# Bank of Queensland

## Market update and capital raising

## 26 March 2012

*Stuart Grimshaw*

*Managing Director and CEO*

BOQ

Your own personal bank

# Important notices

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This presentation (**Presentation**) has been prepared by Bank of Queensland Limited, ABN 32 009 656 740 (**BOQ**). This presentation has been prepared in relation to an accelerated non-renounceable entitlement offer (**Entitlement Offer**) and placement (**Placement**) of new ordinary shares in BOQ (**New Shares**), to be made under section 708AA and section 708A of the Corporations Act 2001 (Cth) (**Corporations Act**) as modified by ASIC Class Order [08/35].

The Entitlement Offer will be made to:

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

In this Presentation the Placement together with the Entitlement Offer is referred to as the **Offer**. The Placement will be conducted contemporaneously with the Institutional Entitlement Offer.

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# Agenda

- Market update
- Strategy and outlook
- Capital raising

*Appendix*

- Normalisation items
- Portfolio information
- Risk factors and selling restrictions

# Market update

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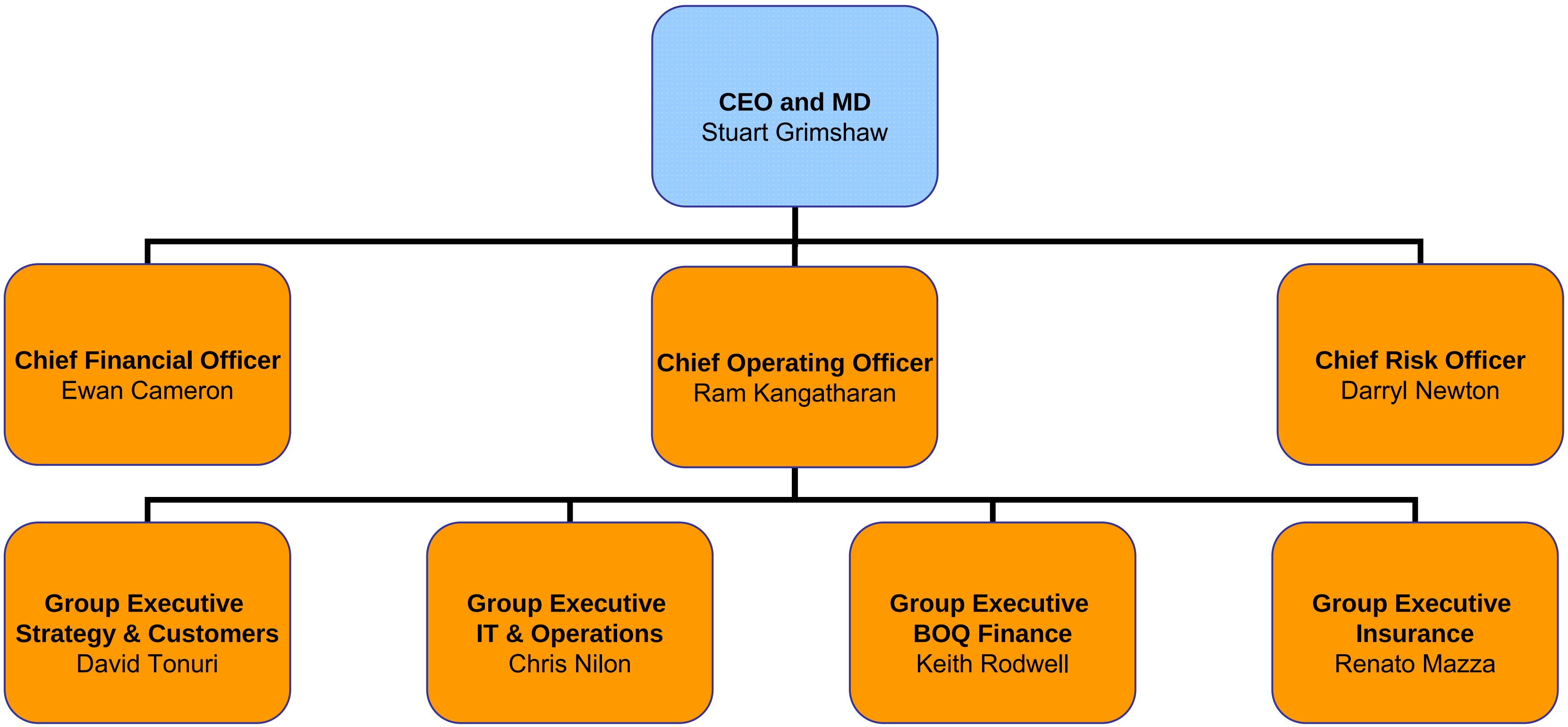
# Introduction

- Release of preliminary expected results for the six months to 29 February 2012
- Preliminary 1H12 expected profitability[1]:
  - Normalised underlying profit before tax of $222 million (1H11: $216 million)[2]
  - Statutory net loss after tax of $(91) million (1H11: $48 million profit)[2]
- 1H12 net loss reflects a more conservative approach to provisioning which has been a factor in moving to strengthen the balance sheet
- Board has declared a fully franked interim dividend of 26 cents per share which has also been approved by APRA
- Finalised results to be released on 18 April 2012

(1) Subject to finalisation of 1H12 results review
(2) Normalised underlying profit before tax is before impairment on loans and advances, income tax expenses and excludes certain normalisation items. For a reconciliation of normalised cash profit after tax and statutory net profit (loss) after tax see Appendix.

# Group Executive structure

1 November 2011 (Stuart Grimshaw's first day as BOQ's CEO & MD)



# Group Executive structure

26 March 2012 (announced)

- **CEO and MD** Stuart Grimshaw
  - **Chief Financial Officer** Anthony Rose
  - **Group Executive Retail & Online Banking** Matt Baxby
  - **Chief Operating Officer** Jon Sutton
    - **Group Executive IT & Operations** Chris Nilon
    - **Group Executive BOQ Finance** Keith Rodwell
    - **Group Executive Insurance** Renato Mazza
    - **Group Executive Strategy & Customers** David Tonuri
  - **Group Executive Business Banking, Agribusiness & Financial Markets** Brendan White
  - **Chief Risk Officer** Peter Deans

# Preliminary 1H12 results summary

| ($ million) | 1H11[1] | 1H12[2] |
|---|---|---|
| Net interest income | 310 | 326 |
| Non-interest income | 83 | 77 |
| **Total operating income** | **393** | **403** |
| Operating expenses | (178) | (181) |
| **Normalised underlying profit before tax[3]** | **216** | **222** |
| Impairment expense | (134) | (328) |
| **Normalised operating profit (loss) before tax[3]** | **81** | **(106)** |
| Tax (expense) benefit | (24) | 33 |
| **Normalised cash net profit (loss) after tax[3]** | **57** | **(72)** |
| **Statutory net profit (loss) after tax** | **48** | **(91)** |
| | | |
| Normalised net interest margin[4] | 1.65% | 1.68% |
| Cost-to-income ratio (normalised cash) | 45.2% | 45.0% |

Note: Numbers may not add due to rounding. Refer to the Financial Performance section of Important Notices for a description of non-IFRS profit measures
(1) 1H11 has been restated for the finalisation of the acquisition entries of CIT Group and St Andrew's Group
(2) Preliminary and unaudited
(3) Refer to the Appendix for a reconciliation of normalised cash net profit (loss) after tax and statutory net profit (loss) after tax
(4) Excluding amortisation of fair value adjustments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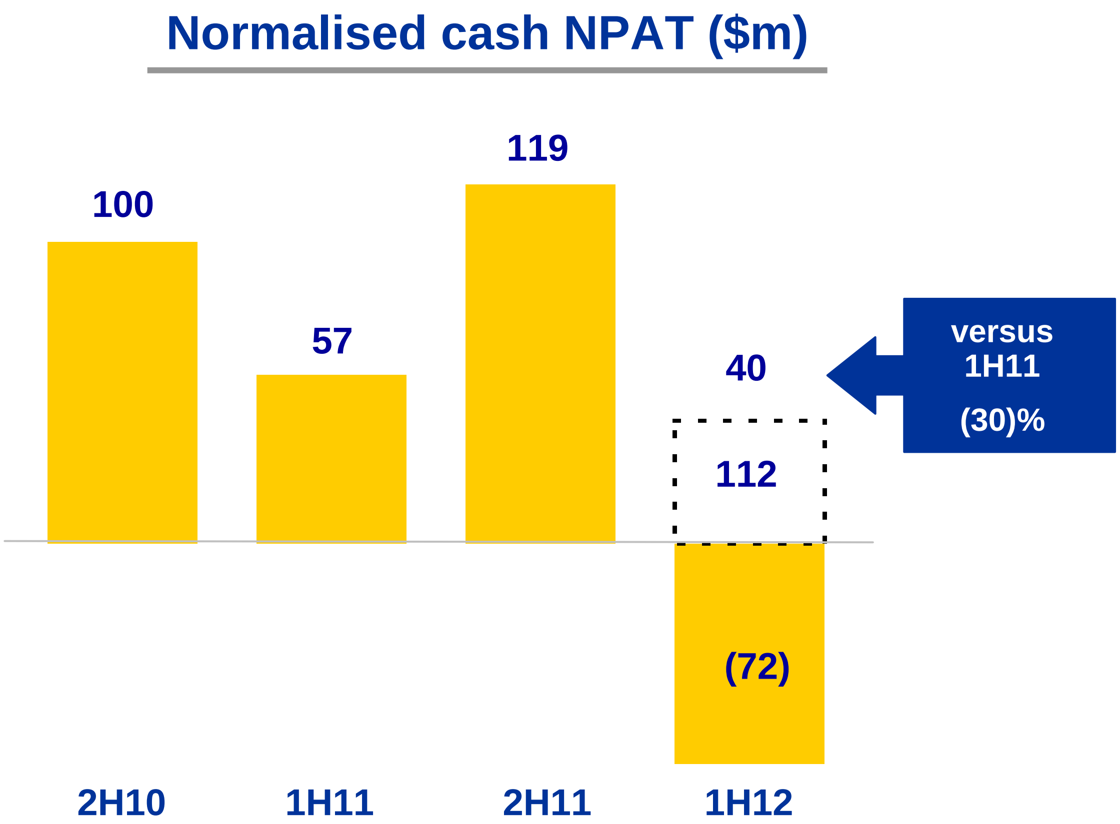
# Normalised cash NPAT trend

