# Bank of Queensland

## Acquisition of Investec Bank (Australia) Limited’s Specialist Finance and Leasing Businesses and A$400 million Entitlement Offer

11 April 2014

Stuart Grimshaw
*Managing Director and Chief Executive Officer*

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*Chief Financial Officer*

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The Entitlement Offer will be made to:

- eligible institutional shareholders of BOQ (**Institutional Entitlement Offer**); and
- eligible retail shareholders of BOQ (**Retail Entitlement Offer**).

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In assessing financial performance, BOQ discloses the net profit (loss) after tax on both a ‘Statutory basis’ and a ‘Normalised Cash basis’. The Statutory basis is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The Normalised Cash basis is used by Management to present a clear view of BOQ's underlying operating results and to calculate key performance ratios such as cash earnings per share (cash EPS) and cash return on equity (cash ROE). This excludes a number of items that introduce volatility and/or one off distortions of BOQ’s current period performance, and allows for a more effective comparison of BOQ’s performance across reporting periods and against peers. These items, such as amortisation of intangibles from acquisitions, and accounting for economic hedges, are calculated consistently year on year and do not discriminate between positive and negative adjustments. BOQ also uses the measure of ‘Normalised Underlying Profit’, which represents the Normalised Income less Normalised Operating Expenses, to provide users with a view on the underlying growth rate of the business before bad debt and tax expenses, which often carry volatility between periods. Further details of items excluded from statutory profit are provided in the reconciliation of the net profit after tax (“Normalised Cash basis”) in BOQ’s HY 2014 results announcement to ASX dated 11 April 2014.

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# Agenda

I. Acquisition Overview

II. Overview of Acquired Businesses

Stuart Grimshaw

*Managing Director and Chief Executive Officer*

III. Financial Impact and Acquisition Funding

IV. Offer Summary

Anthony Rose

*Chief Financial Officer*

V. Basis of Preparation of Financial Information

VI. Key Risks

VII. International Offer Restrictions

# I. ACQUISITION OVERVIEW

# Acquisition summary

- Acquisition of the Professional Finance business, Asset Finance & Leasing business and deposit book of Investec Bank (Australia) Limited (the "Acquired Businesses")(1)
- Purchase consideration of $440m, including estimated capitalisation of Acquired Businesses at completion of $230m
- Acquisition to be funded through an issue of $400m of BOQ shares via a fully underwritten accelerated renounceable entitlement offer ("AREO") and utilisation of excess capital
  - Opportunity for all shareholders to participate on a pro-rata basis or to potentially receive value for their entitlements
- Strong fit with the four strategic pillars of BOQ's strategy
- Transaction expected to be approximately 2% cash EPS accretive in the first full year following the acquisition (FY15) and approximately 4% cash EPS accretive in FY16(2)
- Acquisition remains subject to a number of conditions including regulatory approvals(3), with completion expected by the end of BOQ's current financial year

[1] Following a restructuring of Investec Bank (Australia) Limited to remove certain businesses outside of the scope of the acquisition, BOQ will acquire 100% of the shares in Investec Bank (Australia) Limited.

[2] Calculated on a post cost synergies basis and excludes the impact of one-off integration and transaction costs, one-off balance sheet transitional impacts and amortisation expense associated with new identifiable intangibles from the acquisition. Refer to slide 29 for the key assumptions. Cash EPS accretion relative to BOQ analyst consensus estimates for cash EPS of $0.96 for FY15 and $1.03 for FY16, theoretically adjusted for the bonus element of the entitlement offer.

[3] These include approval of the Treasurer under the Financial Sector (Shareholdings) Act 1998 and the Banking Act 1959 (Cwlth).

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# Overview of businesses acquired

| | | |
|---|---|---|
| **Professional Finance** | - Specialist provider of practice and personal finance to medical, dental and veterinary practitioners (82% of outstanding loans) and accounting and other professionals (18% of outstanding loans)<br>- Mortgage originator and manager of off-balance sheet mortgage portfolio (approximately $1.0bn originated in CY13)<br>- c.19,000 customers | **$2.2bn of total loans[(1)]** |
| **Asset Finance & Leasing** | - Provider of specialist asset finance and leasing solutions via a mix of vendors, intermediaries and direct client relationships<br>- c.14,000 customers | **$173m of loans on balance sheet [(1)]** |
| **Deposit Book** | - $2.7bn deposit book (comprising $2.3bn retail and $0.4bn wholesale)<br>- Greater than 50% of the retail deposit book is sourced from high net worth individuals and clients of the Professional Finance business<br>- c.9,000 customers | **$2.7bn deposit book [(1)]** |

Note: Following a restructuring of Investec Bank (Australia) Limited to remove certain businesses outside of the scope of the acquisition, BOQ will acquire 100% of the shares in Investec Bank (Australia) Limited which will include the above businesses.

[1] As at 31-Mar-2014.

# A compelling transaction for BOQ shareholders

**High Quality Loan Portfolio**
- Addition of a $2.4bn high quality loan portfolio with attractive margins
- High income client base with a relatively low-risk profile
- Attractive industry segments characterised by predictable and recurring cash flows and capital requirements

**Niche Distribution Capability**
- Established national distribution capability across a number of high-growth professional sectors
- Professional Finance specialist model is strongly aligned with BOQ's strategy
- Asset Finance & Leasing expands BOQ Finance's customer base

**Increased Diversification and Scale**
- Further diversifies BOQ's loan portfolio by industry sector and geography
- Increases the size of BOQ's Commercial lending portfolio by approximately 38% at acquisition

**Financially Attractive**
- Transaction expected to be approximately 2% cash EPS accretive in the first full year following the acquisition (FY15) and approximately 4% cash EPS accretive in FY16[(1)]
- Acquisition expected to add approximately $38m in post-tax earnings in FY15, before the impact of operating cost and revenue synergies and one-off costs (includes assumed BOQ funding costs)

**Further Value Creation Opportunities**
- New channel for BOQ mortgage origination
- Cross-selling opportunities (including transactional banking, financial markets and leasing)
- Opportunity to leverage the Acquired Businesses' proven specialist model to enter adjacent industry sectors

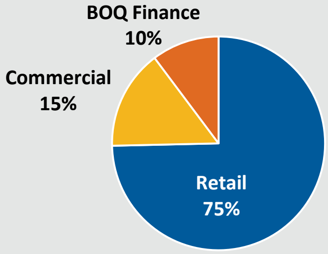
[1] Calculated on a post cost synergies basis and excludes the impact of one-off integration and transaction costs, one-off balance sheet transitional impacts and amortisation expense associated with new identifiable intangibles from the acquisition. Refer to slide 29 for the key assumptions. Cash EPS accretion relative to BOQ analyst consensus estimates for cash EPS of $0.96 for FY15 and $1.03 for FY16, theoretically adjusted for the bonus element of the entitlement offer.

# Diversification of business mix

## The acquired loan portfolio will continue the diversification of BOQ's existing loan portfolio

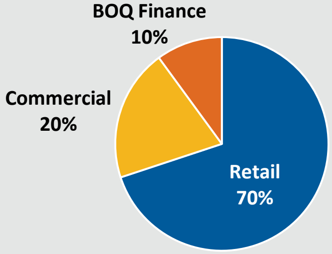
- Improves BOQ's portfolio diversification
- Increases size and footprint of Commercial lending portfolio
  - Provides greater industry and geographic diversity
- Positions BOQ to benefit from expected strong growth in the Australian health services sector(3)

### 1H14A BOQ Loans



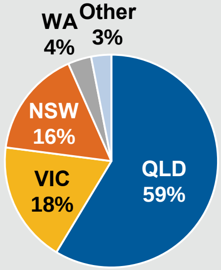

Total: $35.1bn

### Pro-Forma BOQ Loans[1]



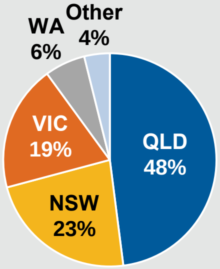

Total: $37.5bn

### 1H14A BOQ Commercial Loans




Total: $5.4bn

### Pro-Forma BOQ Commercial Loans[2]




Total: $7.4bn

Source: BOQ loan mix information per 1H14 company results. BOQ pro forma loan mix by segment reflects Acquired Businesses' loan balances as at 31-Mar-2014.

