitor Shareholding: One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

### 1. How we intend to vote

No.	Resolution description	Intention
2	Remuneration Report	<b>For</b>
3a	Re-election of Director - Mickie Rosen	<b>For</b>
3b	Re-election of Director - Deborah Kiers	<b>For</b>
4a	Election of Director - Andrew Fraser	<b>Undecided</b>
4b	Election of Director - Mary Waldron	<b>For</b>
5	Grant of Securities to the Managing Director & Chief Executive Officer	<b>For</b>
6	Approval to issue up to a maximum of 12,500,000 securities under the BOQ Equity Incentive Plan	<b>For</b>
7	Conditional Spill Resolution	<b>Against</b>

### 2. Summary of Issues and Voting Intentions for AGM/EGM

- The court enforceable undertakings from APRA and AUSTRAC.
- Progress of the technology transformation.
- The transition away from the owner manager branch network model.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

### 3. Matters Considered

#### Accounts and reports

The full year results weren't great, but they were ahead of market expectations and the share price went up as a result.

- Revenue of \$1.60 billion was down 8% on the previous year.
- Cash operating expenses increased 6% to \$1.07 billion.
- Cash earnings after tax were down 24% to \$343 million.
- Statutory net profit after tax (NPAT) was up 130% to \$285 million.
- The final dividend of 17 cents fully franked, was down 19%.

The 24% drop in cash earnings was driven by competition for lending, higher funding costs, inflation and investment in risk, compliance and technology.

The increase in NPAT looks impressive but it was primarily due to a much lower level of one off expenses this year (\$326m last year vs only \$58m this year).

New home loans were down \$944m which was offset by a \$323m increase in business lending.

#### Financial performance

(As at EOFY)	2024	2023	2022	2021	2020
NPAT (\$m)	\$285	\$124	\$426	\$369	\$115
UPAT (\$m)	\$343	\$450	\$508	\$389	\$225
Share price (\$)	\$5.81	\$5.76	\$7.03	\$9.46	\$6.13
Dividend (cents)	\$0.34	\$0.41	\$0.46	\$0.39	\$0.12
Simple TSR (%)	6.8%	-12.2%	-20.8%	60.7%	-31.8%
EPS (cents)	\$0.52	\$0.68	\$0.66	\$0.67	\$0.26
CEO total remuneration, actual (\$m)	\$2.05	\$1.25	\$1.86	\$1.41	\$1.34

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

## **Governance and culture**

Last year BOQ entered into two court enforceable undertakings (CEUs) from financial sector regulators (APRA and AUSTRAC). BOQ responded with Remedial Action Plans (RAPs) addressing the areas of concern, i.e. risk management and anti money laundering compliance. They are making good progress on these and have received positive feedback from the regulators. At our pre-AGM meeting the CEO stressed that these are multi year undertakings and the regulators are looking for systemic change to be embedded in the organisation.

## **Key events**

In August 2024, BOQ announced a major change to its branch strategy. For the last twenty years, they have operated a franchise model in which “owner managers” ran their branch as a semi-independent small business. This is about to change and by March 2025, all 114 owner managed branches will be converted to corporate control.

The rationale given in our pre-AGM meeting was the franchise model was not working for owner managers or BOQ. Branch transactions are in decline across the entire banking industry with less than 1% of all transactions carried out face to face. Margins are shrinking for both BOQ and the franchisees.

Without control over the branch network, BOQ is unable to optimise it as needed. For example, some locations have multiple competing branches where a centralised service centre would be more efficient.

The total cost of the conversion is expected to be in the range of \$115m to \$125, amortized over 4 years. Moving branches to corporate ownership will save approximately \$125m per year in payments to owner managers but BOQ will assume the cost base of the branch network so the net profit is expected to be \$20m per year from FY26 onwards.

Not all owner managers are happy with the new strategy and 59 have lodged a dispute notice. Obviously, the owner managers have years of experience and it is expected that many will continue to work for BOQ in the future but as employees rather than franchise owners.

