

Bank of Queensland

Half-Year Results

29 February 2008

Agenda

- **Result highlights**

David Liddy

Managing Director & CEO

- **Financial result in detail**

Ram Kangatharan

Group Executive & CFO

- **BOQ Portfolio**

Ram Kangatharan

Group Executive & CFO

- **Strategy and outlook**

David Liddy

Managing Director & CEO

Result highlights

David Liddy, Managing Director

Result highlights

- ▶ Record profitability whilst continuing to gain market share
- ▶ Strong EPS growth
- ▶ Results capture the full impact of the credit crisis
- ▶ Acquisition of Home Building Society completed with expected integration and synergies ahead of market guidance
- ▶ Improved efficiency
- ▶ Continued sound credit quality
- ▶ Strong capital and liquidity / funding base

Strong financial results

	<u>1H07</u>	<u>1H08</u>		
Normalised cash profit after tax	\$49.1m	\$65.3m	↑	33%
Cash EPS <small>(normalised diluted)</small>	43.4¢	47.6¢	↑	10%
Ordinary dividend	32¢	35¢	↑	9%
Loan growth (pcp)	26%	*27%		
Retail deposit growth (pcp)	30%	*26%		
Net interest margin	1.85%	1.62%	↓	(23bps)
Cost to income ratio <small>(normalised cash)</small>	64%	59%	↓	8%

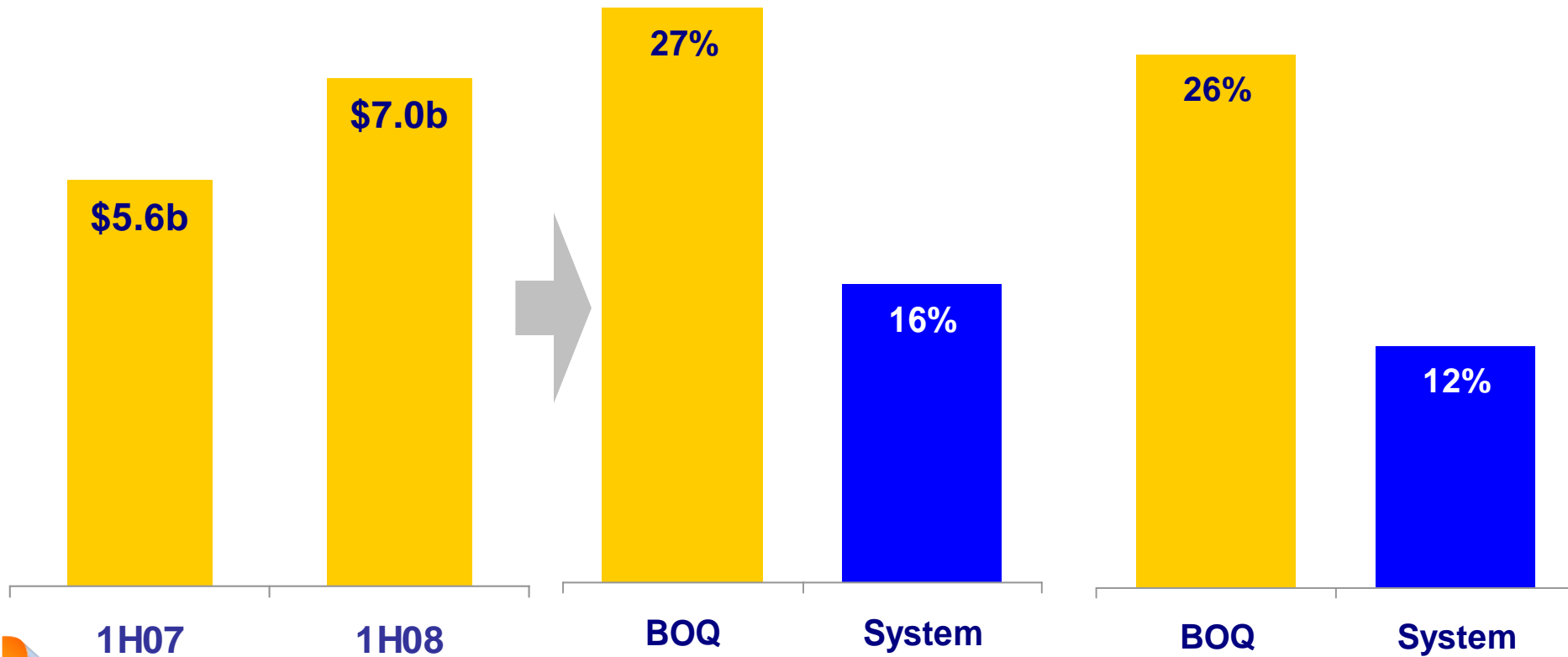
* Excludes contribution from Home Building Society

Strong lending and deposit growth

▶ Loan approvals
↑ 25%

▶ Lending growth
↑ 27% *

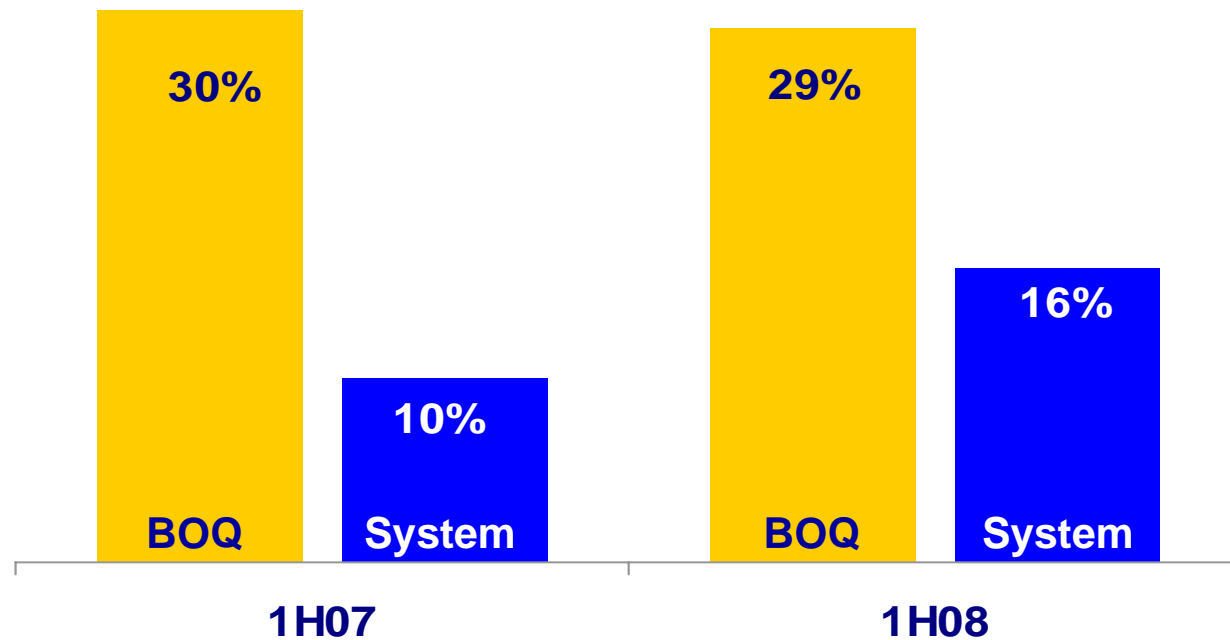
▶ Retail deposit growth
↑ 26% *



* Excludes growth from the acquisition of Home Building Society Ltd. and based on comparison to pcp.

Excellent retail deposit growth

- ▶ In the 6 months since the credit crisis began, deposit growth has continued. BOQ continues to out-perform system growth.



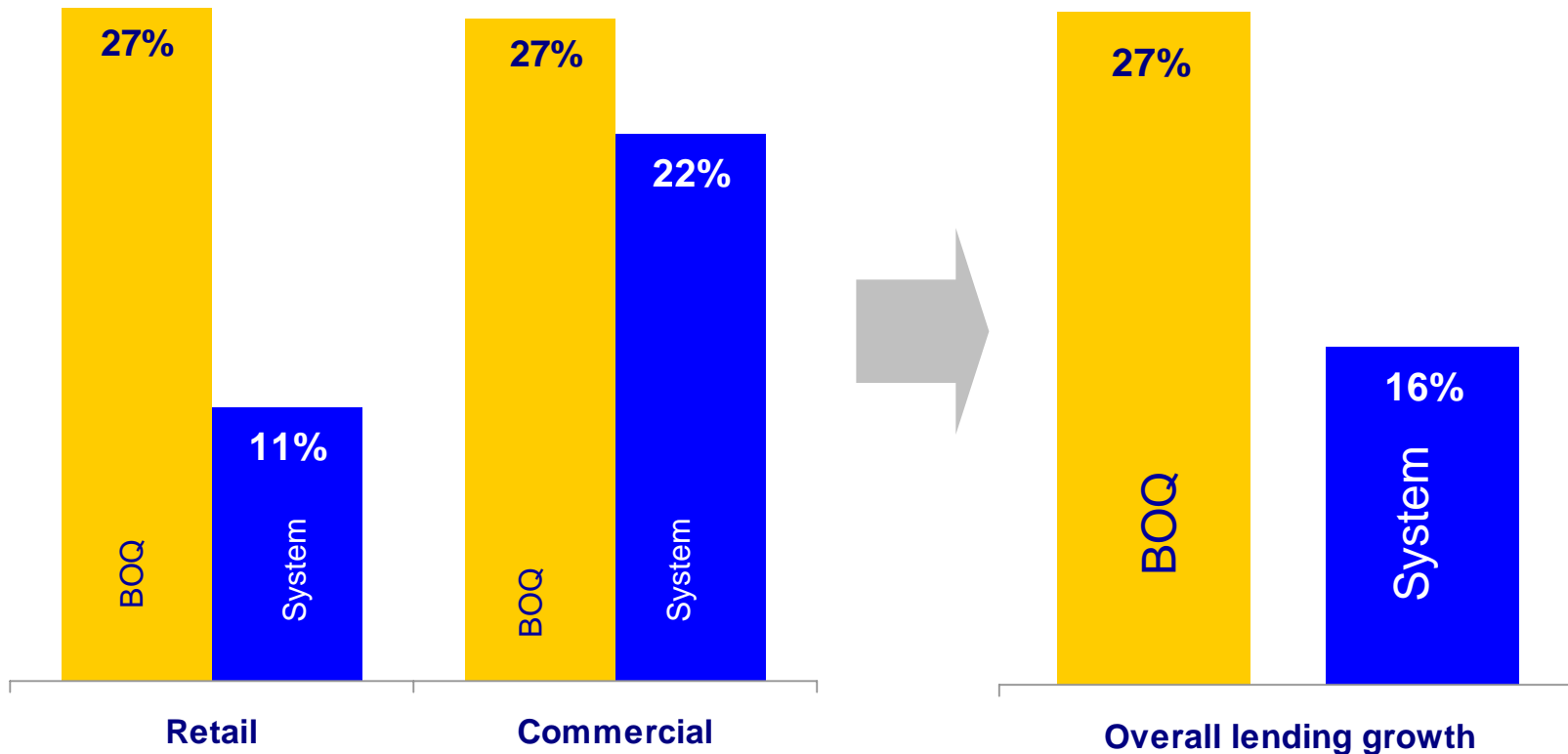
* Excludes growth through the acquisition of Home Building Society Ltd.