[1] Acquired Businesses' loans of approximately $2.4bn allocated to Commercial ($2.0bn – Professional Finance commercial loans), Retail ($148m – Professional Finance residential property loans) and BOQ Finance ($173m – Asset Finance & Leasing loans).

[2] Applies Professional Finance geographic loan diversity as at 31-Dec-2013.

[3] IBIS world reports, 2013.

# Transaction consistent with BOQ's strategy

| BOQ's strategic focus | | How do the Acquired Businesses deliver against strategy? |
|---|---|---|
| 1. Multi-Channel Optimisation | ✓ | ▶ Represents investment in Commercial lending capability<br>▶ Increases geographic and customer diversification<br>▶ Brings exposure to attractive specialist market niches (primarily medical, dental and accounting) |
| 2. Risk / Return Balance | ✓ | ▶ Delivers profitable growth through the acquisition of businesses which target an attractive client group<br>▶ Attractive margins and loan growth with a relatively low-risk profile<br>▶ Compatibility of client-focused cultures |
| 3. Operational Excellence | ✓ | ▶ Potential to extend specialisation model to other market niches<br>▶ Cross-sell opportunities<br>▶ Enhanced scale with potential for synergies (e.g., from shared services and procurement) |
| 4. Talent, Capability and Culture | ✓ | ▶ Acquires the capability and expertise of the Acquired Businesses' management team<br>▶ Strong alignment of people and culture |

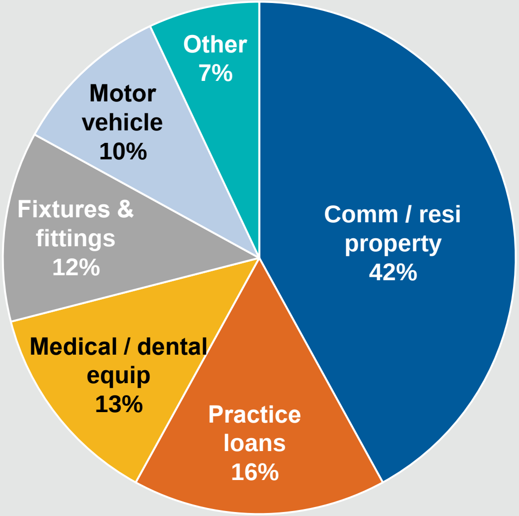
# II. OVERVIEW OF ACQUIRED BUSINESSES

# Professional Finance – Overview

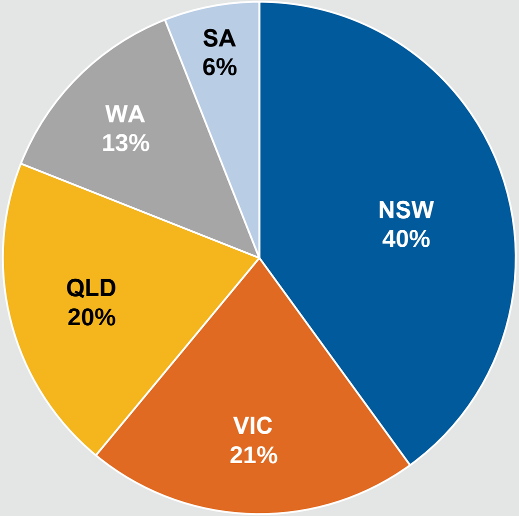
| | |
|---|---|
| **Established Track Record** | ▶ Market leading provider of specialised banking solutions to the broad medical and accounting professions<br>▶ Owned by Investec since 2007 |
| **Attractive Client Base** | ▶ Primarily services medical professions (e.g. dentists, veterinarians and other specialists with capital intensive requirements such as radiologists, cardiologists and ophthalmologists) and accounting professionals |
| **High Quality Loan Book** | ▶ Niche market with attractive dynamics including a diversified, high income and sticky client base<br>▶ High credit quality portfolio – relatively low-risk with attractive portfolio arrears |
| **Mortgage Origination Capability** | ▶ Originates and manages residential mortgages for third parties<br>▶ Approximately $1.0bn originated in CY13<br>▶ Total off-balance sheet loan book size of $2.9bn |
| **People / Culture / Experience** | ▶ Relationship oriented culture<br>▶ Highly experienced management team<br>▶ Approximately 220 full-time employees across a national branch network (6 branches) |

# Professional Finance – Diversification

## Diversified Product Mix (by Loans)




## Broad Geographic Exposure (by Loans)




Source: Acquired Businesses' management. Information as at 31-Dec-2013.

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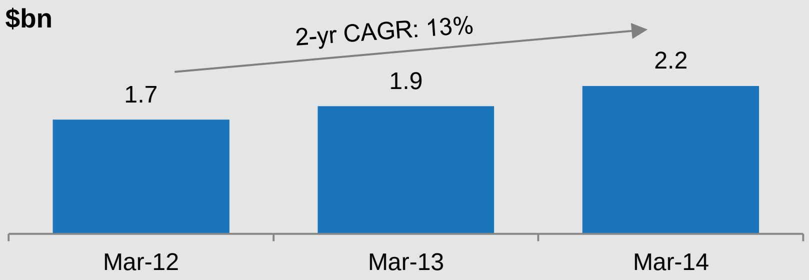
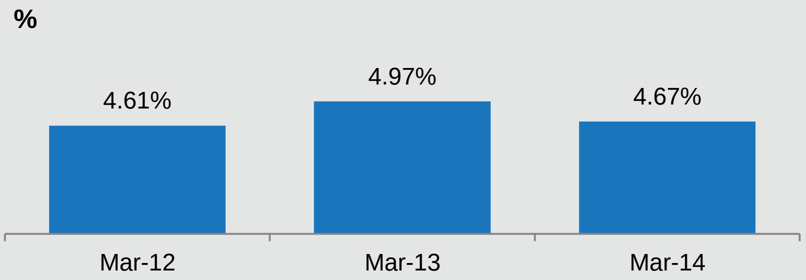
# Professional Finance – Financial Profile

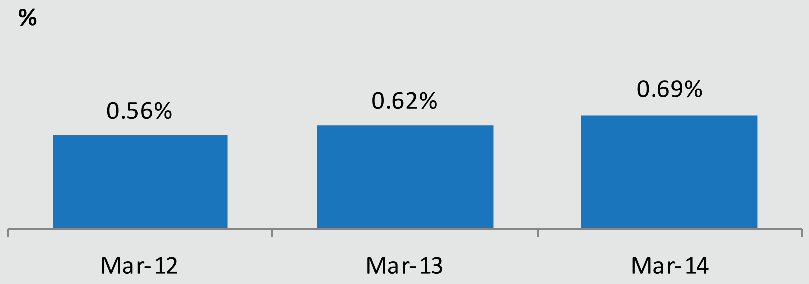
### Loan Book Growth



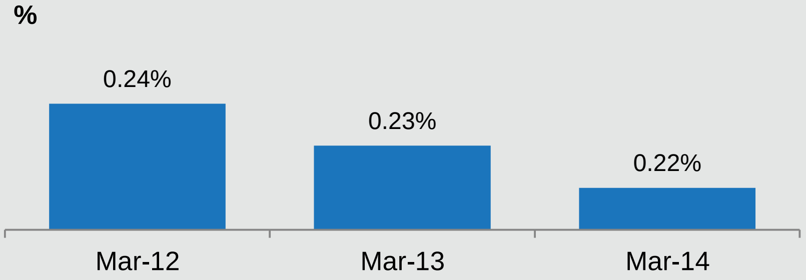

### Asset Spread[(1)]




### Non-Interest Income as a % of Gross Lending Assets[(2)]




### Bad & Doubtful Debts Expense as a % of Gross Lending Assets[(2)]




Source: Acquired Businesses' management.

