Bank of Queensland

Full year results

31 August 2009

Agenda

Result highlights	**David Liddy** Managing Director & CEO
Financial result in detail	**Ram Kangatharan** Group Executive & CFO
BOQ portfolio	**Ram Kangatharan** Group Executive & CFO
Strategy and outlook	**David Liddy** Managing Director & CEO

Result highlights

David Liddy, Managing Director

Result highlights

- Strong cash profit growth – beating guidance at 21% growth ($187.4m)
- Continued outperformance of system – achieving 1.8x system lending
- 88% of LUM growth in retail deposits, maintaining record levels of liquidity
- Resilience of OMB model established - NSW consolidation completed
- Asset quality continues to be high with increased provision levels
- Project Pathways initiatives completed:
  1. Efficiency initiatives gaining traction – CTI glide path on guidance
  2. Driving greater focus on Retail & ***S***ME through a single distribution organisation
  3. $340m capital raising to exploit opportunities in the market place
- Phase 2 Efficiency initiatives underway with significant focus on compliance and process efficiency with a major review of the outsourcing arrangements
- Strategic focus on solving the capital intensity of the model by exploiting the unbeatable productivity advantage of the unique OMB distribution model

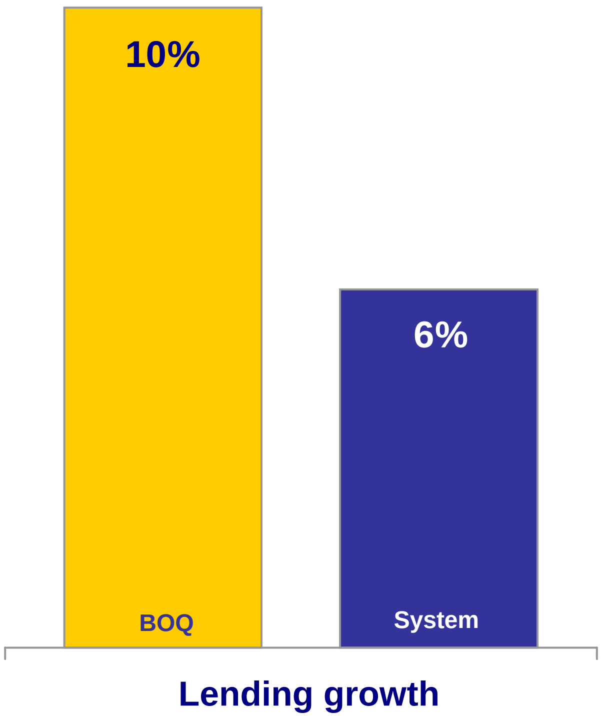
Strong financial results in tough market

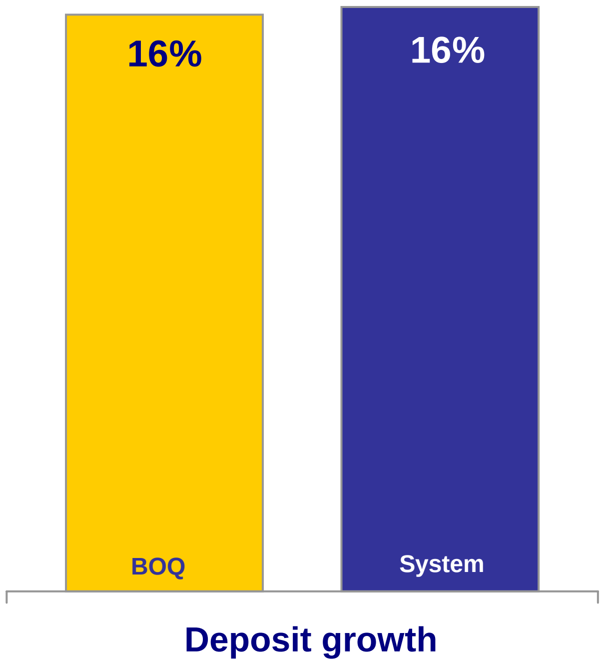
	2008	2009		
Normalised cash NPAT	$155.4m	**$187.4m**	▲	21%
Cash EPS (normalised Fully Diluted)	99.9¢	**98.4¢**	▼	1.5%
Ordinary dividend	73¢	**52¢**	▼	21¢
Loan growth (pcp)	*23%	**10%**		
Retail deposit growth (pcp)	*25%	**16%**		
Net interest margin	1.67%	**1.56%**	▼	11bps
Cost to income ratio (normalised cash)	56.1%	**49.9%**	▼	6.2%

* Excludes contribution from Home Building Society

Moderated growth continues...

- Lending growth : 1.8x system*
- Deposit growth : 1.0x system*



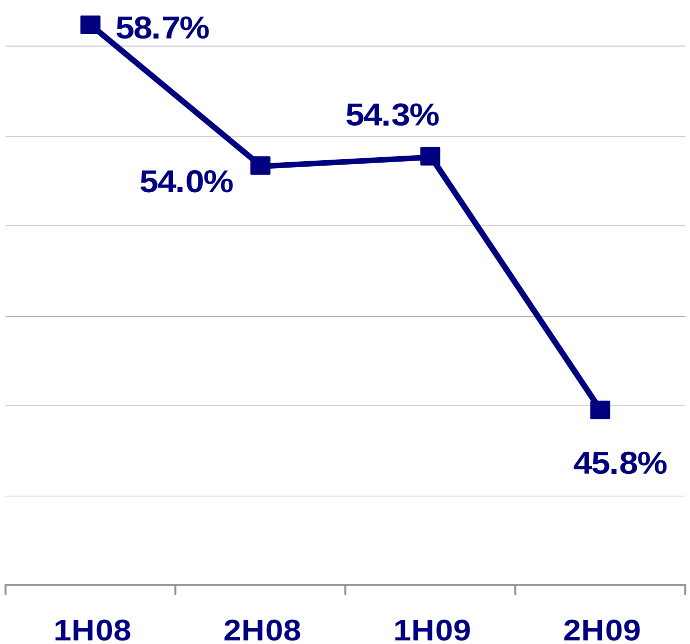


* Last 12 months
Source: APRA data

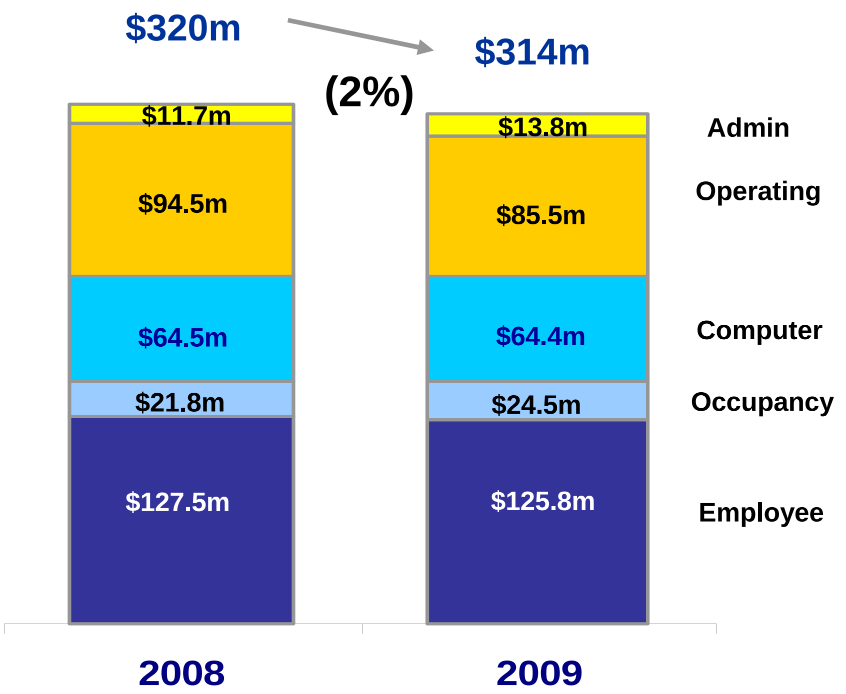
Cost efficiencies accelerating…

- Efficiency initiatives implemented in March 2009 gaining traction…2H09 run rate allows higher brand investment, compliance & regulatory costs in FY10

Cost to income ratio*



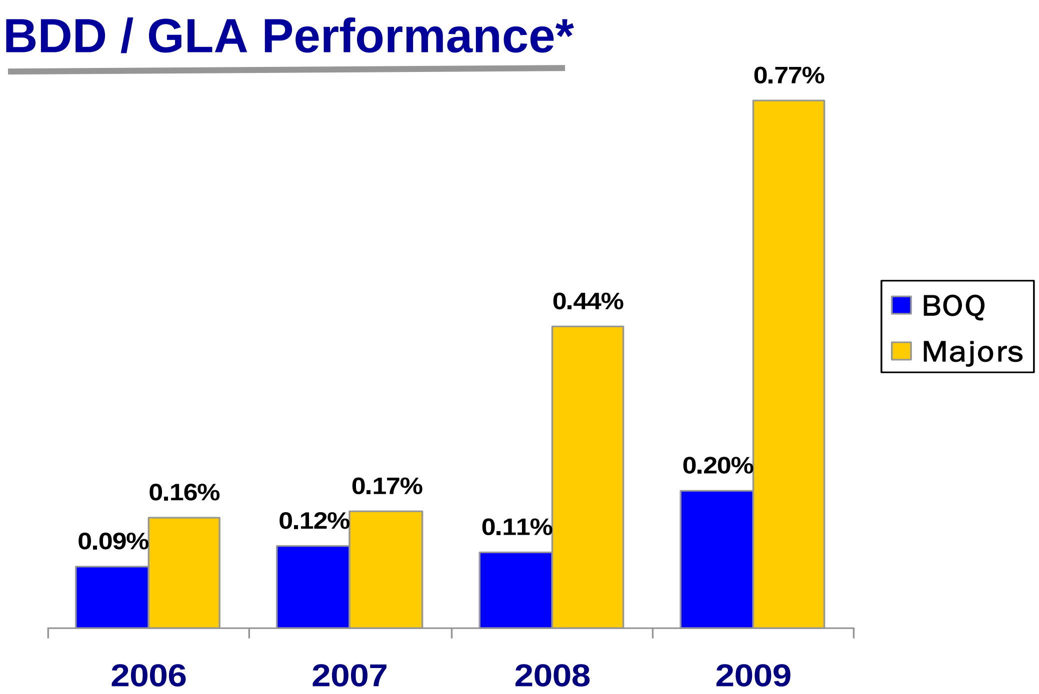
Expenses*



* Based on Normalised Cash costs, excluding the impacts of normalisation items & amortisation of Customer Contracts

Asset quality remains strong

- Impaired assets have increased in line with deteriorating economy, but BOQ focus remains on well secured housing and ***S***ME lending
- We expect BDD / GLA to remain materially lower than majors