System: APRA monthly statistics, household deposits

Continuing strong lending growth

▶ Strong growth in all areas *

▶ Overall 1.7x system growth *



Source: RBA – based on 12-month rolling period to Feb 08.

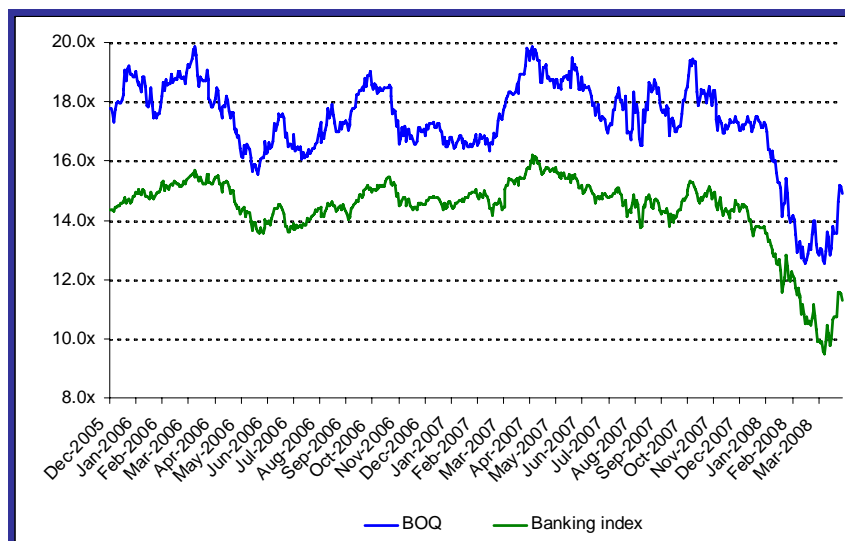
Excludes Home Building Society contribution in the period

FY08 Half-Year Results

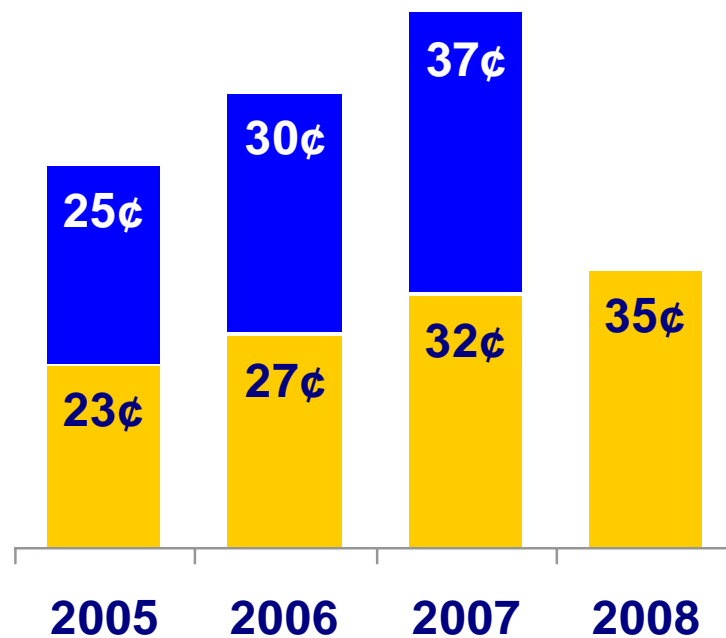
Shareholder returns

- ▶ BOQ has a strong track record of maintaining share price premium even in difficult times and delivering strong shareholder returns

P/E Ratio – BOQ v Banking Index



Dividends*



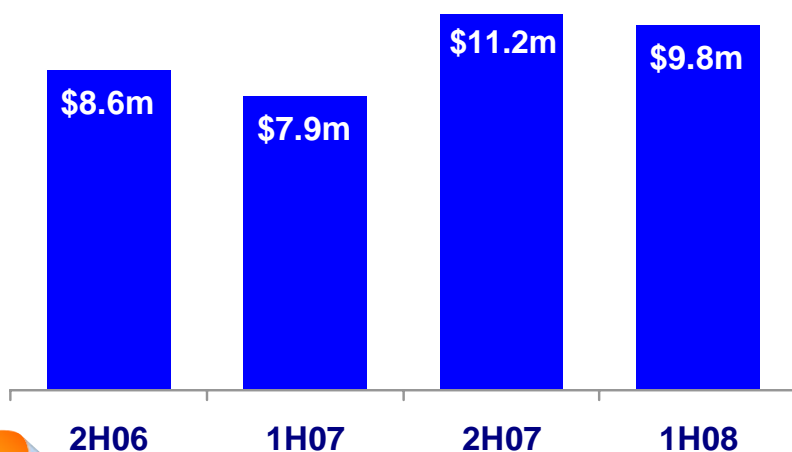
1st half
 2nd half

* Excludes special dividends, on a cash normalised profit basis

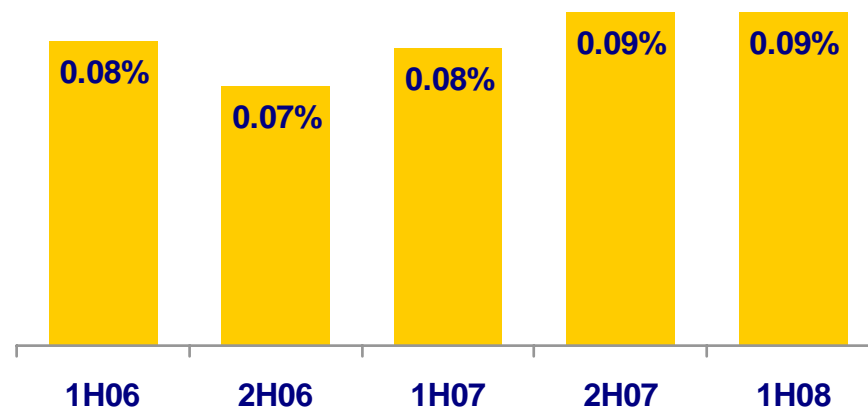
Strong asset quality

- ▶ Focus remains on well secured housing and SME lending
- ▶ Low level of large exposures

