

# Bank of Queensland

Full Year Results  
31 August 2007

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Bank of  
Queensland

# Agenda

- **Result highlights**

David Liddy

Managing Director

- **Financial result in detail**

Robert Hines

Chief Financial Officer

- **Strategy and outlook**

David Liddy

Managing Director

# Result highlights

- Record NPAT
- Sector leading growth in lending and deposits
- Improving shareholder returns
- Stable margin
- Continuing double digit EPS growth
- Sound credit quality

# Financial results

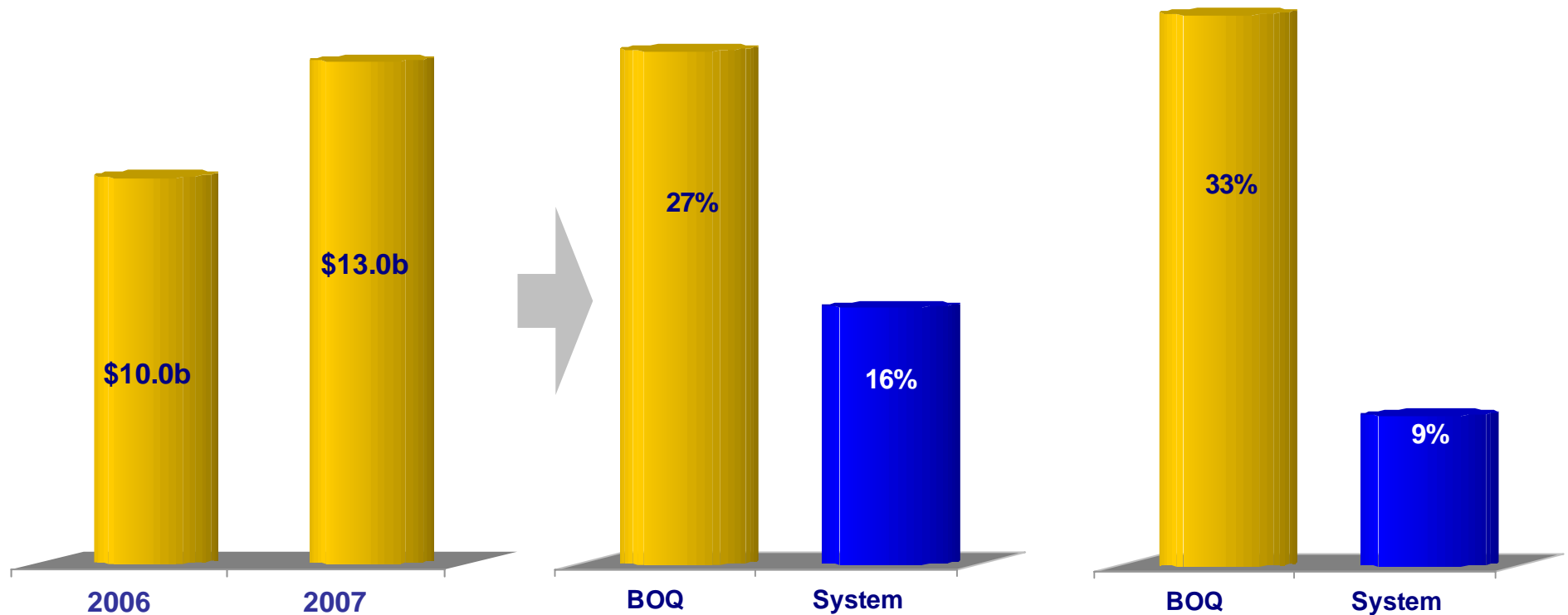
	FY06	FY07	
<b>Headline profit after tax</b> (statutory)	\$92.7m	<b>\$129.8m</b>	↑ 40%
<b>Normalised cash profit after tax</b>	\$86.7m	<b>\$106.1m</b>	↑ 22%
<b>Cash EPS</b> (normalised diluted)	79.8¢	<b>93.0¢</b>	↑ 17%
<b>Ordinary full year dividend</b>	57¢	<b>69¢</b>	↑ 21%
<b>Net interest margin</b>	1.83%	<b>1.81%</b>	↓ 2bps
<b>Cost to income ratio</b> (normalised cash)	64.5%	<b>62.6%</b>	↓ 1.9%pts

# Strong lending and deposit growth

■ Loan approvals ↑30%

■ Lending growth 27% \*

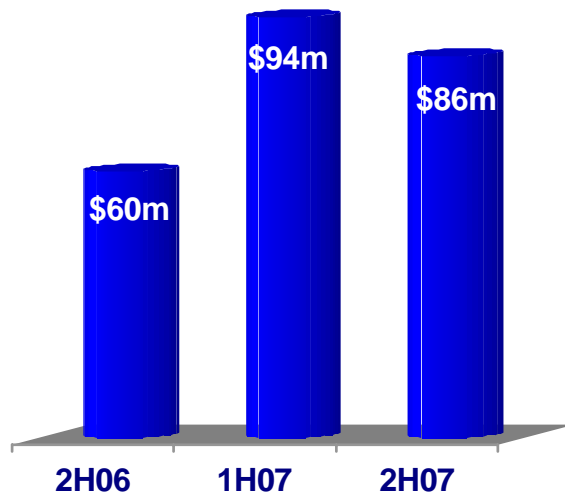
■ Retail deposit growth 33% \*



\* Includes growth upon the acquisition of Pioneer Permanent Building Society Ltd.

