

# Scheme Booklet

25 October 2007

in relation to a proposed Merger  
of Home Building Society Ltd  
and Bank of Queensland Limited



Via a scheme of arrangement between  
**Home Building Society Ltd**

ABN 72 051 900 380

And the holders of fully paid ordinary shares in Home Building Society Ltd

And a Court ordered scheme meeting of the holders of fully paid ordinary shares  
in Home Building Society Ltd to be held on 30 November 2007

Your directors unanimously recommend that you  
**vote in favour** of the Scheme Proposal in the  
absence of a superior proposal and provided that the  
Independent Expert continues to conclude that the Scheme  
Proposal is in the best interests of Home Shareholders.

Legal Adviser to Home:

BLAKE DAWSON WALDRON  
LAWYERS

Financial Adviser to Home:

 Azure Capital

  
**HOME**  
building society

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# Important Notices

## WHAT IS THIS DOCUMENT?

This Scheme Booklet is the explanatory statement required to be sent to Home Shareholders in relation to the Scheme Proposal under Part 5.1 of the Corporations Act.

The purpose of this Scheme Booklet is to explain the terms of the Scheme Proposal and the manner in which it will be Implemented (if approved) and to provide such information as is prescribed or otherwise material to the decision of Home Shareholders whether or not to approve the Scheme Proposal.

## READ ENTIRE SCHEME BOOKLET

Home Shareholders are encouraged to read this Scheme Booklet in its entirety before making a decision on whether or not to vote in favour of the Scheme Proposal.

## STATUS OF SCHEME BOOKLET

This Scheme Booklet is not a disclosure document required by Chapter 6D of the Corporations Act. Section 708(17) provides that Chapter 6D of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under section 411(1). Instead, shareholders asked to vote on an arrangement at such a meeting must be provided with an explanatory statement as referred to above.

## NO INVESTMENT ADVICE

This Scheme Booklet is intended for all Home Shareholders collectively and does not take into account the investment objectives, financial situation and particular needs of each Home Shareholder or any other particular person. This Scheme Booklet does not constitute financial product advice and should not be relied upon as the sole basis for any investment decision in relation to the Scheme Proposal, Home Shares or BOQ Shares. Before making any investment decision in relation to the Scheme Proposal, Home Shares or BOQ Shares, you should consider, with or without the assistance of a professional adviser, whether that decision is appropriate in light of your particular investment needs, objectives and circumstances. If you are in any doubt about what you should do, you should seek independent financial and taxation advice before making any investment decision in relation to the Scheme Proposal, Home Shares or BOQ Shares. If you are a Home Optionholder, you should seek independent financial and taxation advice before making any investment decision in relation to the BOQ Option Offers (as described in section 7.9 of this Scheme Booklet) and should not rely on the Scheme Booklet as a basis for making such a decision. This Scheme Booklet has not been prepared to address your specific information needs and is intended for the use of Home Shareholders only.

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## RESPONSIBILITY STATEMENT

### Preparation by Home

Except as outlined below, this Scheme Booklet has been prepared by Home as at the date of this Scheme Booklet and Home is responsible for this Scheme Booklet and no other person, including BOQ, assumes any responsibility for this Scheme Booklet.

### BOQ Information

The following statements and information in this Scheme Booklet have been prepared by BOQ, and provided to Home for inclusion in the Scheme Booklet, to enable this Scheme Booklet to comply with all legal requirements under the Corporations Act, the Corporations Regulations and under ASIC Regulatory Guides 60 and 142:

- Letter to Home Shareholders from Chairman of BOQ;
- Section 3 – Profile of BOQ;
- Section 4 – Profile of the Merged Group;
- Section 6 – Risks; and
- Sections 8.4, 8.5, 8.6, 8.7, 8.10, 8.12 (in relation to BOQ's intentions with respect to Greg Wall and his continuing role, if any, within the Merged Group (section 8.12(b)) and in relation to the terms of Tony Howarth's proposed appointment to the BOQ Board on Implementation), 8.16, 8.17 (in relation to the BOQ Constitution), 8.21(a)(ii), 8.23 and 8.24,

(together, the **BOQ Information**).

BOQ is responsible for the BOQ Information.

Home and each member of the Home Group:

- has not verified this BOQ Information;
- has relied on BOQ to verify this BOQ Information; and
- accordingly, disclaims responsibility and liability for this BOQ Information.

Certain statements and information contained in the BOQ Information are based on or incorporate information provided by Home, namely Home's financial statements and reports for the financial year ended 30 June 2007, information regarding Home's operational and other costs and the number of Home branches.

BOQ disclaims liability for the BOQ Information to the extent any of it is based on information provided by Home referred to above which is misleading and/or deceptive in any material respect (whether by omission or otherwise).

## INDEPENDENT EXPERT

Lonergan Edwards & Associates Limited has prepared the Independent Expert's Report contained in Annexure D to this Scheme Booklet. None of Home, BOQ or their respective advisers takes any responsibility for the Independent Expert's Report. It is noted, however, that Home and BOQ have provided factual information to the Independent Expert that it has relied upon in preparing the Independent Expert's Report.

## FORWARD-LOOKING STATEMENTS

This Scheme Booklet contains historical and forward looking statements in connection with Home and BOQ. The forward looking statements in this Scheme Booklet are not based on historical facts. They reflect the current expectations of Home or, in relation to the BOQ Information, BOQ, concerning future results and events and generally may be identified by the use of forward looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe Home and BOQ's objectives, plans, goals or expectations are, or may be, forward looking statements.

These forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause either Home or BOQ's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these statements. Deviations in future results, performance and achievements are normal and to be expected. Home Shareholders should review carefully all of the information, including the financial information, included in this Scheme Booklet. The forward looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet. Neither Home nor BOQ gives any representation, assurance or guarantee that projected or implied results or events will actually occur or be achieved.

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## ESTIMATES

All references to estimates and derivations of the same in this Scheme Booklet are references to estimates by the person responsible for the relevant statement, unless otherwise indicated. Unless otherwise indicated, these estimates are based on views held as at the date of this Scheme Booklet, and actual facts or outcomes may be materially different from those estimates.

## INELIGIBLE OVERSEAS SHAREHOLDERS

Home Shareholders with a registered address in a jurisdiction other than Australia (and its external territories) and New Zealand may not be eligible to receive New BOQ Shares that would otherwise form part of the Scheme Consideration. Home Shareholders with a registered address outside of Australia (and its external territories) and New Zealand should refer to sections 7.6 and 7.8 of this Scheme Booklet.

Home Shareholders who are resident for tax purposes outside Australia should seek specific taxation advice in relation to the Australian and overseas tax consequences of the Scheme Proposal.

## IMPORTANT CONSIDERATIONS

See sections 8.11 to 8.15, and section 8.21 of this Scheme Booklet, for details of the interests of Home Directors and Home executive officers in relation to the Scheme Proposal.

For a discussion of certain factors that should be considered in deciding whether to vote in favour of the Scheme Proposal, see the sections of this Scheme Booklet titled "Overview of the Scheme Proposal" and "Reasons Why You Should Vote in Favour of the Scheme Proposal" and section 1 of this Scheme Booklet, which include a discussion of the advantages, potential disadvantages, risks and other considerations relevant to the Scheme Proposal.

Section 6 of this Scheme Booklet sets out the key risks that Home Shareholders should consider in deciding whether or not to vote in favour of the Scheme Proposal.

## ASIC

A copy of this Scheme Booklet has been registered by ASIC for the purposes of section 412(6) of the Corporations Act. Neither ASIC nor its officers takes any responsibility for the contents of this Scheme Booklet.

## PRIVACY

Home may collect, use and disclose personal information in the process of Implementing the Scheme Proposal. This information may include the names, contact details and shareholdings of Home Shareholders and the names of persons appointed by Home Shareholders to act as proxy, corporate representative or attorney at the Scheme Meeting. The primary purpose of collecting this information is to assist Home in the conduct of the Scheme Meeting and to enable the Scheme Proposal to be implemented by Home in the manner described in this Scheme Booklet.

Personal information may be disclosed to the Share Registry, print and mail service providers, authorised securities brokers, BOQ and their advisers and related bodies corporate of Home and BOQ. The personal information of Small Parcel Participants and Ineligible Overseas Shareholders may also be disclosed to the Nominee for the purposes of the Share Sale Facility.

Home Shareholders and other persons whose personal information has been collected by Home have the right to access personal information that has been collected. Home Shareholders should call the Home Merger Hotline on 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday, in the first instance if they wish to request access to that personal information.

The main consequence of not collecting the personal information outlined above would be that Home may be hindered in, or prevented from, conducting or Implementing the Scheme Proposal.

Home Shareholders who appoint a named person to act as their proxy, corporate representative or attorney at the Scheme Meeting must inform that person of the matters outlined above.

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## **DEFINED TERMS AND INTERPRETATION**

A number of terms used in this Scheme Booklet have special meanings. These are listed in the “Definitions” section of this Scheme Booklet. The documents reproduced in some of the Annexures to this Scheme Booklet have their own defined terms, which are sometimes different from those in the “Definitions”.

Unless otherwise stated, all data contained in charts, graphs and figures is based on information available at the date of this document. All numbers are rounded unless otherwise indicated. In this Scheme Booklet, the stated number of New BOQ Shares to be received by Scheme Participants is subject to the effects of rounding. Unless otherwise stated, all references to time are references to AWDT.

## **DATE OF THIS SCHEME BOOKLET**

This Scheme Booklet is dated 25 October 2007.

## Key Dates

Event	Time and Date
Time and date by which Home Shareholders must lodge their Proxy Form(s) for the Scheme Meeting if they wish to vote by proxy at the Scheme Meeting	10.30am AWDT on Wednesday, 28 November 2007
Time and date for determining eligibility to vote at the Scheme Meeting	5.00pm AWDT on Wednesday, 28 November 2007
Scheme Meeting	10.30am AWDT on Friday, 30 November 2007
Time and date by which Small Parcel Participants must lodge their Share Sale Facility Election Form if they wish to elect to participate in the Share Sale Facility	5.00pm AWDT on Thursday, 6 December 2007
<b><i>If the Scheme Proposal is approved by Home Shareholders</i></b>	
Court hearing for approval of the Scheme	Tuesday, 4 December 2007
Effective Date	Thursday, 6 December 2007
Last day Home Shares trade on ASX with an entitlement to participate in the Scheme	Thursday, 6 December 2007
Suspension of trading in Home Shares and commencement of deferred settlement trading in New BOQ Shares	From and including Friday, 7 December 2007
Scheme Record Date – time and date for determining entitlement to Scheme Consideration	5.00pm AWDT on Thursday, 13 December 2007
Implementation Date for Scheme, transfer of Home Shares to BOQ and commencement of dispatch of Scheme Consideration	Tuesday, 18 December 2007
Dispatch of holding statements for New BOQ Shares	To commence by Thursday, 20 December 2007
Normal trading in New BOQ Shares commences	From and including Friday, 21 December 2007
Last day of Sale Period under the Share Sale Facility	Friday, 4 January 2008 for Ineligible Overseas Shareholders Friday, 11 January 2008 for Small Parcel Participants who are not Ineligible Overseas Shareholders
End of dispatch of cash proceeds from sales under the Share Sale Facility	Wednesday, 23 January 2008 for Ineligible Overseas Shareholders Thursday, 31 January 2008 for Small Parcel Participants who are not Ineligible Overseas Shareholders

### NOTE

Dates are indicative only. Home reserves the right to vary any or all of the times and dates set out above without notifying Home Shareholders of these changes. All dates following the Scheme Meeting are subject to Court, ASIC and ASX approval.

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## Letter to Home Shareholders from Chairman of Home



Home Building Society Ltd  
ABN 72 051 900 380

111 St Georges Terrace, Perth  
Western Australia 6000  
GPO Box S1315, Perth WA 6845  
T: 13 63 13 F: (08) 9263 6699  
E: email@homeonline.com.au  
www.homeonline.com.au

25 October 2007

Dear Home Shareholder,

On 31 August 2007, Home Building Society Ltd and Bank of Queensland Limited announced a proposal to merge by way of a scheme of arrangement.

Your Board considers that the Merger represents an outstanding opportunity for Home Shareholders to benefit from participation in a strongly growing regional bank operating in Western Australia and Queensland – the two strongest growing State economies in Australia. Home and BOQ have a shared vision of being a genuine alternative to the big banks and by joining with BOQ, Home has the opportunity to be an even more competitive force in the Western Australian banking sector.

Under the terms of the Scheme Proposal, Home Shareholders will receive 0.844 New BOQ Shares plus \$2.80 in cash for each Home Share they own. This represents total consideration of \$18.79 per Home Share based on the closing price of BOQ Shares \$18.95 on 22 October 2007. This price represents a strong 33% premium over the Home Share price prior to the announcement of the Scheme Proposal.

This strong premium reflects the strength of the Home business and the good synergies available through the Merger. It improves upon an already very strong 42.4%<sup>1</sup> annualised shareholder return since Home's demutualisation in 2002, to provide Home Shareholders excellent returns for your support over the years.

The Independent Expert has concluded that, in the absence of a superior proposal, the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders.

**Your Board has unanimously recommended that Home Shareholders vote in favour of the Scheme Proposal,** and each of the directors intends to vote in favour of the Scheme Proposal in relation to their personal shareholdings in Home. This recommendation and voting intention is subject to no superior proposal being received by the Board and the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of Home Shareholders.

<sup>1</sup> Annualised shareholder return calculated based on a closing price of Home Shares of \$2.80 on 1 March 2002 (being the first day of trading of Home Shares on ASX) and \$14.11 on 30 August 2007 (being the last trading day prior to announcement of the Merger) and assumes reinvestment of dividends.

As part of the Scheme Consideration includes New BOQ Shares, you will find information on BOQ in this Scheme Booklet. The Scheme Proposal remains subject to a number of conditions which are also set out in this Scheme Booklet.

Home Shareholders who hold 355 or less Home Shares as at the Scheme Record Date and who have a registered address in Australia (including its external territories) and New Zealand can elect to participate in the Share Sale Facility so as to receive cash proceeds rather than the New BOQ Shares that they would otherwise be issued under the Scheme Consideration.

This Scheme Booklet contains important information about the Scheme Proposal and I urge you to read it carefully, and to vote, either in person at the Scheme Meeting or by returning the enclosed Proxy Form in the reply paid envelope by 10.30am AWDT on Wednesday, 28 November 2007. If you have any questions, please call the Home Merger Hotline on 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday. The staff there will be able to assist you by answering your questions on the spot or by organising for a Home representative to call you back.

On behalf of your Board, I would like to take this opportunity to thank you for your support of Home, which has a proud record of providing strong shareholder returns. Your vote is important and I look forward to your participation in the Scheme Proposal.

Yours sincerely



**Tony Howarth AO**  
**Chairman**  
**Home Building Society Ltd**

## Letter to Home Shareholders from Chairman of BOQ



Bank of Queensland Limited  
ABN 32 009 656 740  
259 Queen Street, Brisbane 4000  
GPO Box 898, Brisbane 4001  
Telephone (07) 3212 3333  
Facsimile (07) 3212 3399  
www.boq.com.au

*Neil Roberts, Chairman*

25 October 2007

Dear Home Shareholder,

On 31 August 2007, Bank of Queensland Limited and Home Building Society Ltd announced a proposal to merge via a scheme of arrangement under which BOQ would acquire all of the issued shares and options in Home.

The Scheme Proposal provides the combined BOQ-Home group with a strong platform to build its business in Western Australia, opening more branches and business banking centres and continuing our rapid expansion in the State. The BOQ Board is excited about the future of the Merged Group and the growth that our two companies can deliver together. We encourage you to vote in favour of the Scheme Proposal.

Under the Scheme Proposal, you will receive 0.844 New BOQ Shares and \$2.80 cash per Home Share. This represents a total consideration of \$18.79 per Home Share and a substantial premium of 33% over Home's share price prior to the announcement of the Scheme Proposal.<sup>2</sup>

The Scheme Proposal presents Home Shareholders with the opportunity to:

- (a) own approximately 20% of the Merged Entity and participate in the future growth of one of Australia's fastest growing banks;
- (b) benefit from future synergies expected to result from the combination of the BOQ and Home businesses;
- (c) participate in a larger ASX listed company which offers significantly increased liquidity relative to Home's current share trading liquidity; and
- (d) if eligible, benefit from capital gains tax rollover relief with respect to the BOQ Share component of the Scheme Consideration.

The BOQ Board is also delighted that Mr Tony Howarth, the Chairman of Home, has accepted our invitation to join the BOQ Board, subject to the Scheme Proposal being approved and implemented.

<sup>2</sup> Based on the closing price of BOQ Shares of \$18.95 on 22 October 2007 and the closing price of Home Shares of \$14.11 on 30 August 2007.

Tony will bring to the BOQ Board extensive board experience, a great understanding of the banking industry and of Home's business and a genuine understanding of Western Australia, which will be important as we move forward with the Merged Group.

The Scheme Proposal has been unanimously recommended by your Board and each of the Home Directors intends to vote in favour of the Scheme Proposal with respect to all of their Home Shares. This recommendation and voting intention is subject to no superior proposal being received and to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of Home Shareholders.

The Independent Expert (Lonergan Edwards & Associates Limited) has considered the terms of the Scheme Proposal and concluded that the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders, in the absence of a superior proposal.

On behalf of the BOQ Board, I encourage you to vote in favour of the Scheme Proposal and we look forward to welcoming you as a shareholder and partner in BOQ's future growth.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Neil Roberts', is written over a light grey rectangular background.

**Neil Roberts**  
**Chairman**  
**Bank of Queensland Limited**

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# Your Vote on the Scheme Proposal

## 1. INFORMATION CONCERNING VOTING – INCLUDING HOW TO VOTE AND HOW TO ELECT TO USE THE SHARE SALE FACILITY

Your vote is important. Please read the following information carefully. It applies to all Home Shareholders.

At the Scheme Meeting, 75% of Home Shareholders present and voting (either in person or by proxy) need to vote in favour of the Scheme Proposal for the Scheme to be approved.

The Scheme Meeting Notice, which contains additional information in relation to the Scheme Meeting, is contained in Annexure C to this Scheme Booklet.

## 2. WHEN AND WHERE WILL THE SCHEME MEETING BE HELD?

The Scheme Meeting will be held following the Home AGM at The Astral 1 & 2 Rooms, Burswood Convention Centre on Friday, 30 November 2007, commencing at 10.30am AWDT.

Home Shareholders should attend and vote at the Scheme Meeting, either in person or by proxy, and vote on the resolution proposed.

The Proxy Form for use at the Scheme Meeting accompanies this Scheme Booklet.

## 3. WHO IS ENTITLED TO VOTE AT THE SCHEME MEETING AND WHAT IS THE PROCEDURE?

While voting is not compulsory, the Home Directors urge all Home Shareholders to attend the Scheme Meeting, either in person or by proxy, and to vote on the resolution proposed. If you are registered on the Home Register as a Home Shareholder at 5.00 pm AWDT on Wednesday, 28 November 2007 you will be entitled to vote at the Scheme Meeting.

Registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

In the case of Home Shares held by joint holders, any one of the joint Home Shareholders is entitled to vote in person, by proxy or by attorney as if that person was solely entitled to those Home Shares. If more than one Home Shareholder votes in respect of jointly held Home Shares, only the vote of the Home Shareholder whose name appears first in the Home Register will be counted. For the avoidance of any doubt, joint Home Shareholders should both sign the Proxy Form if they wish to appoint a proxy.

## 4. HOW DO I VOTE IN PERSON OR WHAT IF I CANNOT ATTEND THE SCHEME MEETING?

### (a) Voting in person

If you wish to vote in person, please attend the Scheme Meeting. You should bring the Proxy Form or Cover Letter that accompanies this Scheme Booklet to the Scheme Meeting as it also serves as the registration form for the Scheme Meeting.

### (b) Voting by corporate representative

If you are a corporate Home Shareholder and wish to appoint a representative to attend the Scheme Meeting, you should ensure that your corporate representative can provide evidence of his or her appointment (for example a certified copy of the document appointing the corporate representative). The appointment must comply with section 250D of the Corporations Act.

### (c) Voting by attorney

You may appoint another person by power of attorney to attend the Scheme Meeting and vote on your behalf. Your attorney will need to provide evidence of the grant of the power of attorney.

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**(d) Voting by proxy**

If you wish to appoint another person as your proxy to attend the Scheme Meeting and vote on your behalf, you must:

- refer to the Proxy Form that accompanies this Scheme Booklet and the "How to complete this form" section, check that your name and address details on the Proxy Form are correct and update if necessary;
- complete and sign the Proxy Form; and
- return the completed and signed Proxy Form (including any power of attorney under which it is signed) to Computershare, in accordance with the Proxy Form instructions.

Your Proxy Form must be received by Computershare by 10.30am AWDT on Wednesday, 28 November 2007.

Your Proxy Form (including any power of attorney under which it is signed) must be:

- sent to:  
Home Building Society Ltd  
C/- Computershare Investor Services Pty Limited  
GPO Box 242  
Melbourne VIC 8060

or

- hand delivered to:  
Home Building Society Ltd  
C/- Computershare Investor Services Pty Limited  
Level 2  
45 St George's Terrace  
Perth WA 6000

or

- faxed to:  
Home Building Society Ltd  
C/- Computershare Investor Services Pty Limited  
+61 8 9323 2033.

A proxy, attorney or corporate representative duly appointed will be admitted to the Scheme Meeting and given a voting card at the point of entry to the Scheme Meeting upon providing written evidence of their name and address and any additional evidence of his or her appointment required (as stated above).

If an attorney signs a Proxy Form on your behalf, the authority under which the Proxy Form was signed (or a certified copy) must be received by the Share Registry at the same time as the Proxy Form (unless you have already provided the authority (or a certified copy) to Home). If you complete and return a Proxy Form, you may still attend the meeting in person, revoke the proxy and vote at the meeting.

**5. WHAT HAPPENS IF THE SCHEME PROPOSAL PROCEEDS? WHAT IF I DO NOT VOTE OR I VOTE AGAINST THE SCHEME?**

If you are a Home Shareholder on the Scheme Record Date (expected to be Thursday, 13 December 2007) and the Scheme Proposal is approved by Home Shareholders and the Court, your Home Shares will be transferred to BOQ under the Scheme and you will receive the Scheme Consideration. This will occur whether you voted for or against the Scheme Proposal or chose not to vote at all.

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## 6. HOW DO I ELECT TO USE THE SHARE SALE FACILITY AND HOW DOES IT WORK?

BOQ has established a Share Sale Facility for Small Parcel Participants and Ineligible Overseas Shareholders.

For Small Parcel Participants (ie those Scheme Participants who hold 355 or less Home Shares as at the Scheme Record Date and who have a registered address in Australia or New Zealand), participation in the Share Sale Facility is entirely voluntary. However, any such election to participate in the Share Sale Facility must be made by 5.00pm AWDT on the Effective Date.

Ineligible Overseas Shareholders cannot receive the New BOQ Shares that would otherwise form part of the Scheme Consideration because the issue of New BOQ Shares may be prohibited by the laws of the jurisdictions in which Ineligible Overseas Shareholders reside or the offer of New BOQ Shares in those jurisdictions may require compliance with conditions or additional disclosure or legal requirements that Home or BOQ may regard as onerous. For such Ineligible Overseas Shareholders that hold Home Shares as at the Scheme Record Date, participation in the Share Sale Facility is compulsory and, if the Scheme Proposal is Implemented, will happen automatically. Further information in relation to Ineligible Overseas Shareholders and the operation of the Share Sale Facility in relation to their entitlements under the Scheme is set out in sections 7.6 and 7.8 of this Scheme Booklet.

New BOQ Shares that would otherwise be issued to Small Parcel Participants and Ineligible Overseas Shareholders will be issued to the Nominee under the Share Sale Facility, who will use its best endeavours to sell those New BOQ Shares and return the average proceeds of sale in cash (less any brokerage costs and other applicable costs, taxes or charges in the case of Ineligible Overseas Shareholders) to those Scheme Participants.

Small Parcel Participants who elect to sell their New BOQ Shares under the Share Sale Facility, as well as Ineligible Overseas Shareholders, should be aware of the matters set out in section 7.8 of this Scheme Booklet in relation to the operation of the Share Sale Facility and the risks associated with its use. Share Sale Facility participants should also refer to section 6 of this Scheme Booklet in relation to the general market risks that may be relevant to participation in the Share Sale Facility.

### **Instructions for Small Parcel Participants who wish to elect to use the Share Sale Facility**

Small Parcel Participants who wish to use the Share Sale Facility to sell their New BOQ Shares must:

- refer to the Share Sale Facility Election Form that accompanies this Scheme Booklet and the “How to complete this form” section, check that your name and address details on the form are correct and update if necessary;
- complete and sign the Share Sale Facility Election Form; and
- return the completed and signed Share Sale Facility Election Form in accordance with the Share Sale Facility Election Form instructions.

### **Ineligible Overseas Shareholders**

Ineligible Overseas Shareholders will automatically participate in the Share Sale Facility. They do not have to complete a Share Sale Facility Election Form or take any further action.

## 7. IS THERE A NUMBER TO CALL IF I HAVE ANY QUESTIONS?

If you have any questions about the Scheme Meeting or the Scheme Proposal, please call the Home Merger Hotline on 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday.



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# Overview of the Scheme Proposal

## 1. BACKGROUND

On 31 August 2007, Home and BOQ announced the Scheme Proposal, having entered into a conditional agreement (the Implementation Deed summarised in section 8.22 of this Scheme Booklet) which details:

- the Merger Conditions (the status of each of which is set out in the table at paragraph 7 below);
- the terms of the Scheme Proposal;
- the obligations of Home and BOQ in relation to the Scheme and the Scheme Proposal generally; and
- each of the steps contemplated to bring about the Merger of the two companies in the event that the Merger Conditions are satisfied.

## 2. RATIONALE FOR THE MERGER AND POTENTIAL BENEFITS FOR HOME SHAREHOLDERS

The Home Directors believe that the combination of BOQ's unique Owner Managed Branch™ model and Home's extensive Western Australian network will create a stronger regional banking platform centred on the two fastest growing State economies in the country – Western Australia and Queensland.

The strategic rationale for the Merger is compelling and includes:

- greater exposure of BOQ to Western Australia, the fastest growing State in the country (the Merged Group business will have 34 branches in Western Australia);
- a significantly enhanced distribution platform with over 260 branches in Australia (including Mackay Permanent, with whom BOQ is also merging, there will be over 280 branches nationally) (refer to section 3.1 of this Scheme Booklet for further details of the Mackay Permanent Merger);
- strong cultural alignment between BOQ and Home, with both sharing a common focus on superior customer service and strong roots in community banking;
- broader product range and more comprehensive support and services for customers;
- earnings benefit from expected annual pre-tax synergies of approximately \$20 million with full realisation of these synergies expected by the third year following the Merger (refer to section 4.1(d) of this Scheme Booklet for further details on the expected synergies from the Merger);
- increased financial and operational scale; and
- improved ability to compete with larger banking peers as improved efficiencies and synergies are realised.

In addition to the points set out above, Home Shareholders will benefit from:

- a strong premium to the Home Share price prior to announcement of the Merger;

**Table 1: Premiums**

Basis	Home Share price (\$)	BOQ Share price (\$)	Implied offer value (\$)	Implied premium (%)
Closing price (30 August 2007 <sup>(1)</sup> )	14.11	18.25	18.20	29%
VWAP <sup>(2)</sup> 10 days	12.91	17.62	17.67	37%
VWAP <sup>(2)</sup> 30 days	13.14	17.25	17.34	32%
VWAP <sup>(2)</sup> 90 days	14.16	17.60	17.66	25%

### Notes:

(1) Being the last trading day prior to the announcement of the Merger.

(2) VWAP (volume weighted average price) means the ratio of the total value of shares traded to the total volume of shares traded over the period. The VWAP periods are up to and including 30 August 2007.

As at 22 October 2007, the last practical trading day before the date of this Scheme Booklet, the closing price on ASX of BOQ Shares was \$18.95, implying an offer value per Home Share of \$18.79. This represents a 33% premium to the closing price of Home Shares on the day prior to the announcement of the Merger.

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- materially improved liquidity on ASX for BOQ Shares compared to historic liquidity for Home Shares;
  - potential CGT roll-over relief in relation to the New BOQ Share component of the Scheme Consideration; and
  - access to BOQ's half-year dividend for the financial year ending 31 August 2008 following Implementation of the Merger (see further discussion of dividends at paragraph 9 of this section). In addition, Home Shareholders were entitled to Home's FY 2007 Final Dividend.

### Home Customers

The Merger will provide a number of benefits to Home Customers. These will include:

- access to a wider product offering and a more complete range of customer services;
- access to an enhanced branch network of more than 260 branches throughout Australia with more branches to be opened in Western Australia following the Merger;
- continued focus on Western Australia including retention of a material regional headquarters;
- benefit from the improved Standard & Poor's credit rating of BOQ over Home (BBB+ and BBB respectively) and from the economies of scale associated with a larger banking business that will allow BOQ to retain competitive terms and pricing; and
- access to Australia's second largest and most widespread banking ATM network of more than 2,400 BOQ branded ATMs.

Please note that only Home Customers who are also Home Shareholders as at the date and time for determining entitlements to vote on the Scheme Proposal at the Scheme Meeting (expected to be 5.00pm AWDT on Wednesday, 28 November 2007) are eligible to vote on the Scheme Proposal at the Scheme Meeting. Home Customers who are also Home Shareholders as at the Scheme Record Date will be eligible to participate in the Scheme and to receive the Scheme Consideration.

### 3. POTENTIAL DISADVANTAGES AND RISKS ASSOCIATED WITH THE SCHEME PROPOSAL AND THE MERGER GENERALLY

Please refer to section 1.4 of this Scheme Booklet for a discussion of potential disadvantages, and section 6 for a discussion of the risks, associated with the Scheme Proposal, and the Merger generally.

### 4. WHAT SCHEME PARTICIPANTS WILL RECEIVE

If the Scheme Proposal is approved and Implemented, all of the Home Shares held by Scheme Participants will be transferred to BOQ such that Home will ultimately become a wholly owned subsidiary of BOQ. Scheme Participants will then be entitled to receive the Scheme Consideration on Implementation.

In addition to the non-financial benefits of the Merger (which are set out in paragraph 2 of this section), each eligible Scheme Participant will receive the Scheme Consideration, being:

- 0.844 New BOQ Shares; and
- \$2.80 cash,

for each Home Share that they hold.

This represents total consideration of \$18.79 per Home Share based on the closing price of BOQ Shares on 22 October 2007, the last practical trading day before the date of this Scheme Booklet, of \$18.95.

BOQ has also made offers to each Home Optionholder to acquire their options in return for a cash payment equivalent to the intrinsic value of each Home Option (**BOQ Option Offers**). Further details in relation to the BOQ Option Offers are set out in section 7.9 of this Scheme Booklet.

Immediately after the issue of the New BOQ Shares under the Scheme, based on the undiluted issued ordinary share capital of BOQ as at 22 October 2007, the last practical trading day before the date of this Scheme Booklet, Scheme Participants will collectively own approximately 20%<sup>3</sup> of the issued BOQ Shares.

The approval of the Scheme Proposal by Home Shareholders is only one step in the Implementation of the Scheme Proposal. Each of the key steps is outlined in detail in paragraph 8 below, and section 7 of this Scheme Booklet includes further discussion on the Implementation of the Scheme Proposal.

<sup>3</sup> Excluding any BOQ Shares to be issued as a result of the implementation of the Mackay Permanent Proposal.

## 5. RECOMMENDATION OF HOME DIRECTORS

The Home Board unanimously recommends that Home Shareholders vote in favour of the Scheme Proposal, and will be voting in favour of the Scheme Proposal with respect to their own Home shareholdings. This recommendation and voting intention are subject to there being no subsequent superior proposal and no change in the opinion of the Independent Expert.

## 6. INDEPENDENT EXPERT'S REPORT

In the opinion of the Independent Expert, in the absence of a superior proposal, the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders. The reasons for this opinion are listed in the Independent Expert's Report, set out in full in Annexure D to this Scheme Booklet.

## 7. CONDITIONS OF THE MERGER AND STATUS

The Implementation Deed lists a number of conditions that must be satisfied before the Scheme Proposal can be Implemented (**Merger Conditions**). The Merger Conditions are summarised in the table below, together with a description of the status of each condition as at the date of the Scheme Booklet. Further detail in relation to each of the Merger Conditions is set out in the summary of the Implementation Deed in section 8.22 of this Scheme Booklet.

**Table 2: Merger Conditions**

Merger Condition	Status
The Treasurer or his delegate: <ul style="list-style-type: none"><li>granting approval under section 13 of the Financial Sector (Shareholdings) Act to the acquisition by BOQ and its related entities of 100% of the Home Shares; and</li><li>giving consent under section 63 of the Banking Act (if required) to the Scheme</li></ul>	
No Home Material Adverse Change, BOQ Material Adverse Change, Home Prescribed Occurrence or BOQ Prescribed Occurrence occurring prior to 8:00am AWDT on the Second Court Date	
All Regulatory Approvals required to Implement the Merger are granted or obtained and those Regulatory Approvals are not withdrawn, cancelled or revoked	
No legal restraint or prohibition preventing the Implementation of the Scheme (or any other transaction contemplated by the Merger or the Implementation Deed) being in effect at 8:00am AWDT on the Second Court Date	
The Independent Expert concluding, and continuing to conclude, that the Scheme is in the best interests of Home Shareholders	
The Scheme Proposal being approved by Home Shareholders	
The Scheme being approved by the Court	
BOQ being satisfied with the outcome of its Due Diligence Enquiries on or before the Due Diligence Date (ie Friday, 21 September 2007)	Satisfied
Home being satisfied with the outcome of its Due Diligence Enquiries on or before the Due Diligence Date (ie Friday, 21 September 2007)	Satisfied
All of the BOQ Option Offers being accepted by all Home Optionholders before 5:00pm AWDT on the fifth Business Day before the First Court Date	Waived

Neither BOQ nor Home is aware of any circumstances that would cause the remaining Merger Conditions not to be satisfied by the relevant deadlines. Home will update Home Shareholders on the status of the remaining Merger Conditions at the Scheme Meeting. In addition, Home and BOQ will announce to ASX any relevant matter which affects the likelihood of a Merger Condition being satisfied, waived or not being satisfied, in accordance with their respective continuous disclosure obligations.

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## 8. KEY STEPS TO IMPLEMENT THE SCHEME PROPOSAL

Prior to the date of this Scheme Booklet, the following steps required to Implement the Scheme Proposal have been satisfied.

- Each of BOQ and Home has confirmed that it is satisfied with the outcome of its Due Diligence Enquiries.
- Court approval of the Scheme Documents and the Court making orders to convene the Scheme meeting (explained in paragraph 8.1 below).

The remaining key steps to implement the Scheme Proposal are as follows:

- approval of the Scheme Proposal by Home Shareholders at the Scheme Meeting (explained in paragraph 8.2 below);
- Court approval of the Scheme (explained in paragraph 8.3 below); and
- satisfaction of any remaining Merger Conditions (explained in paragraph 8.4 below).

### **8.1 Court approval of the Scheme Documents and convening the Scheme Meeting**

On Tuesday, 23 October 2007 Home filed an application (with supporting affidavits) at the Court seeking orders approving the Scheme Documents and convening the Scheme Meeting.

On Wednesday, 24 October 2007 the Court approved the Scheme Documents and made orders to convene a meeting of Home Shareholders to consider, and if thought fit, to approve the Scheme Proposal, without modification or amendment (this meeting is known as the **Scheme Meeting** in this Scheme Booklet).

The Scheme Meeting is to be held at 10.30am AWDT on Friday, 30 November 2007, at The Astral 1 & 2 Rooms, Burswood Convention Centre, Perth, Western Australia. The Scheme Meeting Notice (which contains further information in relation to the Scheme Meeting) is contained in Annexure C to this Scheme Booklet.

The orders of the Court approving the Scheme Documents and convening of the Scheme Meeting are not, and should not, be treated as an endorsement of, or any other expression of opinion in relation to the Scheme Proposal by the Court.

### **8.2 Approval of the Scheme by Home Shareholders at the Scheme Meeting**

All Home Shareholders holding a Home Share as at 5.00pm AWDT on Wednesday, 28 November 2007 are entitled to attend the Scheme Meeting and vote on the Scheme Proposal.

In order for the Scheme Proposal to be approved by Home Shareholders, at least 75% of the votes cast at the Scheme Meeting, whether in person or by proxy, must be in favour of the Scheme Proposal. Further details in relation to voting entitlements and procedure are set out in the sections of this Scheme Booklet entitled "Your Vote on the Scheme Proposal" and "Frequently Asked Questions", as are details in relation to the application of the "one vote – one member" provisions of the Home Constitution to the Scheme Proposal approval process.

### **8.3 Court Approval of the Scheme**

Under the Corporations Act, if Home Shareholders resolve to approve the Scheme Proposal, the Court then needs to also formally approve the Scheme.

Once the Court order approving the Scheme is made, an office copy of the order must be lodged with ASIC within 14 days. It is upon lodgement of an office copy of the Court order with ASIC that the Scheme becomes Effective. The Court may refuse to grant the orders referred to above even if the Scheme Proposal is approved by Home Shareholders.

### **8.4 Satisfaction of the remaining Merger Conditions**

In order for the Scheme Proposal to be Implemented, and for Home Shareholders to be entitled to receive the Scheme Consideration, the Merger Conditions (listed above in paragraph 7 of this section) must be satisfied.

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## 9. DIVIDENDS

Under the Implementation Deed, BOQ acknowledged that Home would announce and pay the Home FY 2007 Final Dividend to Home Shareholders. This dividend was for the financial year ended 30 June 2007 and was for an amount equal to 24 cents per Home Share. The record date for this dividend was Tuesday, 11 September 2007, and the payment date was Tuesday, 25 September 2007.

Under the Implementation Deed, BOQ has also agreed to ensure that the record date for payment of its half-year dividend for the financial year ending 31 August 2008 is set after the Implementation Date so that Home Shareholders who become BOQ Shareholders under the Scheme will receive this dividend.

Home Shareholders who become BOQ Shareholders under the Scheme will be eligible to receive any subsequent dividends paid by BOQ for as long as they retain their New BOQ Shares.

See section 4.4 of this Scheme Booklet for information on BOQ's dividend policy.

## 10. IF THE SCHEME PROPOSAL DOES NOT PROCEED

If the Scheme Proposal does not proceed, Home Shareholders will retain their Home Shares and Home will continue as a stand alone entity listed on ASX and continue to focus on its current business strategy.

## 11. BOARD OF DIRECTORS

BOQ has invited the current Chairman of Home, Tony Howarth, to accept appointment to the existing BOQ Board should the Scheme Proposal proceed. Mr Howarth intends to accept this appointment and join the BOQ Board following Implementation.

## 12. ENTITLEMENT TO VOTE

Please refer to the section of this Scheme Booklet titled "Your Vote on the Scheme Proposal" for information on how Home Shareholders' entitlement to vote will be determined.

## 13. TRADING OF NEW BOQ SHARES

BOQ Shares are listed on ASX and are tradeable. Scheme Participants who are issued New BOQ Shares as part of the Scheme Consideration will be able to trade in their New BOQ Shares. However, please refer to section 8.7 of this Scheme Booklet in relation to the process for quotation of the New BOQ Shares, which will initially trade on ASX on a deferred settlement basis. If the Scheme Proposal is implemented, New BOQ Shares are expected to commence trading on a deferred settlement basis on ASX on Friday, 7 December 2007, being the next trading day after the Effective Date, and on a normal settlement basis from Friday, 21 December 2007. Home Shareholders are responsible for confirming their allocation of New BOQ Shares before trading in those shares. Home Shareholders who choose to sell their New BOQ Shares after Implementation but before receiving confirmation of their allocation do so at their own risk.

## 14. AUSTRALIAN TAX CONSIDERATIONS FOR HOME SHAREHOLDERS

Implementation of the Scheme will result in a taxable event for the purposes of Australian capital gains tax, in relation to the Home Shares transferred to BOQ under the Scheme.

Some Home Shareholders may be eligible to obtain partial capital gains tax rollover relief to the extent that they receive New BOQ Shares in exchange for their Home Shares under the Scheme. The rollover relief will not be available to the extent that the Scheme Consideration is received in cash, or to some Home Shareholders generally.

The Australian tax implications of the Scheme Proposal are set out in the Tax Opinion, which has been prepared by Blake Dawson Waldron and is contained in section 5 of this Scheme Booklet. Home Shareholders who are resident for tax purposes outside of Australia should seek specific tax advice in relation to the Australian and overseas tax consequences of the Scheme Proposal.

It is recommended that Home Shareholders obtain independent tax advice if they are in any doubt as to the tax treatment of the Scheme Consideration they will receive under the Scheme Proposal, or the impact of the Scheme Proposal on their tax position generally.

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#### 15. HOME SHAREHOLDERS WHO HOLD A SMALL NUMBER OF HOME SHARES

BOQ has established a Share Sale Facility for Scheme Participants with a registered address in Australia (including its external territories) or New Zealand who hold 355 or less Home Shares as at the Scheme Record Date (ie those eligible Scheme Participants who would hold 300 or less New BOQ Shares on Implementation). Such Small Parcel Participants will be able to elect to sell their New BOQ Shares via this Share Sale Facility, free of any brokerage costs and other applicable costs, taxes or charges. The Share Sale Facility does not require that Small Parcel Participants hold an account with the Nominee or any other broker. For Small Parcel Participants, participation in the Share Sale Facility is entirely voluntary.

See section 7.8 of this Scheme Booklet for further details of the Share Sale Facility, including the role of the Nominee in relation to the sale of New BOQ Shares through the Share Sale Facility and the potential risks associated with an election to participate in the Share Sale Facility.

#### 16. INELIGIBLE OVERSEAS SHAREHOLDERS

Home Shareholders with a registered address in a jurisdiction other than Australia (and its external territories) and New Zealand may not be eligible to receive New BOQ Shares that would otherwise form part of the Scheme Consideration. Home Shareholders with a registered address outside of Australia (and its external territories) and New Zealand should refer to sections 7.6 and 7.8 of this Scheme Booklet.

Instead, New BOQ Shares which would otherwise form part of the Scheme Consideration and be issued to Ineligible Overseas Shareholders will be issued to the Nominee under the Share Sale Facility, who will use its best endeavours to sell those New BOQ Shares and return the average net proceeds of sale in cash (less any brokerage costs and other applicable costs, taxes or charges) to the Ineligible Overseas Shareholders.

See sections 7.6 and 7.8 of this Scheme Booklet for further details of the Share Sale Facility, including the role of the Nominee in relation to the sale of New BOQ Shares through the Share Sale Facility.

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# Reasons why you should vote in favour of the Scheme Proposal

## 1. YOUR DIRECTORS RECOMMEND APPROVAL

The Home Board unanimously recommends that Home Shareholders vote in favour of the Scheme Proposal, and each of the Home Directors intends to vote in favour of the Scheme Proposal in relation to their own personal shareholdings in Home, in both cases in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of Home Shareholders.

The reasons for this recommendation are set out below.

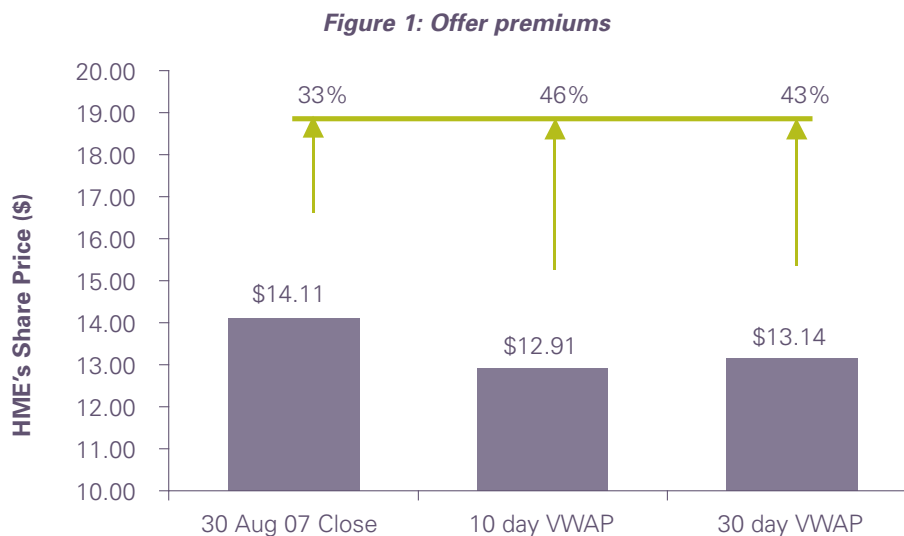
## 2. INDEPENDENT EXPERT FINDING IS FAVOURABLE

The Independent Expert has concluded that, in the absence of a superior proposal, the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders. The Independent Expert's Report, set out in full in Annexure D to this Scheme Booklet, provides the supporting information and analysis that led the Independent Expert to this conclusion.

## 3. SCHEME PROPOSAL REPRESENTS SIGNIFICANT SHARE PRICE PREMIUM

The Scheme Consideration offered under the Scheme Proposal represents a total consideration of \$18.79 per Home Share based on the closing price of BOQ Shares of \$18.95 as at 22 October 2007, the last practical trading day before the date of this Scheme Booklet. This represents:

- a 33% premium to the price of Home Shares of \$14.11 on 30 August 2007, being the day prior to the announcement of the Merger; and
- a 46% premium to Home Shares' 10 day VWAP to 30 August 2007.



## 4. BENEFIT FROM BOQ SHAREHOLDING

If the Scheme Proposal is Implemented, Home Shareholders who are not Ineligible Overseas Shareholders or Share Sale Facility participants will become BOQ Shareholders, enabling them to participate in one of Australia's fastest growing banks.

The Merger will create a stronger regional banking platform centred on the two fastest growing State economies in Australia with over 260 branches nationally. Home Shareholders will have the opportunity to share earnings growth driven by ongoing above national average growth in lending and deposit volumes in Western Australia and Queensland.

BOQ's unique Owner Managed Branch™ model together with growth initiatives have allowed it to sustain above system growth rates for the last 5 years – in turn generating strong shareholder returns of 25% per annum over the last 5 years.

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## 5. BENEFIT FROM EXPECTED FUTURE MERGER SYNERGIES

If Implemented, the Merger presents a number of synergy benefits, which will be shared by Home Shareholders who retain their shareholding in BOQ after Implementation and into the future. BOQ expects that the Merger will ultimately provide annual pre-tax cost synergies of approximately \$20 million from the financial year ending 31 August 2010. The expected cost savings have been identified from the conversion of Home branches to BOQ's unique Owner Managed Branch™ model where appropriate, consolidation of IT platforms and back office functions, procurement savings and administration.

In addition to cost synergies, BOQ will seek to derive revenue synergies from the roll out of additional BOQ products to Home's customer base, including margin lending, equipment and debtor finance products and a broad range of business banking products for small to medium enterprises.

Further details in relation to synergies arising from the Merger are set out in section 4.1(d) of this Scheme Booklet. The realisation and timing of synergies are subject to the integration and other risks described in section 6 of this Scheme Booklet.

## 6. BENEFIT FROM INCREASED MARKET CAPITALISATION

BOQ is one of Australia's top 150 listed companies, with a market capitalisation of approximately \$2.15 billion, and offers significantly better liquidity than is currently available for Home Shares. The New BOQ Shares to be issued under the Scheme Proposal will enable Home Shareholders to liquidate their shareholdings more easily and at a lower cost (due to the lower bid-offer spread) than if they held Home Shares. This is evident in the respective share trading volumes of the companies. During the 12 months prior to the announcement of the Scheme Proposal, an average of approximately \$89 million of BOQ Shares were traded on ASX per month compared to approximately \$6 million of Home Shares.

## 7. PARTICIPATE IN HOME AND BOQ DIVIDENDS

Home Shareholders have already received the Home FY 2007 Final Dividend of 24 cents per Home Share. If the Scheme Proposal is Implemented, Home Shareholders will also be entitled to participate in BOQ's half-year dividend for the financial year ending 31 August 2008. The amount of this dividend will only be known when it is announced by BOQ in April 2008. The BOQ half-year dividend for the financial year ended 31 August 2007 was 32 cents but this is no guarantee as to future dividend levels. See section 4.4 of this Scheme Booklet for information on BOQ's dividend policy.