Underlying bad debts

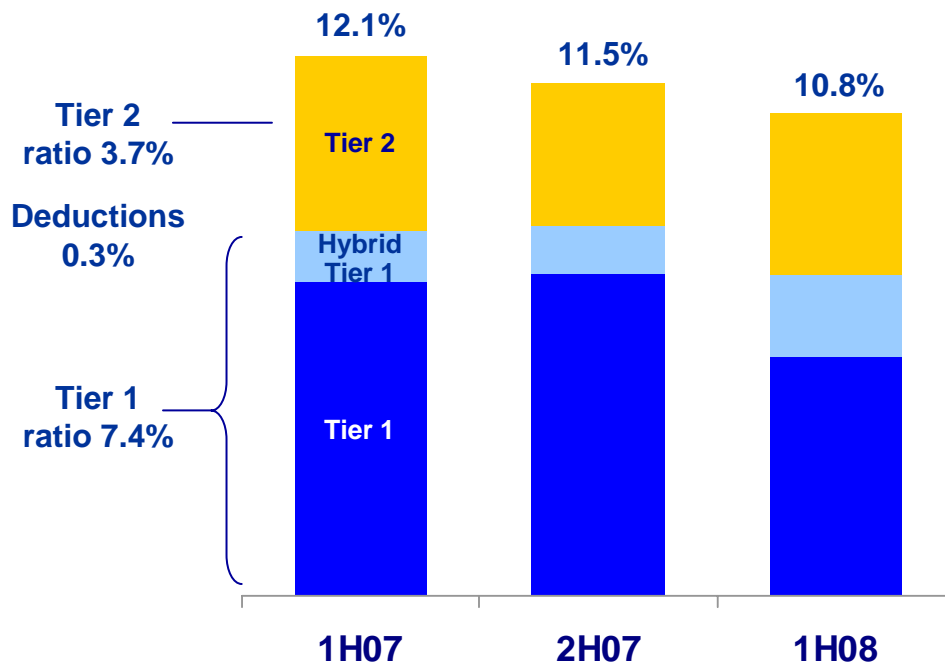


Impaired assets to non-securitised lending

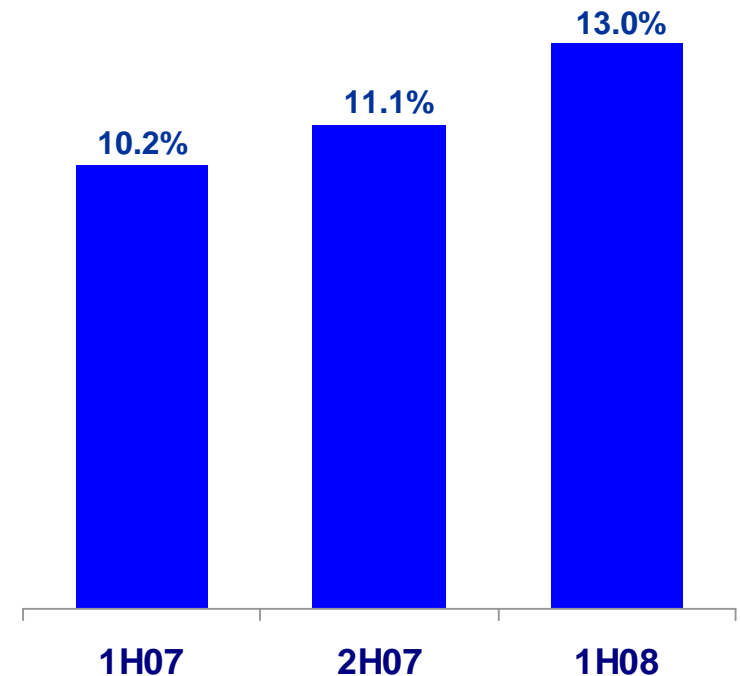


Strong capital and liquidity

Capital Adequacy



Liquidity



Including Home Building Society for 1H08 figures

The result in detail

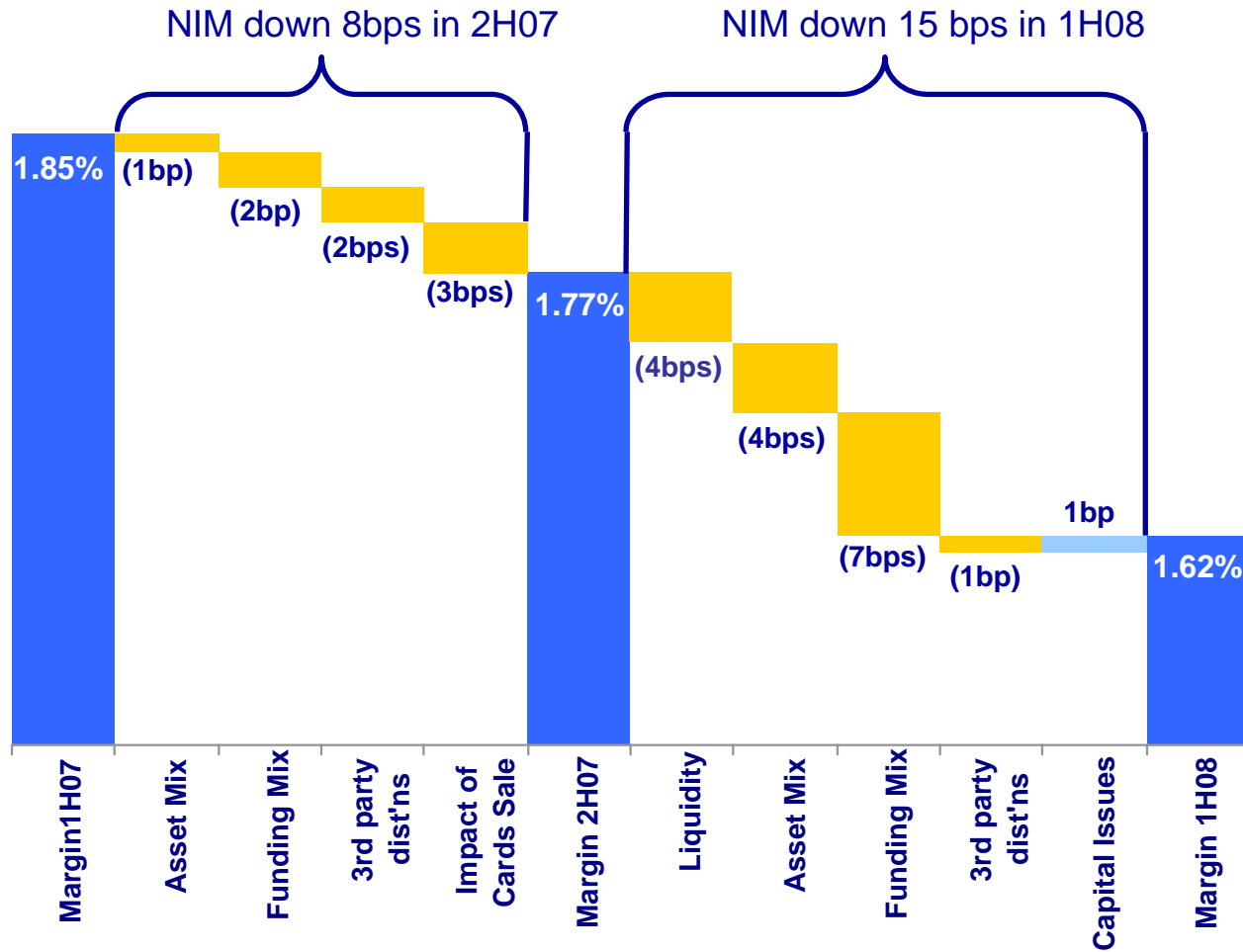
Ram Kangatharan, Chief Financial Officer

Meeting our commitments

	1H07 \$m	1H08 \$m	% Change vs PCP
Total operating income	219.6	252.9	15%
Total expenses	141.7	159.2	12%
Underlying profit	77.9	93.7	20%
Impairment on loans and advances	9.3	9.2	-1%
Profit before tax	68.6	84.5	23%
Income tax	20.2	26.7	32%
Net profit after tax	48.4	57.8	19%
Add: Amortisation of customer contracts	0.7	6.7	-
Cash profit after tax	49.1	64.5	31%
Normalising Items	-	0.8	-
Normalised cash profit after tax	49.1	65.3	33%
Add: RePS & S1RPS Dividend	2.9	2.9	-
Cash Earnings used for Fully Diluted EPS	52.0	68.2	31%
Cash diluted EPS (normalised)	43.4¢	47.6¢	10%

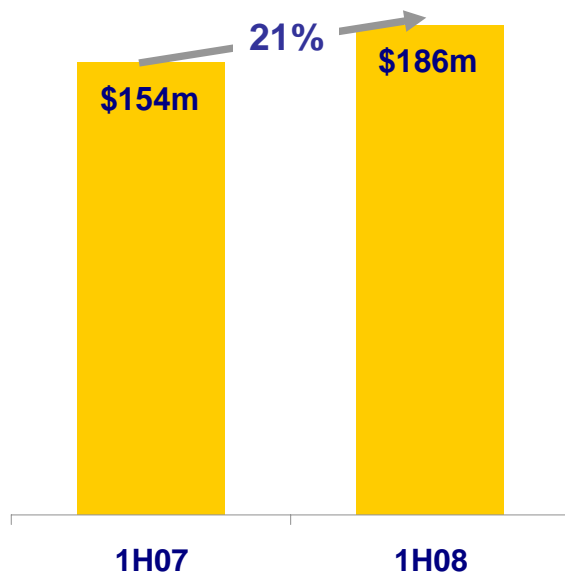
Includes Home Building Society results from 18th December 2008

Headline margin down 15bps in 1H08



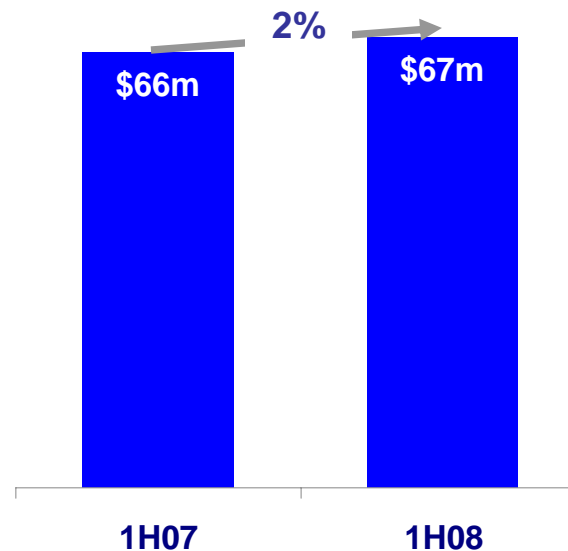
Continued income growth

Net Interest Income



- ▶ NII reflecting strong lending growth offsetting higher cost of funds

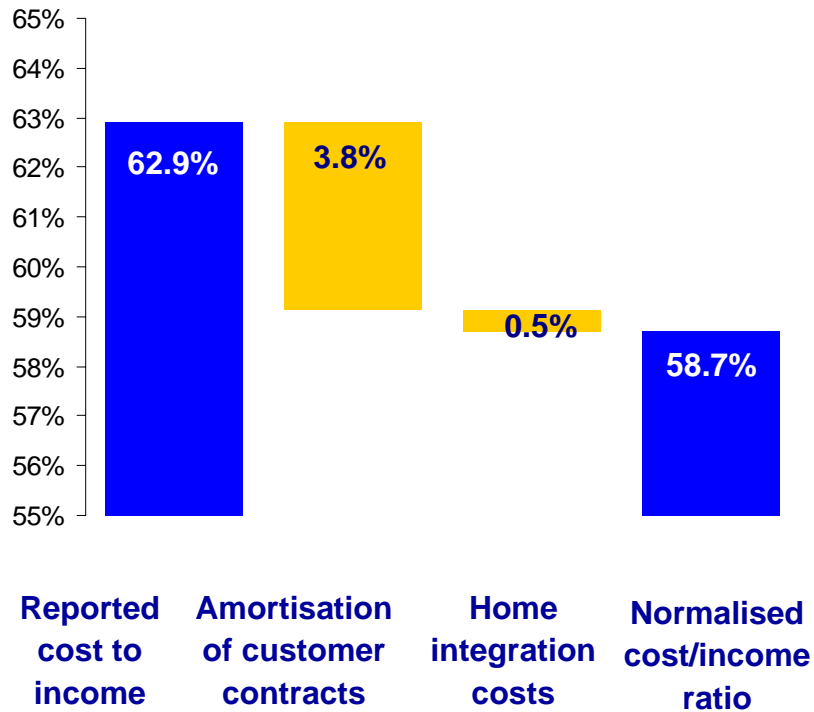
Non Interest Income



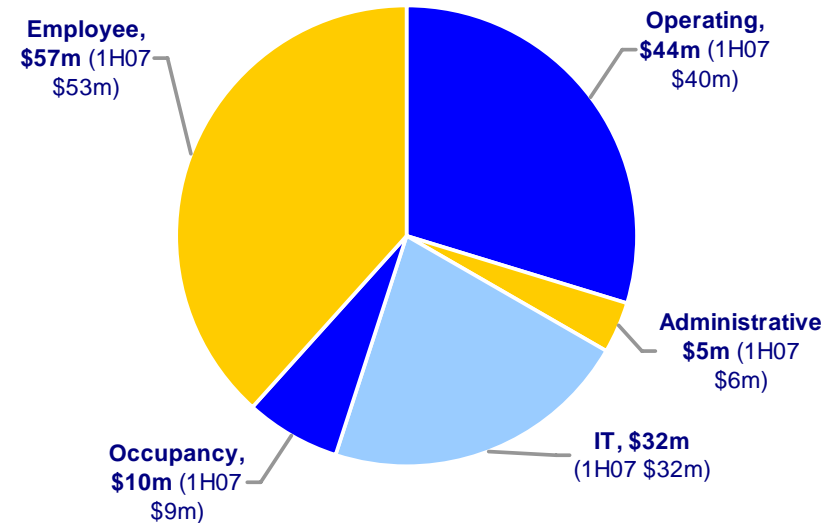
- ▶ Disposal of the Cards business and lower non-core income offset by higher banking & insurance income