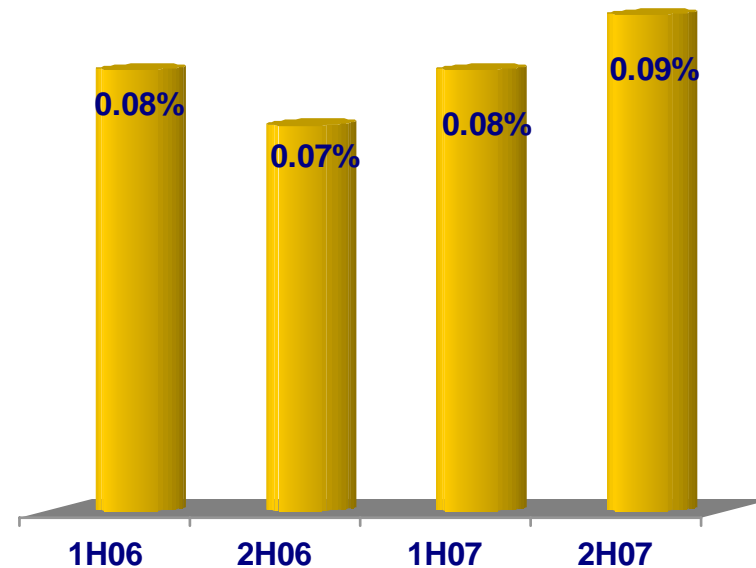
# Continuing asset quality

## Loans past 90 days due



- Improved 2H07 performance

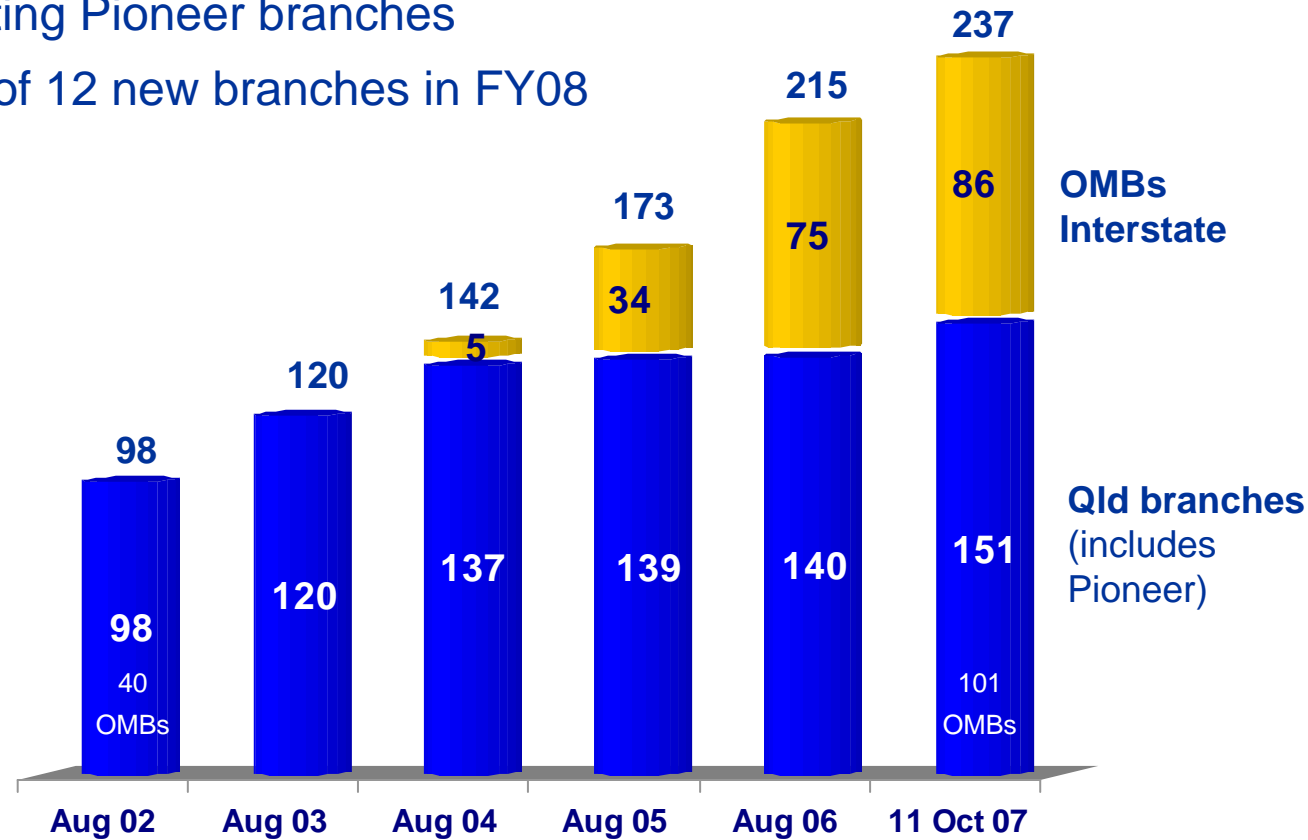
## Impaired assets to non-securitised lending



- Continuing growth flowing from expansion, not from compromising asset quality

# Growing branch network

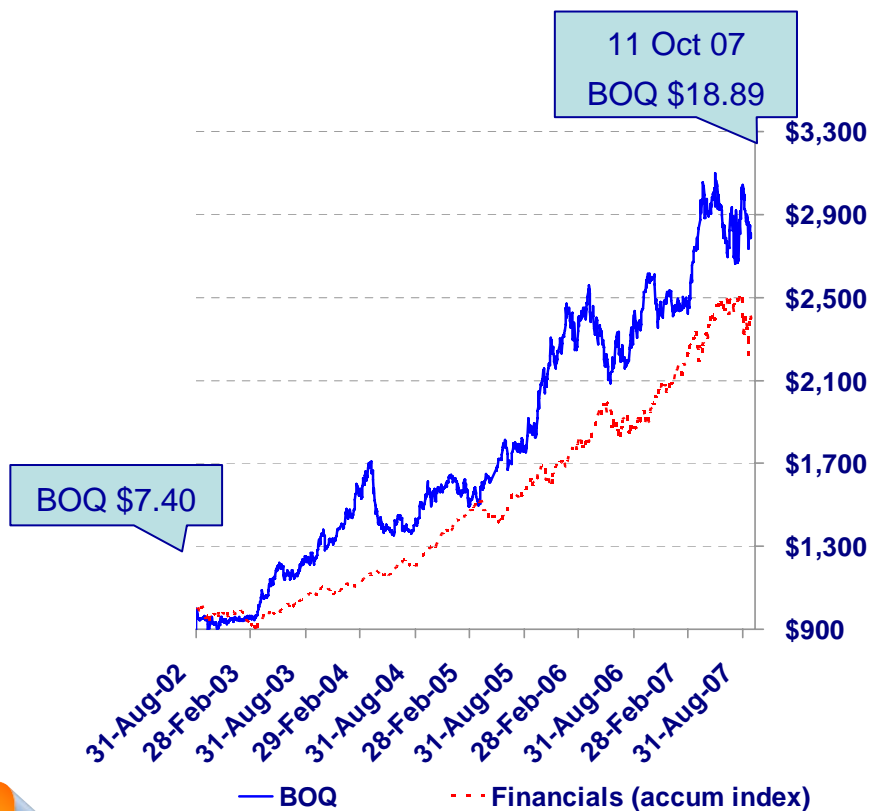
- 11 OMBs and 1 corporate branch opened
- 15 Corporate branch conversions to OMBs
- Integrating Pioneer branches
- Target of 12 new branches in FY08



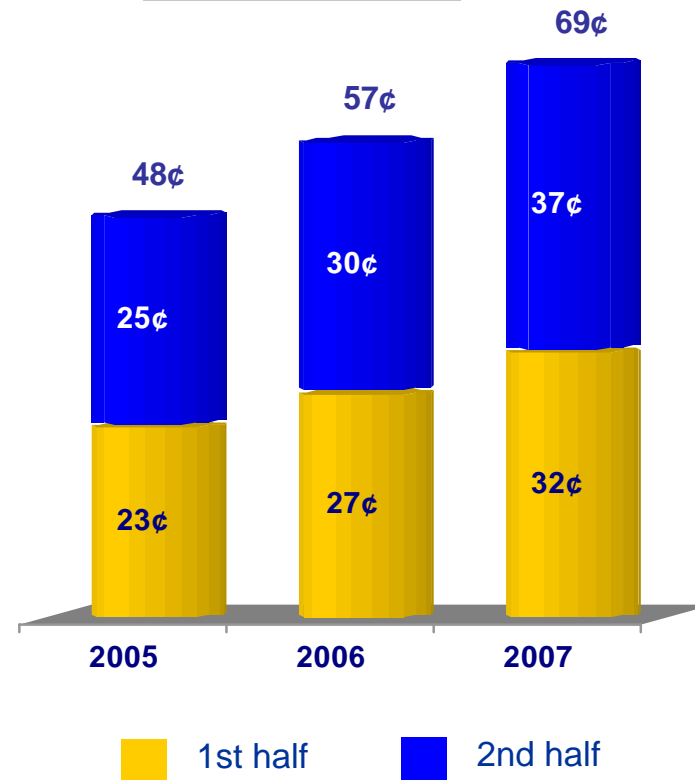
# Increasing shareholder returns

- 25% average 5 year annual total shareholder return

BOQ share price v Financials index



Dividends\*



\* Excludes special dividends, on a cash normalised profit basis



# The result in detail

Robert Hines, Chief Financial Officer

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# Summary of results

	FY06 \$m	FY07 \$m	% Change vs PCP
Total operating income	385.0	<b>500.0</b>	30%
Total expenses	249.1	<b>294.7</b>	18%
<b>Underlying profit</b>	135.9	<b>205.3</b>	51%
Impairment on loans and advances	12.3	<b>20.9</b>	70%
<b>Profit before tax</b>	123.6	<b>184.4</b>	49%
Income tax	30.9	<b>54.6</b>	77%
<b>Net profit after tax</b>	92.7	<b>129.8</b>	40%
Add: amortisation of customer contracts *	0.5	<b>2.0</b>	-
<b>Cash profit after tax</b>	93.2	<b>131.8</b>	41%
Normalising items *	(6.5)	<b>(25.7)</b>	-
<b>Normalised cash profit after tax</b>	86.7	<b>106.1</b>	<b>22%</b>
Movement in GRCL *	(4.2)	<b>(3.6)</b>	-
<b>Normalised distributable profit after tax</b>	82.5	<b>102.5</b>	<b>24%</b>
<b>Cash diluted EPS (normalised)</b>	79.8¢	<b>93.0¢</b>	17%