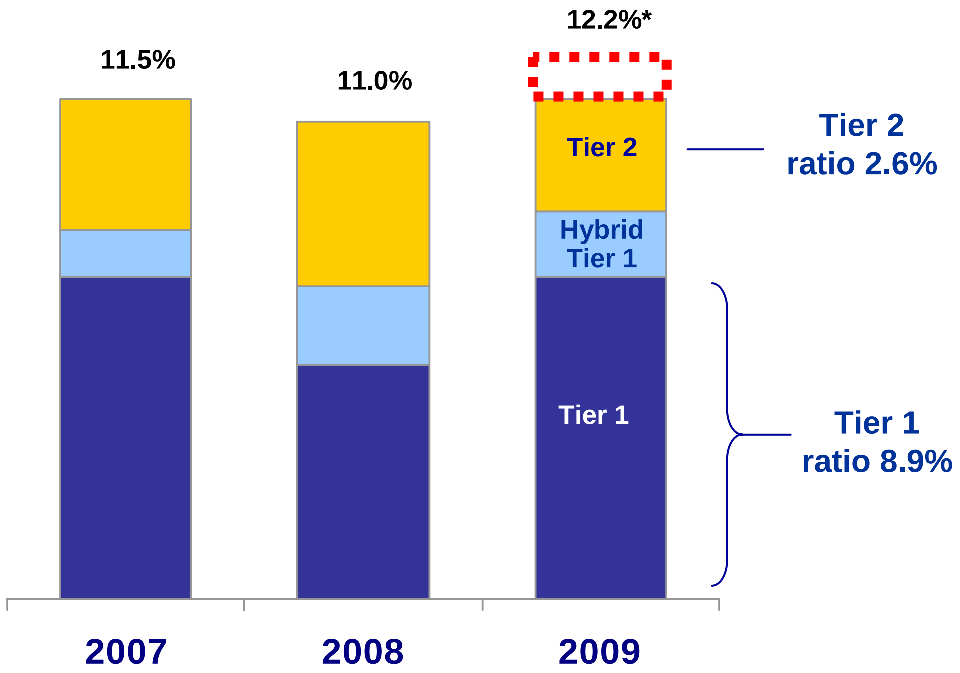


* Source – UBS Investment Research. BOQ calculations prepared on same basis

Strong capital base and liquidity

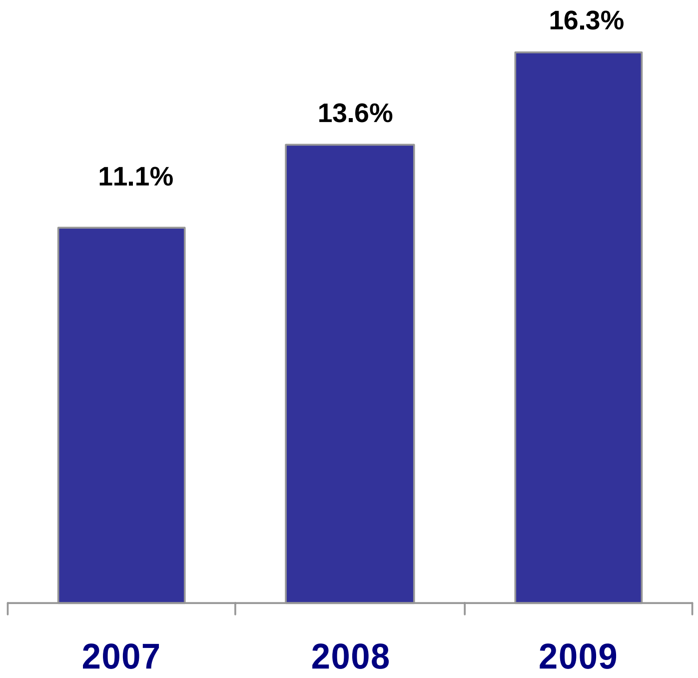
- Tier 1 capital improved 1.7% to 8.9%, or 9.6% including retail entitlement
- High liquidity levels remain well in excess of APRA and internal benchmarks

Capital adequacy



*Includes issue of $110.8m under the Retail Entitlement Offer which settled on 18th Sep 09

Liquidity



The result in detail

Ram Kangatharan, Chief Financial Officer

Bank of Queensland

Meeting our commitments

	2008 $m	2009 $m	% Change vs pcp
Total operating income	**570.6**	**629.0**	**10%**
Expenses	341.7	369.8	8%
Adj: Normalisation & non-cash items	21.7	55.8	
Normalised Expenses	**320.0**	**314.0**	**-2%**
Impairment on loans and advances	27.0	66.0	
Adj: Normalisation item	-	7.2	
Normalised impairment charges	**27.0**	**58.8**	118%
Normalised cash profit after tax	**155.4**	**187.4**	**21%**
Cash diluted EPS (normalised)	**99.9¢**	**98.4¢**	**-1.5%**

- **Normalised cash NPAT beats guidance**
- **Normalised expenses reduced in line with efficiency initiatives undertaken under Project Pathways**
- **Impairment charges increased in line with guidance but well below peers**

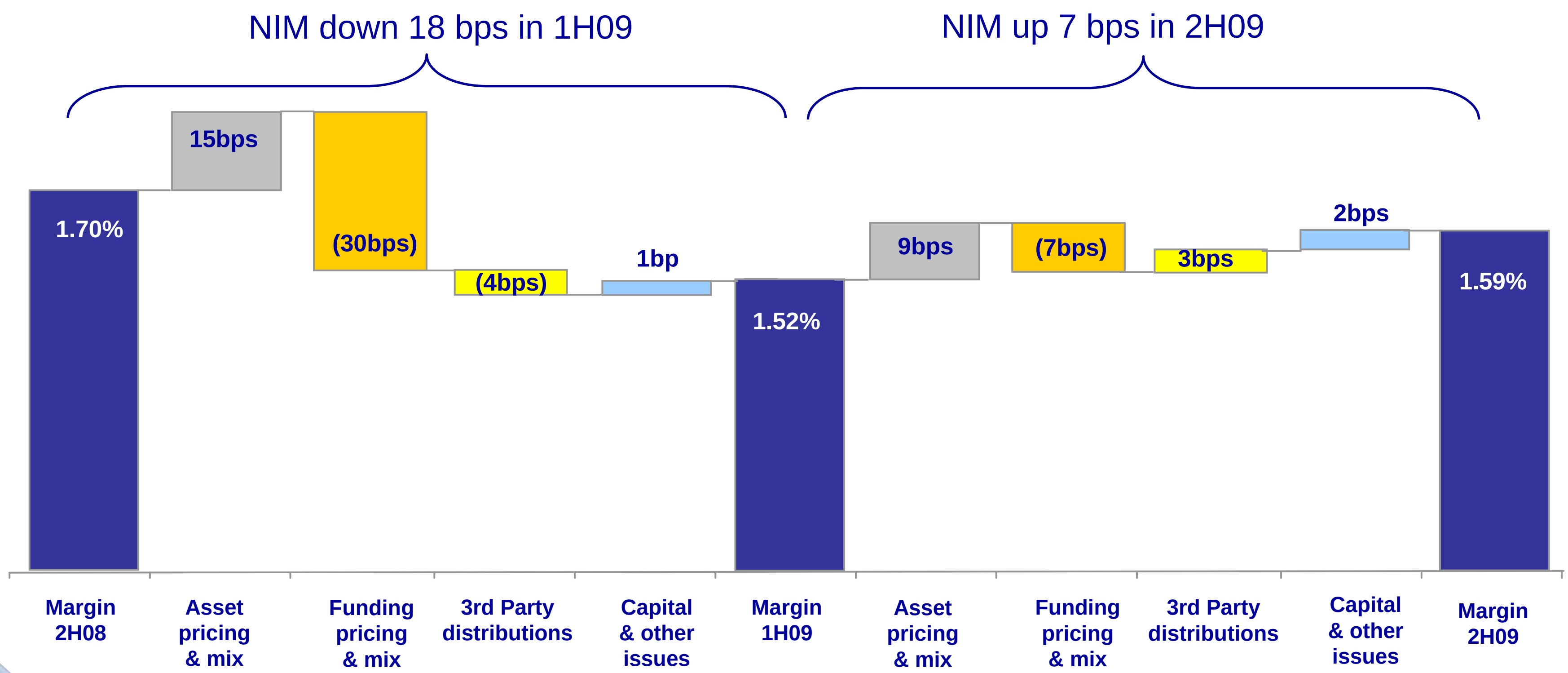
Restatement of FY08 statutory profit

- FY08 profit and balance sheet were stated using provisional entries in accordance with ***AASB 3 Business Combinations***. These provisional entries have now been finalised resulting in restatement of several items. A summary is below.

	31-Aug-08		
	Restated $m	Reported $m	Increase / (Decrease)
Income Statement			
Amortisation of intangibles	7.7	26.7	(19.0)
Income tax expense	63.2	56.1	7.1
Profit for the year	138.7	126.8	11.9
Balance Sheet			
Intangible assets	590.6	571.6	19.0
Current tax assets	0.0	0.3	(0.3)
Current tax liabilities	6.8	0.0	6.8
Retained profits	191.2	179.3	11.9

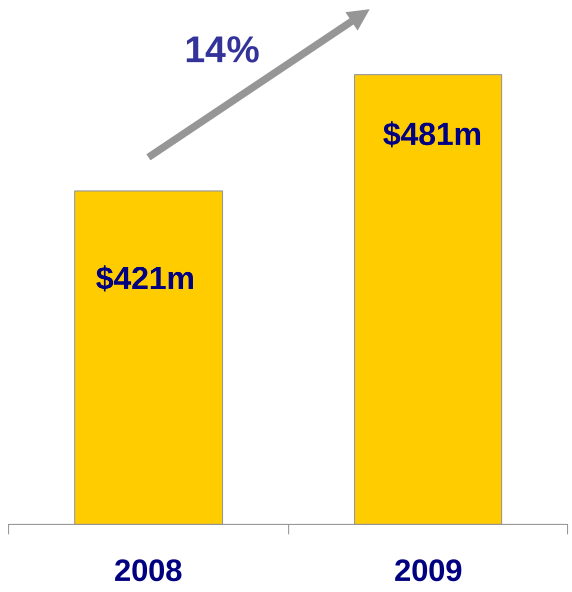
Margin improvement in 2H09

- Increasing term and retail funding costs have impacted NIM
- Similar trend to FY08, albeit increased retail funding costs reduced quantum of NIM recovery in 2H09



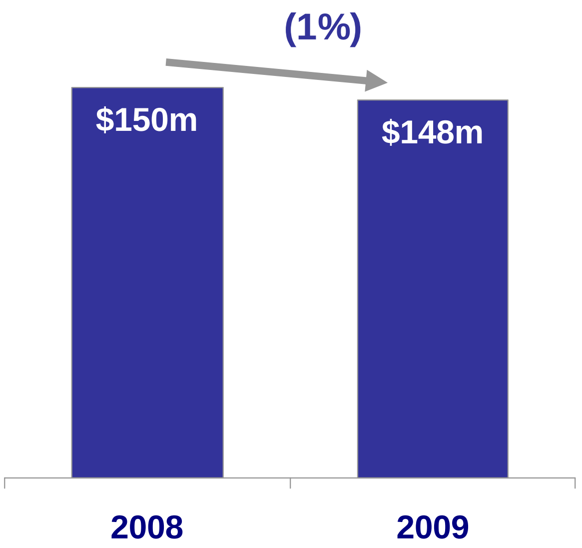
Lending income strong... other income flat

