

# APS 330 Remuneration Disclosures

YEAR ENDED 31 AUGUST 2015



## TABLE 21: REMUNERATION DISCLOSURE REQUIREMENTS

The following remuneration disclosures have been prepared in line with the prudential standard APS 330 Public Disclosure (APS 330) and Bank of Queensland Limited's (BOQ's) Board of Directors (Board) approved policy. The Australian Prudential Regulatory Authority's (APRA's) prudential disclosures require that all Authorised Deposit-taking Institutions (ADIs) meet the minimum requirements for public disclosure of qualitative and quantitative information of their remuneration practices.

This prudential disclosure is separate to the existing Remuneration Report requirements which cover only Key Management Personnel (KMP). This quantitative information relates to senior managers and material risk takers of BOQ for the financial year ended 31 August 2015.

Senior managers for the purpose of this disclosure include the Managing Director & Chief Executive Officer (MD), the executive management team (KMP reported in the Remuneration Report) and Responsible Persons (RPs) (as per the BOQ Remuneration Policy). A 'Senior Manager' refers to each responsible person included in an ADI's Remuneration Policy under paragraph 59(a) of Prudential Standard CPS 510 Governance (CPS 510). During the financial year ending 31 August 2015, there were 24 employees within this group.

Material risk takers are defined persons included in an ADI's Remuneration Policy under paragraph 59(c) of CPS 510 as all other persons for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the regulated institution. Based on this definition, there are no employees outside of the senior management group that are considered material risk takers. All BOQ's material risk takers are included in the senior manager category of this disclosure.

### Remuneration governance

The Board is responsible for remuneration governance. It has established a Human Resources & Remuneration Committee (Committee) which makes recommendations to the Board regarding remuneration for groups of employees or third parties who, either individually or collectively:

- may materially impact BOQ's performance against its strategic and financial objectives; and
- receive remuneration which, if inappropriately structured and delivered, has the potential to negatively and materially impact upon the level of risk considered acceptable to BOQ.

The Committee comprises four non-executive directors. Members of the Committee are confirmed annually by the Board. This Committee makes recommendations on remuneration for employees of BOQ and its subsidiaries, and provides recommendations to the Board of St Andrew's Australia Services Pty Ltd.

Where necessary, the Board seeks advice from independent experts and advisors including remuneration consultants. Remuneration consultants are engaged by and report directly to the Committee which ensures, upon engagement, that the appropriate level of independence exists from BOQ's management. Where the consultant's engagement requires a recommendation, the recommendation is provided to, and discussed directly with the Chairman of the Committee to ensure management cannot unduly influence the outcome. In 2015, the Committee commissioned information from Egan Associates regarding market remuneration data and market practice.

The Committee makes recommendations to the Board on a wide range of remuneration issues including Directors' and executives' remuneration. The Committee last reviewed BOQ's Remuneration Policy in May 2015 and, in June 2015, the Board approved the updated Policy. The main change from this review was an update of the list of RPs to better reflect recent changes in BOQ's organisational structure.

The Committee's objectives include assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to:

- the design of BOQ's remuneration structure and incentive reward plans for employees, including superannuation;
- BOQ's public reporting of financial information on remuneration matters;
- broader remuneration matters, fees and other entitlements for the non-executive Directors, Directors of subsidiary companies and the MD;
- BOQ's Remuneration Policy for senior executives and other employees as required by APRA Prudential Standards, including APRA Prudential Standards CPS 510 – Governance, CPS 520 – Fit and Proper and APS 330 – Public Disclosure;
- monitoring of BOQ policy with regard to diversity and other human resource issues; and
- improving the efficiency of the Board by enabling delegation of appropriate tasks to the Committee, where such tasks can be discussed in sufficient depth.

The Committee's key responsibilities are set out in its Charter which is reviewed annually or earlier, as required.

The Charter is available on the BOQ website at [www.boq.com.au](http://www.boq.com.au)

The Committee seeks to ensure that the Remuneration Policy continues to adequately support BOQ's overall risk management framework. The Committee meets a minimum of four times per year and, in the 2015 financial year, five meetings were held. The Chairman of the Board attends Committee meetings and receives no additional payment for this. In line with paragraph (g) of Table 21 of APS 330, the fees paid to the Committee in total are set out below:

Financial Year	2015
Committee Members <sup>1</sup>	4
Meetings	5
Total fees including the Committees members and Committee Chairman <sup>2</sup>	\$87,500 <sup>3</sup>