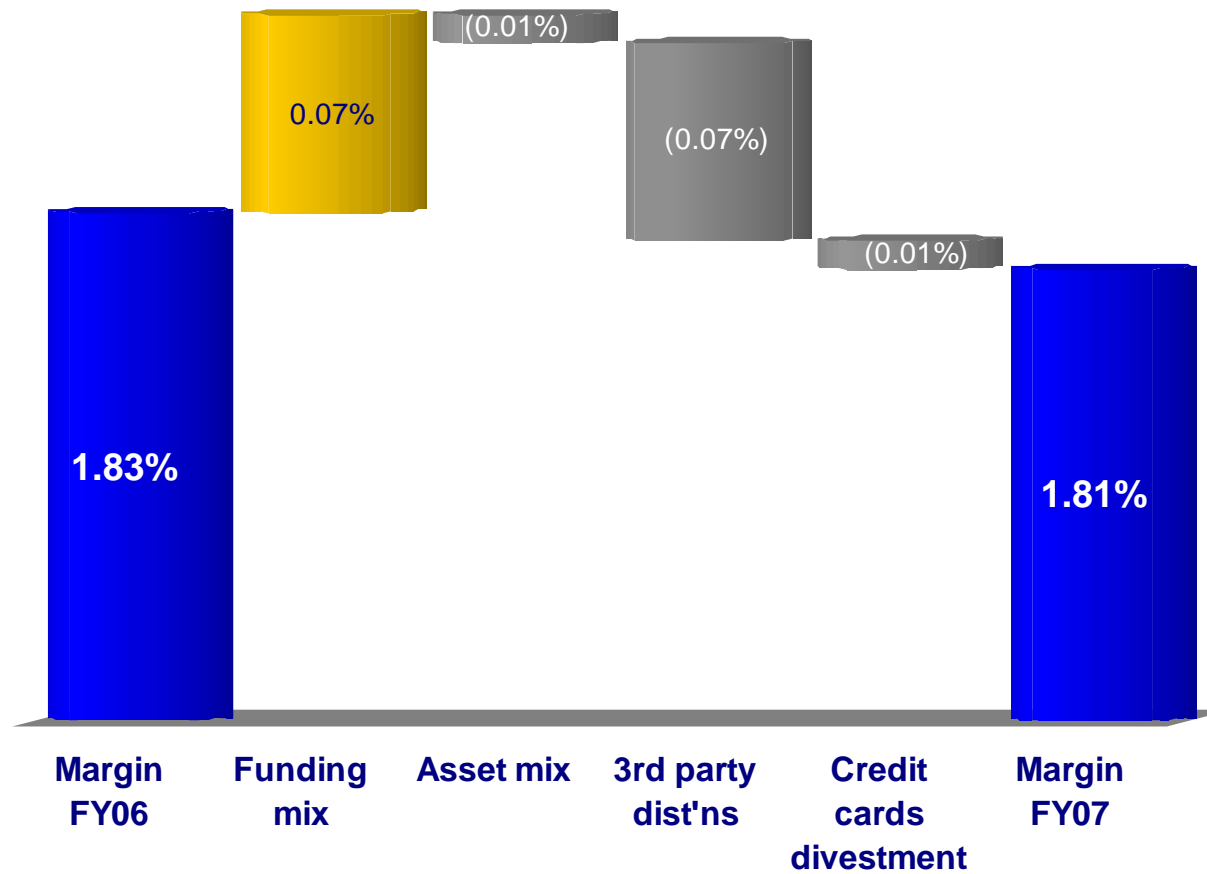
\* Tax effected.

Annual Results 2007

# Normalising adjustments

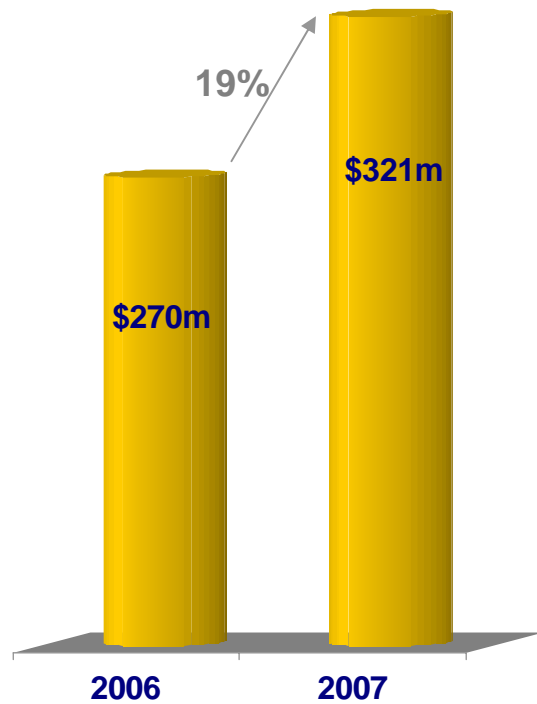
- Gain on sale of credit card business:
  - After tax profit on sale \$29.1m
- Costs of Pioneer Permanent Building Society integration
  - After tax \$2.8m
- Costs of merger proposal with Bendigo Bank
  - After tax \$0.6m

