



Bank of Queensland

AIFRS Update

31 March 2006

Background

- ▶ From 1 September 2005, the Bank must comply with the Australian equivalents to International Financial Reporting Standards (“AIFRS”) as issued by the Australian Accounting Standards Board for reporting periods commencing on or after 1 January 2005.
- ▶ The Bank’s financial statements for the half-year ended 28 February 2006 will be the first issued by the Bank reflecting these changes.
- ▶ Included in this presentation are the 2005 comparative numbers restated for AIFRS, plus retained earnings reconciliations detailing changes required on transition to AIFRS. An explanation of the changes has also been included.
- ▶ Under AIFRS, all the relevant standards have been applied by the Bank from 1 September 2005 and will be reflected in the February 2006 half-year report. However, in accordance with AIFRS, the Bank has elected not to apply some standards (AASB 138, AASB139) to the comparative financial year (the financial year ending 31 August 2005). This results in the Bank’s 2005 statutory comparative disclosures including some, but not all of the standards.

Introduction

- ▶ In particular, the impacts of AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosures and Presentation* are not reflected in the 2005 comparatives.
- ▶ As the Bank's 2005 statutory comparative disclosures will not include all AIFRS standards, this makes a comparison of the respective 2006 and 2005 results difficult.
- ▶ The Bank will release its 2006 half-year results on 6 April 2006, the financial report will contain more comprehensive disclosures than that presented in this document.
- ▶ Any queries in regards to this document should be directed to Matthew Wedmaier, Financial Controller (☎ 07 3212 3113), or Richard Evans, Head of Strategy and Planning (☎ 07 3212 3527).

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**Half-Year Ended
28 February 2005**

Condensed Consolidated Income Statement for half-year ended 28 February 2005

	AGAAP	Statutory AIFRS Adjustments (\$m)					AIFRS
	\$m	Share Based Payment AASB 2 (1)	Consolidation AASB 127 (2)	Leases AASB 117 (3)	Intangible Assets AASB 138 (4)	Impairment AASB 136 (5)	\$m
Interest income	335.0		65.3				400.3
Less: Interest expense	233.4		58.8				292.2
Net interest income	101.6	-	6.5	-	-	-	108.1
Other revenue	53.9		(1.9)				52.0
Net income	155.5	-	4.6	-	-	-	160.1
Less: Expenses	99.7	0.9	4.6	(0.2)		0.2	105.2
Profit before impairment on loans and advances, amortisation of intangibles and income tax expense	55.8	(0.9)	-	0.2	-	(0.2)	54.9
Less: Impairment on loans and advances ⁽⁷⁾	5.7						5.7
Profit before amortisation of intangibles and income tax expense	50.1	(0.9)	-	0.2	-	(0.2)	49.2
Less: Amortisation of intangibles	1.1					(1.1)	-
Profit before income tax expense	49.0	(0.9)	-	0.2	-	0.9	49.2
Less: Income tax expense	13.1						13.1
Net profit after income tax expense	35.9	(0.9)	-	0.2	-	0.9	36.1
Less: Preference Shares distribution ⁽⁶⁾							3.8
Net profit after income tax expense available for distribution to ordinary shareholders							32.3
Basic earnings per share	33.3c						33.5c
Diluted earnings per share	32.3c						32.5c
Cost to income ratio	64.1%						65.7%

Note: Reference numbers above refer to explanations of these adjustments on pages 9-11.