<sup>1</sup> Inclusive of the Committee Chairman

<sup>2</sup> The Committee Chairman received \$35,000 in fees

<sup>3</sup> Fees are base fees without superannuation

### BOQ Remuneration Policy and framework

The Remuneration Policy applies to all employees of BOQ and its subsidiaries. The Remuneration Policy provides a remuneration structure comprising base salary, short term incentive (STI) and long term incentive (LTI) to reward its employees, dependant on the level of responsibility. BOQ administers remuneration according to the following principles:

- BOQ will pay comparative levels of fixed pay to its employees fairly given their roles and responsibilities, while remuneration, in total, will be competitive relative to similar roles at other comparable companies;
- individuals must have specific performance objectives as part of their performance commitment to BOQ and ensure that they adhere to risk management practices to be eligible for any incentive payments;
- BOQ will provide rewards in terms of fixed pay, STIs and LTIs (where applicable) as well as employee benefits that facilitate retention, improve performance and support achievement of BOQ's desired performance objectives;
- performance-based incentive arrangements will be operated in a responsible manner from the perspective of both investors and executives and will be designed to encourage behaviour that supports BOQ's:
  - long term financial soundness, and
  - risk management framework;
- threshold, target and maximum financial performance hurdles for BOQ wide performance will be approved by the Board;
- long term performance-based incentives will be provided on a selective basis to employees who are able to meaningfully influence BOQ's long term performance and for whom retention is seen as important;
- in general, short and long term incentive awards will be paid in cases where threshold earnings per share (EPS) performance has been met, where risk principles have been adhered to and where BOQ can demonstrate to its investors that such awards are affordable and linked directly to the creation of shareholder value over the long term. Deferral and clawback principles will apply to STI payments. The Board has discretion over these payments where special circumstances arise;
- executives' and RPs' total remuneration will be approved by the Board based on market data and the performance of BOQ; and
- the granting and vesting of STIs and LTIs are discretionary in nature.

The remuneration structure in place for the employees (including the MD) is consistent with BOQ's Remuneration Policy and is based on a total remuneration approach comprising an appropriate mix of fixed (salary and benefits) and variable pay in the form of cash and equity-based incentives. This equity portion is delivered over time and subject to continued tenure of the participant, the performance of BOQ and compliance and risk gateways. The at-risk components (deferred STI and LTI) are subject to clawback (at threshold) in part or whole.

The total remuneration opportunity for all employees is reviewed on an annual basis. Fixed remuneration is, on average, targeted at the market median however, in cases where BOQ is actively pursuing strategic talent or the market is particularly competitive, remuneration may be higher than the median. The total remuneration mix for an individual varies depending on the level of the role within the organisation.

Remuneration components

The Table below provides an overview of the remuneration components for all employees of BOQ.

Item	Structure, Performance & Risk Alignment
Fixed remuneration (base salary, salary sacrificed benefits, other benefits plus superannuation)	Fixed remuneration is commensurate with the size and complexity of the role, individual responsibilities, individual performance, experience and skills. The majority of roles are aligned to market median and annually reviewed considering the individual's experience and market relativity. Superannuation contributions are paid according to statutory requirements.
STI plans	<p>Employees are able to participate in a BOQ STI plan. There are two STI plans, one for Senior Managers and other employees and one for Enterprise Agreement employees.</p> <p><i>Senior Managers and other employees</i></p> <p>The corporate STI plan provides a link between performance and reward. The performance hurdles for the 2015 financial year included:</p> <ul style="list-style-type: none"> <li>• BOQ's performance against target EPS;</li> <li>• BOQ's performance against target net profit after tax (NPAT);</li> <li>• BOQ's cost to income ratio;</li> <li>• individual performance criteria; and</li> <li>• adherence with BOQ's risk management framework and expected behaviours.</li> </ul> <p>A Senior Manager's individual performance criteria for the 2015 financial year comprised the four components of BOQ's vision:</p> <ul style="list-style-type: none"> <li>• Loved Like No Other;</li> <li>• Grow the Right Way;</li> <li>• Customer in Charge; and</li> <li>• There's Always a Better Way.</li> </ul> <p>Personal performance measures were agreed and are role specific. Individual performance criteria considered multiple factors including individual behaviours, the business results and/or strategic accomplishments of the business or function, and people management, together with adherence to risk criteria.</p> <p>Senior Managers had a higher STI opportunity and proportion of STI tied to the financial performance of BOQ than other less senior participants.</p> <p><i>Enterprise Agreement employees</i></p> <p>Enterprise Agreement employees had a plan that was linked to both BOQ and individual performance criteria.</p>
STI governance	<p>The Board approves funding for the incentive pool for the corporate incentive plans annually. In its consideration the following are reviewed:</p> <ul style="list-style-type: none"> <li>• BOQ performance against key financial and non-financial scorecard measures; and</li> <li>• long term financial soundness and shareholder return.</li> </ul> <p>Whilst the performance of the Senior Managers is assessed against a range of performance measures, the Board and the Committee recognise that there are still a range of factors which must be taken into account when considering overall remuneration outcomes.</p> <p>The Committee may recommend to the Board discretionary adjustments to the outcomes for the Senior Managers that may impact their remuneration negatively or positively.</p> <p>The Board has the discretion to adjust all performance-based remuneration downwards to zero, for either individuals or groups of individuals, where deemed appropriate based on risk outcomes or behaviour or non-compliance with policies, standards, guidelines and procedures.</p>