# Stable margin



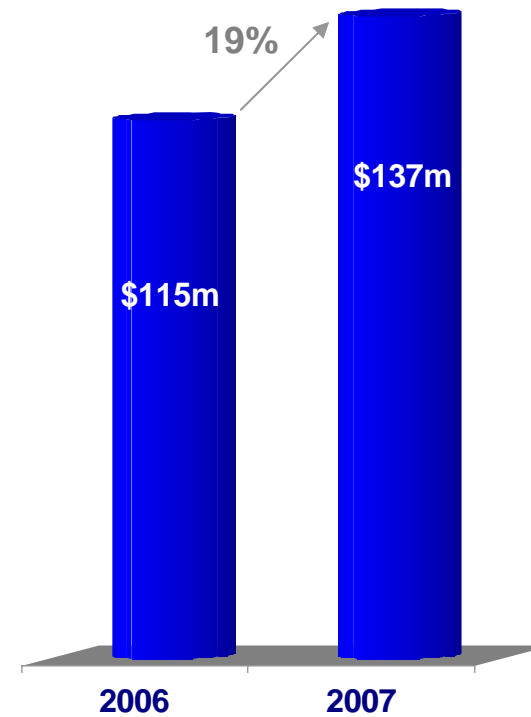
# Growing revenues

## Net interest income



- Growth off strong lending and deposit performance, whilst maintaining margins

## Non interest income\*

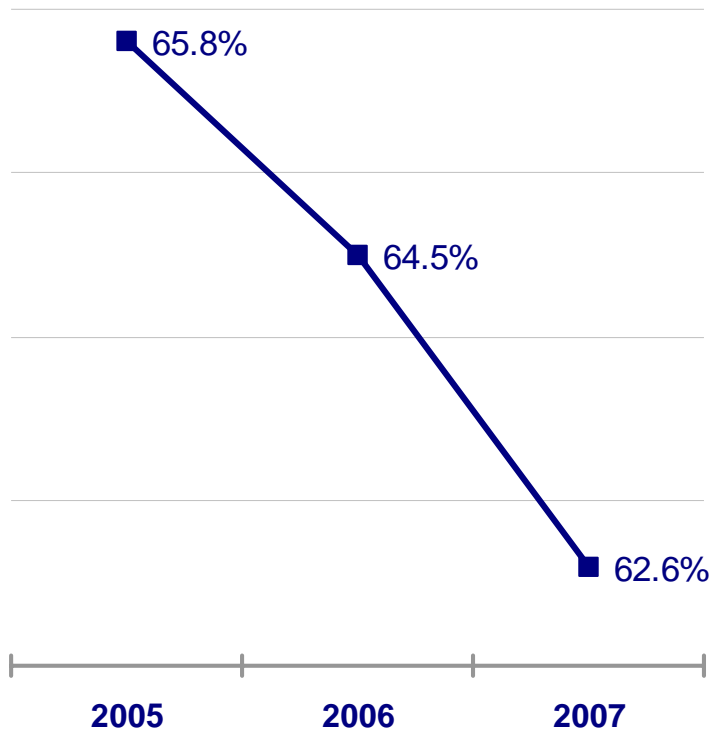


- Increasing customer base and new business driving strong performance

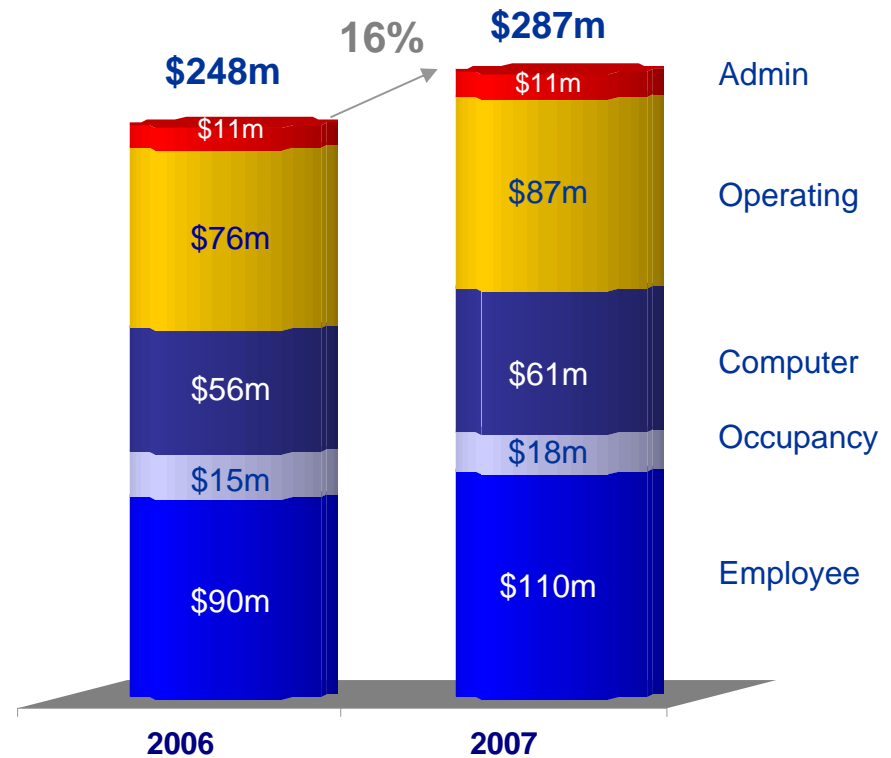
\* = Normalised basis

# Improving efficiency

**Cost to income ratio**



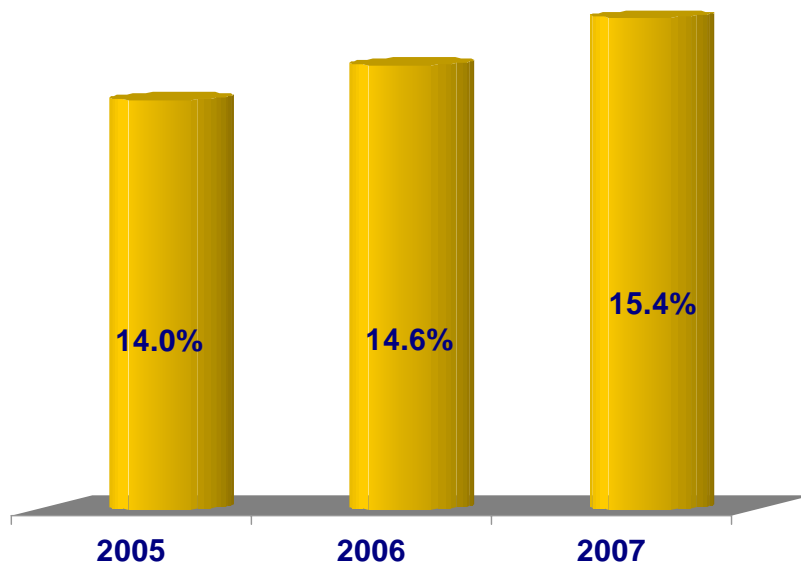
**Expenses**



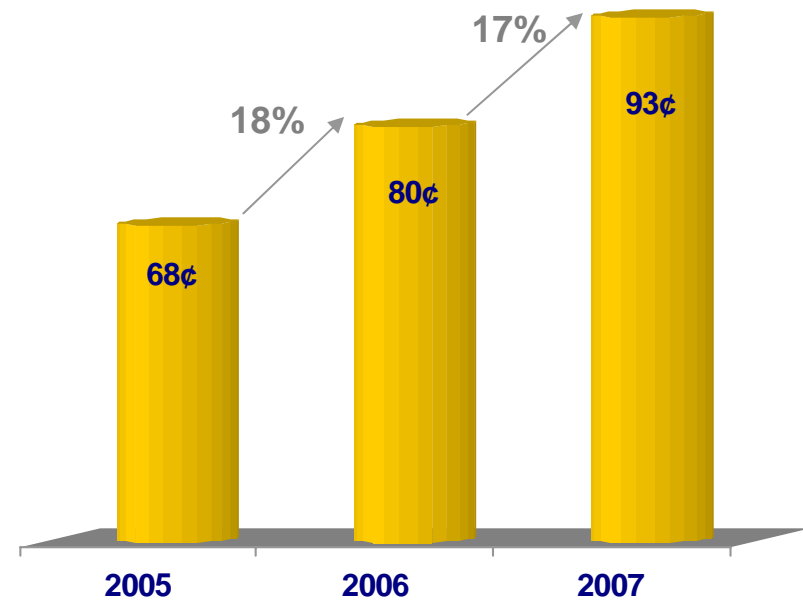
Excludes normalising adjustments and amortisation of customer contracts