[1] Spread to swap curve at last repricing date. Source: Bloomberg.

[2] Non-Interest Income and Bad & Doubtful Debts Expense based on 9 months actual to 31-Dec-2013 plus 3 months estimate to 31-Mar-2014. Gross Lending Assets at end of period.

# Asset Finance & Leasing

## Business Overview

**Provider of specialist asset finance and leasing solutions via a mix of vendors, intermediaries and direct client relationships**

**History**

- Leadership team has greater than 20 years' experience in providing asset finance solutions
- Owned by Investec since 2012

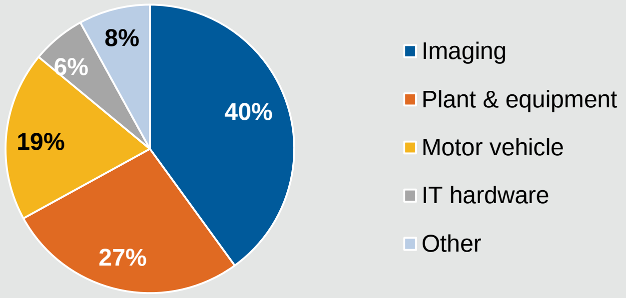
**Similar Characteristics to BOQ Finance**

- Tuck-in of Asset Finance & Leasing business into BOQ Finance
- $173m on-balance sheet loans
- Majority of loans originated via long-term relationships with blue chip vendors and equipment manufacturers
- c.$125m off-balance sheet (estimated) loans

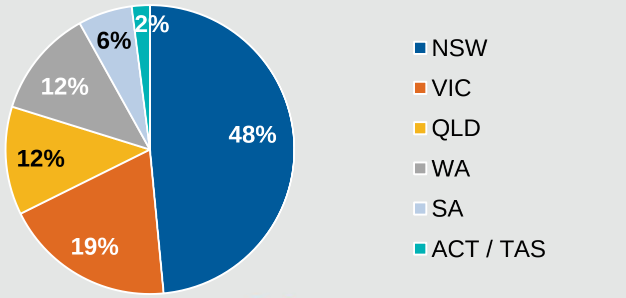
**People / Culture / Experience**

- Relationship oriented culture
- Approximately 50 full-time employees across a network of 5 offices

## On-Balance Sheet Loans by Asset Category




## On-Balance Sheet Loans by Geography




Source: Acquired Businesses' management. Information as at Feb-2014.

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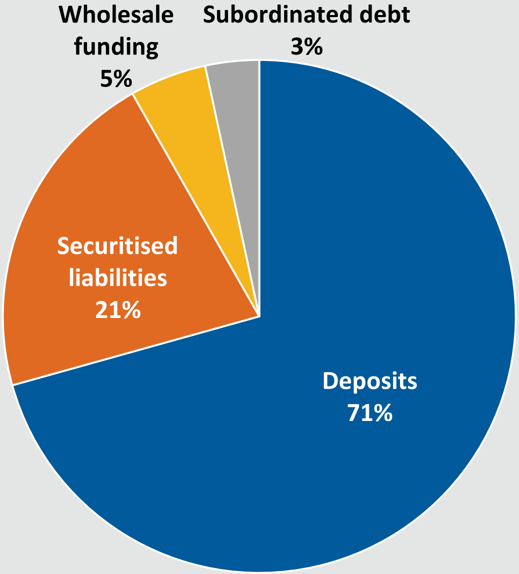
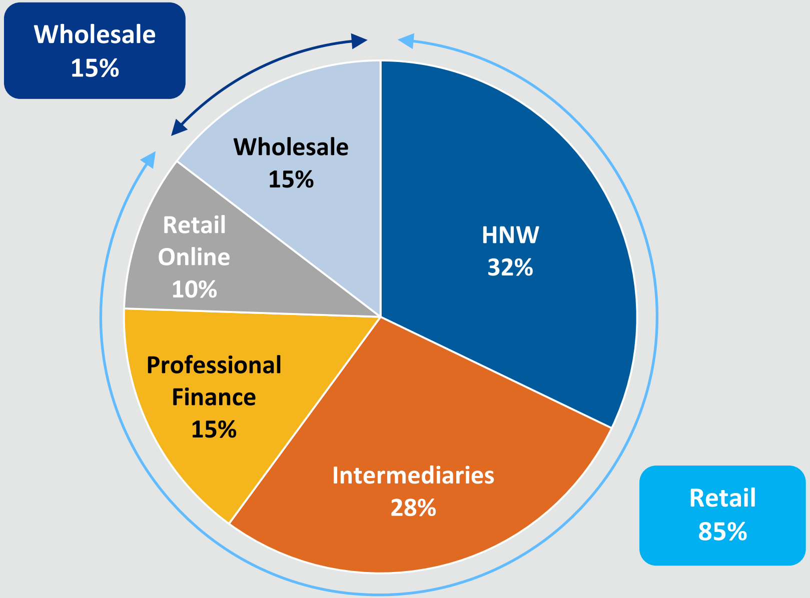
# Current funding arrangements

## Overall Funding Split[1]




**Total: $3.9bn**

## Overall Deposit Split by Channel[2]




**Total Deposits: $2.7bn**

Source: Acquired Businesses' management.

[1] Funding split as at 28-Feb-2014.

[2] Overall deposit split as at 31-Mar-2014.

# III. FINANCIAL IMPACT AND ACQUISITION FUNDING

# Financial impact

| | |
|---|---|
| **Purchase Consideration** | ▶ Purchase consideration of $440m, including estimated capitalisation of Acquired Businesses at completion of $230m |
| **Earnings and ROE Impact** | ▶ Transaction expected to be approximately 2% cash EPS accretive in the first full year following the acquisition (FY15) and approximately 4% cash EPS accretive in FY16[(1)]<br>▶ Acquisition expected to add approximately $38m in post-tax earnings in FY15, before the impact of operating cost and revenue synergies and one-off costs or non-cash expenses (includes assumed BOQ funding costs)<br>▶ Marginal cash ROE dilution expected in FY15, however expected to be accretive to cash ROE in FY16[(1)] |
| **Synergies / Integration Costs** | ▶ Modest level of operating cost and revenue synergies expected<br>▶ Assumed integration and transaction costs of approximately $23m (post-tax)<br>▶ Total one-off balance sheet transitional costs of approximately $6m (post tax) to unwind by the end of FY15[(2)] |
| **Funding / Capital Impact** | ▶ Acquisition to be funded through the issue of $400m of BOQ shares via a fully underwritten accelerated renounceable entitlement offer (“AREO”) and utilisation of excess capital<br>▶ Strong capital position maintained with pro forma Common Equity Tier 1 (“CET1”) ratio of 8.58% post transaction (as at 28-Feb-2014) |

[1] Calculated on a post cost synergies basis and excludes the impact of one-off integration and transaction costs, one-off balance sheet transitional impacts and amortisation expense associated with new identifiable intangibles from the acquisition. Refer to slide 29 for the key assumptions. Cash EPS accretion relative to BOQ analyst consensus estimates for cash EPS of $0.96 for FY15 and $1.03 for FY16, theoretically adjusted for the bonus element of the entitlement offer.

[2] Reflects the negative carry earnings impact from the run-down of the excess deposits held above gross lending assets acquired through the transaction. Total excess liquid assets held against these deposit liabilities estimated to be approximately $1.2bn at completion.