## 8. EARNINGS PER SHARE ACCRETIVE TO HOME SHAREHOLDERS

The Home Board expects the Merger to be cash earnings per share accretive to Home Shareholders (ie each Home Shareholder's share of BOQ's cash after tax earnings divided by their number of Home Shares is expected to be higher than the Home Shareholder's share of Home's after tax cash earnings divided by their number of Home Shares. This assumes the cash consideration is also invested into BOQ Shares). Cash earnings per share is determined prior to amortisation and any impairment charges relating to intangibles and the earnings impact of the integration costs.

A number of factors will influence the impact of the Merger on the earnings per share of BOQ. Key factors include:

- the future performance of the Merged Group;
- the level and timing of cost savings, revenue enhancements and other synergies derived as a consequence of the Merger;
- the level and timing of integration costs, the degree to which these costs are capitalised and the rate at which they are amortised; and
- the amount and rate of amortisation and charges for impairment that may relate to intangible assets created in the accounts of BOQ as a consequence of the Merger.

## 9. VALUE ENHANCING ALTERNATIVE

The Home Board believes that the Merger is the most value enhancing alternative for Home Shareholders at this time, in the absence of a superior proposal.

In forming its recommendation with respect to the Merger, the Home Board carefully considered Home's strategy as a stand alone entity. Whilst this strategy offers the opportunity to grow Home Shareholder value, in the opinion of the Home Board, the Merger is a logical combination and improves Home's ability to capture those value creating opportunities.



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## 10. POSSIBLE NEGATIVE IMPLICATIONS IF THE SCHEME PROPOSAL IS NOT APPROVED

If the Scheme Proposal is not Implemented and the Merger does not proceed, Home Shares will remain listed on ASX and Home will continue to operate as a stand alone entity.

If the Scheme Proposal is not approved by Home Shareholders, and no alternative proposal emerges, Home Shares will continue to be quoted on ASX but it is difficult to predict where the Home Share price might settle if the impact that could be attributed to the Merger is removed. Home Shareholders should note that the implied value of the Scheme Consideration offered under the Scheme Proposal represents a significant premium to the Home Share price prior to the announcement of the Merger. The 30 business day VWAP of Home Shares prior to 31 August 2007 (the date of the announcement of the Merger) was \$13.14.

Home will incur transaction costs of approximately \$1.5 million in connection with the Merger (excluding any Break Fee) even if the Scheme Proposal is not approved by Home Shareholders.

Details of possible Break Fees payable by Home or BOQ are outlined in section 8.22 of this Scheme Booklet.

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## Frequently Asked Questions (FAQs)

This section answers some frequently asked questions about the Scheme Proposal and the Merger generally. This section should be read together with other sections of this Scheme Booklet.

To assist Home Shareholders, Home has established the Home Merger Hotline in relation to the Scheme Proposal. Please call the Home Merger Hotline on 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday.

You should read the “Your Vote on the Scheme Proposal” section of this Scheme Booklet for detailed information on the voting procedure for the Scheme Meeting.

### 1. WHAT IS THE MERGER?

BOQ has proposed a Merger between BOQ and Home, to be implemented by way of a scheme of arrangement. If the Scheme Proposal is approved, BOQ will acquire all Home Shares in return for a mix of New BOQ Shares and cash. In conjunction with the Scheme Proposal, BOQ has also offered to acquire all of the Home Options under the BOQ Option Offers described in section 7.9 of this Scheme Booklet, so that on Implementation BOQ acquires all the issued Home Shares and Home Options.

### 2. WHAT WILL HOME SHAREHOLDERS RECEIVE IF THE SCHEME PROPOSAL IS IMPLEMENTED?

Under the terms of the Scheme Proposal, eligible Home Shareholders will receive 0.844 New BOQ Shares and \$2.80 cash for each Home Share.

Based on the closing price of BOQ Shares of \$18.95 on 22 October 2007<sup>4</sup>, the Scheme Consideration offered under the Scheme Proposal represents a total implied offer consideration of \$18.79 per Home Share.

### 3. WHY IS THE MERGER BEING PROPOSED UNDER THE SCHEME PROPOSAL?

The proposed combination of BOQ’s unique Owner Managed Branch™ model and Home’s extensive Western Australian network will create a stronger regional banking platform centred on the two fastest growing State economies in the country, Queensland and Western Australia. The strategic rationale for the Merger is compelling and is set out in detail in paragraph 2 of the section of this Scheme Booklet titled “Overview of the Scheme Proposal”.

### 4. WHAT ARE THE POTENTIAL DISADVANTAGES ASSOCIATED WITH THE SCHEME PROPOSAL AND THE MERGER GENERALLY?

The potential disadvantages of the Scheme Proposal and the Merger are outlined in detail in section 1.4 of this Scheme Booklet.

### 5. WHAT DO THE HOME DIRECTORS RECOMMEND?

The Home Directors unanimously recommend that all Home Shareholders vote in favour of the Scheme Proposal in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of Home Shareholders.

### 6. WHAT IS THE OPINION OF THE INDEPENDENT EXPERT?

The Independent Expert has considered the Scheme Proposal and has concluded that the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders. The Independent Expert’s Report is set out in full in Annexure D to this Scheme Booklet.

### 7. WHAT ARE THE RISKS OF THE SCHEME PROPOSAL?

The value of the New BOQ Shares component of the Scheme Consideration for eligible Scheme Participants after the Merger is Implemented will be affected by a number of factors including the financial performance of the Merged Group. There are various risk factors which may affect the performance of the Merged Group and the value of the New BOQ Shares. These include general risk factors such as changes in economic conditions or government policy and specific risks including those business risks associated with the BOQ Group, risks referable to holding BOQ Shares and integration risks relating to the Merger. The key risks are discussed in section 6 of this Scheme Booklet.

<sup>4</sup> Being the last practical trading day before the date of this Scheme Booklet.

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## **8. WILL THE MERGED GROUP BE APPROPRIATELY CAPITALISED?**

Following the Merger, the Merged Group will be capitalised above minimum regulatory capital requirements. The board of directors of the Merged Group will set capital targets for the percentage of risk weighted assets for Tier 1 capital and total capital, taking into account timing of integration costs and synergies and other factors inherent in its normal operations.

BOQ is currently working with the relevant regulatory authorities to ensure compliance with the requirements of Basel II, to be implemented from 1 January 2008. BOQ intends to continue these discussions and will undertake to remain appropriately capitalised under the new Basel II regime.

## **9. FOLLOWING IMPLEMENTATION OF THE MERGER, HOW WILL OWNERSHIP OF BOQ BE SPLIT BETWEEN CURRENT HOME SHAREHOLDERS AND BOQ SHAREHOLDERS?**

Home Shareholders will own approximately 20%<sup>5</sup> of the Merged Entity following Implementation.

## **10. WILL I BE REQUIRED TO PAY BROKER FEES OR STAMP DUTY?**

Home Shareholders (other than Ineligible Overseas Shareholders) will not pay any transaction costs associated with the Scheme Proposal. They will, however, potentially incur a CGT liability as a result of the transactions contemplated by the Scheme Proposal and will face transaction costs if they sell their New BOQ Shares other than through the Share Sale Facility (in the case of Small Parcel Participants). Ineligible Overseas Shareholders will have certain transaction costs deducted from the proceeds from the sale of the New BOQ Shares to which they would otherwise be entitled through the Share Sale Facility. Please see sections 7.6 and 7.8 of this Scheme Booklet for further information about how overseas Home Shareholders will be treated under the Scheme Proposal, and the Share Sale Facility.

## **11. WILL HOME SHAREHOLDERS BE ELIGIBLE TO RECEIVE BOQ'S FEBRUARY 2008 HALF YEAR DIVIDEND?**

If the Scheme Proposal is Implemented and Home Shareholders continue to hold their New BOQ Shares at the time of the record date for BOQ's half-year dividend for the financial year ending 31 August 2008 then Home Shareholders will be entitled to receive that dividend.

The record date for previous BOQ half-year dividends has been during the month of April.

The Indicative Timetable anticipates that Implementation will take place on Tuesday, 18 December 2007.

## **12. HOW WILL DIVIDENDS RELATED TO HOME SHAREHOLDERS' NEW BOQ SHARES DIFFER FROM THOSE CURRENTLY PAID BY HOME?**

As a BOQ Shareholder, Scheme Participants will be entitled to receive BOQ dividends for as long as they hold their New BOQ Shares and BOQ continues to pay dividends. Dividends will be paid out of the Merged Group's earnings. BOQ has paid out an average of approximately 70% of its cash earnings per share in dividends over the last three years. The BOQ dividends for the financial year ended 31 August 2007 were 69 cents per share, which equates to 58 cents per Home Share based on the 0.844 Scheme Consideration multiplier. This compares favourably against Home's announced FY 2007 dividends of 44 cents per Home Share. Both BOQ and Home have paid fully franked dividends in FY 2007.

## **13. HOW WILL THE MERGER BE IMPLEMENTED?**

The Merger will be Implemented via a scheme of arrangement. If the Scheme Proposal is approved, all Home Shares will be transferred to BOQ and Home will ultimately become a wholly owned subsidiary of BOQ.

## **14. WHO WILL MANAGE HOME AND THE MERGED ENTITY FOLLOWING COMPLETION OF THE MERGER?**

BOQ will manage the Merged Entity after Implementation of the Scheme Proposal and completion of the Merger. Some of the Home management team may be invited to take positions in the management team for the Merged Group. BOQ has announced an intention to retain a material regional headquarters in Western Australia.

## **15. WHAT WILL HAPPEN TO THE HOME BUSINESS?**

If the Merger is Implemented, Home will ultimately become a wholly owned subsidiary of BOQ and will no longer be listed on ASX in its own right.

BOQ's intentions for the Home business regarding the Board, brand, branches, head office, strategy, fixed assets and employees are outlined in detail in section 4.3(b) of this Scheme Booklet.

<sup>5</sup> Excluding any BOQ Shares to be issued as a result of the implementation of the Mackay Permanent Proposal.

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#### **16. WHEN AND WHERE WILL THE SCHEME MEETING BE HELD?**

The Scheme Meeting will be held on Friday, 30 November 2007 at The Astral 1 & 2 Rooms, Burswood Convention Centre, Perth, Western Australia at 10.30am AWDT. Please note that this is the same day as the Home AGM, which will be held at the same venue from 9.00am AWDT that day.

#### **17. WHAT ARE THE PROSPECTS OF A SUPERIOR PROPOSAL?**

Under the terms of the Implementation Deed, Home has undertaken not to solicit, initiate, invite, encourage or participate in any potential competing transaction. This undertaking is subject to normal fiduciary duty obligations that allow the Home Board to appropriately respond to a bona fide unsolicited offer.

It is impossible to predict whether a superior proposal will emerge. However, at the date of this Scheme Booklet no alternative proposals had been presented to the Home Board. The Independent Expert has noted that it views the prospects of a superior proposal as unlikely (refer to Annexure D to this Scheme Booklet, which contains the Independent Expert's Report).

#### **18. ARE THERE ANY CONDITIONS TO THE MERGER COMPLETING?**

The Scheme Proposal is subject to a number of different conditions and these all need to be met for the Scheme Proposal to proceed. The Merger Conditions are summarised in paragraph 7 of the section of this Scheme Booklet titled "Overview of the Scheme Proposal" and set out in full in the Implementation Deed, which is summarised in section 8.22 of this Scheme Booklet. A complete copy of the Implementation Deed was lodged with ASX on 31 August 2007 and is available on the Home website at [www.homeonline.com.au](http://www.homeonline.com.au).

#### **19. WHEN WILL I RECEIVE THE CASH COMPONENT OF THE SCHEME CONSIDERATION?**

If the Scheme Proposal is Implemented, a cheque or direct credit deposit into a Nominated Account (as the case may be) for the cash component of the Scheme Consideration will be mailed to your registered address or deposited into your Nominated Account on the Implementation Date. The Indicative Timetable currently contemplates that the Implementation Date will be Tuesday, 18 December 2007. However, the Indicative Timetable is subject to change at any time.

#### **20. WHEN WILL I RECEIVE MY NEW BOQ SHARES?**

If the Scheme Proposal is Implemented, the Scheme Consideration will be distributed on or as soon as practicable after the Implementation Date, with the New BOQ Shares being issued on the Implementation Date and dispatch of holding statements in respect of those New BOQ Shares to be completed as soon as reasonably practicable and in any event within 10 Business Days after the Implementation Date.

#### **21. CAN I SELL MY HOME SHARES NOW?**

You can sell your Home Shares on market at any stage up to and including the Effective Date, after which time Home Shares will cease to trade on ASX. However, if you sell all of your Home Shares before 5.00pm AWDT on Wednesday, 28 November 2007 you will not be entitled to vote on the Scheme Proposal at the Scheme Meeting or be eligible to receive the Scheme Consideration. If you sell all of your Home Shares before the Scheme Record Date (but after the cut-off date and time for determining entitlements to vote at the Scheme Meeting), you will not be entitled to receive the Scheme Consideration.

#### **22. CAN I SELL MY HOME SHARES AFTER THE SCHEME VOTE?**

Home Shareholders can continue to trade in Home Shares until and including the Effective Date for the Scheme, after which time Home Shares will cease to trade on ASX. The Effective Date is after the Scheme Meeting Date. However, if you sell your Home Shares at any stage prior to the Scheme Record Date you will not be entitled to receive the Scheme Consideration or otherwise participate in the Scheme Proposal.

#### **23. WHAT IF I DO NOT WANT NEW BOQ SHARES?**

You may sell your New BOQ Shares on market after you receive them. Alternatively, you may elect to sell your Home Shares prior to the Effective Date.

Small Parcel Participants (ie those Home Shareholders holding 355 or less Home Shares as at the Scheme Record Date and who have a registered address in Australia or New Zealand) may elect to have their New BOQ Shares sold via the Share Sale Facility.

Further details of the sale mechanism offered under the Share Sale Facility, and the role of the Nominee, are set out in section 7.8 of this Scheme Booklet.

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#### **24. WHAT IF I AM A FOREIGN SHAREHOLDER?**

Home Shareholders with a registered address in any jurisdiction other than Australia (including its external territories) or New Zealand may not be eligible to receive New BOQ Shares that would otherwise form part of the Scheme Consideration. Instead, New BOQ Shares which would otherwise be issued to Ineligible Overseas Shareholders will be issued to the Nominee, who will use its best endeavours to sell those New BOQ Shares and return the proceeds of their sale (less any brokerage costs and other applicable costs, taxes or charges) in cash to the Ineligible Overseas Shareholders.

Home Shareholders with a registered address outside of Australia (and its external territories) and New Zealand should refer to sections 7.6 and 7.8 of this Scheme Booklet for further information in relation to the treatment of Ineligible Overseas Shareholders and the operation of the Share Sale Facility.

#### **25. WHAT IF I ONLY HOLD A SMALL NUMBER OF HOME SHARES?**

You will receive the same Scheme Consideration as other Home Shareholders.

However, Small Parcel Participants (those Home Shareholders holding 355 or less Home Shares as at the Scheme Record Date or expected to hold 300 or less New BOQ Shares on Implementation) may elect to have the New BOQ Shares to which they would otherwise be entitled sold via the Share Sale Facility.

Further details of the sale mechanism offered under the Share Sale Facility, and the role of the Nominee, are set out in section 7.8 of this Scheme Booklet.

#### **26. ARE THERE LIMITS ON SHAREHOLDINGS IN BOQ?**

There are no limits on shareholdings in BOQ other than the statutory limits under the Financial Sector (Shareholdings) Act, which apply to all ADIs, and the Corporations Act.

#### **27. WHAT ARE THE TAX IMPLICATIONS OF THE SCHEME PROPOSAL?**

The Australian tax implications of the Scheme Proposal are set out in the Tax Opinion contained in section 5 of this Scheme Booklet.

It is recommended that Home Shareholders obtain independent tax advice if they are in any doubt as to the tax treatment of the Scheme Consideration they will receive under the Scheme Proposal, or the tax implications of the Scheme Proposal in general as it relates to their particular circumstances.

#### **28. WHO IS ENTITLED TO VOTE AT THE SCHEME MEETING?**

Home Shareholders who hold Home Shares at 5.00pm AWDT on Wednesday, 28 November 2007 are entitled to vote at the Scheme Meeting. Please refer to the section of this Scheme Booklet titled "Your Vote on the Scheme Proposal" for further details.

#### **29. IS VOTING COMPULSORY?**

No, but Home Shareholders are encouraged to vote as the Scheme Proposal is an important matter. Please refer to paragraph 1 of the section of this Scheme Booklet titled "Your Vote on the Scheme Proposal" and section 7.2 of this Scheme Booklet for important information in relation to the majorities required to approve the Scheme Proposal.

#### **30. WHO IS ENTITLED TO PARTICIPATE IN THE SCHEME PROPOSAL?**

All Home Shareholders who hold Home Shares at 5.00pm AWDT on Thursday, 13 December 2007 are entitled to participate in the Scheme Proposal and to receive the Scheme Consideration.

#### **31. IF I WISH TO SUPPORT THE SCHEME PROPOSAL AND MERGER, WHAT SHOULD I DO?**

If you wish to support the Scheme Proposal and Merger you should vote in favour of the Scheme Proposal either in person at the Scheme Meeting or by returning the Proxy Form that accompanies this Scheme Booklet by the due date. Refer to the section of this Scheme Booklet titled "Your Vote on the Scheme Proposal" for further details on how to vote in favour of the Scheme Proposal.

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### **32. WHAT IF I CANNOT OR DO NOT WISH TO ATTEND THE SCHEME MEETING?**

You can still vote on the Scheme Proposal even if you do not attend the Scheme Meeting in person.

If you cannot or do not wish to attend the Scheme Meeting you can appoint another person by power of attorney to attend the Scheme Meeting and vote on your behalf or you can complete the Proxy Form that accompanies this Scheme Booklet and lodge it with the Share Registry of Home, Computershare, in accordance with the Proxy Form instructions. Proxy Forms can be lodged in person, by mail, or fax.

Refer to the paragraph 4 of the section of this Scheme Booklet titled "Your Vote on the Scheme Proposal" for instructions on how to vote if you cannot or do not wish to attend the Scheme Meeting.

### **33. WHAT HAPPENS IF I VOTE AGAINST THE SCHEME PROPOSAL?**

At the Scheme Meeting, 75% of Home Shareholders present and voting (either in person or by proxy) need to vote in favour of the Scheme Proposal for it to be approved. Even if you vote against the Scheme Proposal, the Scheme Proposal may still be implemented if this requisite majority of Home Shareholders vote in favour of the Scheme Proposal.

If you are a Home Shareholder on the Scheme Record Date (expected to be Thursday, 13 December 2007) and the Scheme Proposal is approved by Home Shareholders and the Court, your Home Shares will be transferred to BOQ under the Scheme and you will receive the Scheme Consideration. This will occur whether you voted for or against the Scheme Proposal.

### **34. WHEN WILL THE RESULTS OF THE SCHEME MEETING BE KNOWN?**

The voting results will be known at or immediately following the Scheme Meeting. Following the close of the Scheme Meeting, an announcement will also be made to ASX regarding the result of the Scheme vote.

### **35. HOW DO HOME'S "ONE VOTE – ONE MEMBER" PROVISIONS WORK?**

Home's constitution currently provides that voting rights attaching to Home Shares are on a "*one vote-one member*" basis where the vote is conducted on a show of hands or a poll. Normally on a poll, a shareholder has one vote per share held. These provisions were put in place when Home listed and were intended as protection in the event of a disadvantageous takeover bid. They are due to expire on 26 February 2008 and from that date voting rights on a poll will be on a one vote per share held basis. The result of the "*one vote-one member*" provisions is that an eligible Home Shareholder is only entitled to cast one vote at the Scheme Meeting regardless of the number of Home Shares that they hold.

### **36. WHEN WILL THE SCHEME PROPOSAL BECOME EFFECTIVE?**

Once the Second Court Hearing has been held and orders made to approve the Scheme, the Scheme will become Effective on the day that an office copy of the Court orders is lodged with ASIC under section 411(10) of the Corporations Act (which is expected to be Thursday, 6 December 2007).

### **37. WHAT HAPPENS IF THE SCHEME PROPOSAL DOES NOT PROCEED?**

If the Scheme Proposal does not proceed, Home Shareholders will retain their Home Shares and Home will continue as a stand alone entity listed on ASX and continue to focus on its current business strategy.

### **38. WHAT WILL BE THE EFFECT OF THE MERGER ON HOME CUSTOMERS?**

Home Customers will not be entitled to participate in the Scheme Proposal or receive the Scheme Consideration unless they are also a Home Shareholder as at the Scheme Record Date. However, all Home Customers will benefit from the Merger through access to an increased numbers of branches and ATMs, a wider product portfolio and more comprehensive service offering.

### **39. WHAT OTHER INFORMATION IS AVAILABLE?**

If you would like further information, or have any questions about the Scheme Proposal or the Merger generally, please call the Home Merger Hotline on 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday.

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# 1. Assessment of the Merger

## 1.1 DIRECTORS' RECOMMENDATION AND REASONS

Your Home Directors unanimously recommend the Scheme Proposal to Home Shareholders, in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of Home Shareholders.

Each of the Home Directors (as Home Shareholders themselves) intends to vote in favour of the Scheme Proposal at the Scheme Meeting in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of Home Shareholders. The Home Directors believe that approval of the Scheme Proposal is in the best interests of Home Shareholders, having considered the following.

- (a) The Independent Expert has concluded that, in the absence of a superior proposal, the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders;
- (b) The Scheme Proposal values your Home Shares at a significant premium to the Home Share price prior to the announcement of the Merger;
- (c) The Scheme Proposal gives you the opportunity to become a shareholder in BOQ and share in the Merged Group's growth;
- (d) The Scheme Proposal gives you the opportunity to share in the benefit of future synergies that arise from the Merger;
- (e) The Scheme Proposal enables you to benefit from increased liquidity in your shareholding;
- (f) The Scheme Proposal enables you to participate in BOQ's half-year dividend for the financial year ending 31 August 2008;
- (g) The Merger is expected to be cash earnings per share accretive to Home Shareholders;
- (h) The Scheme Proposal offers the most value enhancing alternative for Home Shareholders at this time, in the absence of a superior proposal; and
- (i) If the Scheme Proposal is not approved and no alternative proposal emerges, the Home Share price may fall back to the levels at which it traded prior to the announcement of the proposed Merger.

Refer to the section of this Scheme Booklet titled "Reasons Why You Should Vote In Favour of the Scheme Proposal" for further details on items (a) to (i) above.

## 1.2 INDEPENDENT EXPERT'S OPINION

The Independent Expert has concluded that, in the absence of a superior proposal, the Scheme Proposal is fair and reasonable and in the best interests of Home Shareholders. The Independent Expert's Report is contained in Annexure D to this Scheme Booklet.

## 1.3 POTENTIAL RISKS OF THE SCHEME PROPOSAL

The value of the New BOQ Shares component of the Scheme Consideration for eligible Scheme Participants after the Merger is Implemented will be affected by a number of factors including the financial performance of the Merged Group. There are various risk factors which may affect the performance of the Merged Group and the value of the New BOQ Shares. These include general risk factors such as changes in economic conditions or government policy and specific risks including those business risks associated with the BOQ Group, risks referable to holding BOQ Shares and integration risks relating to the Merger.

For further details in relation to the key risks associated with the Scheme Proposal and an investment in New BOQ Shares see section 6 of this Scheme Booklet.

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## 1.4 POTENTIAL DISADVANTAGES OF THE SCHEME PROPOSAL

Whilst the Scheme Proposal has many advantages it also has potential disadvantage, some of which are detailed below.

**(a) Home Shareholders will no longer effectively control Home**

Currently Home Shareholders control 100% of Home. Immediately after the issue of the New BOQ Shares pursuant to the Scheme and based on the undiluted issued ordinary capital of BOQ as at 22 October 2007<sup>6</sup>, the Merger will result in Home Shareholders collectively owning approximately 20% of the total issued BOQ Shares. Home will ultimately become a wholly owned subsidiary of BOQ through the transfer of all Home Shares to BOQ under the Scheme and the transfer of all Home Options to BOQ under the BOQ Option Offer described in section 7.9 of this Scheme Booklet.

**(b) Synergies Uncertain**

While the synergies from the Merger are expected to result in increased earnings for the Merged Group, the value and timing of these synergies is uncertain and are contingent on a successful integration of the two organisations.

**(c) Likelihood of an Alternative Offer**

Under the Implementation Deed, Home has undertaken not to solicit, initiate, invite, encourage or participate in any potential competing transaction. This undertaking is subject to normal fiduciary obligations that allow the Home Board to appropriately respond to a bona fide unsolicited offer. However, the existence of these restrictions in the Implementation Deed may reduce the likelihood of an alternative offer on superior terms emerging.

**(d) Possibility of negative impact on the Home or BOQ businesses**

There is no current expectation or evidence to suggest that the Merger will result in any material negative impact on the respective businesses of Home or BOQ. However the Merger could cause some Home Customers to exit because they prefer to bank with a building society or with a Western Australian based financial institution.

**(e) Tax and social security implications**

The receipt of the cash and New BOQ Shares under the Scheme Proposal may have adverse tax consequences for some Home Shareholders. Refer to the Tax Opinion in section 5 of this Scheme Booklet for further details. Separately, the increase in assets and income resulting from the Merger may affect certain eligible Home Shareholders' Centrelink (ie pensions and social security) benefits but this is considered unlikely. Each Home Shareholder should consider the tax and Centrelink payments consequences of the Merger in view of their own particular circumstances and seek independent advice with regard to their individual position.

**(f) Some Home Shareholders will not receive New BOQ Shares**

Home Shareholders with a registered address outside Australia or New Zealand may not receive the ongoing benefits of ownership of the New BOQ Shares.

## 1.5 IMPLICATIONS IF SCHEME PROPOSAL DOES NOT PROCEED

If the Scheme Proposal does not proceed, Home Shareholders will retain their Home Shares and Home will continue as a stand alone entity listed on ASX and continue to focus on its current business strategy.

<sup>6</sup> Being the last practical trading day before the date of this Scheme Booklet.



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## 2. Profile of Home

### 2.1 BACKGROUND

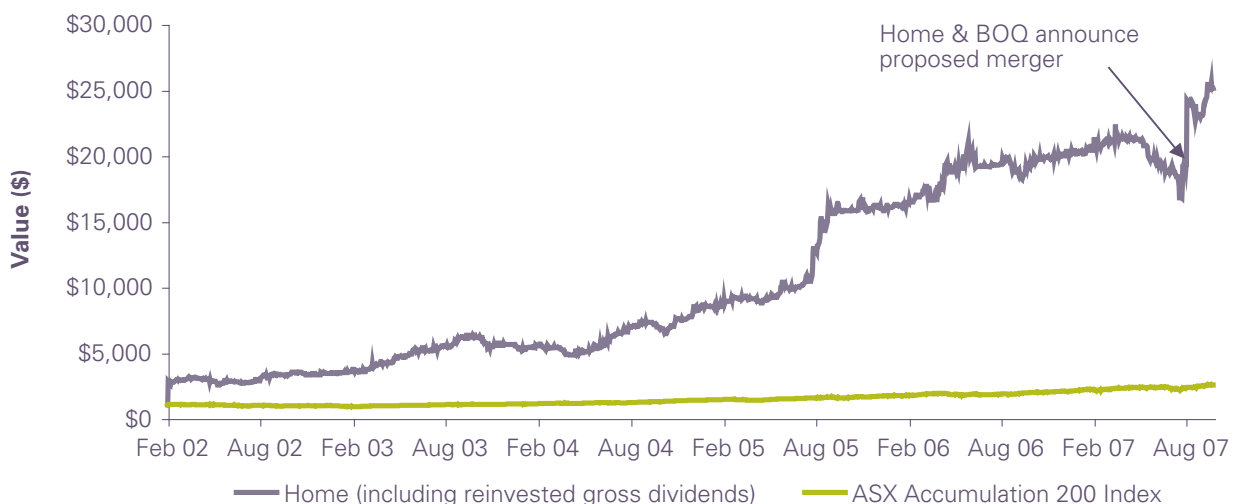
Home is the only listed authorised deposit taking institution headquartered in Western Australia. Home and StateWest Financial Services Limited (formerly known as StateWest Credit Society Limited) merged on 10 July 2006, and as at 30 June 2007, the resulting Home Group has lending assets of \$2.4 billion and deposits of \$2.2 billion. Home has in excess of 126,000 customers and has plans for further growth through branch network expansion.

Home is headquartered at 111 St Georges Terrace, Perth, Western Australia and as at 30 June 2007 employed 304 full time equivalent employees.

Home was founded in 1946 in Fremantle, as a limited partnership of ten local businessmen. It was formed to enable returning servicemen to finance their families' post-war homes. StateWest began in 1962 as a small loans club for members of the Australian Postal Institute in Western Australia.

After more than half a century of steady success as a mutual society, Home was listed on ASX on 1 March 2002. At the time of listing, Home offered Home Shares to its members only and the initial public offer was 5.5 times over-subscribed. The market capitalisation of Home was \$32 million at the close of trade on the date of listing. As at 22 October 2007, the last practical trading day before the date of this Scheme Booklet, the market capitalisation of Home stands at approximately \$581 million, a result of significant share price appreciation. Since listing on ASX, Home has also paid a total of \$34 million in dividends to Home Shareholders and Figure 2.1 below shows that an investment of \$1,000 in Home Shares at the time of Home's initial public offer would be worth \$24,468 today, assuming the reinvestment of gross dividends received.

**Figure 2.1: Current value of \$1,000 invested at Home Initial Public Offer**

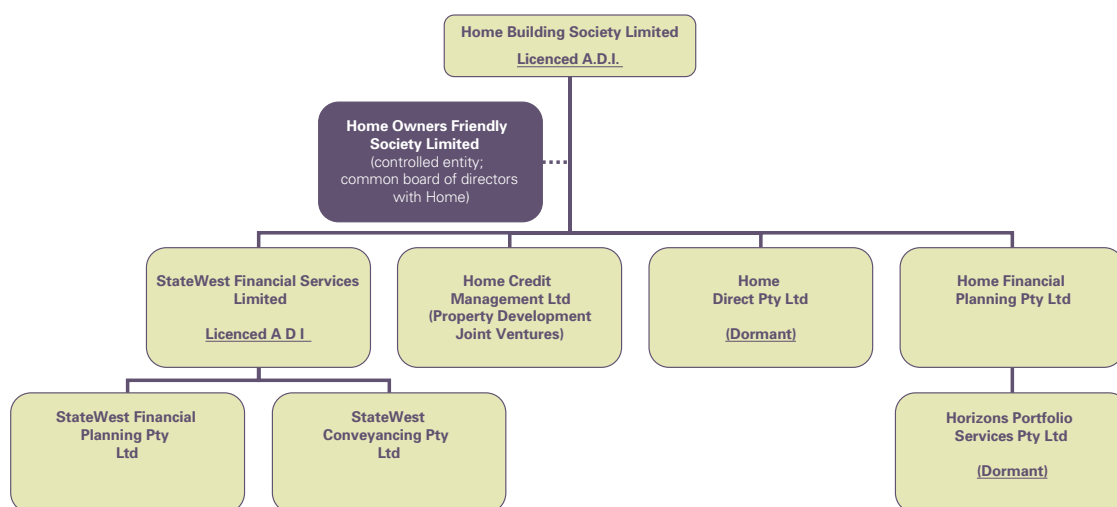


## 2.2 HOME'S BUSINESS

### (a) Structure of Home

The corporate structure of the Home Group is as set out below.

**Figure 2.2: Home's corporate structure**



- (i) All of Home's retail banking operations are conducted under Home Building Society Ltd, the ASX listed entity, and StateWest Financial Services Limited (formerly known as StateWest Credit Society Limited).
- (ii) Home Financial Planning Pty Ltd and StateWest Financial Planning Pty Ltd conduct all the financial planning operations of the Home Group.
- (iii) Home Owners Friendly Society Limited is a controlled entity of Home Building Society Ltd. It manages a portfolio of tax effective deposit products.
- (iv) Home Credit Management Pty Ltd is the entity under which Home undertakes property development activities.
- (v) StateWest Conveyancing Pty Ltd offers conveyancing and settlement activities to customers of the Home Group.

### (b) Business Divisions of Home

The principal activities of Home are providing financial services and property development. The four key operating divisions of Home are as follows.

- (i) Retail Banking
- (ii) Relationship and Commercial Banking
- (iii) Property Development
- (iv) Home Financial Planning

An explanation of these operating divisions is set out below.

#### **Retail Banking**

The Retail Banking Division conducts Home's consumer banking operations. It offers products and services which include:

- (i) Transaction and saving accounts
- (ii) Cash management accounts
- (iii) Term deposits
- (iv) Fixed and variable home loans
- (v) Bridging loans
- (vi) Equity loans
- (vii) Personal loans
- (viii) Insurance

At 30 June 2007, the total loans were \$1,961 million and the total customer deposits were \$1,327 million.

Home has 29 branches. In addition, it operates an online banking service and operates a call centre that is open five days per week. Home also utilises mortgage brokers who promote Home's lending products.

### **Relationship and Commercial Banking**

The Relationship and Commercial Banking Division of Home offers commercial and residential lending products with loans predominantly secured against real estate. This loan portfolio represents approximately 19% of Home's present customer loans outstanding. In addition, this Division offers relationship managed deposits to individuals and corporate clients with deposits greater than \$150,000.

At 30 June 2007, the total loans were \$469 million and the total customer deposits were \$852 million.

### **Property Development**

Home invests in residential subdivision property development activities within Western Australia. These activities are managed by professional property developers on behalf of Home and other joint venture partners. Home is involved in the following joint venture projects:

- (i) Dalyellup
- (ii) Brighton
- (iii) Margaret River
- (iv) Provence (East Busselton)
- (v) The Grove (Wanneroo)
- (vi) Austin Cove

Home is a passive investor in these joint ventures. It generally makes an equity investment in the joint venture and receives a share of any development profits. Home has representation on the board of the joint venture companies.

StateWest Financial Services Limited also has an equity investment of 13.42% in Gold Estates Holdings Pty Ltd, a land development company.

### **Financial Planning**

The Financial Planning Division of Home offers wealth management, insurance and superannuation products and services to customers. Home does not directly manage any funds on behalf of these customers, with the exception of funds invested in Home's deposit products, such as term deposits or cash management accounts. As at 30 June 2007, Home's Financial Planning Division had funds under management of \$382 million. The Division primarily utilises the Colonial First State, ING and Asgard platforms for product selection.

## **2.3 HOME'S FINANCIALS**

The table below sets out the financial performance of Home for the year ended 30 June 2007, as per the audited financial statements for the financial year ended 30 June 2007 that were lodged with ASX on 31 August 2007.

### **(a) Key statistics**

Some key ratios and statistics in relation to Home extracted from the audited financial statements for the year ended 30 June 2007 are set out below.

**Table 2.1: Home key statistics**

<b>Year ended 30 June</b>	<b>2006</b>	<b>2007</b>
Net interest margin	1.98%	2.30%
Cost to income ratio <sup>1</sup>	66.7%	65.0%
Capital adequacy ratio	11.0%	11.9%
Net tangible assets per share	\$4.63	\$4.82
Cash earnings per share (diluted normalised cents)	67.7c	66.6c
Cash return on average ordinary equity	16.3%	10.9%
Dividend payout ratio to ordinary shareholders (normalised, ie excluding significant items)	65.4%	67.1%

**Note:**

<sup>1</sup> Excludes impairment gains/(losses) on loans and advances, amortisation of intangible assets on business combinations, merger and restructuring expenses, and gains on sale of property assets.

**(b) Historical income statement****Table 2.2: Home income statement**

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Interest income	192,206	97,718	130,773	97,744
Interest expense	(132,893)	(71,001)	(95,391)	(69,927)
<b>Net interest income</b>	<b>59,313</b>	<b>26,717</b>	<b>35,382</b>	<b>27,817</b>
Other operating income	17,168	6,994	31,039	10,143
Other income	1,997	1,394	1,660	1,328
<b>Total operating income</b>	<b>78,478</b>	<b>35,105</b>	<b>68,081</b>	<b>39,288</b>
Employee benefits expense	(24,684)	(12,365)	(22,629)	(11,586)
Depreciation and Amortisation expense	(5,951)	(1,158)	(1,121)	(875)
Share of net profit of joint ventures accounted for using the equity method	9,998	9,744	–	–
(Impairment losses)/Reversal of impairment losses on loans and advances	(373)	817	(25)	817
Merger and restructuring expenses	(10,178)	(2,619)	(10,076)	(2,562)
Other operating expenses	(29,198)	(15,790)	(25,514)	(16,224)
<b>Profit before income tax</b>	<b>18,092</b>	<b>13,734</b>	<b>8,716</b>	<b>8,858</b>
Income tax expense	(4,853)	(3,512)	(541)	(3,482)
<b>Net profit for the period</b>	<b>13,239</b>	<b>10,222</b>	<b>8,175</b>	<b>5,376</b>
Attributable to:				
Minority interest	46	81	–	–
Members of the parent	13,193	10,141	8,175	5,376

(c) Historical balance sheet

Table 2.3: Home balance sheet

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>				
Cash and cash equivalents	24,194	23,940	16,679	23,940
Held-for-trading investments	994	1,991	–	–
Available-for-sale investments	285,361	139,934	191,821	139,934
Held-to-maturity investments	2,933	–	–	–
Trade and other receivables	1,248	418	1,682	2,721
Loans and advances	2,430,394	1,439,105	1,837,458	1,438,618
Investments in joint ventures accounted for using the equity method	28,103	26,084	–	–
Other financial assets	7,021	1,238	237,781	5,646
Property, plant and equipment	5,917	2,434	3,524	2,398
Goodwill and Intangibles	171,455	535	767	–
Deferred tax assets	–	–	392	–
Income tax paid in advance	–	2,180	–	2,182
Prepayments	1,542	4,747	1,001	4,187
<b>Total assets</b>	<b>2,959,162</b>	<b>1,642,606</b>	<b>2,291,105</b>	<b>1,619,626</b>
<b>LIABILITIES</b>				
Customer deposits	2,179,195	1,191,298	1,396,514	1,193,197
Trade and other payables	28,674	19,494	182,151	19,326
Interest-bearing liabilities and borrowings	417,530	347,530	401,000	331,000
Deferred tax liabilities	11,117	6,645	–	6,645
Income tax payable	907	–	3,462	–
Provisions	4,057	1,484	2,832	1,468
<b>Total liabilities</b>	<b>2,641,480</b>	<b>1,566,451</b>	<b>1,985,959</b>	<b>1,551,636</b>
<b>NET ASSETS</b>	<b>317,682</b>	<b>76,155</b>	<b>305,146</b>	<b>67,990</b>
<b>EQUITY</b>				
<i>Equity attributable to equity holders of the parent</i>				
Contributed equity	265,723	32,404	265,723	32,404
Reserves	7,665	4,385	7,309	4,385
Retained earnings	42,709	36,674	32,114	31,201
<b>Parent interests</b>	<b>316,097</b>	<b>73,463</b>	<b>305,146</b>	<b>67,990</b>
<i>Minority interests</i>	1,585	2,692	–	–
<b>Total Equity</b>	<b>317,682</b>	<b>76,155</b>	<b>305,146</b>	<b>67,990</b>

## 2.4 OWNERSHIP OF HOME

As at 22 October 2007<sup>7</sup>, Home had 32,689,355 fully paid ordinary shares and 12,000 Permanent A Class Shares on issue, representing 47,957 Home Shareholders. As at 22 October 2007<sup>8</sup>, Home also has 1,232,500 options to acquire ordinary, fully paid shares in Home on issue (**Home Options**).

Home Shares are subject to an ASX waiver regarding voting rights attaching to Home Shares. Currently, every holder of a Home Share present in person or by proxy, representative or attorney at a meeting of Home Shareholders will have one vote on a show of hands and on a poll. These provisions are due to expire on 26 February 2008, at which time the voting rights attaching to Home Shares would have converted to one vote on a show of hands and one vote per Home Share on a poll (which would be the position if the ASX waiver were not in place).

In addition to the Home Shares, Home currently has 12,000 Permanent A Class Shares (a class of preference share conferring special voting and dividend rights on holders and specific obligations relating to transfer, as detailed in Home's Constitution) (**Home A Class Shares**) on issue. Each of the Home Directors currently holds 1,500 Home A Class Shares. Home has had Home A Class Shares on issue in their current form since 2002 (except for the period between 26 February 2006 and 11 July 2006, during which the Home A Class Shares converted into ordinary shares to facilitate the merger with StateWest Credit Society Limited).

Please refer to the discussion of the rights attaching to the Home A Class Shares and the Home A Class AGM Approval that has been sought in relation to the early conversion of these securities into Home Shares on the Business Day following the Effective Date at section 8.1 of this Scheme Booklet.

Home currently has on issue the following Home Options.

**Table 2.4: Home Options on issue**

Issue Date	Vesting Date	Expiry Date	Number of Options Outstanding	Exercise Price	Amount Raised on Exercise
<b>Employee options as at 22 October 2007</b>					
21 February 2005	21 February 2007	20 February 2008	7,500	\$6.91	\$51,825
7 September 2005	7 September 2007	6 September 2008	155,000	\$10.12	\$1,568,600
22 November 2004	21 November 2007	22 November 2008	7,500	\$14.52	\$108,900
21 February 2005	21 February 2008	21 February 2009	7,500	\$15.01	\$112,575
28 November 2005	28 May 2008	27 May 2009	250,000	\$8.32	\$2,080,000
7 September 2005	7 September 2008	6 September 2009	165,000	\$10.12	\$1,669,800
18 September 2006	18 September 2008	17 September 2009	187,500	\$14.18	\$2,658,750
7 June 2007	25 May 2009	24 May 2010	55,000	\$15.21	\$836,550
20 July 2007	6 July 2009	6 July 2010	50,000	\$14.00	\$700,000
31 July 2007	27 July 2009	27 July 2010	5,000	\$13.55	\$67,750
18 September 2006	18 September 2009	17 September 2010	187,500	\$14.18	\$2,658,750
7 June 2007	25 May 2010	24 May 2011	55,000	\$15.21	\$836,550
<b>Non-employee options as at 22 October 2007</b>					
18 December 2006	20 September 2007	20 September 2008	100,000	\$14.30	\$1,430,000
Total			1,232,500		\$14,780,117

<sup>7</sup> Being the last practical trading day before the date of this Scheme Booklet.

<sup>8</sup> Being the last practical trading day before the date of this Scheme Booklet.

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The terms and conditions of the Home ESOP are set out in Home's prospectus dated 12 December 2001. The terms and conditions of the Home Managing Director Option Plan are summarised in Appendix A to the Home Notice of Annual General Meeting for 2005.

The BOQ Option Offers contemplate the transfer of all Home Options to BOQ for the Option Consideration and otherwise on the terms described in section 7.9 of this Scheme Booklet.

## 2.5 HOME DIRECTORS AND SENIOR MANAGEMENT

The Home Board is comprised of eight directors:

- (a) Anthony (Tony) Howarth (Chairman)
- (b) William (Trevor) Halliday (Deputy Chairman)
- (c) Katrina Burton
- (d) Craig Coleman
- (e) Roderick Cooper
- (f) Gaye McMath
- (g) Michael Smith
- (h) Gregory (Greg) Wall (Managing Director)

Home's senior management team includes:

- (a) Gregory (Greg) Wall (Managing Director)
- (b) Graham O'Neill (General Manager Risk)
- (c) Malcolm Wills (General Manager Retail)
- (d) Geoffrey Searle (General Manager Operations)
- (e) David Holden (Chief Financial Officer)
- (f) Paul Simpson (General Manager Marketing)
- (g) Elizabeth Lawton (General Counsel and Company Secretary)
- (h) Steve Carrie (General Manager Relationship and Commercial Banking)

## 2.6 MATERIAL CHANGE IN HOME'S FINANCIAL POSITION SINCE THE LAST PUBLISHED ACCOUNTS (30 JUNE 2007)

Except as set out elsewhere in this Scheme Booklet, there has been no material change in Home's financial position since 30 June 2007, the date of Home's last published financial statements.

## 2.7 RECENT HOME SHARE PRICE PERFORMANCE

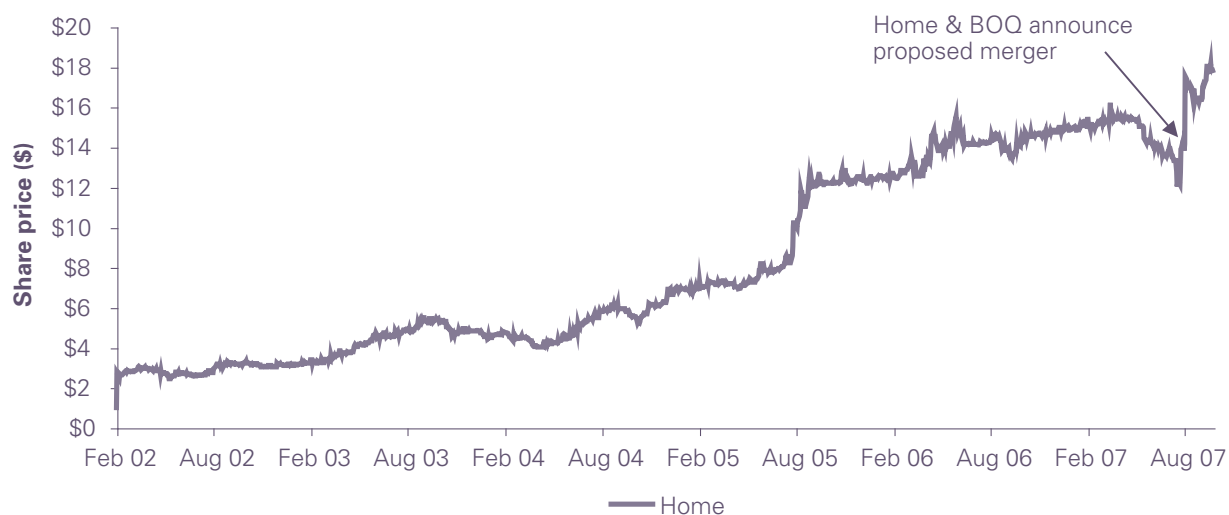
The last recorded closing price for Home Shares on ASX on 22 October 2007, the last practical trading day before the date of this Scheme Booklet, was \$17.78.

During the three months ended 30 August 2007:

- (a) the highest recorded sale price for Home Shares on ASX was \$15.35 on 4 June 2007; and
- (b) the lowest recorded sale price for Home Shares on ASX was \$11.50 on 16 August 2007.

The last recorded closing price for Home Shares on ASX before the public announcement of the proposed Merger was \$14.11 (on 30 August 2007). Figure 2.3 below summarises Home's historical share price performance since listing on ASX in March 2002.

**Figure 2.3: Home historical share price performance since listing on ASX**



There can be no guarantee as to the performance of the price of Home Shares in the future. Should the Scheme Proposal be approved, eligible Home Shareholders will receive New BOQ Shares and cash in return for their Home Shares. Similarly, there can be no guarantee as to the performance of the price of BOQ Shares in the future. For a description of the risks with respect to the financial performance of the Merged Group, including risks relating to the BOQ Share price, refer to section 6 of this Scheme Booklet.

## 2.8 CONTINUOUSLY DISCLOSING ENTITY

As a company listed on the stock market operated by ASX and a “disclosing entity” under the Corporations Act, Home is subject to regular reporting and disclosure obligations. Broadly, these require Home to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Home’s recent announcements are available from Home’s website at [www.homeonline.com.au](http://www.homeonline.com.au).

Further announcements concerning developments at Home will continue to be made available on this website after the date of this Scheme Booklet. Continuous disclosure documents and reports lodged in relation to Home can also be obtained from any office of ASIC.



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## 3. Profile of BOQ

### 3.1 INTRODUCTION

BOQ is a leading Australian financial institution and one of Australia's fastest growing banks.

