



BASEL III PILLAR 3 REMUNERATION DISCLOSURES

Period ended 31 August 2020

1. INTRODUCTION

These remuneration disclosures have been prepared in line with APRA Prudential Standard APS 330 Public Disclosure (**APS 330**). APS 330 requires that all Authorised Deposit-taking Institutions (**ADIs**) meet the minimum requirements for public disclosure of qualitative and quantitative information concerning their remuneration practices.

The quantitative information disclosed relates to Senior Managers and Material Risk Takers (**MRT**) of Bank of Queensland (**BOQ**) for the financial year ended 31 August 2020 (**FY20**).

This prudential disclosure is separate from the FY20 Remuneration Report.

For the purposes of this disclosure:

Senior Managers refers to the roles outlined in paragraph 57(a) of APRA Prudential Standard CPS 510 Governance (CPS 510). At BOQ this includes the following roles:

- the Managing Director & Chief Executive Officer (**MD & CEO**) and all Group Executives;
- other Accountable Persons (**AP**) under the Banking Executive Accountability Regime (**BEAR**), excluding Non-executive Directors; and
- other Responsible Persons (**RP**) as defined in paragraph 20(a) of APRA Prudential Standard CPS 520 Fit and Proper (**CPS 520**) and in BOQ's Fit and Proper Policy.

During FY20 there were 30 employees in this group, including seven who were considered Senior Managers for part of the year.

MRT refers to the roles outlined in paragraph 57(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.

In the context of BOQ there are no MRT who are not also Senior Managers. Therefore, all MRT are included in the Senior Manager category and are not separately disclosed.

2. QUALITATIVE DISCLOSURES

The qualitative disclosures are made in accordance with Table 22 of APS 330, Attachment G.

2.1. REMUNERATION GOVERNANCE

2.1.1. People, Culture & Remuneration Committee

The Board is ultimately responsible for remuneration governance and has established the People, Culture & Remuneration Committee (the **Committee**) which oversees BOQ's people, culture and remuneration settings.

The Committee's purpose is to assist the Board to set the values and manage the culture, conduct and capability of personnel within BOQ and its subsidiaries (the **Group**) and effectively discharge its responsibilities to oversee the remuneration policies and practices of the Group.

The Committee:

- serves as the remuneration committee for BOQ and its APRA-regulated subsidiaries, which have delegated their remuneration committee function to the Committee;
- ordinarily meets a minimum of four times per year, and during FY20 met eight times;
- comprised of between five and seven Non-executive Directors during FY20, noting that two of whom served for part of the year (noting that as of 1 September 2020, all Non-executive Directors are members of the Committee);
- operates in accordance with its Charter, which is reviewed at least every two years and is available on the BOQ web site;
- seeks to ensure that BOQ's remuneration policies and frameworks continue to support the Group's overall risk management framework (**RMF**); and
- reviews the Group Remuneration Policy on at least an annual basis, and more frequently as required to respond to evolving regulatory and legislative conditions.

2.1.2. Use of remuneration consultants

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 Chair, ensuring an appropriate level of independence from management. Where an engagement requires a recommendation, the recommendation is provided to and discussed directly with the Committee Chair.

During FY20, the Committee engaged independent advisors from PricewaterhouseCoopers (PwC), Ernst & Young (EY), Godfrey Remuneration Group (GRG) and Egan Associates. None of the remuneration consultants provided a remuneration recommendation as defined under the Corporations Act.

2.1.3. Group Remuneration Policy

The Group Remuneration Policy applies to the whole of the Group. It has been formally adopted by the Boards of APRA-regulated subsidiaries St Andrew's Insurance (**SAI**) and St Andrew's Life Insurance (**SALI**).

The Policy specifically considers remuneration arrangements for particular categories of roles and employees as set out in CPS 510; including Senior Managers and MRT as reported in this disclosure.

The Group Remuneration Policy was last reviewed in December 2020.

2.1.4. Risk and financial control personnel

Risk and financial control personnel (as defined in paragraph 57(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 goals and objectives.

The objectives set for individuals in these functions are not linked to the financial performance of the business unit they oversee. As further detailed in section 2.2.2 (Performance measures), the Board approves the Group

scorecard and the Committee each Group Executive’s scorecard. The Board Risk Committee has input into the performance measures for the Chief Risk Officer.

2.2. REMUNERATION FRAMEWORK

2.2.1. Remuneration framework

Remuneration at BOQ is structured in a way that ensures:

- alignment to regulatory and legislative requirements, including the minimum deferral arrangements for AP as set out in the BEAR legislation; and
- supports the achievement of BOQ’s strategy, in accordance with the remuneration objectives set out in Figure 1.