# Acquisition funding

**Acquisition to be funded by $400m fully underwritten accelerated renounceable entitlement offer (at $10.75 per share) and excess capital**

## Sources

| Sources | A$m |
|---|---|
| Equity issued to market | 400 |
| Excess capital | 54 |
| | |
| | |
| **Total** | **454** |

## Uses

| Uses | A$m |
|---|---|
| Purchase consideration | 440 |
| *Estimated capital required for Acquired Businesses* | *230* |
| *Premium to book value paid to vendor* | *210* |
| Transaction costs | 14 |
| **Total** | **454** |

# Pro forma statement of net assets

| $mil | BOQ 28 Feb 14 | Equity Raising(1) | Pro Forma BOQ 28 Feb 14 | IBAL(2) 28 Feb 14 | Acquisition Adjustments(3) | Transaction Costs(4) | Pro Forma Consolidated 28 Feb 14 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and equivalents | 803 | 394 | 1,197 | 1,611 | (210) | (6) | 2,592 |
| Other financial assets | 5,755 | | 5,755 | | | | 5,755 |
| Loans and advances | 35,013 | | 35,013 | 2,336 | 5 | | 37,354 |
| Other assets | 256 | | 256 | 5 | 4 | 2 | 267 |
| Intangibles | 602 | | 602 | | 210 | | 812 |
| **Total assets** | **42,429** | **394** | **42,823** | **3,951** | **10** | **(4)** | **46,780** |
| **Liabilities** | | | | | | | |
| Deposits | 31,968 | | 31,968 | 2,777 | 10 | | 34,755 |
| Debt | 6,949 | | 6,949 | 1,153 | | | 8,102 |
| Other liabilities | 631 | | 631 | 21 | | | 652 |
| **Total liabilities** | **39,548** | | **39,548** | **3,951** | **10** | | **43,509** |
| **Net assets** | **2,881** | **394** | **3,275** | **-** | **-** | **(4)** | **3,271** |
| ***Capital ratios*** | | | | | | | |
| *CET 1 ratio* | *8.84%* | | *10.65%* | | | | ***8.58%*** |
| *Tier 1 ratio* | *10.22%* | | *12.03%* | | | | ***9.80%*** |
| Total capital ratio | *12.41%* | | *14.21%* | | | | ***12.15%*** |

Note: BOQ has relied on limited unaudited financial information provided by Investec Bank (Australia) Limited (IBAL) in preparing this pro forma statement of net assets and capital ratios. BOQ is unable to verify the accuracy or completeness of all that information. This statement of net assets is based on the proposed transaction structure which is subject to regulatory approval. Please see the "Acquisition Risks" in the "Key Risks" Section of this Presentation for more details.

[1] Net of equity raising costs of $5.6m (after tax).

[2] All IBAL loans assumed to be risk weighted at 100% and other risk weighted assets are presumed to be in line with BOQ's existing profile.

[3] Acquisition adjustments include premium to book value paid to vendor ($210m), fair value adjustments to loan assets net of provisions ($5m), fair value adjustments to deposit liabilities ($10m) and associated tax adjustments ($4m).

[4] Transaction costs include M&A costs, insurance costs and associated tax adjustments.

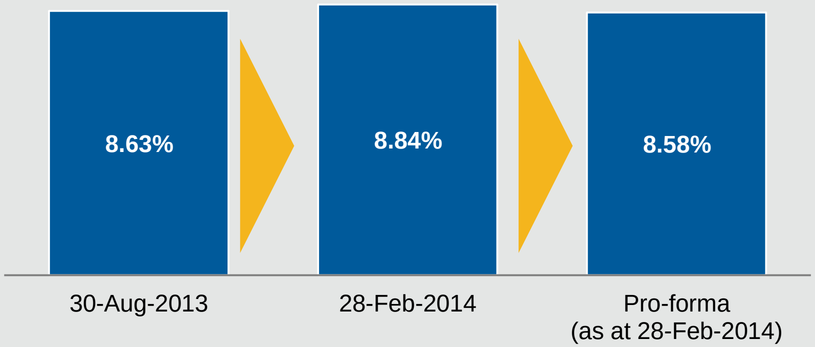
# Capital position

**Maintenance of BOQ's current strong capitalisation with a CET1 ratio of 8.58% expected post acquisition**

## Overview

- Capital position maintained at industry leading levels
  - Pro-forma CET1 (as at 28-Feb-2014) expected to become 8.58%
- Acquired Businesses assumed to be recapitalised and financed with common equity

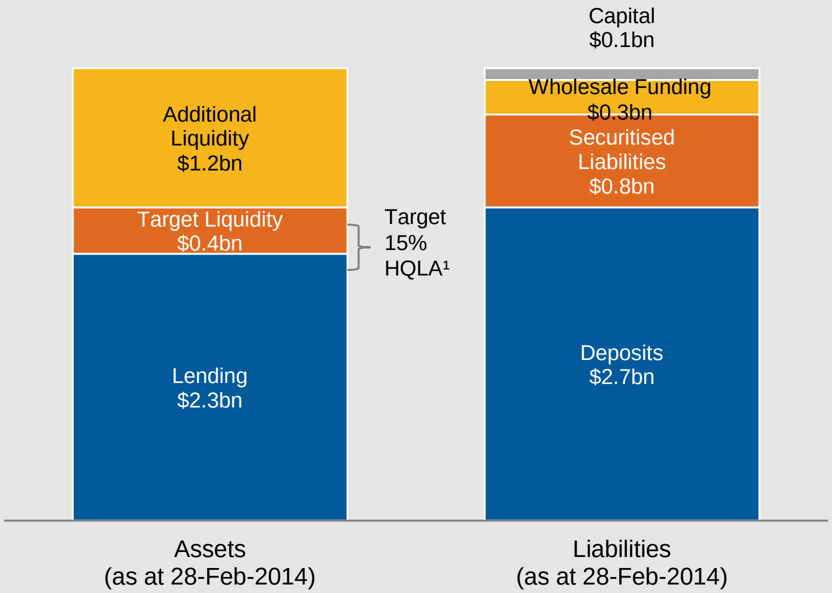
## BOQ Capital Position (CET1 Ratio)




Source: BOQ company disclosures.

# Funding strategy

## Current Balance Sheet Composition of Acquired Businesses




## BOQ Funding Strategy Over Time

- Deposits have historically been a high cost funding source
  - Estimated excess liquid assets of approximately $1.2bn at completion
- Excess liquidity to be actively reduced over a period of up to 12 months
  - One-off balance sheet transitional costs of approximately $6m (post-tax) to unwind by the end of FY15[(2)]
- Approximately $1.0bn of the deposit book is priced in line with BOQ's term deposit portfolio
  - Remainder to be re-priced at deposit maturity date

Source: Acquired Businesses' management. Information as at 28-Feb-2014.

[1] High quality liquid assets ("HQLA").

[2] Reflects the negative carry earnings impact from the run-down of the excess deposits held above gross lending assets acquired through the transaction.