The other key event was the sale of New Zealand assets for a \$22m loss. The small loan book which included commercial loans, equipment finance and operating leases was seen as a distraction to Australian operations. The loss reflects the deteriorating state of the NZ economy and resultant rising arrears.

## **Key board or senior management changes**

Non-executive directors Bruce Carter and Dr Jennifer Fagg are both retiring from the BOQ board at this year’s AGM.

Two new directors are seeking election, Andrew Fraser and Mary Waldron.

A new Chief Risk Officer was appointed. Rachel Stock worked with KPMG before her 25 year career at Macquarie Group where she held a variety of risk related roles.

A new Chief People Officer was appointed. Alexandra Taylor was previously at National Australia Bank and before that she worked for Citi. Alexandra also began her career with KPMG.

## **Sustainability/ESG**

This year BOQ achieved their goal of sourcing 100% of their electricity from renewable sources. Their scope 1 and 2 emissions continue to trend down, and they are revising their methodology for assessing scope 3 emissions in anticipation of upcoming mandatory climate-related financial disclosures.

They maintained Climate Active certification and became signatories to the Net Zero Banking Alliance.

At the end of FY24, BOQ's lending portfolio had no exposure to the direct extraction of fossil fuels or power generation and prior exposure to equipment directly used for the sole purpose of the extraction of fossil fuels reduced to nil.

## **Technology**

In 2020, BOQ announced an ambitious program to revamp the technology which underpins their operations. For years, it was hard to determine exactly what progress had been made despite the eye watering amounts being invested. This year, things seem a little clearer.

What they call the “digital bank” is largely complete. This is a cloud-based core banking platform from a company Temenos which delivers services to customers via new Internet Banking solution and a mobile banking app.

Home loans can now be processed by their new “digital mortgage” solution which lets customers apply for a mortgage without visiting a branch. This supports the end to end process from application, credit assessment, document creation and settlement. In all, it eliminates seventeen hand offs and will make BOQ more competitive in this market.

The BOQ team are justifiably proud of their achievement and are looking forward to a reduction in technology related investment. However, an enormous amount of work remains to be done. Although the new platform is largely in place, most existing customers and their accounts are on the legacy systems and need to be migrated across. After that, the old systems must be decommissioned. The remaining effort should not be underestimated, and technology expenses may be a drain on BOQ's finances until the program is complete.

## 4. Rationale for Voting Intentions

### Resolution 2 - Remuneration Report (FOR)

Last year, ASA had concerns about the short term incentive hurdles. These came from a Group Scorecard full of subjective metrics such as net promotor scores (NPS), app store ratings, employee engagement surveys, etc.

This year, the hurdles still come from a scorecard with NPS goals but there are also measures related to the EUCs, technology, expenses, profit & ESG targets. There are now twenty measures on the score card which seems excessive, especially as the weightings did not seem to be disclosed in the annual report. Still, it is better to score the CEO's performance against too many things than too few.

The long term incentive hurdles are more focused. 20% relates to customer experience as measured by three net promotor surveys. Two of which have been discontinued by the provider and will be replaced by board discretion. 30% relates to the Remedial Action Plans and 50% relates to financial metrics - return on equity and total shareholder return.

In summary, the CEO's remuneration doesn't seem excessive, the short term incentive is paid as a mixture of cash and deferred equity and the long term incentive is aligned with shareholder interests so we will be voting in support of the remuneration report.

### Resolution 3a - Re-election of Director - Mickie Rosen (FOR)

Mickie Rosen has been on the BOQ board since March 2021 and seeks re-election.

She has experience in strategy, operations and board level governance at a number of media, technology, and e-commerce organisations including global brands such as Yahoo, Fox, and Disney. While the business context of her experience may not be immediately relevant to BOQ, her experience with driving transformational change is very welcome.

After last year's AGM, ASA spoke with Mickie and discussed the challenges of BOQ's technology transformation. We found her to have a detailed understanding of the initiatives and the need to navigate around the potential dangers. We were very impressed with her and have no hesitation in supporting her re-election.