BOQ has a history of more than 130 years and was first listed on ASX in 1971. At the close of business on 22 October 2007, the last practical trading day before the date of this Scheme Booklet, BOQ had a market capitalisation of \$2.15 billion, placing it well within Australia's top 150 listed entities.

BOQ currently has 237 branches and 16 business banking centres across Australia. BOQ is continuing to expand its presence, with more new branches to be opened over the next 12 months. BOQ's widespread network of branches is strongest in its home state of Queensland, but is steadily expanding in New South Wales, Victoria, Western Australia and the Northern Territory.

BOQ's growth strategy includes the pursuit of organic growth, through opening further branches and business banking centres, and assessing acquisition and merger opportunities that enhance its business and increase shareholder value. BOQ believes that consolidation in the financial services industry is inevitable, as the need for scale in order to compete efficiently increases, and seeks to be a participant in that consolidation.

On 13 August 2007, BOQ announced a recommended proposal (**Mackay Permanent Merger Proposal**) to acquire all of the shares in Mackay Permanent Building Society Limited (**Mackay Permanent**), which valued Mackay Permanent at \$53.2 million<sup>9</sup>. The Mackay Permanent Merger Proposal is to be implemented by way of a scheme of arrangement and is expected to be implemented by mid-December 2007. The Mackay Permanent Merger Proposal will further enhance BOQ's presence in the fast growing State of Queensland and provide a greater branch network in Central and North Queensland.

### 3.2 BUSINESS OVERVIEW

BOQ is an APRA regulated Authorised Deposit Taking Institution (**ADI**) approved under the Banking Act to conduct banking business. It has an Australian Financial Services Licence.

As at 31 August 2007, BOQ had loans under management of \$19.2 billion<sup>10</sup>, retail deposits of \$9.2 billion<sup>11</sup> and approximately 530,000 customers.

BOQ currently has 237 branches, comprising 50 corporate branches and 187 Owner Managed Branches™. BOQ's branch growth has been, and will likely continue to be, achieved primarily through the establishment of new owner managed branches.

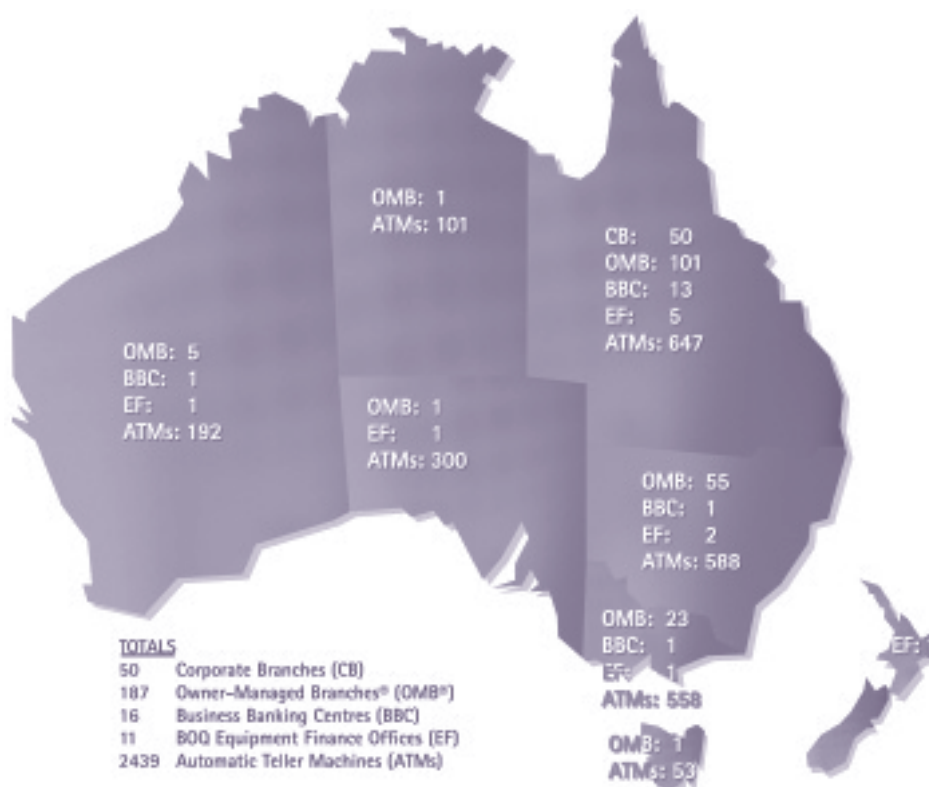
BOQ's Owner Managed Branch™ (**OMB™**) model is a unique empowered distribution model for a licensed retail bank that provides BOQ with a sustainable competitive advantage. The OMB™ model allows a motivated person to own their own business of operating a BOQ branch under a franchise arrangement in a local community. The model recognises performance and rewards owner managers in line with their sales and service skills, in a BOQ Shareholder accretive manner. The OMB™ has a financial incentive to grow the asset and deposit base of BOQ in addition to providing traditional retail banking transaction services.

<sup>9</sup> Based on 5,748,762 Mackay Permanent Ordinary Shares on issue at 12 August 2007 at \$9.25 under the cash election.

<sup>10</sup> Including off balance sheet securitised leasing of \$1.6 billion.

<sup>11</sup> BOQ has retail deposits of \$9.2 billion and wholesale deposits of \$3.5 billion as at 31 August 2007.

**Figure 3.1: BOQ's OMB™ distribution**



BOQ's business lending portfolio has been underpinned by the strong growth of its equipment finance arm, BOQ Equipment Finance Limited (**BOQEF**), which currently represents approximately 43% of the business loans under management. BOQEF has grown from the acquisition and successful integration of UFJ Finance Australia Limited in 2003.

BOQ's operations comprise the following key activities.

#### **Retail banking**

- Housing and consumer finance activities including everyday banking accounts, savings and investment products, credit cards, margin lending products and personal and home loans.

#### **Commercial banking**

- 16 business banking centres across Australia offering a range of commercial banking products and services including business loans and property finance, transaction accounts, business charge cards and investment and statutory trust accounts.
- Commercial insurance products through alliances established with selected insurance suppliers.
- Equipment finance operations via 11 offices throughout Australia and New Zealand, including chattel and lease finance for office equipment, machinery and vehicles through customer and vendor finance distribution channels, as well as commercial hire purchase and rentals.

#### **Other**

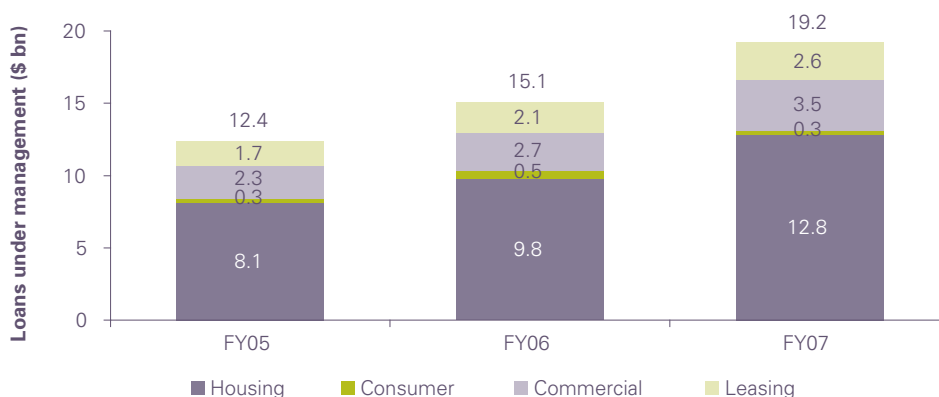
- An alliance with Genesys Wealth Advisers (**Genesys**) to offer wealth management services to retail and commercial clients.
- The alliance comprises access to Genesys' network of advisers nationwide and provides BOQ's customers with access to a comprehensive range of wealth management products including retirement planning, risk insurance and managed funds.
- In June 2007, BOQ transferred its credit card portfolio to Citigroup Pty Limited (**Citibank**) as part of a strategic arrangement for Citibank to provide BOQ-branded credit cards to its customers. The ongoing alliance will provide BOQ with back office and marketing support to ensure that BOQ's credit card capability grows in line with the rest of its rapid expansion.

**(a) Loans under management**

Loans under management comprise a diversified mix of housing, consumer, business and leasing finance and are a key driver of BOQ's profitability and growth.

The chart below provides an overview of the growth in loans under management for the years ended 31 August 2005 to 31 August 2007 and includes both securitised and non-securitised loans.

**Figure 3.2: BOQ loans under management**



Growth in loans under management has been achieved across all key product lines, with growth being particularly strong in housing and leasing finance.

As at 31 August 2007, housing and business loans (including leasing) were the two largest contributors to total loans under management, representing 67% and 32% of total loans under management respectively. Securitised and non-securitised loans under management represented 30% and 70% respectively.

Growth in loans under management is expected to continue in FY 2008 as a result of additional branch openings and continued development of BOQ's small and medium sized enterprises (SME) portfolios.

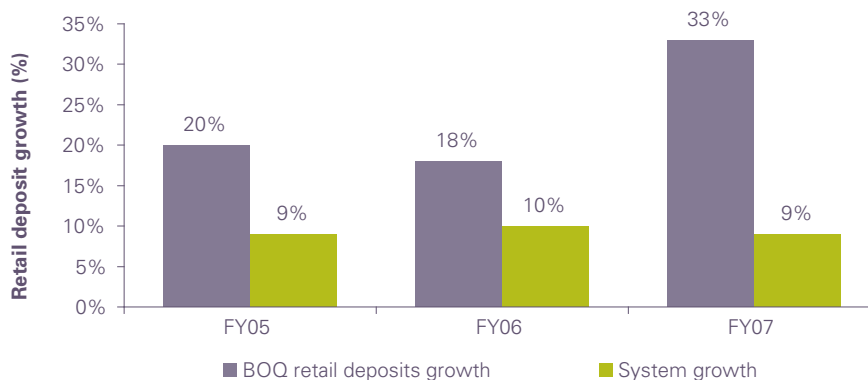
BOQ has been able to achieve strong growth in loans under management without compromising the overall asset quality. As at 31 August 2007, impaired assets as a percentage of non-securitised lending was 0.09%. The relatively low level of impaired assets reflects BOQ's strict lending and risk management policies. These controls include the requirement for mortgage insurance for loans failing to meet a minimum loan to value ratio and actively managing the level of "low doc" loans written relative to the total loan portfolio.

**(b) Retail deposits growth**

Retail deposits represent a key source of funding for BOQ's lending activities, with approximately 52% of lending assets (on balance sheet lending) financed via retail deposits. Since 2003, BOQ has been able to achieve retail deposit growth well in excess of "system" growth.

The following graph provides a summary of recent growth in retail deposits.<sup>12</sup>

**Figure 3.3: BOQ retail deposit growth**



<sup>12</sup> Source for system growth figures is APRA Monthly Banking Statistics (various dates).

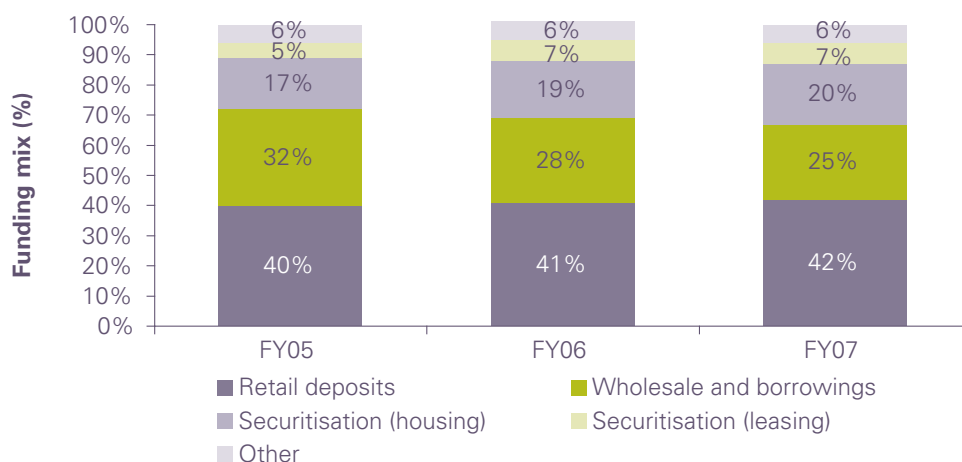
BOQ achieved retail deposit growth of 33% for the financial year ended 31 August 2007. This growth compares to “system” growth for the same period of 9%.

The ability to generate strong retail deposit growth has been a key contributor to BOQ’s net interest margin and reflects recent investment by BOQ in developing innovative savings and investment products.

**(c) Funding mix**

BOQ accesses various sources of funds including retail deposits, wholesale funding and securitisation. The majority of funding is sourced from retail deposits, which account for 42% of the overall funding mix.

**Figure 3.4: BOQ funding mix**



Recently, developments in the United States sub-prime mortgage industry have adversely affected the liquidity of global credit markets. This has resulted in an increase in the cost of wholesale funds throughout global credit markets, including Australia, and in some cases a reduction in the availability of some funding sources. BOQ utilises various funding sources, including wholesale funds and securitisation, and as a consequence its overall cost of funds has increased and may continue to increase and the availability of these funds may reduce.

BOQ has reviewed and continues to review its pricing model and funding mix in light of recent developments to ensure products are appropriately priced.

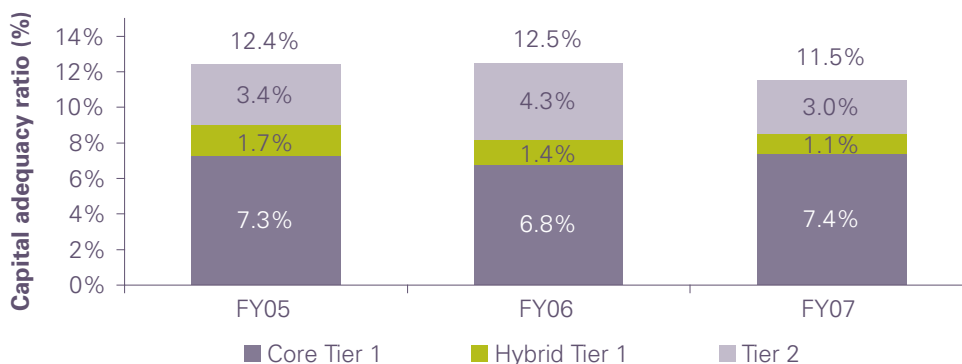
Refer to section 6 of this Scheme Booklet for further discussion of the risks associated with recent developments in global credit markets.

**(d) Regulatory capital**

BOQ has a strong capital base with a total capital adequacy ratio of 11.5% as at 31 August 2007. BOQ has a target capital adequacy ratio of at least 10% of risk weighted assets, with Tier 1 capital representing 7% to 8% of risk weighted assets.

An overview of BOQ’s capital base is provided in the graph below.

**Figure 3.5: BOQ capital adequacy ratio**



BOQ primarily manages its capital base through a mixture of ordinary share issues, securitisation, dividend reinvestment programs and the issue of hybrid instruments.

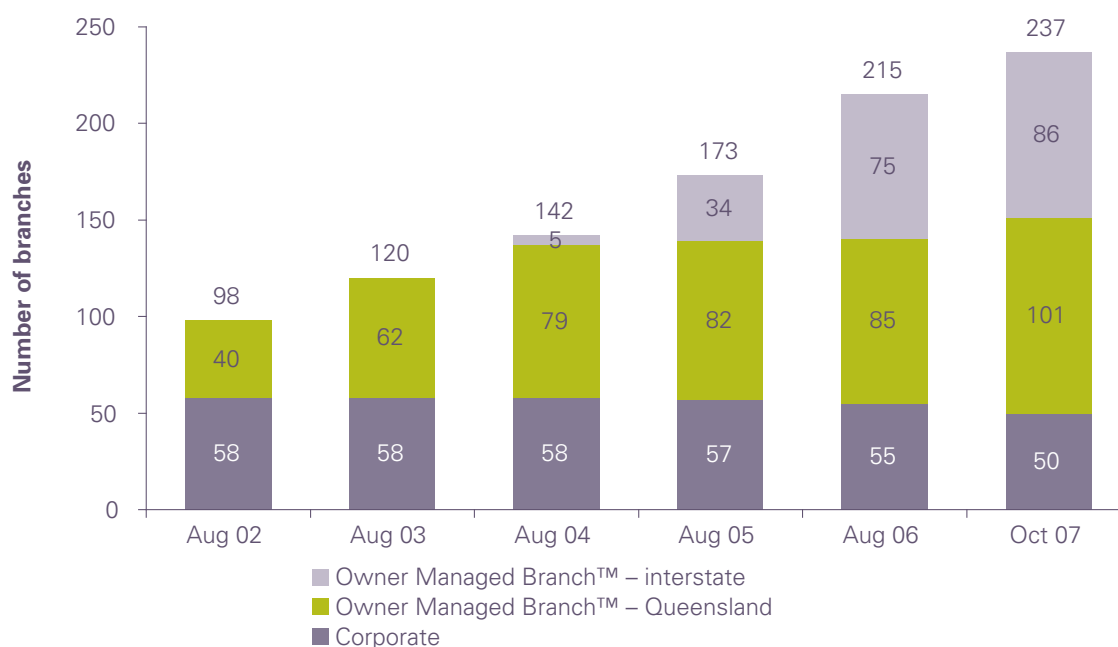
On 11 October 2007, BOQ announced a proposed issue of non-innovative capital, being a new class of perpetual, non-cumulative preference shares, to raise up to a further \$150 million in capital, which is expected to strengthen BOQ's Tier 1 capital position. Copies of the announcement and the proposed key features are available at BOQ's website at [www.boq.com.au](http://www.boq.com.au).

APRA's proposal to apply capital adequacy principles as determined by Basel II may result in changes to BOQ's capital adequacy ratios. Basel II seeks to provide regulatory capital requirements that are both more comprehensive and more sensitive to risks, making the Australian banking system safer and more efficient. BOQ is working closely with APRA to understand the changes and ensure compliance with capital requirements.

### 3.3 GROWTH STRATEGY

The underlying strength of the Queensland economy is anticipated to continue to provide sufficient growth opportunities for BOQ in the short term. However, for the medium to longer term interstate expansion, using BOQ's OMB™ model, is being actively pursued.

**Figure 3.6: BOQ branches**



For the period 1 September 2006 to 12 October 2007, BOQ established 11 new branches (outside of Queensland), bringing the total number of branches throughout Australia to 237 (of which 86 are outside Queensland). BOQ will continue to expand its national distribution network, as demonstrated by the proposed Merger with Home and the proposed merger with Mackay Permanent. The BOQ Group's unique OMB™ model will underpin expansion into interstate markets. Going forward, BOQ expects to continue to invest in asset growth, new branches, brand recognition and interstate expansion.

In addition to the pursuit of organic growth, BOQ actively looks for acquisition opportunities to grow the business. BOQ believes that consolidation in the financial services industry is inevitable, particularly in the credit union and building society sector, as the need for scale in order to compete efficiently increases. BOQ will continue to assess opportunities as they arise and pursue those that enhance the business and increase shareholder value.

BOQ has undertaken and integrated a number of successful acquisitions in recent years including:

- 2003 – UFJ Finance Australia Limited (now BOQ Equipment Finance Limited);
- 2003 – ATM Solutions Australasia Pty Ltd (since sold to Macquarie Bank in 2005);
- 2005 – ORIX Debt Factoring business; and
- 2006 – Pioneer Permanent Building Society Limited.

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BOQ merged with Pioneer Permanent Building Society Limited (**Pioneer**) in December 2006. Integration of the business commenced immediately after the transaction was completed and has successfully progressed with customer and business retention since the merger was approved by shareholders. The merger with Pioneer has so far delivered increased customer numbers and business to BOQ and provides an expanded customer base in the fast-growing Central and North Queensland regions, which will be further enhanced by the proposed Mackay Permanent Merger.

BOQ's strategy includes becoming a leader in financial product distribution and sourcing product from third party suppliers where that provides the best result for customers and enhances shareholder value.

In line with this strategy, in June 2007 BOQ transferred its credit card portfolio to Citibank as part of a strategic arrangement for Citibank to provide BOQ-branded credit cards to BOQ customers. The transaction and ongoing alliance resulted in a one-off after tax profit of \$29.1 million, ongoing credit card revenue for BOQ from commissions, and back office and marketing support to ensure that BOQ's credit card capability grows in line with the rest of its rapid expansion.

### 3.4 DIRECTORS AND GROUP EXECUTIVE COMMITTEE

#### (a) BOQ Board

Details of the BOQ Directors are set out in section 4.2 of this Scheme Booklet.

#### (b) Bank of Queensland Group Executive Committee

Bank of Queensland's Group Executive Committee was restructured in September 2007 and now consists of the managing director and chief executive officer and six executives with responsibility for the management of BOQ and its key functions.

- **David Liddy** – Managing Director, see section 4.2 of this Scheme Booklet.
- **Robert Hines** – Group Executive Retail Financial Services. Responsible for the Bank's franchise banking, corporate branch banking, private banking, direct banking, alliances, wealth management and insurance operations. Robert was for 7 years the Bank's Chief Financial Officer and has 23 years' experience in retail and investment banking in London, Sydney and Brisbane.
- **David Marshall** – Group Executive Business Financial Services. Responsible for business relationship banking, equipment finance, property finance, debtor finance, trade finance and risk management. His most recent role was as Chief Executive for BSP Capital Limited following a career including senior national roles in business and retail banking and risk management with CBA and Westpac.
- **Bruce Auty** – Group Executive Group Risk. Responsibilities include credit risk assessment, credit risk review, credit policy, portfolio performance, internal audit, operational risk, compliance and fraud. He has 40 years' experience in corporate, investment, commercial and retail banking in the USA, Australia and New Zealand.
- **Iain Blacklaw** – Group Executive IT & Operations. Responsible for information technology, national operations, property services, the Enterprise Program Office and outsourcing relationships with EDS and Fiserv. He has 26 years' experience in the financial and IT industries, with a successful track record of implementing major change initiatives.
- **Daniel Musson** – Group Executive People & Corporate Services. Appointed in October 2007 to oversee the brand management, product management, human resources, customer relations, investor relations and corporate affairs functions. He has broad experience in senior marketing, brand, product and customer management roles across the banking, insurance and retail sectors. He was most recently Head of Product and Underwriting Personal Insurance with the Insurance Australia Group (IAG).
- **Ram Kangatharan** – Chief Financial Officer. Appointed in October 2007. He is a senior finance executive with global corporate experience in a range of industries including banking, telecommunications and investments. He was most recently with EDS (Electronic Data Systems) in the United States.

### 3.5 HISTORICAL FINANCIAL INFORMATION

This section 3.5 sets out historical financial information in relation to BOQ. The historical financial information has been extracted from BOQ's audited financial statements for the financial years ended 31 August 2006 and 31 August 2007. BOQ historical financial information is based on Australian equivalents to the International Financial Reporting Standards (AIFRS) and does not take account of the effects of the Merger.

#### (a) Key statistics

Some key ratios and statistics in relation to BOQ extracted from the audited financial statements for the financial year ended 31 August 2007 are set out below.

**Table 3.1: BOQ key statistics**

Year ended 31 August	2006	2007
Net interest margin	1.83%	1.81%
Normalised cash cost to income ratio <sup>1</sup>	64.5%	62.6%
Capital adequacy ratio	12.5%	11.5%
Net tangible assets per share	\$5.45	\$6.41
Cash earnings per share (diluted normalised) <sup>1</sup>	79.8c	93.0c
Cash return on average ordinary equity <sup>1</sup>	14.6%	15.4%
Dividend payout ratio to ordinary shareholders (normalised cash basis) <sup>1</sup>	71%	73%

**Note:**

<sup>1</sup> Excludes significant and non-recurring items. In FY2007, BOQ sold its credit card portfolio to Citigroup Pty Limited realising a pre-tax profit of \$41.6 million and an after tax profit of \$29.1 million. Also, excluded are after tax costs of \$2.8 million incurred in relation to the integration of Pioneer and after tax costs of \$0.6 million associated with the proposed merger with Bendigo Bank Limited. In FY2006, BOQ booked a \$6.5 million tax benefit relating to the disposal of its previous banking platform. Non cash items relate to amortisation of customer contracts.

#### (b) Historical income statement

**Table 3.2: BOQ income statement**

\$m	Financial year ended 31 Aug 06	Financial year ended 31 Aug 07
Interest income	1,017	1,311
Interest expense	(747)	(990)
<b>Net interest income</b>	<b>270</b>	<b>321</b>
Other operating income	115	179
<b>Total operating income</b>	<b>385</b>	<b>500</b>
Operating expenses (including impairment expense)	(261)	(316)
<b>Profit before tax</b>	<b>124</b>	<b>184</b>
Income tax expense	(31)	(55)
<b>Profit for the year</b>	<b>93</b>	<b>130</b>
Basic statutory EPS (cents)	88.2c	117.0c
Diluted statutory EPS (cents)	85.0c	112.7c

**Note:** Numbers may not add due to rounding

(c) **Historical balance sheet**

**Table 3.3: BOQ balance sheet**

<b>\$m</b>	<b>As at 31 Aug 06</b>	<b>As at 31 Aug 07</b>
<b>ASSETS</b>		
Cash and liquid assets	262	479
Due from other financial institutions	45	47
Other financial assets	1,109	1,607
Derivative financial instruments	32	35
Loans and advances at amortised cost	14,004	17,601
Property, plant and equipment	20	20
Deferred tax assets	54	–
Other assets	163	121
Intangible assets	110	128
<b>Total assets</b>	<b>15,797</b>	<b>20,037</b>
<b>LIABILITIES</b>		
Due to other financial institutions	96	122
Deposits	9,950	12,720
Derivative financial instruments	12	58
Accounts payable and other liabilities	162	233
Current tax liabilities	55	21
Provisions	16	13
Deferred tax liabilities	–	12
Borrowings including subordinated notes	4,818	6,004
<b>Total liabilities</b>	<b>15,107</b>	<b>19,183</b>
<b>NET ASSETS</b>	<b>690</b>	<b>854</b>
<b>EQUITY</b>		
Issued capital	531	616
Reserves	61	88
Retained profits	98	151
<b>Total equity</b>	<b>690</b>	<b>854</b>

**Note:** Numbers may not add due to rounding

(d) **Management discussion and analysis of financial performance for the financial year ended 31 August 2007**

**Profitability**

Profit after tax for the year ended 31 August 2007 increased by 40% to \$129.8 million compared with the 2006 result of \$92.7 million.

Included in the current after tax profit is the sale of the Bank's credit card portfolio to Citibank, which realised a pre-tax profit of \$41.6 million and an after tax profit of \$29.1 million. Also included in the current year's result is the after tax costs of \$2.8 million incurred in relation to the integration of Pioneer and after tax costs of \$0.6 million associated with the proposed merger with Bendigo Bank Limited.

If the above items are excluded from the 2007 result, the net profit after tax would be \$104.1 million.

Included in the prior year is a \$6.5 million tax benefit relating to the disposal of the Bank's former banking platform. If this one-off item is excluded then the prior year's net profit after tax would be \$86.2 million.

The adjusted 2007 profit of \$104.1 million is 21% higher than the adjusted prior year net profit after tax of \$86.2 million.



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### ***Income***

Total income increased by 30% during the current year to \$500.0 million. Net interest income for the year ended 31 August 2007 increased by 19% to \$321.3 million from the prior period result of \$269.8 million.

Other operating income increased by 55% to \$178.7 million for the 2007 year from \$115.2 million in the prior year. However in the current period other operating income includes the impact of the sale of the Bank's credit card portfolio to Citibank on 4 June 2007. This sale realised a net profit before tax of \$41.6 million. If the impact of this sale is excluded, then total income and other operating income increased by 19% to \$137.1 million.

### ***Net interest income***

Net interest income increased by 19% to \$321.3 million for the 2007 financial year compared to the 2006 result of \$269.8 million. This was due to the Bank being able to deliver strong asset growth and maintain margins.

The Bank was able to grow total loans under management by 27% to \$19.2 billion from loans under management at 31 August 2006 of \$15.1 billion.

The Bank's net interest margin was 1.81% for the 2007 year, which was slightly lower than the margin for the 2006 year of 1.83%.

### ***Other operating income***

Other operating income for the financial year ended 31 August 2007 grew by 55% to \$178.7 million from the prior financial year result of \$115.2 million. As noted above, the current year's result includes the pre-tax gain of \$41.6 million relating to the sale of the Bank's credit card portfolio. If the impact of this sale is excluded, then other operating income grew by 19% to \$137.1 million.

This growth in other operating income is mainly due to the 52 branches opened in the past two years approaching operational maturity and also the positive impact of the Pioneer acquisition.

### ***Expenses***

The Bank's costs increased by 18% to \$294.7 million in the current financial year from the previous year's expense of \$249.1 million. However, non-operational expenses such as non-recurring Pioneer integration costs amounting to \$4.0 million, the costs of the proposed merger with Bendigo Bank Limited of \$0.8 million and amortisation of customer contracts costs of \$2.7 million are included in the current year expenses.

If these amounts were excluded, the Bank's expenses in the current year would be \$287.2 million, an increase of 15% on the prior financial year. This increase in costs is due to the growth in activity levels and also the expansion of the Bank's distribution network.

### ***Efficiency***

The Bank's cost to income ratio has decreased from the 2006 result of 64.7% to 58.9% in the current year. However the current year's result includes the pre-tax profit of \$41.6 million relating to the sale of the credit card portfolio. Expenses also include non-recurring Pioneer integration costs amounting to \$4.0 million, the costs of the proposed merger with Bendigo Bank Limited of \$0.8 million, and amortisation of customer contracts costs of \$2.7 million. If the impacts of the above items are excluded, the cost to income ratio would be 62.6%, indicating a steady improvement in efficiency.

### ***Asset quality and provisioning***

#### ***Impairment on loans and advances***

Expenses relating to impairment on loans and advances were \$20.9 million for the year ended 31 August 2007. This expense consisted of \$19.1 million of specific provision impairment expense and \$1.8 million of expense relating to the collective provision.

The impairment expense of \$20.9 million for the 2007 financial year has increased by \$8.6 million or 70% on the prior period expense of \$12.3 million. This increase reflects the substantial growth in the Bank's loan book, particularly in relation to unsecured lending.

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### ***Impaired assets***

Impaired assets increased in gross terms to \$11.4 million at 31 August 2007 from \$7.3 million for the prior year. Impaired assets as a percentage of non-securitised loans have increased slightly to 0.09% from 0.07% in the prior year, reinforcing the Bank's strategy of growing strongly but not at the expense of asset quality.

### ***Lending approvals and asset growth***

New lending approvals reached a new record of \$13.0 billion for the current year, an increase of \$3.0 billion over the 2006 result of \$10.0 billion. This increase of 30% is due to the increased points of presence in the retail and business banking network and highlights the effectiveness of the Bank's distribution model.

This record level of approvals translated into growth in total loans under management of 27% to \$19.2 billion from loans under management at 31 August 2006 of \$15.1 billion. Of this increase, \$342.4 million relates to the acquisition of Pioneer on 5 December 2006. If the impact of the Pioneer acquisition is excluded, loans under management grew by \$3.8 billion or 25%.

Of the loans under management balance of \$19.2 billion, \$17.6 billion are on balance sheet and \$1.6 billion off balance sheet. The off balance sheet lending relates to the REDS EHP leasing trusts which are not consolidated for accounting purposes.

### ***Retail deposit growth***

Retail deposits have grown strongly during the 2007 financial year and have reached \$9.2 billion, an increase of \$2.3 billion or 33% from \$6.9 billion as at 31 August 2006. Of this increase of \$2.3 billion, \$456.3 million relates to the acquisition of Pioneer on 5 December 2006. If the impact of the Pioneer acquisition is excluded, then retail deposits grew by \$1.8 billion or 26% from 31 August 2006.

The introduction of new product offerings and the maturing of recently established interstate OMBs™ have been the main factors in the strong growth in retail deposits.

### ***Capital management***

The Board has set capital targets at 8.0% of risk weighted assets as Tier 1 capital with a minimum of 7.0% provided that total capital does not fall below 10.0%. Furthermore, it was decided that up to 20.0% of Tier 1 capital could consist of hybrid capital instruments. The total capital adequacy ratio at 31 August 2007 was 11.5% and Tier 1 capital was 8.5%. Reset Preference Shares ("RePS" and "SIRPS"), issued as hybrid capital instruments, comprise 13% of total Tier 1 capital.

Total Tier 1 capital of 8.5% is represented by 7.4% of Core Tier 1 capital and 1.1% of hybrid capital instruments, including preference shares.

On transition to AIFRS on 1 July 2006, the Bank's capital decreased by \$110 million, with the primary factor being \$86 million of capitalised software at that time being classified as an intangible and therefore a Tier 1 deduction.

The Bank has received transitional capital relief from APRA to add the \$110 million back to Tier 1 capital for the purposes of calculating regulatory capital. This capital relief will be available until 31 December 2007, which will give the Bank the opportunity to implement plans to manage the impacts of the change in prudential standards.

The Bank continued with an active capital management program, combining securitisation of housing and leasing assets and the maintenance of the Dividend Reinvestment Plan.

The Bank continues to progress its Basel II implementation program and is currently on schedule to report under Basel II for the March 2008 quarter. The Bank is applying the standardised approach of Basel II and is not expecting a materially adverse impact to its capital adequacy requirements from its implementation.

### ***Branch network expansion***

The Bank opened six branches during the financial year and also has added 10 branches with the Pioneer acquisition to bring total branches to 235 as at 31 August 2007.

Of these 235 branches, 85 are located outside Queensland. The Bank has converted nine corporate branches to OMBs™ during the financial year.

### Shareholder returns

Diluted earnings per share increased 33% from 85.0c in the 2006 year to 112.7c in the current year.

Included in the current after tax profit is the sale of the Bank's credit card portfolio to Citibank which realised a pre-tax profit of \$41.6 million and an after tax profit of \$29.1 million. Also included in the current year is the after tax costs of \$2.8 million incurred in relation to the integration of Pioneer, after tax costs of \$0.6 million associated with the proposed merger with Bendigo Bank Limited and after tax costs of \$2.0 million relating to the amortisation of customer contracts. If these items are excluded, the Bank's diluted earnings per share would be 93.0c.

Included in the prior year is a \$6.5 million tax benefit relating to the disposal of the Bank's former banking platform and after tax costs of \$0.5 million relating to the amortisation of customer contracts. If these items are excluded then the prior period diluted earnings per share would be 79.8c.

On this basis, the current year's diluted earnings per share increased by 17%.

In light of the strong second half performance, the Bank has increased the final dividend to 37c per share fully franked. This brings the total 2007 dividend to 69c, a 21% increase over the 2006 total dividend of 57c.

### 3.6 MATERIAL CHANGE IN BOQ'S FINANCIAL POSITION SINCE LAST PUBLISHED ACCOUNTS (31 AUGUST 2007)

Except as set out elsewhere in this Scheme Booklet, there has been no material change in BOQ's financial position since 31 August 2007, the date of BOQ's last published financial statements.

### 3.7 RECENT BOQ SHARE PRICE PERFORMANCE

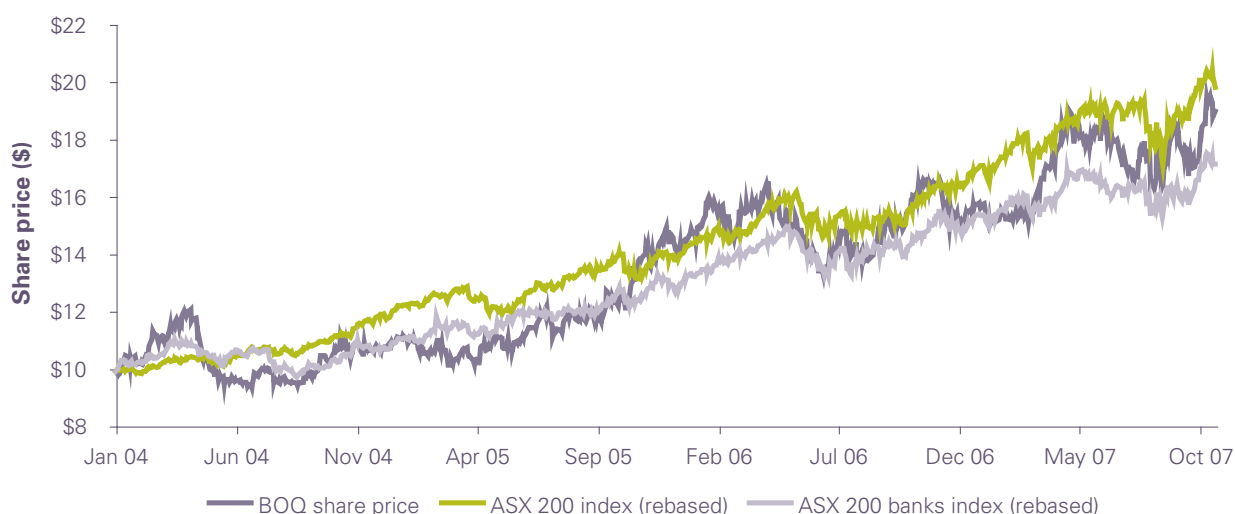
The last recorded closing price for BOQ Shares on ASX on 22 October 2007, the last practical trading day before the date of this Scheme Booklet, was \$18.95. During the three months ended 22 October 2007, the last practical trading day before the date of this Scheme Booklet:

- the highest recorded sale price for BOQ Shares on ASX was \$19.54 on 18 October 2007; and
- the lowest recorded sale price for BOQ Shares on ASX was \$15.62 on 16 August 2007.

The last recorded closing price for BOQ Shares on ASX before the public announcement of the Merger was \$18.25 on 30 August 2007.

The following chart sets out the daily closing price of BOQ Shares on ASX from 1 January 2004 to 22 October 2007. Also set out below is the relative performance of BOQ Shares on ASX, the ASX 200 index and the ASX 200 Banks index. The ASX 200 index and the ASX 200 Banks index have been rebased to BOQ's share price on 1 January 2004 for ease of comparison.

**Figure 3.7: BOQ historical share price performance**



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### 3.8 CONTINUOUSLY DISCLOSING ENTITY

As a company listed on the stock market operated by ASX and a “disclosing entity” under the Corporations Act, BOQ is subject to regular reporting and disclosure obligations. Broadly, these require BOQ to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. BOQ’s recent announcements are available from BOQ’s website at [www.boq.com.au](http://www.boq.com.au). Further announcements concerning developments at BOQ will continue to be made available on this website after the date of this Scheme Booklet. Continuous disclosure documents and reports lodged in relation to BOQ can also be obtained from any office of ASIC.

BOQ will provide a copy of any of the following documents, free of charge, to any Home Shareholder who requests a copy before the Scheme Meeting:

- the annual financial report for BOQ for the financial year ended 31 August 2007;
- a copy of the BOQ Constitution; and
- any continuous disclosure notices given by BOQ after the lodgement with ASIC of the 2007 annual report and before lodgement for registration of this Scheme Booklet by ASIC.

These documents can also be accessed through BOQ’s website at [www.boq.com.au](http://www.boq.com.au).

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## 4. Profile of the Merged Group

### 4.1 RATIONALE FOR THE MERGER

The Merger brings together two successful regionally based financial institutions which have the same strong roots in community banking and share a similar culture and customer focus. The Merger will create a stronger regional banking platform centred on the two fastest growing State economies in Australia.

BOQ and Home have both undertaken analysis to assess the potential benefits and risks of the Merger. On the basis of that analysis, the BOQ Board believes that the benefits set out in this section 4 will result from the Merger.

The statements set out in this section 4 are based on the current knowledge and intentions of the BOQ Board and accordingly may be subject to change as new information becomes available or as circumstances change.

#### (a) Greater exposure to Australia's two fastest growing States

The Merger will create a financial institution with a strong presence in Queensland and Western Australia, the two fastest growing States in Australia. The Merged Group will have 151 branches in Queensland and 34 branches in Western Australia. The enhanced presence in Western Australia provides a solid platform to grow the business in that state and significantly expand the business banking presence, particularly in equipment and debtor finance.

#### (b) Stronger financial position

The Merged Group will be a larger organisation that is financially stronger and better positioned to compete with its larger peers. The Merger is expected to:

- (i) increase operational scale and geographic diversification of earnings;
- (ii) add approximately \$3 billion in assets to BOQ's balance sheet;
- (iii) enhance BOQ's national footprint and augment BOQ's branch network in Western Australia by 29 branches; and
- (iv) increase BOQ's customer base by 126,000.

#### (c) Complementary businesses and strong cultural alignment

The Merger involves the consolidation of two complementary businesses with minimal branch overlap. BOQ and Home share a similar culture and commitment to delivering superior customer service and active community involvement. This aids a smooth integration of Home's business into BOQ's current operations.

#### (d) Access to synergies

It is anticipated that the Merger will ultimately provide annual pre tax cost synergies of approximately \$20 million from the financial year ending 31 August 2010, with \$3 million expected to be realised in the financial year ending 31 August 2008 and increasing to \$10 million in the financial year ending 31 August 2009. The expected cost savings have been identified from the conversion of Home branches to OMBs™ where appropriate, consolidation of IT platforms and back office functions, procurement savings and administration.

**Table 4.1: Synergies**

Expected synergy	Description of cost synergy
Branch conversion	Cost savings from the conversion of Home branches to OMBs™ where appropriate
Information technology savings	Cost savings from migration onto common IT platforms, improvements and efficiencies in information technology systems and associated resources and development costs
Funding benefits	Cost savings from funding benefits on Home's securitisation facility, subordinated debt facilities and other borrowings
Back office consolidation	Cost savings from the consolidation of Home and BOQ's back office operations

Expected synergy	Description of cost synergy
Procurement savings	Cost savings from procurement savings resulting from utilisation of greater purchasing power
Administration	Cost savings from removed duplication of corporate services, management roles, listing and regulatory costs (including ASX listing, share registry, board and audit fees) and overheads

The key assumptions underlying the expected cost synergy benefits are (timeframes are periods from the Implementation Date):

- appropriate branch conversions to OMBs™ commence after 6 months;
- initial dual branding in Western Australia, moving to a single brand strategy after 18 months;
- initial utilisation of existing IT systems with integration to a single system within 18-24 months;
- elimination of three BOQ/Home branch overlaps; and
- identification and implementation of cost savings from funding benefits, back office consolidation, procurement savings and administration commences immediately after the Implementation Date and is rolled out over an initial integration plan period of 6-12 months.

The estimate of cost synergies has been determined by BOQ in light of its analysis to date and the results of a review of potential synergies by the BOQ management team. The BOQ Board believes that the amount and timing of estimated cost synergies is both reasonable and achievable, however, the realisation and timing of cost synergies are subject to the integration process and other risks described in section 6 of this Scheme Booklet. Accordingly, there can be no assurance that cost synergies will be realised within the time frame or in line with the timing and amounts disclosed above. Any failure to achieve the level of estimated cost synergies, or any delay in achieving them or any increases in anticipated integration costs, may adversely affect the financial performance and position, and future prospects, of the Merged Group.

In addition to cost synergies, BOQ will seek to derive revenue synergies from the roll out of additional BOQ products to Home's customer base, including margin lending, equipment and debtor finance products and a broad range of business banking products for small to medium enterprises.

BOQ has commenced a further detailed review of the structure, systems and activities of Home to assess and identify the nature, amount and timing of cost synergies in greater detail and is developing detailed plans for the achievement of the identified synergies. This review will continue after the Scheme becomes Effective.

**(e) Integration costs and timing**

In order to achieve the cost synergies referred to above, it is anticipated that the Merged Group is expected to incur approximately \$15 million in one-off integration costs. The majority of these integration costs are expected to be incurred over the first 18 months following Implementation.

**(f) Enhanced product and service offering**

The Merged Group delivers an enhanced banking proposition for regional and community banking in Australia. Customers will have access to a wider product portfolio and more comprehensive service offering that is available from a combined national network comprising over 260 branches and more than 2,400 BOQ-branded ATMs.

**4.2 BOARD OF THE MERGED GROUP**

Following Implementation, Home Chairman, Tony Howarth, will immediately join the BOQ Board. The current BOQ Directors will continue in office. Information on the current BOQ Board and Mr Howarth is set out below:

**Neil Roberts, Chairman, Non-Executive Independent Director, BA, LLB, FAICD**

Neil Roberts was formerly the Senior Partner in Queensland of the commercial national law firm Minter Ellison. He has been a BOQ Director since November 1987 and was elected Chairman in June 1995. He is President of the Queensland Library Foundation, a past President of the Queensland Private Enterprise Centre, and a past President of The Brisbane Club. He is the Chairman of BOQ's Remuneration & Nomination Committee.

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**David Liddy, Managing Director, Executive Non-Independent Director, MBA, FAIBF, ASIA, MAICD**

David Liddy has 39 years' experience in banking, including international postings in London and Hong Kong. He was appointed Managing Director of BOQ in April 2001. He has a Masters in Business Administration and is a director of the Brisbane Lions Australian Football Club. He is a Trustee of the Queensland Museum Foundation, a director of the Royal Children's Hospital Foundation and a member of the Financial Sector Advisory Council. Mr Liddy is also a Senior Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors and sits on the Australian Bankers' Association Council. He is an ex-officio member of all of the BOQ Board's sub-committees.

**Antony Love, Deputy Chairman, Non-Executive Independent Director, B Com, AAUQ, FAPI, FREI, FAICD**

Antony Love is a property consultant with 37 years' experience and is a director of McGees Property. He is also a director of AP Eagers Limited and Campbell Brothers Limited. He is Chairman of BOQ's Budget Review Committee and a member of the Remuneration & Nomination Committee. He has been a BOQ Director since June 1995 and was appointed Deputy Chairman in April 2003.

**Neil Summerson, Non-Executive Independent Director, B Com, FCA, FAICD, FAIM**

Neil Summerson is a Chartered Accountant with 37 years' experience and is a past Chairman of the Queensland branch of the Institute of Chartered Accountants. He was formerly the Queensland Managing Partner at Ernst & Young. He is a director of AmerAlia Inc, The Wesley Research Institute Limited, Australian Made Campaign Limited, APGL (Palm Beach) Pty Limited, Elderslie Property Limited, Austgrowth Investment Management Pty Limited, Austgrowth Property Syndicates Limited, Moore Stephens (Queensland) Limited and Australia & International Holdings Limited. He is a former Chairman of the Brisbane Water Board and is currently Chairman of PQ Lifestyles Limited, Motorama Holdings Pty Ltd, Australian Property Growth Fund Management Limited and Australian Property Growth Fund. Mr Summerson has been a BOQ Director since December 1996 and is currently Chairman of the Audit & Risk Committee and a member of the Corporate Governance Committee.

**Peter Fox, Non-Executive Non-Independent Director, B Bus (Hons)**

Peter Fox has been with the Linfox Group for over 20 years. After a diverse career within the organisation, he was appointed, in chronological order, National Fleet Manager, Executive Officer, and director of Linfox Pty Ltd, culminating in his appointment as Executive Chairman of Fox Group Holdings in 1994. Mr Fox was appointed as a BOQ Director in May 2001. He is also a director of the Alfred Foundation and a member of the Australian Graduate School of Management Advisory Council (UNSW). He is a member of BOQ's Budget Review Committee.

**Bill Kelty, Non-Executive Non-Independent Director, B Econ**

Bill Kelty has over 30 years' experience in industrial relations. He was appointed a BOQ Director in August 2001 and is currently a director of the Linfox Group and a Commissioner of the Australian Football League. He is also involved in the Foundation for Rural and Regional Renewal and was previously Chairman of the Federal Government's Regional Development Taskforce. Mr Kelty was Secretary of the Australian Council of Trade Unions from 1983-2000 and a member of the Reserve Bank Board from 1988-1996. He is a member of BOQ's Corporate Governance Committee.

**John Reynolds, Non-Executive Independent Director, B Sc (Hons), B Bus, Dip Ed, FAIM**

John Reynolds was appointed as a BOQ Director in April 2003. He has extensive CEO-level experience at Top 100 media and resource companies in Australia and overseas. He is currently Chairman of Arrow Energy Limited and Davidson Recruitment Group. He is a director of Mater Health Services Brisbane Limited, Brisbane Powerhouse Pty Ltd, Rowland Communication Group and holds various university roles. Mr Reynolds is Chairman of BOQ's Corporate Governance Committee and is a member of BOQ's Remuneration & Nomination Committee and Audit & Risk Committee.