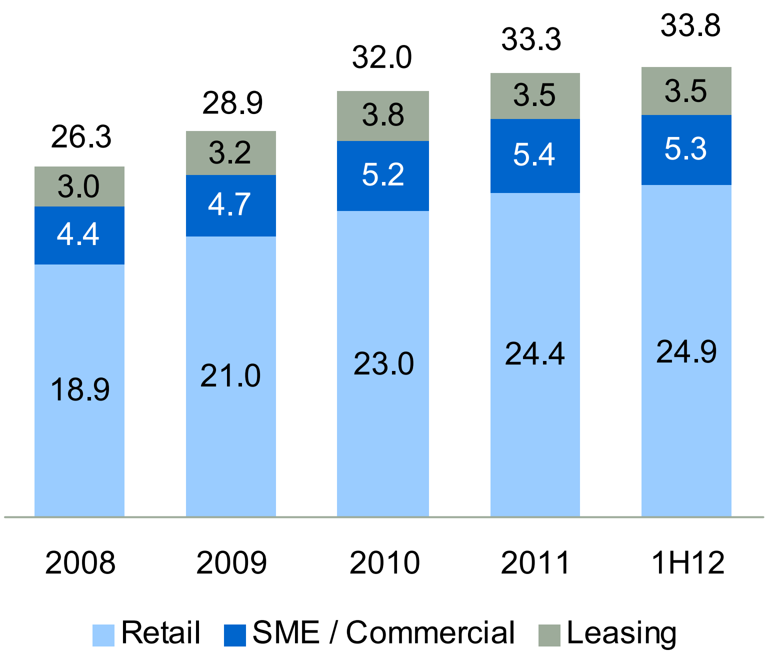
- Collective Provisions overlay charge of $160m has reduced normalised cash NPAT by $112m, to a loss of $72m
- Adjusted for Collective Provisions changes, Normalised Cash NPAT was $40m



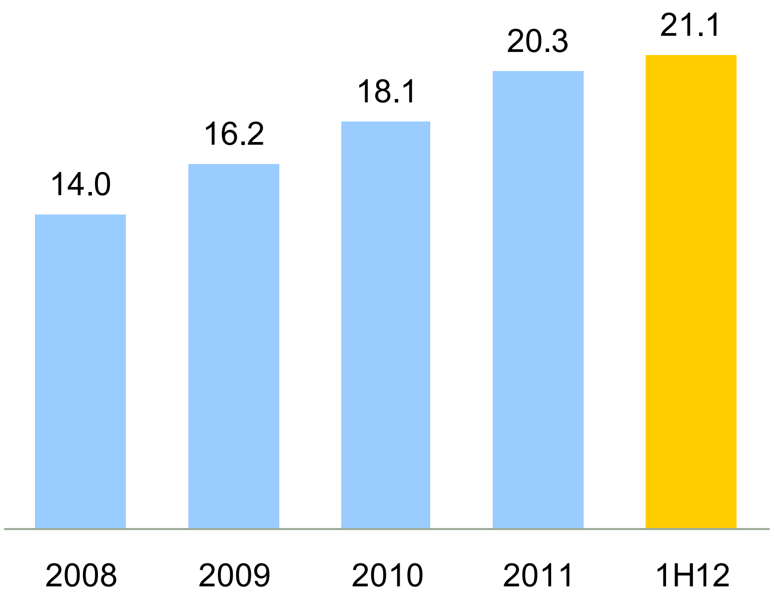
# Lending and deposit growth

- Loan growth fully funded by retail deposits in 1H12

## Loans under management ($b)[1]



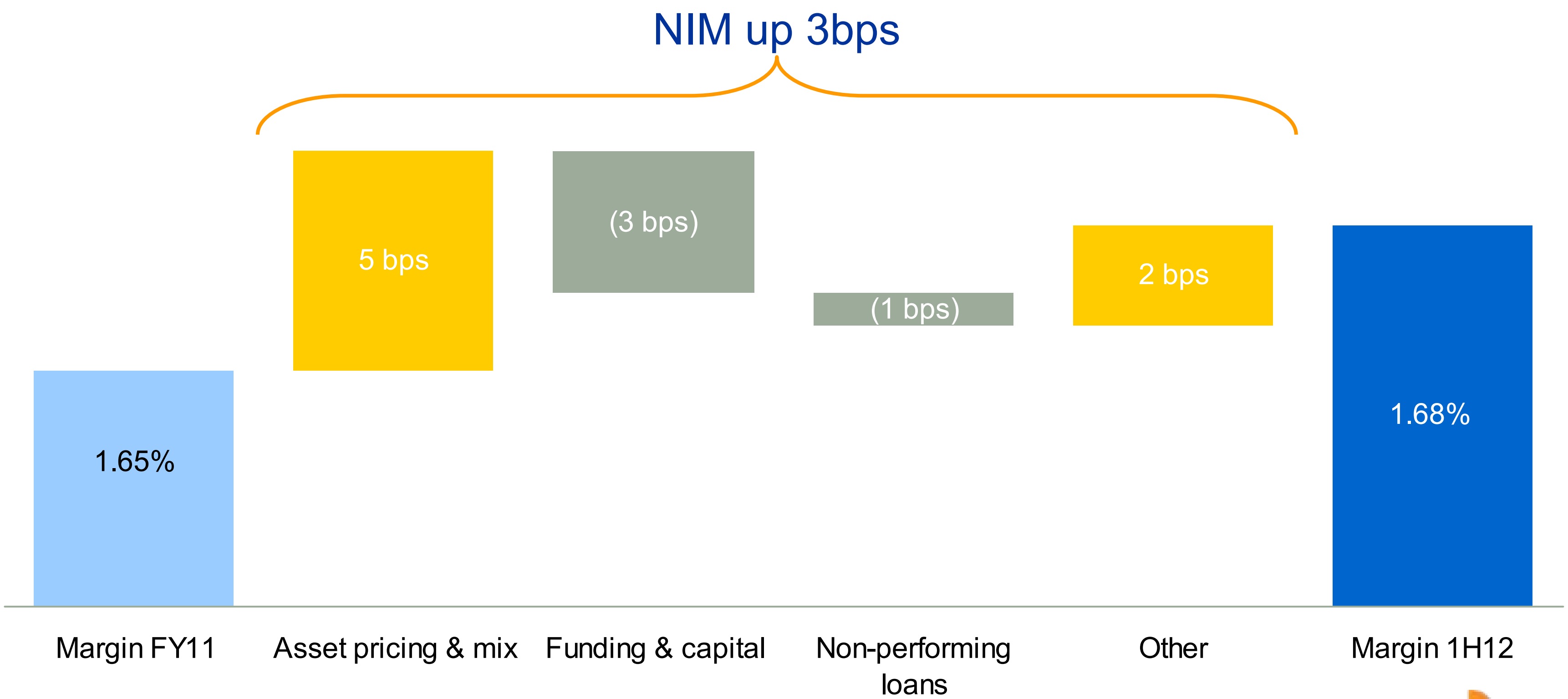

## Retail deposits ($b)




Note: Numbers may not add due to rounding
(1) Before collective provision for impairment