Expenses

Cost to Income Ratio

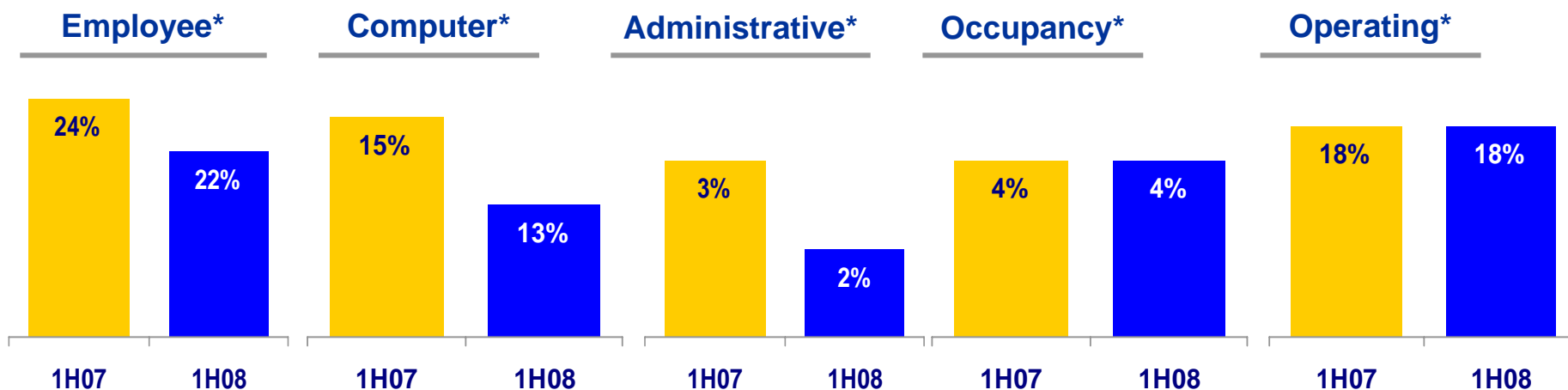


Operating Expenses



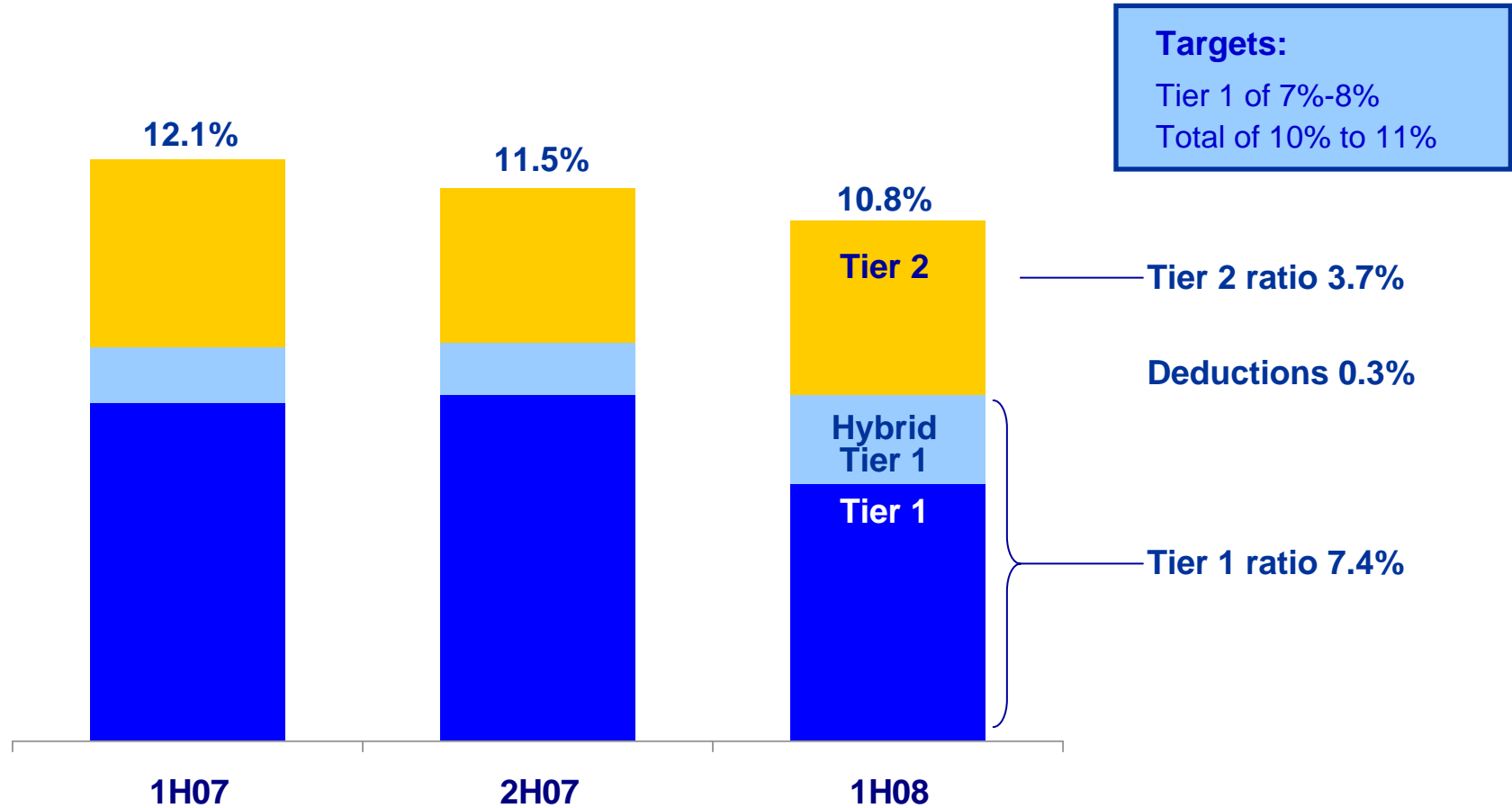
Expense discipline

- ▶ Cost disciplines introduced to offset volatile markets without compromising the long term potential of the brand or our unique distribution model
- ▶ Adjusting for amortisation of customer contracts, major expense categories have been kept flat relative to income growth



* Expressed as a percentage of total income

Capital adequacy



Funding and liquidity

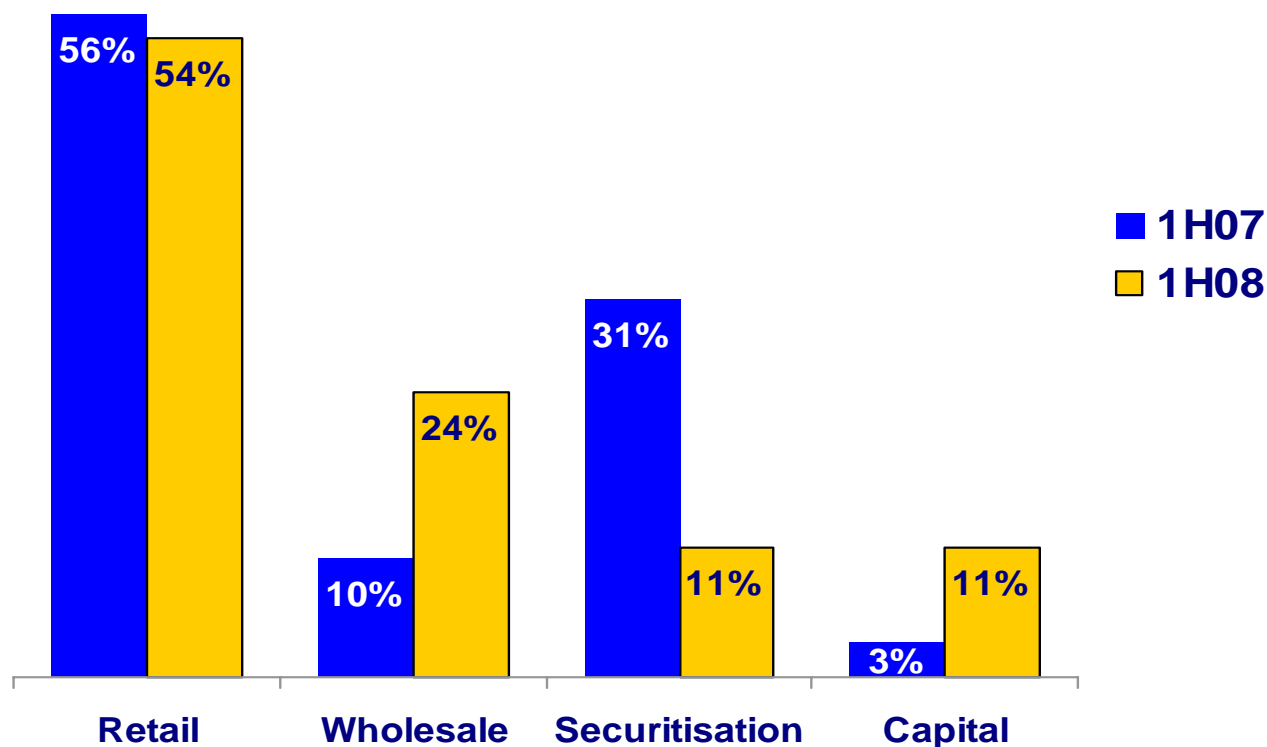
- ▶ Key to BOQ's funding philosophy has been and will remain, diversification of funding sources
- ▶ Diversification of wholesale borrowing
 - Inter-bank market
 - Securitisation
 - Short and long term senior debt
 - Domestic and offshore
- ▶ BOQ is still issuing senior debt domestically and in offshore markets
 - Accessing short term senior debt both domestically and offshore
 - Credit spreads have increased
 - Successfully issued in domestic long term market in March 2008.

Funding and liquidity

- ▶ Liquidity
 - Currently holding ~14.0% liquidity with 82% of securities held either in cash or securities eligible for RBA repurchase agreements
- ▶ Securitisation Markets
 - Access to securitisation warehouse funding is still available
 - Securitised \$500m of Residential Mortgages which are being held on balance sheet and are eligible for repurchase agreements with the RBA
 - Additional warehouse capacity
- ▶ Retail Deposits
 - Strong retail funding franchise

Funding our growth

- ▶ Home acquisition enhances our Retail funding base.
- ▶ Limited capacity in securitisation markets, driving increasing reliance on wholesale markets.



Funding mix for Growth including addition of the Home balance sheet

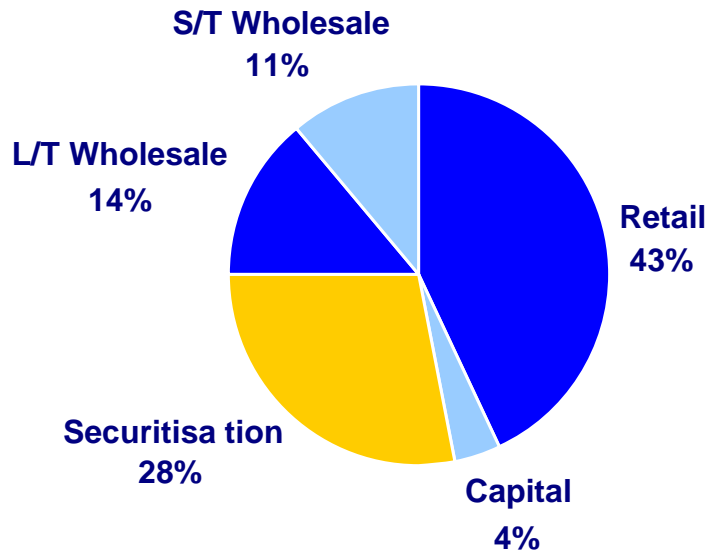
2H08 funding plan

- ▶ Strong emphasis on retail deposit growth
 - Not just price driven
 - Focused on sustainable, stickier deposit growth
 - Considering niche segments with new products
- ▶ Targeted drive into wholesale middle market
- ▶ Additional warehouse capacity
- ▶ BOQ will continue to access the term debt market (as in 1H08)
- ▶ Loan syndication market
- ▶ No reliance on securitisation in the funding plan. If these markets reopen, this will be a bonus.