LTI plan	<p>There are two types of award rights that can be granted to executives under the plan, Performance Award Rights (PARs) and Deferred Award Rights (DARs). However, only PARs are issued to executives. Eligibility, quantum and mix of LTI vary based upon a participant’s accountabilities, contribution, potential and seniority.</p> <p>The allocation of LTIs is based on ‘face value’ rather than a fair value methodology. The reported values of “Shares and share-linked instruments” in this document follow this methodology for greater transparency.</p> <p>Grants of PARs to Senior Managers align their interests with those of BOQ and its shareholders. This includes encouraging behaviour that supports the risk management framework and the long term financial soundness of the Bank that in turn supports long term performance. Performance award rights focus Senior Managers on the achievement of Total Shareholder Return (TSR) and EPS improvement through an external, objective measure used to define performance outcomes against comparators. PARs vest based on BOQ’s relative TSR and EPS performance over a three year period.</p> <p>Upon termination, any unvested PARs held by the MD and other KMP may, with Board approval, remain ‘on foot’. This is to create alignment in decision making with long term financial performance of BOQ post-employment. All unvested PARs that remain ‘on foot’ are at risk and subject to previously agreed hurdles. PARs awarded to other employees are cancelled upon cessation of employment with BOQ.</p> <p>DARs are awarded to a broader group of employees and are designed to promote employee retention and productivity. The number of DARs awarded to an individual employee depends on their position and relative performance and potential, as determined under the normal performance review and development process undertaken for all employees.</p> <p>The remuneration governance framework allows the Board to exercise its judgment to reduce or increase any LTI. Employees cannot hedge equity instruments that are vested, unvested or subject to restrictions.</p>
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**Aligning remuneration with risk management**

Risk forms a key part of the remuneration structure at BOQ and is embedded in the assessment of variable reward. Risk management practices are governed by an integrated framework of policies (including risk appetite statements and the Remuneration Policy). In assessing performance, the Chief Risk Officer provides feedback to the Board concerning risk behaviours and outcomes during the financial year.

Current and future risks are also included in the BOQ-wide key performance indicators (KPIs) for all employees with the financial targets for BOQ including:

- a separately weighted risk measure; and
- an assessment based on behavioural and cultural measures, which consider adherence to the risk management framework.

The Board ensures that risk management is a specific performance goal and also a hurdle for eligibility to any variable reward.

The Committee’s starting point when considering STI and LTI outcomes is the Bank’s performance scorecard then consideration is given to other factors such as TSR, risk related performance and the financial soundness of the outcomes achieved. Once consideration has been made for these factors, the Board makes its determination on the STI and LTI pools. The intent of this process is to moderate the STI and LTI allocation upwards or downwards to ensure alignment of outcomes between employees and shareholders.

The table below provides the key risks and measures for the 2015 financial year which are updated periodically to ensure compliance with the legislative standards and alignment with BOQ’s risk appetite.

Risk	Measures	Review of the measures
Compliance risk	Audit findings - internal and external; Branch scorecard performance and audits; Completion of mandatory compliance training; and Regulatory compliance breaches.	Compliance measures are reviewed monthly.
Operational risk	Clients, products and business practices; Internal and external audits; Execution, delivery and process management; Business disruption and system failure; Business continuity; and IT security.	These quantitative measures are produced and reviewed on a monthly basis.
Financial risk	Metrics embedded within KPIs include compliance with Board delegated trigger limits for key credit, liquidity, funding, rate of return, earnings volatility, target debt rating, capital and market risk limits.	Market risk, liquidity and funding composition are monitored daily. The other financial risks are monitored at least monthly.
Monitoring and supervision risk	<p>Metrics include a range of attestations including:</p> <ul style="list-style-type: none"> <li>• responsible lending;</li> <li>• conflicts of interest;</li> <li>• dispute resolution; and</li> <li>• policy and procedures.</li> </ul> <p>These are completed by the business as stated within the internal frameworks relating to risk performance in the role.</p>	Data from attestations is analysed on a monthly basis and appropriate actions undertaken in line with the internal policy frameworks. This may include financial or performance penalties.