**Carmel Gray, Non-Executive Independent Director, B Bus**

Carmel Gray was appointed as a BOQ Director in April 2006. Ms Gray has had an extensive career in IT and Banking. Ms Gray was Group Executive Information Technology and General Manager Information Technology at Suncorp Metway Ltd from 1999 to 2004. Prior to her Suncorp appointment she was General Manager of Energy Information Solutions Pty Ltd and Managing Director of Logica Pty Ltd. She is Chair of Information Technologies Australia Pty Ltd.

**David Graham, Non-Executive Non-Independent Director, B Com, B.Econ(Hons), MBA, FCP, FAIM**

David Graham has held board positions on companies such as Santos Limited, Crusader Holdings NL, Mincom Limited and Wilson HTM Ltd over the last three decades. He was appointed as a non-executive BOQ Director in October 2006. Mr Graham is Executive Chairman of DDH Graham Limited, which manages a number of property funds and operates a successful advisory business and money market operation.



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### **Anthony (Tony) Howarth AO CitWA, Proposed Non-Executive Independent Director, FAICD, FAIM, SF Fin**

Tony Howarth is the current Chairman of Home. He has worked in the banking and finance industry for over 30 years. His work has involved a number of overseas appointments. He has been the Managing Director of Challenge Bank Limited and the Chief Executive Officer of Hartleys Limited. He is also involved with a number of business and community organisations as Chairman of St John of God Health Care Group and as a director of the Rio-Tinto WA Future Fund, the Western Australian Community Foundation and the Australian Chamber of Commerce and Industry. He is also on the University of Western Australia's Senate and is the Chairman of the Committee of Perth. He is currently a director of the following listed companies: AWB Limited, Mermaid Marine Australia Limited (Chairman) and Wesfarmers Limited.

Following Implementation, he will immediately join the BOQ Board.

### **4.3 INTENTIONS FOR THE MERGED GROUP**

This section 4.3 sets out BOQ's intentions if the Scheme becomes Effective, regarding:

- the ownership structure of the Merged Group;
- continuing the business of Home and any major changes to the business of Home including any redeployment of the fixed assets of Home; and
- the future employment of Home employees.

These statements of intention are based on the information concerning Home, its business and the general business environment which is known to BOQ as at the date of this Scheme Booklet.

Final decisions will only be reached by BOQ in light of:

- experience gained through exposure to Home's business; and
- material information and circumstances at the relevant time.

Accordingly, the statements set out in this section 4.3 are statements of BOQ's current intentions, which may change as new information becomes available or circumstances change.

#### **(a) Ownership structure of the Merged Group**

Following Implementation, BOQ will be approximately 20%<sup>13</sup> owned by former Home Shareholders and approximately 80% owned by current BOQ Shareholders<sup>14</sup>.

#### **(b) Continuing the business of Home**

##### **(i) Home Board**

BOQ intends to replace members of the Home Board and the board of Home Group subsidiaries with BOQ nominees.

As announced on 7 September 2007, Tony Howarth, Chairman of Home, will join the BOQ Board as a non-executive independent director if the Scheme Proposal is approved. This would occur following Implementation.

##### **(ii) Brand**

The Merged Group intends to maintain dual BOQ and Home brands in Western Australia for up to 18 months following Implementation while considering the best market branding for the long term.

##### **(iii) Branches**

The Merger is in line with BOQ's strategy to expand its interstate branch network and continue to grow the BOQ Group. Accordingly, BOQ intends to maintain existing Home branches and examine options to consolidate branches only where a direct overlap is identified following the Merger. It is BOQ's intention to examine options for converting branches to OMBs™ where appropriate.

##### **(iv) Head office**

BOQ is committed to retaining a significant regional headquarters in Perth.

<sup>13</sup> Excludes any BOQ Shares to be issued as a result of the implementation of the Mackay Permanent Proposal.

<sup>14</sup> Based on 113,430,550 quoted BOQ Shares on issue and 32,689,355 Home Shares on issue on the last practical trading day before the date of this Scheme Booklet. The effects of the Mackay Permanent Merger have not been taken into account.



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**(v) Strategic review and integration analysis**

A detailed review of the structure, systems and activities of Home and their potential integration will be undertaken once the Scheme becomes Effective. The review will evaluate the performance and prospects for the Merged Group at that time, with a view to maximising the performance of business operations and eliminating duplication between BOQ and Home. It is expected that the integration effort for operations and technology will occur over the first 18 months following Implementation.

**(vi) Major changes and redeployment of fixed assets**

Other than as set out in this section 4.3 and elsewhere in this Scheme Booklet, BOQ has no present intentions to make any major changes to the business of Home (including any redeployment of the fixed assets of Home) other than as discussed above.

**(vi) Employees**

BOQ believes that Home will bring a pool of talented and skilled people with experience that will complement BOQ's existing competencies. Subject to the comments below, BOQ intends to optimise the use of available skills of staff within the Merged Group.

BOQ will review the Merged Group's employees following Implementation. To the extent that activities and functions currently carried out by either Home or BOQ are duplicated and therefore possibly redundant, this will necessarily result in some staff reductions. BOQ has not had the opportunity to conduct this review as part of its due diligence investigations and is therefore not able at this time to give any indication of likely staff reductions.

Where there are headcount reductions, BOQ will recognise the terms of relevant employment contracts and severance arrangements. Where possible, reassignment of staff and natural turnover will be used to manage the impact of lower staff requirements.

#### 4.4 DIVIDEND AND CAPITAL MANAGEMENT POLICY

**(a) Dividend policy**

BOQ's dividend policy is determined by the BOQ Directors based on the amount of normalised net profit after tax and the need to retain sufficient capital to support BOQ's operations. BOQ's history of paying fully franked dividends is currently expected to continue post Merger, subject to the availability of sufficient profits and franking credits.

Over the last three years BOQ maintained a dividend policy of paying approximately 70% of cash earnings per share as fully franked dividends to ordinary shareholders. BOQ intends that the Merged Entity will adopt a similar dividend payout policy.

BOQ offers shareholders who are Australian residents or whose address on the BOQ Register is in Australia the opportunity to participate in its dividend reinvestment plan. This allows shareholders to convert all or part of their entitlement to a dividend into new shares. Shares are issued under the plan at a discount of 2.5% on the volume weighted average share price of BOQ Shares sold on ASX during the five trading days immediately following the record date for determination of the relevant dividend. Shares issued are fully paid and rank equally with existing fully paid ordinary shares.

In future years, the dividend policy will be a decision for the BOQ Board at the time, and will reflect a range of factors. No assurance can be given as to the timing, extent and payment of dividends of the Merged Group, or the level of franking, as they are dependent on profitability and funding requirements and the general financial position of the Merged Group, which in turn may be affected by general economic conditions.

**(b) Post Merger capital management initiatives**

Following the Merger, the Merged Group will be capitalised above minimum regulatory capital requirements. The board of the Merged Group will set capital targets for the percentage of risk weighted assets for Tier 1 capital and total capital, taking into account timing of integration costs and synergies and other factors inherent in its normal operations.

BOQ is currently working with the regulatory authorities to ensure compliance with the requirements of Basel II, to be implemented from 1 January 2008. The Merged Group intends to continue these discussions and will undertake to remain appropriately capitalised under the new Basel II regime.

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## 4.5 pro forma financial information

### (a) Introduction

This section 4.5 contains pro forma financial information for the Merged Group and the Enlarged BOQ Group<sup>15</sup> including:

- (i) the pro forma income statement for the Merged Group and the Enlarged BOQ Group; and
- (ii) the pro forma balance sheet for the Merged Group and the Enlarged BOQ Group.

BOQ has a 31 August financial year end date and Home and Mackay Permanent each have a 30 June financial year end date.

The pro forma financial information in this section 4.5 should be read in conjunction with the risks described in section 6 of this Scheme Booklet and other information contained in this Scheme Booklet.

The pro forma financial information contained in this section 4.5 is unaudited and is presented in abbreviated form in so far as it does not include all the disclosures and statements of comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The unaudited pro forma financial information in this section 4.5 is for illustrative purposes only and is prepared on the basis that the BOQ and Home Merger and the BOQ and Mackay Permanent Merger had occurred on 1 September 2006. If the Merger and the Mackay Permanent Merger had occurred in the past, the Merged Group's and the Enlarged BOQ Group's financial position and operating results would likely have been different from that presented in the pro forma financial information in this section 4.5. It does not reflect that BOQ will own Home and Mackay Permanent for part of the 2008 financial year.

The Merged Group and Enlarged BOQ Group pro forma financial information has been prepared by BOQ based on published financial information of BOQ, Home and Mackay Permanent.

### (b) Accounting policies

The accounting policies of the Merged Group and the Enlarged BOQ Group used to prepare the pro forma financial information set out in this section 4.5 are based on the accounting policies of BOQ contained in its audited financial statements for the financial year ended 31 August 2007 unless otherwise noted.

### (c) Pro forma income statement

This section 4.5(c) outlines the pro forma income statement of the Merged Group and the Enlarged BOQ Group as though the Merger and the BOQ and Mackay Permanent Merger had each occurred on 1 September 2006.

The pro forma income statement of the Enlarged BOQ Group is based on:

- (i) the audited consolidated income statement of BOQ for the financial year ended 31 August 2007 extracted from the financial accounts for the financial year ended 31 August 2007;
- (ii) the audited consolidated income statement of Home for the financial year ended 30 June 2007 extracted from the financial accounts for the financial year ended 30 June 2007;
- (iii) the audited consolidated income statement of Mackay Permanent for the financial year ended 30 June 2007 extracted from the financial accounts for the financial year ended 30 June 2007; and
- (iv) pro forma adjustments as discussed below.

It is not expected that there would be material differences in the pro forma income statement if it had been compiled using the results of Home and Mackay Permanent for the financial year ended 31 August 2007 had these results been available.

<sup>15</sup> The pro forma financials for the Enlarged BOQ Group means the pro forma financials for the Merged Group and Mackay Permanent.

**Table 4.2: Summary pro forma income statement**

	<b>BOQ</b>	<b>Home</b>	<b>Merged Group</b>	<b>Mackay Permanent</b>	<b>Enlarged BOQ Group</b>
<b>\$m</b>	<b>FY07</b>	<b>FY07</b>	<b>FY07</b>	<b>FY07</b>	<b>FY07</b>
Interest income	1,311	192	1,503	25	1,528
Interest expense	(990)	(133)	(1,123)	(16)	(1,139)
<b>Net interest income</b>	<b>321</b>	<b>59</b>	<b>380</b>	<b>9</b>	<b>389</b>
Other income	179	19	198	4	202
Total income after interest expense	500	78	578	13	591
Operating expenses	(316)	(60)	(376)	(10)	(386)
<b>Profit before tax</b>	<b>184</b>	<b>18</b>	<b>202</b>	<b>3</b>	<b>205</b>
Income tax	(55)	(5)	(60)	(1)	(61)
<b>Net profit</b>	<b>130</b>	<b>13</b>	<b>143</b>	<b>2</b>	<b>145</b>
<b>Pro forma adjustments</b>					
BOQ one-off, non-recurring and non-cash items <sup>(1)</sup>	(34)	–	(34)	–	(34)
Merger and restructuring costs, & other adjustments <sup>(2)</sup>	–	14	14	–	14
Cost of acquisition funding <sup>(3)</sup>	–	(7)	(7)	(2)	(9)
Tax impact <sup>(4)</sup>	10	(2)	8	1	9
<b>Total Merged Group adjustments</b>	<b>(24)</b>	<b>5</b>	<b>(19)</b>	<b>(1)</b>	<b>(20)</b>
<b>Net profit after adjustments</b>	<b>106</b>	<b>18</b>	<b>124</b>	<b>1</b>	<b>125</b>

(1) This adjustment removes the impact of the gain on the sale of the Bank of Queensland credit card portfolio, the costs relating to the proposed merger with Bendigo Bank Limited, non-recurring costs associated with the integration of Pioneer Permanent Building Society and amortisation of customer contracts.

(2) This adjustment removes the impact of Home's merger and restructuring costs in relation to its acquisition of StateWest Credit Society Limited, and other non-recurring items identified.

(3) This adjustment is in respect of the annual cost of additional debt to be raised to fund the acquisition of Home and Mackay Permanent.

(4) This represents the tax effect of the pro forma adjustments.

(5) Numbers may not add due to rounding.

**(d) Merger adjustments underlying the pro forma income statement**

***Aligning the accounting policies of BOQ, Home and Mackay Permanent***

No material differences have been identified between the accounting policies of BOQ, Home and Mackay Permanent based on publicly available information. Accordingly, no adjustments have been made to the pro forma income statement.

A full and detailed review of the application of accounting policies will be undertaken after completion of the Merger and may result in further adjustments.

***Non-recurring items***

Net profit has been adjusted for items considered non-recurring in nature.

Adjustments with respect to BOQ include:

- (i) an after tax gain of \$29 million relating to the sale of BOQ's credit card portfolio to Citibank;
- (ii) after-tax costs of \$0.6 million relating to the proposed merger with Bendigo Bank Limited;

- 
- (iii) non-recurring costs of \$2.8 million after tax related to the integration of Pioneer; and
  - (iv) amortisation of customer contracts amounting to \$2.0 million after tax.

Adjustments with respect to Home include:

- (i) merger and restructuring costs (\$10 million) relating to the acquisition of StateWest Credit Society Limited by Home; and
- (ii) non-recurring items which relate to a provision for stamp duty (\$3.1 million), amortised share options due to redundant executives (\$0.4 million) and a provision for legal claims against the financial planning division (\$0.3 million).

#### ***Financing of acquisitions***

The annual funding cost of an additional \$99 million of debt to fund the acquisition of Home and an additional \$31 million of debt to fund the acquisition of Mackay Permanent to be raised by BOQ has been recognised assuming a bank bill rate plus 25 basis points (estimated at 7.15%). Refer to the section below headed "Adjustments relating to the impact of acquisition accounting" for further details regarding adjustments relating to the impact of acquisition accounting.

#### ***Taxation***

The potential tax impact arising from the pro forma adjustments in respect of the Merger and the Mackay Permanent Merger (with the exception of the capital gain on the sale of BOQ's credit card portfolio to Citibank) is based on the corporate tax rate of 30%.

#### ***Synergies and costs***

Synergies are expected to be generated from the combination of the BOQ and Home businesses. It is anticipated that the Merger will ultimately provide annual pre-tax cost synergies of approximately \$20 million from the financial year ending 31 August 2010, with \$3 million expected to be realised in the financial year ending 31 August 2008 and increasing to \$10 million in the financial year ending 31 August 2009. No adjustment has been made to the pro forma income statement for the impact of synergies, integration costs or transaction costs related to the BOQ and Home Merger. Synergies and integration costs associated with the Merger are discussed in more detail in sections 4.1(d) and 4.1(e) of this Scheme Booklet.

Synergies are expected to be generated from the combination of the BOQ and Mackay Permanent businesses. No adjustment has been made to the pro forma income statement for the impact of synergies, integration costs or transaction costs related to the Mackay Permanent Merger.

#### ***Adjustments relating to the impact of acquisition accounting***

The impact of acquisition accounting is discussed in more detail in the pro forma balance sheet section (section 4.5(e) of this Scheme Booklet).

The BOQ Directors are not in a position, as at the date of the Merger, to assess the fair value of the tangible assets or identify separately identifiable intangible assets. The fair value assessment of the net assets acquired including identification of any intangible assets acquired will be performed post the acquisition of Home and Mackay Permanent.

For the purpose of the pro forma income statement no adjustments have been made to reflect the impact of acquisition accounting. For the purposes of the pro forma income statement and balance sheet, the book value of Home's and Mackay Permanent's assets and liabilities, as reported in the year end financial statements to 30 June 2007, are assumed to be equal to their fair value at the date of acquisition.

The expected impact of adopting acquisition accounting on the income statement of the Merged Group and the Enlarged BOQ Group may include an amortisation charge for finite life intangible assets. Refer to the pro forma balance sheet section (section 4.5(e) of this Scheme Booklet) for further discussion on potential intangible assets which may arise as a result of the Merger and the Mackay Permanent Merger.

Home's net profit for the financial year ended 30 June 2007 includes profits from the sale of development properties of \$10 million. Acquisition accounting adjustments to recognise the fair value of the development properties at acquisition may reduce the future accounting profits from the Merged Group's and the Enlarged BOQ Group's share of the property portfolio. No adjustment has been made for this impact as it will be dependent on an analysis of the individual properties.

(e) **Pro forma balance sheet**

This section 4.5(e) outlines the pro forma balance sheet of the Merged Group and the Enlarged BOQ Group as though the Merger and the Mackay Permanent Merger had occurred on 1 September 2006.

The pro forma balance sheet of the Enlarged BOQ Group as at 31 August 2007 is based on:

- the audited consolidated balance sheet of BOQ as at 31 August 2007 extracted from the financial accounts for the financial year ended 31 August 2007;
- the audited consolidated balance sheet of Home as at 30 June 2007 extracted from the financial accounts for the financial year ended 30 June 2007;
- the audited consolidated balance sheet of Mackay Permanent as at 30 June 2007 extracted from the financial accounts for the financial year ended 30 June 2007; and
- pro forma adjustments as discussed below.

It is not expected that there would be material differences in the pro forma balance sheet had it been compiled using the balance sheets of Home and Mackay Permanent as at 31 August 2007 had this information been available.

**Table 4.3: Summary pro forma balance sheet**

	<b>BOQ</b>	<b>Home</b>	<b>Pro forma Adjs<sup>(1)(3)</sup></b>	<b>Merged Group</b>	<b>Mackay Permanent</b>	<b>Pro forma Adjs<sup>(2)(3)</sup></b>	<b>Enlarged BOQ Group</b>
<b>\$m</b>	<b>Aug-07</b>	<b>Jun-07</b>		<b>Jun-07</b>			
<b>ASSETS</b>							
Cash and cash equivalent	479	24	(17)	486	21	(3)	504
Financial assets and derivatives	1,642	324	–	1,966	3	–	1,969
Loans and advances	17,601	2,430	–	20,031	292	–	20,323
Other assets	187	10	–	197	37	–	234
Intangible assets	128	171	319	618	–	42	660
<b>Total assets</b>	<b>20,037</b>	<b>2,959</b>	<b>302</b>	<b>23,299</b>	<b>353</b>	<b>39</b>	<b>23,690</b>
<b>LIABILITIES</b>							
Deposits	12,720	2,179	–	14,899	316	–	15,215
Financial liabilities and derivatives	58	–	–	58	–	–	58
Borrowings	6,004	417	99	6,520	10	31	6,561
Other liabilities	400	45	–	445	9	(3)	451
<b>Total liabilities</b>	<b>19,183</b>	<b>2,641</b>	<b>99</b>	<b>21,923</b>	<b>335</b>	<b>28</b>	<b>22,286</b>
<b>NET ASSETS</b>	<b>854</b>	<b>318</b>	<b>203</b>	<b>1,376</b>	<b>18</b>	<b>11</b>	<b>1,404</b>
<b>EQUITY</b>							
Issued capital	616	266	255	1,137	7	22	1,165
Reserves	88	7	(7)	88	1	(1)	88
Retained profits	151	43	(43)	151	10	(10)	151
Minority interest	–	2	(2)	–	–	–	–
<b>Total equity</b>	<b>854</b>	<b>318</b>	<b>203</b>	<b>1,376</b>	<b>18</b>	<b>11</b>	<b>1,404</b>

(1) Adjustments for Home relate to pro forma acquisition accounting adjustments. Specific assumptions are set out below.

(2) Adjustments for Mackay Permanent relate to pro forma acquisition accounting adjustments. Specific assumptions are set out below.

(3) The pro forma adjustments do not take into account the potential impact of the issue by BOQ of a new class of perpetual, non-cumulative preference shares, announced to the market on 11 October 2007, as the acquisition of Home and Mackay Permanent are not dependent on the issue of these shares.

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(f) **Merger adjustments underlying the pro forma balance sheet**

***Home***

BOQ's anticipated transaction costs of \$12 million have been included as adjustments to the pro forma balance sheet, with a corresponding reduction in the cash position on the basis that these costs will be recognised as part of the investment in Home and will increase intangible assets recognised at acquisition. The final amounts incurred and allocation may be different to that reflected for the purposes of the pro forma balance sheet.

Home's anticipated transaction costs of \$5 million have been included as adjustments to the pro forma balance sheet, with a corresponding reduction in the cash position on the basis that these costs will be incurred by Home and will increase intangible assets recognised at acquisition. The final amounts incurred and allocation may be different to that reflected for the purposes of the pro forma balance sheet.

The Merger adjustments assume a BOQ Share price of \$18.89 (being the BOQ closing share price on 10 October 2007) and an exchange ratio of 0.844 New BOQ Shares plus cash of \$2.80 for each Home Share and that 32,693,855 million<sup>16</sup> Home Shares were on issue as at 10 October 2007. For the purposes of calculating the intangible assets (including goodwill) for the Enlarged BOQ Group on consolidation, the book value of Home's assets and liabilities, as reported in the audited accounts as at 30 June 2007, are assumed to be equal to their fair value at the date of acquisition.

The general reserve for credit losses of \$4.2 million of Home prior to the Merger which is eliminated on consolidation is deemed to be re-instated by a transfer from the Merged Group's retained earnings.

***Mackay Permanent***

Anticipated transaction costs of \$2 million have been included as an adjustment to the pro forma balance sheet, with a corresponding reduction in the cash position on the basis that these costs will be recognised as part of the investment in Mackay Permanent and will increase intangible assets recognised at acquisition. The final amounts incurred and allocation may be different to that reflected for the purposes of the pro forma balance sheet.

Mackay Permanent's anticipated transaction costs of \$1 million have been included as adjustments to the pro forma balance sheet, with a corresponding reduction in the cash position on the basis that these costs will be incurred by Mackay Permanent and will increase intangible assets recognised at acquisition. The final amounts incurred and allocation may be different to that reflected for the purposes of the pro forma balance sheet.

The Mackay Permanent Merger adjustments assume 5,748,762 million Mackay Permanent Shares were on issue and 50% of Mackay Permanent Shareholders accept the cash alternative and 50% of Mackay Permanent Shareholders accept the scrip alternative. The cash alternative is based on a total consideration of \$8.25 cash and a \$1.00 final dividend per Mackay Permanent Share. The scrip alternative is based on a total consideration of 0.5 New BOQ Shares and a \$1.00 final dividend per Mackay Permanent Share. A BOQ share price of \$18.89 (being the BOQ closing share price on 10 October 2007) is assumed in the pro forma balance sheet adjustments. For the purposes of calculating the intangible assets and goodwill for the Enlarged BOQ Group on consolidation, the book value of Mackay Permanent's assets and liabilities, as reported in the audited accounts as at 30 June 2007, are assumed to be equal to their fair value at the date of acquisition.

It is assumed that the 135,798 Mackay Permanent convertible preference shares are converted to 293,617 Mackay Permanent Shares and are subject to the same acquisition assumptions, noted above, as existing Mackay Permanent Shares.

***Aligning the accounting policies of BOQ, Home and Mackay Permanent***

No material differences have been identified between the accounting policies of BOQ, Home and Mackay Permanent based on publicly available information. Accordingly, no adjustments have been made to the pro forma income statement.

A full and detailed review of the application of accounting policies will be undertaken after completion of the Merger and may result in further adjustments.

<sup>16</sup> Includes the conversion of 12,000 Home A Class Shares to Home Shares.

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### ***Adjustments relating to the impact of acquisition accounting***

Accounting standards AASB3 Business Combinations requires BOQ to measure the cost of the Merger as the aggregate of the fair value of assets, liabilities and equity issued by BOQ in exchange for control of Home at the date the exchange occurs.

BOQ Shares form part of the cost of acquisition. In accordance with accounting standards, the fair value of these shares will be determined as the published market price on the date of the acquisition. For the purposes of calculating the cost of acquisition a value of \$18.89 has been used. To the extent the BOQ Share price changes in the period to the acquisition date, the cost of acquisition and accordingly the value of intangible assets acquired (discussed below) will change.

The cost of the Merger includes assumed pre-tax transaction costs of \$12 million and \$2 million in respect of Home and Mackay Permanent respectively. As these costs form part of the cost of acquisition and are non-recurring in nature, they do not impact the pro forma historical income statement.

All identifiable assets (including intangible assets), liabilities and contingent liabilities that meet certain recognition criteria should be recognised separately in the consolidated financial statements of the Merged Group. Once this process has been completed, the excess of the cost of the Merger over and above BOQ's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities should be recognised as intangible assets and goodwill. The goodwill will only be quantified once the Merger occurs. Similarly, the identification and valuation of intangible assets, including the breakdown between finite life and infinite life intangibles, will not be possible until after the completion of the Merger. Accounting standards allow a period of 12 months to finalise provisional acquisition accounting adjustments from the date of acquisition.

The following potential intangible assets may be recognised in the consolidated balance sheet subsequent to the Merger:

- market related assets such as brands;
- customer related assets such as loans and customer relationships;
- contract based assets such as contracts in force, funds under management, employment contracts and lease agreements; and
- technology based assets such as software.

For the purposes of the pro forma balance sheet, total intangible assets, including goodwill, relating to the acquisition of Home and Mackay Permanent have been calculated at \$319 million and \$42 million respectively. This amount will change once the fair value of all assets, liabilities and contingent liabilities acquired are determined as at the acquisition date. These amounts totalling \$361 million are determined as the aggregate of the excess of the cost of acquisition of \$620 million and \$60 million based on the implied value of the Merger and the Mackay Permanent Merger, respectively, adjusted for the net assets acquired, preference shares and transaction costs.

As part of the acquisition of Home and Mackay Permanent, certain assets are expected to be transferred to BOQ. In preparing the pro forma financial information included in this Scheme Booklet, any stamp duty payable on the acquisition of the assets has not been taken into account. During the 12 month period subsequent to obtaining control of the assets, the amount of stamp duty that may be payable will be determined. Any stamp duty paid directly as a result of the acquisitions would be treated for accounting purposes as an increase in the cost of the business acquired with a corresponding impact on the amount of goodwill recorded on acquisition.

### ***Adjustments relating to financing***

Adjustment to borrowings represents the senior debt raised to fund the cash consideration payable in respect of the BOQ and Home Merger of \$99 million (including \$7.5 million to Home Optionholders) and the BOQ and Mackay Permanent Merger of \$31 million.



## 5. Australian Taxation Implications of the Scheme Proposal

The Directors  
Home Building Society Ltd  
111 St Georges Terrace  
PERTH WA 6000

25 October 2007

Dear Sirs

### Tax Implications of Scheme Proposal

This letter sets out our views on the main Australian tax consequences for Australian resident individuals, companies and trustees of complying superannuation funds who receive New BOQ Shares under the Scheme Proposal. We have also provided broad comments in relation to non-residents of Australia.

The discussion contained in this summary is of a general nature only and does not take into account the specific circumstances of any Home Shareholder. It is based on the Australian tax laws operative at the date of the Scheme Documents.

Home Shareholders should seek their own independent advice regarding the tax implications arising from participation in the Scheme in light of current tax laws and their particular circumstances.

This opinion does not address Home Shareholders who hold shares or options through an employee share scheme, or Home Shareholders who hold Home A Class Shares.

Capitalised terms which are defined in the Scheme Documents have the same meaning in this letter unless the context requires otherwise.

### Australian Tax Implications

#### 1. Shares Held on Capital Account

##### 1.1 Scrip for scrip rollover

In our view, the requirements for a Home Shareholder to elect for scrip for scrip rollover relief should be met in the circumstances of the Scheme being approved and implemented. Therefore, Australian resident Home Shareholders should be eligible to choose scrip for scrip rollover relief to the extent that they receive New BOQ Shares in exchange for their Home Shares under the Scheme if they would otherwise have made a capital gain from the exchange.

We have assumed that no Home Shareholder currently holds (together with their associates) at least 30% of the shares in Home and will not hold at least 30% of the shares in BOQ. Any such shareholder should seek independent tax advice.

Home has applied for a class ruling in relation to a number of matters discussed in this letter including the availability of scrip for scrip rollover relief for Home Shareholders. It is possible that the Australian Taxation Office may have a different view in the class ruling from that expressed in this letter. If this occurs, Home will notify Home Shareholders.



## 1.2 Consequences of choosing scrip for scrip rollover relief

### (a) *Partial deferral of capital gain*

The consequence of choosing scrip for scrip rollover relief is that the capital gain made from the disposal of Home Shares is disregarded to the extent that a Home Shareholder receives New BOQ Shares. The capital gain is not disregarded to the extent that cash is received from the disposal.

In calculating the capital gain attributable to each component of the consideration, a Home Shareholder should deduct a reasonable portion of the cost base of their Home Shares (just prior to their disposal) from the cash component of the consideration. Information concerning the cost base of Home Shares is set out in Section 2 below.

#### Example

Adam acquires 1,000 Home Shares for \$4,000 in 2003. At the Implementation Date, Adam receives \$2,800 cash (\$2.80 x 1,000) and 844 BOQ Shares. For purposes of this example, the market value of a BOQ Share at the Implementation Date is assumed to be \$18.25.

Adam chooses scrip for scrip rollover to the greatest extent possible.

The capital gain from the cash component of the consideration is determined as follows:

$$\begin{aligned}
 \text{Total proceeds} &= \text{cash component} + \text{share component} \\
 &= \$2,800 + (844 \times \$18.25) \\
 &= \$18,203 \\
 \\ 
 \text{Cost base of} & \\
 \text{cash component} &= \text{cost base of Home Shares} \times \frac{\text{cash component}}{\text{total proceeds}} \\
 &= \$4,000 \times (\$2,800/\$18,203) \\
 &= \$615 \\
 \\ 
 \text{Capital gain} &= \text{cash component} - \text{cost base of cash component} \\
 &= \$2,800 - \$615 \\
 &= \$2,185
 \end{aligned}$$

As the Home Shares have been held for more than 12 months, the 50% CGT discount should apply to reduce the capital gain to \$1,092.50.

### (b) *Cost base of New BOQ Shares*

Following the exchange of shares, a Home Shareholder may wish to sell the New BOQ Shares (including under a small parcels sale facility). To work out any capital gain or capital loss on a disposal of New BOQ Shares, it will be necessary to have regard to the cost base or reduced cost base of the New BOQ Shares and their date of acquisition.

The first element of the cost base of each New BOQ Share will be worked out by reference to the cost base of the Home Shares disposed of on exchange and the cost base of the cash component of the consideration.

#### Example (continued from above)

The first element of the cost base of Adam's New BOQ Shares is determined as follows:

$$\begin{aligned}
 \text{Cost base of Home Shares} &= \$4,000 \\
 \text{Cost base of cash component} &= \$615 \\
 \\ 
 \text{First element of cost base} & \\
 \text{of each New BOQ Share} &= \frac{\text{cost base of Home Shares} - \text{cost base of cash component}}{\text{number of New BOQ Shares}} \\
 &= \frac{\$4,000 - \$615}{844} \\
 &= \$4.01
 \end{aligned}$$

**(c) Acquisition date**

A Home Shareholder who elects for scrip for scrip rollover is deemed to have acquired the New BOQ Shares at the same time as the Home Shareholder acquired the original Home Shares. The acquisition date will be relevant in working out the CGT consequences of a future disposal of the New BOQ Shares.

**(d) Mechanics of choice**

No formal election is required to be lodged in order to choose scrip for scrip rollover relief. The Home Shareholder's income tax return should be prepared in a manner consistent with electing scrip for scrip rollover relief.

**(e) CGT discount**

Individuals, trusts and complying superannuation funds who have held Home Shares for at least 12 months prior to disposal of those shares under the Scheme should be eligible to claim the CGT discount when calculating the capital gain. Individuals and trusts will be entitled to a CGT discount of 50%, while superannuation funds will be entitled to a CGT discount of 33½%.

Companies are not eligible for the CGT discount.

**1.3 Consequences of not choosing rollover relief****(a) Capital gain or capital loss**

A capital gain would arise for a Home Shareholder on disposal of the Home Shares if the consideration received (ie the market value of New BOQ Shares as at the Implementation Date plus the amount of cash received) exceeds the cost base of the Home Shares. Information concerning the cost base of Home Shares is set out in Section 2 below.

A capital loss will arise where that consideration is less than the reduced cost base of the shares. Capital losses may be used to offset any capital gain made in the current year or carried forward for offset against any future capital gain, subject to certain carry forward loss tests being satisfied. Capital losses cannot be offset against ordinary income.

**(b) Cost base of New BOQ Shares**

The first element of the cost base of each New BOQ Share will be the market value of the Home Shares at the time of disposal (ie on the Implementation Date) less the amount of cash received. This will be relevant for calculating any capital gain or capital loss on a future disposal of New BOQ Shares (including under a small parcels facility).

**(c) Acquisition date**

The shareholder will be taken to have acquired the New BOQ Shares at the time the shares are issued under the Scheme (ie on the Implementation Date).

**(d) CGT discount**

Individuals, trusts and complying superannuation funds who have held Home Shares for at least 12 months prior to disposal of those shares under the Scheme should be eligible to claim the CGT discount when calculating the capital gain. Individuals and trusts will be entitled to a CGT discount of 50%, while superannuation funds will be entitled to a CGT discount of 33½%.

Companies are not eligible for the CGT discount.

**2. COST BASE OF HOME SHARES**

The cost base of Home Shares, including those issued pursuant to Home's Dividend Reinvestment Plan, is generally the purchase price of the shares or the deemed cost of acquisition (as in the case of former StateWest Shareholders – see below), plus any incidental costs of acquisition and disposal.

The cost base of Home Shares acquired as part of the initial public offering of Home will be based on the subscription price of \$1.00 per share.

The cost base of Home Shares acquired by former StateWest Shareholders as part of the merger of StateWest and Home will depend on:

- whether the StateWest Shares were acquired before or after the introduction of CGT on 19 September 1985; and
- whether the StateWest Shareholder elected to choose scrip for scrip rollover relief in relation to the exchange of their StateWest Shares for Home Shares.

The different positions are summarised below:

<b>Position of former StateWest Shareholder</b>	<b>First element of cost base of Home Shares</b>
Held pre-CGT StateWest Shares	Based on market value of Home Shares at time of acquisition under merger of StateWest and Home – \$14.60
Held post-CGT StateWest Shares	Determined by reasonably attributing the cost base of original StateWest Shares (expected to be \$10 per share according to the StateWest Scheme Booklet) to the Home Shares acquired under merger of StateWest and Home
No scrip for scrip rollover	Based on market value of Home Shares at time of acquisition under merger of StateWest and Home – \$14.60

Further information relating to the tax position for former StateWest Shareholders is contained in the StateWest Scheme Booklet.

### 3. SHARES HELD AS TRADING STOCK

If an Australian resident Home Shareholder holds Home Shares as trading stock (eg as a share trader) then the value of the consideration received (ie the market value of the New BOQ Shares as at the Implementation Date plus the amount of cash received) will be included in the shareholder's assessable income. No rollover relief applies.

### 4. SHARES HELD ON REVENUE ACCOUNT (OTHER THAN AS TRADING STOCK)

If an Australian resident Home Shareholder holds Home Shares on revenue account (but not as trading stock) then any profit on sales will be included in the shareholder's assessable income or any loss should be an allowable deduction. We note that disposal of shares under the Scheme will constitute a sale for these purposes. No rollover relief applies to the profit or loss.

The gain or loss will be calculated as the difference between:

- the value of the consideration (the market value of the New BOQ Shares as at the Implementation Date plus the amount of cash received); and
- the cost of acquiring the Home Shares.

### 5. NON-RESIDENTS FOR TAX PURPOSES

Non-residents for tax purposes (except New Zealand tax residents) will not be entitled to receive New BOQ Shares in respect of their Home Shares, but will dispose of their shares under a foreign sale facility and will receive cash consideration. Therefore, they will not be able to choose scrip for scrip rollover relief. New Zealand tax residents will be entitled to receive New BOQ Shares in respect of their Home Shares.

Assets held by non-resident Home Shareholders are subject to CGT to the extent that the assets are considered "taxable Australian property".

Very broadly, a share is taxable Australian property if the share is in a company that principally owns (directly or indirectly) Australian real property and the share is part of a shareholding that represents at least 10% of all of the shares in the company (when taking into account shares owned by the participant or associates).

Any non-resident Home Shareholder that has held at least 10% of the shares in Home at any time during the 2 years before the Implementation Date should seek their own tax advice.

A non-resident Home Shareholder who holds their shares on revenue account may however be subject to income tax on the disposal of those shares. This will depend on the particular circumstances of the Home Shareholder, including whether the shares are held through an Australian branch of the shareholder and whether there is an applicable double tax agreement. These shareholders should seek their own tax advice.

**6. GST**

No Australian GST is payable by Home Shareholders in connection with receiving New BOQ Shares or cash under the Scheme.

**7. TAX FILE NUMBER**

It is not compulsory for Home Shareholders to notify BOQ of their tax file number (**TFN**) or Australian Business Number (**ABN**) if the BOQ Shares are held in the course of carrying on an enterprise.

However, if a TFN, ABN or exemption notification is not provided to BOQ, tax at the top individual marginal tax rate plus Medicare levy (currently totalling 46.5%) will be deducted from the unfranked component of dividend paid. However, shareholders are entitled to claim an income tax credit/refund (as applicable) in their income tax returns in respect of the tax withheld.

Yours faithfully

A handwritten signature in cursive script that reads "Blake Dawson Waldron".

**BLAKE DAWSON WALDRON**

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## 6. Risk Factors

### 6.1 INTRODUCTION

Eligible Home Shareholders will receive New BOQ Shares as part of the Scheme Consideration.

The financial performance and operations of the BOQ Group's business, the value of BOQ Shares and the amount and timing of any dividends that BOQ pays will be influenced by a range of factors. Many of these factors will remain beyond the control of the BOQ Group. Accordingly, the market price of BOQ Shares may rise or fall over any given period due to these factors.

The key risk factors that Home Shareholders should consider include those described below, which have been divided into four categories depending on whether those risks:

- impact on the market price of all ASX listed shares, such as economic policy or international market, economic or political conditions – see section 6.2 (General Risks);
- are specifically relevant to the financial services sector of the market and to the business of the BOQ Group – see section 6.3 (Business Risks of the BOQ Group);
- arise in relation to holding BOQ Shares – see section 6.4 (Risks referable to holding BOQ Shares); or
- arise in relation to the Merger – see section 6.5 (Risks relating to the Merger).

The risks identified in this section 6 are not exhaustive and do not take into account your investment objectives, financial situation, taxation position or particular needs. Furthermore, Home Shareholders are already exposed to a number of risks through their existing holding of Home Shares. A number of these risks are inherent in investing in securities generally and also inherent in any investment in the financial services industry in which Home and BOQ operate.

If you are unclear in relation to any matter or uncertain if BOQ Shares are a suitable investment for you, you should consult your legal, financial, taxation or other professional adviser immediately.

**In deciding whether to vote in favour of the Scheme Proposal, you should read this Scheme Booklet in its entirety and carefully consider the risks outlined in this section 6 and elsewhere in this Scheme Booklet.**

### 6.2 GENERAL RISKS

#### 6.2.1 Changes in economic conditions

The financial performance of the BOQ Group 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 the BOQ Group's products and services;
- changes in underlying cost structures for labour and service charges;
- changes in fiscal and monetary policy, including interest rates, which may impact on the profitability of the BOQ Group or a general fall in the demand for the BOQ Group's products and services; and
- 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.

Although the BOQ Group will have in place a number of strategies to minimise the exposure to economic risk and will engage in prudent management practices to minimise shareholder exposure to risk in the future, such factors may nonetheless have an adverse impact on the BOQ Group's businesses.

#### 6.2.2 Changes in government policy

The BOQ Group may be affected by changes in general government policy or legislation applying to banks or the financial services sector.

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## 6.3 BUSINESS RISKS OF THE BOQ GROUP

### 6.3.1 Bank-specific risks

There are a number of risks which arise directly from the operations of BOQ as a participant in the Australian financial services industry. These risks are categorised as market risk, credit risk, liquidity risk and operational risk.

#### (a) Market risk

Market risk is the risk of an adverse event in financial markets causing a loss of earnings to the BOQ Group. This risk generally arises from either funding risk or interest rate risk.

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.

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 the BOQ Group.

Recently, developments in the United States sub-prime mortgage industry have adversely affected the liquidity of global credit markets. This has resulted in an increase in the cost of wholesale funds throughout global credit markets including Australia, and in some cases a reduction in the availability of some funding sources. BOQ utilises various funding sources, including wholesale funds and securitisation, and as a consequence its overall cost of funds has increased and may continue to increase and the availability of these funds may reduce.

BOQ has reviewed and continues to review its pricing model and funding mix in light of recent developments to ensure products are appropriately priced.

#### (b) Credit risk

Credit risk is the potential for loss arising from a debtor or counterparty failing to meet their financial contractual obligations to the BOQ Group or the failure to recover the recorded value of equity investments or specific investments. This risk will be inherent in the BOQ Group's lending activities.

#### (c) Liquidity risk

Liquidity risk is the possibility of the BOQ Group being unable to meet its financial commitments when they fall due as a result of mismatches in its cash flows from financial transactions.

The availability of funding from uncertain financial markets may increase liquidity risks to financial institutions generally – see the comments above in relation to the US sub-prime mortgage industry.

### 6.3.2 Operational risk

Operational risk is the risk of potential variations in the minimum standards relating to the BOQ Group's day to day activities, other than those captured in the credit and market risk categories, and which relate to strategic and business decisions, process, systems and people error and external events.

While the directors of the BOQ Group will adopt policies and procedures to control exposure to, and limit the extent of, these risks, there are inherent limitations in any risk management control system. The development and maintenance of effective control systems should provide an appropriate foundation for the BOQ Group to manage these risks. Some of the specific risks in this category are set out below.

#### (a) Basel II

APRA's proposal to apply capital adequacy principles as determined by Basel II may result in changes to BOQ's capital adequacy ratios. Basel II seeks to provide regulatory capital requirements that are both more comprehensive and more sensitive to risks. The outcomes for BOQ of the implementation of Basel II are uncertain and there is a risk that BOQ may require additional capital to meet the requirements, which may have a negative effect on earnings per share. BOQ is working closely with APRA to understand the changes and ensure compliance with capital requirements.

#### (b) Changes in technology

Technology plays an increasingly important role in the delivery of financial services to customers in a cost effective manner. The BOQ Group'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.

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**(c) Industry competition**

There is substantial competition for the provision of financial services in the markets in which the BOQ Group will operate. The effect of competitive market conditions may adversely impact the earnings and assets of the BOQ Group.

**6.3.3 Risks to the BOQ Group's growth strategy**

The Merger and the Mackay Permanent Merger form part of BOQ's acquisition growth strategy, in addition to the organic growth of its financial services operations. Risks that relate to BOQ's growth strategy are interrelated and include risk of local market saturation and risks associated with geographical diversification.

**(a) Risk of local market saturation**

BOQ currently has a growing market share in Queensland. Despite the size of the Queensland market, the BOQ Group faces the challenge of maintaining a high penetration rate in that market in order to achieve continued growth. In addition, the BOQ Group will continue to be exposed to fluctuations in the Queensland economy in particular.

**(b) Risk of geographical diversification**

The Merger enables BOQ to expand its geographical presence and distribution. This brings challenges to the BOQ Group's management and control systems as it becomes a more geographically diverse organisation.

**6.3.4 Disputes**

In the course of its operations, the BOQ Group may be involved in disputes and possible litigation. The extent of such disputes and litigation cannot be ascertained at this time. However, 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 the BOQ Group. While BOQ is currently party to certain disputes, none of those disputes are considered by BOQ as likely to give rise to any material liability.

**6.4 RISKS REFERABLE TO HOLDING BOQ SHARES**

The information set out in this section 6.4 describes specific risks in relation to holding BOQ Shares.

**6.4.1 Movements in BOQ Share price**

The market value of BOQ Shares at the time at which they are received, and the value at which they trade beyond that date, may vary significantly from their market value on the date that the Scheme becomes Effective.

Many of the factors that affect the market price of BOQ Shares are beyond the control of BOQ.

BOQ declared a fully franked final dividend of 37 cents per BOQ Share on 11 October 2007. Home Shareholders receiving New BOQ Shares are not entitled to participate in this dividend. BOQ Shares issued as consideration pursuant to the Scheme will not carry the right to receive this dividend nor the benefit of any attached franking credits.

**6.4.2 Future BOQ Share price is uncertain**

There is no guarantee that the market price of BOQ Shares will increase in the future. The market price of BOQ Shares may fall due to the factors described in this section 6 and other factors, some of which are beyond BOQ's control, including, but not limited to:

- operating results that vary from expectations of securities analysts and investors;
- changes in expectations as to BOQ's future financial performance, including financial estimates by securities analysts and investors;
- changes in market valuations of other banks or financial services institutions;
- the announcement of acquisitions, strategic partnerships, joint ventures or capital commitments by BOQ or its competitors; and
- future issues of BOQ debt or equity securities.

In addition, financial markets in general have historically experienced volatility that has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may have a materially adverse effect on the trading price of BOQ Shares, regardless of BOQ's actual operating performance.

Historical market prices of BOQ Shares should not be regarded as indicative of the future market price at which BOQ Shares may trade.

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## 6.5 RISKS RELATING TO THE MERGER

The information set out in this section 6.5 describes specific risks in relation to the Merger.

### 6.5.1 Integration risks

The acquisition of Home by BOQ involves the integration of businesses that have previously operated independently and may involve:

- unexpected delays, liabilities and costs, including but not limited to, in relation to integrating information technology systems and management systems, carrying out branch conversions and expanding product offerings;
- operational interruptions;
- the loss of key employees, customers or suppliers of Home;
- the termination of contractual arrangements as a result of the change in control of Home;
- diminished customer acceptance of the branding strategy adopted by the BOQ Board.

The integration may not be achieved in an orderly fashion and within a reasonable period or, even if completed on a timely basis, may not realise the full benefits, cost savings and other expected synergies expected and outlined in sections 4.1(d) and 4.5(d) of this Scheme Booklet. Any increase in expected integration costs or failure to achieve expected synergies could adversely impact the financial performance and position of the BOQ Group and the future price of BOQ Shares. Home and BOQ presently operate on different suites of banking systems which introduces additional complexity and timing risk to the integration process.

### 6.5.2 Mackay Permanent Merger

On 13 August 2007, BOQ announced a recommended proposal to acquire all of the shares in Mackay Permanent Building Society Limited. The proposal is to be implemented by scheme of arrangement, which is subject to approval by Mackay Permanent members and the Court.

The Mackay Permanent Merger carries with it similar integration risks as set out above, including unexpected delays, liabilities and costs, operational interruptions, loss of key employees, customers or suppliers and termination of contractual arrangements as a result of the change in control of Mackay Permanent. The Mackay Permanent integration may not be achieved in an orderly fashion and within a reasonable period or, even if completed on a timely basis, may not realise the full benefits, cost savings and other expected synergies.

An increase in expected Mackay Permanent integration costs or failure to achieve expected synergies could adversely impact the financial performance and position of the BOQ Group and the future price of BOQ Shares.

### 6.5.3 Reliance on information

BOQ has conducted due diligence enquiries in relation to information provided by Home and Mackay Permanent in the course of and for the purpose of the proposed Home Merger and the Mackay Permanent Merger. BOQ has relied on this information in making an assessment of the assets and liabilities, profits and losses and prospects of Home and Mackay Permanent. Such investigations were carried out in a limited time. BOQ is satisfied that it has sufficient information to decide to proceed with the proposed Home Merger and the Mackay Permanent Merger. However, there is a risk that material information on which BOQ has relied may not be complete or may contain inaccuracies which may have a material effect on BOQ's assessment of Home and Mackay Permanent.



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## 7. Implementation of the Scheme Proposal

### 7.1 HOW WILL THE SCHEME PROPOSAL BE IMPLEMENTED?

The key terms of the Implementation Deed are set out in section 8.22 of this Scheme Booklet and a copy of the Implementation Deed can be obtained from Home's website at [www.homeonline.com.au](http://www.homeonline.com.au) or by calling the Home Merger Hotline on 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday.