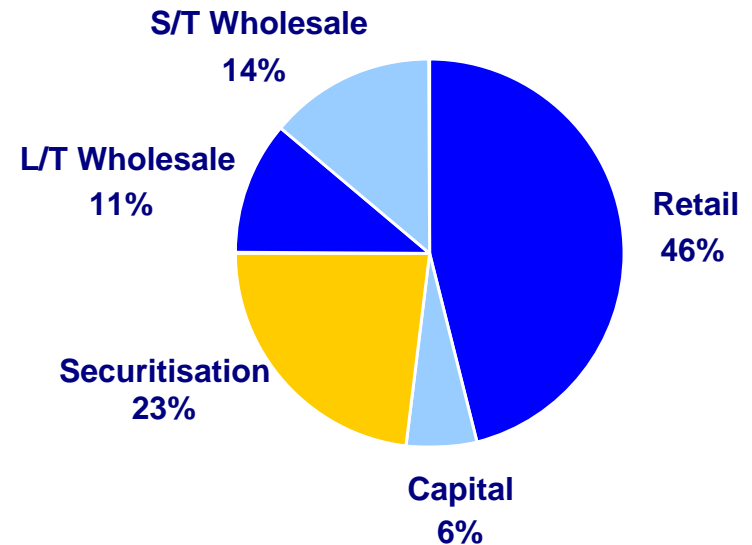
Funding balance sheet impact

- ▶ 86% of funding comes from committed and sticky sources
- ▶ Weighted average maturity of long term debt is 1.7 years

2H07 Funding

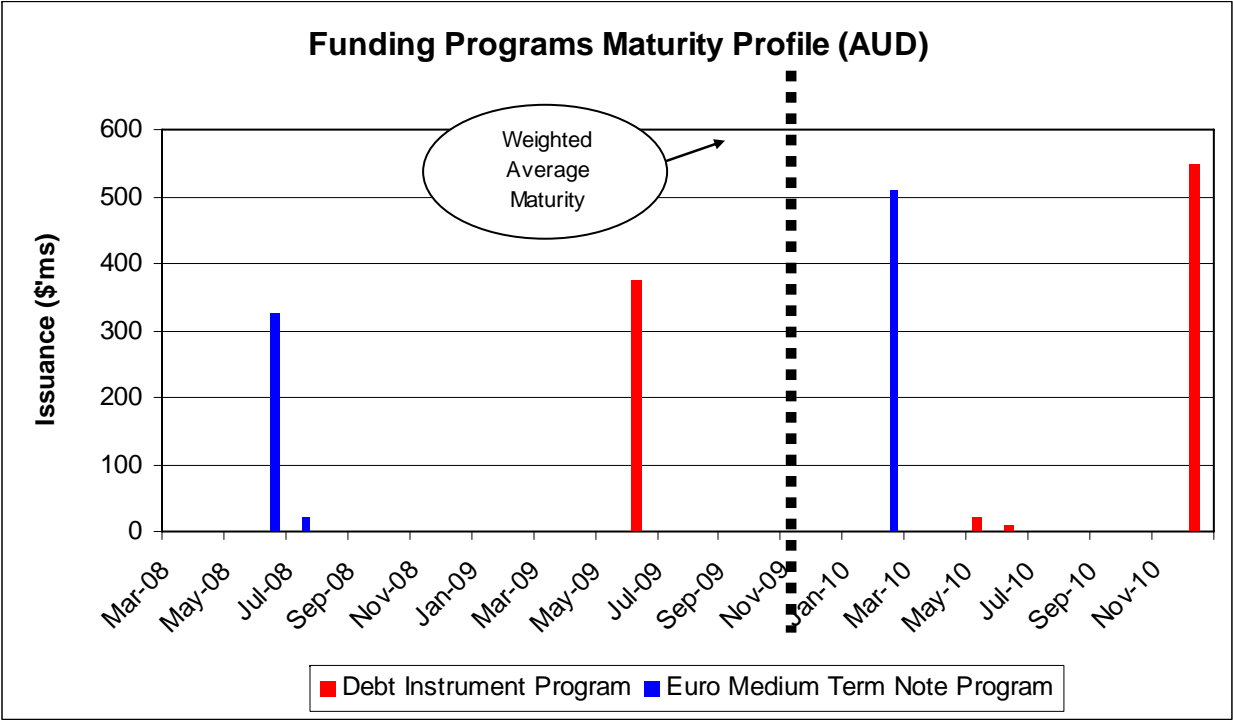


1H08 Funding



Long-term debt maturity profile

Funding Programs Maturity Profile (AUD)



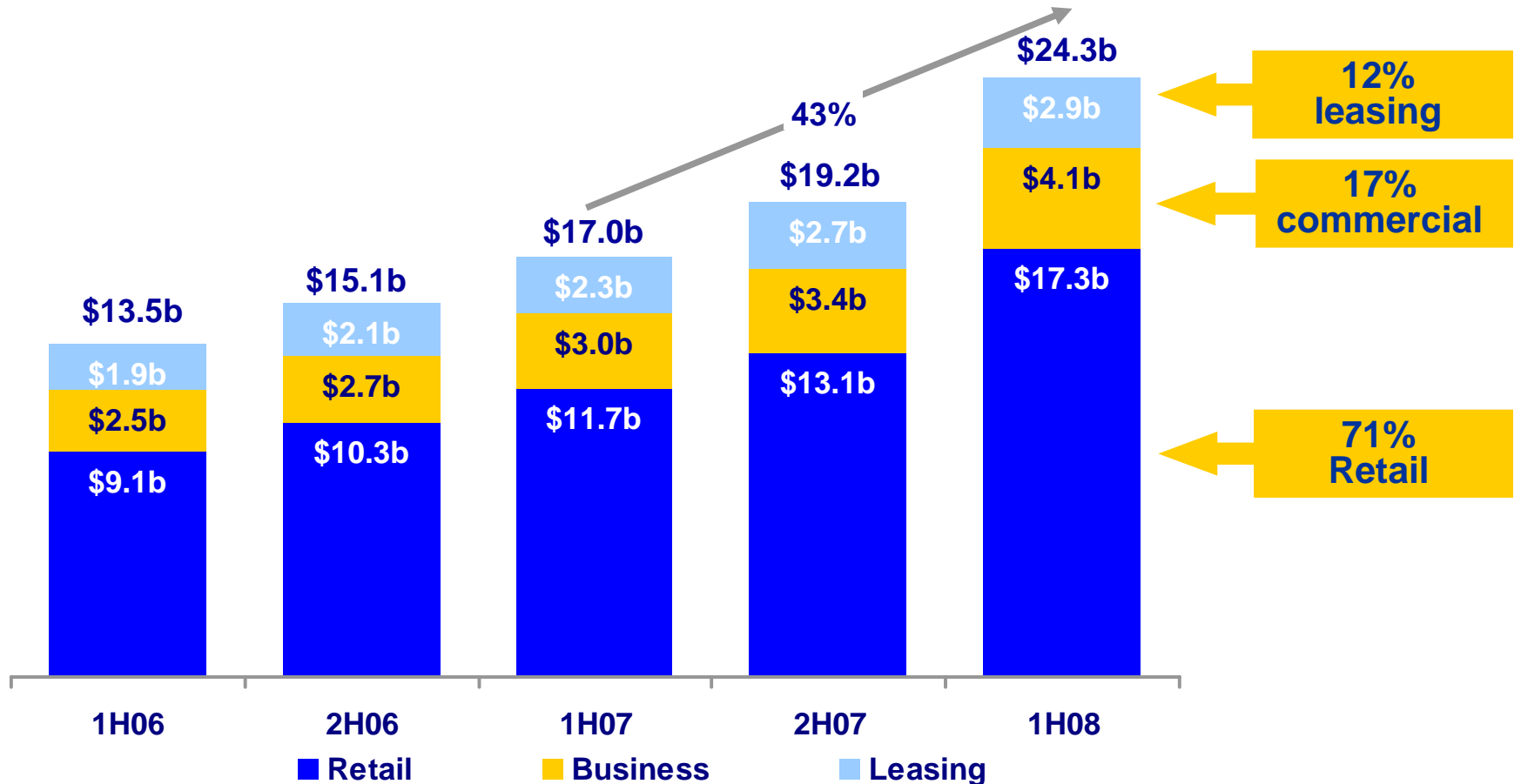
Plan to achieve our EPS guidance

- ▶ 3 variables are key to understanding 1H08 and FY08 performance
 - Pricing actions from January to April 08
 - Cost control vs cost of funds market volatility
 - Asset growth
- ▶ Our view of the opportunities & risks:
 - Pricing action locks in ~15%+ vs 1H Gross NII (ex-Home)
 - Our long term cost reduction glide path remains ~1% p.a.
 - We've locked in ~2% reduction FY08 - reducing below 1H has risks...
 - This is offset by the assumption of deterioration in cash bills vs 1H and maintenance of credit spreads in March 08 into 2H08.
 - Lower marginal NII in the 2H08 plan, reasonable slow down in asset growth is manageable in FY08