# IV. OFFER SUMMARY

# Entitlement offer summary

| | |
|---|---|
| **Offer Structure and Size** | ▶ 3 for 26 pro rata accelerated renounceable entitlement offer to raise approximately A$400m<br>— Approximately A$190m institutional component<br>— Approximately A$210m retail component<br>▶ Allows non-participating shareholders to potentially realise value for their entitlements<br>▶ Offer fully underwritten |
| **Dividends / Ranking** | ▶ New shares will not be eligible for the 1H2014 interim dividend of A$0.32 per share<br>▶ New shares issued will rank equally with existing shares from the date of allotment |
| **Offer Price** | ▶ A$10.75 per new share<br>— 11.4% discount to dividend adjusted TERP of A$12.14[(1)]<br>— 12.6% discount to dividend adjusted last closing price of A$12.30[(2)] |
| **Institutional Entitlement Offer** | ▶ Institutional entitlement offer opens at 9:00am Friday, 11-Apr-2014 and closes at 2:00pm Monday, 14-Apr-2014<br>▶ Entitlements not taken up and entitlements of ineligible institutional shareholders will be sold through the institutional bookbuild to be conducted on Tuesday, 15-Apr-2014 |
| **Retail Entitlement Offer** | ▶ Retail entitlement offer opens at 9:00am Thursday, 17-Apr-2014 and closes 5:00pm Friday, 09-May-2014<br>▶ Entitlements not taken up and entitlements of ineligible retail shareholders will be sold through the retail bookbuild to be conducted after-market on Wednesday, 14-May-2014 |
| **Record Date** | ▶ 7:00pm on Wednesday, 16-Apr-2014 |

[1] The Theoretical Ex-Rights Price ("TERP") is the theoretical price at which BOQ shares should trade immediately after the ex-date for the entitlement offer. The TERP is a theoretical calculation only and the actual price at which BOQ shares trade immediately after the ex-date entitlement offer will depend on many factors and may not equal the TERP. TERP is calculated by reference to BOQ's closing price of A$12.62 on 10-April-2014 and deducting the 2014 interim dividend of A$0.32 per share to reflect the fact that new shares will not be entitled to receive this dividend payment.

[2] Based on the closing price on 10-April-2014 of A$12.62 and deducting the 2014 interim dividend of A$0.32 per share to reflect the fact that new shares will not be entitled to receive this dividend payment.

# Offer timetable

| Event | Date |
|---|---|
| Enter Trading Halt and Launch Institutional Entitlement Offer | 11-Apr-2014 |
| Close Institutional Entitlement Offer | 14-Apr-2014 |
| Institutional Entitlement Offer Shortfall Bookbuild | 15-Apr-2014 |
| Resume Trading, Announce Results of Institutional Entitlement Offer, Record Date | 16-Apr-2014 |
| Retail Entitlement Offer Opens | 17-Apr-2014 |
| Institutional Entitlement Offer Settlement | 29-Apr-2014 |
| Record Date for Entitlement to 2014 Interim Dividend | 29-Apr-2014 |
| Institutional Entitlement Offer Allotment and Quotation | 30-Apr-2014 |
| Retail Entitlement Offer Closes | 09-May-2014 |
| Retail Entitlement Offer Shortfall Bookbuild (after-market) | 14-May-2014 |
| Retail Entitlement Offer Settlement | 21-May-2014 |
| Retail Entitlement Offer Allotment and Quotation | 22-May-2014 |
| New Shares Under the Retail Entitlement Offer Commence Trading on ASX | 23-May-2014 |
| Retail Premium (if any) Dispatched | 26-May-2014 |

# V. BASIS OF PREPARATION OF FINANCIAL INFORMATION

# Basis of preparation of financial information

## FY15 Pro forma Financial Information

Key assumptions used to estimate the impact of the acquisition on BOQ's FY15 cash EPS and calculation of FY15 post-tax earnings of the acquired business (including associated acquisition funding cost impact) are set out below. This information is intended to assist investors in assessing, where relevant, the reasonableness and likelihood of the assumptions occurring and is not a representation that the assumptions will occur. Potential investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing this information, and that this may have a positive or negative impact on BOQ's financial performance. Investors are advised to review the key assumptions in this section in conjunction with the Key Risks section.

***FY15 Assumptions (financial assumptions for Professional Finance business and the deposit portfolio, except where otherwise stated)***

- The first full year of BOQ ownership is the 12 months ending 31 August 2015 (FY15).
- Assumed asset growth slightly below historical levels (refer slide 16 for historical asset growth)
- Assumed asset spread to the swap curve on new business volumes in-line with recent experience over the last 6 months (refer to slide 16 for historical spread performance)
- The existing deposits assumed at current rates, with rollovers at maturity assumed at BOQ's marginal deposit pricing profile. A proportion of funding costs related to excess liquidity have been removed from cash earnings.
- Non-interest income is assumed to be consistent with the Acquired Businesses' financial performance in prior years (refer to slide 16 for historical performance)
- Operating expenses assumed at a cost-to-income ratio of approximately 47%
- Impairment expenses assumed to be in-line with recent experience for the Professional Finance portfolio in recent periods (refer to slide 16)
- Post-tax earnings contribution from AF&L business of less than $2m
- Corporate tax rate of 30%
- BOQ raises approximately $400 million under an Equity Offer

# VI. KEY RISKS

# Key risks

**Introduction**

There are a number of factors, both specific to BOQ and of a general nature, which may affect the future operating and financial performance of BOQ, its investment returns and the value of its shares. Many of the circumstances giving rise to these risks are beyond the control of BOQ. This section describes certain specific areas that are believed to be the major risks associated with an investment in BOQ. Each of the risks described below could, if they eventuate, have a material adverse effect on BOQ's operating and financial performance.

You should note that the risks in this section are not exhaustive of the risks faced by a potential investor in BOQ. You should consider carefully the risks described in this section, as well as other information in this presentation, and consult your financial or other professional adviser before making an investment decision.

**General risks**

- **Changes in economic conditions:** The financial performance of BOQ could be affected by changes in economic conditions in Australia and overseas. Such changes include:
  - changes in economic growth, unemployment levels and consumer confidence which may lead to a general fall in the demand for BOQ's products and services;
  - changes in underlying cost structures for labour and service charges;
  - changes in fiscal and monetary policy, including inflation and interest rates, which may impact the profitability of BOQ or a general fall in the demand for BOQ's products and services;
  - declines in aggregate investment and economic output in Australia or in key offshore regions;
  - national or international political and economic instability or the instability of national or international financial markets including as a result of terrorist acts or war;
  - changes in asset values, particularly commercial and residential real estate.

  The dislocation in credit and capital markets after the Lehman Brothers collapse and the onset of the global financial crisis in 2008 significantly impacted global economic activity including the Australian economy. This has led to subdued credit growth in Australia and impacted values of commercial and residential real estate in some parts of Australia. The Australian economy has performed well in some industry sectors but has slowed in other sectors. A further downturn in sectors of the Australian economy or in the Australian economy generally or slowing of the stronger sectors of the economy may lead to a lower demand for BOQ's products and services, or adversely affect the performance of BOQ's asset portfolio, and therefore could adversely impact BOQ's financial performance and position.

  Although BOQ will have in place a number of strategies to minimise the exposure to economic risk and will engage in prudent management practices to minimise its exposure to risk in the future, such factors may nonetheless have an adverse impact on BOQ's financial performance and position.
- **Share price risk:** There are general risks associated with an investment in the share market. As such, the value of New Shares may rise above or fall below the Offer Price, depending on the financial position and operating performance of BOQ. Further, broader market factors affecting the price of BOQ shares are unpredictable and may be unrelated or disproportionate to the financial or operating performance of BOQ. Such factors may include the economic conditions in Australia and overseas, investor sentiment in the local and international stock markets, consumer sentiment, changes in fiscal, monetary, regulatory and other government policies, national and international political and economic instability or the instability of national and international financial markets, interest and inflation rates and foreign exchange rates. Volatility in global credit markets could negatively impact the value of the New Shares.
- **Changes in Government Policy:** BOQ may be affected by changes in general government policy or legislation applying to companies or to banks and the financial services sector specifically. Some specific regulatory and policy issues are referred to below.