### Risk management framework and expected behaviours

Employees are expected to demonstrate behaviours that reflect values and objectives of BOQ as approved by the Board, including adherence with BOQ's overall risk management framework.

The STI and LTI plans continue to include specific risk KPIs designed to ensure specified quantifiable results are achieved within appropriate risk management parameters. The risk management framework includes KPIs at an individual and BOQ level, while the KPIs for the MD and KMP are subject to Board oversight. Failure to meet the risk KPIs will result in modification, suspension or withdrawal of STI and LTI and will impact the participant's deferred STI, providing a mechanism for claw-back, where appropriate.

### Deferral and clawback

The remuneration structure is inclusive of deferral of variable reward for all employees who meet the parameters set out in the table below, which provides a summary of the various deferral arrangements applicable to different groups across BOQ. This deferral ensures appropriate risk reviews are conducted before any remuneration is paid.

Deferral and potential clawback are in place to encourage a longer term focus. BOQ's remuneration governance framework allows for the Board to clawback, in part or whole, all unvested performance-based incentives.

Group	Deferral Arrangement
MD and KMP	<p>Once any STI payment exceeds \$100,000, 50% of the total amount awarded is deferred into restricted shares for a period of two years (50% vesting at the end of year one and 50% at the end of year two).</p> <p>Restricted shares are ordinary BOQ shares held by a trustee on behalf of participants, are subject to disposal restrictions and eligible for receipt of dividends.</p> <p>The restricted shares will be released to the individual at the end of the deferral period, subject to continued employment and the Board determining that no 'forfeiture' events have occurred. The Board retains discretion to determine what constitutes a 'clawback' event but such events can include breaches of risk KPIs, departure to a direct competitor and instances where there has been a material misstatement in the financial statements.</p> <p>With Board approval, deferred STI may remain 'on foot'. This is to create alignment in risk based decision making for the long term financial performance post-employment with BOQ.</p> <p>LTI Awards are deferred over a three year period and subject to set performance hurdles.</p>
Senior Managers	<p>Once any STI payment exceeds \$100,000, 50% of the total amount awarded is deferred into cash for a period of two years (50% vesting at the end of year one and 50% at the end of year two). Interest on deferred cash STI is accrued and payment is subject to vesting conditions.</p> <p>LTI Awards are deferred over a three year period and subject to set performance hurdles.</p>
All other employees	<p>Once any STI payment exceeds \$100,000, 50% of the total amount awarded is deferred into cash for a period of two years (50% vesting at the end of year one and 50% at the end of year two). Interest on deferred cash STI is accrued and payment is subject to vesting conditions.</p>

### Risk and financial control personnel

Risk and financial control personnel (as defined in paragraph 59(b) of CPS 510) are employed in centralised functions across BOQ. Remuneration outcomes for these individuals are based on the performance of BOQ and their individual performance against KPIs.

The KPIs set for individuals in these functions are not linked to the financial performance of the business unit they oversee. KPIs for Senior Managers are reviewed by the Committee. The Board's Audit Committee reviews the Chief Financial Officer KPIs and the Board's Risk Committee reviews the Chief Risk Officer KPIs.

**Senior Manager quantitative remuneration for year ended 31 August 2015**

The following tables have been prepared in accordance with the quantitative requirements outlined in APS 330.

The table below summarises the requirements under paragraph (h) in Table 21 of APS 330 and provides a breakdown of the various payments made to Senior Managers and material risk takers for the financial year ended 31 August 2015.

	Senior Managers <sup>1</sup> (\$'000)	Material risk takers <sup>2</sup> (\$'000)
No. receiving a variable reward	22	–
Guaranteed bonuses awarded <sup>3</sup>	–	–
Sign-on awards <sup>4</sup>	–	–
Termination payments <sup>5</sup>	\$1,254	–

1 As per paragraph 59(a) of Prudential Standard CPS 510 Governance (CPS 510).

2 There are no employees outside of the Senior Manager group that are considered material risk takers based on this definition. BOQ material risk takers are included in the Senior Manager category of this disclosure.

3 No guaranteed bonuses were made to Senior Managers during the financial year.

4 No sign-on awards were made to Senior Managers during the financial year.

5 A total of three (3) Senior Managers received termination payments during the 2015 financial year.

The table below provides a summary of deferred cash and equity-based remuneration, including total amount of outstanding awards, and those that have vested during the 2015 financial year, including any reductions due to ex post explicit and implicit adjustments.

