Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Bank of Queensland Limited

Bank of Queensland Limited

Brisbane, Queensland, Australia

Ratings

Category	Moody's Rating
Outlook	Positive
Bank Deposits	Baa2/P-2
Bank Financial Strength	C-
Issuer Rating	Baa3
Senior Unsecured MTN -Dom Curr	NR
Preference Stock -Dom Curr	NR
Commercial Paper	NR
Other Short Term -Dom Curr	NR

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Key Indicators

[1]
Bank of Queensland Limited

	2004	2003	2002	2001	2000	CAGR/Avg
Total Assets (A$ Million)	9,927.6	7,203.8	5,280.2	4,221.9	3,689.6	837.54
Pre-provision Profit / Avg Total Assets (%)	1.16	1.21	1.05	0.99	1.28	1.14
Return on Average Total Assets (%)	0.75	0.72	0.60	0.61	0.66	0.67
Net Interest Margin (%)	2.27	2.25	2.40	2.82	2.96	2.54
Overhead Ratio (%)	64.22	63.29	70.58	74.61	67.93	68.13
"Non-Performing" Loans / Gross Loans (%)	0.43	0.35	0.53	0.57	0.70	0.52
Tier-1 Risk-Weighted Ratio (CAR) (%)	7.70	7.70	7.20	7.50	7.40	7.50
Total Risk-weighted Ratio (CAR) (%)	11.60	11.90	11.30	10.40	10.50	11.14

[1] Fiscal year end: August 31; consolidated statistics

Opinion

Credit Strengths

[1] Promising results from new business strategy [2] Strong asset quality, bolstered by residential mortgage focus [3] Single minded focus on core competences underpins earnings potential

Credit Challenges

[1] Control issues raised by outsourcing initiatives, new "owner/manager" branch model and rapid credit expansion, including out-of-state growth plans [2] Margin pressure due to product commoditisation in bank's main lines of business (residential mortgages and deposit gathering)

Rating Rationale

Bank of Queensland's (BOQ's) ratings reflect its position as the smaller of the two Queensland-incorporated banks, amidst an increasingly competitive Australian market. The bank has traditionally been burdened by a high cost structure and like all Australian banks, is facing deposit disintermediation.

New management installed at the bank in 2002 is focusing on cost containment measures and is introducing a new "owner/manager" model at branches that shows initial promise both in terms of profitability and customer service. BOQ is swiftly increasing its branch network, geographic footprint and assets under management by recruiting successful managers from other banks. While this structure does introduce significant operational and behavioural risks, BOQ's control environment appears appropriate and initial evidence suggests that such branches perform strongly. BOQ has decided no longer to originate residential mortgages via the broker channel. Although this move supports the bank's "owner/manager" branches, its success will be watched closely, as brokers originate approximately one third of mortgage lending in Australia.

Asset quality is sound, reflecting a focus on residential mortgages. Although Ausralia's housing market has peaked, and there is increasing emphasis on new products such as "low documentation" mortgages, credit risks are contained by the fact that a high proportion of mortgages are insured by highly rated counterparties. However, the bank may be challenged to maintain current asset quality levels as it is targeting vigorous growth, including plans to focus on small business lending and to diversify outside its home market.

BOQ has made a couple of strategic acquisitions, which appear to have been well integrated and are performing well. It purchased UFJ's leasing business, which has helped position the bank within the growing SME segment in major population centres on Australia's East Coast. Due to the small size of the loan book, concentration risks are inevitably a consideration, but to date asset quality remains strong. The bank also acquired an independent ATM network that is profitable and offers opportunities to increase brand visibility. At the same time, BOQ has also made extensive systems investment, notably offering considerably enhanced CRM capabilities and increased efficiencies.

The rating differential between the deposit rating and issuer ratings reflects the depositor preference enshrined in the Australian Banking Act.

Rating Outlook

The outlook is Positive, reflecting the continued success of BOQ's restructuring and expansion initiatives

What Could Change the Rating - UP

The key issue for a ratings upgrade will be if BOQ can demonstrate that it is able to build sustainable business through its OMB network (in particular, compensating for its abandonment of the broker channel), while maintaining effective controls and sound asset quality.

What Could Change the Rating - DOWN

Given the positive outlook, the chance of downward ratings movement is slim.

Recent Results

Net Profit After Tax rose 28% on the prior period on continued strong lending growth. The Net Interest Margin fell slightly to 2.04% from 2.10% (consistent with system-wide margin pressure due to competition). Non Interest Income also fell after the decision to boycott broker-originated lending, but is expected to recover as the OMBs start to pull in more business.

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