Condensed Consolidated Balance Sheet As at 28 February 2005

	AGAAP	AIFRS Adjustments (\$m)					AIFRS	
	\$m	Share Based Payment AASB 2 (1)	Consolidation AASB 127 (2)	Leases AASB 117 (3)	Intangible Assets AASB 138 (4)	Impairment AASB 136 (5)	Tax Impact	\$m
Assets								
Cash and liquid assets	463.1		105.1					568.2
Due from other financial institutions	871.3							871.3
Investment securities	284.0							284.0
Loans and advances	8,480.1		(104.9)					8,375.2
Securitised loans and advances	-		2,632.2					2,632.2
Property, plant and equipment	121.1				(87.8)			33.3
Deferred tax assets	28.6						1.5	30.1
Other assets	85.3		(3.7)					81.6
Intangible assets	31.4				87.8	0.9		120.1
Total Assets	10,364.9	-	2,628.7	-	-	0.9	1.5	12,996.0
Liabilities								
Due to other financial institutions	0.5							0.5
Deposits	8,525.4							8,525.4
Accounts payable and other liabilities	145.0		(56.3)	4.9				93.6
Provisions	14.0							14.0
Deferred tax liabilities	23.0							23.0
Borrowings including loan capital	980.6							980.6
Securitisation liabilities	-		2,685.0					2,685.0
Total Liabilities	9,688.5	-	2,628.7	4.9	-	-	-	12,322.1
Net Assets	676.4	-	-	(4.9)	-	0.9	1.5	673.9
Equity								
Contributed equity	586.2							586.2
Reserves	-	1.8						1.8
Retained profits	90.2	(1.8)		(4.9)		0.9	1.5	85.9
Total Equity	676.4	-	-	(4.9)	-	0.9	1.5	673.9

Note: Reference numbers above refer to explanations of these adjustments on pages 9-11.

Half-year ended 28 February 2005: Retained Earnings

Reconciliation of Retained Earnings as at 28 February 2005

	\$m
Retained Earnings Balance – AGAAP (28 February 2005)	90.2
Adjustment for initial adoption of AIFRS (1 September 2004)	
• Share Based Payments	(0.9)
• Leases	(5.1)
• Tax Impact	1.5
Adjustment for AIFRS (Half-year ended 28 February 2005)	
• Share Based Payments	(0.9)
• Leases	0.2
• Impairment	0.9
Retained Earnings Balance – AIFRS (28 February 2005)	85.9



Explanations - AIFRS Standards: Effective from 1 September 2004

The following AIFRS Standards apply to the Bank's financial statements from 1 September 2004:

Note Ref	AIFRS Standard	Explanation
1	AASB 2 - Share-Based Payment	<p>The Bank has issued options under the Managing Director Option Plan and the Senior Management Option Plan. Under the previous Australian Generally Accepted Accounting Policies ("AGAAP"), no expense was recognised for options or shares issued to employees. Under AIFRS, the fair value of the options or shares granted is recognised as an employee benefit expense with a corresponding increase in equity.</p> <p>Impact on Financial Statements:</p> <p>Amounts expensed will have a negative impact on net profit available for ordinary shareholders and cash diluted earnings per share.</p>
2	AASB 127 – Consolidated and Separate Financial Statements	<p>The Bank securitises mortgage loans ("REDS Mortgage Trusts") and hire purchase and chattel mortgages ("REDS EHP Trusts"). Under AGAAP, the Bank was considered not to control the securitisation vehicles and accordingly the assets and liabilities of the trusts were not included in the Consolidated Balance Sheet.</p> <p>REDS Mortgage Trusts</p> <p>Under AIFRS, the REDS Mortgage Trusts will be considered to be controlled by the Bank and accordingly have been consolidated. This has resulted in the assets and liabilities of the REDS Mortgage Trusts being brought onto the Consolidated Balance Sheet and the income and expenses of the Trusts being brought into the Consolidated Income Statement.</p> <p>Impact on Financial Statements:</p> <p>This treatment does not impact on profit available to ordinary shareholders however will have an impact upon the composition of the Income Statement.</p> <p>REDS EHP Trusts</p> <p>Under AIFRS, the REDS EHP Trusts will not be consolidated as the Bank is not considered to have control. Accordingly, the assets and liabilities of the REDS EHP Trusts will not be reflected in the Consolidated Balance Sheet. The difference in the treatment of the REDS Mortgage Trusts and REDS EHP Trusts is due to different ownership structures in regards to residual income units.</p> <p>Impact on Financial Statements:</p> <p>This change will not impact on net profit available for ordinary shareholders or cash diluted earnings per share.</p>