Net Interest Income



- NII continues to grow with balance sheet growth above system and margin improvement in 2H09

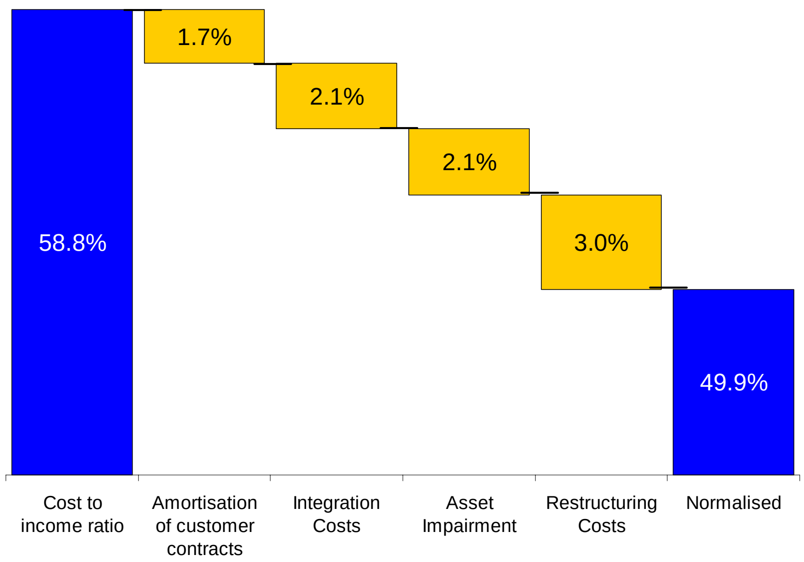
Non Interest Income



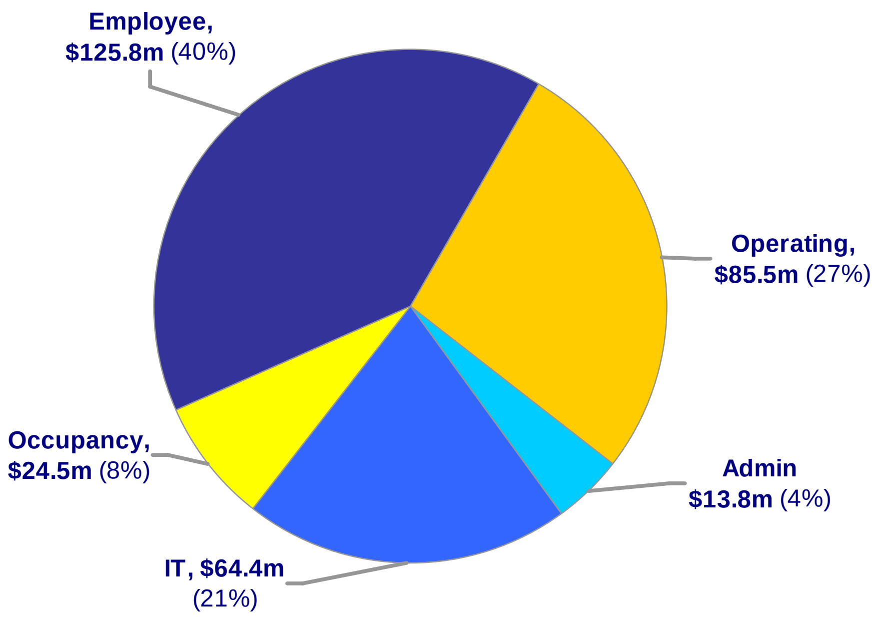
- Strong underlying customer fee income growth was offset by impact of direct charging and reduction in non-core fee income

Expense composition

Cost to Income Ratio

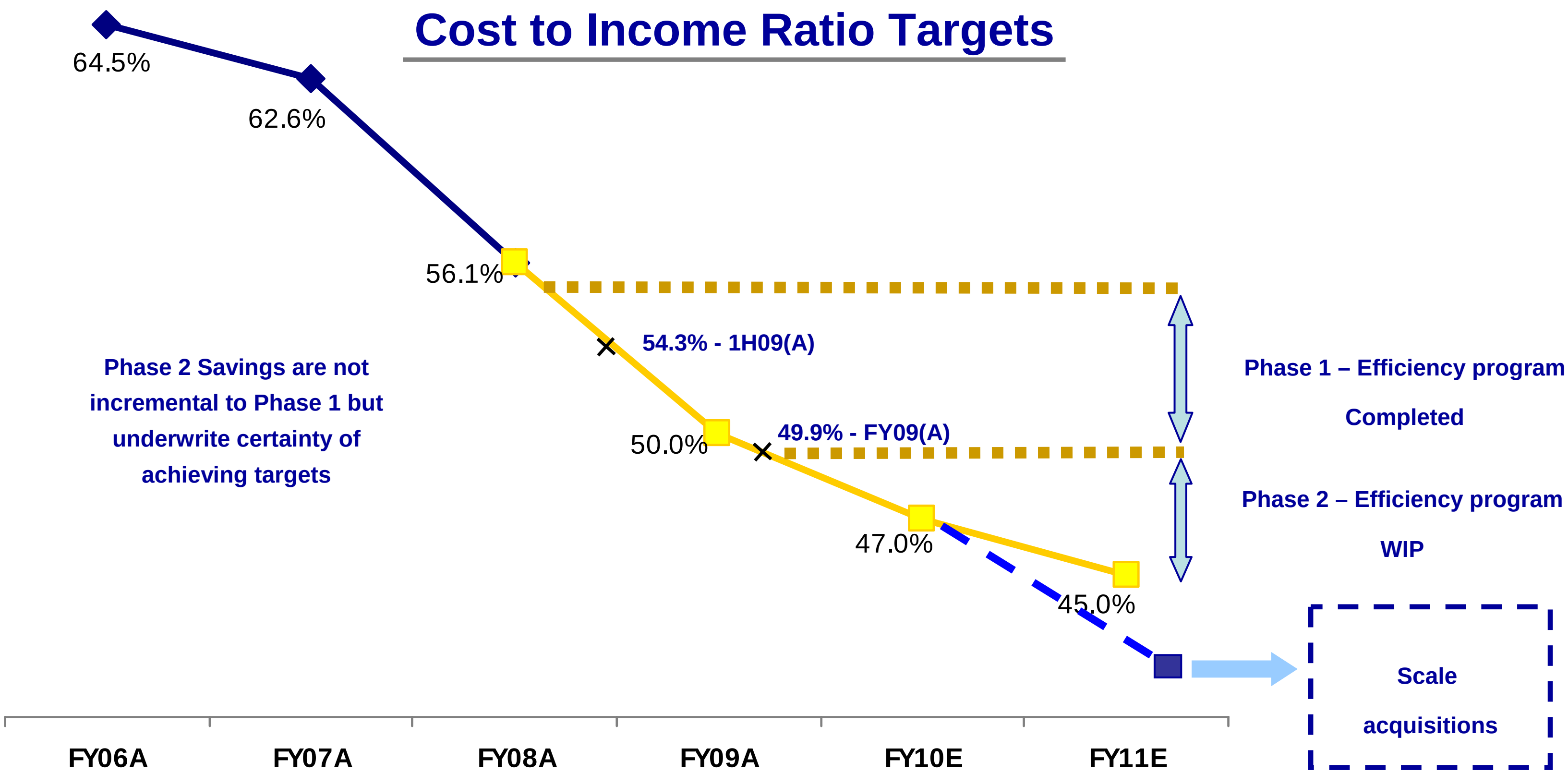


Operating Expenses



Expense initiatives gaining traction

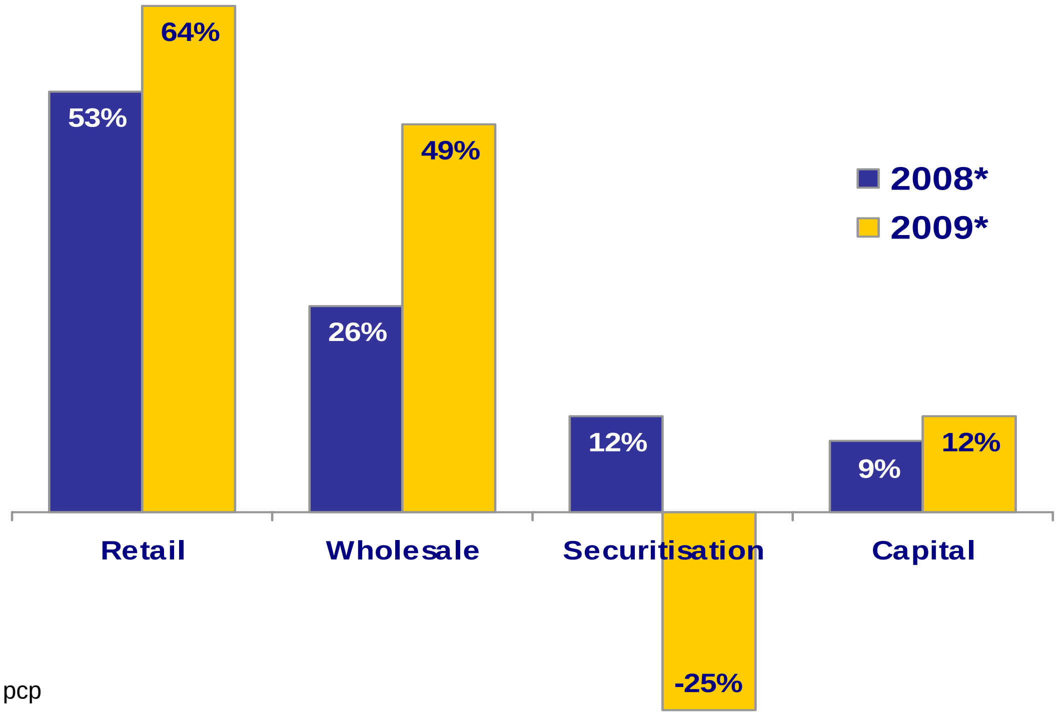
- Meeting previous guidance with cost to income ratio of 49.9%
- Expect further improvements as efficiencies continue to gain traction



* Forecast cost-to-income targets are dependent on achievement of revenue and cost forecasts

Funding our growth

- Reduced availability of wholesale funding (inc. securitisation markets) increased reliance on retail deposits
- Wholesale capacity has started to grow