# Key risks (cont)

**Bank of Queensland specific risks**

- **Market risk:** Market risk is the risk that movements in market rates and prices will result in a loss of earnings to BOQ.
  - *Interest rate risk* arises from a variety of sources, including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates may affect earnings. It is the principal objective of BOQ's asset/liability management process to maximise levels of net interest income whilst limiting the effects of volatile and unpredictable movements in interest rates. To achieve these objectives, BOQ uses derivative financial instruments, principally interest rate swaps, forward rate agreements and futures. The current policy of BOQ is to eliminate market risk in the balance sheet where practical and to consciously establish specific positions within conservative limits for changes in value of the residual. Despite these steps, movements in interest rates may adversely affect earnings.
  - *Foreign exchange risk* is the risk of loss of earnings due to adverse movements in foreign exchange rates. It is BOQ's policy not to carry material foreign exchange rate exposures. BOQ uses cross currency swaps and foreign exchange forwards to hedge its exchange rate exposures arising from borrowing off-shore in foreign currencies. BOQ uses forward foreign exchange contracts to hedge potential exchange rate exposures created by customer-orientated foreign currency transactions. However, adverse movements in foreign exchange rates may cause a loss of earnings.
  - *Counterparty risk* is the risk that a counterparty will be unable to honour its contractual obligations to BOQ as they fall due. A counterparty may default on its obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Such counterparty risk is more acute in difficult market conditions where the risk of failure of counterparties is higher. Treasury counterparties are limited to investment grade entities but losses may occur if such a counterparty fails.
  - *Traded market risk* arises from BOQ's trading activities. Market risks attributable to trading activities are primarily measured using a parametric Value-at-Risk (“VaR”) based on historical data. BOQ estimates VaR as the potential loss in earnings from adverse market movements and calculated over a 1-day time horizon to a 99% confidence level using 2 years of historical data. VaR takes account of all material market variables that may cause a change in the value of the trading portfolio. As VaR is a statistical measure and only attempts to cover losses to a 99% confidence level, BOQ supplements this analysis with stress testing. Stress testing attempts to adequately assess the risks inherent in its trading activities by applying appropriate scenario analyses, whilst not addressing the likelihood of those outcomes. Despite these steps, losses may occur as a result of adverse market movements.
- **Credit and impairment risk:** BOQ is exposed to credit risk from lending activities, the leasing of equipment and other assets, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes, financial markets transactions and other associated activities. Credit risk is the potential loss arising from the possibility that customers or counterparties fail to meet contractual payment obligations to the Bank as they fall due. BOQ has implemented a structured framework of systems and controls to monitor and manage credit risk comprising:
  - documented credit risk management principles which are disseminated to all staff involved with the lending process;
  - documented credit risk policies and underwriting standards;
  - a process for approving risk, based on tiered delegated approval authorities, whereby the largest exposures are assessed by a committee consisting of Group Executives and senior risk managers chaired by the Chief Risk Officer;
  - risk grading BOQ's commercial exposures for facilities greater than $100,000 based on items inclusive of financial performance and stability, organisational structure, industry segment and security support. Exposures within this segment of the portfolio are generally subject to annual review including reassessment of the assigned risk grade;
  - an automated scorecard approval model for BOQ’s retail portfolio inclusive of home loans, personal loans, and lines of credit. This model is supported by experienced Risk Assessment Managers; and
  - regular management reports detailing credit approvals, portfolio performance, industry concentrations, counterparty concentrations, loan grades and security strength ratings.
- Despite these steps, losses may occur from customers or counterparties failing to meet contractual payment obligations.

# Key risks (cont)

- Less favourable economic or business conditions or deterioration in commercial and residential property markets, whether generally or in a specific industry sector or geographic region, could cause customers to experience an adverse financial situation, thereby exposing BOQ to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms. Should BOQ’s current provisions prove inadequate there may be an adverse impact on BOQ's financial performance and financial position.
- **Liquidity risk:** Liquidity risk arises from the possibility of BOQ being unable to meet its financial obligations as they fall due as a result of mismatches in its cash flows from financial transactions. Liquidity risk is managed through a series of detailed policies, including the management of cash flow mismatches, the maintenance of a stable, core retail deposits base, the diversification of the funding base and the retention of adequate levels of high quality liquid assets. BOQ's liquidity risk management framework models its ability to fund under both normal and stress conditions over various time horizons. This approach is designed to ensure that BOQ's funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The availability of funding from uncertain financial markets may increase liquidity risks to financial institutions generally, as discussed above under market risk.
- **Funding risk:** Funding risk is the risk of over-reliance on a particular funding source, including securitisation, affecting the volatility in the cost or availability to BOQ of funds. Post the Lehman Brother's collapse and the onset of the global financial crisis in 2008 global and domestic credit and capital markets have generally seen higher wholesale cost of funds and in some cases reduction in the availability of funding sources. BOQ has maintained a well-diversified wholesale funding base, preventing overreliance on one funding source. BOQ diversifies wholesale borrowing through the interbank market, securitisation and short and long term senior debt both domestically and offshore. If BOQ's sources of funding prove to be insufficient or so expensive as to be uncompetitive, it may be forced to seek alternative funding arrangements or curtail its business operations and limit loan growth. The ability for BOQ to secure alternative funding will depend on a variety of factors, including prevailing market conditions, the availability of credit and BOQ's credit rating.
- **Operational risk:** Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. BOQ is exposed to a variety of operational risks including those arising from process error, fraud, technology failure, security and physical protection (including cyber attacks on computer systems), staff skills and performance and product development. Operational risk failures could lead to reputational damage, financial loss, legal disputes and/or regulatory consequences. These risks are managed through having an appropriate framework in place to define, assess and manage operational risk and that resources are available to support it. The Bank has developed an Operational Risk Management Framework that articulates, assesses and manages operational risks throughout the organisation and its subsidiaries. This framework consists of the following key elements: Bank-wide policies which require a consistent approach and minimum standards on specific operational risk matters, enterprise and Business Unit Specific Risk profiling; and Risk Self Assessments through the completion of controls attestation questionnaires. In addition, the key objectives of the framework includes: risk identification, analysis and acceptance; execution and monitoring of risk management practices; and reporting and escalation of risk information on a regular and/or exception basis. Although these steps are in place, there is no guarantee that BOQ will not suffer loss as a result of these risks.
- **Insurance business:** St Andrews Insurance provides consumer credit insurance and life insurance. These insurance contracts involve the acceptance of significant insurance risk including those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness, or involuntary unemployment. The insured benefit is not linked to the market value of the investments held for the purpose of meeting that benefit and any financial risks are substantially borne by the separately prudentially regulated insurance entities within the BOQ Group, of which BOQ is the ultimate shareholder. This risk is largely mitigated by the insurance entities employing conservative investment strategies with little capital value at risk. Any reduction in the value of those investments and any increase in claims could adversely affect the financial performance and position of the insurance entities and the consolidated BOQ Group. In such an event, BOQ Group's provisions for insurance liabilities may prove inadequate to cover the ultimate liability for claims or other policy benefits, which may adversely affect the financial performance and position of BOQ.

# Key risks (cont)

- **Reliance on external parties:** BOQ's operations depend on performance by a number of external parties under contractual arrangements with BOQ. As at 10 April 2014, approximately 67% of BOQ's branches are Owner Managed. Non-performance of contractual obligations and poor operational performance of OMBs may have an adverse effect on BOQ's business and financial performance. In addition, BOQ outsources a number of operational services such as information technology and banking platforms, and offers a number of customer facing products issued by third parties such as ATMs, credit cards, general insurance products and wealth management services. Although BOQ has taken steps to protect it from the effects of defaults under these arrangements, such defaults may have an adverse effect on BOQ's business continuity and financial performance.
- **Failure to comply with laws and regulation:** BOQ is subject to substantial regulatory and legal oversight in Australia. The agencies with regulatory oversight of BOQ and its subsidiaries include, among others, APRA, the RBA, ACCC, ASX and ASIC. Failure to comply with legal and regulatory requirements may have a material adverse effect on BOQ and its reputation among customers and regulators and in the market. BOQ has compliance frameworks, policies and procedures in place to manage the risk of non-compliance.
- **Changes in regulation and government policy:** Changes to laws, regulations, policies or accounting standards, including changes in interpretation or implementation of laws, regulations, policies or accounting standards, could affect BOQ in substantial and unpredictable ways. These may include required levels, or the measurement, of bank liquidity and capital adequacy, limiting the types of financial services and products that can be offered, and/or reducing the fees which banks can charge on their financial services. In December 2013, the Commonwealth Government announced the terms of reference for a Financial System Inquiry. The Inquiry is charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth. The outcomes of this inquiry and the Government's response to it may affect BOQ but it is too early to assess what those outcomes may be until the Inquiry panel reports in November 2014.
- **Changes in technology:** Technology plays an increasingly important role in the delivery of financial services to customers in a cost effective manner. BOQ's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate technology platform for the efficient delivery of its products and services.
- **Industry competition:** There is substantial competition for the provision of financial services in the markets in which BOQ operates. The effect of competitive market conditions may adversely impact the earnings and assets of BOQ. These competitive pressures may occur at other levels, such as the competition for acceptable wholesale funding discussed above.
- **Risks to Bank of Queensland's growth strategy:** Risks that relate to BOQ's growth strategy are interrelated and include risk of local market saturation, risks associated with geographical diversification, changes in wholesale funding markets and changes in general economic conditions.