Explanations - AIFRS Standards: Effective from 1 September 2004

Note Ref	AIFRS Standard	Explanation
3	AASB 117 – Leases	<p>Under AGAAP, expenses for operating leases are expensed as incurred. Under AIFRS, lease payments under an operating lease shall be recognised as an expense on a straight-line basis unless another systematic basis is more representative of the time pattern of the user's benefit.</p> <p>This impacts the Bank's operating leases over premises and also the Information Technology ("IT") aspect of the EDS outsourcing contract.</p> <p>The operating leases over premises have been adjusted to a straight-line basis. The EDS IT contract is being expensed on a "units of use" basis that results in a greater expense in later years as the Bank's use of units increases with the expected increase in branches and volumes.</p> <p>Impact on Financial Statements:</p> <p>The treatment under AIFRS will result in a different net profit available for ordinary shareholders and cash diluted earnings per share.</p>
4	AASB 138 – Intangible Assets	<p><u>Computer Software & Technology Infrastructure</u></p> <p>Under AIFRS, the Bank will re-classify computer software and technology infrastructure from property, plant and equipment to intangible assets.</p> <p>Impact on Financial Statements:</p> <p>The above changes will not impact on net profit available for ordinary shareholders, or cash diluted earnings per share.</p> <p>Note: The Bank has chosen not to disclose amortisation of intangibles on the face of the income statement going forward, however will disclose in the notes to the accounts those expenses which represent amortisation of intangibles.</p>
5	AASB 136 – Impairment of Assets	<p>Previously under AGAAP, goodwill was required to be amortised on a straight-line basis over no more than 20 years.</p> <p>Under AIFRS, goodwill is not required to be amortised, however the carrying value must be tested for impairment on at least an annual basis.</p> <p>Impact on Financial Statements:</p> <p>As there is no amortisation of goodwill, there will be a positive impact on net profit available for ordinary shareholders, but this will have no impact upon cash diluted earnings per share. Any future impairment write-downs would have a negative impact on net profit available for ordinary shareholders.</p>



Explanations - AIFRS Standards: Effective from 1 September 2005

Under AIFRS the following standards apply to the Bank's financial statements from 1 September 2005, these standards are not applied to the financial statements for the year ended 31 August 2005:

Note Ref	AIFRS Standard	Explanation
6	AASB 132 - Financial Instruments: Disclosure and Presentation	<p>Under AGAAP the Bank's preference shares were classified as equity with distributions taking the form of dividends. Under AIFRS, these instruments will be treated as liabilities and the distributions treated as interest expense.</p> <p>Impact on Financial Statements:</p> <p>The change to disclose the distributions as interest expense will have a negative impact on net profit, but will not affect net profit available for distribution to ordinary shareholders, or cash diluted earnings per share.</p>
7	AASB 139 – Financial Instruments: Recognition and Measurement	<p>Under AGAAP the Bank maintained a general provision for impairment. This provision was based on probable losses and not an event or loss that has been incurred.</p> <p>AIFRS adopts an approach known as "incurred losses" for loan provisioning. Provisions are raised for losses that have already been incurred on loans that are known to be impaired. Under this approach, the Bank will not carry a general provision for impairment. However, it will raise a Collective Provision and a General Reserve for Credit Losses. ("GRCL"). Under APRA requirements the sum of the Collective Provision and the GRCL will be maintained at 0.5% of risk weighted assets (tax effected).</p> <p>Impact on Financial Statements:</p> <p>The removal of the general provision will result in a positive impact to the Statutory reported net profit available for ordinary shareholders, as no further increases to the provision are required. However, it is understood that increases to the GRCL will be deducted from the Statutory reported net profit to calculate net profit available for ordinary shareholders, by Analysts/Investors.</p>



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Half-Year Ended 31 August 2005

Condensed Consolidated Income Statement for half-year ended 31 August 2005

	AGAAP	AIFRS Adjustments (\$m)					AIFRS
	\$m	Share Based Payment AASB 2 (1)	Consolidation AASB 127 (2)	Leases AASB 117 (3)	Intangible Assets AASB 138 (4)	Impairment AASB 136 (5)	\$m
Interest income	378.7		82.7				461.4
Less: Interest expense	263.6		73.5				337.1
Net interest income	115.1	-	9.2	-	-	-	124.3
Other revenue	86.1		(3.2)			(0.8)	82.1
Net income	201.2	-	6.0	-	-	(0.8)	206.4
Less: Expenses	113.5	1.9	6.0	(0.2)		0.4	121.6
Profit before impairment on loans and advances, amortisation of intangibles and income tax expense	87.7	(1.9)	-	0.2	-	(1.2)	84.8
Less: Impairment on loans and advances ⁽⁷⁾	7.7						7.7
Profit before amortisation of intangibles and income tax expense	80.0	(1.9)	-	0.2	-	(1.2)	77.1
Less: Amortisation of intangibles	1.0					(1.0)	-
Profit before income tax expense	79.0	(1.9)	-	0.2	-	(0.2)	77.1
Less: Income tax expense	23.2			0.1			23.3
Net profit after income tax expense	55.8*	(1.9)	-	0.1	-	(0.2)	53.8
Less: Preference Shares distribution ⁽⁶⁾							3.9
Net profit after income tax expense available for distribution to ordinary shareholders							49.9
Basic earnings per share	51.9c						49.7c
Diluted earnings per share:	49.9c						48.1c
Cost to income	56.4%						58.9%