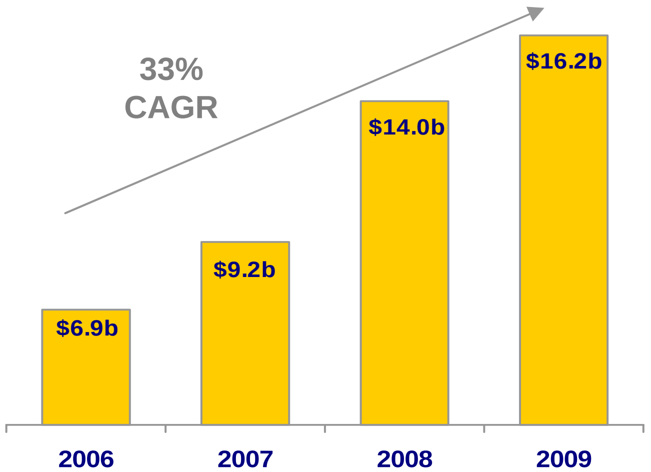


* Last rolling 12 months v pcp

Focus on retail deposits

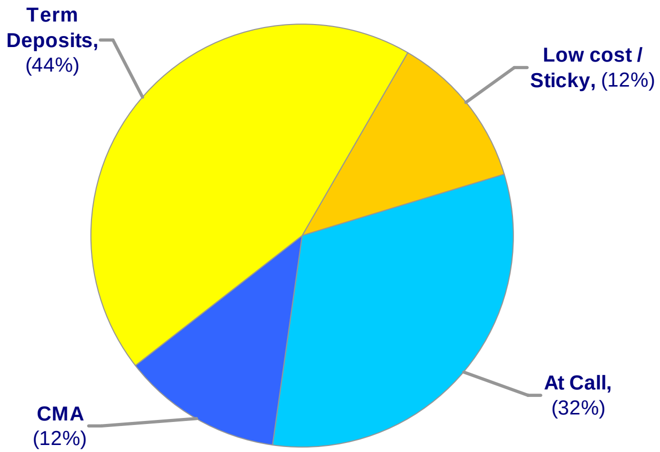
- Through the market turmoil the Bank has significantly grown retail deposits
- Retail deposits growth accounted for 88% of LUM growth for the year
- Record liquidity levels in FY09, affording some flexibility in FY10

Retail deposits



% of LUM	46%	48%	53%	56%

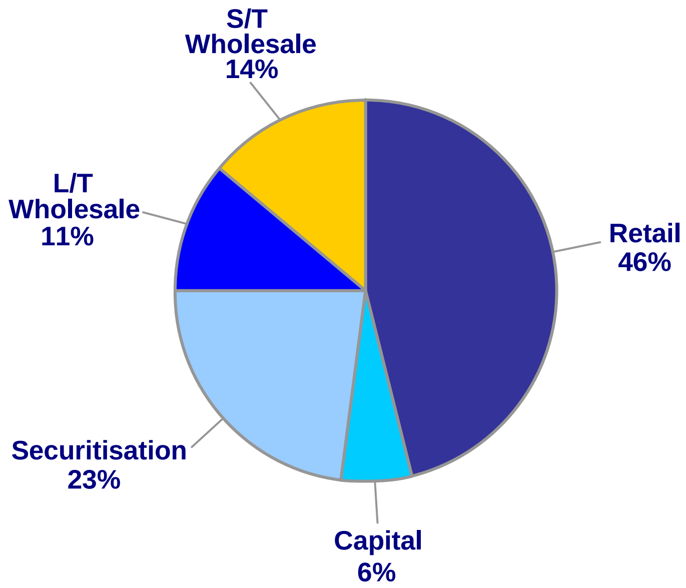
Retail portfolio composition



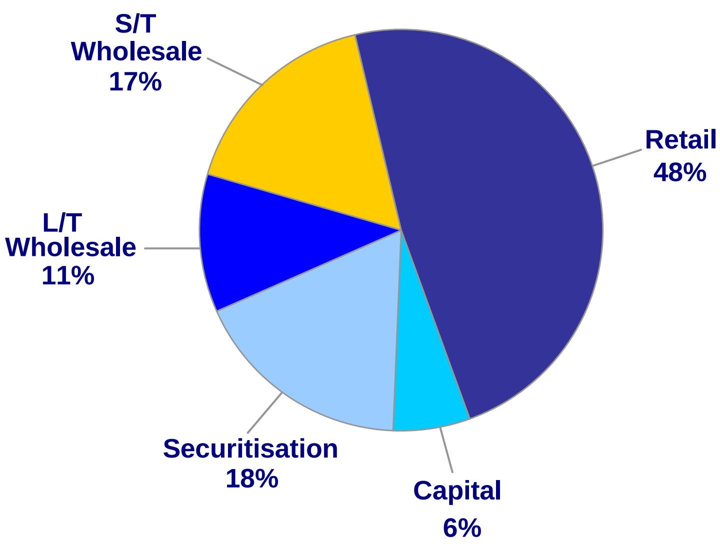
Funding balance sheet impact

- Retail deposit growth continues to contribute a higher portion of total funding
- Following capital raising and improvements in market stability, significant capacity on ST wholesale funding emerging

2008 Funding

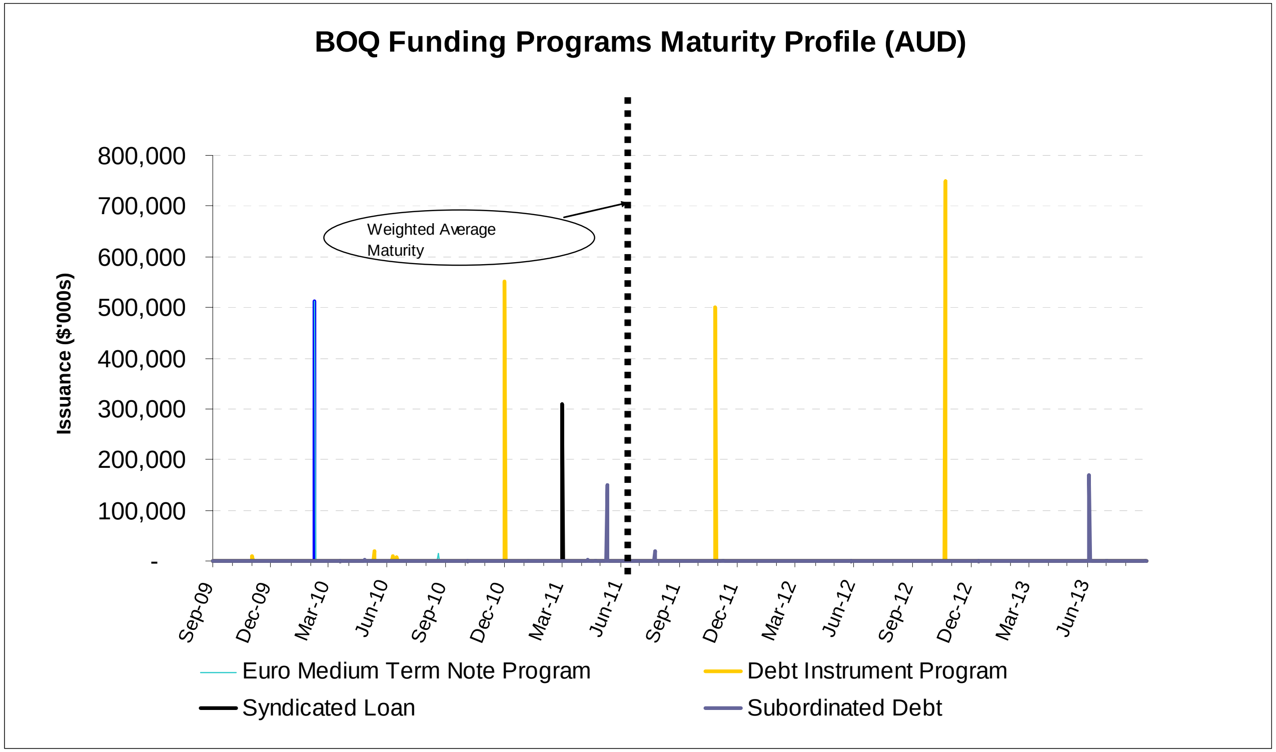


2009 Funding



Long-term debt maturity profile

- Weighted average maturity of long term debt has lengthened to 1.9 years remaining at pre-crisis levels



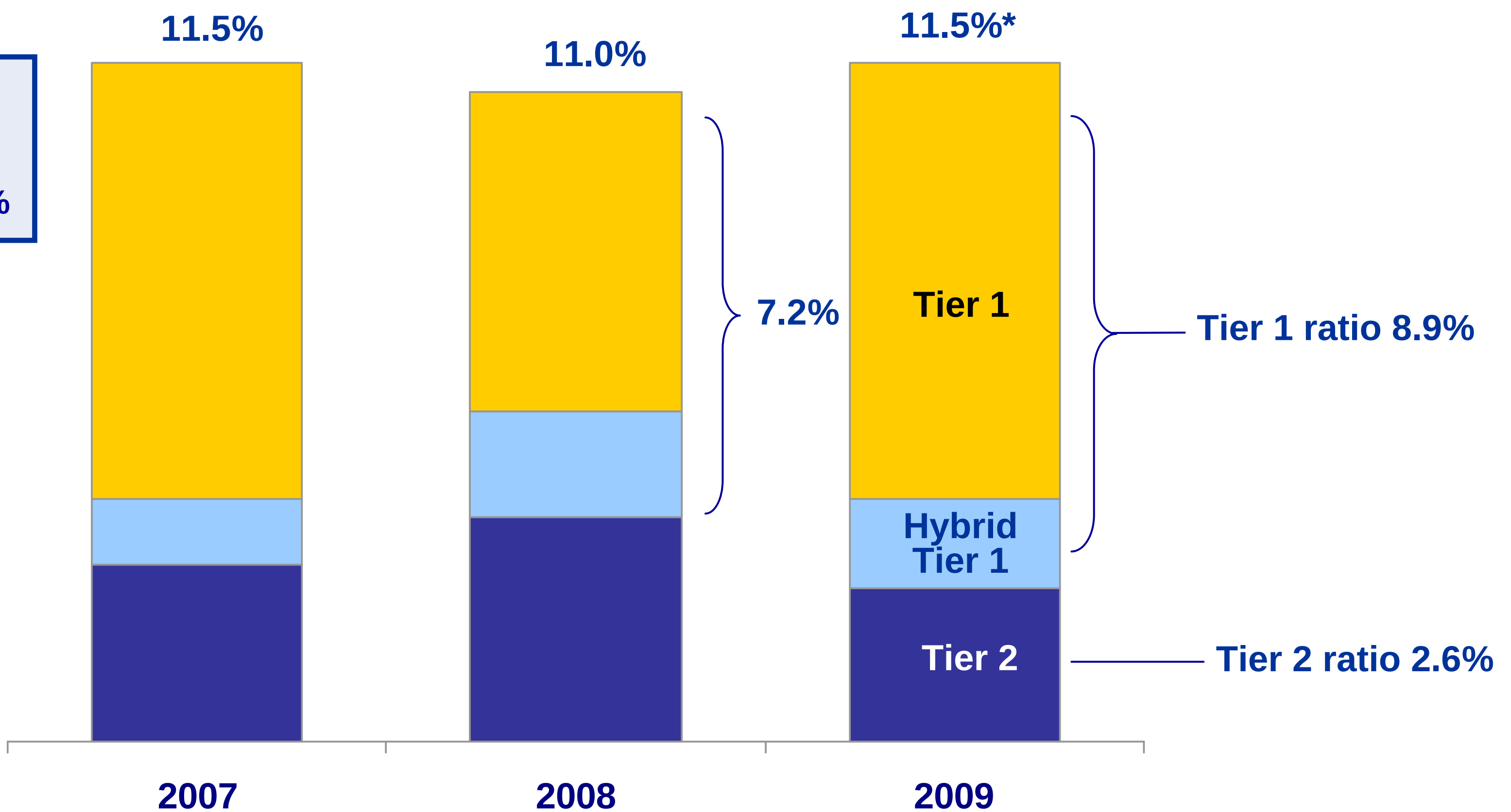
Strong capital position

- Tier 1 capital improved 1.7% to 8.9%

Targets:

Tier 1 of 8%-9%

Total of 11%-12%

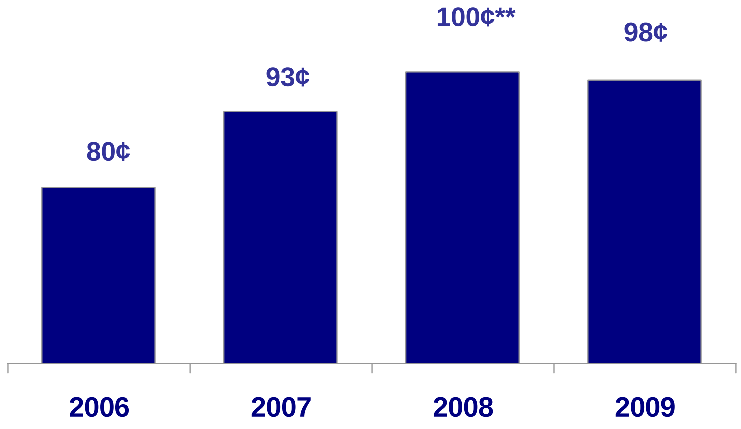


* Excludes the Retail Entitlement Offer for $110.8m settled post 31-Aug-09 balance date

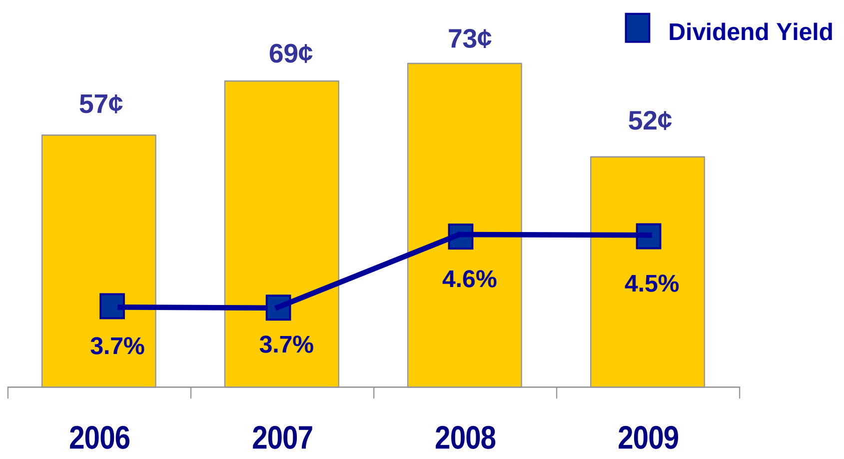
Prudent capital management

- Final dividend per guidance provides for greater organic capital generation
- Conclusion of Project Pathways delivering continued distribution and efficiency gains to improve earning base for organic capital generation
- Strategic focus on solving the capital intensity of the model provides greater confidence in future dividend growth

Earnings per Share*



Dividends



*Normalised diluted cash earnings per share

** 2008 EPS restated for dilutive impact of entitlements & other capital issues

Capital and funding

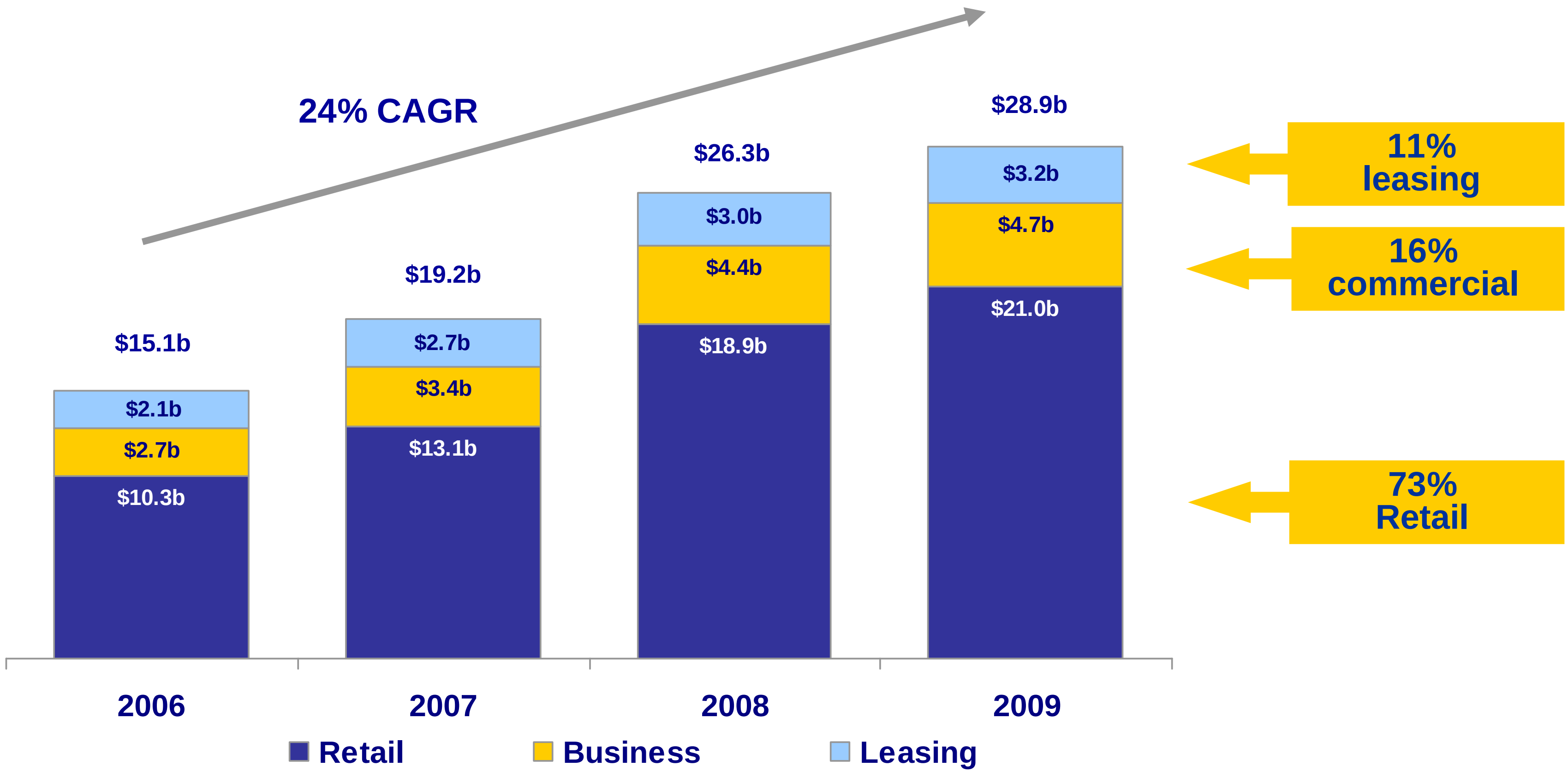
- Recent capital raising provides buffer to exploit organic and inorganic opportunities
- Dealing from a position of strength on capital to expand short term wholesale funding
- Network has demonstrated track record in retail deposit gathering
- BOQ will continue to access term market debt (guaranteed and unguaranteed) as opportunities arise
- Securitisation markets showing tentative signs of life… BOQ continues to have access to increased warehouse capacity
- Conservative dividend payout ratio to be maintained – increasing organic capital generation
- No DRP underwrite of FY09 final dividend

BOQ portfolio

Ram Kangatharan, Chief Financial Officer

Bank of Queensland

Loans under management by product

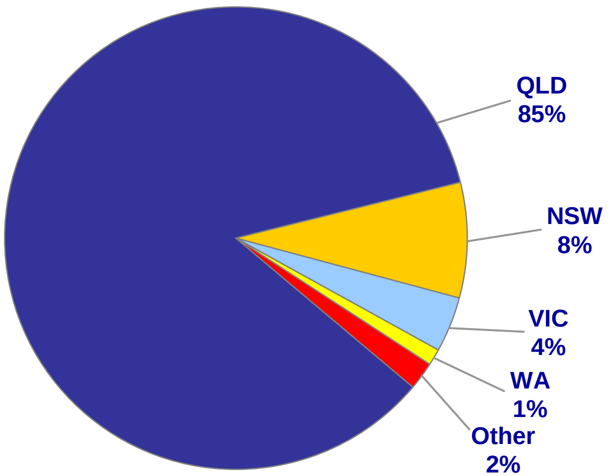


- Focus continues to remain towards retail mortgages and residentially secured ***S***ME lending - resulting in lower risk profile

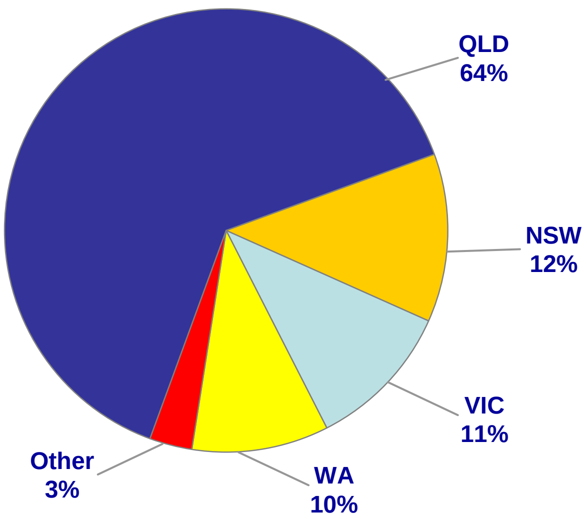
Geographic diversification growing

- BOQ historically has had most of its business in Queensland
- As a result of interstate OMB expansion and acquisition of Home there has been a material and growing geographic diversification trend

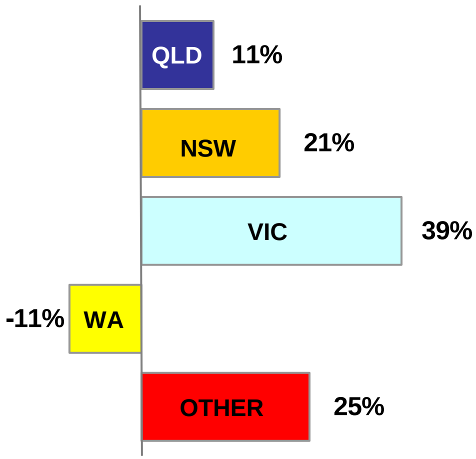
2005



2009



FY09 – Growth Rate %



- Material change in mix of loan portfolio – greater distribution across all states ex WA. In WA after exiting broker channel organic growth backfilling

Differentiated risk profile & fully provisioned

BOQ lending: secured, small exposures,
avoid non-recourse lending, high pre-sales on development

Housing	Personal	Leasing	Commercial	Large exposures
72% of total lending Ave loan size: ~$250k Ave LVR: low 60s ~34% securitised	1% of total lending Book size: $0.4bn No exposure to credit cards or margin lending	11% of total lending Ave txn size: $70k Loss rates lower vs peers ~31% securitised	16% of total lending ***S***ME focus (<$10m exp) ~40% secured on residential property	5% of total lending 67 names Ave loan size: $20m No single exp >$100m