*Risk of local market saturation:* Despite the size of the Queensland market, BOQ faces the challenge of maintaining a high penetration rate in that market in order to achieve continued growth. In addition, BOQ will continue to be exposed to fluctuations in the Queensland economy in particular.

*Risk of geographical diversification:* Through the mergers with Pioneer Permanent Building Society (North Queensland) and Home Building Society (Western Australia) in 2006 and 2007 and organic growth in other states, BOQ has expanded its geographical presence and distribution in Australia. The acquisition of Investec Bank (Australia) Limited will add to that geographic diversification. This brings challenges to BOQ's management and control systems as it becomes a more geographically diverse organisation.

*Funding for growth:* Changes in wholesale funding markets may cause an inability to raise sufficient wholesale funds to fund BOQ's asset growth strategies (see Market Risk section above, which details BOQ's funding risks).

*Effect of economic conditions:* General economic conditions may worsen which could stifle credit growth and restrict BOQ's ability to grow in line with its growth strategy (see Changes in economic conditions section above, which explains risks associated with general economic conditions).

# Key risks (cont)

- **Disputes:** In the course of its operations, BOQ may be involved in disputes and possible litigation. There is a risk that any material or costly dispute or litigation could adversely affect the value of the assets or future financial performance of BOQ. BOQ was party to a number of actions in NSW courts commenced by former owners of OMBs. The claims included allegations of misleading and deceptive conduct by BOQ and BOQ was successful in defending those claims. As a franchisor, BOQ may be subject to similar claims in the future.

  On 22 December 2010, the Australian Securities and Investment Commission ("ASIC") lodged legal proceedings against parties including BOQ, arising out of the collapse of Storm Financial. One proceeding has been heard and BOQ is awaiting judgment. The proceedings are regulatory in nature. At this stage no estimate of any potential liability can be made. On 6 December 2012 a class action was commenced against BOQ, also arising out of the collapse of Storm Financial. BOQ's intention is to defend this action vigorously. At this stage no estimate of any potential liability can be made.
- **Reputation:** Reputation risk may arise through the actions of BOQ and adversely affect perceptions of BOQ held by the public, shareholders, regulators or rating agencies. These issues include appropriately dealing with potential conflicts of interests, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies and sales and trading practices. Damage to BOQ's reputation may have an adverse impact on BOQ's financial performance, capacity to source funding and liquidity, cost of sourcing funding and liquidity and by constraining business opportunities.
- **Reduction in dividends:** If the earnings and cash flows of BOQ are substantially reduced (for example, due to a decline in operating earnings or due to a large one-off or cumulative asset impairment or write-off), BOQ may not be in a position to pay dividends, which may in turn have an impact on the trading price of BOQ's shares. In addition, dividends declared by BOQ are subject to APRA regulation. Holders of ordinary shares rank behind holders of Convertible Preference Shares for payment of dividends. Failure to pay dividends on these preference shares may result in restrictions on the future payment of ordinary share dividends.
- **Credit ratings:** The credit ratings assigned to BOQ by rating agencies are based on an evaluation of a number of factors, including its financial strength. A credit rating downgrade could also be driven by the occurrence of one or more of the other risks discussed in this Presentation or by other events. If BOQ fails to maintain its current corporate credit ratings, this could adversely affect its cost of funds and related margins, liquidity, competitive position and access to capital markets.

**Acquisition risks**

- **Completion risk:** There is a risk that the acquisition of Investec Bank (Australia) Limited (IBAL) may not complete due to a failure to satisfy a condition precedent in the sale and purchase agreement. The conditions precedent include a number of regulatory approvals including the approval of the Commonwealth Treasurer under the Financial Sector (Shareholdings) Act as well as other conditions. The entitlement offer is not contingent on the acquisition completing. If the acquisition does not complete, there is no guarantee that BOQ will seek to return that capital, even if it has excess capital as a result.
- **Key employees:** IBAL has a core management team with key experience in the markets in which IBAL operates and responsibility for some key client relationships. Failure to retain some of the core management team post acquisition may have a material adverse effect on BOQ's ability to deliver the expected benefits of the acquisition in the short to medium term.
- **Reliance on information provided:** BOQ undertook a due diligence process in respect of IBAL, which relied in part on the review of financial and other information provided by the vendors of IBAL. Despite making reasonable efforts, BOQ has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. Similarly, BOQ has prepared (and made assumptions in the preparation of) the financial information relating to IBAL on a stand-alone basis and also the financial information relating to BOQ post-acquisition included in this Presentation in reliance on limited financial information and other information provided by IBAL. BOQ is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by BOQ in its due diligence process and its preparation of this Presentation proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of BOQ and the enlarged group may be materially different to the financial position and performance expected by BOQ and reflected in this Presentation. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the acquisition have been identified. Therefore, there is a risk that unforeseen issues and risks may arise, which may also have a material adverse effect on BOQ.

# Key risks (cont)

- **Acquisition analysis:** BOQ has undertaken financial and business analyses of IBAL in order to determine its attractiveness to BOQ and whether to pursue the acquisition. To the extent that the actual results achieved by IBAL are weaker than those indicated by BOQ analysis, there is a risk that the profitability and future earnings of the operations of the enlarged group may differ (including in a materially adverse way) from the current performance as reflected in this presentation.
- **Capital funding risk:** The raising of capital through the entitlement offer to maintain the post acquisition prudential capital of BOQ is not a condition precedent to the acquisition. The underwriting agreement that BOQ has entered into with the underwriter contains customary termination rights. In the event that the underwriting agreement is terminated in accordance with its terms, there is a risk that BOQ would need to find alternative capital which could result in the actual financial position and performance of BOQ and the enlarged group being materially different to the financial position and performance expected by BOQ and reflected in this Presentation.
- **Integration risk:** The acquisition of IBAL involves the integration of the IBAL business, which has previously operated independently to BOQ. There is a risk that the integration of IBAL may be more complex than currently anticipated, encounter unexpected challenges or issues or take longer than expected, divert management's attention from other areas of the BOQ business or not deliver the expected benefits. This may affect BOQ's operating and financial performance.
- **Historical liability:** If the acquisition of IBAL is successfully completed, there is a risk that BOQ, as the new owner of IBAL, may become directly or indirectly liable for any liabilities that the Acquired Businesses have incurred in the past, which were not identified during due diligence or which are greater than expected, and for which there is no protection for BOQ (in the form of insurance, representations and warranties and indemnities). Such liability may adversely affect the financial performance or position of BOQ post-acquisition.
- **Acquisition accounting:** In accounting for the acquisition, BOQ has performed a preliminary fair value assessment of all of the assets, liabilities and contingent liabilities of the Acquired Businesses. BOQ will undertake a formal fair value assessment of all of the assets, liabilities and contingent liabilities of IBAL post-acquisition, which may give rise to a materially different fair value allocation to that used for the purposes of the financial information set out in this Presentation. Such a scenario will result in a reallocation of the fair value of assets and liabilities acquired to or from goodwill and also an increase or decrease in depreciation and amortisation charges in the enlarged group's income statement (and a respective increase or decrease in net profit after tax).
- **Change of control:** The acquisition of IBAL may trigger change of control clauses in some material contracts to which IBAL is a party. Where triggered, the change of control clauses will in most cases require counterparty consent. If any of the material contracts containing a change of control clause are terminated or renegotiated on less favourable terms, it may have an adverse impact on BOQ's financial performance and prospects.
- **Changes in client regulatory environment:** The industry in which IBAL's clients operate has been and continues to be subject to significant regulatory change. The implications of material regulatory changes will continue to flow through the industry. Failure by IBAL to retain its clients and meet the demands of its clients through this period of industry change may adversely affect the financial performance or position of BOQ post-acquisition.