* Included in profit after tax is a significant item, being the sale of ATM Solutions Australasia Pty Ltd. This sale netted a \$23.6m pre-tax profit and a \$15.5m after tax profit (under AIFRS this is a \$22.8m pre-tax profit and a \$14.7m after tax profit).

Note: Reference numbers above refer to explanations of these adjustments on pages 9-11.

**Year Ended
31 August 2005**

Condensed Consolidated Income Statement for the year ended 31 August 2005

	AGAAP	AIFRS Adjustments (\$m)					AIFRS
	\$m	Share Based Payments AASB 2 (1)	Consolidation AASB 127 (2)	Leases AASB 117 (3)	Intangible Assets AASB 138 (4)	Impairment AASB 136 (5)	\$m
Interest income	713.7		148.0				861.7
Less: Interest expense	497.0		132.3				629.3
Net interest income	216.7	-	15.7	-	-	-	232.4
Other revenue	140.0		(5.1)			(0.8)	134.1
Net income	356.7	-	10.6	-	-	(0.8)	366.5
Less: Expenses	213.2	2.8	10.6	(0.4)		0.6	226.8
Profit before impairment on loans and advances, amortisation of intangibles and related income tax expense	143.5	(2.8)	-	0.4	-	(1.4)	139.7
Less: Impairment on loans and advances ⁽⁷⁾	13.4						13.4
Profit before amortisation of intangibles and related income tax expense	130.1	(2.8)	-	0.4	-	(1.4)	126.3
Less: Amortisation of intangibles	2.1					(2.1)	-
Profit before income tax expense	128.0	(2.8)	-	0.4	-	0.7	126.3
Less: Income tax expense	36.3			0.1			36.4
Net profit after income tax expense	91.7*	(2.8)	-	0.3	-	0.7	89.9
Less: Preference Shares distribution ⁽⁶⁾							7.7
Net profit after income tax expense available for distribution to ordinary shareholders							82.2
Basic earnings per share	85.2c						83.2c
Diluted earnings per share:	82.2c						80.6c
Cost to income	59.8%						61.9%
Cost to income (excluding significant items)*	64.0%						66.0%
Diluted earnings per share (excluding significant items)*	70.2c						67.4c

* Included in profit after tax is a significant item, being the sale of ATM Solutions Australasia Pty Ltd. This sale netted a \$23.6m pre-tax profit and a \$15.5m after tax profit (under AIFRS this is a \$22.8m pre-tax profit and a \$14.7m after tax profit).

Note: Reference numbers above refer to explanations of these adjustments on pages 9-11.

Condensed Consolidated Balance Sheet

As at 31 August 2005

	AGAAP \$m	AIFRS Adjustments (\$m)					Tax Impact	AIFRS \$m
		Share Based Payment AASB 2 (1)	Consolidation AASB 127 (2)	Leases AASB 117 (3)	Intangible Assets AASB 138 (4)	Impairment AASB 136 (5)		
Assets								
Cash and liquid assets	530.2		41.4					571.6
Due from other financial institutions	895.6							895.6
Investment securities	299.4							299.4
Loans and advances	9,094.3		(41.0)					9,053.3
Securitised loans and advances	-		2,537.8					2,537.8
Property, plant and equipment	101.4				(83.0)			18.4
Deferred tax assets	36.4					1.4		37.8
Other assets	96.2		68.3					164.5
Intangible assets	12.2				83.0	0.7		95.9
Total Assets	11,065.7	-	2,606.5	-	-	0.7	1.4	13,674.3
Liabilities								
Due to other financial institutions	74.1							74.1
Deposits	8,713.0							8,713.0
Accounts payable and other liabilities	114.7		4.0	4.7				123.4
Current tax liabilities	10.9							10.9
Provisions	14.4							14.4
Deferred tax liabilities	23.7							23.7
Borrowings including loan capital	1,399.4							1,399.4
Securitisation liabilities	-		2,602.5					2,602.5
Total Liabilities	10,350.2	-	2,606.5	4.7	-	-	-	12,961.4
Net Assets	715.5	-	-	(4.7)	-	0.7	1.4	712.9
Equity								
Contributed equity	596.4							596.4
Reserves	-	3.7						3.7
Retained profits	119.1	(3.7)		(4.7)		0.7	1.4	112.8
Total Equity	715.5	-	-	(4.7)	-	0.7	1.4	712.9