BOQ portfolio

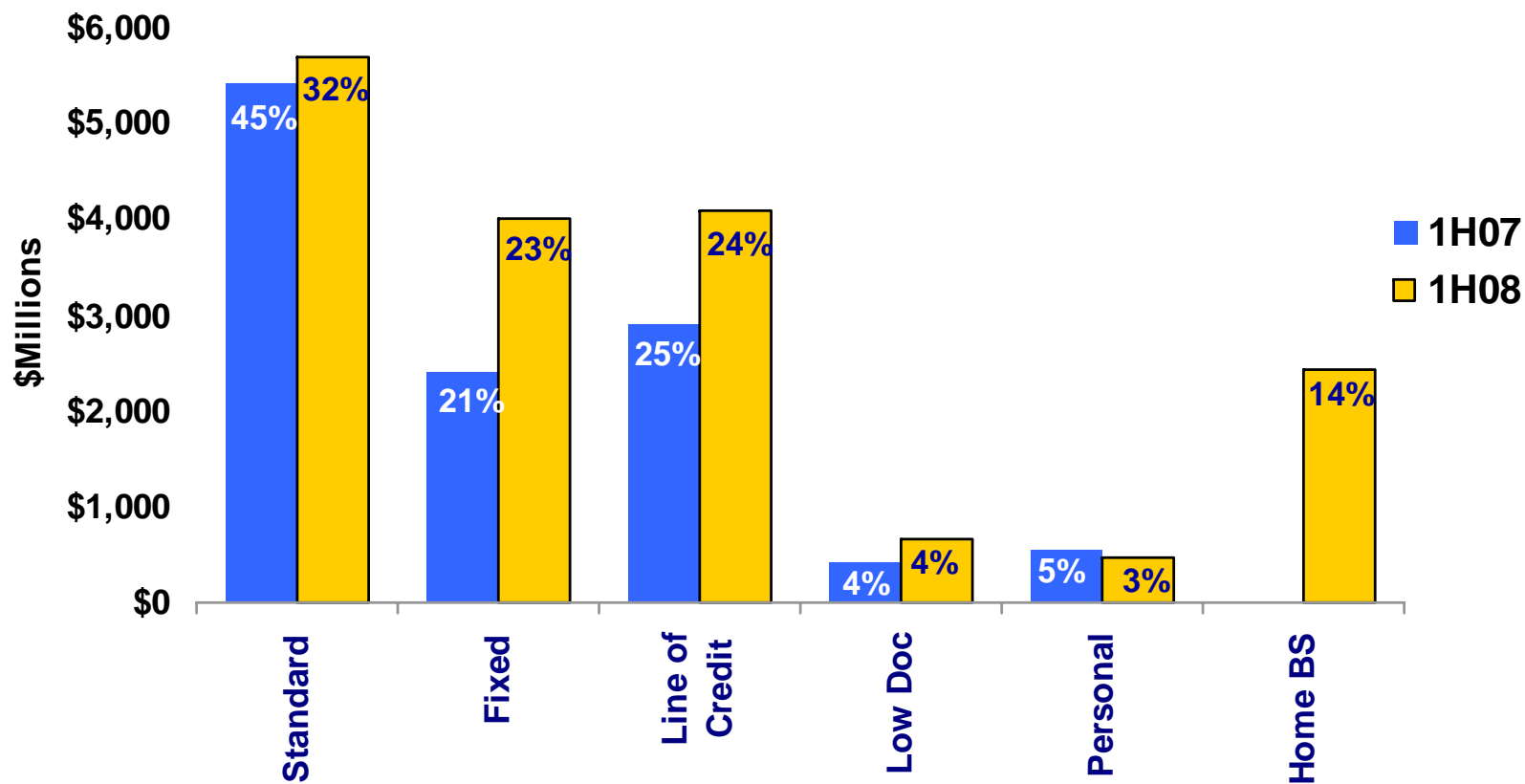
Ram Kangatharan, Chief Financial Officer

Loans under management by product



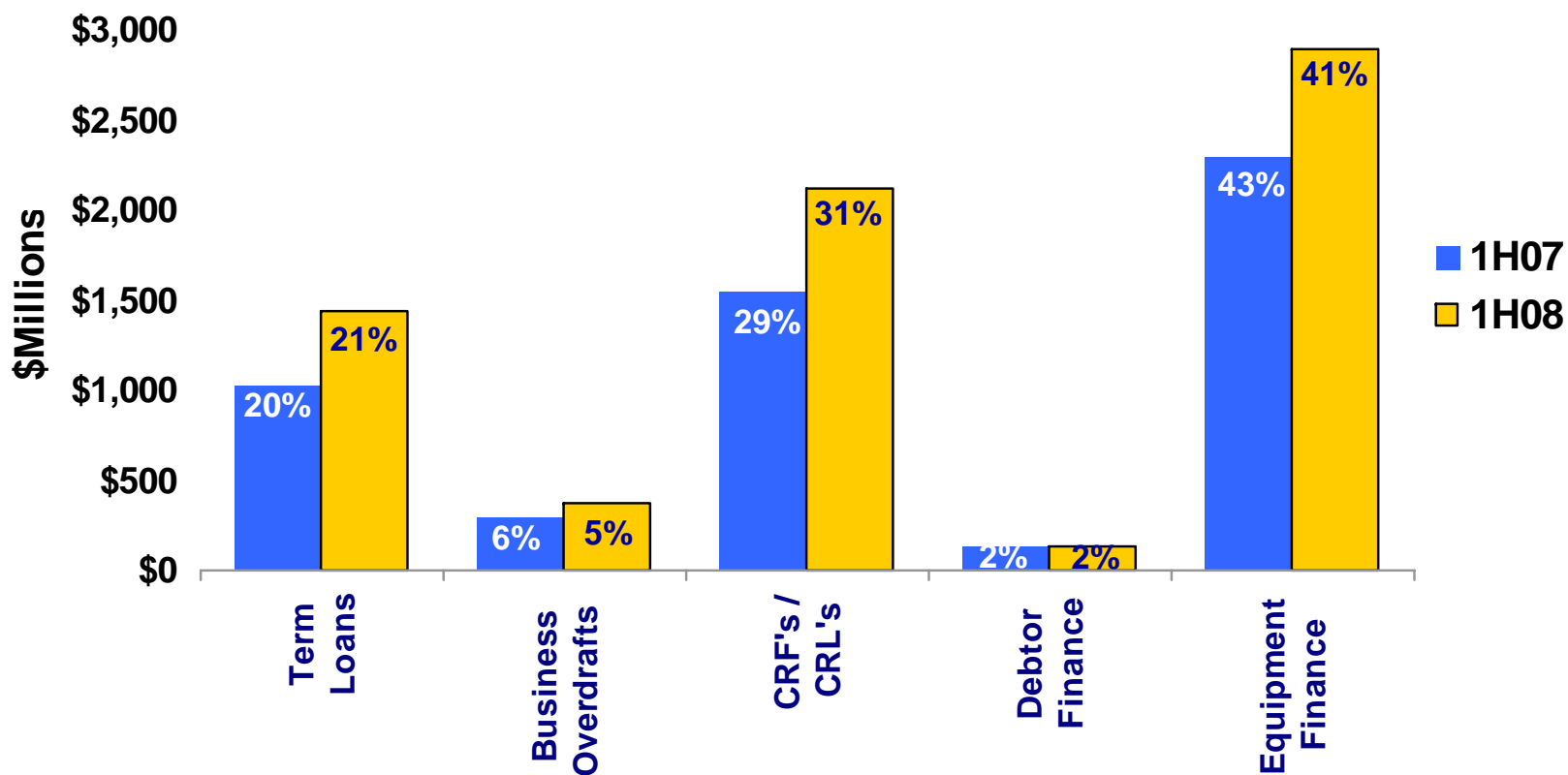
Retail portfolio

Total retail portfolio (LUM) by product



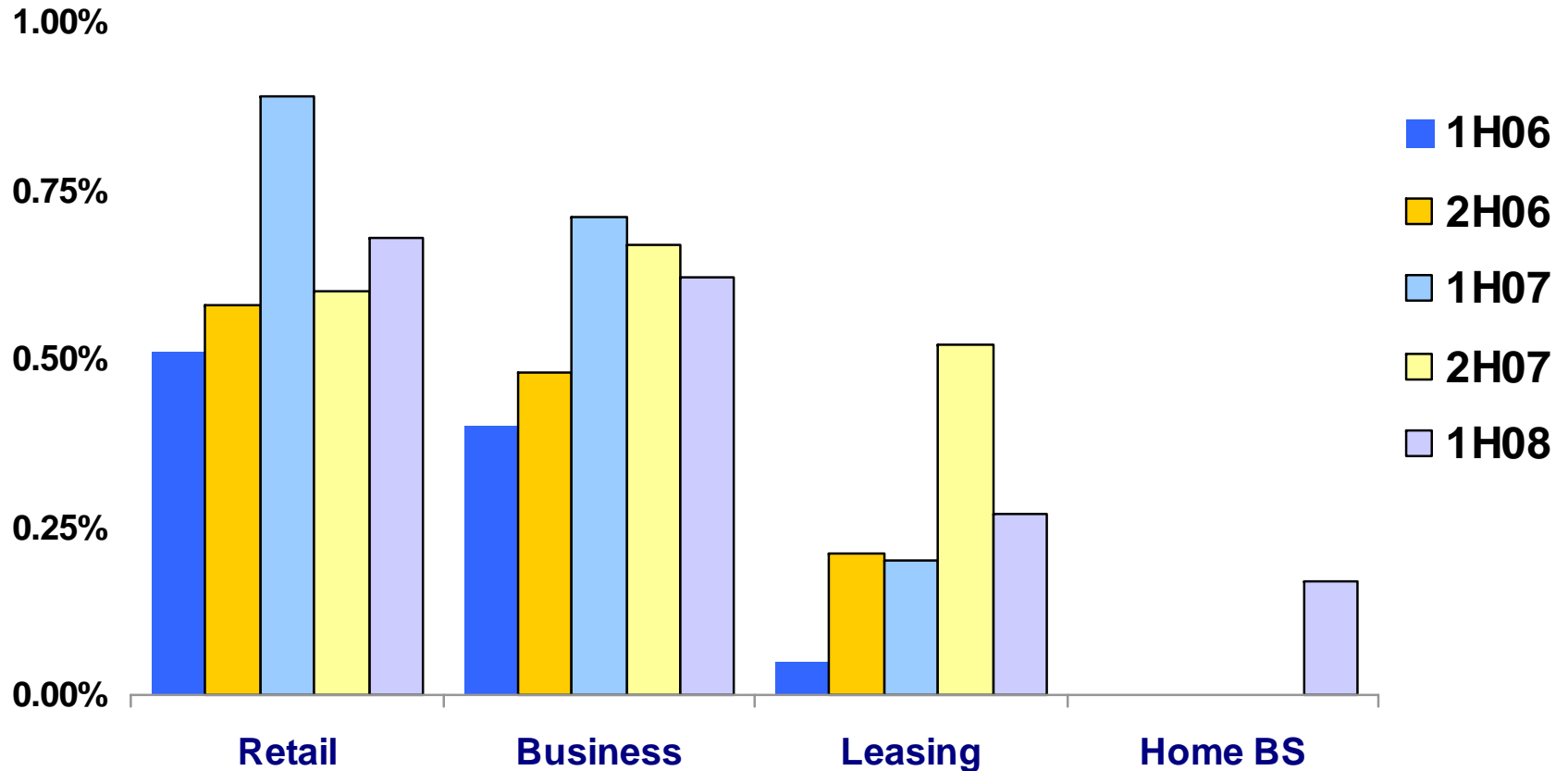
Commercial portfolio

Total commercial portfolio (LUM) by product



Portfolio quality

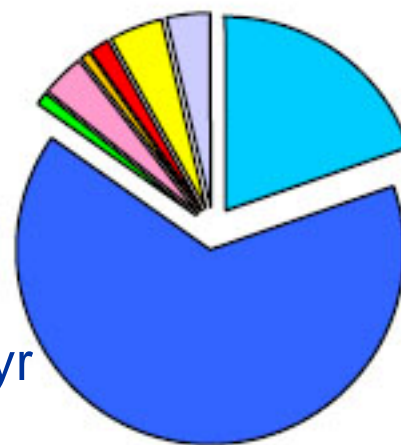
Arrears 90+ days (% of portfolio, excluding securitised loans)



Large exposures

- ▶ The Bank has 59 connections with exposures >\$10M
- ▶ Total commitment exposure \$1,560M
- ▶ ~5% of assets under management
- ▶ >50% matures within 1yr