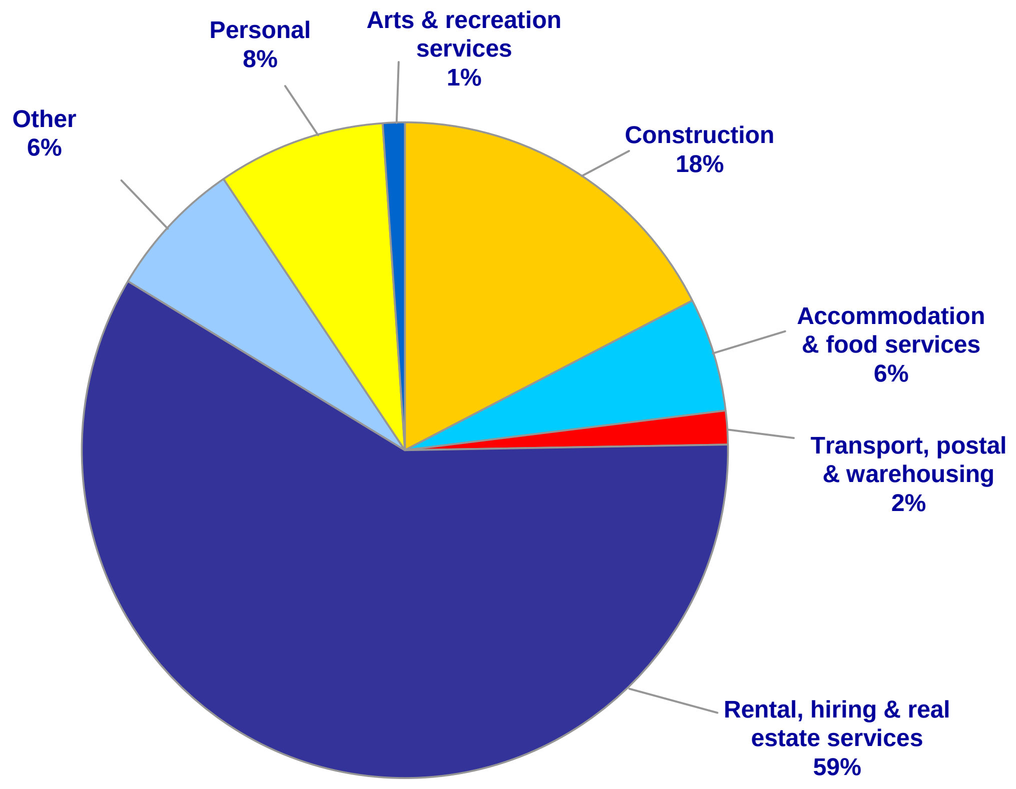
Our provisioning:

- Combined specific, collective and GRCL 47bps of GLA
- Current normalised impairment charges ~20bps of GLA, materially lower than the majors
- Stress testing on peak loss cycle demonstrates ability to absorb 'worst case' benchmarked on 1990s experience

Large exposures

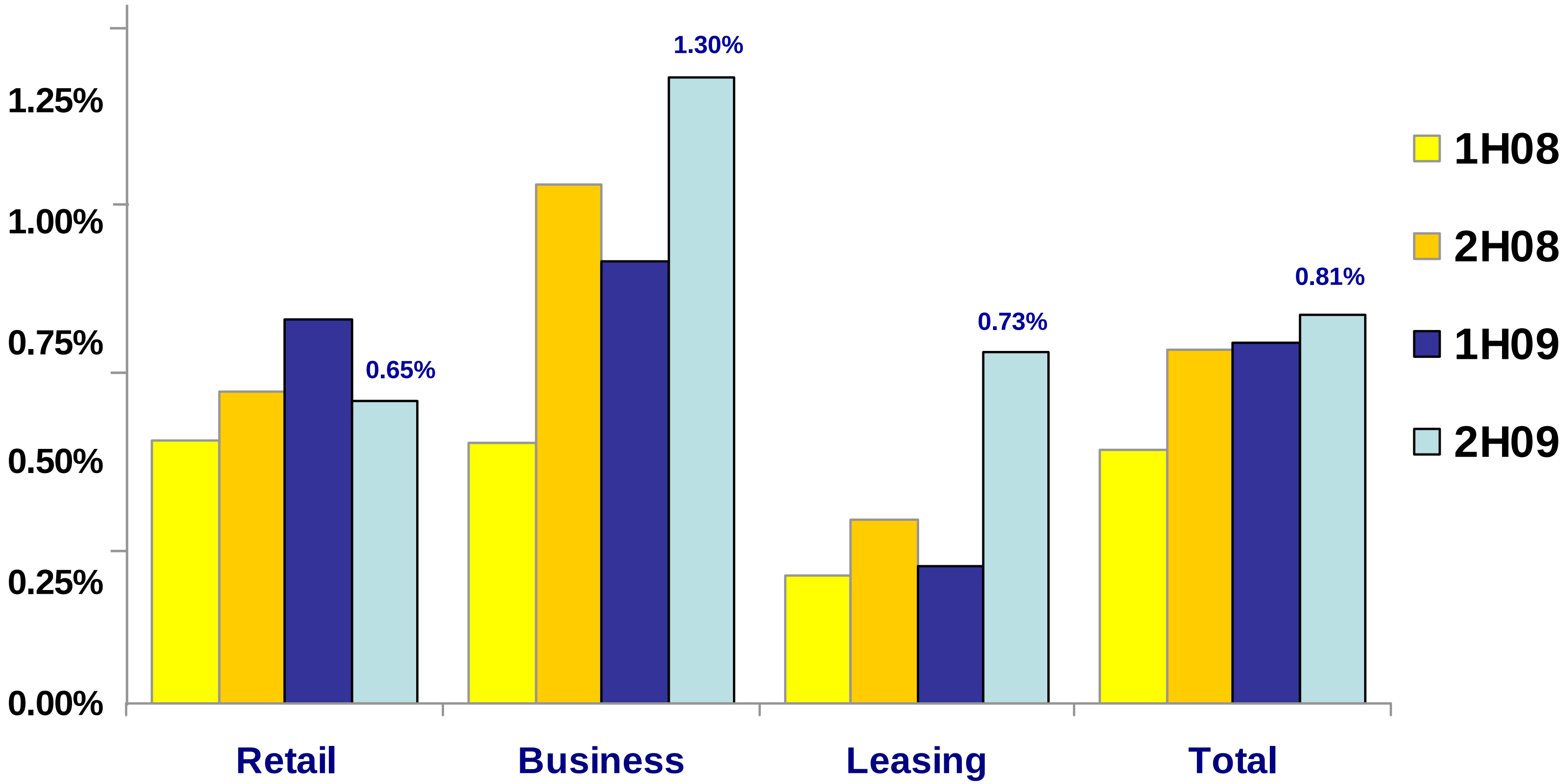
- The Bank has 67 connections with exposures >$10m
- Total commitment exposure $1,504m (drawn balance $1,310m)
- ~5% of total loans under management
- ~52% matures within 1yr
- Large exposures are concentrated in the Property & Construction sectors, accounting for 76% of large exposures

Largest exposures by ANZSIC Group



Portfolio quality

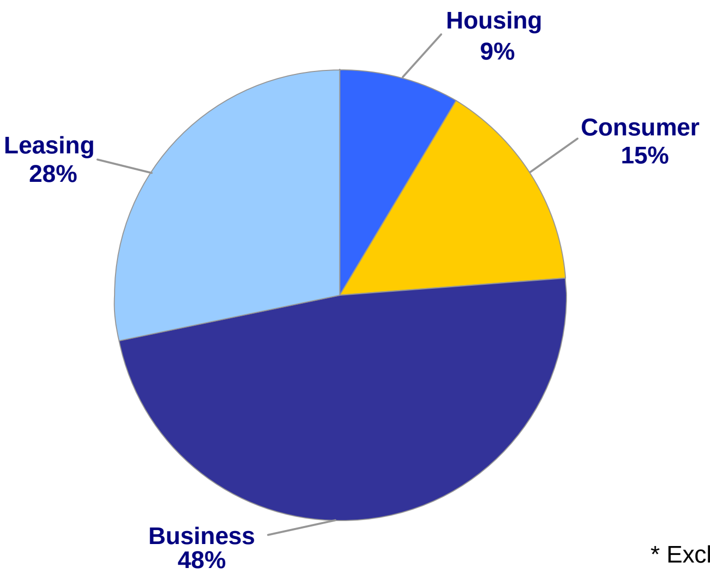
Arrears 90+ days (% of portfolio, excluding securitised loans)



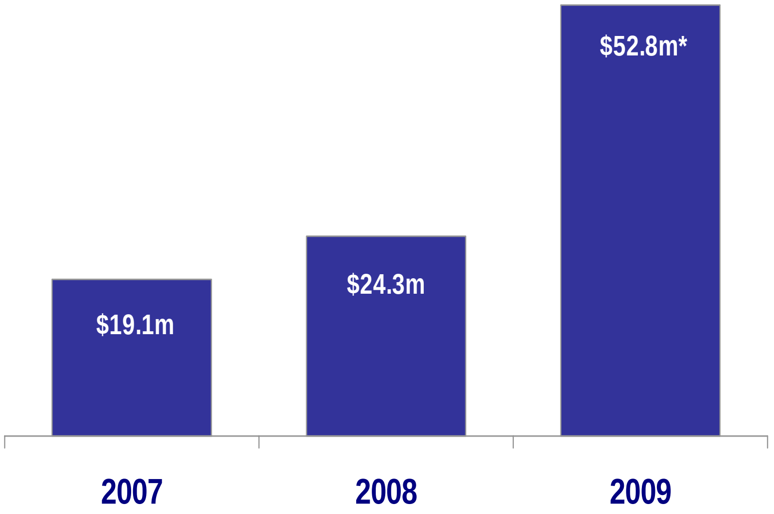
Bad debt analysis

- Bad debts continue to increase, but tracking well below majors with early signs of improvement in housing as economy shows signs of improvement
- Leasing and commercial portfolios showed increased stress in 2H09
- Expect to hit peak bad debts in FY10