# Net interest margin[1]

- Strong NIM performance in a tough funding environment

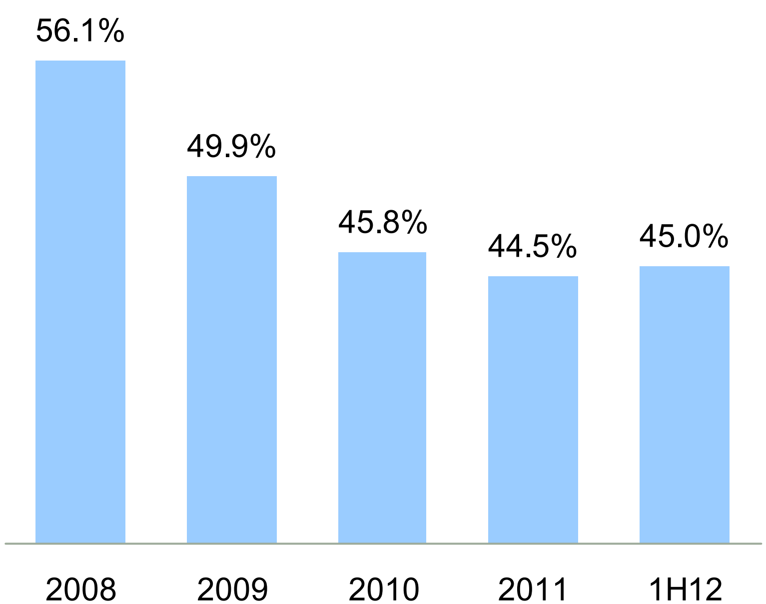



(1) Normalised cash net interest margin adjusted to exclude the amortisation of fair value adjustments.
NIM on a statutory basis at 1H12 is 1.67%

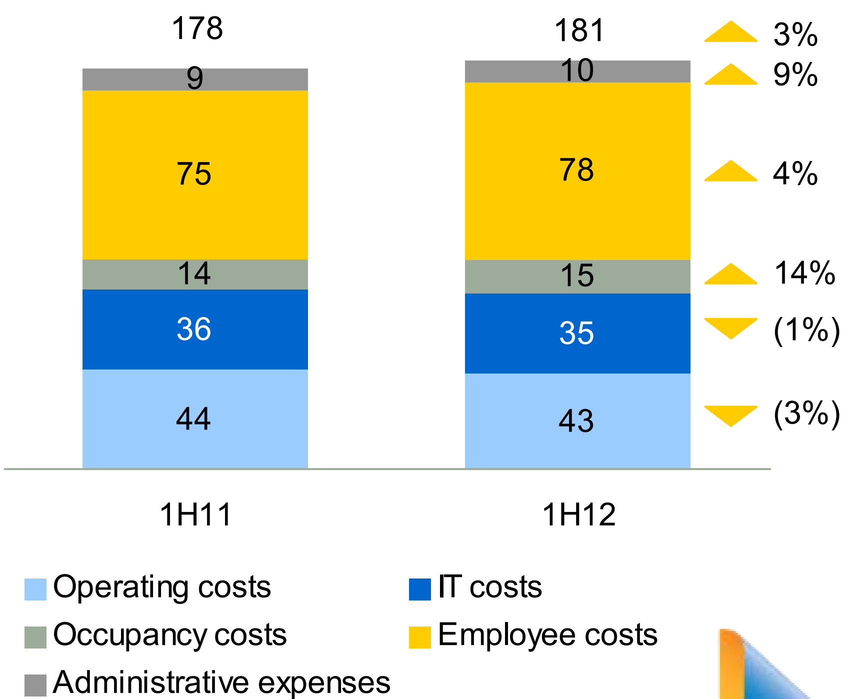
# Operating expenses

- Continued expense discipline

## Normalised cost-to-income ratio[1]




## Expense composition ($m)[1]

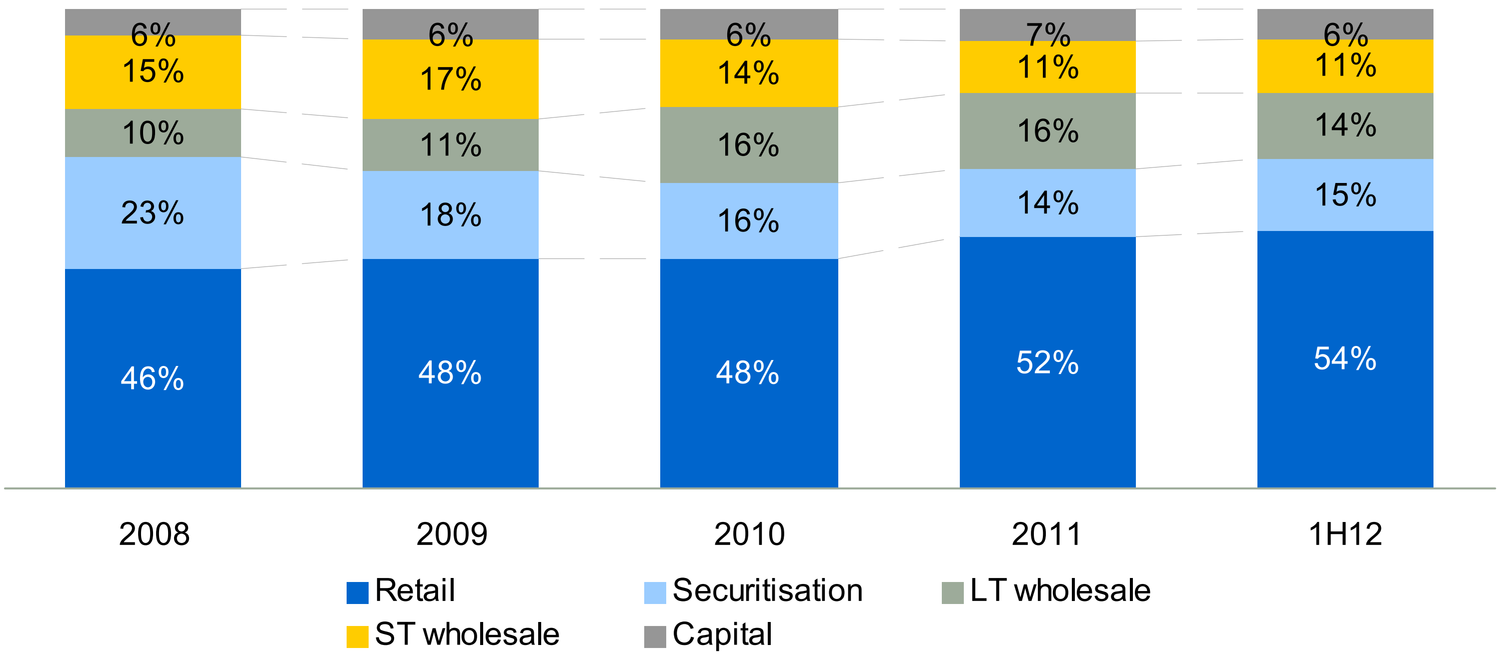



Note: Numbers may not add due to rounding
(1) Based on normalised cash costs, excludes impacts of normalisation items and amortisation of customer contracts

# Funding mix

- Continued focus on retail funding
- Diversified funding channels domestic and offshore

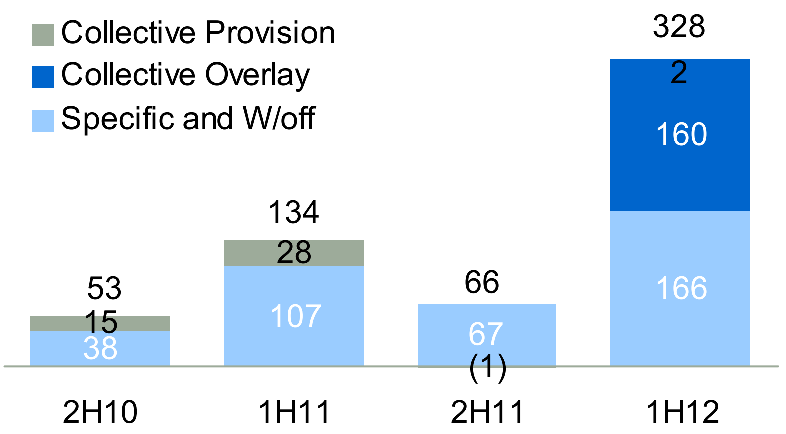
## Funding mix (%)



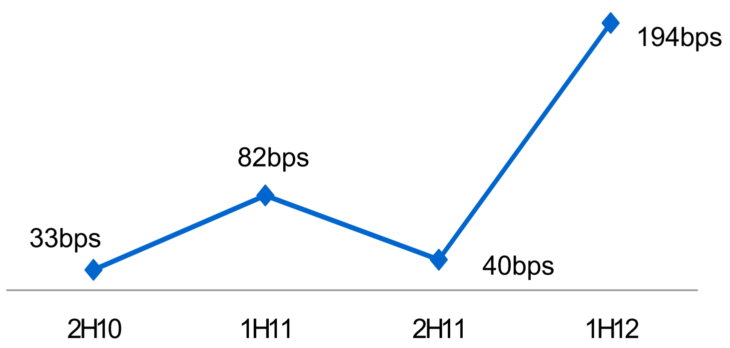
# Increased impairment charges coupled with $160 million collective provision overlay