# Growing shareholder returns

Cash ROE

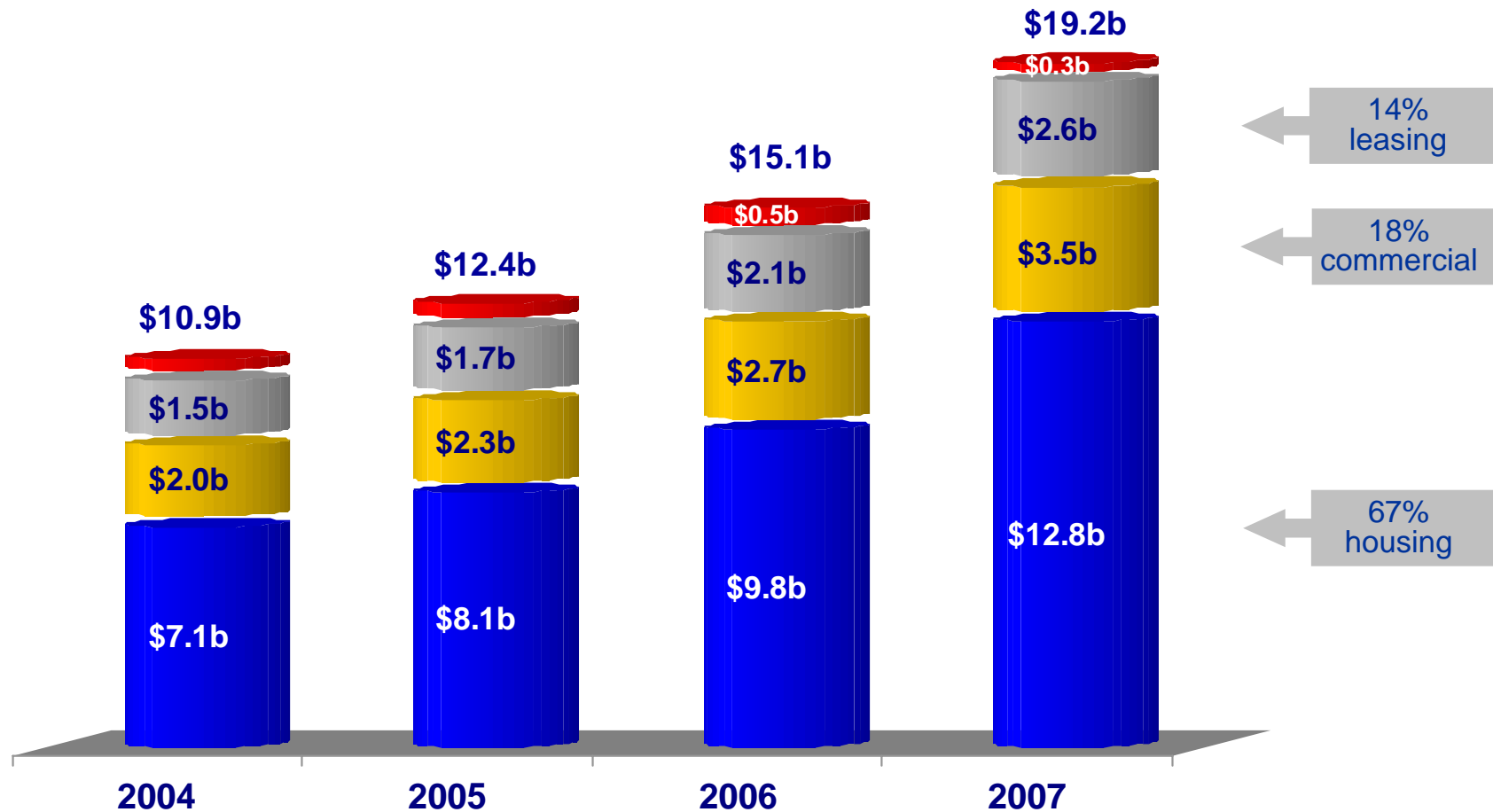


Cash diluted EPS growth



Based on cash normalised earnings = After tax profit excluding the impacts of significant and non-recurring items and amortisation of Customer Contracts

# Growing loans under management

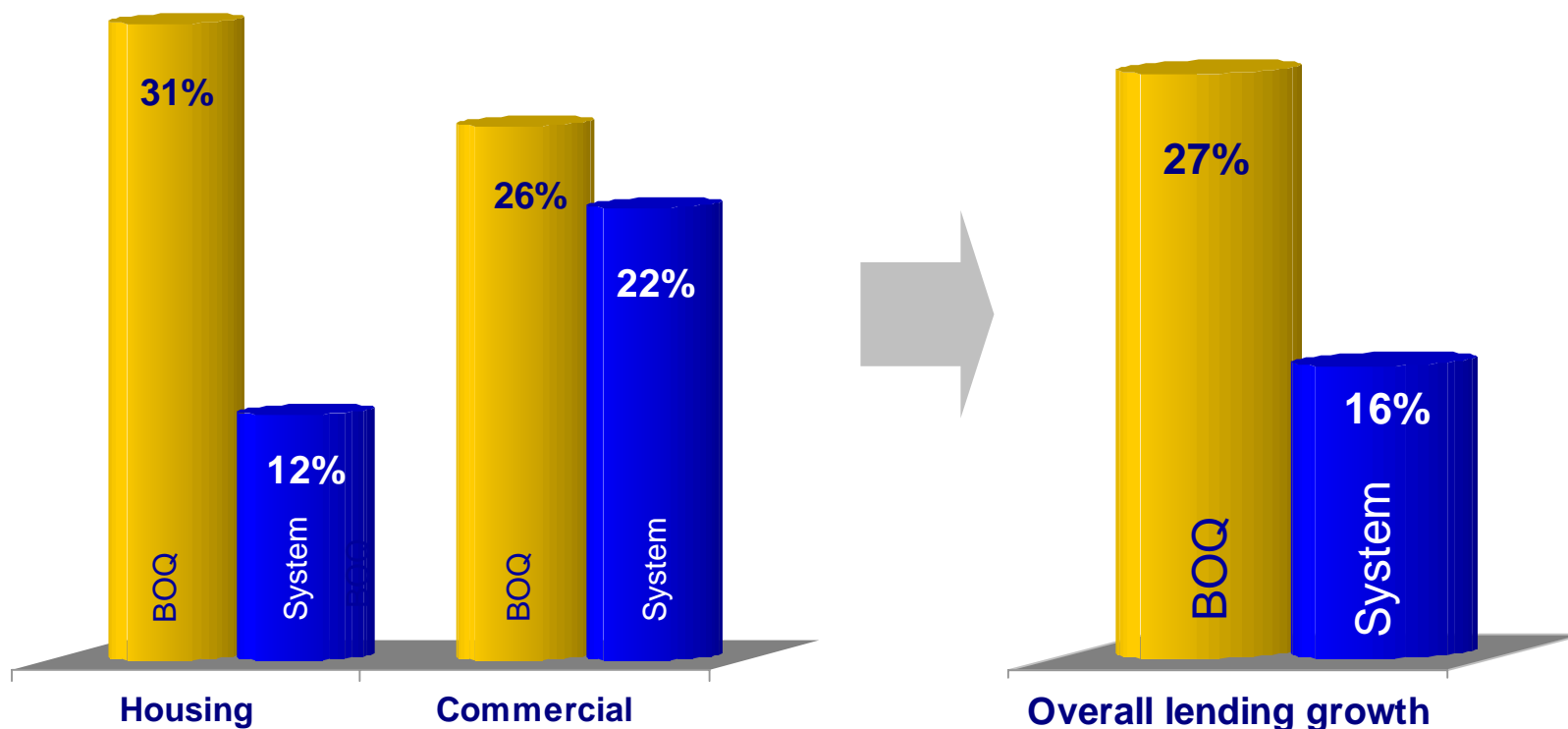




# Continuing strong lending growth

- Strong growth in lending

- Overall 1.7x system growth \*



# Market leading retail deposit growth

- Growth in retail deposits funded 56% of growth in loans under management
- Strong growth in Web Savings Account and through launch of SME deposit products