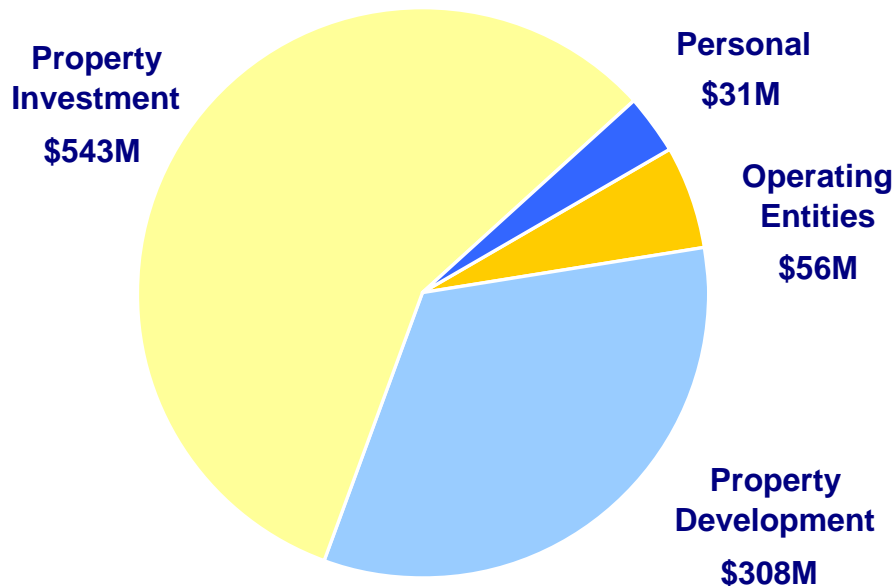
Largest exposures by ANZSIC Group



- E - Construction
- L - Property & Business Services
- K - Finance & Insurance
- H - Accommodation, Cafes & Restaurants
- A - Agriculture, Forestry & Fishing
- P - Cultural & Recreational Services
- Personal
- Other

- ▶ Large exposures are concentrated in the Property & Construction sectors, accounting for 85% of large exposures.

Top 20 large exposures



Type	Weighted Average Security Cover
Operating Entities	1.79
Property Development	1.37
Property Investment	1.66
Personal	1.59
Total Cover	1.57

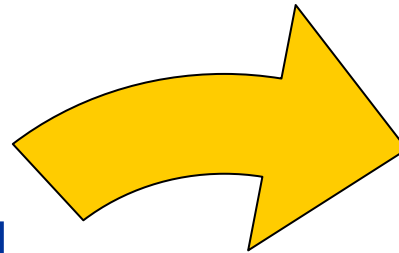
Strategy and outlook

David Liddy, Managing Director

We are in challenging times...

- Securitisation markets closed
- Cost of wholesale funding ↑
- Worldwide investor nervousness
- Irrational markets

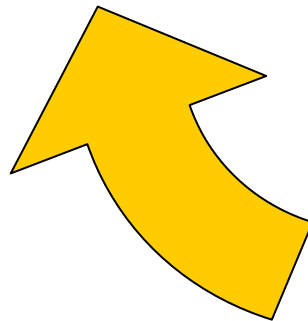
**GLOBAL
CREDIT
CRISIS**



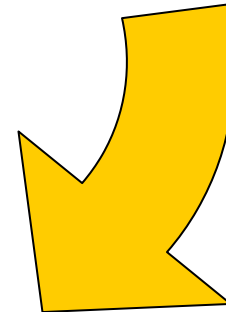
**POLITICAL
ENVIRONMENT**

- RBA implementing tight monetary policy
- New Federal government
- Several reviews within banking underway
- Government have been vocal about banks raising rates above RBA rises

- “Two speed economy”
- Worldwide economy turbulent
- Caught in an economic paradox



**ECONOMIC
ENVIRONMENT**



bank different®

...but our strategy remains largely unchanged

- ▶ Continue our strong organic growth, laser focus on deposit growth
- ▶ Continue our national distribution expansion in both retail and business banking
- ▶ Continue to target complementary acquisitions
- ▶ And do all this in a 'bank different way' – being the real banking alternative

We expect some short term impact from higher funding costs, but the fundamentals of our strategy are the same

Starting 2H08 with strong momentum

RFS

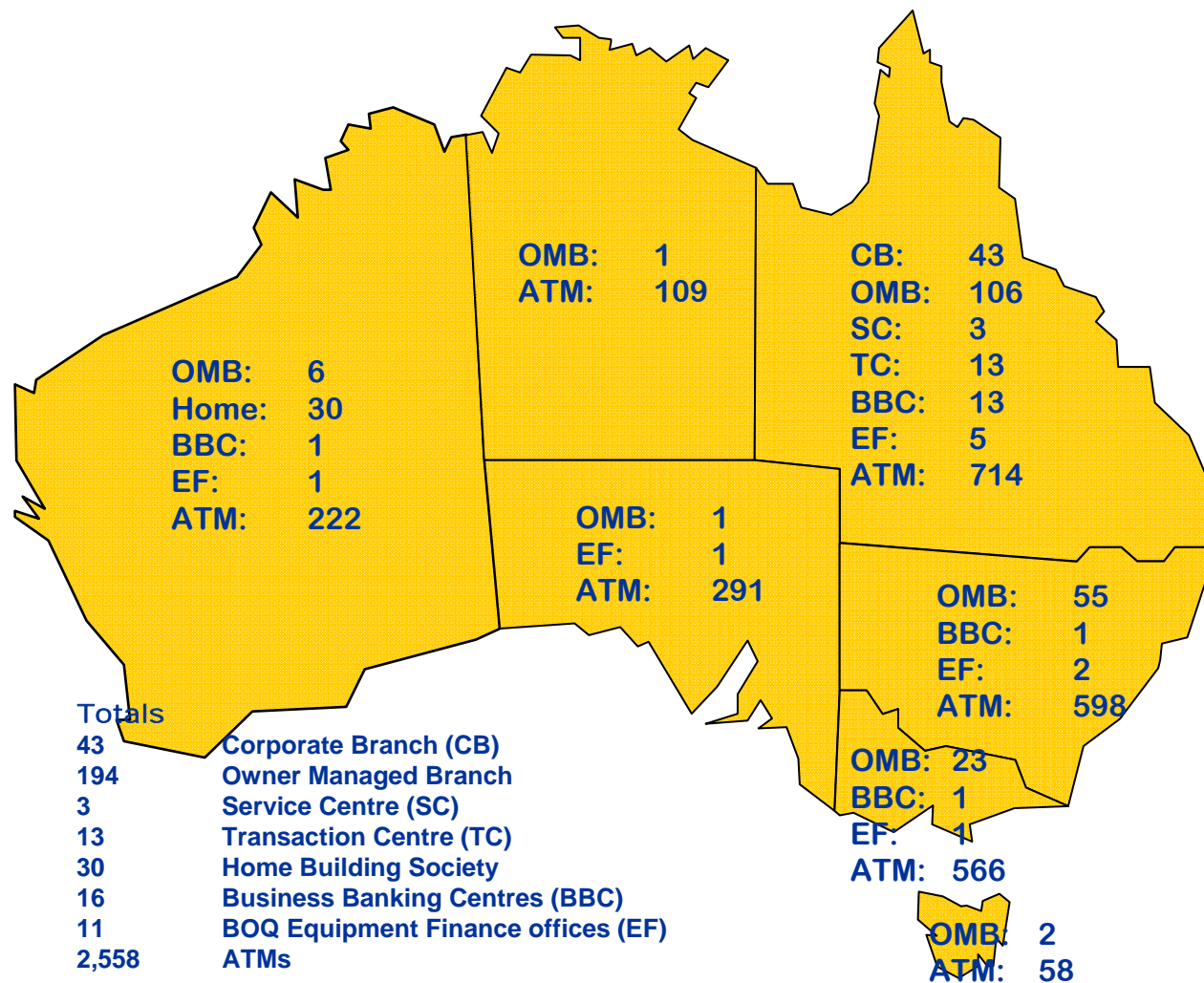
- ▶ Strong and proven sales force through our OMB model
- ▶ New leadership is bringing 'fresh eyes' to the network
- ▶ Major deposit raising campaigns underway

BFS

- ▶ Focussing on achieving SME bank of choice in chosen segments in Queensland and leveraging interstate branches
- ▶ Sales and service disciplines embedded
- ▶ Closely managing margins & risk

Our national footprint

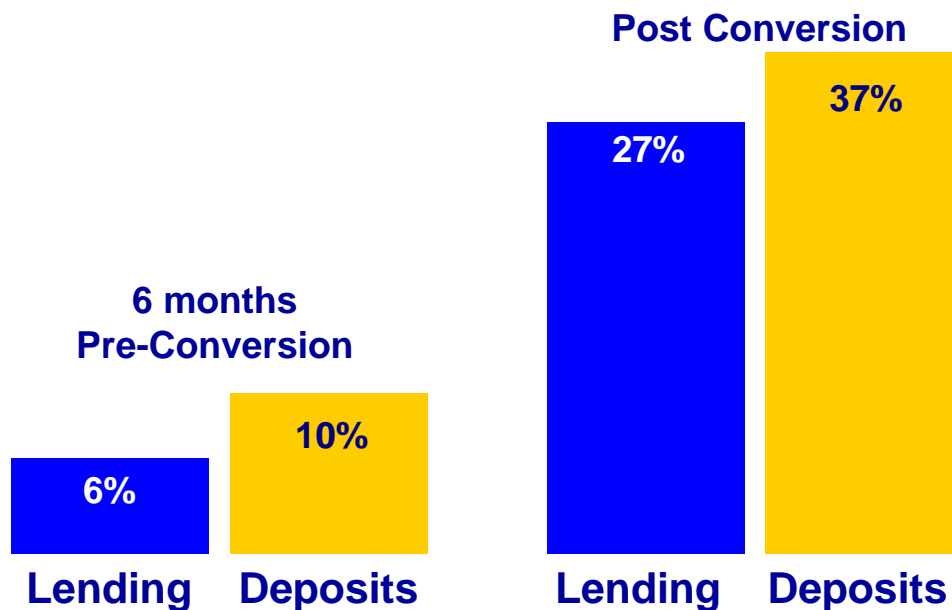
- ▶ Over 2,800 touch points
- ▶ 5 new sites opened this financial year
- ▶ 5 corporate conversions completed this year
- ▶ Targeting 4 new branches and integrating the 30 Home branches in the second half



OMBs continue to increase productivity

- ▶ We have now converted 22 corporate branches to OMBs
- ▶ Average monthly settlements have increased **62%** post conversion