Figure 1. BOQ’s remuneration objectives



The remuneration structure in place for all employees is consistent with the Group Remuneration Policy and is based on a total remuneration approach comprising an appropriate mix of fixed remuneration in the form of salary and benefits, and variable remuneration which includes short-term incentives (**STI**) delivered in cash and/or equity, and long-term incentives (**LTI**) delivered in equity. Equity is delivered over time and subject to continued tenure of the participant and any other performance conditions attached to the particular grant. Equity awards are subject to malus and clawback, as further detailed in section 2.4.6.

The total remuneration opportunity for all employees is reviewed on an annual basis, and the total remuneration mix depends on the level of role within the organisation and an individual’s performance.

Performance-based incentive arrangements are designed to encourage behaviour that supports:

- BOQ’s long term financial soundness;
- BOQ’s RMF; and
- alignment with customer and community expectations.

2.2.2. Performance measures

All employees of BOQ are required to have performance goals that are aligned to the Group’s strategy and contain an appropriate degree of stretch, and are expected to adhere to minimum standards of conduct and behaviour. For FY20:

- The Group scorecard contained the performance measures for the MD & CEO.
- Group Executives were assessed based on a combination of the Group scorecard and their individual scorecards.
- Senior Managers below Group Executive level were assessed based on their individual performance in role, including against their strategic goals.

A summary of the FY20 Group scorecard measures are provided in Table 1.

Table 1. FY20 Group scorecard measures

Category	Weighting	Measures
Customer	15%	Net growth in customer numbers Net Promoter Score improvement
Shareholder	40%	Group cash earnings Earnings per share
Strategy / Transformation	15%	Productivity & Operating Model review Helping more people into their homes Project De Novo
People	15%	Employee engagement Women in leadership Culture Leadership & succession
Strength & Risk	15%	Board assessment of management of risk Enhancing strength (CET1)

2.3. REMUNERATION COMPONENTS

2.3.1. Fixed remuneration

Fixed remuneration is provided to remunerate employees for performing their ongoing, day-to-day work. It comprises base salary, superannuation contributions and other benefits.

Fixed remuneration levels are set to attract and retain talent and reflect the individual's skills, capabilities and experience, having regard for internal relativities, pay equity considerations, including rigorous gender pay equity review, and performance (where applicable).

To ensure competitiveness, fixed remuneration levels are informed by benchmarking comparable roles in financial services and/or similarly sized Australian companies.

Fixed remuneration is paid in cash.

2.3.2. Short-term incentives

STIs are performance-based and designed to reward an employee's contribution to the achievement of BOQ's strategic, customer, financial and risk outcomes and their behaviour, conduct and demonstration of BOQ's values over the performance period.

STI plans feature consistent eligibility criteria, gate-openers (including minimum performance and behaviour standards and completion of mandatory training), are subject to provisions such as risk adjustment and deferral into restricted shares, and are offered at the ultimate discretion of the Board.

In FY20, all Senior Managers participated in the Group STI Plan. For the MD & CEO and Group Executives, 100% of STI was delivered in restricted shares, vesting over three years. For Senior Managers below Group Executive level, STI was delivered in cash with any amounts above the Board approved threshold delivered in restricted shares vesting over two years.

2.3.3. Long-term incentives

LTI plans are designed to reward management decisions focused on long-term, sustainable performance and to align employee and shareholder interests, as well encourage the retention of employees.

Eligibility to participate in an LTI award is determined by role and grade. LTI awards are determined as a percentage of fixed remuneration and offers are generally made on an annual basis following the Annual General Meeting (**AGM**). The LTI award for the MD & CEO is subject to shareholder approval at the AGM.

The Board has put in place a range of measures to control the risks associated with LTIs including, but not limited to:

- threshold compliance requirements: employees may not receive awards if they are found not to have complied with BOQ's risk and compliance standards;
- forfeiture events: the Board has discretion to require that awards outstanding as a result of past grants be forfeited in the case of non-adherence to risk and compliance standards; and
- performance conditions: apply to protect shareholder interests by ensuring that awards do not vest unless BOQ's performance is at least equal to a threshold level determined by the Board.

During FY20, BOQ used two instruments to deliver LTI to Senior Managers:

- Performance Award Rights (**PARs**) which are rights to acquire ordinary shares in BOQ at no cost, subject to service, risk and compliance, and performance (relative total shareholder return (**rTSR**) and relative earnings per share (**rEPS**)) conditions, vesting after four years.
- Deferred Award Rights (**DARs**) which are rights to acquire ordinary BOQ shares at no cost, subject to continued service and adherence to risk and compliance standards, vesting progressively after one, two and three years. DARs serve to align the interests of employees with the interests of shareholders and act a retention measure.