Bad debts by product



Underlying bad debts

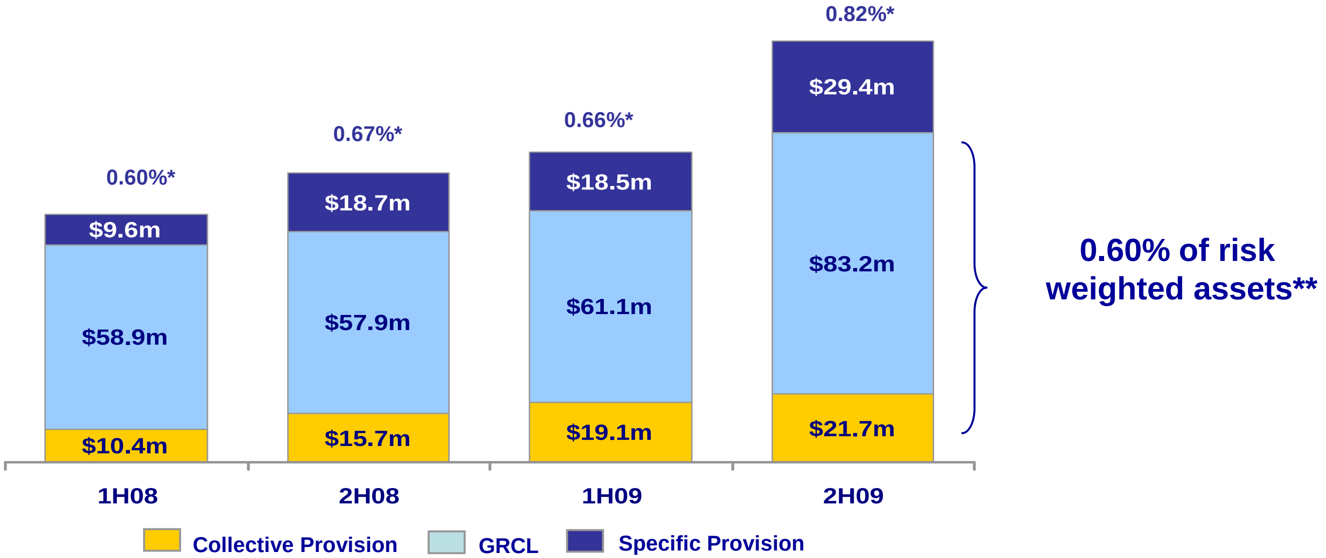


* Excludes the impairment charges of $7.2m made in 1H09 for the NSW distribution restructure

Increased provisioning…providing buffer

- Portfolio focus remains on well secured housing and SME lending with no single name exposures of significance.
- Increased collective / GRCL provisions to account for peak loss expectations in FY10

Total provisions



* Total provisions / RWA. ** Collective Provision after tax effecting is added to the GRCL balance to arrive at 60bps of RWA.

Strategy and outlook

David Liddy, Managing Director

Finalisation of Project Pathways

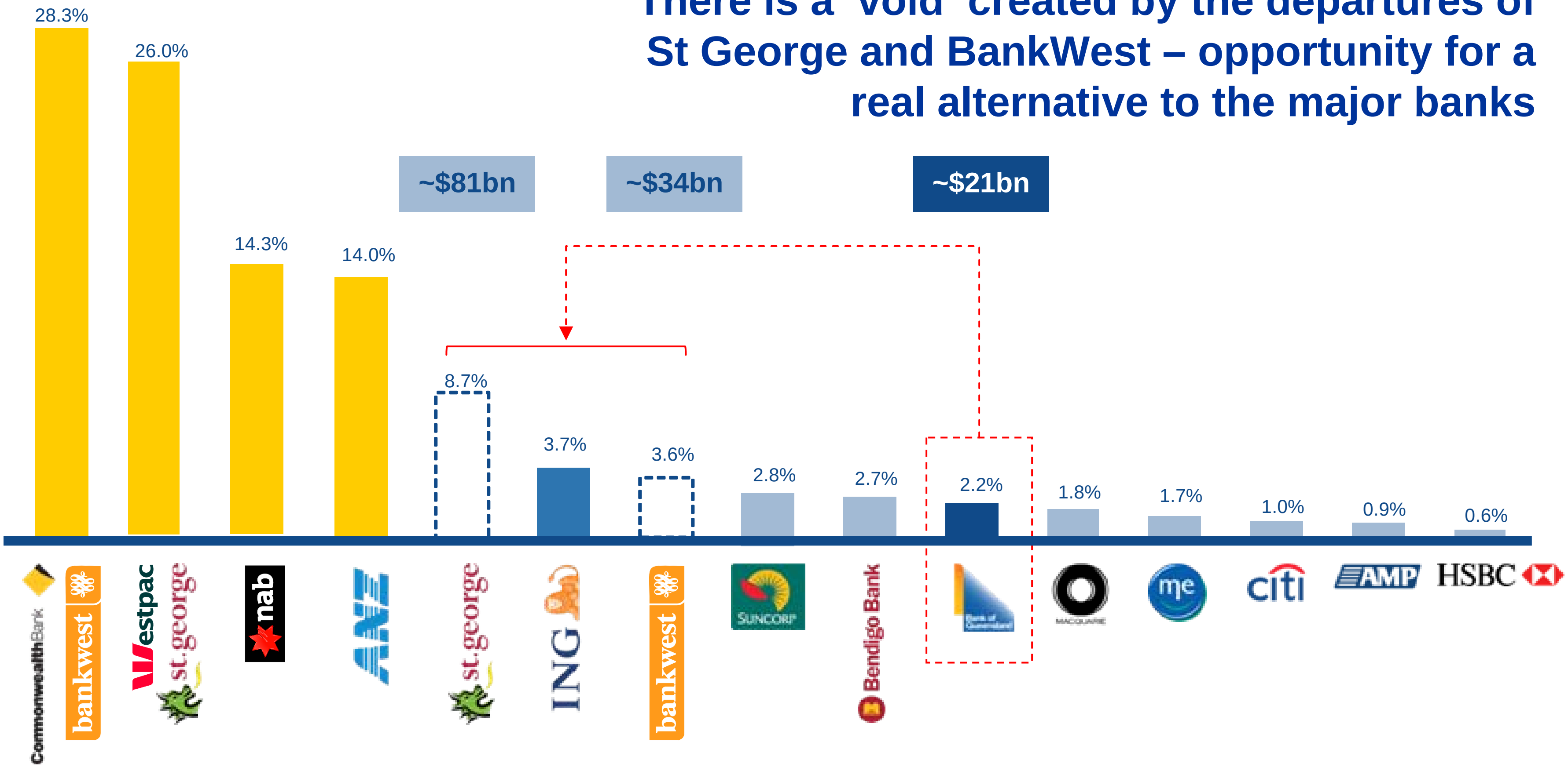
Work streams

1	**Efficiency program**	Objective was to reposition the Bank's cost base over the next 3 years A two-phased project that set a goal to get the Bank's CTI ratio on a glide path down to 45% by 2011 on a sustainable basis Phase 1 initiatives completed in March 2009 – expect $50m run rate benefits Phase 2 initiatives currently WIP – focus on process and sourcing improvements
2	**Portfolio Optimisation Program (POP)**	Structural integration of business banking and retail into a single distribution channel Completed enhancements to direct channels and the OMB network to incentivise stronger growth in retail deposits Focus on increasing our share of ***S***ME market, via enhanced product offerings and cross-sell capability Improve credit processes and sales support
3	**Strategic partner search**	The pricing tension in the Jan-April period was not conducive to striking a balance between existing and new shareholders Rapidly improving market conditions in August allowed a successful capital raising, where potential strategic partners competed with the market for stock Strategic parties remain interested, and BRED Banque Populaire remains our largest shareholder with an increased 12.5% stake Parties interested in enabling transformational deals identified and available for re-engagement as opportunities arise

Bank of Queensland

The new banking landscape….

Housing loans (August 2009)[1]



There is a 'void' created by the departures of St George and BankWest – opportunity for a real alternative to the major banks

Source: APRA statistics (Housing loans including securitised) as at August 2009

Is competition important?

YES

- Regional banks, and the building society / credit union sector, are needed in the financial services landscape to provide competition for Australian consumers and businesses
- Competition in residential and business lending, and stronger, viable non-major banks will ultimately act to stabilise regional employment markets

What is needed for real competition post-GFC?

1. Securitisation markets

- Regionals / smaller players have historically had access to securitisation markets providing funding at levels allowing them to compete with the major banks
- Extension of the AOFM mandate by a further $8bn is positive – but unlikely to have significant impact on COF
- Introduction of a guarantee scheme for RMBS (recommended by Joint Senate inquiry)
- A sustainable market recovery requires initiatives that promote liquidity and investor participation

2. ACCC's role

- ACCC should take a more proactive role in monitoring competitive behaviour
- Longer term competitive dynamics to be included in assessments
- Regulatory capital and funding issues to be considered

What is needed for real competition post-GFC?

3. Flattening of Government guarantee fee for term funding

- This is NOT asking for a handout – it's asking for the playing field to be levelled again!
- Current fee structure has inadvertently advantaged the major banks at the expense of regionals
- Senate Economics Reference Committee recommended Government review the need to apply differential premia for ADIs with different ratings
- A flat fee would promote a more equitable outcome for all ADIs, early recovery in credit markets and less reliance on the guarantee

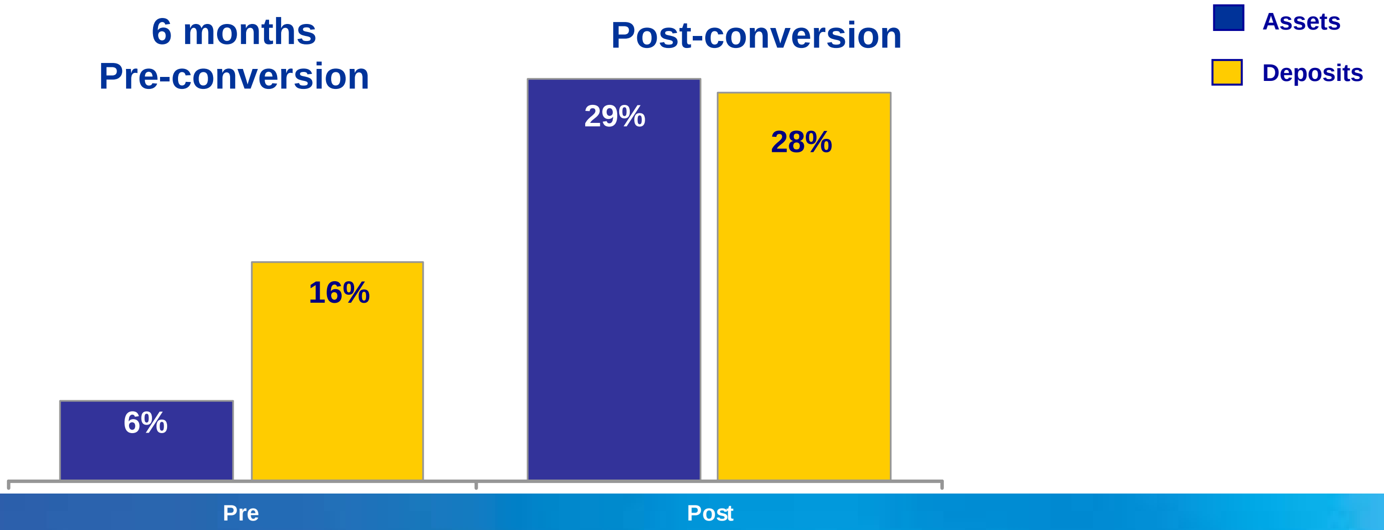
How will BOQ become the real alternative?