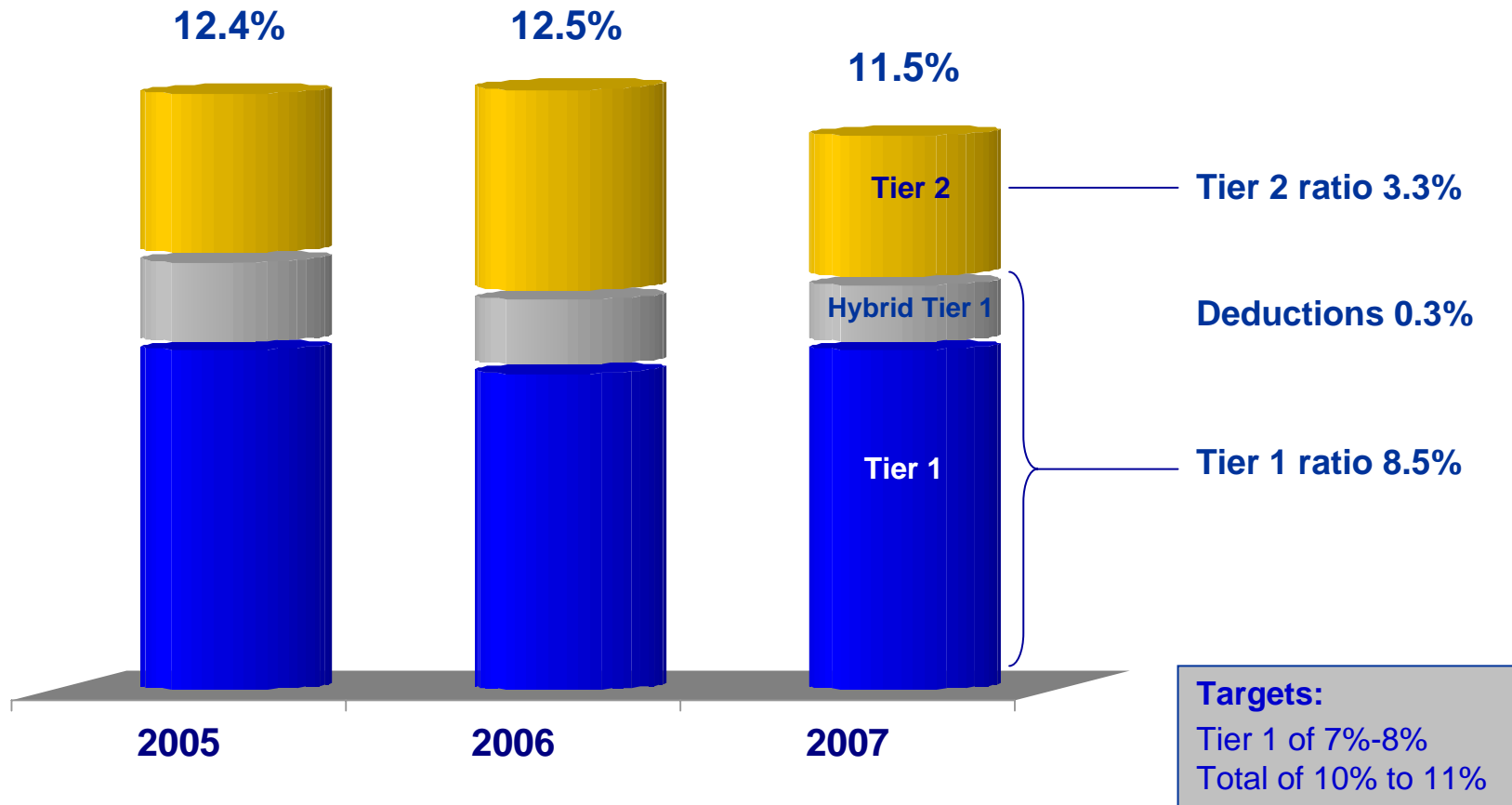


System = APRA monthly statistics, household deposits

# Funding and liquidity

- Key to BOQ's funding philosophy has been and will remain, diversification of funding sources
- BOQ is still issuing senior debt domestically and in offshore markets
  - Credit spreads have increased by around 10bp in the short end and 25bp in longer term paper
- Securitisation Markets
  - Access to securitisation warehouse funding is still available
  - Primary securitisation markets are starting to return
  - Credit spreads have increased by approximately 25bp
- Liquidity
  - Currently holding 12.5% liquidity with 85% of securities held either in cash or securities eligible for RBA repurchase agreements

# Capital adequacy



# Capital initiatives

## Non-innovative hybrid capital issue

- \$150m issue (with ability to accept over subscriptions)
- Non-cumulative preference share structure with the view to being accepted by APRA as Non-Innovative residual Tier 1 Capital
- Fully franked dividends based on a margin over 180 day BBSW
- Existing BOQ shareholders and holders of existing preference shares will be given priority in allocation
- Issued via prospectus, expected to be lodged in the next few weeks and proposed to be underwritten
- Intention to list on ASX

## Other capital initiatives

- Intending to underwrite DRP with respect to the final dividend for FY07

# Basel II

- Progressing towards completion of standardised approach, will be ready to report in 2008
- Preliminary calculations indicate Basel II will be essentially capital neutral for BOQ
- AIFRS transitional relief expires in January 2008

# Strategy and outlook

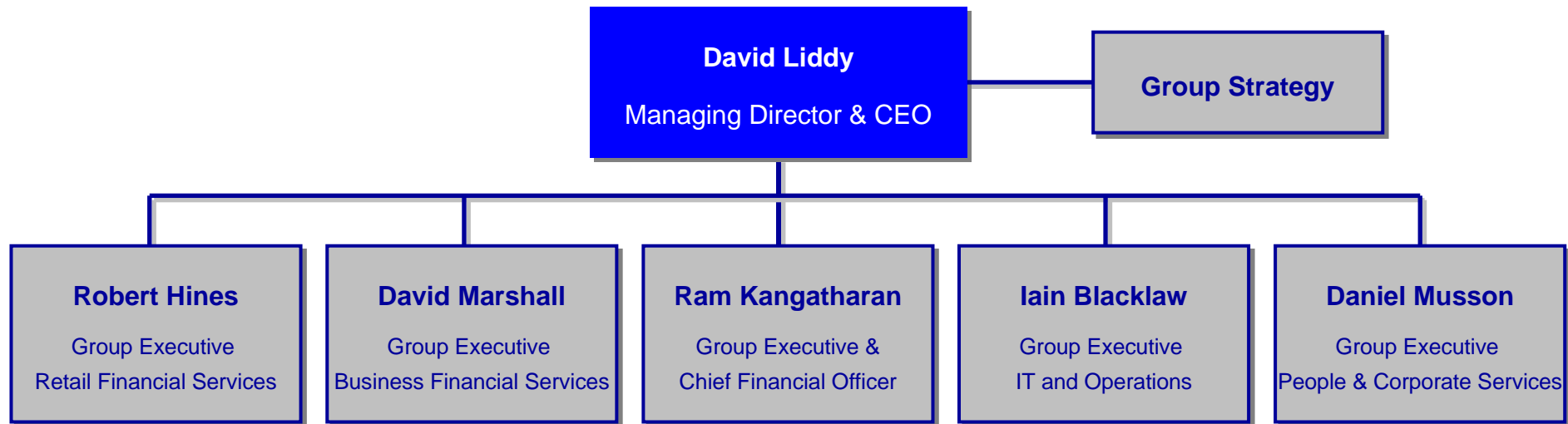
David Liddy, Managing Director

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# New team for a new growth phase

- We have a new team to meet the opportunities and challenges ahead
- Better alignment, more focus