LTI awarded to Senior Managers in FY20 was disclosed in the report for the period ending 31 August 2019, consistent with the approach BOQ has taken since FY13 to reflect the performance period in which the variable remuneration was earned. This report takes a different approach, disclosing LTI granted during the reporting period (e.g., awards granted in December 2019 that were included in the prior year report are also included in this report as the grants occurred during FY20), as outlined in Table 6. BOQ will take this approach moving forward in order to consistently report for all Senior Managers given the introduction of a new Senior Executive Remuneration Framework. Awards granted in January 2021 (FY21) will be reported in the disclosures for the period 1 September 2020 to 31 August 2021.

2.3.4. Senior Executive Remuneration Framework

For FY21, BOQ has introduced a new Senior Executive Remuneration Framework, which applies to the MD & CEO, Group Executives and certain other Senior Executives who are invited to participate. The Senior Executive Remuneration Framework consists of fixed remuneration and variable remuneration (with variable remuneration offered in the form of Performance Shares or STI and Premium Priced Options). There is no cash component of variable remuneration for the MD & CEO and Group Executives. Other participants may receive part of their variable remuneration as an STI that is delivered partly in cash and partly in restricted shares.

Senior Managers who do not participate in the Senior Executive Remuneration Framework will continue to participate in the Group STI Plan and have LTI delivered via DARs. Effective FY21, BOQ will no longer offer PARs.

2.4. ALIGNING REMUNERATION WITH RISK MANAGEMENT

2.4.1. Assessment

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 Group Remuneration Policy).

In assessing performance, the Chief Risk Officer provides feedback to the Board concerning risk behaviours and outcomes during the financial year. A final full year assessment of risk is presented to the Committee by the Chief Risk Officer at the meeting where senior executive remuneration outcomes are considered.

Risk management is both a specific performance category for the MD & CEO and Group Executives, and a modifier used by the Board when determining STI funding and individual remuneration outcomes for all Senior Managers.

2.4.2. Short-term incentive funding

STIs for Senior Managers are funded by the Group STI Pool, which is created at the ultimate discretion of the Board having regard for business performance, risk management and affordability. When determining the size of the Group STI Pool the Board considers:

- BOQ's performance against the agreed performance measures;
- affordability and capacity to pay;
- an assessment of risk incidents, including as reported by the Chief Risk Officer and recommended to the Board by the Committee, with input from the Chair of the Board Risk Committee; and
- any other factors it considers relevant.

2.4.3. Risk measures

Table 2 provides the key risks and measures for FY20. Risks and measures updated periodically to ensure compliance with the legislative standards and alignment with BOQ's risk appetite. Activity and outcomes for each of the Risk categories are reported to the relevant Committee and the Board.

Table 2. Key risk measures for FY20

Risk	Measures	Review of measures
Non-financial risks (operational risk and compliance risk)	<ul style="list-style-type: none"> • Operational risk assessments • Incident reporting and analysis • Regulatory compliance breaches and impact assessments • Branch scorecard performance and audits • Internal and external audit findings • Completion of mandatory compliance training • Monitoring and supervision activities • Monitoring conflicts of interest • Attestations • Monitoring regulatory change 	Measures across non-financial risks are produced, reviewed and monitored on either a monthly, quarterly, half-yearly and/or annual basis (as applicable)
Financial risks (credit risk and market risk)	Metrics embedded within KPIs include compliance with Board-delegated trigger limits for key credit, liquidity, funding, rate of return, earnings volatility, target debt ratings, capital, and market risk limits	Market risk, liquidity and funding composition are monitored daily. Other financial risks are monitored at least monthly.

2.4.4. Risk management framework and expected behaviours

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

STI and LTI plans include specific risk considerations that are designed to ensure that quantifiable results are achieved within appropriate risk management parameters. The RMF includes measures at BOQ and individual levels.

Performance measures for the MD & CEO are subject to Board approval, and for Group Executives, Board oversight.

The Board Risk Committee provides input to the performance measures for the Chief Risk Officer.

Failure to meet risk measures may result in modification, suspension or withdrawal of STI (including deferred STI) and LTI.

2.4.5. Deferral

BOQ has in place a STI deferral framework which mandates the deferral of a portion of all STI outcomes subject to the thresholds approved by the Board. The annual threshold is currently \$100,000.

- In FY20, the Board determined that 100% of the STI awarded to the MD & CEO and Group Executives would be deferred into restricted shares, vesting on a progressive basis over three years (40% after one year, 30% after two years and the remaining 30% after three years).
- In FY20, for employees below Group Executive level, including other Senior Managers, the first \$100,000 of any STI award was paid in cash, and 100% of the amount greater than \$100,000 was deferred into restricted shares to vest in two equal tranches (50% after one year and 50% after two years). In FY20, restricted shares replaced deferred cash as the mechanism for delivering STI deferral below Group Executive level.