- Commercial review of portfolio rating and provisioning approach resulted in an increased specific charge for the period
- The additional impairment expense that has arisen has been primarily due to the continued decline in commercial property prices in Queensland
- $162 million collective provision plus overlay for both retail and commercial portfolios, leaving BOQ's collective coverage ahead of other Australian banks

## Specific and collective expense ($m)




## Annualised impairment charge to gross loans (bps)[1]

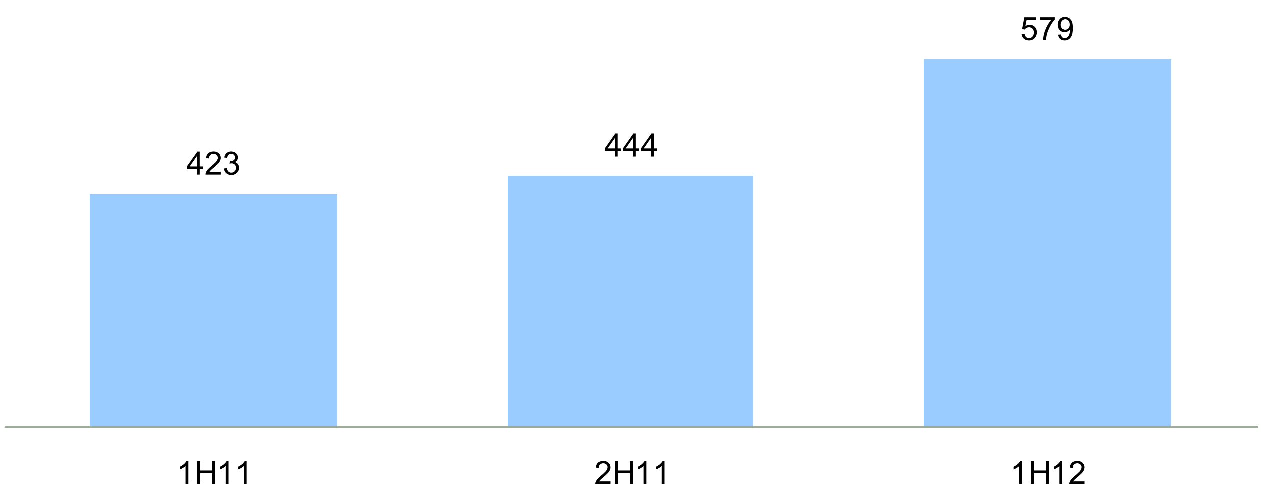



Note: Numbers may not add due to rounding
(1) Net of specific provision

# NPLs[1] increased by 30%

- $135 million increase due to a combination of retail and commercial loans
- SE Queensland exposures were particularly prevalent

**Total impaired loans ($m)**



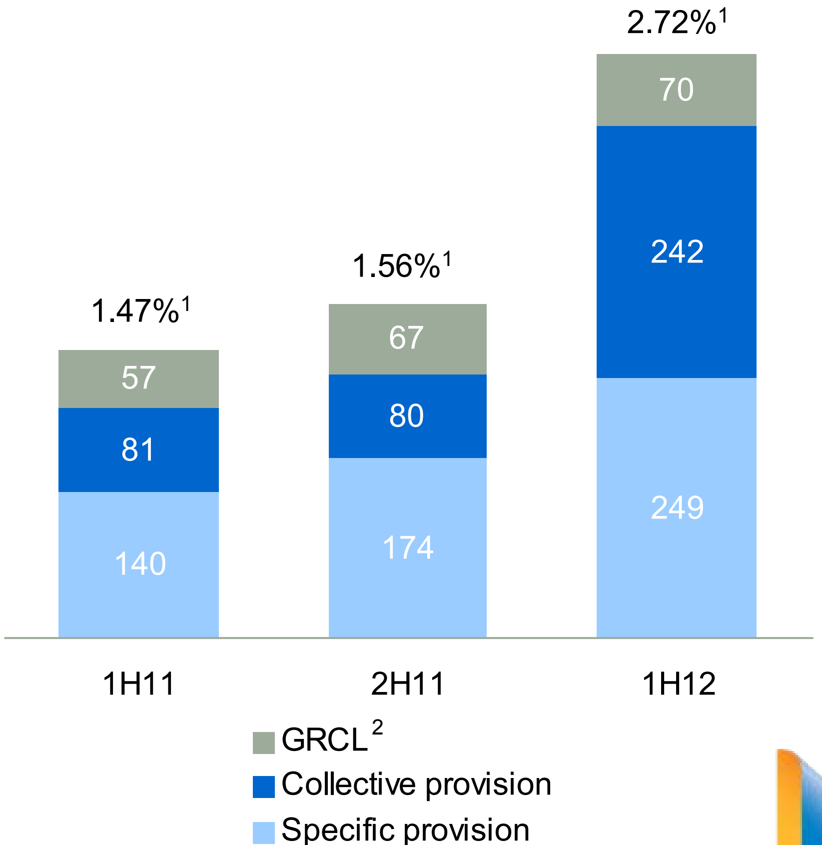

(1) Non-performing loans

# Strengthening and protecting the balance sheet

- Significantly improved specific and collective provision coverage
- Collective provision boosted by $160m in overlays plus $2m in provision changes

| Portfolio metrics | 1H11 | 2H11 | 1H12 |
|---|---|---|---|
| Specific / Impaired | 33% | 39% | 43% |
| Collective / RWA | 43bps | 39bps | 117bps |
| GRCL[2] / RWA | 30bps | 33bps | 34bps |

## Provision coverage ($m / %)

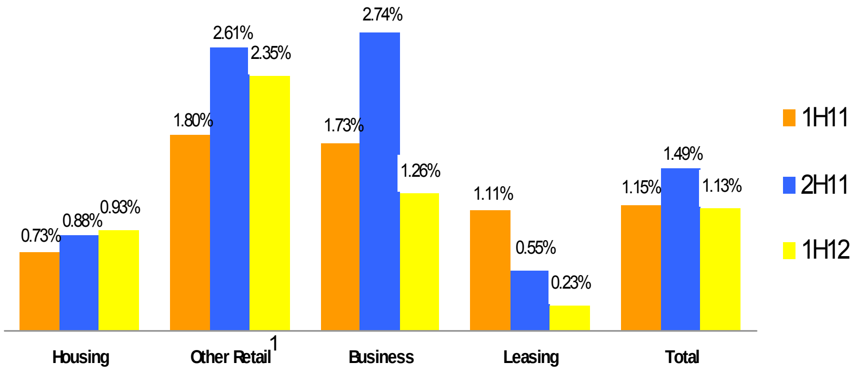



(1) Total provisions / Risk Weighted Assets (RWA)
(2) General reserve for credit losses

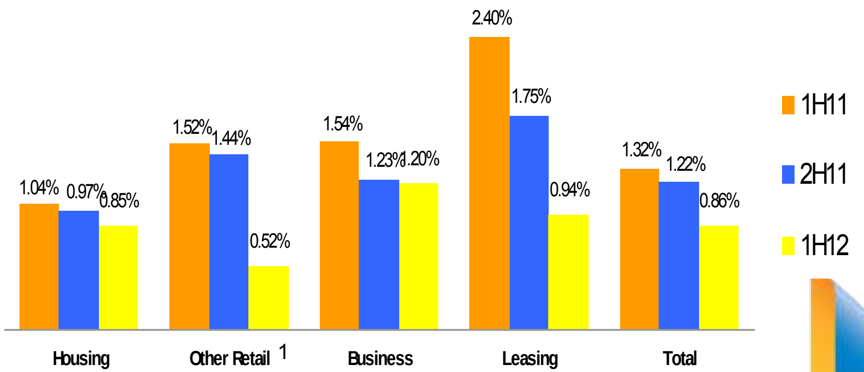
# Arrears management

- Home loan arrears saw an uptick in line with seasonal trends
- New Commercial and Other Retail helped by shift to impaireds
- New arrears 30 – 89 days appear to be stabilising