The Implementation Deed specifies that the Merger will be effected by way of a scheme of arrangement between Home and all Home Shareholders, under which eligible Home Shareholders will receive 0.844 New BOQ Share plus \$2.80 in cash for each Home Share held by them.

At the date of this Scheme Booklet, Home also has Home Options on issue. Pursuant to the Implementation Deed and in conjunction with the Scheme, BOQ has offered to acquire all of the Home Options in exchange for cash. The treatment of Home Options and the terms of the BOQ Option Offers are described in more detail in section 7.9 below.

Further details of the Scheme process are set out in this section 7.

### 7.2 WHAT APPROVALS ARE REQUIRED UNDER THE SCHEME PROPOSAL?

For the Scheme to take effect, section 411(4) of the Corporations Act requires a meeting of Home Shareholders to be held, at which the Scheme Proposal must be agreed to by a resolution passed by a majority in number of Home Shareholders present and voting (either in person or by proxy) at the Scheme Meeting and representing in aggregate not less than 75% of the votes cast on the resolution at the Scheme Meeting.

Currently, each holder of a Home Share present in person or by proxy, representative or attorney, at a meeting of Home Shareholders will have one vote on a show of hands and on a poll (regardless of the number of Home Shares that the Home Shareholder holds). These provisions are due to expire on 26 February 2008, at which time the voting rights attached to Home Shares would convert to one vote on a show of hands and one vote per Home Share on a poll. However, these "one vote-one member" provisions will continue to apply at the date of the Scheme Meeting, meaning that 75% of Home Shareholders present and voting (either in person or by proxy) need to vote in favour of the Scheme Proposal for the Scheme to take effect.

The result of the Scheme Meeting must then be provided to the Court, which will consider whether or not to approve the Scheme.

On Wednesday, 24 October 2007, the Court made the requisite orders that the Scheme Meeting be held. The orders made by the Court convening the Scheme Meeting do not constitute an endorsement of, or any other expression of opinion on, the Scheme Proposal or this Scheme Booklet by the Court.

### 7.3 WHAT WILL HAPPEN UNDER THE SCHEME?

The Scheme is a legal arrangement between Home and all Home Shareholders under which, subject to all necessary approvals being received and Implementation taking place, all Home Shareholders will exchange their Home Shares for New BOQ Shares and the cash component of the Scheme Consideration.

If approved by Home Shareholders and the Court (as discussed in section 7.2 above), and subject to the conditions set out in section 7.4 below being satisfied, all Home Shareholders who hold Home Shares on the Scheme Record Date will participate in the Scheme. The Home Shareholders as at the Scheme Record Date are referred to in this Scheme Booklet as Scheme Participants and the Home Shares on issue on the Scheme Record Date are referred to in this section 7 as Scheme Shares (unless the context requires otherwise).

If approved and Implemented, the Scheme will result in:

- (a) each eligible Scheme Participant receiving the cash component of the Scheme Consideration on the Implementation Date;
- (b) each Scheme Participant receiving 0.844 New BOQ Shares in exchange for every Scheme Share held by them or, in the case of a Share Sale Facility participant, the Nominee receiving those New BOQ Shares that would otherwise be issued to Share Sale Facility participants under the Scheme on the Implementation Date;

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- (c) any fractional entitlement of a Scheme Participant being rounded up or down to the nearest whole number of New BOQ Shares after aggregating the Scheme Participant's holding/s in a manner that avoids manipulation of holdings to take advantage of the rounding up entitlement. Fractional entitlements of less than 0.5 will be rounded down and fractional entitlements of 0.5 or more will be rounded up;
  - (d) all Scheme Shares being transferred to BOQ.

In accordance with the terms of the Implementation Deed, application will be made for the quotation of the New BOQ Shares on ASX.

The detailed terms of the Scheme are set out in the Scheme contained in Annexure A to this Scheme Booklet.

In support of its obligations under the Implementation Deed, BOQ has executed the Deed Poll in favour of Scheme Participants (see Annexure B to this Scheme Booklet).

#### **7.4 WHAT CONDITIONS MUST BE SATISFIED FOR THE SCHEME PROPOSAL TO PROCEED?**

Implementation is conditional on:

- (a) approval of the Scheme by the requisite majority at the Scheme Meeting (as discussed at section 7.2 above);
- (b) the Merger Conditions set out in the Implementation Deed having been satisfied or waived in accordance with the terms of the Implementation Deed on or before 8.00am on the Second Court Date (or if an earlier date is specified in the Implementation Deed with respect to any condition, that earlier date) (refer to paragraph 7 of the section of this Scheme Booklet titled "Overview of the Scheme Proposal" and section 8.22 of this Scheme Booklet for a summary of these Merger Conditions and their status as at the date of this Scheme Booklet);
- (c) the Implementation Deed not having been terminated by Home or BOQ before 8.00am on the Second Court Date;
- (d) the making of an order by the Court approving the Scheme under section 411(4)(b) of the Corporations Act;
- (e) lodgement with ASIC of an office copy of the order of the Court approving the Scheme; and
- (f) such other conditions imposed by the Court as it thinks just under section 411(6) of the Corporations Act.

Further details in relation to the Implementation Deed are contained in section 8.22 of this Scheme Booklet.

The Scheme will become binding on Home, BOQ and each Scheme Participant upon the Court making an order under section 411(4)(b) of the Corporations Act and that order being lodged with ASIC and becoming Effective under section 411(10) (that is, on the Effective Date). Application to the Court for that order will be made as soon as possible after the Scheme Meeting has been held.

#### **7.5 HOW WILL SCHEME PARTICIPANTS BE DETERMINED?**

For the purposes of determining which Home Shareholders are eligible to participate in the Scheme (i.e. which Home Shareholders will be Scheme Participants), dealings in Home Shares will be recognised only if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered as the holder of the relevant Home Shares on or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings are received by the Share Registry on or before the Scheme Record Date.

For the purposes of determining entitlements under the Scheme, Home will not accept for registration or recognise any transfer or transmission application in respect of Home Shares received after the Scheme Record Date. Home will use the Home Register in the manner described above to determine the entitlements of Scheme Participants to Scheme Consideration under the Scheme.

#### **7.6 HOW WILL SCHEME PARTICIPANTS WHO ARE OVERSEAS HOME SHAREHOLDERS BE TREATED UNDER THE SCHEME PROPOSAL?**

Home Shareholders whose address (as shown on the Home Register on the Scheme Record Date) is in Australia (and its external territories) or New Zealand will be entitled to receive New BOQ Shares pursuant to the Scheme. Home and BOQ may also determine (in consultation with one another) that BOQ can issue New BOQ Shares to Home Shareholders with a registered address in certain other jurisdictions, provided that the laws of the relevant

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jurisdictions in which those Home Shareholders reside do not require compliance with conditions or additional disclosure or legal requirements which Home or BOQ regard as onerous. Any Home Shareholders who do not reside in Australia or New Zealand or any other permitted jurisdiction as set out above, will be deemed to be Ineligible Overseas Shareholders.

Ineligible Overseas Shareholders will be entitled to participate in the Scheme Proposal on the same basis as all Home Shareholders. However, Ineligible Overseas Shareholders will not receive New BOQ Shares. Instead, New BOQ Shares which would otherwise be issued to Ineligible Overseas Shareholders as part of the Scheme Consideration will be issued to the Nominee (ABN AMRO Equities Australia Limited). Under the Scheme, Ineligible Overseas Shareholders appoint BOQ as their agent to receive any financial services guide or other notice given by the Nominee.

Under the Deed Poll (contained in Annexure B to this Scheme Booklet), BOQ has covenanted to comply with clause 5.3 of the Scheme, which deals with the treatment of Ineligible Overseas Shareholders as follows.

- The Nominee will sell the relevant New BOQ Shares on behalf of the Ineligible Overseas Shareholders as soon as is reasonably practicable (and in any event by no later than 10 Business Days after the Implementation Date) at the risk of the Ineligible Overseas Shareholder on a best endeavours basis.
- The Nominee will then remit the proceeds of sale of such New BOQ Shares (after deduction of any brokerage costs and other applicable costs, taxes or charges) to the Share Registry.
- The Share Registry will then pay to each Ineligible Overseas Shareholder the average net proceeds of sale of the New BOQ Shares to which the Ineligible Overseas Shareholder would otherwise have been entitled in full satisfaction of that Ineligible Overseas Shareholder's rights under the Scheme to the Scheme Consideration.

The net proceeds of sale of the New BOQ Shares will be dispatched to the Ineligible Overseas Shareholders as soon as reasonably practicable and no later than 10 Business Days after the settlement of the sale of all the relevant New BOQ Shares has occurred, with the proceeds sent to Ineligible Overseas Shareholders by cheque or bank draft in Australian currency to their registered address. Full details of this sale process are contained in clause 5.3 of the Scheme contained in Annexure A to this Scheme Booklet.

#### **7.7 HOW WILL SMALL PARCELS BE TREATED UNDER THE SCHEME PROPOSAL?**

If a Scheme Participant has a registered address in Australia (including its external territories) or New Zealand and holds 355 or less Home Shares as at the Scheme Record Date (ie the number of New BOQ Shares to be issued to them under the Scheme Consideration would constitute a parcel of 300 or less New BOQ Shares), the Scheme Participant may elect to have those New BOQ Shares sold under the Share Sale Facility. The election to participate in the Share Sale Facility must be made by 5.00pm on the Effective Date.

Full details of the operation of the Share Sale Facility and the considerations associated with electing to use it are set out in section 7.8 below.

#### **7.8 HOW DOES THE SHARE SALE FACILITY WORK?**

Set out below is a summary of the operation of the Share Sale Facility and some of the specific matters that Small Parcel Participants who elect to use it, as well as Ineligible Overseas Shareholders, should be aware of (however, Ineligible Overseas Shareholders should also consider the specific details of how the Share Sale Facility works in relation to them as set out in section 7.6 above):

- (a) you do not need to have an account with the Nominee or any other broker or ASX participant in order to participate in the Share Sale Facility;
- (b) no brokerage costs and other applicable costs, taxes or charges will be payable by you if you elect to participate in the Share Sale Facility unless you are an Ineligible Overseas Shareholder, in which case such costs will be deducted from the cash proceeds that you will receive from the sale of the relevant New BOQ Shares through the Share Sale Facility;

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- (c) the Nominee will be issued with the New BOQ Shares to which you would otherwise be entitled to receive under the Scheme Proposal and hold those New BOQ Shares on your behalf. The Nominee will use its best endeavours to sell the relevant New BOQ Shares for you through the Share Sale Facility;
  - (d) your New BOQ Shares will be sold within the first 15 trading days following issue of the New BOQ Shares to the Nominee at Implementation (**Sale Period**) on a best endeavours basis. However, in the case of Ineligible Overseas Shareholders and under clause 5.3 of the Scheme contained in Annexure A to this Scheme Booklet, BOQ has undertaken to procure that the Nominee sell the relevant New BOQ Shares on a best endeavours basis as soon as is reasonably practicable (and in any event by no later than 10 Business Days after the Implementation Date);
  - (e) the Nominee will then remit to the Share Registry the gross proceeds (in the case of Small Parcel Participants) and the net proceeds (in the case of Ineligible Overseas Shareholders) of the sale of New BOQ Shares on behalf of all Small Parcel Participants and Ineligible Overseas Shareholders;
  - (f) a cheque in the amount of the average cash proceeds from the sale of those relevant New BOQ Shares (less any brokerage costs and other applicable costs, taxes or charges in the case of Ineligible Overseas Shareholders) will then be sent to you by post to your registered address. The cash proceeds (less any brokerage costs and other applicable costs, taxes or charges in the case of Ineligible Overseas Shareholders) will be sent to you as soon as reasonably possible, but no later than 10 Business Days after the settlement of the sale of all the Sale Shares has occurred;
  - (g) the proceeds remitted to BOQ will be distributed to Share Sale Facility participants on an averaged basis so that all Share Sale Facility participants receive the same price per New BOQ Share as other Share Sale Facility participants of the same status (with Share Sale Facility participants being either Small Parcel Participants or Ineligible Overseas Shareholders);
  - (h) the amount of the proceeds resulting from the sale of New BOQ Shares under the Share Sale Facility will depend on the price at which those New BOQ Shares can be sold by the Nominee. The price of BOQ Shares is subject to change from time to time. There is no guarantee that the sale price that the Nominee obtains for your New BOQ Shares under the Share Sale Facility will be favourable when compared to trading in BOQ Shares pre and post execution of the relevant sale. There may be a large volume of New BOQ Shares being sold under the Share Sale Facility and, as a result, there is a risk that the sale price obtained for New BOQ Shares through the Share Sale Facility may be executed at a discount to the prevailing market price of BOQ Shares;
  - (i) neither BOQ nor the Nominee accept any responsibility for the price which may be achieved in any sale of New BOQ Shares under the Share Sale Facility;
  - (j) Share Sale Facility participants appoint BOQ as their agent to receive any financial services guide or other notice given by the Nominee;
  - (k) the sale of New BOQ Shares using the Share Sale Facility may affect your Australian tax position. It is recommended that Small Parcel Participants and Ineligible Overseas Shareholders obtain independent tax advice if they are in any doubt as to the tax treatment of the cash proceeds they will receive from participation in the Share Sale Facility and under the Scheme Proposal generally, and also consider the information in the Tax Opinion (contained in section 5 of this Scheme Booklet);
  - (l) you should refer to section 6 of this Scheme Booklet in relation to some of the general market risks that may be relevant to participating in the Share Sale Facility;
  - (m) Small Parcel Participants who do not elect to sell their New BOQ Shares through the Share Sale Facility may sell their New BOQ Shares at any other time after they have been issued. However, you will likely pay brokerage costs on such sales and will need to have an account with a broker or other ASX participant. Small Parcel Participants who choose to sell their New BOQ Shares before receiving confirmation of their allocation under the Scheme do so at their own risk.

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### 7.9 HOW WILL HOME OPTIONS BE TREATED UNDER THE SCHEME PROPOSAL (THE BOQ OPTION OFFERS)?

As at 22 October 2007, the last practical trading day before this Scheme Booklet was lodged for registration with ASIC, Home had 1,232,500 Home Options on issue, which are to be acquired by BOQ in exchange for cash if the Scheme becomes Effective under the BOQ Option Offers.

Consistent with the Implementation Deed and in conjunction with the Scheme Proposal (and in accordance with Division 5A of the Corporations Act), BOQ has made the BOQ Option Offers to acquire all of the Home Options that have not lapsed or been exercised by the Option Completion Date (as discussed below). BOQ Option Offers have been made in respect of all Home Options, regardless of whether any applicable performance hurdles have been met or exercise periods reached.

Under the BOQ Option Offers, each of the Home Options will be transferred to BOQ in consideration of payment of a cash purchase price. The cash purchase price per Home Option will be \$18.00 less the exercise price of the relevant Home Option (with the cash purchase price offered to each holder of Home Options being reduced if any of the relevant options are exercised or lapse before the Option Completion Date) (**Option Consideration**).

If the Scheme becomes Effective, and subject to the Home Directors passing a resolution permitting the Home Options to be transferred to BOQ under the BOQ Option Offers, the Home Optionholders will receive the purchase price within two Business Days of Implementation.

It is a Merger Condition that all of the BOQ Option Offers are accepted by all Home Optionholders before 5.00pm on the fifth Business Day before the First Court Date. Should this condition not be satisfied for any reason, BOQ will be able to elect whether or not to proceed with Implementation. As reflected in the table at paragraph 7 of the section of this Scheme Booklet titled "Overview of the Scheme Proposal", BOQ has waived this Merger Condition.

### 7.10 HOW WILL HOME A CLASS SHARES BE TREATED UNDER THE SCHEME PROPOSAL?

Subject to the Home A Class AGM Approval being obtained and the Scheme Proposal becoming Effective, the Home A Class Shares will convert to fully paid, ordinary shares on the Business Day following the Effective Date. Full details of the Home A Class AGM Approval, and additional information in relation to the Home A Class Shares, are set out in section 8.1 of this Scheme Booklet.

The holders of the Home A Class Shares will be entitled to receive the Scheme Consideration and otherwise participate in the Scheme Proposal on the same terms as other Home Shareholders on conversion of the Home A Class Shares, except that:

- (a) holders of Home A Class Shares will not be eligible to vote at the Scheme Meeting, either as holders of Home A Class Shares or as Home Shareholders. The Home Directors who hold the Home A Class Shares have, in granting their consent to the variation of class rights contemplated by the early conversion of these securities in accordance with the Home Constitution, acknowledged that they will not be eligible to vote at the Scheme Meeting with respect to their holding in the Home A Class Shares; and
- (b) consistent with the rationale behind their issue and in accordance with the Implementation Deed, all New BOQ Shares issued under the Scheme Consideration in exchange for the Home Shares into which the Home A Shares convert are to be sold following Implementation. The net capital gain after tax from the proceeds obtained from the sale of those New BOQ Shares, as well as the after tax cash component of the Scheme Consideration issued in exchange for the relevant Home Shares, will be donated to charity.

If the Home A Class AGM Approval is not obtained, BOQ will offer to acquire the resulting Home Shares within 2 Business Days of conversion of the Home A Class Shares and in exchange for consideration equivalent to the Scheme Consideration. The net capital gain after tax resulting from their acquisition in this manner will similarly be donated to charity, however the holders of Home A Class Shares will not be entitled to participate in the Scheme Proposal.

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## 7.11 WHAT IS THE TIMETABLE FOR IMPLEMENTING THE SCHEME?

An indicative timetable setting out the key dates for the Scheme Proposal is provided in the front of this Scheme Booklet. Timing of the events referred to below could change for a number of reasons, including delay in obtaining Home Shareholder or Court approval in relation to the Scheme.

In summary, if the Scheme is approved and all other Merger Conditions are satisfied or waived:

- (a) the Court will be asked to approve the Scheme pursuant to section 411(4)(b) of the Corporations Act at a hearing to be held shortly after the Scheme Meeting. It is expected that this hearing will be held on or about Tuesday, 4 December 2007;
- (b) if the Court approves the Scheme, the Effective Date will be the date the Court order approving the Scheme takes effect. Ordinarily this would be the date on which the order is lodged with ASIC. It is expected that this will occur on or about Thursday, 6 December 2007;
- (c) Home will notify ASX when the Scheme becomes Effective;
- (d) at the close of trading on ASX on the Effective Date (expected to be Thursday, 6 December 2007), Home Shares will cease trading on ASX with an entitlement to the Scheme Consideration (that is, purchasers of Home Shares prior to that date will be entitled to receive the Scheme Consideration under the Scheme, provided they remain on the Home Register on the Scheme Record Date);
- (e) on the Implementation Date:
  - (i) BOQ will issue the New BOQ Shares to Scheme Participants or to the Nominee (in the case of Share Sale Facility participants);
  - (ii) BOQ will register or cause to be registered the Scheme Participants or the Nominee (in the case of Share Sale Facility participants) as holders of the New BOQ Shares; and
  - (iii) BOQ will pay the cash component of the Scheme Consideration to eligible Scheme Participants by either:
    - (A) cheque; or
    - (B) by direct credit deposit to the Scheme Participant's Nominated Account.

In the case of joint holders of Home Shares, the cheque or payment will be forwarded to the holder whose name appears first in the Home Register, as at the Scheme Record Date;
- (f) as soon as practicable after the Implementation Date (but in any event no later than 7 Business Days after the Implementation Date), BOQ must procure the issue and dispatch to Scheme Participants, other than Share Sale Facility participants, holding statements in the name of each Scheme Participant in respect of the New BOQ Shares to which they are entitled by prepaid post to the Scheme Participant at their registered address (in accordance with the ASTC Settlement Rules and the Listing Rules). In the case of joint holders of Home Shares, a holding statement will be issued and dispatched to the holder whose name appears first in the Home Register, as at the Scheme Record Date. In the case of Small Parcel Participants who have elected to sell their New BOQ Shares through the Share Sale Facility, and in the case of Ineligible Overseas Shareholders, holding statements will be issued in the name of the Nominee in respect of those New BOQ Shares;
- (g) within two Business Days of Implementation Home Optionholders will receive the purchase price under the BOQ Option Offers; and
- (h) all New BOQ Shares held by Share Sale Facility participants will be sold through the Share Sale Facility within the first 15 trading days following issue of the New BOQ Shares to the Nominee at Implementation (or, in the case of Ineligible Overseas Shareholders, as soon as reasonably practicable after Implementation and, in any event, no later than 10 business days after the Implementation Date). The cash proceeds (less any brokerage costs and other applicable costs, taxes or charges in the case of Ineligible Overseas Shareholders) will be sent to Share Sale Facility participants as soon as reasonably practicable, but no later than 10 Business Days after the settlement of the sale of all the relevant New BOQ Shares has occurred.

The New BOQ Shares will initially trade on ASX on a deferred settlement basis. This is expected to be from about Friday, 7 December 2007. Normal trading of New BOQ Shares is expected to commence on Friday, 21 December 2007.

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#### 7.12 WHAT WILL HAPPEN IF THE SCHEME IS NOT APPROVED?

If the Scheme Proposal is not approved or all relevant Merger Conditions are not satisfied or waived, the Scheme will not proceed. In that case, Home Shareholders will not receive the Scheme Consideration, Home will continue to operate as it currently does and Home Shares will remain listed on ASX. In this case, the advantages of the Merger described in paragraph 2 of the section of this Scheme Booklet titled “Overview of the Scheme Booklet” and detailed elsewhere in this document will not be realised. The Home Directors’ expectations for Home if the Scheme Proposal is not approved are set out in section 1.5 of this Scheme Booklet.



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## 8. Additional Information

### 8.1 HOME A CLASS SHARES – EARLY CONVERSION AND DONATION OF PROCEEDS TO CHARITY

In addition to the Home Shares and Home Options detailed in section 2.4 of this Scheme Booklet, Home currently has 12,000 Home A Class Shares on issue. Each Home Director holds 1,500 Home A Class Shares (as set out in the table at section 8.14 of this Scheme Booklet).

The Home A Class Shares are due to convert to Home Shares on 26 February 2008. In order to facilitate Implementation in the proposed timeframe, certain amendments are needed to the Home Constitution so that on the Business Day following the Effective Date all Home A Class Shares will automatically convert to Home Shares. Home Shares will rank equally with, and confer rights identical with, and impose obligations identical with, all other Home Shares.

Each of the Home Directors (being all the holders of Home A Class Shares) has, in accordance with the Home Constitution, granted their written consent to the variation of class rights contemplated by the amendment to the Home Constitution sought to permit early conversion of these securities (in accordance with the Home Constitution). That written consent has been granted subject to the Scheme becoming Effective. In giving their consent, the Home Directors have each acknowledged that:

- (a) they have done so on a fully informed basis; and
- (b) they will not be eligible to vote at the Scheme Meeting with respect to their holding in the Home A Class Shares or in respect of the Home Shares resulting from their conversion (notwithstanding the Home A Class Shares will convert into Home Shares prior to the Scheme Record Date).

Early conversion of the Home A Class Shares means that the resulting Home Shares will be included in the Scheme and be transferred to BOQ on Implementation (such that Home will ultimately become a wholly owned subsidiary of BOQ). Subject to the Home A Class AGM Approval being obtained and in accordance with the Implementation Deed, all New BOQ Shares issued under the Scheme Consideration in exchange for the Home Shares resulting from the early conversion of the Home A Class Shares are to be sold following Implementation. The net capital gain after tax from their sale, as well as the after tax cash component of the Scheme Consideration issued in exchange for the relevant Home Shares, will be donated to charity.

However, the obligations that BOQ and Home have assumed under the Implementation Deed are such that early conversion of the Home A Class Shares is not a Merger Condition and the Scheme can proceed regardless of whether the Home A Class AGM Approval is obtained. If Home members do not approve the proposed amendment to the Home Constitution at the Home AGM, the Implementation Deed provides that BOQ will, within 2 Business Days of conversion of the Home A Class Shares, offer to acquire the resulting Home Shares for consideration equivalent to the Scheme Consideration. The net capital gain after tax from their acquisition in this manner will similarly be donated to charity.

#### **Rights attaching to Home A Class Shares**

Home A Class Shares may only be held by Home Directors or a person holding those shares on behalf of a Home Director who is also:

- (a) a Home Director;
- (b) a spouse or child of a Home Director; or
- (c) a person given prior written approval by the Home Directors to be a transferee of the shares.

The holders of Home A Class Shares have special voting and dividend rights and are subject to specific obligations relating to the transfer of Home A Class Shares, as set out in the Home Constitution and summarised in the notice of annual general meeting that Home dispatched to members on or about the date of dispatch of this Scheme Booklet. The combined effect of these special voting rights and specific obligations relating to transfer is that the Home Directors (as holders of Home A Class Shares) can, where voting is conducted on a poll, significantly influence or even determine the outcome of any resolutions that seek to remove, amend or alter the Shareholder Limit Provisions (as described in the Home Constitution) or remove one or more Home Directors from office in certain circumstances.



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The Home A Class Shares were originally issued as part of certain mechanisms that Home established (prior to listing on ASX in 2002) to protect itself against a disadvantageous takeover bid. Home has had Home A Class Shares on issue in their current form since 2002 (except for the period between 26 February 2006 and 11 July 2006, during which the Home A Class Shares converted into Home Shares to facilitate the merger between Home and StateWest).

### **Home A Class AGM Approval**

In accordance with the Implementation Deed and the Home Constitution, the Home Board will seek the approval of Home members at the upcoming Home AGM to amend the Home Constitution (subject to the Scheme becoming Effective) so that the Home A Class Shares convert into Home Shares on a one for one basis on the Business Day following the Effective Date. The Home AGM is to be held immediately before the Scheme Meeting. Home members will be asked to approve this amendment to the Home Constitution under a special resolution requiring approval by at least 75% of the votes cast by members entitled to vote on the resolution.

### **8.2 HOME OPTIONS – BOQ OPTION OFFERS**

Refer to discussion of the BOQ Option Offers in section 7.9 of this Scheme Booklet.

### **8.3 NOTIFIABLE INTERESTS**

As at 22 October 2007, the last practical trading day before this Scheme Booklet was lodged for registration with ASIC, no person had notified Home in accordance with section 671B of the Corporations Act that they had a Relevant Interest in Home Shares.

### **8.4 RANKING OF NEW BOQ SHARES**

The New BOQ Shares will rank equally with all other BOQ Shares on issue. Further detail in relation to the rights attaching to New BOQ Shares is set out in section 8.5 below.

### **8.5 RIGHTS ATTACHING TO NEW BOQ SHARES**

A New BOQ Share is an ordinary share. The rights attaching to ownership of New BOQ Shares are as per those attaching to BOQ Shares, which rights are:

- (a) contained in the BOQ Constitution; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law.

The following is a summary of the key rights attaching to BOQ Shares.

BOQ Shareholders:

- (a) are entitled to receive all notices of, and to attend, general meetings of the Bank and to receive all notices, accounts and other documents required to be sent to BOQ Shareholders under the BOQ Constitution, the Corporations Act or the Listing Rules;
- (b) are entitled to be present in person or by proxy, attorney or representative at a meeting of BOQ Shareholders, to one vote on a show of hands and, on a poll, to one vote for every fully paid BOQ Share held, and a proportionate vote for every partly paid share, registered in that BOQ Shareholder's name on the BOQ Register;
- (c) are entitled to receive dividends on the BOQ Shares declared by the BOQ Board; and
- (d) may transfer shares by a market transfer according to any computerised or electronic system established or recognised by ASX or the Corporations Act for the purpose of facilitating transfers in BOQ Shares or by an instrument in writing in a form approved by ASX, in any other usual form or in any form approved by the BOQ Directors.

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BOQ has three classes of shares on issue – reset preference shares, series 1 reset preference shares and ordinary shares. On a winding up, once all the liabilities of BOQ are satisfied, any surplus must then be used to return the capital represented by the two classes of reset preference shares and then the return of capital represented by the BOQ Shares. Holders of BOQ Shares are entitled to any surplus on winding up after return of capital.

As set out in section 3.2(d) of this Scheme Booklet, BOQ intends to make an offer of a further class of preference shares which will rank ahead of BOQ Shares for dividends and return of capital.

A liquidator may, with the authority of a special resolution of BOQ Shareholders, divide among the BOQ Shareholders at the time the whole or any part of the remaining assets of the Bank. The liquidator may, with the sanction of a special resolution of BOQ members, vest the whole or any part of the assets in trust for the benefit of BOQ Shareholders as the liquidator thinks fit, but no BOQ Shareholder can be compelled to accept any shares or other securities in respect of which there is any liability.

The BOQ Constitution can only be amended by a special resolution passed by holders of BOQ Shares.

The BOQ Directors may (subject to the restrictions on the allotment of shares imposed by the Constitution, the Listing Rules and the Corporations Act) allot or otherwise dispose of further Shares or other securities on such terms and conditions as they see fit.

Where an electronic transfer of shares is registered and it results in a person holding shares in contravention of a law, the BOQ Directors may require a shareholder holding shares in excess of that limitation to dispose of those shares and failing compliance the BOQ Directors may sell those shares.

## **8.6 BOQ OPTIONS**

Under the BOQ Senior Manager Option Plan and the Managing Director's option scheme, BOQ has issued 9,787,652 options to senior management of BOQ with exercise prices ranging from \$10.71 to \$16.40 and vesting in tranches between November 2007 and December 2009. Each option is subject to the satisfaction of performance hurdles relating to the achievement of cash EPS growth performance relative to a peer group of listed banks.

BOQ intends to issue a further tranche of approximately 4,000,000 BOQ Options to senior managers under the Senior Manager Option Plan in November 2007, which would vest, subject to the performance hurdles being satisfied, in November 2010.

## **8.7 QUOTATION OF NEW BOQ SHARES ON ASX**

BOQ Shares are quoted on ASX. Application will be made by BOQ to ASX for official quotation of the New BOQ Shares on ASX as soon as possible after the Effective Date.

The New BOQ Shares will initially trade on ASX on a deferred settlement basis. This is expected to be from about Friday, 7 December 2007. Normal trading of the New BOQ Shares is expected to commence on Friday, 21 December 2007.

It is the responsibility of BOQ Shareholders to ensure they do not trade more securities than they are certain of receiving. Home Shareholders who trade in New BOQ Shares on a deferred settlement basis after Implementation but before being advised of their final entitlements do so at their own risk.

## **8.8 ISSUE OF HOLDING STATEMENTS**

As soon as practicable after the Implementation Date BOQ will send holding statements confirming the issue of the New BOQ Shares to:

- (a) Scheme Participants who become entitled to those New BOQ Shares (by prepaid post to their registered address as shown on the Home Register); and
- (b) the Nominee who is issued those New BOQ Shares to be sold under the Share Sale Facility.

## **8.9 REMOVAL OF HOME FROM OFFICIAL LIST OF ASX**

Trading of Home Shares on ASX is expected to be suspended at close of trading on the Effective Date.

Following Implementation, application will be made to ASX for removal of Home from the official list of ASX.

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### 8.10 ACQUISITIONS OF HOME SHARES IN THE LAST FOUR MONTHS AND BENEFITS

There has been no dealing by BOQ or any Associate of BOQ in any Home Shares in the four month period immediately preceding the date of this Scheme Booklet.

Except as discussed elsewhere in this Scheme Booklet, during the period of four months ending on 22 October 2007, neither BOQ nor any Associate of BOQ:

- (a) has provided, or agreed to provide, consideration for a Home Share under a purchase or agreement; or
- (b) has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:
  - (i) vote in favour of the Scheme Proposal; or
  - (ii) dispose of Home Shares to BOQ.

BOQ has no current shareholding in Home.

### 8.11 PAYMENTS OR OTHER BENEFITS TO DIRECTORS, SECRETARIES OR EXECUTIVE OFFICERS OF HOME

Except as set out below or disclosed elsewhere in this Scheme Booklet, no Home Director, secretary or executive officer (or of any of its related bodies corporate) will receive any payment or other benefit through the Scheme Proposal as compensation for loss of, or as consideration for or in connection with his or her retirement from office in Home or any of its related bodies corporate.

Except as set out below or disclosed elsewhere in this Scheme Booklet, no Home Director, secretary or executive officer of Home (or of any of its related bodies corporate) will receive any payment or other benefit through the Scheme Proposal other than:

- (a) any allocation of Scheme Consideration to which they are entitled as a Home Shareholder on the same terms as for all other Home Shareholders; and
- (b) any payment of the Option Consideration to which they are entitled under the BOQ Option Offers, as described in section 7.9 of this Scheme Booklet.

Home has agreed that Elizabeth Lawton, General Counsel and Company Secretary of Home, will be eligible to receive an early termination payment of an amount equivalent to 3 months' salary (being \$42,500). The payment will be made within 2 Business Days after Implementation and will be conditional on Elizabeth's employment with the Merged Group terminating in certain circumstances before, on or after Implementation.

### 8.12 AGREEMENTS OR ARRANGEMENTS WITH HOME DIRECTORS

Except as set out below or disclosed elsewhere in this Scheme Booklet, there is no agreement or arrangement made between any Home Director and any other person in connection with or conditional on the outcome of the Scheme Proposal:

- (a) Tony Howarth has been invited by BOQ to join the BOQ Board on Implementation. See below for further details;
- (b) As set out in section 4.3(b)(vii) of this Scheme Booklet, the Merged Group's employee requirements will be reviewed following Implementation. As part of that review, consideration will be given to Mr Wall's continuing role, if any, with the Merged Group.

In the event that his employment is terminated, Mr Wall is entitled to receive the benefits provided for in his employment contract (which are summarised below for the purposes of illustrating the maximum benefits to which Mr Wall may be entitled on termination of his employment). The entitlements set out below are also subject to any restrictions imposed by the Corporations Act or any other applicable laws, the Listing Rules or the Home Constitution (as amended from time to time).

- (i) Any options held by Mr Wall vest. As described in section 7.9 of this Scheme Booklet, BOQ has offered to purchase all of the Home Options that have not lapsed or been exercised by the Option Completion Date under the terms of the BOQ Option Offers (including Mr Wall's Home Options). Mr Wall has accepted the BOQ Option Offer with respect to his Home Options. Mr Wall currently holds 250,000 Home Options, which were issued on 28 November 2005 with a vesting date of 28 May 2008 and an exercise price of \$8.32.

- (ii) Home must provide Mr Wall with 12 months' notice in writing or may pay Mr Wall wholly or partly in lieu of notice. The amount of the entitlement is calculated by reference to Mr Wall's total remuneration package (including superannuation) of \$400,000 per annum.
- (iii) The vesting of any incentive bonus to which Mr Wall may be entitled must be recognised, subject to Mr Wall meeting any performance criteria. (The maximum incentive bonus that Mr Wall is entitled to receive is \$120,000).

Mr Wall would also be entitled to any other benefits required by law to be paid to him upon termination (eg annual leave, long service leave etc).

Mr Wall's contractual entitlement to receive the benefits referred to above is subject to the operation of other provisions of Mr Wall's employment contract that may apply in some circumstances and may reduce or eliminate Mr Wall's entitlement to some or all of the above benefits.

- (c) BOQ has indemnified each Home Director (in their capacity as a Home Indemnified Party) from and against all claims, liabilities and loss which any of the Home Directors may suffer or incur by a breach of any of the representations and indemnities given by BOQ in clause 10 of the Implementation Deed.

**Tony Howarth's appointment to the BOQ Board on Implementation**

As a non-executive director of BOQ, Mr Howarth will be entitled to be paid a non-executive director's fee currently set at \$98,100 per annum (inclusive of superannuation guarantee charge) plus additional fees for service on Board committees, and will be entitled to reimbursement of expenses incurred in performing his role as director. BOQ will enter into a deed with Mr Howarth on standard terms, dealing with maintaining directors and officers insurance and indemnifying Mr Howarth for liabilities and legal costs incurred as a director (to the extent permitted by the Corporations Act and other applicable law).

There are no other agreements or arrangements made between a Home Director and another person in connection, or conditional on, the outcome of the Scheme.

**8.13 INTERESTS OF THE HOME DIRECTORS IN THE SCHEME**

No Home Director has any interest in the Scheme Proposal, other than the interests outlined in sections 8.11, 8.12, 8.14 and 8.21(a) of this Scheme Booklet.

**8.14 HOME SHARES AND HOME OPTIONS HELD BY OR ON BEHALF OF HOME DIRECTORS AND VOTING INTENTIONS**

The number, description and amount of Home Shares, Home A Class Shares and Home Options held by or on behalf of each Home Director as at the date of this Scheme Booklet are set out below. Other than as set out below, no Home Shares or other Home securities are held by or on behalf of Home Directors as at the date of this Scheme Booklet.

Name of Home Director	Number of Home Shares held	Number of Home A Class Shares held	Number of Home Home Options
Tony Howarth	43,309	1,500	Nil
Trevor Halliday	7,337	1,500	Nil
Katrina Burton	11,487 9,405 (Indirect)	1,500	Nil
Craig Coleman	36,238 5,150 (Indirect)	1,500	Nil
Roderick Cooper	29,533 (Indirect)	1,500	Nil
Gaye McMath	15,212	1,500	Nil
Michael Smith	7,785 (Indirect)	1,500	Nil
Greg Wall	9,837 1,185 (Indirect)	1,500	250,000

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The total Home securities on issue as at the date of this Scheme Booklet are as follows:

- (a) 32,689,355 Home Shares;
- (b) 12,000 Home A Class Shares; and
- (c) 1,232,500 Home Options.

The Home Directors consider that the Scheme Proposal is in the best interests of Home and Home Shareholders and each Home Director intends to vote in favour of the Scheme Proposal in respect of the Home Shares that they hold, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of Home Shareholders.

#### **8.15 BOQ SHARES HELD BY OR ON BEHALF OF HOME DIRECTORS**

The number of BOQ Shares held by or on behalf of any Home Director as at the date of this Scheme Booklet are set out below. Other than as set out below, no BOQ Shares are held by or on behalf of Home Directors as at the date of this Scheme Booklet.

<b>Name of Home Director</b>	<b>Number of BOQ Shares held</b>
Tony Howarth	Nil
Trevor Halliday	Nil
Katrina Burton	Nil
Craig Coleman	4,000 7,600 (Indirect)
Roderick Cooper	Nil
Gaye McMath	Nil
Michael Smith	Nil
Greg Wall	Nil

The total number of quoted BOQ Shares on issue as at 22 October 2007 is 113,430,550.

#### **8.16 HOME SHARES HELD BY OR ON BEHALF OF BOQ DIRECTORS AND VOTING INTENTIONS**

No Home Shares are held by or on behalf of any BOQ Director and no BOQ Director has acquired or disposed of a relevant interest in any Home Shares in the four month period immediately preceding the date of this Scheme Booklet.

#### **8.17 NO RELEVANT RESTRICTIONS IN THE HOME CONSTITUTION OR THE BOQ CONSTITUTION**

There are no restrictions in the Home Constitution or the BOQ Constitution, respectively, which would prevent Implementation.

#### **8.18 INELIGIBLE OVERSEAS SHAREHOLDERS**

Neither this Scheme Booklet nor the Scheme constitutes, or is intended to constitute, an offer of securities in any place in which, or to any person to whom, the making of such an offer would not be lawful under the laws of any jurisdiction outside of Australia (and its external territories) and New Zealand and shall not form the basis of any contract.

The treatment of Ineligible Overseas Shareholders is dealt with in detail in section 7.6 of this Scheme Booklet.

#### **8.19 EFFECT ON HOME CREDITORS**

Home has paid and is paying its creditors within normal terms of trade and is solvent and trading in an ordinary commercial manner. The Scheme will not adversely affect the interests of Home's creditors.

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## 8.20 CONSENTS AND DISCLAIMERS OF RESPONSIBILITY

### (a) Consent to be named

The following parties have given, and have not withdrawn before the time of registration of this Scheme Booklet with ASIC, their written consent to be named in this Scheme Booklet in the form and context in which they are named:

- (i) Blake Dawson Waldron as legal adviser to Home;
- (ii) Azure Capital Pty Ltd as financial adviser to Home;
- (iii) Bank of Queensland Limited, in respect of the BOQ Information only;
- (iv) Clayton Utz as legal adviser to BOQ;
- (v) ABN AMRO Corporate Finance Australia Limited as financial adviser to BOQ;
- (vi) Lonergan Edwards & Associates Limited as the Independent Expert;
- (vii) Computershare Investor Services Pty Limited as the Share Registry of Home and BOQ; and
- (viii) ABN AMRO Equities Australia Limited as the Nominee under the Share Sale Facility.

### (b) Consent to the inclusion of information

The following parties have given, and have not withdrawn before the time of registration of this Scheme Booklet with ASIC, their written consent to the inclusion of the following information in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that information in the form and context in which they appear:

- (i) Bank of Queensland Limited, in respect of the BOQ Information only and on the basis set out in the Responsibility Statement contained in the "Important Notices" section of this Scheme Booklet and as set out in the Implementation Deed (a summary of which is contained in section 8.22 of this Scheme Booklet);
- (ii) Lonergan Edwards & Associates Limited in respect of the inclusion of the Independent Expert's Report; and
- (iii) Blake Dawson Waldron in respect of the inclusion of the Tax Opinion contained in section 5 of this Scheme Booklet.

### (c) Disclaimers of responsibility

Each party named in section 8.20(a) and (b):

- (i) has not authorised or caused the issue of this Scheme Booklet;
- (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based other than, in the case of a party referred to in section 8.20(b) of this Scheme Booklet, a statement included in this Scheme Booklet with the consent of that party; and
- (iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and, in the case of a party referred to in section 8.20(b) of this Scheme Booklet, any statement or report which has been included in this Scheme Booklet with the consent of that person.

## 8.21 DISCLOSURE OF FEES AND BENEFITS RECEIVED BY CERTAIN PERSONS

### (a) Disclosure of interests of certain parties

Other than as set out in this section 8.21 or elsewhere in this Scheme Booklet, no:

- (i) Home Director;
- (ii) BOQ Director; or
- (iii) person named in this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the Scheme Proposal and/or the preparation or distribution of this Scheme Booklet,

holds, or held at any time during the last two years before the date of this Scheme Booklet, any interest in:

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- (i) the formation or promotion of Home or BOQ;
  - (ii) the Scheme Proposal;
  - (iii) property acquired or proposed to be acquired by BOQ in connection with its formation or promotion, or in connection with the offer of New BOQ Shares under the Scheme Proposal; or
  - (iv) the offer of New BOQ Shares under the Scheme Proposal; and

no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to any of these persons for services rendered by them in connection with the preparation of this Scheme Booklet or in connection with the formation or promotion of Home or BOQ or in connection with the Scheme Proposal.

**(b) Disclosure of fees and benefits received by certain parties**

The parties performing a function in a professional or advisory or other capacity in connection with the Scheme Proposal and/or the preparation or distribution of this Scheme Booklet are:

- (i) Blake Dawson Waldron as legal adviser to Home;
- (ii) Azure Capital Pty Ltd as financial adviser to Home;
- (iii) Clayton Utz as legal adviser to BOQ;
- (iv) ABN AMRO Corporate Finance Australia Limited as financial adviser to BOQ;
- (v) Lonergan Edwards & Associates Limited as the Independent Expert; and
- (vi) Computershare Investor Services Pty Limited as the Share Registry of Home and BOQ.

Each of them will be entitled to receive professional fees charged in accordance with their normal basis of charging.

The fee paid to Lonergan Edwards & Associates Limited which has provided an Independent Expert's Report is \$95,000 (plus GST).

## 8.22 SUMMARY OF THE IMPLEMENTATION DEED

BOQ and Home entered into the Implementation Deed on 31 August 2007. The Implementation Deed sets out the terms and conditions of the Scheme Proposal (including the Merger Conditions) and each party's obligations in connection with the Implementation of the Merger.

A summary of the Implementation Deed follows.

### 8.22.1 Merger Conditions

The Scheme will not become Effective unless each of the following conditions precedent has been satisfied or waived before the Second Court Date (or if an earlier date is specified in relation to any Merger Condition, that earlier date).

- (a) The Treasurer of the Commonwealth or his delegate has:
  - (i) granted approval under section 13 of the *Financial Sector (Shareholdings) Act* 1998 (Cth) to the acquisition by BOQ and its related entities of 100% of the shares in Home; and
  - (ii) given consent under section 63 of the Banking Act (if required) to the Scheme.
- (b) The Independent Expert concludes that the Scheme is in the best interests of Home Shareholders and does not change that conclusion.
- (c) In accordance with the requirements of the *Corporations Act*:
  - (i) the Scheme is approved by Home Shareholders; and
  - (ii) the Scheme is approved by the Court.
- (d) No Home Material Adverse Change, BOQ Material Adverse Change, Home Prescribed Occurrence or BOQ Prescribed Occurrence occurs between the date of the Implementation Deed (ie 31 August 2007) and 8.00 am on the Second Court Date.

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- (e) All other Regulatory Approvals required to implement the Merger are granted or obtained, on terms reasonably acceptable to the parties and those Regulatory Approvals are not withdrawn, cancelled or revoked.
  - (f) No Regulatory Authority takes or proposes to take any action, or refuses or fails to take any action, which has or may have the effect that:
    - (i) the Scheme or any transaction contemplated by the Implementation Deed is illegal or otherwise prohibited;
    - (ii) all or a material part of the business or assets of BOQ and its subsidiaries or of Home and its subsidiaries is required to be divested; or
    - (iii) all or a material part of the business or assets of BOQ and its subsidiaries or of Home and its subsidiaries is materially and adversely affected.
  - (g) No temporary restraining order, preliminary or permanent injunction or other legal restraint or prohibition is in effect at 8.00 am on the Second Court Date which prevents the completion of any aspect of the Scheme.
  - (h) BOQ is satisfied with the outcome of its Due Diligence Enquiries on or before the Due Diligence Date (ie Friday, 21 September 2007).
  - (i) Home is satisfied with the outcome of its Due Diligence Enquiries on or before the Due Diligence Date (ie Friday, 21 September 2007).
  - (j) All of the BOQ Option Offers are accepted by Home Optionholders before 5.00 pm on the fifth Business Day before the First Court Date (Wednesday, 17 October 2007).

Home and BOQ must each use their best endeavours to satisfy the Merger Conditions.

Refer to paragraph 7 of the section of this Scheme Booklet titled "Overview of the Scheme Proposal" for the current status of each of the Merger Conditions, some of which were satisfied or waived prior to the date of this Scheme Booklet.

### **8.22.2 Exclusivity**

Home has agreed that during the Exclusivity Period (ie at any time from the date of the Implementation Deed until the earlier of the date that the Implementation Deed is terminated in accordance with its terms or 28 February 2008) neither it nor any of its employees, officers, advisers or agents will directly or indirectly solicit, initiate, invite, encourage or participate in any discussions, enquiries, negotiations, proposals or offers from any person concerning or in connection with or which may reasonably be expected to lead to a Third Party Proposal.

Home represents and warrants to BOQ that, as at 31 August 2007, Home ceased any negotiations or discussions which it had, before 31 August 2007, been holding in respect of any Third Party Proposal.

During the Exclusivity Period, Home must notify BOQ promptly if it becomes aware of:

- (a) any Third Party Proposal or any approach, enquiry or proposal made to and any attempt or any intention on the part of any person to continue any negotiations or discussions with Home or any of its employees, officers, advisers or agents with respect to, or that could reasonably be expected to lead to, any Third Party Proposal, whether unsolicited or otherwise;
- (b) any request for, or provision by Home of, information relating to Home; or
- (c) any breach of Home's exclusivity obligations.

Nothing in the Implementation Deed requires Home to perform any obligation which would, in the opinion of the Home Board, involve a breach of the fiduciary duties owed by any Home Director or would otherwise be unlawful.