Note: Reference numbers above refer to explanations of these adjustments on pages 9-11.



Year ended 31 August 2005: Retained Earnings

Reconciliation of Retained Earnings as at 31 August 2005

	\$m
Retained Earnings Balance – AGAAP (31 August 2005)	119.1
Adjustment for initial adoption of AIFRS (1 September 2004)	
• Share Based Payments	(0.9)
• Leases	(5.1)
• Tax Impact	1.5
Adjustment for AIFRS (Half–year ended 31 August 2005)	
• Share Based Payments	(2.8)
• Leases	0.3
• Impairment	0.7
Retained Earnings Balance – AIFRS (31 August 2005)	112.8

Interest Margin

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Statutory Net Interest Income Margin Analysis - 2005

	Half-year ended 28 February 2005	Half-year ended 31 August 2005	Full-year ended 31 August 2005
AGAAP	%	%	%
Interest spread	1.96	2.10	2.03
Capital impact	0.29	0.24	0.27
Interest rate margin	2.25	2.34	2.30
Impact of payment to third parties	(0.21)	(0.20)	(0.21)
Net interest margin	2.04	2.14	2.09
AIFRS	%	%	%
Interest spread	1.73	1.83	1.79
Capital impact	0.20	0.20	0.20
Interest rate margin	1.93	2.03	1.99
Impact of payment to third parties	(0.17)	(0.16)	(0.16)
Net interest margin	1.76	1.87	1.83

The reduction in net interest margin under AIFRS is due to the consolidation of the REDS Mortgage Trusts. These Trusts are wholesale funded as opposed to the Bank's non-securitised assets which are funded through a mix of retail and wholesale funding.

The reduction in the impact of capital and payment to third parties is a result of the increased amount of net interest income due to the consolidation of the Trusts while both the quantum of capital and payments to third parties have remained the same.



Average Balance Sheet – Half-year ended 31 August 2005

	6 Months to 31 August 2005		
	Average Balance	Interest	Average Rate [a]
	\$m	\$m	%
Interest earning assets			
Gross loans and advances at amortised cost *	11,496.4	413.6	7.14
Investments and other securities *	1,723.9	47.8	5.50
Total interest earning assets	13,220.3	461.4	6.92
Non-interest earning assets			
Property, plant and equipment	25.5		
Other assets	347.7		
Provision for impairment	(57.4)		
Total non-interest earning assets	315.8		
Total assets	13,536.1		
Interest bearing liabilities			
Retail deposits *	5,623.3	117.7	4.15
Wholesale deposits and borrowings *	7,094.3	208.6	5.83
Swaps and other hedges		0.3	
Third Party Commissions			
- Owner Managed Branches		6.1	
- Other intermediaries		4.4	
Total interest bearing liabilities	12,717.6	337.1	5.26
Non-interest bearing liabilities	125.0		
Total liabilities	12,842.6		
Shareholders' funds	693.5		
Total liabilities and shareholders' funds	13,536.1		

	6 Months to 31 August 2005		
	Average Balance	Interest	Average Rate [a]
	\$m	\$m	%
Interest margin and interest spread			
Interest earning assets	13,220.3	461.4	6.92
Interest bearing liabilities	12,717.6	337.1	5.26
Net interest spread			1.66
Net interest margin - on average interest earning assets	13,220.3	124.3	1.87
Net interest margin - on average opening and closing total assets	13,335.2	124.3	1.85

* Calculated on average daily balances
[a] Annualised rates

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