## Arrears 90 days + by product




## Arrears 30-89 days by product




(1) Other Retail includes Lines of Credit

# Strategy and outlook

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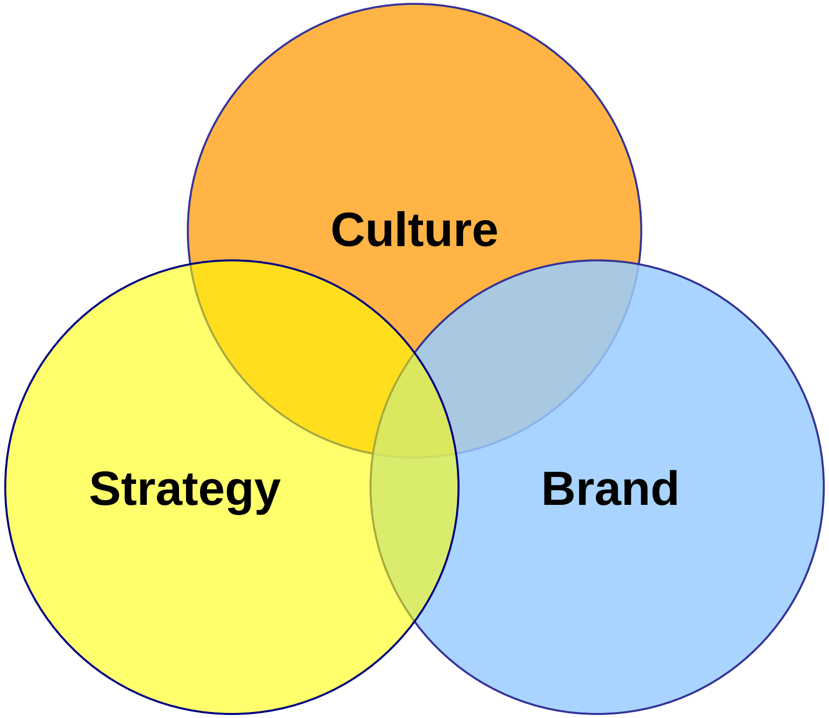
# Model for success

- We have initiated a closely coordinated programme of work in the three key areas:
  - Culture
  - Strategy
  - Brand

- Leadership behaviours
- Mindset change
- Structure & systems




- Target markets
- Value propositions
- Operating model

- Identity
- Attributes
- Aspirations

# How we will do it

- We will re-invent our challenger business and explore long term breakout options

1. **A more disciplined and focused organisation**
    - Leadership & culture – new leaders appointed, cultural change kicked off with key leaders
    - Accountability, delivery and performance – clearly defined roles & responsibilities
    - Process efficiency and cost effectiveness – Performance Improvement Program underway
    - OMB engagement, performance and risk – refinement of OMB model structure & incentives

2. **Commitment to being a real challenger**
    - Target attractive niches – relationship segments (SME, agri & traditional)
    - Offer a compelling alternative to traditional Majors – as above
    - Simple, straight-forward banking – simplified products & processes
    - Multi-channel – OMB, Brokers, online & telephone (on customers' terms)

3. **Explore breakout options**
    - Partnering – scaleable technology partnerships
    - New technologies
    - New business models – flexible and innovative technology & operating models

# Short term priorities

- In the short term, we have some key themes and actions

| Area of work | What is being looked at / changed: |
|---|---|
| **Quick wins** | • Opening up mortgage broker channel<br>• Expand telephone banking hours & scope |
| **Core process redesign** | • Internal process efficiency improvement (benchmarking to competitors, customer experience)<br>• Doing the work in the right place (get maintenance out of branches, redesign OM-BOQ responsibilities) |
| **Leadership & accountability** | • Key leadership appointments, setting role definitions and behavioural expectations<br>• De-layer, re-organise to localise decision making |
| **OMB: Engagement, incentives, risk** | • Leverage off the existing strong OMB distribution network<br>• Improve cross sell<br>• Adjustments to incentives to reward appropriate risk behaviour |
| **Building a winning business bank** | • Development and implementation of SME offer, channel strategy and branding<br>• Development and implementation of specific offers, channel strategy, branding for >SME market |
| **Challenger business model concept** | • Scoping options for challenger business model: based on product/pricing innovations, branding and channel strategies to support them<br>• Identify key product gaps e.g. fixed income retail products, wealth, life insurance etc. |

# How we will measure operational success

1. **Share of wallet ➔** means stronger relationships
2. **Share of markets ➔** equals higher income
3. **Share of channels ➔** opportunities to serve customers
4. **Net Promoter Score[1] ➔** delivers more customers
5. **Franchisee and staff engagement ➔** how we get things done

(1) Net Promoter Score (NPS) is a customer loyalty metric which measures the proportion of Promoters minus the proportion of Detractors when customers are asked how likely it is that they would recommend BOQ to a friend or colleague

# Long term opportunities

- Footprint vs. market share gaps offer significant opportunities for long term upside

| Metric | | Where we are today | Best in class competitor |
|---|---|---|---|
| 1.1 | Share of wallet[1] | • Banking: 59%<br>• Wealth: 0% | • Banking: 58%<br>• Wealth: 7% |
| 2.1 | Retail market share[2] | • QLD: 6.0%<br>• WA: 1.2% | • QLD: 18.2%<br>• WA: 20.4% |
| 2.2 | SME market share[3] | • QLD: 4.8%<br>• WA: 1.3% | • ~26% |
| 3.1 | Share of broker channel | • 0% | • ~30% |
| 3.2 | Points of presence (branches only) | • QLD: 149 / 10.0%<br>• WA: 30 / 4.5% | • QLD: 205 / 13.7%<br>• WA: 118 / 17.8% |
| 4.1 | Net promoter score | • 14% | • Majors: -5%<br>• Banks: 36%<br>• Overall: 38% |
| 5.1 | Franchisee and staff engagement | • Franchisee NPS +10%<br>• Staff engagement 75% (2010) | • Franchise sector avg +39%<br>• Staff engagement >80% |

(1) Banking includes Cards, Loans, Accounts; Wealth includes Managed Investments, Personal Super (Work Super excluded)
(2) All household lending (loans and cards)
(3) Share of business loans under $5M
Source: Annual Reports, APRA, BOQ analysis, Canstar Market Share, Roy Morgan Research, Franchise Relationships Institute

# Outlook

- High exchange rate and weakened confidence has created a difficult economic environment, particularly notable in SE Queensland
- Credit growth has been subdued. We expect this to continue through to 2H12
- We see opportunities in our core geographical markets (extractive industry, downstream small business, logistics, etc) of Queensland and Western Australia
- We will focus on our relationship based businesses of business banking, agribusiness and our core retail customers
- We will target growth above system over the long term whilst maintaining costs at or under inflation
- We will focus on productivity improvements and being there for our customers when they need us

# Capital raising

# Introduction

- BOQ is undertaking a fully underwritten equity raising of approximately $450 million
  - Institutional Placement to raise approximately $150 million
  - Institutional Entitlement Offer to raise approximately $135 million
  - Retail Entitlement Offer to raise approximately $165 million
- Proceeds from the capital raising will be used to:
  - Strengthen BOQ's Core Tier 1 capital position from 6.4% to 8.6%
  - Fund organic growth opportunities
  - Fund the future redemption of the remaining $105 million Tier 2 Convertible Notes
- Upon completion, BOQ's capital ratios will be amongst the strongest of any bank in Australia
  - Pro-forma Core Tier 1 ratio of 8.6%[1]
  - Pro-forma Tier 1 ratio of 9.5%[1]