### **8.22.3 BOQ Break Fee**

Home acknowledges that BOQ will incur significant costs if the Scheme is not Implemented. Home has agreed that it will pay the BOQ Break Fee (ie \$5,900,000) to BOQ if any of the following circumstances occur during the Exclusivity Period:

- (a) other than by reason of the Independent Expert finding that the Scheme is not in the best interests of Home Shareholders or a BOQ Material Adverse Event or a BOQ Prescribed Occurrence or because of the non-satisfaction of any Merger Condition that is in favour of Home:



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- (i) if any Home Director makes a public statement to the effect that he or she does not support or no longer supports the Merger or the Scheme;
  - (ii) if any Home Director fails to recommend the Merger or the Scheme or, having done so, publicly withdraws, revises, revokes or qualifies that recommendation;
  - (iii) if any Home Director recommends a Third Party Proposal;
  - (iv) if any Home Director does not exercise any votes attached to any Home Shares which he or she holds or controls in favour of the Scheme Proposal at the Scheme Meeting;
- (b) a Third Party Proposal is announced and as a result of that Third Party Proposal:
- (i) a person other than BOQ acquires legally and beneficially more than 50% of the voting shares in Home; or
  - (ii) the Third Party Proposal is otherwise consummated;
- (c) the Court fails to approve the terms of the Scheme for which Home Shareholder approval has been obtained as a result of a material non-compliance by Home with its obligations under the Implementation Deed;
- (d) BOQ terminates the Implementation Deed as a result of Home being in material breach of the Implementation Deed or a Home Prescribed Occurrence occurring or if at any time before the Second Court Date Home decides to pursue a Third Party Proposal.

#### **8.22.4 Home Break Fee**

BOQ acknowledges that Home will incur significant costs if the Scheme is not implemented. BOQ has agreed that it will pay the Home Break Fee (ie \$2,000,000) to Home if during the Exclusivity Period Home terminates the Implementation Deed as a result of BOQ being in material breach of the Implementation Deed or a BOQ Prescribed Occurrence occurring.

#### **8.22.5 Home A Class Shares**

The Home A Class Shares convert to Home Shares on 26 February 2008. However, if the Home A Class AGM Approval is obtained (as discussed in more detail in section 8.1 of this Scheme Booklet), the date for conversion of the Home A Class Shares will be brought forward to the Business Day following the Effective Date.

Alternatively, if the Home A Class AGM Approval is not obtained and the Home A Class Shares have not been converted to Home Shares before the Scheme Record Date, BOQ will, within two Business Days of the Home A Class Shares converting, offer to acquire them for consideration equivalent to the Scheme Consideration (also discussed in more detail in section 8.1 of this Scheme Booklet).

#### **8.22.6 Home Options**

BOQ must make an offer to Home Optionholders under which, subject to the Scheme becoming Effective, BOQ will acquire all of the Home Options for a consideration equal to \$18 less the exercise price of the option. Further details of the BOQ Option Offers are set out in section 7.9 of this Scheme Booklet.

#### **8.22.7 Termination**

The Implementation Deed may be terminated:

- (a) at any time by either party if the Second Court Date does not occur on or before 28 February 2008, other than as a result of a breach by that party of its obligations under the Implementation Deed;
- (b) by either party if any Merger Condition that exists for its benefit is not satisfied or there is an occurrence that will prevent any such Merger Condition being satisfied by the date specified in the Implementation Deed for its satisfaction other than as a result of a breach by that party of its obligations under the Implementation Deed and such Merger Condition is not waived in accordance with the Implementation Deed;
- (c) by either party if:
  - (i) at any time the other party is in material breach of the Implementation Deed and that breach is not remedied within seven Business Days (or such shorter period ending at 5:00 pm on the day before the Effective Date) of its receiving notice from the other party of the details of the breach and the other party's intention to terminate;

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- (ii) before 8.00 am on the Second Court Date there is a Material Adverse Change in relation to the other party; or
  - (iii) before 8.00 am on the Second Court Date there is a Prescribed Occurrence in relation to the other party without the prior consent of the party seeking to terminate, by immediate notice to the other party;
  - (d) at any time before the Second Court Date, by BOQ if Home decides to pursue a Third Party Proposal;
  - (e) at any time before the Second Court Date, by BOQ if any member of the Home Board does any of the things set out in paragraphs 8.22.3 (a) to (c) above (triggering a Break Fee) before or during the Scheme Meeting; or
  - (f) by Home if:
    - (i) the Independent Expert has concluded in the Independent Expert's Report that the Scheme is not in the best interests of Home Shareholders; or
    - (ii) having concluded that the Scheme is in the best interests of the Home Shareholders, the Independent Expert then changes that recommendation and concludes that the Scheme is not in the best interests of Home Shareholders.

#### **8.22.8 Standstill**

During the Exclusivity Period, BOQ has agreed not to:

- (a) acquire or offer to acquire any securities or property or any right or option to acquire any securities or property of Home unless it has received the prior written consent of Home;
- (b) enter into any arrangements involving the conferring of rights the economic effect of which is equivalent or substantially equivalent to acquiring, holding or disposing of securities in Home; or
- (c) solicit proxies from shareholders of Home or otherwise seek to influence or control the management or policies of Home,

other than in Implementing the Scheme or exercising rights or performing obligations under the Implementation Deed.

#### **8.23 BOQ FUNDING OF SCHEME CONSIDERATION**

BOQ intends to fund the cash component of the Scheme Consideration from floating rate lines of debt funding which are available to BOQ. There are no material conditions to drawdown of these lines of debt funding. For the purposes of debt funding cost adjustments to the pro forma income statement in section 4.5 of this Scheme Booklet, BOQ has assumed a bank bill rate plus 25 basis points (estimated at 7.15%).

#### **8.24 REGULATORY EXEMPTIONS, WAIVERS AND MODIFICATIONS**

On 18 September 2007, BOQ applied to APRA, as delegate of the Treasurer of the Commonwealth, for approval under section 13 of the Financial Sector (Shareholdings) Act to the acquisition by BOQ and its related entities of 100% of the Home Shares. To the extent required, BOQ has also applied to APRA, as delegate of the Treasurer of the Commonwealth, for consent to the Scheme under section 63 of the Banking Act.

These approvals are Merger Conditions and must be satisfied before the Second Court Date. As at the date of this Scheme Booklet, these APRA approvals have not yet been received.

#### **8.25 SUPPLEMENTARY INFORMATION**

If, between the date of this Scheme Booklet and the Second Court Date, Home becomes aware that:

- (a) a material statement in this Scheme Booklet is false, misleading or deceptive;
- (b) there is a material omission from this Scheme Booklet;
- (c) a material change affecting a matter included in this Scheme Booklet has occurred; or
- (d) a new circumstance has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet with ASIC,

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that is materially adverse from the point of view of a Scheme Participant, Home will prepare a supplementary document to this Scheme Booklet that remedies the relevant defect or provides information about the new circumstances.

The form which the supplementary document may take will depend on the nature and timing of the new or changed circumstances.

BOQ will provide to Home all such further or new information which arises after the date of this Scheme Booklet and until the Second Court Date which may be necessary to ensure that the BOQ Information:

- (a) does not contain any material statement that is false or misleading;
- (b) does not omit any material information about BOQ, BOQ Shares or the Merged Group;
- (c) incorporates any material change in any information about BOQ, BOQ Shares or the Merged Group; or
- (d) reflects any new circumstance concerning BOQ which if it had arisen prior to the date of this Scheme Booklet would have been required to be included in it.

#### **8.26 OTHER INFORMATION RELEVANT TO THE MAKING OF A DECISION IN RELATION TO THE SCHEME PROPOSAL**

There is no information material to the making of a decision:

- (a) in relation to the Scheme Proposal; or
- (b) by a Home Shareholder whether or not to vote in favour of the Scheme Proposal,

(being information that is within the knowledge of any Home Director or a director of a related body corporate) that at the time of lodging this Scheme Booklet with ASIC for registration has not previously been disclosed to Home Shareholders or Scheme Participants other than as set out elsewhere in the Scheme Booklet and the Annexures.

#### **8.27 HOME DIRECTORS CONSENT TO LODGEMENT**

Each Home Director has given, and has not withdrawn, their consent to:

- (a) the lodgement of this Scheme Booklet with ASIC; and
- (b) the issue and dispatch of this Scheme Booklet to Home Shareholders.

BY ORDER OF THE BOARD OF HOME BUILDING SOCIETY LTD



**Tony Howarth AO**  
Chairman

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## Definitions

**ADI** means Authorised Deposit Taking Institution.

**AIFRS** means Australian equivalents to the International Financial Reporting Standards.

**APRA** means the Australian Prudential Regulation Authority.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** has the meaning given to that term in Chapter 6 of the Corporations Act.

**ASTC** means ASX Settlement and Transfer Corporation Pty Ltd (ABN 49 008 504 532) as a holder of a licence to operate a clearing and settlement facility.

**ASTC Settlement Rules** means the operating rules of ASTC.

**ASX** means ASX Limited (ACN 008 624 691) or, if the context requires, the financial market conducted by it.

**AWDT** means Australian Western Daylight Time (ie the time in Perth, Western Australia).

**Banking Act** means the *Banking Act 1959* (Cth).

**BOQ or the Bank** means Bank of Queensland Limited ABN 32 009 656 740 and, where appropriate, its subsidiaries and associates.

**BOQ Board** means the board of directors of BOQ (as it is comprised at the date of this Scheme Booklet, unless otherwise indicated).

**BOQ Break Fee** means the \$5,900,000 to be paid by Home to BOQ if a break fee event as described in clause 12 of the Implementation Deed occurs during the Exclusivity Period.

**BOQ Capitalised Software Event** means an arrangement, transaction, restructure or other solution relating to the treatment of capitalised software costs in the BOQ consolidated balance sheet.

**BOQ Constitution** means the constitution of BOQ, as amended from time to time.

**BOQ Directors** means the directors of BOQ as at the date of this Scheme Booklet (unless otherwise indicated).

**BOQ Group** means BOQ and each of its controlled entities.

**BOQ Information** is that information described in Important Notices to this Scheme Booklet.

**BOQ Material Adverse Change** means a change occurring, becoming known, being announced or otherwise becoming public, in the business, financial or trading position or profitability or prospects of BOQ and its subsidiaries, which change has:

(a) a negative impact of 5% or more on BOQ's consolidated net tangible assets as at the end of the current financial year or a future financial year; or

(b) a negative impact of 10% or more on BOQ's consolidated net profit after tax for the current financial year or future year, but does not in any case include:

(c) a change to BOQ's net assets or forecast financial results for a particular financial year arising from ordinary course of business events or a BOQ Capitalised Software Event;

(d) any change in rates of corporate taxation, interest rates, general economic conditions or other matters beyond the reasonable control of BOQ which impact on both parties in a similar manner;

(e) any event, occurrence or matter which is required to be done or procured by BOQ pursuant to the Implementation Deed or which is contemplated by the Scheme; or

(f) an actual event, occurrence or matter which is known to the other party before the date of the Implementation Deed (which does not include knowledge of the risk of an event, occurrence or matter happening).

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**BOQ Material Licence** means a licence that is required for or material to the operation of BOQ's business.

**BOQ Option** means each option to subscribe for a BOQ Share by way of issue.

**BOQ Option Offers** means the offers made by BOQ to each Home Optionholder to acquire all of the Home Options that have not lapsed or been exercised by the Option Completion Date in exchange for the payment of the Option Consideration (as described in section 7.9 of this Scheme Booklet).

**BOQ Prescribed Occurrence** means the occurrence of any of the following:

- (a) BOQ converting all or any of its shares into a larger or smaller number of shares;
- (b) BOQ resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;
- (c) BOQ:
  - (i) entering into a buy-back agreement; or
  - (ii) resolving to approve the terms of a buy-back agreement under the *Corporations Act*,
- (d) BOQ returning or agreeing to return any capital to its shareholders;
- (e) BOQ or a subsidiary of BOQ issuing or agreeing to issue shares other than pursuant to the exercise of a BOQ Option or, in the case of a subsidiary, an issue to BOQ;
- (f) BOQ or a subsidiary of BOQ issuing or agreeing to issue securities or other instruments convertible into shares other than in the case of a subsidiary making an issue to BOQ;
- (g) BOQ or a subsidiary of BOQ ceasing to hold any licence which is required for or material to the operation of its business (BOQ Material Licence) or a Governmental Agency notifying BOQ or a subsidiary of BOQ that a BOQ Material Licence will be revoked and such notification is not withdrawn before 5.00pm on the day before the Second Court Date or there is any legislative change or change to the conditions attaching to a BOQ Material Licence which could reasonably be expected to have a materially adverse effect on the business of BOQ and its subsidiaries taken as a whole;
- (h) BOQ making any change to its constitution which may have an adverse effect on BOQ performing its obligations under the Implementation Deed;
- (i) BOQ disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- (j) an Insolvency Event occurring in relation to BOQ or a significant subsidiary of BOQ, provided that a BOQ Prescribed Occurrence does not include:
- (k) an issue of BOQ Shares in accordance with the terms of the Scheme;
- (l) an issue of securities by BOQ in relation to a BOQ Securities Issue;
- (m) an issue of securities by BOQ in relation to the Mackay Permanent Proposal;
- (n) an issue of BOQ Shares to employees of BOQ in accordance with BOQ's Employee Share Plan;
- (o) an issue of BOQ Shares to shareholders of BOQ under BOQ's Dividend Reinvestment Plan;
- (p) an issue of BOQ Options to employees of BOQ in accordance with BOQ's Senior Management Option Plan;
- (q) the payment of a final dividend to BOQ's shareholders for the full financial year ending 31 August 2007, including any special dividend which may be declared in relation to the \$26 million net profit after tax from the transfer of its credit card portfolio to Citigroup announced to ASX on 26 April 2007;
- (r) BOQ entering into a transaction in the ordinary course of its business or involving the acquisition, or disposal of, or combination of BOQ with, a company, business or portfolio of assets;
- (s) a BOQ Capitalised Software Event;
- (t) any matter required to be done or procured by BOQ pursuant to the Implementation Deed or which is contemplated by the Scheme; or
- (u) any other matter the undertaking of which Home has approved in writing.

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**BOQ Register** means the register of members maintained by the Share Registry of BOQ.

**BOQ Securities Issue** an issue of securities by BOQ which is not a BOQ Material Adverse Change and which:

(a) may be made without shareholder approval under the Listing Rules; or

(b) is made with shareholder approval in accordance with the Listing Rules.

**BOQ Share** means each fully paid, ordinary share in the capital of BOQ including, where the context requires it, a New BOQ Share.

**BOQ Shareholder** means a person who is registered on the BOQ Register as the holder of a BOQ Share.

**BOQEF** means BOQ Equipment Finance Limited ABN 78 008 492 582.

**Break Fee** means the Home Break Fee or the BOQ Break Fee, or both, as the context requires.

**Business Day** means a day (other than a Saturday, Sunday or a public holiday) on which banks are open for general business in Perth and Brisbane.

**CHES** means the Clearing House Electronic Subregister System, operated by ASTC.

**CGT** means capital gains tax.

**Citibank** means Citigroup Pty Limited ABN 88 004 325 080.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Corporations Regulations** means the *Corporations Regulations 2001* (Cth)

**Court** means the Federal Court of Australia (Western Australia District Registry) or, when referring to the Mackay Permanent Merger, means the Supreme Court of Queensland.

**Deed Poll** means the document contained in Annexure B to this Scheme Booklet, being the deed by BOQ pursuant to which it covenants in favour of Scheme Participants to perform its obligations under the Implementation Deed.

**Due Diligence Date** means the date which is 21 days after the date of the Implementation Deed (ie 21 September 2007).

**Due Diligence Enquiries** means the mutual due diligence enquiries to be undertaken by the parties under the Implementation Deed.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) and, if applicable, section 411(6) of the Corporations Act in relation to the Scheme (but in any event not before an office copy of the order of the Court is lodged with ASIC).

**Effective Date** means the date on which the Scheme becomes Effective.

**Enlarged BOQ Group** means the Merged Group plus Mackay Permanent.

**EPS** means earnings per share.

**Exclusivity Period** means the period from the date of the Implementation Deed (31 August 2007) until the earlier of the date that the Implementation Deed is terminated in accordance with its terms or 28 February 2008.

**FAQs** means the section of this Scheme Booklet titled "Frequently Asked Questions (FAQs)".

**Financial Sector (Shareholdings) Act** means the *Financial Sector (Shareholdings) Act 1998* (Cth).

**First Court Date** means the day on which the application made to the Court for an order to convene the Scheme Meeting pursuant to section 411 (1) of the *Corporations Act* is heard.

**FY** means financial year.

**Genesys** means Genesys Wealth Advisers.

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**Governmental Agency** means any Australian government or governmental, or semi-governmental, administrative, fiscal, judicial or quasi judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State.

**GST** means Goods and Services Tax.

**Home** means Home Building Society Ltd ABN 72 051 900 380 and, where appropriate, its subsidiaries and associates.

**Home A Class Shares** means the 12,000 Permanent A Class Shares held by the Home Directors in the capital of Home, the terms of which are described in section 8.1 of this Scheme Booklet.

**Home A Class AGM Approval** means the approval to be sought at the Home AGM to amend the Home Constitution to permit the early conversion of the Home A Class Shares (as detailed in section 8.1 of this Scheme Booklet).

**Home AGM** means the annual general meeting of Home to be held on Friday, 30 November 2007.

**Home Board** or **Board** means the board of directors of Home (as it is comprised at the date of this Scheme Booklet, unless otherwise indicated).

**Home Break Fee** means the \$2,000,000 to be paid by BOQ to Home, if a break fee event as described in clause 12 of the Implementation Deed occurs during the Exclusivity Period.

**Home Constitution** means the constitution of Home, as amended from time to time.

**Home Customers** means financial services customers of Home.

**Home Direct Reports** means those employees of Home or its subsidiaries who, as at the date of the Implementation Deed (31 August 2007), report direct to the Managing Director, the Chief Financial Officer or an executive at General Manager level of Home.

**Home Director** means a director of Home as at the date of this Scheme Booklet (unless otherwise indicated).

**Home ESOP** means the Home Building Society Ltd Employee Share Option Plan.

**Home FY 2007 Final Dividend** means Home's final dividend for the year ended 30 June 2007 of 24 cents per Home Share, which was paid on Tuesday, 25 September 2007.

**Home Group** means Home and each of its controlled entities.

**Home Indemnified Party** means any of (and all of in the plural) Home, Home Shareholders, Home's subsidiaries, and the directors, officers, employees, agents and advisers of Home and its subsidiaries.

**Home Material Adverse Change** means:

- (a) the S&P/ASX 200 Index is at the close of business on any 10 consecutive Business Days after the date of this Implementation Deed more than 10% below its level as at the close of business on 30 August 2007; or
- (b) a change occurring, becoming known, being announced or otherwise becoming public, in the business, financial or trading position or profitability or prospects of Home and its subsidiaries, which change has, or is reasonably likely to have:
  - (i) a negative impact of 5% or more on Home's consolidated net tangible assets as at the end of the current financial year or a future financial year; or
  - (ii) a negative impact of 10% or more on Home's consolidated net profit after tax for the current financial year or a future financial year,

but does not in any case include:

- (c) a change to Home's forecast financial results for a particular financial year arising from the ordinary course of business events;
- (d) any change in rates of corporate taxation, interest rates, general economic conditions or other matters beyond the reasonable control of Home which impact on both parties in a similar manner;

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- (e) any event, occurrence or matter which is required to be done or procured by Home pursuant to the Implementation Deed or which is contemplated by the Scheme; or
  - (f) an actual event, occurrence or matter which is known to the other party before the date of the Implementation Deed (which does not include knowledge of the risk of an event, occurrence or matter happening).

**Home Material Licence** means a licence which is required for or material to the operation of Home's business.

**Home Merger Hotline** means the information line established by Home in connection with the Scheme Proposal (dial 13 63 13 (within Australia) or +61 8 9231 6601 (outside Australia) between 9.00am and 5.00pm (AWDT), Monday to Friday).

**Home Option** means each option to subscribe for a Home Share by way of issue.

**Home Optionholder** means a person who is registered in the Home Register as the holder of a Home Option.

**Home Prescribed Occurrence** means the occurrence of any of the following:

- (a) Home converting all or any of its shares into a larger or smaller number of shares;
- (b) Home or a subsidiary of Home resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;
- (c) Home or a subsidiary of Home:
  - (i) entering into a buy-back agreement; or
  - (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act,
- (d) Home declaring, paying or distributing any dividend (other than as permitted under the Implementation Deed), bonus or other share of its profits or assets or returning or agreeing to return any capital to its shareholders;
- (e) Home or a subsidiary of Home issuing or agreeing to issue shares;
- (f) Home or a subsidiary of Home issuing or agreeing to issue securities or other instruments convertible into shares or debt securities;
- (g) Home or a subsidiary of Home ceasing to hold any licence which is required for or material to the operation of its business (Home Material Licence) or a Governmental Agency notifying Home or a subsidiary of Home that a Home Material Licence will be revoked and such notification is not withdrawn before 5.00pm on the day before the Second Court Date or there is any legislative change or change to the conditions attaching to a Home Material Licence which could reasonably be expected to have a materially adverse effect on the business of Home and its subsidiaries taken as a whole;
- (h) Home or a subsidiary of Home making any change to its constitution;
- (i) Home or a subsidiary of Home disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- (j) Home or a subsidiary of Home:
  - (i) acquiring or disposing of;
  - (ii) agreeing to acquire or dispose of; or
  - (iii) offering, proposing, announcing a bid or tendering for,any securities, business, assets, interests in a joint venture, entity or undertaking, the consideration for which exceeds \$1,000,000 or involves ongoing annual expenditure of greater than \$500,000, other than where such actions are in the ordinary course of Home's treasury operations and consistent with past practices;
- (k) Home or a subsidiary of Home undertaking capital expenditure which in aggregate exceeds \$500,000 other than capital expenditure in the ordinary course of:
  - (i) maintaining the existing assets of the business; or
  - (ii) relating to a business activity which has been publicly announced by Home, as at the date of the Implementation Deed;



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- (l) Home or a subsidiary of Home creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole or any part of its business or property where such business or property is valued in excess of \$250,000;
  - (m) Home or a subsidiary of Home entering into new borrowing arrangements or increasing existing borrowing arrangements which have the effect of increasing Home Group's total borrowing by more than \$500,000, other than borrowing by Home in conducting its banking business in the ordinary course and consistent with past practice;
  - (n) Home or a subsidiary of Home defaulting under any of its borrowing arrangements which has, or is reasonably likely to have either itself or with the taking of further action by any person, the effect of causing an Insolvency Event in relation to Home or a subsidiary of Home;
  - (o) an Insolvency Event occurring in relation to Home or a significant subsidiary of Home;
  - (p) Home or a subsidiary of Home entering into or materially amending any employment, consulting, severance or similar agreement or arrangement with a director of Home or the Managing Director, Chief Financial Officer or executives at General Manager level of Home or the Home Direct Reports or otherwise materially increasing compensation or benefits for any of the above other than in the ordinary course of business or pursuant to contractual arrangements in effect on the date of the Implementation Deed which have been disclosed to BOQ before the date of the Implementation Deed;
  - (q) Home or a subsidiary of Home changing any accounting policy applied by them to report their financial position where the application of such policy change would result in a material restatement of the financial position or performance of Home;
  - (r) any person acquires, as a result of Home entering into this Implementation Deed, implementing the Scheme or otherwise, a right to acquire an asset of Home or of any subsidiary of Home for a value less than its fair market value; and
  - (s) Home or a subsidiary of Home failing to comply with any of Home's obligations under provisions requiring Home to continue its business in the ordinary course and to consult with BOQ about certain business decisions, provided that a Home Prescribed Occurrence does not include:
  - (t) the following arrangements with employees:
    - (i) engaging replacements for employees who cease employment with Home, on terms and conditions usual for Home in the ordinary course of business and consistent with past practice;
    - (ii) making variations to terms and conditions for employees as a result of the variation of an applicable award, consistent with past practice or as otherwise required by law;
  - (u) any matter required to be done or procured by Home pursuant to the Implementation Deed or which is contemplated by the Scheme;
  - (v) the payment of the Home FY 2007 Final Dividend;
  - (w) the issue of Home Shares on conversion of a Home A Class Share;
  - (x) the issue of Home Shares on exercise of the Home Options; or
  - (y) any matter the undertaking of which BOQ has approved in writing.

**Home Register** means the register of members and register of optionholders of Home (as the case may be) maintained by the Share Registry of Home.

**Home Share** means each fully paid, ordinary share in the capital of Home.

**Home Shareholder** means a person who is registered in the Home Register as the holder of a Home Share.

**Implementation** or **Implement** means the implementation of the Scheme Proposal, so that all Home Shares are transferred to BOQ such that Home becomes a wholly owned subsidiary of BOQ.

**Implementation Date** means the third Business Day after the Scheme Record Date, which is expected to be Tuesday, 18 December 2007.

**Implementation Deed** means the merger implementation deed dated 31 August 2007 between Home and BOQ, which is summarised in section 8.22 of this Scheme Booklet.

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**Independent Expert** means Lonergan Edwards & Associates Limited.

**Independent Expert's Report** means the report prepared by the Independent Expert expressing an opinion, for inclusion in the Scheme Booklet, on whether the Scheme is in the best interests of Home Shareholders, and set out in full in Anenxure D of this Scheme Booklet.

**Indicative Timetable** means the key dates set out on page 5 of this Scheme Booklet.

**Ineligible Overseas Shareholders** means Home Shareholders with a registered address in a jurisdiction other than Australia (and its external territories) and New Zealand, but does not include Home Shareholders with a registered address in certain other jurisdictions where Home and BOQ have determined that such persons can be offered and issued with New BOQ Shares without Home having to comply with any conditions or additional disclosure or legal requirements.

**Insolvency Event** means in relation to a person:

- (a) insolvency official: the appointment of a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other insolvency official to the person or to the whole or a substantial part of the property or assets of the person;
- (b) arrangements: the entry by the person into a compromise or arrangement with its creditors generally;
- (c) winding up: the calling of a meeting to consider a resolution to wind up the person (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person) or the making of an application or order for the winding up or dissolution of the person other than where the application or order (as the case may be) is set aside within 14 days;
- (d) suspends payment: the person suspends or threatens to suspend payment of its debts generally;
- (e) ceasing business: the person ceases or threatens to cease to carry on business; or
- (f) insolvency: the person is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act.

**Listing Rules** means the official listing rules of ASX and any other rules of ASX that are applicable while the relevant entity is admitted to the official list of ASX, each as amended from time to time and as modified by any express written waiver given by ASX.

**Mackay Permanent** means Mackay Permanent Building Society Limited ABN 34 087 652 033.

**Mackay Permanent Merger** means the proposed merger of Mackay Permanent with BOQ through a scheme of arrangement.

**Mackay Permanent Proposal** means the proposal for the Mackay Permanent Merger described in section 3.1 of this Scheme Booklet.

**Mackay Permanent Shares** means each fully paid ordinary share in the capital of Mackay Permanent.

**Mackay Permanent Shareholders** means a person who is registered on the Mackay Permanent register of members as the holder of a Mackay Permanent Share.

**Material Adverse Change** means a Home Material Adverse Change or a BOQ Material Adverse Change, as the case may be.

**Merged Entity** means Bank of Queensland Limited ABN 32 009 656 740 (ASX Code: BOQ) as and from the Implementation of the Scheme.

**Merged Group** means the BOQ Group following the acquisition of all the Home Shares and all the Home Options by BOQ (under the Scheme and the BOQ Option Offers).

**Merger** means the merger of Home with BOQ through Implementation of the Scheme and completion of the BOQ Option Offers, and in accordance with the terms of the Implementation Deed, such that Home becomes a wholly owned subsidiary of BOQ and the Merged Group is formed.

**Merger Conditions** means the conditions precedent to Implementation contained in the Implementation Deed and described in section 8.22 of this Scheme Booklet.

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**New BOQ Shares** means BOQ Shares to be issued to Scheme Participants as Scheme Consideration.

**Nominated Account** means an account with any ADI (as defined in the Banking Act) in Australia notified by the relevant Home Shareholder to Home and recorded in or for the purpose of the Home Register as at the Scheme Record Date.

**Nominee** means ABN AMRO Equities Australia Limited ABN 84 002 768 701.

**OMB™** means BOQ's Owner Managed Branch™ model.

**Option Completion Date** means the date on which the Option Consideration is paid to home Optionholders under the BOQ Option Offers (and which is no more than two Business Days after the Implementation Date).

**Option Consideration** means the purchase price offered by BOQ to Home Optionholders under the BOQ Option Offers, being cash per Home Option of \$18.00 less the exercise price of the relevant Home Option (with the cash purchase price offered to each holder of Home Options being reduced if any of the relevant options are exercised or lapse before the Option Completion Date).

**Pioneer** means Pioneer Permanent Building Society Limited ABN 36 087 652 042.

**Prescribed Occurrence** means a Home Prescribed Occurrence or a BOQ Prescribed Occurrence.

**Proxy Form** means the proxy form accompanying this Scheme Booklet, which needs to be completed by Home Shareholders if they wish to appoint a proxy to vote at the Scheme Meeting on their behalf.

**Regulatory Approval** means:

- (a) any consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, approval, direction, declaration, authority, ruling or exemption from, by or with a Regulatory Authority;
- (b) in relation to anything which would be fully or partly prohibited or restricted by law if a Regulatory Authority intervened or acted in a way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action,

as may be necessary to Implement the Merger, including (without limitation and where appropriate), the Treasurer or his delegate:

- (c) granting approval under section 13 of the Financial Sector (Shareholdings) Act to the acquisition by BOQ and its related entities of 100% of the Home Shares; and
- (d) giving consent under section 63 of the Banking Act (if required) to the Scheme.

**Regulatory Authority** means a Government Agency including a self-regulatory organisation established under statute or a stock exchange, ASIC, APRA, ASX, the Australian Competition and Consumer Commission, the Foreign Investment Review Board and the Australian Taxation Office.

**Relevant Interest** has the meaning given by sections 608 and 609 of the Corporations Act.

**Share Sale Facility Election Form** means the share sale facility election form accompanying this Scheme Booklet, which needs to be completed by Small Parcel Participants if they wish to use the Share Sale Facility.

**Sale Period** means, in the context of the Share Sale Facility, the first 15 trading days following issue of the New BOQ Shares to the Nominee at Implementation.

**Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act to be proposed between Home and Home Shareholders to give effect to the Scheme Proposal, substantially in the form contained in Annexure A to this Scheme Booklet and subject to:

- (a) any alterations or conditions approved in writing by Home and BOQ before the Scheme Meeting; and
- (b) any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and which do not effect a change to the financial consequences of the Scheme.

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**Scheme Consideration** means the consideration payable by BOQ under the Scheme Proposal and as described in the Implementation Deed and the terms of the Scheme contained in Annexure A to this Scheme Booklet.

**Scheme Documents** means this Scheme Booklet, including the Scheme contained in Annexure A, the Deed Poll contained in Annexure B and the Scheme Meeting Notice contained in Annexure C, and any associated disclosure materials.

**Scheme Meeting** means the meeting of Home Shareholders convened by the Court under section 411 (1) of the Corporations Act in relation to the Scheme Proposal, which is expected to be held at 10.30am AWDT on Friday, 30 November 2007.

**Scheme Meeting Notice** means the notice of Court ordered Scheme meeting of members contained in Annexure C to this Scheme Booklet.

**Scheme Participants** means Home Shareholders as at the Scheme Record Date.

**Scheme Proposal** means the Implementation of the Scheme in accordance with the terms of the Scheme and the Implementation Deed.

**Scheme Record Date** means 5.00pm AWDT on the fifth Business Day after the Effective Date, which is expected to be Thursday, 13 December 2007.

**Scheme Share** has the meaning given in section 7.3 of this Scheme Booklet.

**Second Court Date** means the date on which the application made to the Court for an order under sections 411(4)(b) and, if applicable, section 411(6) of the Corporations Act approving the Scheme.

**Share Registry** or **Computershare** means Computershare Investor Services Pty Limited ABN 48 078 279 277.

**Share Sale Facility** means the sale facility established for Small Parcel Participants and Ineligible Overseas Shareholders to sell the New BOQ Shares to which they are entitled under the Scheme Consideration.

**Small Parcel** means 355 Home Share as at the Scheme Record Date or 300 New BOQ Shares as at Implementation.

**Small Parcel Participants** means those Scheme Participants who hold a Small Parcel and who have a registered address in Australia or New Zealand.

**SME** means small and medium sized enterprises.

**Standard & Poor's** means Standard & Poor's (Australia) Pty Ltd ABN 62 007 324 852.

**StateWest** means StateWest Financial Services Limited (formerly known as StateWest Credit Society Limited) ABN 71 087 651 885.

**StateWest Shares** means each fully paid, ordinary share in the capital of StateWest.

**StateWest Shareholder** means a person who was a shareholder of StateWest.

**StateWest Scheme Booklet** means the scheme booklet and disclosure statement for the scheme of arrangement between StateWest and Home.

**Tax Opinion** means the tax opinion prepared by Blake Dawson Waldron and contained in section 5 of this Scheme Booklet.

**Third Party Proposal** means any expression of interest, offer or proposal by any person other than BOQ, to:

- (a) acquire (whether directly or indirectly) or become the holder (whether by share purchase, issue of shares, options or convertible notes, scheme, capital reconstruction, purchase of assets, takeover offer or otherwise) of, or otherwise acquire or have an economic interest in all or a substantial part of the business of Home or any of its subsidiaries;
- (b) acquire control (as determined in accordance with section 50AA of the Corporations Act) of Home or any of its subsidiaries;

- 
- (c) otherwise acquire or merge with Home (whether by way of joint venture, dual listed company structure or otherwise); or
  - (d) enter into any agreement, arrangement or understanding requiring it to abandon, or otherwise fail to proceed with, the Merger.

**vested**, in relation to a Home Option, means that the Home Option is then exercisable.

**VWAP** means the volume weighted average price of a particular security on ASX over a specified period of time, rounded to the nearest full cent.

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# Corporate Directory

## REGISTERED OFFICE

### Home Building Society Ltd

Level 8  
111 St George's Terrace  
Perth WA 6000

## LEGAL ADVISER TO HOME

### Blake Dawson Waldron

Level 32  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

## LEGAL ADVISER TO BOQ

### Clayton Utz

Level 28  
Riparian Plaza  
71 Eagle Street  
Brisbane Qld 4000

## FINANCIAL ADVISER TO HOME

### Azure Capital Pty Ltd

Level 33  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

## FINANCIAL ADVISER TO BOQ

### ABN AMRO Corporate Finance Australia Limited

Level 29  
88 Phillip Street  
Sydney NSW 2000

## INDEPENDENT EXPERT

### Lonergan Edwards & Associates Limited

Level 27  
363 George Street  
Sydney NSW 2000

## AUDITOR

### Ernst & Young

The Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000

## SHARE REGISTRY

### Computershare Investor Services Pty Ltd

Level 2  
45 St George's Terrace  
Perth WA 6000

## HOME BOARD OF DIRECTORS

### A J (Tony) Howarth

Independent Chairman and Non-Executive Director

### WT (Trevor) Halliday

Independent Deputy Chairman and Non-Executive Director

### G M (Gaye) McMath

Independent Non-Executive Director

### M J (Michael) Smith

Independent Non-Executive Director

### C E (Craig) Coleman

Independent Non-Executive Director

### G J (Gregory) Wall

Managing Director

### K L (Katrina) Burton

Independent Non-Executive Director

### R Q (Roderick) Cooper

Independent Non-Executive Director

## COMPANY SECRETARY

### E J (Elizabeth) Lawton

Company Secretary

## SHAREHOLDER INFORMATION LINE

### Home Merger Hotline

13 63 13 (within Australia)  
+61 8 9231 6601 (outside Australia)  
Between 9.00am and 5.00pm (AWDT).

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# ANNEXURE A

## Scheme of Arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth) between the following parties:

**Home Building Society Ltd** ABN 72 051 900 380

**Each person who is a HME Shareholder at the Record Date** (other than any person holding fully paid ordinary shares in HME for Bank of Queensland Limited or any of its Subsidiaries) ("**Scheme Shareholders**")

### 1. DEFINITIONS AND INTERPRETATIONS

#### 1.1 Definitions

In this Scheme, unless the context otherwise requires:

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ABN 98 008 624 691.

**ASTC Settlement Rules** means the operating rules of the prescribed CS facility provided by ASX Settlement and Transfer Corporation Pty Ltd ABN 49 008 504 532.

**BOQ** means Bank of Queensland Limited ABN 32 009 656 740.

**BOQ Register** means the share register of members of BOQ maintained by or on behalf of BOQ in accordance with section 168(1) of the *Corporations Act*.

**BOQ Registry** means Computershare Investor Services Pty Limited, when appointed by BOQ.

**BOQ Shares** means a fully paid ordinary share in the capital of BOQ.

**Business Day** means a business day as defined in the Listing Rules.

**CHESS** means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd.

**Cash Consideration** means an amount of \$2.80 cash for each Scheme Share.

**Close of Trading** means close of trading on ASX on the Effective Date.

**Condition Precedent** means a condition precedent in this Scheme set out in clause 3.1.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Court** means the Supreme Court of Western Australia or the Federal Court of Australia (as agreed by the parties).

**Effective** or **Effect** means, when used in relation to this Scheme, the coming into effect, under section 411(10) of the *Corporations Act*, of the Court order made for the purposes of section 411(4)(b) of the *Corporations Act* in relation to this Scheme, but in any event not before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** means the date on which this Scheme becomes Effective.

**Encumbrance** includes a mortgage, charge, lien, restriction against transfer, encumbrance and other interests of third parties of any kind, whether legal, equitable or otherwise.

**Excluded Shareholder** means BOQ or any HME Shareholder who holds a HME Share for BOQ or any of its Subsidiaries.

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**Explanatory Booklet** means the document despatched to HME Shareholders, comprising (among other documents) the terms of this Scheme, an explanatory statement in relation to this Scheme issued by HME under section 412 of the *Corporations Act* and registered with ASIC, an independent expert's report, a copy of the Merger Implementation Deed, a notice convening the Scheme Meeting (together with proxy forms for that meeting).

**Foreign Scheme Shareholder** means a Scheme Shareholder whose address in the HME Register is a place outside Australia and its external territories or New Zealand.

**HME** means Home Building Society Limited ABN 72 051 900 380.

**HME Board** means the board of directors of HME.

**HME Register** means the register of members of HME maintained by or on behalf of HME in accordance with section 168(1) of the *Corporations Act*.

**HME Registry** means Computershare Investor Services Pty Limited, when appointed by HME.

**HME Share** means a fully paid ordinary share in the capital of HME.

**HME Shareholder** means a person who is registered in the HME Register as the holder of HME Shares.

**Implementation Date** means the third Business Day after the Record Date.

**Listing Rules** means the official listing rules of ASX as modified by any waiver granted by ASX and applying to HME or BOQ.

**Merger Implementation Deed** means the deed between HME and BOQ dated 31 August 2007 under which each party undertakes obligations to give effect to this Scheme.

**Record Date** means 5.00pm on the fifth Business Day after the Effective Date.

**Registered Address** means, in relation to a HME Shareholder, the address shown in the HME Register.

**Scheme** means this scheme of arrangement subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the *Corporations Act*.

**Scheme Consideration** means the consideration to be provided by BOQ to each Scheme Shareholder under this Scheme as provided in clause 5.1.

**Scheme Meeting** means the meeting of HME Shareholders ordered by the Court to be convened under section 411(1) of the *Corporations Act* in respect of this Scheme.

**Scheme Shareholder** means each person who is a HME Shareholder as at the Record Date, other than an Excluded Shareholder.

**Scheme Share** means a HME Share on issue as at the Record Date not including any HME Share then held by an Excluded Shareholder.

**Scheme Transfer** means, for each Scheme Shareholder, a duly completed and executed instrument of transfer of their Scheme Shares for the purpose of section 1071B of the *Corporations Act*, which may be a master transfer of all the Scheme Shares held by Scheme Shareholders.

**Scrip Consideration** means 0.844 BOQ Shares for each Scheme Share.

**Scrip Consideration Shares** in relation to a Scheme Shareholder means the number of BOQ Shares to which that Scheme Shareholder is entitled under clause 5.1.

**Second Court Hearing** means the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the *Corporations Act* approving this Scheme.

**Second Court Date** means the first day of the Second Court Hearing.



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**Share Sale Facility** means a sale facility to be established for Small Parcel Participants and Foreign Scheme Shareholders to sell the Scrip Consideration to which they would be entitled under the Scheme Consideration.

**Small Parcel Participant** means a Scheme Shareholder (other than a Foreign Scheme Shareholder) who holds 355 or fewer Scheme Shares at the Record Date or would, but for an election to participate in the Share Sale Facility, be entitled to receive 300 or fewer new BOQ Shares under the Scheme.

**Subsidiary** has the meaning given to that term in section 9 of the *Corporations Act*.

## 1.2 Interpretation

In this Scheme, headings and boldings are for convenience only and do not affect interpretation and, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing a gender include any gender;
- (c) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;
- (d) a reference to a person includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture, a partnership, a trust and any government agency;
- (e) a reference to a clause, party, annexure or schedule is a reference to a clause of, and a party, annexure and schedule to this Scheme, and a reference to this Scheme includes any annexure and schedule;
- (f) a reference to a statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations ordinances or by laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- (g) a reference to any document (including this Scheme) is to that document as amended, supplemented, varied, novated, ratified or replaced from time to time;
- (h) the word 'includes' in any form is not a word of limitation;
- (i) a reference to '\$' or 'dollar' is to Australian currency;
- (j) a reference to any time is a reference to that time in Brisbane, Australia;
- (k) a term defined in or for the purposes of the *Corporations Act* has the same meaning when used in this Scheme.

## 2. preLIMINARY

### 2.1 Scheme

- (a) The HME Board considers it desirable that HME merge with BOQ and that this should be achieved by HME becoming a wholly owned Subsidiary of BOQ, through the approval and implementation of this Scheme.
- (b) To facilitate this Scheme, HME and BOQ have entered into the Merger Implementation Deed.
- (c) BOQ has entered into the Deed Poll in favour of the HME Shareholders pursuant to which it has covenanted, amongst other things, to carry out the obligations set out under this Scheme.

### 2.2 When Scheme becomes binding

The Scheme will become binding on HME and each Scheme Shareholder (including those who do not vote in favour of it and regardless of their rights pursuant to the HME Constitution) and the Deed Poll will become binding on BOQ, only if the Scheme becomes Effective.

### 2.3 Consequence of Scheme becoming Effective

If this Scheme becomes Effective:

- (a) BOQ will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with this Scheme;
- (b) after BOQ pays or provides the Scheme Consideration, all of the Scheme Shares held by each Scheme Shareholder will be transferred to BOQ in accordance with clause 4.2; and
- (c) HME will enter the name of BOQ in the HME Register as the holder of all of the Scheme Shares.

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### 3. CONDITIONS PRECEDENT

#### 3.1 Conditions Precedent

- (a) This Scheme is conditional on each of the following conditions precedent:
- (i) **(No termination of Deeds)** the Merger Implementation Deed and the Deed Poll not having been terminated as at 8.00am on the Second Court Date;
  - (ii) **(Satisfaction or waiver of conditions)** as at 8.00am on the Second Court Date, all of the conditions precedent set out in clause 3.1(a) to (l) (inclusive) of the Merger Implementation Deed being satisfied or waived in accordance with that deed or ceasing to have effect in accordance with that deed;
  - (iii) **(Shareholder approval)** this Scheme being approved by HME Shareholders at the Scheme Meeting in accordance with section 411(4)(a)(iii) of the *Corporations Act*; and
  - (iv) **(Court approval)** this Scheme being approved by the Court for the purposes of section 411(4)(b) of the *Corporations Act* at or after the Second Court Hearing, subject to the matters noted in clause 10.1(a).
- (b) The provisions of clauses 4 to 11 inclusive of this Scheme will be of no effect unless and until the Conditions Precedent are satisfied.

#### 3.2 Certificate

At the Second Court Hearing, HME and BOQ will provide to the Court a certificate confirming (in respect of matters within their respective knowledge) whether or not all of the Conditions Precedent (other than the Condition Precedent in 3.1(a)(ii)) have been satisfied.

#### 3.3 Termination of Merger Implementation Deed

If the Merger Implementation Deed is terminated in accordance with its terms, each of HME and BOQ are released from:

- (a) any further obligation to take steps to implement this Scheme; and
- (b) any liability with respect to this Scheme.

### 4. IMPLEMENTATION OF SCHEME

#### 4.1 Lodgement

If the Conditions Precedent are satisfied, HME will lodge with ASIC an office copy of the Court order made under section 411(4)(b) of the *Corporations Act* approving this Scheme promptly after, and in any event by 5.00 pm on the first Business Day (or such other Business Day as BOQ and HME agree) after the day on which the Court approves this Scheme. This Scheme will then take Effect on and from the Effective Date.

#### 4.2 Transfer of Scheme Shares

Subject to this Scheme taking Effect, and to the payment of the Scheme Consideration in the manner contemplated by clause 6, the Scheme Shares held by Scheme Shareholders together with all rights and entitlements attaching to those shares as at the Implementation Date will be transferred to BOQ on the Implementation Date without the need for any further act by any Scheme Shareholder, upon HME receiving written confirmation from BOQ of the payment of the Scheme Consideration in the manner contemplated by clause 6 by HME causing to be effected a valid transfer or transfers of the Scheme Shares to BOQ under section 1074D of the *Corporations Act* or, if that procedure is not available for any reason or is not in accordance with the ASTC Settlement Rules, by:

- (a) HME delivering to BOQ the duly completed Scheme Transfer duly executed by HME as transferor, acting as the attorney and agent of each Scheme Shareholder under clause 11;
- (b) BOQ duly executing the Scheme Transfer as transferee and delivering it to HME for registration; and
- (c) HME entering the name of BOQ in the HME Register as the holder of all of the Scheme Shares.

### 5. SCHEME CONSIDERATION

#### 5.1 Forms of Scheme Consideration

Subject to this Scheme becoming Effective and to the provisions of this clause, the Scheme Consideration to which each Scheme Shareholder will be entitled to receive from BOQ is as follows:

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- (a) the Scrip Consideration; and
  - (b) the Cash Consideration,

for each HME Share held by that Scheme Shareholder as at the Record Date.

## 5.2 Fractional entitlements

The number of BOQ Shares to which a HME Shareholder is entitled as Scrip Consideration will be rounded up or down to the nearest whole number of BOQ Shares. Fractional entitlements of less than 0.5 will be rounded down and fractional entitlements of 0.5 or more will be rounded up.

## 5.3 Foreign Scheme Shareholders

BOQ will be under no obligation under the Scheme to issue, and will not issue, any BOQ Shares to a Foreign Scheme Shareholder, and instead:

- (a) the BOQ Shares which would otherwise be required to be issued to the Foreign Scheme Shareholders under the Scheme will be issued to a person nominated by BOQ and HME ("**Nominee**");
- (b) BOQ will procure that, as soon as reasonably practicable (and in any event not more than 10 Business Days after the Implementation Date), the Nominee, in consultation with BOQ and HME, sells or procures the sale on or off the stock market conducted by ASX of all of the BOQ Shares issued to the Nominee under clause 5.3(a) in such manner, at such price and on such other terms as the Nominee determines in good faith (and at the risk of the Foreign Scheme Shareholders), and remits to the BOQ Registry the proceeds of sale (after deduction of any applicable costs, taxes and charges) (the "**Proceeds**");
- (c) The BOQ Registry will pay or procure the payment to each Foreign Scheme Shareholder, in full satisfaction of BOQ's obligation to that Foreign Scheme Shareholder under the Scheme in respect of the Scrip Consideration, the amount "A" calculated in accordance with the following formula and rounded to the nearest cent:

$$A = (B/C) \times D$$

where:

- B = the number of BOQ Shares that would have been issued to the Foreign Scheme Shareholder had it not been a Foreign Scheme Shareholder;
  - C = the total number of BOQ Shares which would otherwise have been issued to all Foreign Scheme Shareholders and which are issued to the Nominee; and
  - D = the Proceeds.
- (d) None of HME, BOQ nor the Nominee gives any assurance as to the price that will be achieved for the sale of the BOQ Shares under this clause.
  - (e) Each Foreign Scheme Shareholder appoints BOQ as its agent to receive on its behalf any financial services guide or other notices which may be given by the Nominee to Foreign Scheme Shareholders.