# Key risks (cont)

**Risks associated with not taking up New Shares under the entitlement offer**

- Entitlements cannot be traded on ASX or privately transferred. However, New Shares equivalent to the number of New Shares not taken up will be offered for subscription and sold in either the institutional shortfall bookbuild or the retail shortfall bookbuild, as applicable. If BOQ shareholders do not take up New Shares under the entitlement offer, or are ineligible to participate in the offer, there is no guarantee that any value will be received by them through the bookbuild process.
- The ability to sell New Shares under the institutional shortfall bookbuild or the retail shortfall bookbuild and the ability to obtain any premium to the offer price will be dependent upon various factors, including market conditions.
- Further, the institutional shortfall bookbuild price and/or the retail shortfall bookbuild price may not be the highest prices available, but will be determined having regard to a number of factors, including having binding and bona fide offers which, in the reasonable opinion of the underwriter will, if accepted, result in otherwise acceptable allocations to clear the entire book. If the institutional shortfall bookbuild realises a premium to the offer price this is not any guarantee that the retail shortfall bookbuild price will realise the same premium or any premium at all. To the maximum extent permitted by law, BOQ, the underwriter and any of their respective related bodies corporate, affiliates, officers, employers or advisers will not be liable, including for negligence, for any failure to procure applications for New Shares under the institutional shortfall bookbuild or the retail shortfall bookbuild at prices in excess of the offer price.
- If shareholders do not take up all or part of their entitlement, then their percentage shareholding in BOQ will be diluted by not participating to the full extent in the entitlement offer.
- BOQ recommends that, before deciding whether to take up New Shares under the entitlement offer, shareholders should seek independent tax advice.

# VII. INTERNATIONAL OFFER RESTRICTIONS

# International offer restrictions

**International Offer Restrictions**

This document does not constitute an offer of entitlements ("Entitlements") or new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. Entitlements and New Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

**Canada (British Columbia, Ontario and Quebec provinces)**

This document constitutes an offering of Entitlements and New Shares only in the Provinces of British Columbia, Ontario and Quebec (the "Provinces") and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such securities. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are "accredited investors" within the meaning of NI 45-106 – *Prospectus and Registration Exemptions*, of the Canadian Securities Administrators.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the Entitlements or the New Shares or the offering of such securities and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of Entitlements or New Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the Entitlements or the New Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements.

The Company, and the directors and officers of the Company, may be located outside Canada, and as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada, and as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

*Statutory rights of action for damages and rescission*

Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

# International offer restrictions (cont)

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the Entitlements or the New Shares purchased pursuant to this document (other than (a) a "Canadian financial institution" or a "Schedule III bank" (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, Section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the Entitlements and the New Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company, provided that (a) the Company will not be liable if it proves that the purchaser purchased such securities with knowledge of the misrepresentation; (b) in an action for damages, the Company is not liable for all or any portion of the damages that the Company proves does not represent the depreciation in value of such securities as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which such securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

*Certain Canadian income tax considerations*. Prospective purchasers of the Entitlements and the New Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of such securities as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

*Language of documents in Canada*. Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the New Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

**European Economic Area – Denmark, Germany and Netherlands**

The information in this document has been prepared on the basis that all offers of Entitlements and New Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as amended and implemented in Member States of the European Economic Area (each, a "Relevant Member State"), from the requirement to produce a prospectus for offers of securities.

An offer to the public of Entitlements and New Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

- to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "MiFID"); or
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

# International offer restrictions (cont)

**France**

This document is not being distributed in the context of a public offering of financial securities (*offre au public de titres financiers*) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 211-1 et seq. of the General Regulation of the French *Autorité des marchés financiers* ("AMF"). The Entitlements and the New Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This document and any other offering material relating to the Entitlements and the New Shares have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed (directly or indirectly) to the public in France. Such offers, sales and distributions have been and shall only be made in France to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the Entitlements and the New Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

**Hong Kong**

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the "Companies Ordinance"), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Entitlements and the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Entitlements and the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Entitlements and the New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Entitlements or New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

**Ireland**

The information in this document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "Prospectus Regulations"). The Entitlements and the New Shares have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to "qualified investors" as defined in Regulation 2(l) of the Prospectus Regulations.

# International offer restrictions (cont)

**Italy**

The offering of the Entitlements and the New Shares in the Republic of Italy has not been authorized by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, "CONSOB") pursuant to the Italian securities legislation and, accordingly, no offering material relating to these securities may be distributed in Italy and these securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998, as amended ("Decree No. 58"), other than:

- to qualified investors ("Qualified Investors"), as defined in Article 100 of Decree No. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999, as amended ("Regulation No. 1197l"); and
- in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Entitlements or the New Shares or distribution of any offer document relating to these securities in Italy (excluding placements where a Qualified Investor solicits an offer from the issuer) under the paragraphs above must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 (as amended) and any other applicable laws; and
- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the Entitlements and the New Shares in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such securities being declared null and void and in the liability of the entity transferring the securities for any damages suffered by the investors.

**Japan**

The Entitlements and the New Shares have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the "FIEL") pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Entitlements and the New Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Entitlements or New Shares may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Entitlements or New Shares is conditional upon the execution of an agreement to that effect.

**New Zealand**

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Securities Act 1978 (New Zealand).

The Entitlements and the New Shares in the entitlement offer are not being offered to the public in New Zealand other than to existing shareholders of the Company with registered addresses in New Zealand to whom the offer is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand).

Other than in the entitlement offer, New Shares may be offered and sold in New Zealand only to:

- persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
- persons who are each required to (i) pay a minimum subscription price of at least NZ$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ$500,000 for securities of the Company ("initial securities") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

# International offer restrictions (cont)

**Norway**

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The Entitlements and the New Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

**Singapore**

This document and any other materials relating to the Entitlements and the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Entitlements and New Shares, may not be issued, circulated or distributed, nor may the Entitlements and New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Entitlements or the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Entitlements or New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

**Switzerland**

The Entitlements and the New Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Entitlements and the New Shares may be publicly distributed or otherwise made publicly available in Switzerland. These securities will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this document nor any other offering or marketing material relating to the Entitlements and the New Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Entitlements and New Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

# International offer restrictions (cont)

**United Arab Emirates**

Neither this document nor the Entitlements and the New Shares have been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates, nor has the Company received authorization or licensing from the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates to market or sell the Entitlements or the New Shares within the United Arab Emirates. No marketing of any financial products or services may be made from within the United Arab Emirates and no subscription to any financial products or services may be consummated within the United Arab Emirates. This document does not constitute and may not be used for the purpose of an offer or invitation. No services relating to the Entitlements or the New Shares, including the receipt of applications and/or the allotment or redemption of such securities, may be rendered within the United Arab Emirates by the Company.

No offer or invitation to subscribe for Entitlements or New Shares is valid in, or permitted from any person in, the Dubai International Financial Centre.

**United Kingdom**

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the Entitlements or the New Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and these securities may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the Entitlements or the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.