(1) Based on preliminary 1H12 capital ratios

# Offer summary

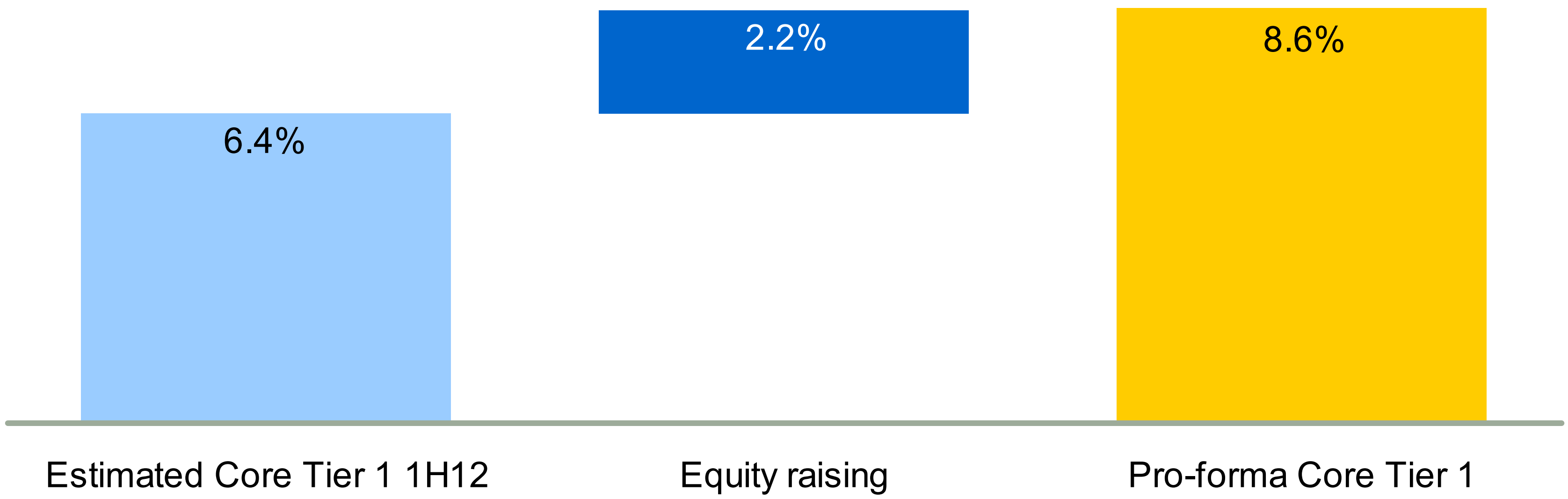
| | |
|---|---|
| **Offer Size and Structure** | ▶ Equity raising of approximately $450 million<br>– Institutional Placement to raise approximately $150 million<br>– Accelerated Institutional Entitlement Offer to raise approximately $135 million<br>– Retail Entitlement Offer to raise approximately $165 million<br>▶ Approximately 74 million new BOQ ordinary shares to be issued (32% of issued capital)<br>▶ Offer is fully underwritten |
| **Entitlement Ratio and Offer Price** | ▶ 8 new shares for every 37 existing BOQ shares held at the Record Date (7.00pm (Sydney time) Thursday, 29 March 2012)<br>▶ Placement and Institutional and Retail Entitlement offer price of $6.05 per share<br>– 17.1% discount to BOQ's closing price on Friday, 23 March 2012<br>– 13.5% discount to the Theoretical Ex-Rights Price (TERP)[1] |
| **Ranking and Dividend Eligibility** | ▶ New shares will rank equally in all respects with existing ordinary shares. Shares issued under the Institutional Placement do not participate in the Entitlement Offer<br>▶ New shares will be entitled to BOQ's fully franked interim dividend of 26 cents per share |

(1) Theoretical ex-rights price is the theoretical price at which BOQ shares should trade immediately after the ex-date for the Entitlement Offer and includes the New Shares issued under the Placement.

# Pro-forma capital position

- Capital position to be significantly strengthened following the capital raising

**Pro-forma BOQ Core Tier 1[1]**

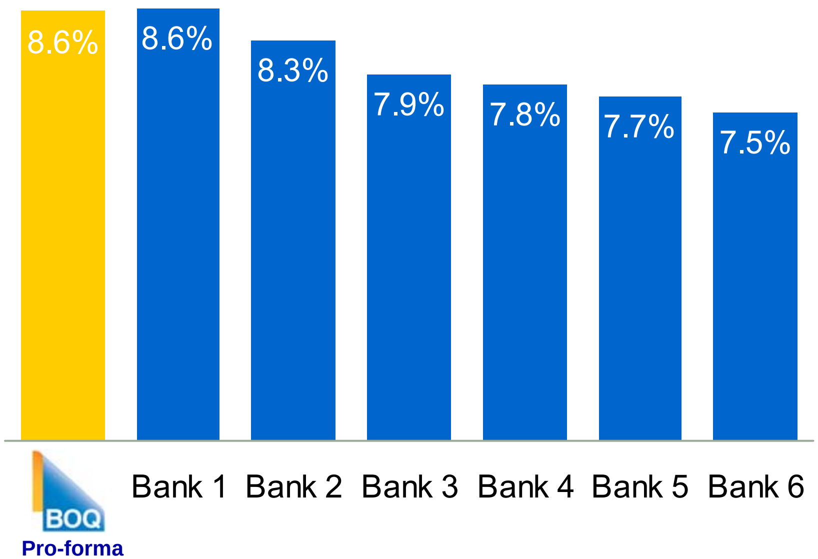



(1) As at 1H12 on a Basel II basis. Estimated 1H12 pro forma Basel III Core Tier 1 of 8.5%

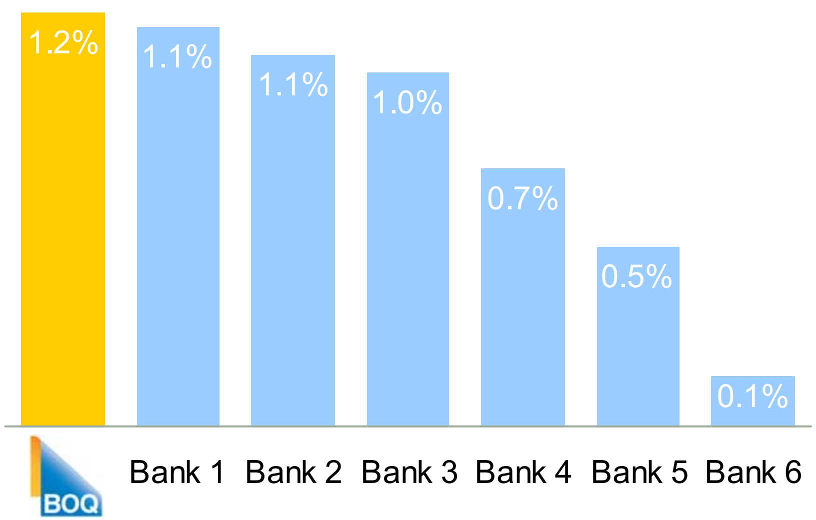
# Balance sheet strength

- Equity raising to place BOQ's Core Tier 1 capital position at top end of peer range
- Our prudent approach to collective provisioning provides enhanced protection against a further deterioration in the Queensland economy

## Core Tier 1 vs. peers[1]




## Collective provision vs. peers[2]




(1) BOQ pro-forma Core Tier 1 ratio as at 1H12 on a Basel II basis. Recent company announcements and APS 330 disclosures. Peer ratios not adjusted for recent capital issuance

(2) Collective provision as a percentage of RWA. Peer ratios sourced from company financial reports

# Offer timetable[1]

| | |
|---|---|
| **Institutional Entitlement and Placement Bookbuild opens** | Monday, 26 March 2012 |
| **Institutional Entitlement and Placement Bookbuild closes** | Tuesday, 27 March 2012 |
| **BOQ shares recommence trading** | Wednesday, 28 March 2012 |
| **Record date for the Entitlement Offer** | 7.00pm, Thursday, 29 March 2012 |
| **Retail Entitlement Offer opens** | Tuesday, 3 April 2012 |
| **Retail Offer Booklet dispatched to Eligible Retail Shareholders** | Tuesday, 3 April 2012 |
| **Settlement of the Placement and Institutional Entitlement Offer** | Wednesday, 4 April 2012 |
| **Institutional Allotment & Quotation Date** | Thursday, 5 April 2012 |
| **Announcement of 1H12 Financial Results** | Wednesday, 18 April 2012 |
| **Retail Entitlement Offer closes** | Tuesday, 24 April 2012 |
| **Settlement of Retail Entitlement offer** | Monday, 30 April 2012 |
| **Normal trading of New Shares issued under the Retail Entitlement Offer** | Wednesday, 2 May 2012 |

(1) The above timetable is indicative only and subject to change. All references to Sydney time. Bank of Queensland reserves the right to vary these dates or to withdraw the Offer at any time

# Appendix: Normalisation items

# Normalisation items

| ($ million) | 1H11 | 1H12[1] |
|---|---|---|
| **Normalised cash net profit (loss) after tax** | **57** | **(72)** |
| *Normalisation items after tax:* | | |
| Amortisation of customer contracts | (3) | (6) |
| Amortisation of fair value adjustments (acquisition) | (2) | (2) |
| Hedge ineffectiveness | (2) | (3) |
| Integration / due diligence costs | (2) | (1) |
| Asset impairment (software) | - | (7) |
| Flood impact | (1) | - |
| **Statutory net profit (loss) after tax** | **48** | **(91)** |

Note: Numbers may not add due to rounding. Refer to the Financial Performance section of Important Notices for a description of non-IFRS profit measures

(1) Preliminary and unaudited

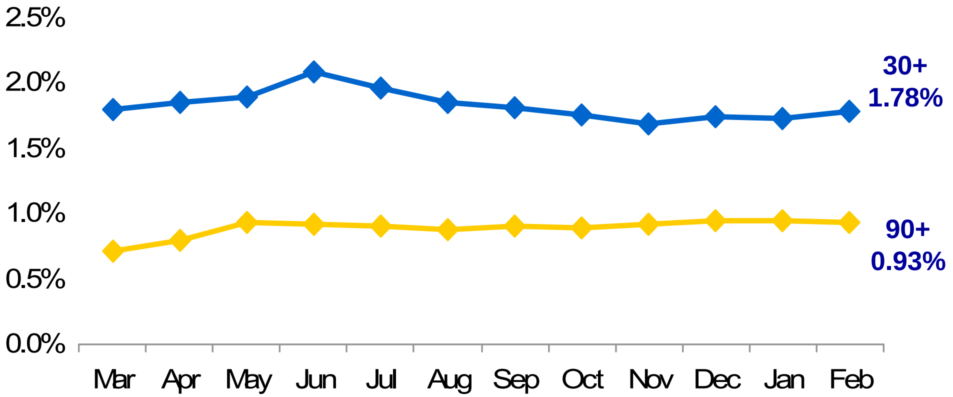
# Appendix:
# Portfolio information

Your own personal bank

# Home Loan portfolio

- Home loan arrears stabilised
- Impaireds up due to increased repossession activity, resulting in higher specific bad debt expense
- Losses driven by Gold Coast loss experience, in particular $1m+ exposures
- Gold Coast exposure in 90+ arrears of $48m (Home Loan & Line of Credit); 28% loss rate applied for collective overlay purposes