## 5.4 Small Parcel Participants

Small Parcel Participants have received a notice of election which allows them to elect to participate in the Share Sale Facility. BOQ will be under no obligation under the Scheme to issue, and will not issue, any BOQ Shares to a Small Parcel Participant who elects by way of a completed notice of election to participate in the Share Sale Facility, and instead:

- (a) the BOQ Shares which would otherwise be required to be issued to the relevant Small Parcel Participants under the Scheme will be issued to a person nominated by BOQ and HME ("**Nominee**");
- (b) BOQ will procure that, as soon as reasonably practicable (and in any event not more than 15 Business Days after the Implementation Date), the Nominee, in consultation with BOQ and HME, sells or procures the sale on or off the stock market conducted by ASX of all of the BOQ Shares issued to the Nominee under clause 5.4(a) in such manner, at such price and on such other terms as the Nominee determines in good faith (and at the risk of the relevant Small Parcel Participants), and remits to the BOQ Registry the proceeds of sale (the "**Small Parcel Proceeds**");

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- (c) The BOQ Registry will pay or procure the payment to each relevant Small Parcel Participant, in full satisfaction of BOQ's obligation to that Small Parcel Participant under the Scheme in respect of the Scrip Consideration, the amount "A" calculated in accordance with the following formula and rounded to the nearest cent:

$$A = (B/C) \times D$$

where:

- B = the number of BOQ Shares that would have been issued to the Small Parcel Participant had it not elected to participate in the Share Sale Facility;
- C = the total number of BOQ Shares which would otherwise have been issued to all Small Parcel Participants who elected to participate in the Share Sale Facility and which are issued to the Nominee; and
- D = the Small Parcel Proceeds.
- (d) None of HME, BOQ nor the Nominee gives any assurance as to the price that will be achieved for the sale of the BOQ Shares under this clause.

Each Small Parcel Participant who elects to participate in the Share Sale Facility appoints BOQ as its agent to receive on its behalf any financial services guide or other notices which may be given by the Nominee to those Small Parcel Participants.

## 6. PROVISION OF SCHEME CONSIDERATION

### 6.1 Payment of Cash Consideration

- (a) BOQ must pay (or procure the payment of) the Cash Consideration on the Implementation Date.
- (b) BOQ's obligation to pay (or procure the payment of) the Cash Consideration will be satisfied by BOQ:
- (i) dispatching or procuring the dispatch to each Scheme Shareholder, by prepaid post to their address recorded in the HME Register at the Record Date, of a cheque for the relevant amount due to that Scheme Shareholder in accordance with this Scheme or in such manner or manners as is provided in HME's constitution for the payment of dividends. In the case of joint holders of Scheme Shares, the cheque or payment will be forwarded to the holder whose name appears first in the HME Register on the Record Date; or
  - (ii) making a deposit in an account with any ADI (as defined in the *Banking Act 1959* (Cth)) in Australia notified by the Scheme Shareholder to HME and recorded in or for the purpose of the HME Register at the Record Date.

### 6.2 Provision of Scrip Consideration

- (a) The obligation of BOQ to issue BOQ Shares to Scheme Shareholders under this Scheme (other than to Foreign Scheme Shareholders in respect of which clause 5.3 applies and relevant Small Parcel Participants to whom clause 5.4 applies) will be satisfied by BOQ:
- (i) on the Implementation Date, issuing the applicable number of Scrip Consideration Shares to each Scheme Shareholder, which obligation will be satisfied by causing the name and Registered Address of each Scheme Shareholder as at the Record Date to be entered in the BOQ Register as the holder of the Scrip Consideration Shares issued to that Scheme Shareholder; and
  - (ii) within seven Business days after the Implementation Date, procuring the dispatch to that Scheme Shareholder (if their BOQ Shares are held on the issuer sponsored subregister of BOQ) by pre-paid post to their Registered Address (as at the Record Date), of an uncertificated holding statement in the name of that Scheme Shareholder relating to the number of BOQ Shares issued to that Scheme Shareholder.
- (b) Each Scheme Shareholder to whom BOQ Shares are to be issued under this Scheme agrees:
- (i) to become a member of BOQ for the purpose of section 231 of the *Corporations Act*;
  - (ii) to have their name and address entered in the BOQ Register; and
  - (iii) to be bound by the constitution of BOQ as in force from time to time in respect of the BOQ Shares.

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- (c) Each Scheme Shareholder, without the need for any further act, irrevocably appoints BOQ and each of its directors and officers, jointly and severally, as that Scheme Shareholder's attorney and agent for the purpose of executing any form of application required for BOQ Shares to be issued to that Scheme Shareholder pursuant to this Scheme.
  - (d) The BOQ Shares to be issued under this Scheme will be validly issued, fully paid and will rank equally in all respects with all other BOQ Shares then on issue.

### 6.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque or other payment required to be paid to Scheme Shareholders will be payable to the joint holders, and
- (b) any uncertificated holding statements for BOQ Shares to be issued to Scheme Shareholders will be issued in the names of the joint holders,

and forwarded to the holder whose names appears first in the HME Register as at the Record Date.

## 7. TRADING OF BOQ SHARES

BOQ will use its reasonable endeavours to procure that the Scrip Consideration is approved for official quotation by ASX on a deferred settlement basis from the Implementation Date and are subsequently quoted on a normal trading basis.

## 8. DEALINGS IN HME SHARES

### 8.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in HME Shares will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the HME Register as the holder of the relevant HME Shares on before the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date at the place where the HME Register is kept.

### 8.2 HME Register

- (a) **(Registration of transfers)** HME must register any registrable transmission applications or transfers of HME Shares received in accordance with clause 8.1(b) by, or as soon as practicable after, the Record Date.
- (b) **(No registration after Record Date)** HME will not accept for registration or recognise for any purpose any transmission application or transfer in respect of HME Shares received after the Record Date, other than a transfer to BOQ in accordance with this Scheme.
- (c) **(No disposal after Close of Trading)** No HME Shareholder shall dispose of or purport to agree to dispose of any HME Shares or any interest therein after the Close of Trading. Any dealings in HME Shares after Close of Trading shall not be recognised by the HME Registry.
- (d) **(Maintenance of HME Register)** For the purpose of determining entitlements to the Scheme Consideration, HME must maintain (or cause the HME Registry to maintain) the HME Register in accordance with the provisions of this clause 8 until the Scheme Consideration have been provided to the Scheme Shareholders. The HME Register in this form will solely determine entitlements to the Scheme Consideration.
- (e) **(Statements of holding from Record Date)** Any statements of holding for HME Shares will cease to have effect from the Record Date as documents or evidence of title in respect of those shares (other than statements of holding in favour of BOQ and its successors in title). After the Record Date, each entry current at that date on the HME Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the HME Shares relating to that entry.
- (f) **(Provision of Scheme Shareholders details)** As soon as practicable after the Record Date and in any event at least one Business Day before the Implementation Date, HME will ensure that details of the names, registered addresses and holdings of HME Shares for each Scheme Shareholder are available to BOQ in the form BOQ reasonably requires.

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- (g) **(Scheme Shareholders' consent)** Each Scheme Shareholder agrees that all binding instructions or notifications between them and HME in relation to their Scheme Shares or to their status as a HME Shareholder (including, without limitation, any instructions relating to communications from HME, any notifications with respect to Tax File Number or related information, and whether distributions are to be paid by cheque or into a specified bank account) will, to the extent permitted, from the Implementation Date be deemed, by reason of the Scheme, to be similarly binding instructions or notifications to, and accepted by, BOQ in respect of any BOQ Shares that are issued to them under the Scheme until those instructions or notifications are revoked or amended in writing addressed to BOQ.

## 9. QUOTATION OF HME SHARES

At a time after the Implementation Date to be determined by BOQ, HME will apply:

- (a) for termination of the official quotation of HME Shares on ASX; and
- (b) to have itself removed from the official list of ASX.

## 10. GENERAL SCHEME PROVISIONS

### 10.1 Variations, alterations and other matters

- (a) If the Court proposes to approve this Scheme subject to any conditions or alterations under section 411(6) of the *Corporations Act*, HME may, by its counsel, on behalf of all parties concerned, consent to only such of those alterations or conditions to this Scheme to which BOQ has consented, such consent not to be unreasonably withheld or delayed.
- (b) Each Scheme Shareholder agrees:
  - (i) to the transfer of all of their Scheme Shares to BOQ in accordance with this Scheme; and
  - (ii) to the variation, cancellation or modification of the rights attached to their HME Shares constituted by or resulting from this Scheme (if any).
- (c) This Scheme:
  - (i) binds HME and all Scheme Shareholders, including those who do not attend the Scheme Meeting, those who do not vote at that meeting and those who vote against this Scheme at that meeting; and
  - (ii) overrides HME's constitution to the extent of any inconsistency.
- (d) HME must use its reasonable endeavours to enforce the Merger Implementation Deed.
- (e) Neither HME nor BOQ nor any officer of either of those companies will be liable for anything done or omitted to be done in performance of this Scheme in good faith.

### 10.2 Transfer of Scheme Shares free from third party interests

The Scheme Shareholders are taken to have warranted to BOQ that all their Scheme Shares (including any rights attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all Encumbrances, and that they have full power and capacity to transfer their HME Shares together with any rights attaching to those shares.

### 10.3 Beneficial entitlement to Scheme Shares

As at the Implementation Date, pending registration by HME of BOQ in the HME Register as the holder of all of the Scheme Shares:

- (a) BOQ will be beneficially entitled to the Scheme Shares transferred to it under this Scheme as at the Implementation Date; and
- (b) each Scheme Shareholder irrevocably appoints BOQ as its sole proxy and, where appropriate, its corporate representative to attend shareholders meetings of HME, exercise the votes attached to the Scheme Shares registered in the name of the Scheme Shareholder and sign any shareholders resolution of HME, and the Scheme Shareholder may not itself attend or vote at any such meetings or sign any such resolutions, whether in person, by proxy or by corporate representative.

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## 11. power of attorney

Each Scheme Shareholder, without the need for any further act, irrevocably appoints HME and all its directors and officers (jointly and severally) as its attorney and agent for the purpose of executing any document or doing any other act necessary to give effect to this Scheme and the transactions contemplated by it including, without limitation, executing the Scheme Transfer or any proper instrument of transfer of the HME Shares held by the Scheme Shareholders for the purposes of section 1071B of the *Corporations Act*, which may be a master transfer of all the HME Shares held by Scheme Shareholders.

## 12. MISCELLANEOUS

### 12.1 Stamp duty

BOQ will pay all stamp duties and any related fines, interest and penalties in respect of this Scheme and each transaction effected by or made under this Scheme including without limitation in respect of the Scheme Transfer.

### 12.2 Consent

The Scheme Shareholders consent to HME doing all things necessary, expedient or incidental to the implementation of this Scheme.

### 12.3 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to HME, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at HME's registered office or at the office of the HME Registry.

### 12.4 Governing law

This Scheme is governed by the laws of Western Australia.

### 12.5 Further action

HME will execute all documents and do all things necessary, expedient or incidental to implement and perform its obligations under this Scheme.

### 12.6 Accidental omission

The accidental omission to give notice of the Scheme Meeting to any HME Shareholder or the non-receipt of such a notice by any HME Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting, the proceedings at the Scheme Meeting or the Scheme or prevent the Scheme becoming Effective.

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# ANNEXURE B

## Deed Poll

### Deed Poll made on 23 October 2007

By **Bank of Queensland Limited** ABN 32 009 656 740 ("**BOQ**") in favour of:

**Each HME Shareholder**, as defined in the Merger Implementation Deed (other than any person holding fully paid ordinary shares in HME for Bank of Queensland Limited or any of its Subsidiaries) ("**HME Shareholders**")

#### RECITALS

- A. BOQ and HME have agreed to merge through a scheme of arrangement between HME and its shareholders under Part 5.1 of the *Corporations Act*.
- B. The scheme of arrangement, if approved, will result in HME becoming a wholly-owned subsidiary of BOQ.
- C. BOQ and HME have agreed to implement the proposed scheme of arrangement on and subject to the terms and conditions set out in the Merger Implementation Deed made on 31 August 2007 ("**Merger Implementation Deed**").
- D. BOQ is to enter into this Deed Poll for the purpose of covenanting in favour of the HME Shareholders to perform certain of its obligations under the Merger Implementation Deed.

#### 1. DEFINITIONS AND INTERPRETATION

##### 1.1 Definitions

Terms defined in the Merger Implementation Deed or the Scheme have the same meaning when used in this Deed Poll.

##### 1.2 Interpretation

Clause 1.2 of the Merger Implementation Deed applies to the interpretation of this Deed Poll, except that references to 'Deed' are to be read as references to 'Deed Poll'.

##### 1.3 Nature of Deed Poll

BOQ acknowledges that this Deed Poll may be enforced by any HME Shareholder in accordance with its terms and even though the HME Shareholders are not party to it.

#### 2. CONDITIONS PRECEDENT

##### 2.1 Scheme becomes Effective

BOQ's obligations under clause 3 are subject to the Scheme becoming Effective.

##### 2.2 Termination

The obligations of BOQ under this Deed Poll to HME Shareholders will automatically terminate and the terms of this Deed Poll will be of no further force or effect if the Merger Implementation Deed is terminated in accordance with its terms prior to the Scheme becoming Effective.

##### 2.3 Consequences of termination

If this Deed Poll is terminated under clause 2.2, then in addition and without prejudice to any other rights, powers or remedies available to the HME Shareholders, BOQ is released from its obligations to further perform this Deed Poll except those obligations under clause 6.

#### 3. PROVISION OF SCHEME CONSIDERATION

##### 3.1 Scheme Consideration

Subject to clause 2, in consideration of the transfer of the Scheme Shares to BOQ on the Implementation Date, BOQ will pay and provide the Scheme Consideration to each HME Shareholder in accordance with this clause 3 and clause 5 of the Scheme.



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### 3.2 Manner of payment

BOQ's obligations to pay and provide the Scheme Consideration will be satisfied by BOQ complying with its obligations under clauses 5.2, 6 and 8 of the Scheme.

### 3.3 Provision of Scheme Consideration to Foreign Holder

In the case of each HME Shareholder that is a Foreign Holder, BOQ must comply with clause 5.3 of the Scheme.

### 3.4 Quotation of Scrip Consideration

BOQ will use its reasonable endeavours to procure that the Scrip Consideration is approved for official quotation by ASX on a deferred settlement basis from the Implementation Date and are subsequently quoted on a normal trading basis.

## 4. WARRANTIES

BOQ represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll; and
- (d) this Deed Poll is valid and binding on it.

## 5. CONTINUING OBLIGATIONS

This Deed Poll is irrevocable and subject to clause 2 remains in full force and effect until the earlier of BOQ having completely performed its obligations under this Deed Poll or the termination of this Deed Poll under clause 2.

## 6. STAMP DUTY

BOQ must pay all stamp duty imposed on this Deed Poll.

## 7. NOTICES

All notices, requests, consents and other documents authorised or required to be given by or pursuant to this Deed Poll must be given in writing and either personally served or sent by facsimile transmission ("fax") addressed as follows:

To: Bank of Queensland Limited  
Address: Level 19, 259 Queen Street, Brisbane Queensland Australia 4000  
Fax: 07 3212 3409  
Attention: Company Secretary/General Counsel

Notices, requests, consents and other documents ("Notices") must be deemed served or given:

- (a) if personally served by being left at the address of the party to whom the Notice is given during business hours, then in such case at the time the Notice is so delivered;
- (b) if sent by fax, then in such case when successfully transmitted during business hours, or if not during business hours, then when business hours next commence.

## 8. GENERAL

### 8.1 Waiver

- (a) Waiver of any right arising from a breach of this Deed Poll or of any right, power, authority, discretion or remedy arising upon default under this Deed Poll must be in writing and signed by the party granting the waiver.
- (b) A failure or delay in exercise, or partial exercise, of:
  - (i) a right arising from a breach of this Deed Poll; or

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(ii) a right, power, authority, discretion or remedy created or arising upon default under this Deed Poll, does not result in a waiver of that right, power, authority, discretion or remedy.

(c) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this Deed Poll or on a default under this Deed Poll as constituting a waiver of that right, power, authority, discretion or remedy.

(d) This clause may not itself be waived except in writing.

## 8.2 Variation

A provision of this Deed Poll may not be amended or varied unless the amendment or variation is agreed to by HME (and the Court indicates that the amendment would not of itself preclude approval of the Scheme) in which event BOQ will enter into a further Deed Poll in favour of the HME Shareholders giving effect to such amendment or variation.

## 8.3 Assignment

The rights and obligations of a person under this Deed Poll are personal. They may not be assigned, charged or otherwise dealt with, and no person shall attempt or purport to do so.

## 8.4 Cumulative rights

The rights, powers and remedies of BOQ and the HME Shareholders under this Deed Poll are cumulative with the rights, powers or remedies provided by law independently of this Deed Poll.

## 8.5 Further Action

BOQ will promptly do all things and execute and deliver all further documents required by law or reasonably requested by any other party to give effect to this Deed Poll and the Scheme.

## 8.6 Governing law

This Deed is governed by and must be construed in accordance with the laws for the time being in force in the State of Queensland, and the parties submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in respect of the State of Queensland.

## Executed as a deed poll.

Executed by **Bank of Queensland Limited**

**ABN 32 009 656 740** in accordance with section 127 of the *Corporations Act*:



Signature of Director

Neil Edwin Summerson

Name of Director in full



Signature of Secretary

Brad Edwards

Name of Secretary in full

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# ANNEXURE C

## Notice of Court Ordered Scheme Meeting of Members

**HOME BUILDING SOCIETY LTD**  
ABN 72 051 900 380

### **NOTICE OF COURT ORDERED MEETING OF MEMBERS**

By an Order of the Federal Court of Australia (**the Court**) made on 24 October 2007, pursuant to section 411(1) of the Corporations Act, a meeting of the holders of fully paid ordinary shares (**Home Shareholders**) in Home Building Society Ltd (**Home**) will be held at The Astral 1 & 2 Rooms, Burswood Convention Centre, Great Eastern Highway, Perth, Western Australia on Friday, 30 November 2007 at 10.30am AWDT (**Scheme Meeting**).

The Court has directed that Anthony John Howarth, or failing him David Roger Davies, act as Chair of the meeting (unless the members at the meeting elect some other person to act as Chair of the meeting) and has directed the Chair to report the result of the meeting to the Court.

#### **purpose of meeting**

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Home and the Home Shareholders (**Scheme**).

To enable you to make an informed voting decision, further information on the Scheme is set out in the booklet accompanying the notice convening this meeting (**Scheme Booklet**). A copy of the Scheme is set out in Annexure A to the Scheme Booklet. The purpose and effect of the Scheme is discussed in the Scheme Booklet.

#### **RESOLUTION**

To consider and, if thought fit, pass the following resolution:

“In accordance with the provisions of section 411 of the Corporations Act:

- (a) the arrangement proposed between Home Building Society Ltd (**Home**) and the holders of its fully paid ordinary shares (**Scheme**), as contained in and more particularly described in the Scheme Booklet is agreed to; and
- (b) the directors of Home are authorised;
  - (i) to agree to such alterations or conditions as are thought fit by the Federal Court of Australia (**Court**); and
  - (ii) subject to approval of the Scheme by the Court, to implement the Scheme with any such alterations or conditions.”

In accordance with section 411(4)(b) of the Corporations Act, the Scheme is subject to the approval of the Court. If the resolution put to this meeting is approved in accordance with section 411(4)(a)(ii) of the Corporations Act, Home intends to apply to the Court for the approval of the Scheme.

#### **ENTITLEMENT TO VOTE**

The Home board has determined, and the Court has ordered, that a person's entitlement to vote at the Court ordered meeting to consider the Scheme will be the entitlement of that person as set out in Home's share register as at 5.00pm AWDT on Wednesday, 28 November 2007.

Date 25 October 2007



**Tony Howarth AO**  
Chairman

## ANNEXURE D Independent Expert's Report

ABN 53 095 445 560  
AFS Licence No 246532  
Level 27, 363 George Street  
Sydney NSW 2000 Australia  
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500  
Facsimile: [61 2] 8235 7550  
www.lonerganedwards.com.au

The Directors  
Home Building Society Limited  
111 St George's Terrace  
Perth WA 6000

25 October 2007

### SUBJECT: PROPOSED MERGER WITH BANK OF QUEENSLAND LIMITED

Dear Directors

#### INTRODUCTION

1. On 31 August 2007 Home Building Society Limited (Home) and Bank of Queensland Limited (BOQ) announced a merger proposal under which BOQ will acquire all the issued shares and options in Home (the Proposal). The proposed transaction is to be implemented by way of a Scheme of Arrangement between Home and its shareholders (the Scheme).
2. The Scheme is subject to approval by Home shareholders and the Court. If the Scheme is approved Home shareholders will receive 0.844 BOQ shares and \$2.80 cash per Home share (Scheme Consideration).
3. Under the Corporations Act 2001 (Cth) (Corporations Act), the Scheme is approved by shareholders if a resolution in favour of the Proposal is passed by a majority of shareholders present and voting at the Scheme meeting, and by 75% of the votes cast on the resolution<sup>1</sup>. The Proposal, if approved, will result in:
  - (a) BOQ owning 100% of the issued shares in Home, and
  - (b) Home shareholders holding approximately 20% of the merged group.

#### HOME

4. Home was formed as a mutual society in 1946 and was subsequently listed on the Australian Securities Exchange (ASX) in March 2002. In July 2006, Home and StateWest Financial Services Ltd (StateWest) completed a merger by way of a Scheme of Arrangement. Home is one of the largest listed financial services groups in Western Australia (WA) with a \$2.4 billion loan portfolio, \$2.2 billion in total customer deposits, more than 126,000 customers and 29 branches throughout WA.

#### BOQ

5. BOQ is one of Australia's fastest growing regional banks with approximately 240 branches, 16 business banking centres and 2,400 BOQ-branded ATMs throughout Australia. In the last five years it has more than doubled its branch numbers, its assets under management have more than trebled to almost \$20 billion while its market capitalisation has grown from approximately \$400 million to \$2 billion.

<sup>1</sup> It should be noted that Home's Constitution allows for one vote per shareholder rather than one vote per share.

### purpose of report

- There is no regulatory requirement for Home to commission an independent expert's report (IER) in relation to the Scheme. However, the Scheme is conditional upon, amongst other things, an independent expert concluding that the Scheme is in the best interests of Home shareholders. Accordingly, the directors of Home have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER setting out whether the Scheme is fair and reasonable and in the best interests of Home shareholders.
- Our report will accompany the Scheme Booklet to be sent by Home to its shareholders.
- LEA is independent of Home and BOQ and has no other involvement or interest in the Scheme.

### summary of opinion

- LEA has concluded that the acquisition of Home shares by BOQ under the Scheme is fair and reasonable and in the best interests of Home shareholders in the absence of a superior proposal.
- We therefore recommend that Home shareholders vote in favour of the Scheme in the absence of a superior proposal.
- We have arrived at this conclusion for the reasons set out below.

### valuation of home

- LEA has valued 100% of the ordinary shares in Home on a controlling interest basis at between \$15.73 to \$16.57 per share<sup>2</sup>, as summarised below:

	Low \$m	High \$m
Value of Financial Services business	451.0	471.5
Value of Property Development business	65.5	73.5
Other assets	2.3	2.3
	518.8	547.3
Add option exercise money	14.9	14.9
	533.7	562.2
Value of 100% of shares in Home		
Fully diluted shares on issue (000s)	33,934	33,934
Value per share	\$15.73	\$16.57

### value of scheme consideration

- Having regard to the recent share market trading in BOQ shares, we have assessed the value of the consideration payable under the Scheme at \$17.99 to \$18.41 per Home share as follows:

	Low \$m	High \$m
Assessed value of BOQ shares <sup>(1)</sup>	18.00	18.50
Offer ratio	0.844	0.844
	15.19	15.61
Assessed value of BOQ share consideration		
Cash component of consideration	2.80	2.80
	17.99	18.41
Total assessed value of consideration		

**Note:**

- Excludes BOQ final dividend in respect of FY07.

### Assessment of the scheme

- We summarise below the likely impact of the Scheme on Home shareholders.

<sup>2</sup> Our valuation range excludes the final dividend of \$0.24 per Home share in respect of FY07.

## Advantages

15. The Scheme has the following benefits for Home shareholders:
- (a) the assessed value of the Scheme Consideration of \$17.99 to \$18.41 per share lies above the top end of our assessed value range of 100% of Home of \$15.73 to \$16.57 per share, and is therefore fair to Home shareholders when assessed under the guidelines set out in Australian Securities & Investments Commission (ASIC) Regulatory Guide 75
  - (b) the Scheme Consideration represents a significant premium to the recent market prices of Home shares prior to the announcement of the Scheme
  - (c) in our opinion Home shareholders are being paid a significant share of the synergy benefits which are expected to be generated as a result of the acquisition. In addition, Home shareholders will own around 20% of the merged group and will therefore participate in the expected realisation of identified synergies
  - (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Home shares is likely to trade at a discount to our valuation and the Scheme Consideration (although the possibility of future corporate activity involving Home is likely to limit the extent of the discount in the short-term)
  - (e) Home shareholders will receive BOQ shares as consideration under the Proposal and consequently:
    - (i) will own shares in an appreciably larger company than Home
    - (ii) will benefit from the greater liquidity of BOQ shares.
16. Further, it should be noted that:
- (a) no alternative proposal has emerged subsequent to the announcement of the Scheme
  - (b) as a condition of the Scheme, Home is unable to solicit, encourage or initiate any competing transaction
  - (c) as a result of the above it is unlikely that a higher offer or superior proposal to the Scheme will be received prior to the Scheme meeting.
17. Shareholders should also be aware that if the Scheme is approved, they will no longer hold a direct interest in Home. However, as noted above, Home shareholders (in aggregate) will own around 20% of the enlarged group if the Scheme is approved.

## CONCLUSION

18. Given the above analysis, in our opinion the acquisition of Home shares under the Scheme is fair and reasonable and in the best interests of Home shareholders in the absence of a superior proposal.

## general

19. The impact of approving the Scheme on the tax position of Home shareholders depends on the individual circumstances of each investor. Home shareholders should read the taxation advice set out in the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.
20. The ultimate decision whether to approve the Scheme should be based on each Home shareholder's assessment of their own circumstances. If Home shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that Home shareholders read the remainder of our report.

Yours faithfully



**Craig Edwards**  
Authorised Representative



**Martin Holt**  
Authorised Representative

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## I Key Terms of the Scheme

### Terms

21. On 31 August 2007 Home Building Society Limited (Home) and Bank of Queensland Limited (BOQ) announced a merger proposal under which BOQ will acquire all the issued shares and options in Home (the Proposal). The proposed transaction is to be implemented by way of a Scheme of Arrangement between Home and its shareholders (the Scheme).
22. The Scheme is subject to approval by Home shareholders and the Court. If the Scheme is approved Home shareholders will receive 0.844 BOQ shares and \$2.80 cash per Home share (Scheme Consideration).

### CONDITIONS

23. The Scheme is subject to the satisfaction of a number of conditions, including the following which are outlined in the Merger Implementation Deed (MID) between the parties dated 31 August 2007:
  - (a) the Treasurer of the Commonwealth granting approval under section 13 of the Financial Sector (Shareholdings) Act 1998 to the acquisition by BOQ of 100% of the shares in Home and giving consent under section 63 of the Banking Act 1959 (if required) to the Scheme
  - (b) the independent expert concluding that the Scheme is in the best interests of Home shareholders
  - (c) in accordance with the requirements of the Corporations Act 2001 (Cth) (Corporations Act):
    - (i) the Scheme is approved by Home shareholders, and
    - (ii) the Scheme is approved by the Court
  - (d) no material adverse change in respect of Home or BOQ occurs between the date of the MID and 8:00 am on the Second Court Date<sup>3</sup>
  - (e) no prescribed occurrence in respect of Home or BOQ occurs between the date of the MID and 8:00 am on the Second Court Date
  - (f) all regulatory approvals required to implement the Scheme are granted or obtained, and those regulatory approvals are not withdrawn, cancelled or revoked
  - (g) no regulatory authority takes or proposes to take any action, or refuses or fails to take any action, which has or may have the effect that:
    - (i) the Scheme is deemed illegal or otherwise prohibited
    - (ii) all or a material part of the business or assets of BOQ and its subsidiaries or of Home and its subsidiaries is required to be divested, or
    - (iii) all or a material part of the business or assets of BOQ and its subsidiaries or of Home and its subsidiaries is materially and adversely affected
  - (h) no temporary restraining order, preliminary or permanent injunction or other legal restraint or prohibition is in effect at 8:00 am on the Second Court Date which prevents the completion of any aspect of the Scheme
  - (i) BOQ and Home are each satisfied with the outcome of its due diligence enquiries on or before 21 September 2007<sup>4</sup>
  - (j) all of the offers to acquire Home options to be made by BOQ are accepted by the option holders before 5.00 pm on the fifth business day before the First Court Date.

<sup>3</sup> The first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard.

<sup>4</sup> BOQ and Home jointly announced on 24 September 2007 that this condition had been met.



24. Break fees of:

- (a) \$5.9 million payable by Home to BOQ; and
- (b) \$2.0 million payable by BOQ to Home

are payable in certain circumstances as specified in the MID.

#### RESOLUTIONS

- 25. Home shareholders will be asked to vote on the Scheme in accordance with the resolutions contained in the Notice of Scheme Meeting accompanying the Scheme Booklet.
- 26. If the resolution is passed by the requisite majority<sup>5</sup>, Home must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with the Australian Securities & Investments Commission (ASIC) and do all things necessary to give effect to the Scheme.

<sup>5</sup> It should be noted that Home's Constitution allows for one vote per shareholder rather than one vote per share.

## II Scope of our Report

### purpose

27. The Scheme is subject to the Corporations Act and has to be effected pursuant to section 411 of the Corporations Act, which governs schemes of arrangement. Parts 2 and 3 of Schedule 8 of the Corporations Regulations 2001 (Corporations Regulations) prescribe information to be sent to shareholders and creditors in relation to members' and creditors' schemes of arrangement pursuant to section 411 of the Corporations Act.
28. Part 3 of Schedule 8 of the Corporations Regulations requires an IER in relation to a members' scheme to be prepared when a party to that scheme has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the IER must state whether a scheme is in the best interests of shareholders and state reasons for that opinion.
29. BOQ does not hold any shares in Home and there are no common directors. Accordingly, there is no regulatory requirement for an IER to be prepared for Home shareholders pursuant to section 411 of the Corporations Act. We understand that there is no other regulatory requirement for an IER to be prepared.
30. However, as the Scheme is conditional upon, amongst other things, an independent expert concluding that the Scheme is in the best interests of Home shareholders, the directors of Home have requested LEA prepare an IER stating whether the proposed acquisition of Home by BOQ under the Scheme is fair and reasonable and in the best interests of Home shareholders and the reasons for that opinion.
31. This report has been prepared by LEA for the benefit of Home shareholders to assist them in considering the resolutions to approve the Scheme. Our report will accompany the Notice of Scheme Meeting and Scheme Booklet to be sent to Home shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Home shareholders.
32. The ultimate decision whether to approve the Scheme should be based on each Home shareholder's assessment of their own circumstances. If in doubt about the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

### BASIS OF ASSESSMENT

33. There is no legal definition of the expression "in the best interests". ASIC Regulatory Guide 75 gives limited guidance as to the meaning of "in the best interests", implying that it is similar to "fair and reasonable".
34. Regulatory Guide 75<sup>6</sup> establishes certain guidelines in respect of IERs prepared for the purposes of the Corporations Act. Regulatory Guide 75 is primarily directed towards reports prepared in the context of a takeover offer.
35. Pursuant to Regulatory Guide 75, an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. A comparison must be made assuming 100% ownership of the target company.
36. Regulatory Guide 75 considers an offer to be "reasonable" if it is fair. An offer may also be reasonable if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.
37. As the Scheme is effectively a takeover of Home by BOQ we have assessed the Scheme under the guidelines set out in ASIC Regulatory Guide 75. Further, in our opinion, if the Scheme is "fair and reasonable" under ASIC Regulatory Guide 75 it must also be in the "best interests" of shareholders.

<sup>6</sup> ASIC Regulatory Guide 75 "Independent Expert Reports to Shareholders".

38. The following matters, inter alia, have been considered when determining whether the Scheme is fair and reasonable and in the best interests of Home shareholders:
- (a) the market value of 100% of the shares in Home
  - (b) the value of the consideration offered under the Scheme
  - (c) the extent to which (a) and (b) differ (in order to assess whether the offer is fair under ASIC Regulatory Guide 75)
  - (d) the extent to which a control premium is being paid to Home shareholders
  - (e) the listed market price of Home shares both prior to and during the period subsequent to the announcement of the Scheme
  - (f) the level of synergy / rationalisation benefits likely to be generated under the merger proposal, and the extent to which a share of these benefits is being paid to Home shareholders
  - (g) the value of Home to an alternative offeror and the likelihood of an alternative offer being made for Home sometime in the future
  - (h) the likely market price of Home shares if the proposed Scheme is not approved by Home shareholders
  - (i) ownership and control issues and other qualitative and strategic issues associated with the Scheme.

#### LIMITATIONS AND RELIANCE ON INFORMATION

39. Our opinions are based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
40. Our report is also based upon financial and other information provided by Home. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion on the Proposal from the perspective of Home shareholders. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. None of these additional tasks have been undertaken.
41. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalent to International Financial Reporting Standards (AIFRS).
42. An important part of the information base used in forming an opinion of the kind expressed in this report are the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
43. We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
44. In forming our opinion, we have also assumed that:
- (a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects
  - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the MID and the terms of the Scheme itself.

## III Profile of Home

### OVERVIEW

45. Home is a permanent building society based in Perth, Western Australia providing a range of comprehensive financial services to the Western Australian community.
46. Home was established as a mutual society in 1946 in Fremantle as a limited partnership of 10 local business men. It was demutualised and listed on the ASX in 2002.
47. On 23 August 2005 Home and StateWest announced a merger of the two organisations. Following a related demutualisation process completion of the merger occurred on 10 July 2006 and its subsequent implementation was expected to result in pre-tax synergies of around \$8.0 million to \$10.0 million per annum<sup>7</sup>.
48. Home currently operates through 29 branches spread across the Perth Metropolitan area and selected regional locations.
49. As at 30 June 2007 Home had around 126,000 member accounts and total assets of around \$3.0 billion.

### CURRENT OPERATIONS

50. Home operates primarily as a building society providing financial services to customers, and also has interests in a number of property development projects.

### Financial Services

51. The financial services segment comprises lending for residential housing purposes, commercial lending, general banking deposit facilities, financial planning advice, and insurance and settlement agency services.
52. Home has primarily concentrated on residential mortgage lending together with investment and savings products. To date the financial planning, insurance and related services have not made a significant contribution to overall profitability.
53. A summary of the loan portfolio by purpose as at 30 June 2006 and 30 June 2007 is set out below:

Loan portfolio	30 June 06 Actual \$000	30 June 07 Actual \$000
<b>Residential</b>		
Owner occupied	954,649	1,487,582
<b>Total residential</b>	954,649	1,487,582
<b>Personal</b>		
Vacant land	103,489	102,584
Other	15,545	223,078
<b>Total personal</b>	119,034	325,662
<b>Commercial</b>		
Residential investment property	269,493	390,780
Commercial property	96,131	227,466
<b>Total commercial</b>	365,624	618,246
<b>Total gross loans and advances</b>	1,439,307	2,431,490
Less provision for impairment	(202)	(1,066)
Less interest income forgone on non-accrual loans	–	(30)
<b>Net loans and advances<sup>(1)</sup></b>	1,439,105	2,430,394

#### Note:

- 1 Loans and advances amounting to \$355 million as at 30 June 2007 (\$305 million as at 30 June 2006) are secured against the securitisation facility with Waratah Receivables Corporation Pty Ltd.

<sup>7</sup> Home management has subsequently revised this estimate to \$8 million per annum.

## Property Development

54. The property development segment involves the development of residential land, and financing the acquisition and sale of vacant land for residential purposes through investments in joint ventures.
55. These activities are carried on in Home Credit Management Ltd (HCM), a wholly owned subsidiary of Home, which has been operating in the field of property development at various levels since the late 1980s.
56. Over the past six years HCM has formed a strong relationship with Satterley Property Group Pty Ltd (SPG), which has enabled HCM to invest in a number of medium to long-term projects. Today these projects are significant contributors to the financial performance of Home.
57. HCM is currently involved in six major projects in various stages of development; two within the suburban areas of Perth, one in the Peel district just south of Perth and the other three in the south west of Western Australia.
58. HCM's land development portfolio as at 30 June 2007 is summarised below:

Land development portfolio as at 30 June 2007				
	Joint venture percentage ownership %	Estimated years to completion	Lots recognised as revenue to date	Number of lots remaining
<b>Asset</b>				
Brighton	9.31	13	3,245	3,303
Dalyellup	17.08	9	2,043	1,345
Wanneroo <sup>(1)</sup>	21.42	1	930	31
East Busselton	25.00	10	86	1,473
Margaret River	5.81	17	–	1,787
Austin Cove	3.70	17	–	2,536
Total			6,304	10,475

### Note:

1 The Wanneroo project is in its final stages.

59. The major projects currently under development include:
- (a) **Brighton:** located approximately 40 kilometres north of the Perth CBD. Planning commenced in March 2000 with an expected completion year of 2017. The size of the land holding is 579 hectares
- (b) **Dalyellup:** located 7 kilometres south of the Bunbury CBD. The project commenced planning in June 1997 with an expected completion year of 2014. The size of the land holding is 570 hectares
- (c) **Provence (East Busselton):** located south of Busselton townsite at the junction of the Bussell and Vasse Highways, 230 kilometres south west of the Perth CBD. The project commenced planning in December 2002, with an expected completion year of June 2016. The size of the land holding is 504 hectares.
60. In addition Home has a direct equity interest in Gold Estates Holdings Pty Limited (Gold Estates) which holds land for development and resale. This equity interest was acquired as part of the acquisition of StateWest.

## summary of financial performance

61. A summary of Home's operating performance for the three years ended 30 June 2007 is summarised below:

Financial performance of Home			
	Year to 30 June 05 Actual \$000	Year to 30 June 06 Actual \$000	Year to 30 June 07 Actual \$000
Interest income	75,911	97,718	192,206
Interest expense	(50,347)	(71,001)	(132,893)
Net interest income	25,564	26,717	59,313
Other operating income <sup>(1)</sup>	6,395	6,994	17,168
Bad and doubtful debts recovered	108	83	337
Net change in market value of investments	59	69	61
Total income	32,126	33,863	76,879
Expenses from operating activities <sup>(2)</sup>	(15,225)	(15,790)	(29,198)
Impairment losses	(291)	817	(373)
Depreciation	(865)	(902)	(2,110)
Amortisation of software	–	–	(449)
Employee benefit expenses	(11,319)	(12,365)	(24,684)
Other gains / (losses)	231	(53)	(21)
Total expenses	(27,469)	(28,293)	(56,835)
Operating profit of Financial Services business	4,657	5,570	20,004
Share of net profit from property joint ventures	4,588	9,744	9,998
Underlying net profit before income tax and minority interests	9,245	15,314	30,042
Income tax expense	(2,735)	(4,298)	(8,733)
Profit attributable to minority interests	(105)	(81)	(46)
<b>Underlying net profit after tax</b>	<b>6,405</b>	<b>10,935</b>	<b>21,263</b>
Gain on sale of property <sup>(3)</sup>	–	1,295	1,620
Amortisation of intangibles	(158)	(256)	(3,392) <sup>(4)</sup>
Merger and restructuring expenses	–	(2,619)	(10,178)
Tax effect of significant items	–	786	3,880
Reported net profit after tax	6,247	10,141	13,193
Average interest margin	2.25%	1.98%	2.29%
Cost to income ratio	74.2%	66.7%	65.0%
Deposits (\$m)	929.9	1,191.3	2,179.2
Total loan portfolio (\$m)	1,103.7	1,439.1	2,430.4

### Note:

- 1 Includes fees and commissions, rents, securitisation income, dividends and other income.
- 2 Includes transaction costs, information system costs, general administration, advertising and promotion and other expenses.
- 3 As a result of the merger with StateWest, a property asset held in east Perth was considered surplus to requirements and was sold in June 2006, with settlement occurring in August 2006. Profit on the sale was recognised in FY07. The gain on the sale of a property in FY06 related to the Home head office building.
- 4 As part of the business combination with StateWest, intangible assets of \$23.5 million (reflecting customer relationships and brand names) were recognised.

62. Key factors impacting on the operating performance of Home during the above periods are outlined below:

**Year ended 30 June 2005**

- The Financial Services business achieved earnings growth of 20%, driven by strong loan growth
- Mortgage approvals and new deposit accounts increased by 66% and 71% respectively, leading to an above market increase in both mortgage balances (29%) and deposit balances (17%)
- Property development activities continued to perform well with underlying earnings up 21% from the previous period

**Year ended 30 June 2006**

- On 23 August 2005 Home announced its intention to merge with StateWest. While the merger did not take effect until July 2006, in the intervening period Home and StateWest progressed the implementation of information technology rationalisation and the harmonisation of policies and procedures. This enabled the benefits of the merger to be realised earlier than would otherwise have been the case
- Mortgage approvals rose 28% to \$810 million
- Total lending receivables increased 30% to \$1.4 billion and total deposit balances increased 28% to \$1.2 billion
- Loan arrears over 90 days reduced by \$6.6 million to nil
- Total operating expenses, excluding restructuring and merger costs, increased by \$0.6 million (2%) over the period, less than CPI

**Year ended 30 June 2007**

- Underlying net profit of the Financial Services business increased 178% due to the contribution from StateWest, synergies from the merger<sup>8</sup> and continued organic growth. However, due to strong competition and other factors loan growth was below original expectations
- The cost to income ratio<sup>9</sup> improved from 66.7% in FY06 to 65.0% in FY07
- Whilst the legal integration of Home and StateWest was completed on 3 July 2006, the full integration of systems and processes was not completed until later in the year<sup>10</sup>
- Provisioning against total lending assets remained low at 0.05%, reflecting the strength of the loan book
- The contribution from the property development activities was broadly consistent with that achieved in FY06.

**FY08 outlook**

63. At the time of Home's FY07 results announcement on 31 August 2007 management made the following comments regarding the outlook for the business in FY08:

- (a) Home's core market of WA continues to experience unprecedented, sustained economic growth
- (b) the medium term outlook for the WA market remains positive despite continued pressure on interest rates and other external factors. Record employment levels and strong inwards migration from interstate and overseas are likely to keep housing demand high in 2008 and beyond
- (c) there is likely to be greater competition due to the increasing focus of the big banks and eastern states based competitors in the West Australian financial services market
- (d) Home plans to grow its branch network by 30% to 40 branches over the next two years
- (e) the company intends to roll out additional products and service enhancements to drive further growth
- (f) Home expects to achieve the full synergy benefits of \$8 million (pre-tax) per annum arising from the StateWest acquisition in FY08 (of which \$4.9 million was achieved in FY07)
- (g) Home is "on track" to achieve underlying earnings per share (EPS) growth of 15% to 20% in FY08<sup>11</sup>.
- (h) While we have reviewed the FY08 budget we have been asked not to disclose this information in our report as it is commercially sensitive. However, we note that the FY08 budget is consistent with management's guidance.

<sup>8</sup> Synergy benefits of \$4.9 million were achieved in FY07.

<sup>9</sup> Excludes merger and restructuring costs, impairment gains / losses on loans and advances, amortisation of intangibles and gain on sale of property assets.

<sup>10</sup> Implementation of a new banking system (which enabled customers of both organisations to use the combined branch network) did not occur until September 2006.

<sup>11</sup> Underlying EPS in FY07 was 66.6 cents per share.

## Segment results

65. The following table provides a summary of underlying net profit after income tax and minority interests by business segment for the three years ended 30 June 2007:

<b>Underlying net profit after income tax and minority interests</b>			
	<b>Year to 30 June 05 Actual \$m</b>	<b>Year to 30 June 06 Actual \$m</b>	<b>Year to 30 June 07 Actual \$m</b>
Financial Services	3.9	5.7	16.0
Property Development	2.5	5.2	5.3
<b>Total</b>	<b>6.4</b>	<b>10.9</b>	<b>21.3</b>

## FINANCIAL POSITION

66. The financial position of Home as at 30 June 2006 and 30 June 2007 is set out below:

<b>Financial position of Home</b>		
	<b>30 June 06 Actual \$000</b>	<b>30 June 07 Actual \$000</b>
<b>Assets</b>		
Cash and cash equivalents	23,940	24,194
Held for trading investments	1,991	994
Available for sale investments <sup>(1)</sup>	139,934	285,361
Held to maturity investments	–	2,933
Trade and other receivables	418	1,248
Loans and advances <sup>(2)</sup>	1,439,105	2,430,394
Investments in joint ventures	26,084	28,103
Other financial assets <sup>(3)</sup>	1,238	7,021
Property, plant and equipment	2,434	5,917
Goodwill and other intangibles	535	171,455
Income tax paid in advance	2,180	–
Prepayments	4,747	1,542
<b>Total assets</b>	<b>1,642,606</b>	<b>2,959,162</b>
<b>Liabilities</b>		
Customer deposits	1,191,298	2,179,195
Trade and other payables	19,494	28,674
Interest bearing liabilities and borrowings	347,530	417,530
Deferred tax liabilities	6,645	11,117
Income tax payable	–	907
Provisions	484	4,057
<b>Total liabilities</b>	<b>1,566,451</b>	<b>2,641,480</b>
<b>Net assets</b>	<b>76,155</b>	<b>317,682</b>
Minority interests	(2,692)	(1,585)
<b>Net assets attributable to Home shareholders</b>	<b>73,463</b>	<b>316,097</b>
Net tangible assets attributable to Home shareholders	72,928	144,642

### Note:

1 Includes bank bills, certificate of deposits and shares in Gold Estates (\$6.9 million as at FY07 only).

2 The composition of loans and advances is set out in paragraph 53.

3 Other financial assets includes shares in CUSCAL (\$2.3 million as at 30 June 2007 only) and funds deposited with Australian Settlement Limited to cover settlement exposures for electronically processed debits.



### Investments in property development joint ventures

67. As at 30 June 2007 the carrying value of Home's investments in property development joint ventures was as follows:

Investment in joint ventures		
	Percentage Ownership %	Carrying value \$m
Brighton	9.31	12.1
Dalyellup	17.08	8.5
Wanneroo	21.42	1.6
East Busselton (Provence)	25.00	2.8
Margaret River	5.81	0.7
Austin Cove	3.70	2.4
<b>Total carrying amount</b>		<b>28.1</b>

68. As stated above, Home also has a 13.4% equity interest in Gold Estates (acquired as part of the StateWest acquisition), which had a book value of approximately \$6.9 million as at 30 June 2007. The investment in Gold Estates is an equity investment in the company undertaking the property development.

69. Home has borrowed \$16.5 million against its property development activities.

70. The carrying value of Home's net investment in its property development activities as at 30 June 2007 was therefore \$18.5 million as shown below:

Net investment in property development activities		Carrying value as at 30 June 07 \$m
Investment in joint ventures		28.1
Investment in Gold Estates		6.9
Debt funding		(16.5)
<b>Total</b>		<b>18.5</b>

71. As discussed in Section VI the market value of Home's property development investments significantly exceeds its carrying value.

### Intangible assets and goodwill

72. Intangible assets and goodwill as at 30 June 2006 and 30 June 2007 are summarised below:

Intangible assets and goodwill		
	30 June 06 \$000	30 June 07 \$000
Customer relationships	–	19,941
Customer lists	535	352
Brands and trademarks	–	350
Software	–	1,760
Goodwill	–	149,052
<b>Total</b>	<b>535</b>	<b>171,455</b>

73. The significant increase in intangibles and goodwill as at 30 June 2007 arose from the acquisition of StateWest.

### Customer deposits

74. The maturity profile of deposits is summarised below:

<b>Customer deposits – maturity profile</b>		
<b>Maturity</b>	<b>30 June 2006 \$000</b>	<b>30 June 2007 \$000</b>
At call	360,447	782,768
Not longer than 3 months	572,343	906,329
From 3 months to 1 year	256,739	484,328
From 1 year to 5 years	1,769	5,770
	<u>1,191,298</u>	<u>2,179,195</u>

### Interest bearing loans and borrowings

75. Interest bearing loans and borrowings comprise:

	<b>30 June 2006 \$000</b>	<b>30 June 2007 \$000</b>
Subordinated debt	26,000	46,000
Securitisation facility	305,000	355,000
Bill facilities	16,530	16,530
	<u>347,530</u>	<u>417,530</u>

76. As at 30 June 2007 loans and advances of \$355 million were secured against the securitisation facility. Under the terms of the securitisation facility the borrowings are non-recourse to Home.