### Resolution 3b - Re-election of Director - Deborah Kiers (FOR)

Deborah Kiers has been on the BOQ board since August 2021 and seeks re-election.

Ms Kiers previously acted as a Director of ME Bank. Her career includes 30 years of corporate advisory and consulting support to boards, CEOs and executive management teams across a range of industries including financial services, energy, resources, property and infrastructure. She consults on issues including strategy, enterprise transformation, leadership transition, and building synergies between strategy, culture and remuneration.

Her skills and experience are all very relevant to BOQ and we intend voting for her.

#### **Resolution 4a - Election of Director - Andrew Fraser (UNDECIDED)**

Andrew Fraser joined the BOQ board in February 2024 and seeks election.

He served as a Minister in two governments including as Treasurer of Queensland from 2007 to 2012. Andrew is Chair of the Australian Retirement Trust, an industry super fund formed through the merger of Sunsuper and QSuper. He is also Chancellor of Griffith University. In addition, he has governance roles with sporting and charitable organisations.

That is quite a workload, and we expect Mr Fraser will address this issue when he makes his case for election.

#### **Resolution 4b - Election of Director - Mary Waldron (FOR)**

Mary Waldron joined the BOQ board in February 2024 and seeks election.

She has extensive global executive leadership experience in risk, regulation and technology transformation and more than 35 years professional experience in audit, risk and consulting to Australian listed, government and private companies as a former partner at Arthur Andersen and Ernst & Young, where she also held senior leadership roles. She spent 14 years as at PricewaterhouseCoopers where she was a member of their Global Leadership Team and the Global Chief Risk Officer from 2016 to 2021. She currently holds director roles at Zurich Australia and Crown Melbourne.

We look forward to hearing Ms Waldron make her case for election and plan to vote for her.

#### **Resolution 5 - Grant of Securities to the Managing Director & Chief Executive Officer (FOR)**

This item relates to share based incentives awarded to the CEO, Patrick Allaway. Because he is also a director, shareholder approval is required for the grant of securities.

Given that we support the remuneration report, we also support this resolution

#### **Resolution 6 - Approval to issue up to a maximum of 12,500,000 securities under the BOQ Equity Incentive Plan (FOR)**

In 2020, BOQ introduced an Equity Incentive Plan (EIP) under which eligible employees could be offered shares, rights and options as incentives. The ASX listing rules require shareholders to approve such a plan every three years. It was last approved in 2021, and renewal is sought.

ASA supports the EIP and will vote in favour of this resolution.

#### **Resolution 7 - Conditional Spill Resolution (AGAINST)**

At last year's AGM there was a 40% vote against the remuneration report resulting in a "first strike". If this year's vote on the remuneration report results in a "second strike", this conditional resolution be voted on.

The resolution would call for a board “spill” meeting, i.e. all board positions would be declared vacant, and shareholders would be asked to vote for any directors who wished to seek re-election at that time.

ASA’s voting guidelines state “ASA regards the decision to vote in favour of a board spill after a second strike to be a serious step, with a successful spill likely to be highly disruptive for a company. We are unlikely to support a board spill where a board has responded appropriately to shareholders dissatisfaction with the previous remuneration practice.”.

The annual report includes a section detailing the steps taken by the BOQ board to address shareholder concerns. These seem well considered and in our pre-AGM meeting, we learnt that the majority of proxy advisors were satisfied with the board’s actions.

Given that the board has taken remedial action after last year’s first strike, ASA will vote against this resolution if it is put to the meeting.

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## Appendix 1

### Remuneration framework detail

CEO rem. Framework for FY24	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.500	34.5%	1.500	31.3%
STI - Cash	0.675	15.5%	0.900	18.8%
STI - Equity	0.675	15.5%	0.900	18.8%
LTI	1.500	34.5%	1.500	31.3%
Total	4.350	100.0%	4.800	100%

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. Some remuneration framework set a maximum opportunity amount, but not all.