## Housing arrears 30 / 90 Days

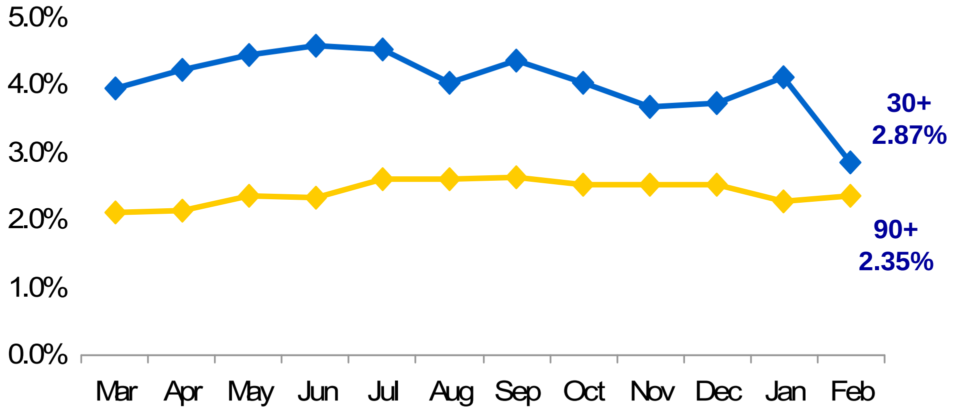



| Portfolio metrics | 1H11 | 2H11 | 1H12 |
|---|---|---|---|
| Portfolio size ($b) | 17.5 | 18.4 | 19.4 |
| Impaired ($m) | 59.1 | 61.6 | 88.6 |
| Impaired % | 0.34% | 0.34% | 0.46% |
| Specific BDD expense ($m) | 10.3 | 10.7 | 20.3 |
| Specific BDD / Portfolio (%Ann) | 0.12% | 0.12% | 0.21% |
| Specific provisions ($m) | 12.3 | 16.9 | 27.6 |
| Collective provisions ($m) | 2.0 | 6.5 | 37.9 |
| Total provision coverage | 0.08% | 0.13% | 0.34% |

# Lines of Credit portfolio

- 30 Day arrears showing positive trends until November as a result of increased collection activity
- Seasonal impact during December and January; February lower due to 29 day month
- Impact of Gold Coast driving increased specific provisions and increased collective
- Uplift in Provision Coverage to 80bps

**Line of Credit 30 / 90 days**

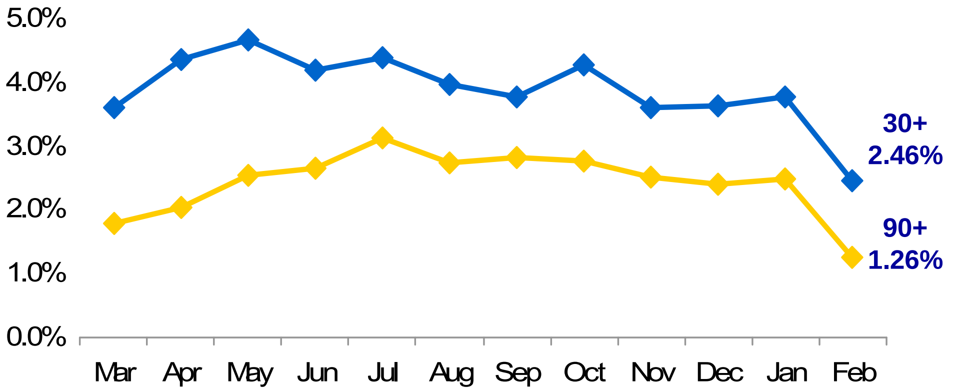



| Portfolio metrics | 1H11 | 2H11 | 1H12 |
|---|---|---|---|
| Portfolio size ($b) | 5.7 | 5.5 | 5.2 |
| Impaired ($m) | 23.5 | 27.7 | 45.5 |
| Impaired % | 0.41% | 0.50% | 0.87% |
| Specific BDD expense ($m) | 4.8 | 7.5 | 16.7 |
| Specific BDD / Portfolio (%Ann) | 0.17% | 0.27% | 0.64% |
| Specific provisions ($m) | 5.3 | 10.7 | 19.1 |
| Collective provisions ($m) | 1.0 | 5.4 | 22.8 |
| Total provision coverage | 0.11% | 0.29% | 0.80% |

# Commercial portfolio

- February improvement in Commercial Arrears driven by increased impaireds
- $99m increase in impaired loans driven by the reduction in collateral security values
- Specific Impaired Coverage increasing from 38% to 44%
- Overall provision coverage significantly uplifted to 6.5%

## Commercial 30 / 90 days

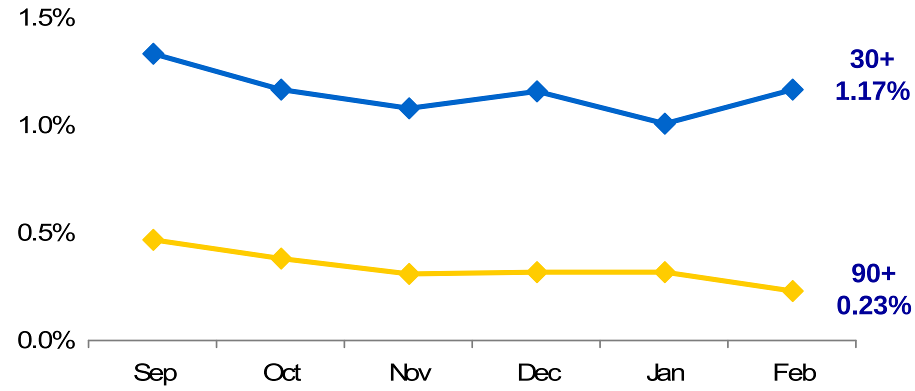



| Portfolio metrics | 1H11 | 2H11 | 1H12 |
|---|---|---|---|
| Portfolio size ($b) | 5.2 | 5.4 | 5.3 |
| Impaired ($m) | 337.1 | 325.0 | 424.2 |
| Impaired % | 6.42% | 6.05% | 8.04% |
| Specific BDD expense ($m) | 70.8 | 26.9 | 108.5 |
| Specific BDD / Portfolio (%Ann) | 2.70% | 1.00% | 4.11% |
| Specific provisions ($m) | 91.3 | 125.0 | 187.9 |
| Collective provisions ($m) | 9.3 | 24.8 | 156.6 |
| Total provision coverage | 1.92% | 2.79% | 6.53% |

# Leasing portfolio continues to improve

- Improvements in asset quality trends holding; arrears at long term low levels
- Impaired running down from Aug 2011 peak of $28m
- Maintaining strong collective provision against arrears accounts

## Leasing 30 / 90 days




| Portfolio metrics (in Debtor Fin) | 1H11 | 2H11 | 1H12 |
|---|---|---|---|
| Portfolio size ($b) | 3.6 | 3.6 | 3.7 |
| Impaired ($m) | 15.7 | 28.4 | 19.7 |
| Impaired % | 0.43% | 0.80% | 0.53% |
| Specific BDD expense ($m) | 19.0 | 23.5 | 20.3 |
| Specific BDD / Portfolio (%Ann) | 1.05% | 1.32% | 1.10% |
| Specific provisions ($m) | 10.9 | 19.3 | 13.9 |
| Collective provisions ($m) | 31.1 | 22.8 | 20.3 |
| Total provision coverage | 1.16% | 1.18% | 0.92% |

# Appendix:
# Risks and selling restrictions

# Risk factors

## 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 over the last 3 to 4 years has significantly impacted global economic activity including the Australian economy, with domestic and global economies slowing or in a recession and experiencing rising unemployment. This has led to a decrease in credit growth and the reduction in consumer and business confidence which has in turn has impacted values of commercial and residential real estate. The Australian economy has performed well in some industry sectors, such as resources and resource related industries and services, but has slowed in other sectors such as some retail sectors and financial services. 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 further 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. Recent turmoil in global credit markets has negatively affected economies across the globe and led to increased volatility in stock markets, including ASX. Continued volatility in global 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.