- Organisation changes made in FY09 embed the ‘small bank’ differentiated culture and processes
- Single distribution organisation recognises the target segment of retail customers and ***S***ME customers predominantly rely on loans secured by residential housing
- Market beating value proposition - personal service dealing directly with a banker, whilst having all of the self directed service options available at any bank (like telephone or internet banking)
- Our products and processes to support the end-to-end customer value proposition needs enhancement and investment
- We can preserve the personal service proposition whilst improving efficiency and compliance with better technology and processes
- We will actively pursue scale

Unique OMB distribution productivity

- Through the GFC the OMB model has continued to demonstrate unmatched productivity… both on the assets and liabilities side
- We have now converted 39 corporate branches to OMBs where average monthly settlements have increased 64% post conversion
- Key to unlocking shareholder value is to exploit this advantage…

Annualised growth before and after conversion*



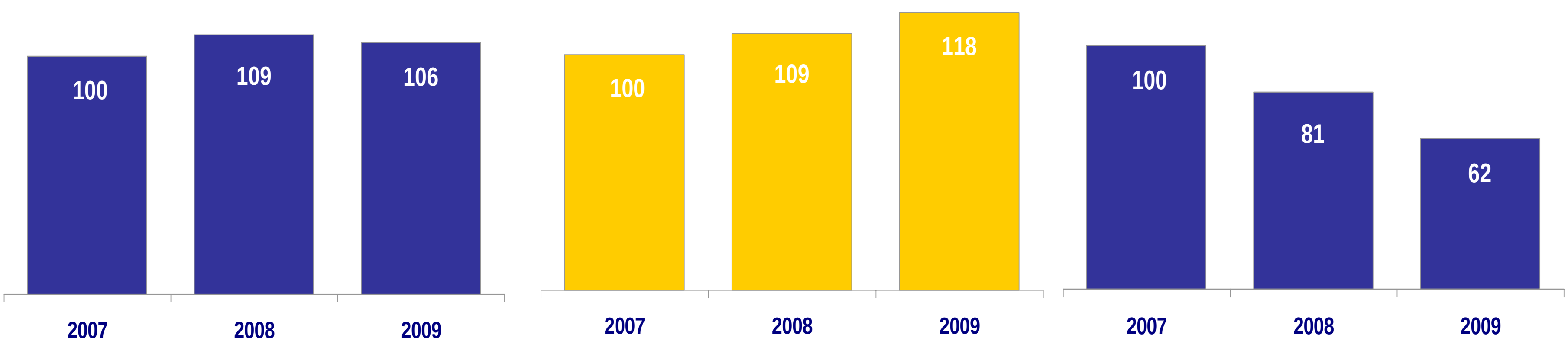
Note: For Qld branches converted with at least 3 months of results since conversion.

Managed, targeted lending growth….

- Mature and interstate OMB network continue to demonstrate the capability to continue to grow with a moderate premium pricing starting 2008… proving its superior customer value proposition
- Corporate branches deliberately focusing away from lending towards deposits whilst interstate branches continue to improve as they mature

Performance index by branch category

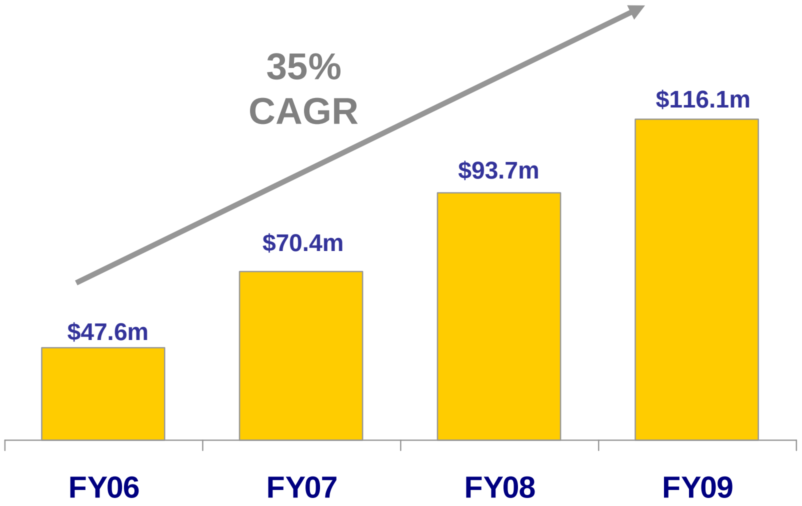
Mature OMB* **Interstate OMB*** **Corporate Branch***



* A performance index based on average monthly settlements using 2007 as the index base

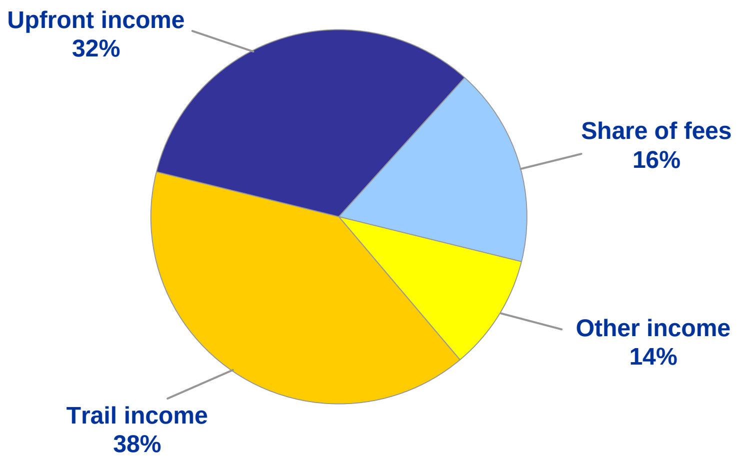
Resilience of the network proven

Total OMB commissions



- Total OMB commission payments continue to increase
- Demonstrates resilience of model even in a downturn

OMB income split FY09

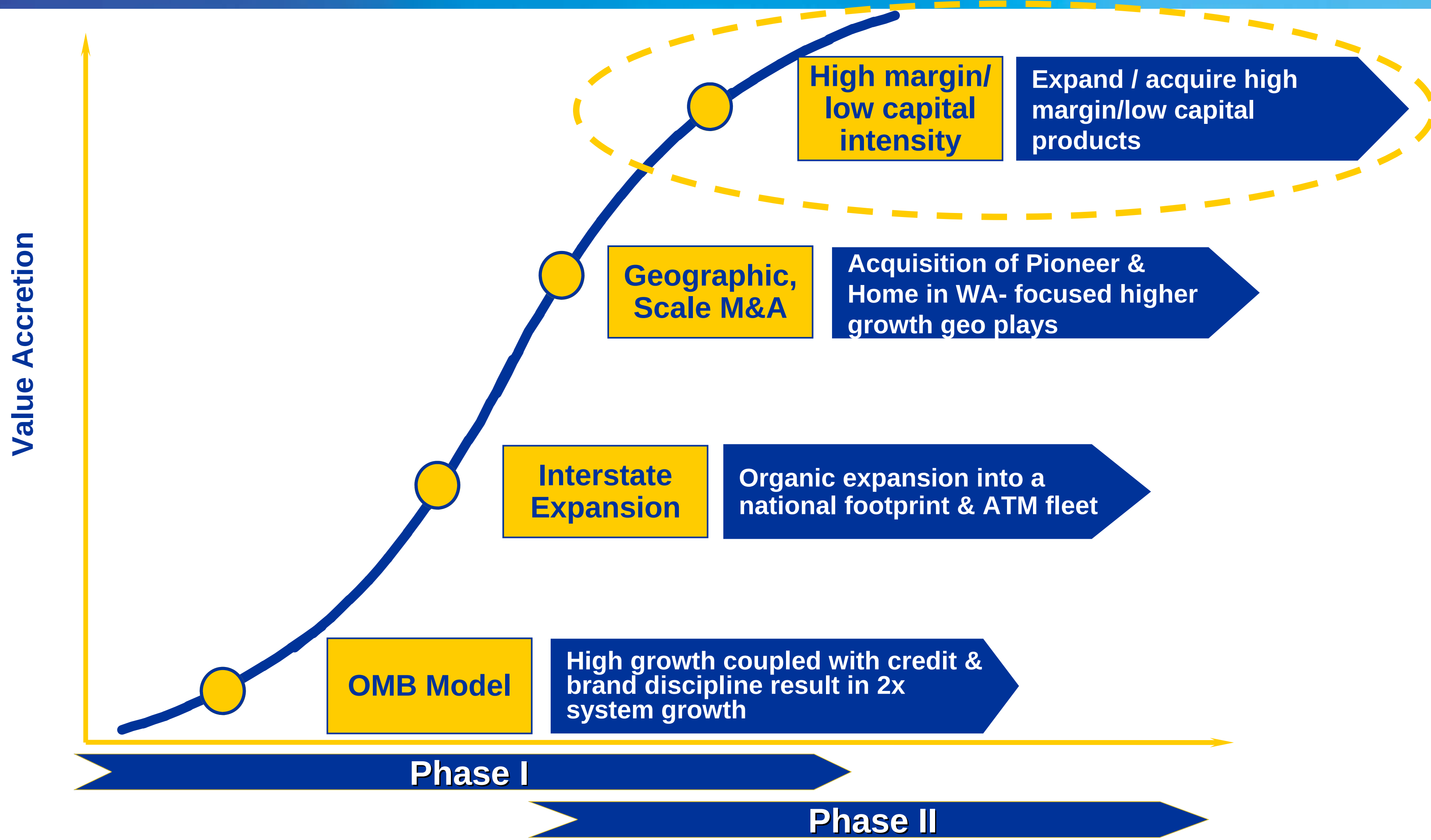


- Majority OMB income comes from existing balance sheet with less reliance on upfronts
- Sales capability now starting to focus on deposits & cross sales

Our focus - Housing & SME

- The OMB model is uniquely qualified and productive in growing our housing lending, leveraging successfully the personal service proposition
- The recent takeovers of BankWest and St.George by major banks has left a void in real alternatives for small business finance in Australia
- Business customer satisfaction with the major banks continues to decline and is likely to accelerate as the acquired regional banks are integrated into the big bank model
- Our ability to take a more customised and localised approach to small business banking using a more productive distribution channel is key to unlocking the differentiated value proposition
- BOQ has a unique opportunity to enhance its small business product offering by growing in Equipment Finance and Debtor Finance

Evolution of our strategy



Market guidance and outlook

- The distribution model is proving its resilience and productivity in the toughest of conditions – we've cleared the decks on underperforming NSW footprint
- We expect to continue to grow profitably all aspects of our business ahead of our competitors whilst maintaining pricing and credit disciplines
- We expect to meet or exceed our guidance on operating cost disciplines resulting in a cost to income ratio in the mid 40s within 2 years
- Bad debts tracking upwards with deteriorating economy, but likely to be well below peers; expect peak BDD losses in FY10
- Having built a funding buffer in FY09, we expect gradual NIM improvement in FY10
- Conservative dividend payout pending the resolution of our strategic ambitions
- Australian economy showing signs of strength – recent drop in unemployment good news. Continue to be cautious on commercial property values

Summary

- Strong performance given the economic climate - BOQ has been successful in:
  - Increasing liquidity
  - Strengthening our balance sheet
  - Strengthening capital management
  - Ensuring business sustainability
  - Increasing efficiency – creating headroom for investment
- Project Pathways was completed with successful capital raising and potential strategic partners identified
- We are strengthening our compliance and risk processes through targeted investments in technology and people
- Sticking to the basics with ever increasing discipline

bank different®

Bank of Queensland