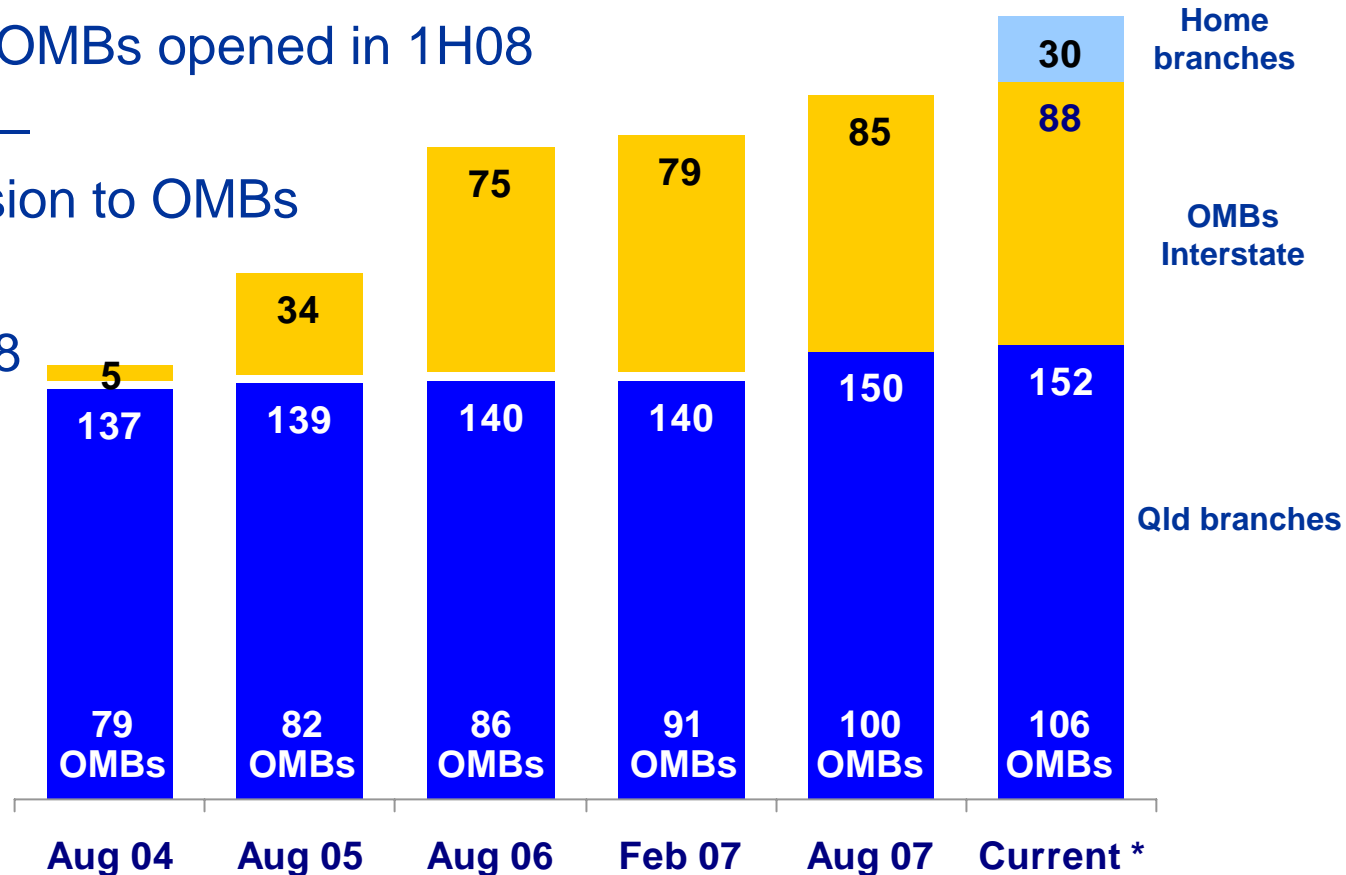
Annualised growth before and after conversion



Note: For branches converted with at least 3 months of results since conversion.

Consolidation of branch network

- ▶ 22 Corporate branch conversions to OMBs (5 in 1H08)
- ▶ 3 new interstate OMBs opened in 1H08
- ▶ Home Branches – potential conversion to OMBs
- ▶ Target of 4 new branches in 2H08



* This excludes the 13 Transaction centres acquired through Pioneer

Business priorities for 2H08

- ▶ Integrating Home Building Society
- ▶ Tightly managing margins and risk
- ▶ Focus on profitable, capital efficient growth
- ▶ Undertake a Share Purchase Plan in 2H08
- ▶ Developing and recognising our people
- ▶ 'bank different'

Welcome Home

- ▶ We will be focussing in the second half on integrating Home Building Society
- ▶ Integration is progressing well - dedicated team
- ▶ Expected synergies in Yr 1 of \$3m have been upgraded to \$4m
- ▶ Yr 2 & 3 synergies will be exceeded
- ▶ System conversion has been brought forward 9 months
- ▶ Strong interest in the OMB model in WA



Confident outlook

- ▶ The underlying BOQ business is in a strong position:
 - Established retail and commercial national distribution points
 - Growing strongly and profitably
 - Leveraging our strong base of a healthy Queensland economy
 - No significant corporate exposures, CDO's, sub-prime exposure – we are a pure retail bank
- ▶ Our financial goals for the 2008 financial year:
 - Above system growth within funding capacity
 - Maintain credit quality
 - Continue to target EPS growth of 10% on a normalised cash basis including dilutionary impact of Home Building Society

Alignment to funding capacity in 2H08

- ▶ Three-part strategy to align to funding capacity without diminishing our growth platforms (eg. OMB distribution network)
 1. Focus and redirection of resources to building a stickier, larger deposit base
 2. Re-engineering Home growth model away from brokers to higher profitability OMB model
 3. Further de-risk the Commercial portfolio away from larger exposures and segments exposed to asset risk
- ▶ Preserve the core growth platforms, to continue to exceed system growth in the longer term
- ▶ OMB model can incentivise deposit growth

Summary

- ▶ Well capitalised
- ▶ Continued access to funding – albeit more expensive
- ▶ Strong business momentum – well above system
- ▶ Home synergies will be exceeded
- ▶ Sound portfolio benefiting from Queensland and WA
- ▶ Strong credit and cost disciplines
- ▶ New management team delivering

bank different®



Additional Information

Home Building Society financials

► Forecast contribution of Home Building Society* to FY08 financial results

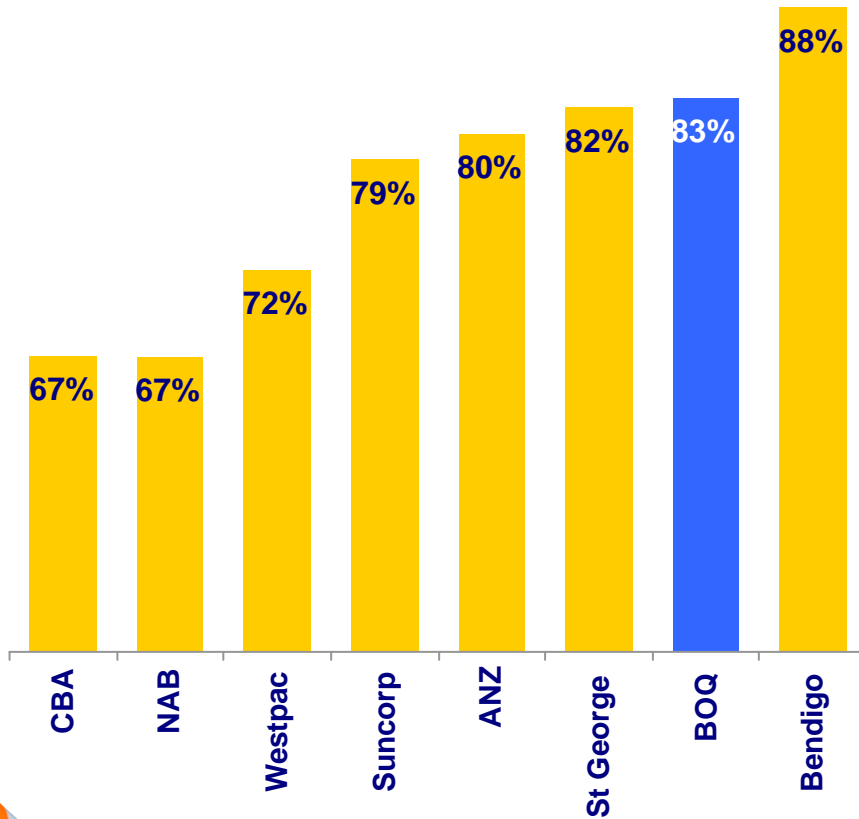
	\$Million
Net Interest Income	44.2
Non Interest Income	12.0
Total Income	56.2
Expenses	30.6
Profit before tax	25.6
Tax payable	6.8
Net profit after tax	18.8

•Pro-forma normalised forecast for period 18 December 2007 to 31 August 2008.

•Management Projections only include the Home Financial Services Business

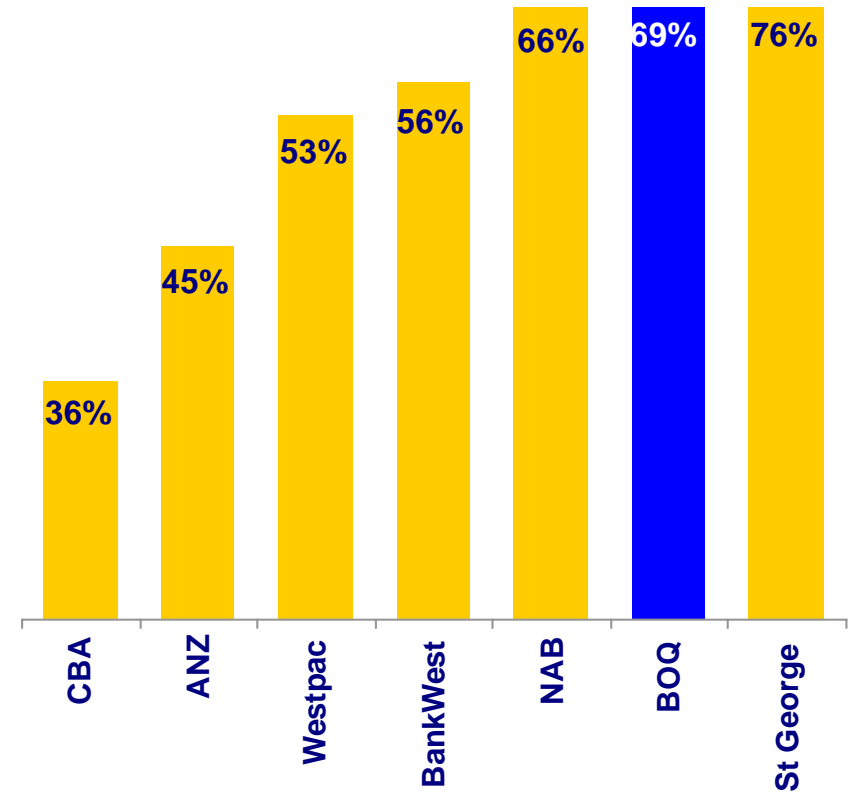
Satisfied customers...but it's not enough

Retail customers



February 08 QLD MFI Customer Satisfaction – 6 months to February 2008

Commercial customers



February 08 East & Partners Business Banking Sentiment