

government deposit guarantee fact sheet



Background

- The Government has implemented a Financial Claim Scheme which will operate to cover all customers deposits up to \$1 million. The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding Liabilities will operate to guarantee amounts above \$1 million. This scheme will operate for the next 3 years ending 11 October, 2011.
- All Bank of Queensland deposits up to \$1 million per customer is covered under the Financial Claim Scheme by the Australian Government for free – the government is not charging to cover up to this limit and customers do not need to do anything for this cover to apply. It is automatic.
- For funds over \$1 million the Government will be charging a fee to guarantee these funds. This fee for Bank of Queensland customers is 1.5%p.a. payable monthly in advance, however by offering some extremely competitive deposit rates we hope to minimise the impact of this fee on customers.

Why is the government introducing the guarantee?

"The arrangements are designed to promote financial system stability in Australia, by supporting confidence and assisting ADIs to continue to access funding at a time of considerable turbulence. They are also designed to ensure that Australian institutions are not placed at a disadvantage compared to their international competitors that can access similar government guarantees on bank debt." www.guaranteescheme.gov.au

So how safe is Australia's banking sector?

Australia is fortunate to have one of the safest, most stable and best regulated banking sectors in the world. Our banks are among the best funded and most liquid in the world and are prudently managed using international best practice.

And how safe is Bank of Queensland?

Like all Australian banks, Bank of Queensland is very safe and well-regulated.

And now, with the Federal Government's announcement that it will guarantee all deposits (subject to a fee being payable for the guarantee for funds over \$1 million) with Australian banks, for the next three years, deposits with Bank of Queensland have the same level of protection as every other Australian bank

And unlike some of the major Australian retail and investment banks, Bank of Queensland does not lend internationally and has no direct exposure to the poor quality "sub-prime"

mortgage market in the United States, which has caused such turmoil in international money markets.

How does the guarantee work?

- If you hold up to \$1 million in deposits with Bank of Queensland, your deposits are automatically covered free of charge.
- From 28 November 2008, if your total deposits with Bank of Queensland are greater than \$1 million, the Government is charging a fee to guarantee the funds over the \$1 million threshold.
- The guarantee will be applied on a per customer basis, rather than per product. A customer has been defined as a legal "entity", which includes individuals, partnerships, businesses, trusts and government entities. Some examples of how this is administered are outlined below:

Example 1:

If you have 2 accounts with us, one with a balance of \$800,000 and another with a balance of \$700,000, you will have a total Net Credit Balance of \$1.5 million, \$1 million of which would be covered under the Financial Claim Scheme automatically without any cost to you.

Should you wish to have your balance above \$1 million also guaranteed under the Guarantee Scheme, you will need to elect for \$500,000 to be covered by completing the relevant form and paying the appropriate fee.

Example 2:

If you have 2 accounts with us:

- one is in your own personal name or a company name; and
- the other is in your name or company name as trustee for a family trust, these accounts will be considered to be held by 2 entities, with each entity's Protected Account being covered under the Financial Claim Scheme up to and including \$1 million without any fee being payable.

Example 3:

If you have 2 accounts with us, one is in your own personal name and the other is a joint account with you being a joint account holder, your total Net Credit Balance of your Protected Accounts will be the balance of the account in your name only plus half of the balance of the joint account.

Note: these examples are not intended to constitute financial or taxation advice and you should consult an independent financial or tax advisor to discuss your circumstances.

How is the fee calculated?

The Government is charging a fee to guarantee the portion of the balances over \$1 million held at any one ADI. The rate has been set by the Government, and the rate applying to Bank of Queensland is 1.5%p.a. of the guaranteed value; however by offering some extremely competitive deposit rates we hope to minimise the impact of this fee on customers.

Example 1:

	Bank of Queensland	Competitor
Total investment	\$1,500,000	\$1,500,000
Selected guaranteed value	\$500,000	\$500,000
Promotional interest rate*	7.20% p.a.	6.75% p.a.
Term	12 months	12 months
Guarantee Fee	1.50% p.a.	0.70% p.a.
Guarantee Fee – Annualised	\$7,500	\$3,500
Interest payable on total investment	\$108,000	\$101,250
Total investment return	\$100,500	\$97,750

Example 2:

	Bank of Queensland	Competitor
Total investment	\$1,500,000	\$1,500,000
Selected guaranteed value	\$500,000	\$500,000
Standard interest rate*	5.55% p.a.	5.00% p.a.
Term	12 months	12 months
Guarantee Fee	1.50% p.a.	0.70% p.a.
Guarantee Fee – Annualised	\$7,500	\$3,500
Interest payable on total investment	\$83,250	\$75,000
Total investment return	\$75,750	\$71,500

*these rates are indicative as at 24/11/08 and are subject to change. They are quoted for the sole purpose of providing an example of how the fee is calculated.

With Bank of Queensland, you can nominate the guaranteed value that you would like covered by the Government Guarantee, giving you the ability to make your own decision regarding the level of risk you want to carry in the unlikely event that the Bank is wound up. The fee is payable monthly in advance. The amount payable as the first payment will be a pro-rated amount based on the number of days remaining in the month in which your cover became effective. Thereafter, the amount is payable on the second Bank Business Day of each following month and will be a pro-rated amount based on the number of months in a year.

For example: if you applied for \$200,000 cover on 8 December 2008 (which is effective on 9 December 2008), the annual deposit guarantee fee will be payable as follows:

First payment = $[(\text{cover selected} \times 1.5\%) / 365] \times$
(number of days remaining in the month)
= $[(\$200,000 \times 1.5\%) / 365] \times 22$
= \$180.82

Monthly payment = $(\text{cover selected} \times 1.5\%) / 12$
= $(\$200,000 \times 1.5\%) / 12$
= \$250.00

You can nominate the account you wish the fee to be debited to on a monthly basis, or alternatively you can establish a direct debit from an account with another financial institution if this is more appropriate. You must make this nomination at the time that you lodge the form with us.

Where can I get more information?

A full set of terms and conditions in relation to the Government Deposit Guarantee is available on request from your local branch or can be sourced from our website www.boq.com.au

The Federal Government's website provides more general information about the guarantee: www.guaranteescheme.gov.au