The table summarises the requirements under paragraphs (i) and (k) in Table 21 of APS 330 for the financial year ending 31 August 2015.

	Senior Managers <sup>1</sup> (\$'000)	Material risk takers <sup>2</sup> (\$'000)
<b>Outstanding deferred remuneration</b>		
Cash based awards	\$1,038	–
Shares and share-linked instruments <sup>3</sup>	\$24,724	–
Total outstanding deferred remuneration	\$25,762	–
Total outstanding remuneration vesting during the 2015 financial year <sup>3</sup>	\$2,568	–
Total amount of reductions during the 2015 financial year due to explicit adjustments <sup>4</sup>	\$2,210	–
Total amount of reductions during the 2015 financial year due to implicit adjustments <sup>4</sup>	–	–

1 As per paragraph 59(a) of Prudential Standard CPS 510 Governance (CPS 510).

2 There are no employees outside of the Senior Manager group that are considered material risk takers based on this definition. BOQ material risk takers are included in the Senior Manager category of this disclosure.

3 Shares and share-linked instruments are expressed as face value, aligning with BOQ's allocation methodology.

4 This includes any reductions to awards which vested during 2015 financial year. Explicit adjustments include all reductions due to revaluation of awards, downward adjustments to outcomes and forfeitures.

The table below (formatted as per Table 21A of APS 330) summarises the requirements under paragraph (j) in Table 21 of APS 330 and provides a breakdown of the value of fixed and variable remuneration for senior managers for the year ended 31 August 2015.

	Senior Managers <sup>1</sup> (\$'000)	Material risk takers <sup>2</sup> (\$'000)
Number of incumbents	24	–
<b>Fixed remuneration (Non Deferred)</b>		
Cash based <sup>3</sup>	\$9,148	–
Shares and share-linked instruments	–	–
Other <sup>4</sup>	\$1,302	–
<b>Variable remuneration</b>		
Cash based (Non Deferred) <sup>5</sup>	\$2,894	–
Cash based (Deferred) <sup>6</sup>	\$727	–
Share-linked instruments (Deferred) <sup>7</sup>	\$8,050	–
Other	–	–

1 As per paragraph 59(a) of Prudential Standard CPS 510 Governance (CPS 510).

2 There are no employees outside of the Senior Manager group that are considered material risk takers based on this definition. BOQ material risk takers are included in the Senior Manager category of this disclosure.

3 Represents actual fixed remuneration received, including salary sacrificed benefits and employer superannuation any salary sacrificed benefits and car parking costs (including associated benefits tax).

4 This includes annual leave and long service leave accruals and rental allowances.

5 Cash incentives earned in FY15, this includes deferred cash portion of awards including interest accrued.

6 For all cash deferred awards this includes the total value deferred and is subject to potential clawback during the deferral period.

7 Represents the LTI allocated for performance in the 2014 financial year at the face value allocation price as at 31 August 2015.

## GLOSSARY OF KEY TERMS

To assist readers, key terms and abbreviations used in this report as they apply to the Bank are set out below.

### Term Definition

Base remuneration	Cash and non-cash remuneration paid regularly with no performance conditions.
Board	The Board of Directors of the Bank of Queensland Limited.
Cash earnings per share (EPS)	The portion of a BOQ's profit allocated to each outstanding share of common stock
Fixed remuneration	Consists of base remuneration plus employer contributions to superannuation.
Key Management Personnel (KMP)	Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity. For the APS330, KMP includes the MD and all Group Executives (non-executive directors are not subject to the prudential disclosures).
Key Performance Indicators (KPIs)	Quantitative and qualitative measures, agreed at the start of the performance year, to drive performance outcomes at BOQ, business unit, team and individual level.
Long Term Incentives (LTIs)	A remuneration arrangement which grants benefits to participants that may vest if, and to the extent that, performance hurdles are met over a period of three or more years.
NPAT	Net profit after tax.
Salary sacrifice	An arrangement where an employee agrees to forgo part of his or her cash component of base remuneration
Short Term Incentive (STI)	Remuneration paid with direct reference to BOQ's and the individual's performance over one financial year.
Total remuneration	The total combination of fixed and variable remuneration (STI and LTI) that an employee has the potential to receive if they achieve target performance objectives.
Total shareholder return (TSR)	TSR measures a company's share price movement, dividend and any return of capital over a specific period.
Variable reward	Performance-based remuneration, which includes short term incentives that reward performance over the financial year, and long term incentives that reward performance over a longer term.