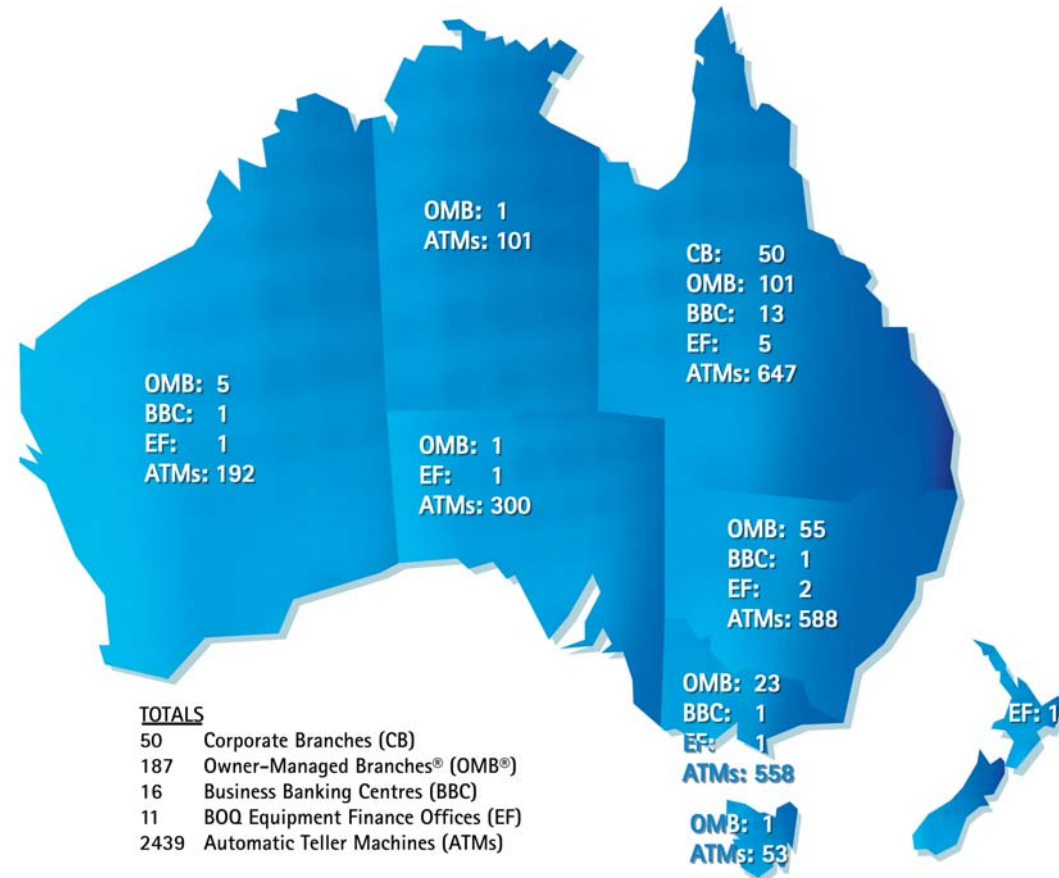


# Strategic intent

- Understanding and growing our core, maximising our adjacencies
  - Core capability is distribution
- Be the 'real' banking alternative – the 'other bank'
- National distribution – but “big small bank not a small big bank” approach
- Aggressive customer acquisition – service led, not by price or lower credit quality
- Market out-performance across all sectors
- Target complementary acquisitions
- Integration of cost management with growth leadership

# Growing national presence

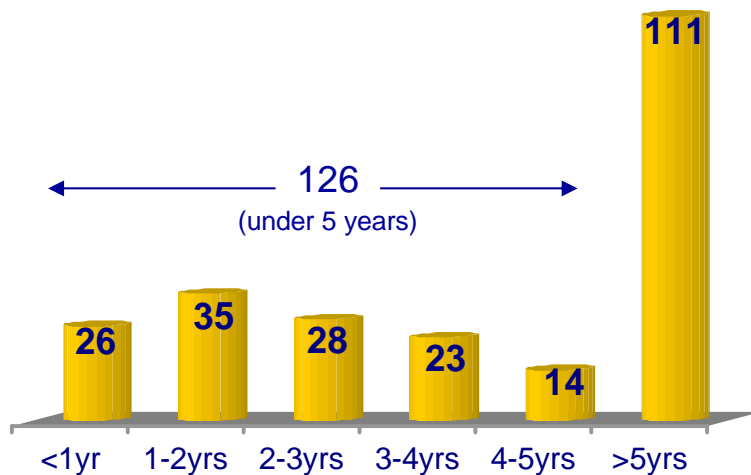
- Over 2,600 'touchpoints'
- Growing branch network, complemented by acquisitions
- Home acquisition to boost branch numbers to a critical mass in WA >30 branches



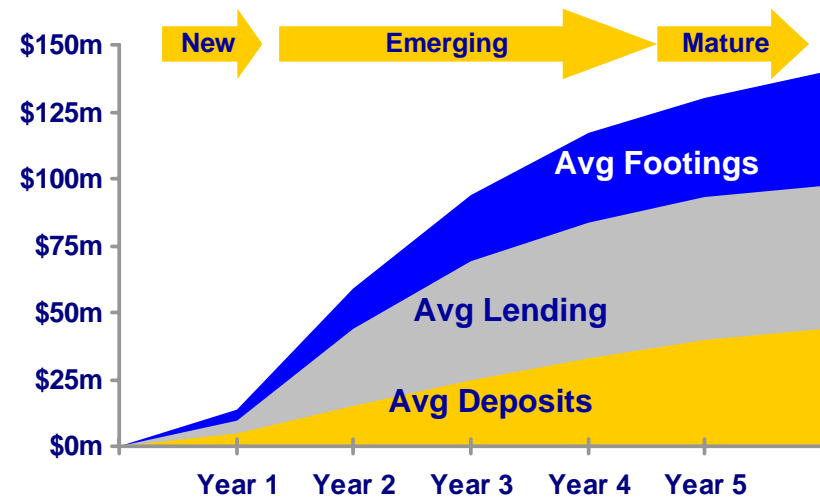
# Strong organic growth to continue

- Continuing retail distribution expansion
- Growth to flow from branches moving into the 'emerging' phase

**Branch maturity** (237 branches)



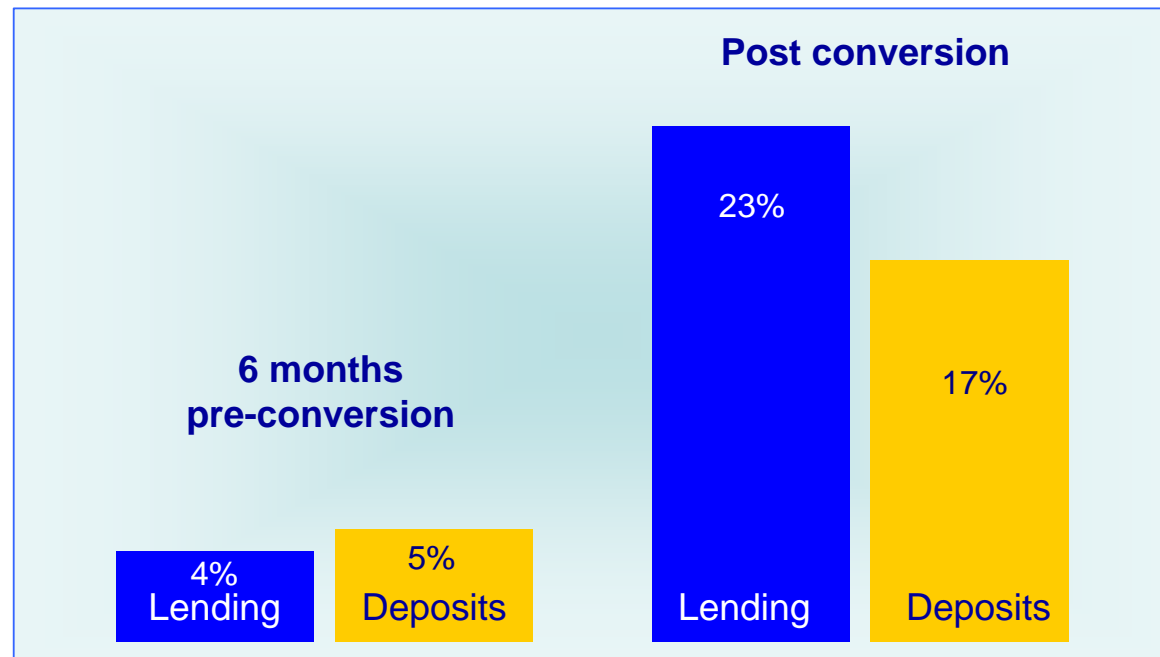
**OMB maturity**



# Increased productivity from OMBs

- Now converted 18 corporate branches to OMBs, 15 in this year
- Monthly fundings have increased significantly driving lending growth of 23%
- Positive outcome from each:

## Annualised growth before and after conversion



# Growing our business banking presence

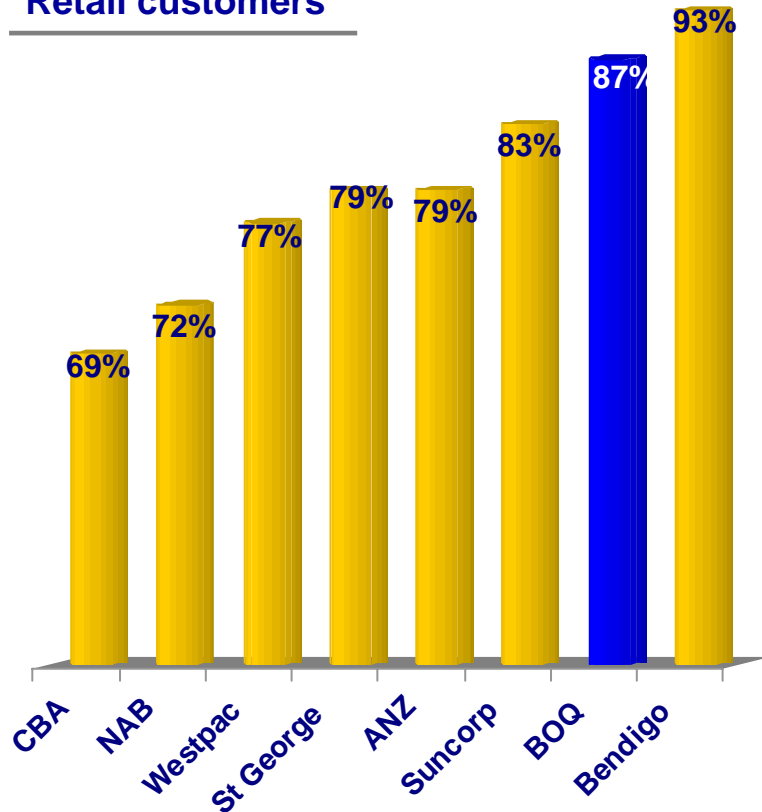
- Overall strategy is to achieve SME dominance in chosen segments in Queensland and leverage branches outside Queensland
- Our target market is Middle Market and SME customers - not institutional
- Our dedicated long established property finance business continues to grow strongly
- Now have 16 business banking centres and 11 equipment finance centres

## Opportunities:

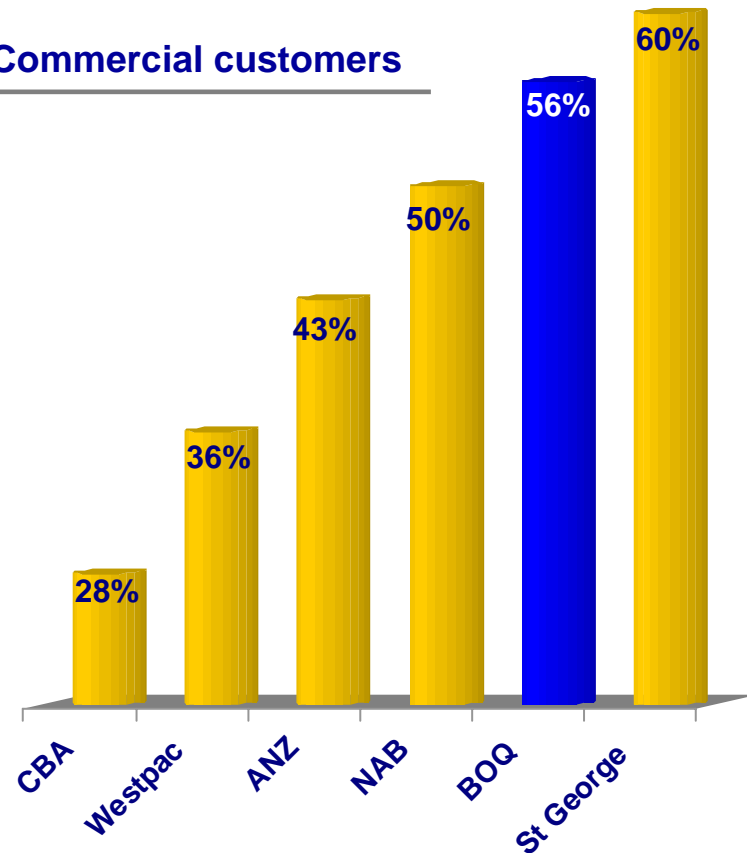
- to leverage the OMB network to drive SME business
- drive increased sales productivity through coaching, reward and recognition programs
- grow Equipment Finance and Debtor Finance business both organically and through acquisition, off the back of strong growth in receivables now in excess of \$2.6b

# Customer satisfaction

Retail customers



Commercial customers



August 2007 QLD MFI Customer Satisfaction - 6 months to August 2007

August 07 East & Partners Business Banking Sentiment

# Proposed mergers

## Home Building Society

- Proposal values Home at \$600m<sup>1</sup>
- Proceeding towards completion by the end of the year
- Great opportunity to expand upon Home's WA footprint
- Expect to be cash EPS accretive in FY10



Home  
building society

29 branches

\$2.4b loans under mgmt

\$2.2b retail deposits

\$21m in FY07 normalised NPAT

## Mackay Permanent Building Society

- Proposal values Mackay Permanent at \$53m<sup>2</sup>
- Proceeding towards completion by the end of the year
- Further leverages BOQ's strong position in North Queensland
- Expect to be cash EPS accretive in FY09



MACKAY  
PERMANENT  
BUILDING SOCIETY LTD  
"Simply better banking"

14 branches

\$0.3b loans under mgmt

\$0.3b retail deposit

\$2m in FY07 normalised NPAT

# Credit card alliance and portfolio sale

- Sale announced in April 2007 and settled July 2007
- 12 month migration process for BOQ cards across to Citigroup platform
- Credit cards to be provided by Citigroup through a “white labelled” distribution arrangement
- Customers to benefit through greater support, a better product range and more extensive systems
- BOQ can leverage Citigroup’s manufacturing expertise
- Obviates the need for significant further investments in credit card technology



# Strong growth outlook

- Financial goals
  - 1.5x – 2x system growth for lending and deposits
  - Diversify revenue
  - Normalised cash EPS growth of 10% - 12%
  - Maintain credit quality
  - Continue reduction in cost to income ratio
- Operational goals
  - Higher productivity from maturing branch network
  - Geographic expansion – two fastest growing economies
  - Three mergers
  - Further acquisitive opportunities
  - CustomerFirst process redesign

# Our priorities

- Successful execution of acquisitions
- Continued distribution expansion
- More brand investment
- 'Red carpet' retail and business banking delivery
- Sound capital/liquidity management
- To be the consolidator of choice



**The big small bank**

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A graphic element consisting of a white-outlined shape that resembles a folded corner or a stylized 'Q'. The top-left corner is rounded and colored orange. The rest of the shape is dark blue with a white border.

**Bank of  
Queensland**

# Additional information

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# Hybrid capital

## Proposed Non-innovative capital issue - PEPS

- \$150m issue (with ability to accept over subscriptions)
- Non-cumulative preference share structure with a view to being accepted by APRA as Non-Innovative residual Tier 1 Capital
- Fully franked semi-annual dividends based on a margin over 180 day BBSW and face value of \$100 (gross up if not fully franked)
- Dividends discretionary, preferred, non-cumulative, subject to dividend tests; ordinary and S1RPS dividend stopper if PEPS dividend not paid
- BOQ redemption option at 5th anniversary and at subsequent dividend payment dates, or on regulatory or tax events
- Ranking: senior to ordinary shares, equal with S1RPS and junior to RePS

# Hybrid capital

## Proposed non-innovative capital issue - PEPS (cont'd)

- To be issued via prospectus - expected to be lodged within a few weeks
- Offer intended to be underwritten
- Intention to list PEPS on ASX
- Existing BOQ shareholders and holders of existing S1RPS and RePS will be given priority in allocation
- Joint Lead Managers appointed: ABN AMRO Rothschild and Macquarie Equity Capital Markets

## Other capital initiatives

- Intending to underwrite DRP with respect to the final dividend for FY07