2.4.6. In-period adjustment, malus and clawback

Where a risk incident has occurred, the Board may, in its absolute discretion and acting in good faith:

- determine that all, or a portion of, any potential variable remuneration award be reduced, including to zero (**in-period adjustment**);
- determine that all, or a portion of any unvested award currently on foot be forfeited (**malus**); and/or
- treat any LTI that has vested and, as the result of a risk incident would not have otherwise been paid, as an overpayment and subject to any legal limitations, seek to recover the difference for the benefit of BOQ through any action it deems necessary and appropriate (**clawback**).

3. QUALITATIVE DISCLOSURES

The tables in this section have been prepared in accordance with the quantitative disclosure requirements outlined in Table 22A of APS 330, Attachment G.

Table 3. People, Culture & Remuneration Committee

This table summarises the requirements under paragraph (g), providing a breakdown of the Committee membership, meetings held, and total fees paid during FY20.

Membership, meetings held and fees paid	FY20	FY19
Committee members ¹	7	6
Meetings held	8	7
Total fees (including Committee members and Chair) ²	\$105,228	\$107,117

¹ Inclusive of the Committee Chair and members who served for part of the year

² Fees disclosed are exclusive of superannuation

Table 4. Remuneration awarded to Senior Managers

This table summarises the requirements under paragraph (h), providing a breakdown of the various payments made to Senior Managers¹ during FY20. As noted in the introduction, at BOQ all MRT are included in the Senior Manager category and therefore not disclosed separately.

	FY20	FY19
Number of Senior Managers who received variable remuneration ²	23	22
Number of guaranteed bonuses awarded	0	0
Value of guaranteed bonuses awarded	\$0	\$0
Number of sign-on awards	0	0
Value of sign-on awards	\$0	\$0
Number of termination payments	5	4
Value of termination payments	\$1,280,750	\$1,228,960

¹ Per paragraph 57(a) of CPS 510, noting that there are no employees outside of the Senior Manager group who are considered MRT

² A typographical error in the FY19 disclosure incorrectly reported the number of Senior Managers who received variable remuneration in FY19 as 2.

Table 5. Outstanding deferred remuneration for Senior Managers

This table provides a summary of outstanding deferred cash and equity-based remuneration for Senior Managers during FY20, including the total value of outstanding awards, awards that vested during FY20 and any reductions due to ex post explicit and implicit adjustments. It summarises the requirements under paragraphs (i) and (k).

	FY20	FY19
Number of incumbents (including part-year) ¹	30	30
Outstanding deferred remuneration		
Cash based awards	\$0	\$704,250
Shares and share-linked instruments ²	\$7,745,758	\$11,716,968
Total outstanding deferred remuneration	\$7,745,758	\$12,421,220
Total outstanding remuneration vesting during the financial year ²	\$866,850	\$3,173,780
Total amount of reductions during the financial year due to explicit adjustments ³	\$4,032,063	\$8,053,452
Total amount of reductions during the financial year due to implicit adjustments ⁴	\$0	\$0

¹ Per paragraph 57(a) of CPS 510, noting that there are no employees outside of the Senior Manager group who are considered MRT

² Shares and share-linked instruments are expressed as face value, using the closing share price at 31 August 2020 and 31 August 2019 for FY20 and FY19 respectively

³ Includes reductions to awards which vested in FY20 or FY19 due to downward adjustments to outcomes and forfeitures due to non-vesting or employees exiting

⁴ Includes reductions to awards which vested in FY20 or FY19 due to revaluation of awards

Table 6. Breakdown of the remuneration awarded to Senior Managers

This table summarises the requirements under paragraph (j) and provides a breakdown of the value of fixed and variable remuneration awarded to Senior Managers¹ during FY20.

	FY20	FY19
Number of incumbents (including part-year)	30	30
Fixed remuneration (non-deferred)		
Cash based ²	\$11,465,270	\$10,447,810
Shares and share-linked instruments	\$0	\$0
Other ³	\$919,900	\$977,760
Variable remuneration		
Cash-based (non-deferred) ⁴	\$1,014,120	\$36,800
Cash based (deferred)	\$0	\$0
Share-linked instruments (deferred) ⁵	\$10,826,040	\$7,646,100
Other		\$0

¹ Per paragraph 57(a) of CPS 510, noting that there are no employees outside of the Senior Manager group who are considered MRT

² Represents actual fixed remuneration received, including employer superannuation, any salary sacrificed benefits and car parking costs (including associated fringe benefits tax)

³ This includes annual leave and long service leave accruals and rental allowances

⁴ Cash incentives earned in respect of FY20 and FY19

⁵ FY20 represents LTI awards granted during FY20 which includes Deferred Award Rights (DARs), Performance Award Rights (PARs), Transformation Awards (BTAs & VTAs) as well as Restricted Shares awarded in respect of FY20 STI