# Risk factors (cont)

**Bank of Queensland specific risks**

- **1H12 Financial Results:** The guidance as to BOQ's financial results for 1H12 contained in this Presentation is subject to finalisation of BOQ's half year financial statements and completion of the review by BOQ's auditors, KPMG. There is a risk that the actual results for 1H12 due to be released on 18 April 2012 may differ from the guidance provided in this Presentation.
- **Market risk:** Market risk is the risk that movements in market rates, prices and credit spreads will result in a loss of earnings to BOQ.
  - *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.
  - *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 or the value of BOQ.
  - *Currency risk* is the risk of loss of earnings due to adverse movements in foreign exchange rates. BOQ's foreign exchange rate exposures are managed through detailed policies set by the Board and monitored by the Asset and Liability Committee and the Bank's Treasury Department.
  - *Counterparty risk* is the risk that a counterparty will be unable to honour its contractual obligations. A counterparty may default on its obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap contracts under which counterparties have obligations to make payments to BOQ executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Such counterparty risk is more acute in difficult market conditions where the risk of failure of counterparties is higher.
  - BOQ continues to review its pricing model and funding mix in light of market conditions to ensure products are appropriate priced.
- **Credit and impairment risk:** As a financial institution, BOQ is exposed to the risks associated with extending credit to other parties. Credit risk is the risk of financial loss arising from a debtor or counterparty failing to meet their contractual debts and obligations or the failure to recover the recorded value of secured assets.

  BOQ's lending activities cover a broad range of sectors, customers and products, including mortgages, consumer loans, commercial loans (including commercial property), equipment finance, vendor finance, debtor finance and other finance products. 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.

  Recent market and economic conditions have led to increased impairment charges, and if these conditions deteriorate further, some customers and counterparties may experience higher levels of financial stress. As a result, BOQ has experienced an increase in defaults and write-offs and has increased its bad and doubtful debt provisioning. Should these provisions prove inadequate there may be a further adverse impact on BOQ's financial performance and financial position.

# Risk factors (cont)

- **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. In accordance with global regulatory reviews of liquidity, APRA is currently reviewing its regulation of liquidity under Australian Prudential Standard APS 210 - Liquidity, which may require BOQ to alter its liquidity management framework. BOQ's liquidity risk management framework models its ability to fund under both normal conditions and during a crisis situation. 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.
- **Operational risk:** Operational risk is the risk of loss, other than those captured in the credit and market risk categories, resulting from inadequate or failed internal processes, people or systems, or from external events. BOQ is exposed to a variety of risks including those arising from process error, fraud, technology failure, security and physical protection, franchise agreements entered into with owners of Owner Managed Branches (**OMBs**), customer services, staff skills and performance and product development and maintenance. BOQ manages this risk through appropriate reporting lines, defined responsibilities, policies and procedures and an operational risk program incorporating regular risk monitoring and reporting by each business unit. Operational risks are documented in risk databases which provide the basis for business unit and bank-wide risk profiles, the latter being reported to the Board on a regular 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.
- **Reliance on external parties:** BOQ's operations depend on performance by a number of external parties under contractual arrangements with BOQ. As at 16 March 2012, approximately 77% 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 a number of customer facing products 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.
- **Changes in regulation and government policy:** 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. 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.

  **Basel III:** Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector globally. The proposed implementation of Basel III initiatives by APRA, particularly with respect to capital adequacy principles, may result in changes to BOQ capital adequacy ratio. The outcomes of the implementation of Basel III are uncertain and may require BOQ to allocate additional capital to meet these requirements. BOQ will work with APRA to determine if any changes to BOQ's business, including funding sources and levels of liquidity, will need to be made in the future to comply with proposed changes.

# Risk factors (cont)

- **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. 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).
- **Disputes:** In the course of its operations, BOQ may be involved in disputes and possible litigation. BOQ is party to a number of actions in NSW courts commenced by former owners of OMBs. The claims include allegations of misleading and deceptive conduct by BOQ. BOQ is vigorously defending the actions and counter claiming. The amount of any potential liability BOQ may have is not able to be ascertained at this time but is not presently regarded as material. 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.

  On 22 December 2010, ASIC lodged legal proceedings against parties including BOQ, arising out of the collapse of Storm Financial, which is in liquidation. BOQ is vigorously defending this action. The proceedings are regulatory in nature and no damages have been claimed. Certain parties have brought civil claims against BOQ in relation to BOQ's conduct in making home equity loans to clients of Storm Financial. There are risks associated with these matters, the financial outcomes of which cannot be ascertained at this time. Even if the financial outcomes of those matters are not material, there are risks associated with the reputation of BOQ (see below) or regulatory action and/or further third party civil claims if adverse findings are made against BOQ.
- **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 Perpetual Equity 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.

# Foreign selling restrictions

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

**China**

The information in this document does not constitute a public offer of the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

**European Economic Area - Belgium, Denmark, Germany, Luxembourg and Netherlands**

The information in this document has been prepared on the basis that all offers of New Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as 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 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:

(a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (i) an average of at least 250 employees during its last fiscal year; (ii) a total balance sheet of more than €43,000,000 (as shown on its last annual unconsolidated or consolidated financial statements) and (iii) an annual net turnover of more than €50,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

(c) to fewer than 100 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Company or any underwriter for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

**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 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 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 (i) qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-1 to D.411-3, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (ii) a restricted number of non-qualified investors (cercle restreint d'investisseurs) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-4, 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 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.

# Foreign selling restrictions (cont)

**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 New Shares have not been and will not be offered or sold in Hong Kong other than (i) to "professional investors" (as defined in the SFO) or (ii) in other circumstances that do not result in this document being a "prospectus" (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to 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 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 New Shares may sell, or offer to sell, such shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such shares.

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 (the "Prospectus Regulations"). 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 (i) qualified investors as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 100 natural or legal persons who are not qualified investors.

**Italy**

The offering of the New Shares in the Republic of Italy has not been authorised 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 the New Shares may be distributed in Italy and the New Shares 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 ("Decree No. 58"), other than:

- to Italian 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 ("Regulation no. 1197l") as amended ("Qualified Investors"); 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 as amended.

Any offer, sale or delivery of the New Shares or distribution of any offer document relating to the New Shares 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 and any other applicable laws; and
- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

# Foreign selling restrictions (cont)

Any subsequent distribution of 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 as amended, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such New Shares being declared null and void and in the liability of the entity transferring the New Shares for any damages suffered by the investors.

**Japan**

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 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 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 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 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 of New Shares is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (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.

**Norway**

This document has not been approved by, or registered with, any Norwegian securities regulator pursuant to 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 New Shares may not be offered or sold, directly or indirectly, in Norway except:

(a) to "professional investors" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876);

(b) any natural person who is registered as a professional investor with the Norwegian Financial Supervisory Authority (No. Finanstilsynet) and who fulfils two or more of the following: (i) any natural person with an average execution of at least ten transactions in securities of significant volume per quarter for the last four quarters; (ii) any natural person with a portfolio of securities with a market value of at least €500,000; and (iii) any natural person who works, or has worked for at least one year, within the financial markets in a position which presuppose knowledge of investing in securities;

(c) to fewer than 100 natural or legal persons (other than "professional investors"); or

(d) in any other circumstances provided that no such offer of New Shares shall result in a requirement for the registration, or the publication by the Company or an underwriter, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.

# Foreign selling restrictions (cont)

**Singapore**

This document and any other materials relating to 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 New Shares, may not be issued, circulated or distributed, nor may the 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 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 New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

**Sweden**

This document has not been, and will not be, registered with or approved by Finansinspektionen (the Swedish Financial Supervisory Authority). Accordingly, this document may not be made available, nor may the New Shares be offered for sale in Sweden, other than under circumstances that are deemed not to require a prospectus under the Swedish Financial Instruments Trading Act (1991:980) (Sw. lag (1991:980) om handel med finansiella instrument). Any offering of New Shares in Sweden is limited to persons who are "qualified investors" (as defined in the Financial Instruments Trading Act). Only such investors may receive this document and they may not distribute it or the information contained in it to any other person.

**Switzerland**

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 New Shares may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to 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 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.

**United Arab Emirates**

Neither this document nor 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 authorisation 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 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 New Shares, including the receipt of applications and/or the allotment or redemption of New Shares, may be rendered within the United Arab Emirates by the Company.

No offer or invitation to subscribe for New Shares is valid or permitted in the Dubai International Financial Centre.

# Foreign selling restrictions (cont)

**United Kingdom**

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services 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 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 the New Shares 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 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.

**United States**

This Presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States or to any person that is, or is acting for the account or benefit of, a U.S. Person. The New Shares have not been, and will not be, registered under the Securities Act or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Shares may not be offered or sold to persons in the United States or to, or for the account or benefit of, U.S. Persons, except in transactions exempt from, or not subject to, registration under the Securities Act and applicable state securities laws.

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