## SHARE CAPITAL

77. As at 22 October 2007, Home had 32,689,355 ordinary shares on issue. This includes 151,979 ordinary shares issued in lieu of Home's final dividend for FY07 under the dividend reinvestment plan.
78. Home also has 12,000 Unlisted Permanent A Class shares which were issued in FY07. Prior to implementation of the Scheme, Home intends to convert these shares to 12,000 ordinary shares.
79. Home also has 1,232,500 options on issue. The following table summarises the key terms of these options:

<b>Options on issue</b>				
<b>Vesting date</b>	<b>Expiry date</b>	<b>Number of options</b>	<b>Exercise price \$</b>	<b>Amount raised on exercise \$000</b>
<b>Employee options as at 30 June 2007</b>				
28 May 2008	27 May 2009	250,000	8.32	2,080
21 February 2007	20 February 2008	7,500	6.91	52
18 September 2008	17 September 2009	187,500	14.18	2,659
18 September 2009	17 September 2010	187,500	14.18	2,659
25 May 2009	24 May 2010	55,000	15.21	837
25 May 2010	24 May 2011	55,000	15.21	837
7 September 2007	6 September 2008	155,000	10.12	1,569
7 September 2008	6 September 2009	165,000	10.12	1,670
21 November 2007	22 November 2008	7,500	14.52	109
21 February 2008	21 February 2009	7,500	15.01	113
<b>Non-employee options as at 30 June 2007</b>				
20 September 2007	20 September 2008	100,000	14.30	1,430
<b>Options issued after 30 June 2007</b>				
6 July 2009 <sup>(1)</sup>	6 July 2010	50,000	14.00	700
27 July 2009 <sup>(2)</sup>	27 July 2010	5,000	13.55	68
<b>Total Options outstanding</b>		<b>1,232,500</b>		<b>14,783</b>

### Note:

- 1 On 20 July 2007 Home issued 50,000 options exercisable at \$14.00 between 6 July 2009 and 6 July 2010. 25,000 options are conditional upon the share price being \$18.00 or higher for a period of at least five ASX trading days during the exercise period, and the other 25,000 options are conditional upon the share price being \$21.00 or higher for a period of at least five consecutive ASX trading days during the exercise period.
- 2 On 2 August 2007 Home issued 5,000 options exercisable at \$13.55 between 27 July 2009 and 27 July 2010, conditional upon the share price being \$18.00 or higher for a period of at least five consecutive trading days during the exercise period.

share price performance

80. The price of Home shares from 1 January 2006 to 22 October 2007 is summarised in the table below:

	High \$	Low \$	Close \$	Monthly volume <sup>(1)</sup> 000
<b>Quarter ended</b>				
Mar-06	13.50	12.15	13.02	269
Jun-06	15.50	12.44	14.70	97
Sep-06	15.00	13.72	13.82	1,566
Dec-06	14.85	13.30	14.70	427
<b>Month</b>				
Jan-07	15.02	14.70	14.89	313
Feb-07	15.40	14.76	15.00	277
Mar-07	15.46	14.80	15.17	314
Apr-07	16.17	15.09	15.40	146
May-07	15.50	15.10	15.25	324
Jun-07	15.35	14.20	14.20	679
Jul-07	14.24	13.50	13.80	850
Aug-07	17.70	11.50	17.50	524
Sep-07	17.50	16.10	16.35	773
1 Oct - 22 Oct 2007	18.17	16.20	17.78	1,922

**Note:**

1 Monthly volumes for quarters represent average monthly volumes.

81. The following graph illustrates the movement in the Home share price from 1 January 2005 to 22 October 2007:



82. On 23 August 2005 Home and StateWest announced they had agreed to merge the two organisations. This substantially increased the size of Home and resulted in a 47% increase in the Home share price in the one month period following the announcement of the proposed merger.

83. On 31 August 2007 Home announced the proposed merger with BOQ. Home's share price increased by 24% on that day.

## IV Financial Services Industry

### THE AUSTRALIAN FINANCIAL SERVICES SECTOR

84. The Australian financial services sector comprises retail and non-retail financial intermediaries, investment and merchant banking, superannuation, life and general insurance, specialist fund managers, finance companies and other originators and/or retailers of financial services. Within the sector there are financial service conglomerates whose operations encompass a breadth of financial services, while others concentrate their efforts on specific financial service business segments.
85. An important and substantial subgroup of financial service institutions are Authorised Deposit Taking Institutions (ADIs). ADIs are authorised under the Banking Act to carry on banking business in Australia. ADIs include Australian banks, foreign banks that have been granted an ADI authority, building societies and credit unions. Factors distinguishing ADIs from other financial sector groups include:
  - (a) ADIs (along with the Reserve Bank) are the only bodies corporate authorised to carry on banking business in Australia (Section 8, Banking Act)
  - (b) the assets of an ADI must be available to meet its deposit liabilities in Australia, in priority to all other liabilities (Section 13A(3), Banking Act)
  - (c) ADIs are subject to prudential supervision and monitoring, and must adhere to the Prudential Standards applicable to ADIs as directed by Australian Prudential Regulation Authority (APRA) (Division 1A, Banking Act).
86. The ADI sector constitutes a significant part of the Australian financial system and plays a vital role in the overall Australian economy. ADIs raise funds through deposit taking and insurance of other debt liabilities and use these funds to provide residential mortgages, commercial loans and other types of financial products to retail and corporate customers, both in Australia and abroad.
87. At 31 December 2006, ADIs reported total consolidated group assets of approximately \$2.2 trillion. The sector is dominated by the four major Australian banks, which together account for 70% of total ADI assets.<sup>12</sup> In addition to traditional lending and deposit activities, these banks are involved in a range of complex financial products and services, including funds management, insurance and capital market activities.
88. In contrast, building societies and credit unions hold less than \$58 billion of total ADI assets, but they nevertheless provide an important source of competition in the local retail deposit-taking and mortgage lending sectors<sup>13</sup>.

### REGULATION

89. Regulation and supervision of the financial system, including the activities of ADIs, is the responsibility of the Reserve Bank, ASIC and APRA. The Reserve Bank is responsible for monetary policy and maintenance of stability in the Australian financial system, including stability in the payments system.
90. ASIC supervises and regulates market integrity, disclosure and other consumer protection issues such as the Financial Services Reform Act under which all ADIs are licensed.
91. APRA is empowered under the Banking Act to authorise ADIs, and to set and monitor the prudential standards for ADIs. The prudential standards developed by APRA are designed to ensure that the banking system remains stable and efficient. A summary of high level prudential requirements applicable to ADIs is discussed below.

### Capital adequacy

92. APRA requires an ADI to maintain a level of capital that is adequate for the type of activities it undertakes. The capital adequacy ratio is the eligible capital base divided by risk-weighted assets and off balance sheet exposures.
93. For capital adequacy purposes, an ADI's eligible capital base is assessed within two tiers:

<sup>12</sup> Source: APRA Quarterly Bank Performance: December 2006.

<sup>13</sup> Source: APRA Quarterly Credit Union and Building Society Performance: March 2007.

- (a) Tier 1 Capital, or core capital, comprising the highest quality capital elements, which meet fully all the essential characteristics of capital, such as ordinary shares and reserves. Tier 1 capital must account for at least 50% of the total capital of an ADI
  - (b) Tier 2 Capital, or supplementary capital, includes other elements, which to varying degrees are of a lower quality to Tier 1 Capital but nonetheless contribute to the overall strength of an ADI as a going concern, such as asset revaluation reserves and subordinated debt.
94. APRA guidelines stipulate that ADIs must maintain a minimum ratio of qualifying capital (being Tier 1 and Tier 2 Capital) to risk weighted assets of 8%.

#### **Liquidity**

95. Prudential Standards in relation to liquidity aim to ensure that all ADIs have sufficient funds available to meet calls on deposits and to meet obligations to depositors as they fall due.
96. ADIs are required to maintain a minimum holding of 9% of liabilities (calculated in accordance with the prudential standards) in high-quality liquid assets, which includes cash, bank bills and other types of deposits and securities.

#### **Asset quality**

97. An ADI must inform APRA immediately of any concerns that it has about the overall level of its credit risk where this has the potential to impair the capital adequacy of the institution.

#### **Supervision of large credit exposures**

98. Where an ADI intends to enter into an exposure in excess of 10% of its consolidated capital base, it must consult with APRA prior to committing to the exposure. The ADI must be able to satisfy APRA that the proposed exposure does not constitute an excess risk to the ADI.

#### **MUTUALS IN AUSTRALIA**

99. Building societies and credit unions form the main remaining body of mutually structured financial institutions within both the Australian financial services sector and the ADI sector.
100. Over the last two decades, a majority of Australian building societies have opted to convert from mutuals to listed public companies either through conversion to a bank, the merger or transfer to a publicly listed bank or through demutualising while retaining the building society branding.
101. Credit unions have maintained their mutual structure, with the mutual structure being a precondition to an ADI being entitled to use the restricted expression "credit union" in accordance with section 66A of the Banking Act.

#### **BUILDING SOCIETIES**

102. Building societies' major loan products comprise personal, housing and commercial loans. Building societies are most active in the retail segment of the financial services market, catering for personal, rather than corporate and financial needs.
103. The industry has and is still in the process of undertaking significant rationalisation. In 1980 there were 139 building societies in Australia, however currently there are less than 15 with consolidation set to reduce this number further. Recent corporate activity has included the merger of Home with StateWest and Pioneer Permanent Building Society Limited (Pioneer) with BOQ.
104. The rationale for building societies to merge with or acquire other financial entities is based on scale and improved financial strength, enhanced product ranges and geographical spread, but most of all the significant cost savings which result.
105. Building societies have traditionally enjoyed high customer satisfaction ratings relative to banks. This largely stems from the personalised services offered and the ability to offer superior products. However, since the deregulation of the banking industry, and more recently with the advent of intense competition, banks have increasingly encroached on the niche markets of building societies.

106. For example, the flood of high interest online deposit products on to the market has put pressure on building society deposit bases. Many building societies have responded with similar online deposit products, however meeting competitor interest rates places increasing pressure on interest margins. Further, scale is hard to achieve without the marketing budgets of the larger banks.
107. Increased competition has reduced building society net interest margins over the medium term with rates down from 3.8% in 1995 to 2.4% in 2006<sup>14</sup>. The flipside is that this has forced attention to reducing costs. Building societies cost to income ratios decreased from 78.5% in 2000 to 67.1% in the quarter ended March 2007<sup>15</sup>. The gap between the cost to income ratios of the banks (sub 50% for the major banks) and those of building societies is primarily due to scale.
108. Mortgage brokers are now an established feature of the Australian mortgage market. Building societies have embraced mortgage brokers, with 69% of building societies using mortgage brokers in 2005<sup>16</sup>. These building societies sourced 41% of their new loans from mortgage brokers in 2005, down from 52% in the previous year<sup>17</sup>.
109. A high proportion of building society assets are residential mortgages, which represent 85.6% of their total loans compared to 58% for the banks<sup>18</sup>. Therefore the security held for these loans makes the risk of large credit losses relatively low.

## Outlook

110. There are a number of key issues that will influence the performance of building societies:
- (a) **increased competition:** building societies face escalating competition from major and regional banks in their traditional domains of customer service and regional presence
  - (b) **continuing consolidation:** continuing consolidation in the smaller end of the financial sector is envisaged as regional banks, building societies and credit unions aim for greater geographical presence and financial strength. The benefit of large synergies (ie the ability to reduce costs significantly) on offer also makes mergers and acquisition compelling
  - (c) **lower deposit growth rates:** deposits will be increasingly harder to attract due to an established range of high interest / low fee deposit accounts offered by competitors which will maintain downward pressure on interest margins
  - (d) **compliance and technology costs:** pressures to maintain and improve service levels while meeting an increasing compliance burden will raise future costs
  - (e) **cost control:** cost pressures such as wage inflation and regulatory change will make it increasingly difficult to restrain cost growth in future periods. The growth in compliance costs experienced recently is likely to continue, with the smaller institutions experiencing proportionately higher costs. We expect this to be a significant driver of consolidation in the sector.
111. The above observations point to further pressure on building societies going forward. As a result building societies will be forced to reduce costs to remain competitive. There is also a high probability of further consolidation in the sector.
112. The focus banks are placing on improving customer service however highlights the value of the customer relationships developed by building societies. Provided building societies continue to excel in this area they should continue to provide a valued alternative source of financial services to their members.
113. IBISWorld forecasts that in the five years to 2012 Building Society industry assets and revenue will grow at average real rate of 1.4% and 0.9% per annum respectively. IBISWorld expects asset growth to be slower than the previous five years mainly due to rising interest rates<sup>19</sup>.

<sup>14</sup> Source: APRA Insight Quarter 1, 2006, APRA Quarterly Credit Union and Building Society Performance: March 2007.

<sup>15</sup> Source: APRA Insight, Quarter 3, 2005, APRA Quarterly Credit Union and Building Society Performance: March 2007.

<sup>16</sup> Source: KPMG Building societies and credit unions: *Financial Institutions Survey 2005*.

<sup>17</sup> Source: KPMG Building societies and credit unions: *Financial Institutions Survey 2005*.

<sup>18</sup> Source: APRA Insight, Issue One 2007.

<sup>19</sup> Source: IBISWorld "Building Societies in Australia: K7322".

## V Valuation Approach

114. ASIC Regulatory Guide 12 “Valuation Reports and Profit Forecasts” outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that an alternative acquirer might be willing to offer if all the securities in the target company were available for purchase
  - (d) the amount that would be distributed to shareholders in an orderly realisation of assets
  - (e) the most recent quoted price of listed securities
  - (f) the current market value of the assets, securities or company.
115. The DCF method is the superior valuation methodology because:
- (a) value is the net present value (NPV) of future cash flows (ie future year’s cash flows, net of outgoings, expressed in terms of today’s dollars)
  - (b) the DCF methodology is technically superior as it separately assesses key factors such as growth and risk rather than trying to capture them in a single factor (ie the capitalisation multiple).
116. Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
117. Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
118. Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.
119. An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company would be adjusted for the time, cost and taxation consequences of realising the company’s assets.



## METHODOLOGY ADOPTED

120. The primary valuation methods used to value each of Home's businesses are shown below:

Valuation methods		
Business	Methodology	Reason
Financial Services	Capitalisation of NPAT	<ul style="list-style-type: none"><li>• Nature of banking business dictates capitalisation of profits after interest and tax</li><li>• Availability of price earnings (PE) multiples for listed financial services companies</li><li>• Significant recent transaction evidence</li><li>• Absence of long-term cash flow forecasts</li></ul>
Property Development	DCF	<ul style="list-style-type: none"><li>• Finite projects</li><li>• Availability of cash flow projections for each major development for life of project</li></ul>

121. We have also had regard to the price to net tangible asset (NTA) ratio implied by our valuation of the Financial Services business relative to other listed companies and transaction evidence in the sector.

## VI Valuation of 100% of Home

### METHODOLOGY

122. As discussed in Section V we have valued Home's Financial Services and Property Development activities separately given the different nature of these activities.

### VALUATION OF FINANCIAL SERVICES BUSINESS

#### Net profit after tax (NPAT)

123. We set out below the adjusted underlying results<sup>20</sup> of Home's Financial Services business in recent years. The results for FY07 reflect the acquisition of StateWest with effect from 3 July 2006 (effectively a full year contribution). The results for FY05 and FY06 have been adjusted to incorporate the corresponding results of StateWest, assuming Home had owned StateWest from 1 July 2004:

Underlying profit of Financial Services business			
	Year to 30 June 05	Year to 30 June 06	Year to 30 June 07
Underlying profit after tax and minority interests	\$m	\$m	\$m
As reported	3.9	5.7	16.0
Normalised profit of StateWest (after tax) <sup>(1)</sup>	6.2	6.2	–
Adjusted underlying profit after tax	10.1	11.9	16.0

#### Note:

1 Excludes non-recurring items and profit contribution from Gold Estates.

124. Management are budgeting a further significant increase in profit in FY08. While we have been asked not to disclose the budget in our report we note that:

- (a) Home expects to realise a further \$3.1 million in pre-tax synergies from the StateWest merger in FY08<sup>21</sup>
- (b) management are budgeting for 20% growth in the loan book during FY08
- (c) the average interest margin is expected to fall in FY08, largely due to continued strong competition for retail deposits
- (d) Home plans to grow its branch network by 30% to 40 branches over the next two years.

125. With respect to the expansion of Home's branch network, we understand that the new branches are not expected to make a positive contribution to profitability until FY10. Costs associated with establishing the new branches are therefore expected to reduce profitability in FY08 and FY09.

126. Given that the benefits expected to arise from the additional branches accrue over the medium / longer term<sup>22</sup>, we have added back the forecast establishment costs when assessing NPAT for valuation purposes.

127. On this basis we have adopted NPAT for valuation purposes of \$20.5 million. This reflects the level of synergies still to be realised from the acquisition of StateWest and an allowance for continued organic growth in FY08.

<sup>20</sup> The underlying results are before gains on the sale of property, amortisation of intangibles and merger and restructuring expenses.

<sup>21</sup> Synergies of \$4.9 million (pre-tax) were realised in FY07.

<sup>22</sup> Which we have taken into account when assessing the appropriate multiple.

## Earnings Multiple

128. The selection of the appropriate earnings multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- (a) the quality of the management and the likely continuity of management
- (b) the nature and size of the business
- (c) the spread and financial standing of customers
- (d) the financial structure of the company and gearing level
- (e) the stability and quality of earnings
- (f) the multiples attributed by share market investors to listed companies operating in the same sector
- (g) the multiples that have been paid in recent acquisitions of businesses operating in the same sector
- (h) the future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- (i) the cyclical nature of the industry
- (j) expected changes in interest rates
- (k) the asset backing of the underlying business of the company and the quality of the assets
- (l) the extent to which a premium for control is appropriate
- (m) whether the assessment is consistent with historical and prospective earnings
- (n) the level of synergies expected to be generated by purchasers generally.

## Review of listed company multiples

129. We set out in Appendix D the PE multiples for Australian companies involved in the banking and finance sector. Given the size of Home the PE multiples for the following companies are considered more relevant:

	Market capitalisation \$m	2008 PE multiple <sup>(1),(2)</sup>
BOQ <sup>(3)</sup>	2,205	19.3
Bendigo Bank <sup>(4)</sup>	1,904	15.1
Adelaide Bank <sup>(5)</sup>	1,603	14.1
Wide Bay Australia	315	17.7
Rock Building Society	89	20.2

1 As our assessed earnings for Home's Financial Services business reflects normalised prospective earnings we believe the 2008 forecast PE multiples of the listed companies are more relevant.

2 PE multiples as at 15 October 2007.

3 BOQ has recently announced proposals to acquire Home and Mackay Permanent Building Society.

4 On 19 March 2007 Bendigo Bank announced that it had received a conditional merger proposal from BOQ. Subsequently, on 9 August 2007 Bendigo Bank and Adelaide Bank announced their intention to merge. In order to exclude the impact of these announcements on the market price, the PE multiple for Bendigo Bank has been calculated based on the one month VWAP of Bendigo Bank shares prior to the 19 March 2007 announcement.

5 As stated above Bendigo Bank and Adelaide Bank announced on 9 August 2007 their intention to merge. In order to exclude the impact of this announcement on the market price, the PE multiple for Adelaide Bank has been calculated based on the one month volume weighted average price (VWAP) of Adelaide Bank shares prior to the announcement of the proposal.

130. With respect to the smaller building societies (Wide Bay Australia Limited (Wide Bay) and Rock Building Society) the higher PE multiples reflect, in our opinion, expectations of higher profit growth through acquisition and/or the greater likelihood of takeover activity as further rationalisation within the sector is expected.

### Home's PE multiple prior to the announcement of the Proposal

131 Based on management's profit guidance for FY08 of 15% to 20% EPS growth and the one month VWAP of Home shares prior to the announcement of the Proposal, we have calculated the FY08 forecast PE multiple for Home as follows:

1 month VWAP of Home shares prior to announcement	\$13.03
Estimated EPS for FY08 based on guidance (cents) <sup>(1), (2)</sup>	76.6 – 79.9
Estimated FY08 forecast PE	16.3 – 17.0

**Note:**

- 1 Underlying EPS in FY07 of 66.6 cents plus 15% to 20% EPS growth.
- 2 Due to the lack of reliable broker forecasts we have adopted management's FY08 guidance.

132. The above PE multiple range is based on the price of Home shares prior to the announcement of the Proposal (which did not appear to be impacted by speculation of the Proposal).

133. Prima facie therefore Home shares were trading on a higher PE multiple (based on FY08 forecast earnings) than the listed companies (other than Rock Building Society) set out in paragraph 129. In our opinion, this higher PE multiple reflects:

- (a) the opportunities for future growth, as evidenced by Home's plans to increase its branch network by 30% over the next two years
- (b) Home's exposure to the WA economy which is expected to continue to benefit from the resources boom for some time
- (c) the attractiveness of Home to eastern states based competitors looking to enter or expand into the WA market.

134. Further, it should be noted that the PE multiple for Home above is a total company PE multiple, including the value and earnings from the Property Development activities.

135. As Property Development activities generally attract lower multiples (due to the finite nature of projects) the multiple implied for Home's Financial Services business would be higher than that calculated above.

### Recent transaction evidence

136. The following table summarises recent Australian transaction evidence in the banking sector:

Multiples implied by recent Australian transaction evidence					
Announcement date	Target	Acquirer	Consideration \$m	PE multiple <sup>(1)</sup>	Price to NTA ratio
23 Aug 05	StateWest	Home			
	– Pre-announcement <sup>(2)</sup>		136.1	21.3 <sup>(3)</sup>	2.0
	– Post announcement <sup>(2)</sup>		174.8	27.2 <sup>(3)</sup>	2.5
15 Aug 06	Pioneer Building Society	BOQ	49.6	29.6 <sup>(3)</sup>	2.3
25 Sep 06	Police & Nurses Credit Society (unsuccessful offer)	Home	243.0	23.0 <sup>(4)</sup>	1.9
13 Aug 07	Mackay Permanent Building Society (still pending)	BOQ	55.9 <sup>(5)</sup>	26.6 <sup>(3)</sup>	2.7

**Note:**

- 1 PE multiple of banking and finance businesses only.
- 2 The consideration was largely paid in Home shares which increased significantly following the announcement of the proposal and Home's FY05 results which showed profit growth above market expectations together with a significant improvement in the value of Home's property assets. Consequently, we have calculated the PE multiple based on the VWAP of Home shares one month prior and one month post announcement of the Offer.
- 3 Based on maintainable earnings as assessed by independent expert.
- 4 Historical PE multiple as reported in Home's ASX announcement dated 25 September 2006.
- 5 Based on cash offer of \$8.25 per share plus fully franked dividend of \$1.00 per share.
- 6 The transaction multiple implied by Bendigo Bank's proposal to acquire Adelaide Bank has not been shown above as the proposed transaction appears to be a merger of equals with no significant control premium being paid. The listed company multiples for both companies prior to speculation of corporate activity are shown in paragraph 129 and in Appendix D.

**Source:** ASX announcements, Independent Expert's Reports and other publicly available information.

137. As the transaction multiples are based on the price offered for 100% of the target companies they implicitly reflect a premium for control. Further, the transaction multiples above also reflect the high level of synergies expected to be generated by potential acquirers relative to the standalone earnings of the target companies. In this regard we note that the annual (pre-tax) synergies expected to arise from the StateWest and Police & Nurses Credit Society (PNCS) offers were at a level consistent with the standalone (pre-tax) earnings of StateWest and PNCS.
138. The synergies expected to arise from the Pioneer and Mackay acquisitions represented around 3.4 times and 2.0 times each company's standalone earnings.
139. In contrast, the synergies expected to arise from the acquisition of Home by BOQ<sup>23</sup> represent around 0.7 times our assessment of Home (pre-tax) earnings from its financial services business. Consequently, in our opinion, the lower level of synergies relative to standalone earnings for Home justifies the adoption of a lower multiple than that implied by the Pioneer and Mackay Permanent Building Society Limited (Mackay) transactions.

**Conclusion on PE multiple**

140. Based on the above, in our opinion, it is appropriate to apply a PE multiple of 22 to 23 times to our assessment of the maintainable earnings of Home's Financial Services business. This multiple range includes a premium for control<sup>24</sup> and reflects a share of the level of synergies which a purchaser in the banking sector could reasonably expect to generate from an acquisition of Home.

**Valuation of Financial Services business**

141. On this basis the value of Home's Financial Services business is shown below:

Value of Home's Financial Services business		
	Low	High
	\$m	\$m
Maintainable earnings	20.5	20.5
PE multiple	22.0	23.0
Value of 100% of Financial Services business	451.0	471.5

<sup>23</sup> We understand that BOQ estimate that pre-tax synergies of around \$20 million per annum will be generated from the Home acquisition by year 3.

<sup>24</sup> Research undertaken on control premiums by LEA indicates that successful takeover offers are generally priced at a 30% to 35% premium above the pre-bid market price of the target company's shares (assuming the pre-bid price does not reflect speculation of the offer).

### Cross-check using price to NTA methodology

142. As a cross-check we have compared the price to net tangible assets (NTA) ratio implied by our valuation of Home with the price to NTA ratios implied by recent Australian transaction evidence.
143. Our valuation of Home implies a price to NTA ratio of 3.6 to 3.7, calculated as follows:

Price to NTA ratio		
	Low \$m	High \$m
Value of 100% of Financial Services business – (A)	451.0	471.5
NTA of Financial Services business <sup>(1)</sup> – (B)	126.1	126.1
Price to NTA ratio (A / B)	3.6	3.7

**Note:**

1 Based on NTA as at 30 June 2007 of \$144.6 million less carrying value of Property Development activities of \$18.5 million.

144. The price to NTA ratio implied by our valuation of Home's Financial Services business is high when compared to the price to NTA ratios implied from the recent Australian transaction evidence set out in paragraph 136. However, our analysis indicates that this higher ratio is attributable to the StateWest acquisition, which significantly increased intangibles and reduced NTA from a financial reporting perspective. This acquisition was a very material transaction which significantly increased the capital base of Home.

### VALUATION OF PROPERTY DEVELOPMENT BUSINESS

145. As discussed in Section V we have valued the Property Development activities of Home adopting the DCF approach as our primary valuation methodology.
146. This approach has been applied in respect of the Brighton, Dalyellup and East Busselton projects, reflecting both the long-term nature of these developments and their acceptance in the market place represented by sales of residential lots to date.
147. The balance of the Property Development portfolio has been valued on the following bases:
- Wanneroo – estimated net proceeds from the sale of the remaining residential lots in FY08
  - Margaret River and Austin Cove – at cost having regard to the relative early stage of development of both projects (neither project has yet offered any residential lots for sale)
  - Gold Estates – estimated net proceeds from sale.
148. Under the DCF method the value of each development project is equal to the net present value (NPV) of the estimated future cash flows over the remaining life of the project. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
149. Our DCF valuations are based on the free cash flow projections prepared by Home management which reflect the historical and forecast performance of the projects (including development costs, selling prices and the timing and rate of take-up of market releases of residential lots). It should be noted that the actual results may vary significantly from those projected. Consequently, neither Home management nor LEA in any way guarantee the achievability of the free cash flow projections.
150. Free cash flow represents the operating cash flows on an ungeared basis (ie before interest) less project development expenditure and working capital requirements<sup>25</sup>. The free cash flow on an ungeared basis is adopted to enable the value of each project to be determined irrespective of the level of debt funding employed.

<sup>25</sup> Consistent with observed practice in the property development sector forecast cash flows and related (investment) rates of return have been established on a pre-tax basis.

151. We have applied discount rates in the range of 16.0% to 18.0% per annum (before tax) to assess the value of individual development projects.
152. As noted above the projects (with the exception of Gold Estates) are being undertaken on a joint venture basis, with the percentage interest of Home in the respective joint ventures varying dependent on the particular project.
153. Having regard to the operation and management of the joint ventures (in particular the timing of equity cash flows), together with the advised intention of Home to retain its respective equity interests over the life of each project, we have applied a small discount to the underlying pro-rata share of our assessed value to reflect the joint venture nature of the investments.
154. Accordingly, we have assessed the interest of Home in the respective property development entities at \$82.0 million to \$90.0 million<sup>26</sup>.
155. We note the interest of Home in these entities is partly funded by debt of \$16.5 million.
156. We have therefore assessed the value of the Property Development activities of Home at \$65.5 million to \$73.5 million, as follows:

	Low \$m	High \$m
Assessed value of interests in property development activities	82.0	90.0
Less related debt funding	16.5	16.5
Assessed value of Property Development business	65.5	73.5

#### OTHER ASSETS

157. Home owns shares in CUSCAL which it acquired as part of the acquisition of StateWest. These shares are a surplus asset and have therefore been included in our valuation of Home. Due to the shares' lack of marketability we have adopted the carrying value of these shares for valuation purposes, which is approximately \$2.3 million.

#### VALUATION OF HOME

158. We have assessed the value of 100% of the shares in Home at between \$15.73 and \$16.57 per share, as summarised below:

	Low \$m	High \$m
Value of Financial Services business	451.0	471.5
Value of Property Development business	65.5	73.5
Other assets	2.3	2.3
	518.8	547.3
Add option exercise money	14.9	14.9
Value of 100% of shares in Home	533.7	562.2
Fully diluted shares on issue (000s)	33,934	33,934
Value per share	\$15.73	\$16.57

<sup>26</sup> These values are net of debt in the joint ventures.

## VII Value of Consideration Offered

159. If the Scheme is approved Home shareholders will receive 0.844 BOQ shares and \$2.80 cash per Home share (Scheme Consideration).

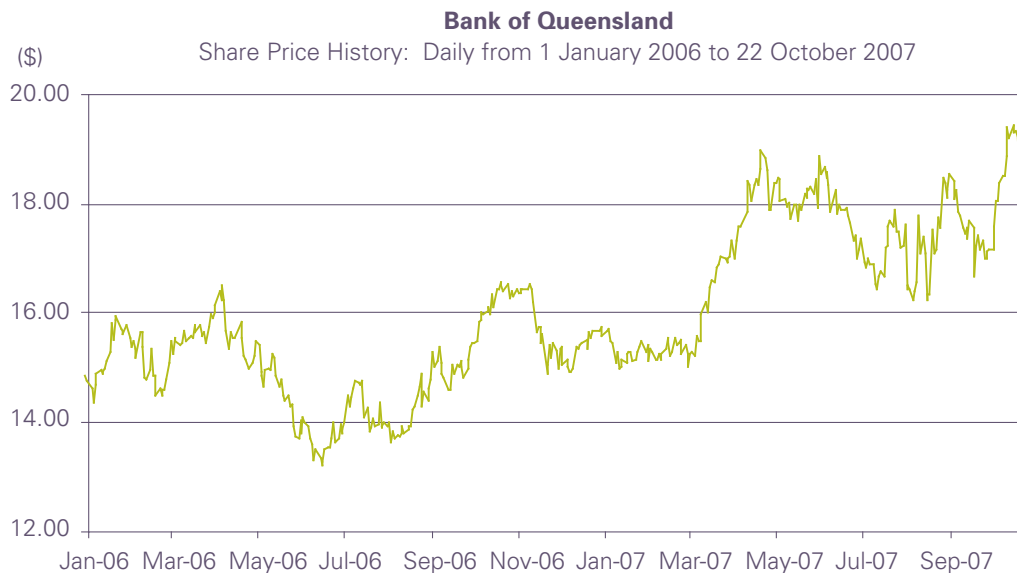
### BOQ SHARE CONSIDERATION

160. When assessing the value of the BOQ share consideration we believe it is reasonable to have regard to the recent prices at which BOQ shares have traded. This is principally because the listed market prices of BOQ shares are likely to represent a reasonable proxy for the amount that Home shareholders could expect to realise if they sold any BOQ shares received as consideration either immediately or in the short-term.

161. In our opinion, the listed market price of BOQ shares is also the most appropriate basis upon which to measure the value of the BOQ share consideration. This is because:

- (a) there are no restrictions on BOQ shares which could prevent sufficient trading to produce an unbiased share price
- (b) the number of BOQ shares traded has been relatively high<sup>27</sup>
- (c) given the size of BOQ<sup>28</sup> it is researched and analysed by share broking firms and institutional investors
- (d) significant information has been disclosed in relation to BOQ's operations in its financial reports and stock exchange announcements
- (e) BOQ has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware concerning BOQ which a reasonable person would expect to have a material effect on the price or value of BOQ shares.

162. We set out below a graph of the BOQ share price from 1 January 2006 to 22 October 2007:



<sup>27</sup> In the eight months ended 31 August 2007 47.6 million BOQ shares traded (representing around 42.5% of the number of shares on issue).

<sup>28</sup> As at 22 October 2007 BOQ market capitalisation was around \$2.1 billion.



163. The price of BOQ shares over more recent periods is shown below:

BOQ share price			
	Low	High	VWAP <sup>(1)</sup>
	\$	\$	\$
1 month to 22 October 2007	16.78	19.54	18.20
3 months to 22 October 2007	15.62	19.54	17.71
From 31 August 2007 (announcement date of the Scheme) to 22 October 2007	16.55	19.54	17.99
From 11 October 2007 (date of BOQ's FY07 profit announcement) to 22 October 2007	18.50	19.54	19.22

**Note:**

1 Volume weighted average price.

164. Based on the above analysis, in particular trading subsequent to the announcement of the Scheme, we note that the VWAP of BOQ is around \$18.00 per share. However, the BOQ price has traded within a fairly wide range and has increased appreciably subsequent to the announcement of BOQ's full year results for FY07.

165. The above share prices include an entitlement to the BOQ final dividend for FY07. Under the terms of the Scheme, Home shareholders will not receive this dividend<sup>29</sup>.

166. Accordingly, in considering the value of the BOQ share component of the consideration, it is necessary to adjust the prices above to exclude BOQ's final dividend for FY07 of 37 cents per share.

167. The adjusted VWAP of BOQ based on share market trading subsequent to the announcement of the Scheme is therefore around \$17.62 per share and the adjusted VWAP post BOQ's FY07 results announced is \$18.85 per share.

**NUMBER OF BOQ SHARES TO BE ISSUED AS CONSIDERATION**

168. In considering the value of the BOQ share consideration we have also had regard to the potential number of shares to be issued relative to the existing capital base of BOQ.

169. As at 22 October 2007 BOQ had 113.43 million ordinary shares on issue. The number of shares to be issued by BOQ as consideration will be as follows:

	million
Number of Home shares on issue <sup>(1)</sup>	32.7
BOQ shares issued as consideration for each Home share	0.844
Number of BOQ shares to be issued	27.6

**Note:**

1 Home's options have been ignored in the above calculation as they will be subject to a separate cash offer.

170. The number of new shares to be issued by BOQ as consideration will therefore represent 24.3% of the existing capital base of BOQ and 19.6% of the enlarged capital base of BOQ as follows:

	million
Number of existing BOQ shares on issue (B)	113.43
Number of BOQ shares to be issued (A)	27.60
Enlarged capital base of BOQ (C)	141.03
% (A) / (B)	24.3%
% (A) / (C)	19.6%

<sup>29</sup> Home shareholders do however receive the final dividend of \$0.24 per share declared by Home in respect of FY07.

171. Given the number of new BOQ shares to be issued under the Scheme, if a significant number of Home shareholders elect not to retain the shares in BOQ received as consideration there may be an oversupply of BOQ shares which may have an adverse effect on the BOQ share price in the short-term<sup>30</sup>.

#### FACTORS IMPACTING ON THE VALUE OF BOQ SHARES

172. In addition to the above we have given consideration to other factors likely to impact on the value of BOQ shares assuming approval of the Scheme by Home shareholders.

#### Portfolio shareholdings

173. Whilst the new shares to be issued by BOQ as part of the consideration under the Scheme represent approximately 19.6% of the enlarged capital base of BOQ, the shares will be issued in respect of individual Home shareholdings. As such the new shares will therefore represent minority or portfolio shareholdings in BOQ.

174. Accordingly, in considering the value of the BOQ shares offered as (part of the) consideration we have had regard to the value of these shares on a portfolio interest basis (excluding any control premium). This basis is consistent with the observed share market trading in BOQ noted in paragraph 163 above.

#### Dilution effect / synergy benefits

175. As noted in Section VIII of our report we have assessed that BOQ is paying a premium for control of Home. Accordingly, there is the potential for a dilution effect on the value of BOQ shares subsequent to the implementation of the Scheme, as the value of BOQ shares will reflect a portfolio rather than controlling interest in the enlarged group (as noted above).

176. However, we consider any dilutionary effect on the price of BOQ shares as a result of paying a premium for control of Home is likely to be minimal. This is because BOQ is larger than Home and because BOQ is expected to generate significant synergies as a result of the acquisition.

#### VALUE OF BOQ SHARE CONSIDERATION

177. In summary, in assessing the value of the BOQ shares offered as consideration we have had regard to:

- (a) the recent trading range of BOQ shares
- (b) the number of shares to be issued by BOQ under the Scheme as compared to the existing number of BOQ shares on issue
- (c) the likely level of on-market trading in BOQ shares subsequent to completion of the Scheme, having regard to factors including:
  - (i) any potential oversupply of BOQ shares from those Home shareholders not wishing to retain the BOQ shares received as consideration
  - (ii) the dilution effect implicit in the control premium being paid by BOQ
- (d) general stock market conditions.

178. Based on the above we have valued the BOQ shares offered as consideration at between \$18.00 and \$18.50 per share<sup>31</sup> (consistent with the recent VWAP and trading range). This represents a PE multiple range of 17.7 to 18.1 times average broker forecasts for FY08 which we consider reasonable and reflects market expectations of continued future profit growth both organically and through acquisitions.

<sup>30</sup> It should be noted that Home shareholders who will own less than 300 BOQ shares as a result of the Scheme will be provided with the opportunity to sell their BOQ shares immediately post implementation of the Scheme under a Share Sale Facility. No brokerage will be charged under this facility.

<sup>31</sup> As noted above our assessed value range of BOQ shares excludes an entitlement to the BOQ final dividend in respect of FY07.

### CONCLUSION ON VALUE OF CONSIDERATION

179. Based on the above, we have assessed the value of the consideration payable under the Scheme at \$17.99 to \$18.41 per Home share as follows:

	Low \$m	High \$m
Assessed value of BOQ shares <sup>(1)</sup>	18.00	18.50
Offer ratio	0.844	0.844
Assessed value of BOQ share consideration	15.19	15.61
Cash component of consideration	2.80	2.80
Total assessed value of consideration	17.99	18.41

**Note:**

1 Excludes BOQ final dividend in respect of FY07.

### OTHER CONSIDERATIONS

180. Home shareholders should note that the listed market price of BOQ shares is subject to daily fluctuation. The price at which BOQ shares may be sold may therefore be greater or less than our assessed value of BOQ shares of \$18.00 to \$18.50 per share.

181. Home shareholders should also note that any decision to hold BOQ shares beyond the short-term is a separate investment decision. As it is not possible to accurately predict future share price movements any decision to hold BOQ shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

## VIII Evaluation of the Scheme

182. In our opinion the acquisition of Home shares by BOQ under the Scheme is fair and reasonable and in the best interests of Home shareholders, in the absence of a superior proposal.
183. We therefore recommend that Home shareholders vote in favour of the Scheme in the absence of a superior proposal.
184. We have formed this opinion for the following reasons.

### ASSESSMENT OF THE SCHEME

#### Scheme Consideration

185. As noted above, LEA has valued 100% of the ordinary shares in Home on a controlling interest basis at between \$15.73 and \$16.57 per share<sup>32</sup>. Accordingly, the Scheme Consideration of between \$17.99 and \$18.41 per share lies above the top end of our assessed range of values for Home on a 100% controlling interest basis.
186. We therefore consider the Scheme Consideration to be fair within the context of ASIC Regulatory Guide 75.

#### OTHER QUALITATIVE FACTORS

187. Pursuant to ASIC Regulatory Guide 75 a transaction is reasonable if it is fair. In assessing whether the Scheme is reasonable<sup>33</sup> LEA has also considered, in particular:
- (a) the extent to which a control premium is being paid to Home shareholders
  - (b) the likelihood of an alternative offer or proposal
  - (c) the listed market price of Home shares in the period subsequent to the announcement of the Scheme
  - (d) the likely price of Home shares if the Scheme is not approved
  - (e) the level of synergy/rationalisation benefits likely to be generated by the purchaser, and the extent to which a share of these benefits is being paid to Home shareholders
  - (f) other qualitative and strategic issues, risks and advantages
  - (g) disadvantages associated with the Scheme.
188. These issues are discussed in detail below.

#### Extent to which a control premium is being paid

189. Empirical evidence indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
  - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
  - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
  - (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

<sup>32</sup> Our valuation range excludes the final dividend of \$0.24 per Home share in respect of FY07.

<sup>33</sup> In the context of "fair and reasonable" and the concept of "in the best interests" of Home shareholders discussed in Section II.

190. We have calculated the premium implied by the Scheme Consideration by reference to the VWAP and closing prices of Home shares for periods prior to 31 August 2007, being the date of the announcement of the Scheme.
191. We note that during these periods Home shares traded with an entitlement to the (subsequently announced) Home final dividend for FY07 of \$0.24 per share. To ensure the implied premium is calculated on an appropriate basis we have therefore adopted a Scheme Consideration of \$18.44 per Home share, determined as follows:

	\$
Assessed value of Scheme Consideration (mid-point)	18.20
Home FY07 final dividend	0.24
Total value to Home shareholders	18.44

192. The implied offer premium relative to Home share prices prior to 31 August 2007 is shown below:

Implied offer premium relative to recent Home share price		
	Home share price \$	Implied offer premium %
Scheme Consideration <sup>(1)</sup>	18.44	
Closing share price on		
• 30 August 2007 (the last trading day prior to the announcement of the Scheme)	14.11	30.7
• 31 July 2007 (1 month prior to the announcement of the Scheme)	13.80	33.6
• 31 May 2007 (3 months prior to the announcement of the Scheme)	15.25	20.9
VWAP		
• 1 month to 30 August 2007	13.03	41.5
• 3 months to 30 August 2007	13.95	32.2

**Note:**

1 Including Home FY07 final dividend of \$0.24 per share.

193. Having regard to the above, in our opinion, the Scheme Consideration provides Home shareholders with a sufficient premium to compensate them for the fact that control of Home will pass to BOQ if the Scheme is approved.

**Likelihood of an alternative offer**

194. Home management has advised that no higher offer or superior proposal to acquire all the shares in Home has been received since the announcement of the Scheme on 31 August 2007. Home shareholders should also note that, as a condition of the Scheme, Home has undertaken not to solicit, initiate, invite, encourage or participate in any potential competing transaction. This undertaking is subject to normal fiduciary duty carve-outs that allow Home to appropriately respond to a bona fide unsolicited offer.
195. Further, we note that subsequent to Home trading excluding the entitlement to the final FY07 dividend, the Home share price continues to trade below our assessed value of the Scheme Consideration. This indicates that market participants do not expect a superior offer or proposal to emerge at this time.
196. Having regard to the above, in our opinion, it is unlikely that a higher offer or superior proposal to the Scheme will be received prior to the Scheme meeting.

**Likely price of Home shares if the Scheme is not approved**

197. If the Scheme is not approved and no higher offer or alternative proposal emerges, Home shares would be expected to trade at a discount to the value of the Scheme Consideration (assuming similar stock market conditions) consistent with observed historical trading in Home shares.

198. However, given the large potential synergies available to potential purchasers and the level of takeover activity generally relating to regional banks / building societies, in our opinion, the potential of further corporate activity (if the Scheme is not approved) involving Home is high.
199. As a result, in our view, in such circumstances the Home share price is likely to trade above the trading levels prior to the announcement of the Scheme.

#### The extent to which a share of synergies is being paid away

200. As set out in Section VI BOQ is likely to generate significant synergies as a result of acquiring Home.
201. In our opinion, our valuation of Home and the value of the consideration under the Scheme reflects a significant share of the value of synergies which BOQ expects to generate as a result of the Scheme. In the absence of these synergies a significantly lower PE multiple would have been appropriate when valuing Home.

#### Liquidity

202. Shareholders should note that in the year prior to the announcement of the Scheme 5.2 million Home shares traded, representing some 16% of the total Home shares on issue as at 28 September 2007. Whilst not insignificant, this level of trading is below observed levels of share trading in companies of a comparable size.
203. In the absence of the Scheme (or other proposal or offer for Home), shareholders may therefore find it difficult to sell large parcels of shares or may need to do so at a discount to the last traded price.
204. In contrast BOQ shares are relatively liquid<sup>34</sup>. Home shareholders are therefore likely to benefit from the greater liquidity of BOQ shares.

#### Relative risks

205. In our opinion, Home shareholders receiving BOQ shares as consideration under the Scheme will own shares in an appreciably larger company than Home.
206. A comparison of both entities prior to implementation of the Scheme is shown below:

	Home	BOQ
Market capitalisation as at 30 August 2007 <sup>(1)</sup> (\$m)	461.9	1,981.4
Number of locations (branches and agents)	29	~ 240
Reported profit after tax (\$m)	13.2 <sup>(2)</sup>	129.8 <sup>(3)</sup>
Total assets (\$m)	2,959 <sup>(4)</sup>	20,037.3 <sup>(5)</sup>
Net assets attributable to shareholders (\$m)	316.1 <sup>(4)</sup>	854.3 <sup>(5)</sup>

#### Note:

- 1 Trading day before the announcement of the Scheme.
- 2 For the year ended 30 June 2007.
- 3 For the year ended 31 August 2007.
- 4 As at 30 June 2007.
- 5 As at 31 August 2007.

#### summary of opinion on the scheme

207. We summarise below the likely impact of the Scheme for Home shareholders.

#### Advantages

208. The Scheme has the following benefits for Home shareholders:

- (a) the assessed value of the Scheme Consideration of \$17.99 to \$18.41 per share lies above the top end of our assessed value range of 100% of Home of \$15.73 to \$16.57 per share, and is therefore fair to Home shareholders when assessed under the guidelines set out in ASIC Regulatory Guide 75

<sup>34</sup> In the eight months ended 31 August 2007 47.6 million BOQ shares traded, representing 42.5% of the total number of shares currently on issue.

- (b) the Scheme Consideration represents a significant premium to the recent market prices of Home shares prior to the announcement of the Scheme
- (c) in our opinion Home shareholders are being paid a significant share of the synergy benefits which are expected to be generated as a result of the acquisition. In addition, Home shareholders will own around 20% of the merged group and will therefore participate in the expected realisation of identified synergies
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Home shares is likely to trade at a discount to our valuation and the Scheme Consideration (although the possibility of future corporate activity involving Home is likely to limit the extent of the discount in the short-term)
- (e) Home shareholders will receive BOQ shares as consideration under the Proposal and consequently:
  - (i) will own shares in an appreciably larger company than Home
  - (ii) will benefit from the greater liquidity of BOQ shares.

209. Further, it should be noted that:

- (a) no alternative proposal has emerged subsequent to the announcement of the Scheme
- (b) as a condition of the Scheme, Home is unable to solicit, encourage or initiate any competing transaction
- (c) as a result of the above it is unlikely that a higher offer or superior proposal to the Scheme will be received prior to the Scheme meeting.

210. Shareholders should also be aware that if the Scheme is approved, they will no longer hold a direct interest in Home. However, as noted above, Home shareholders (in aggregate) will own around 20% of the enlarged group if the Scheme is approved.

### **Conclusion**

211. Given the above analysis, in our opinion the acquisition of Home shares under the Scheme is fair and reasonable and in the best interests of Home shareholders in the absence of a superior proposal.

### **general**

212. The impact of approving the Scheme on the tax position of Home shareholders depends on the individual circumstances of each investor. Home shareholders should read the taxation advice set out in the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

213. The ultimate decision whether to approve the Scheme should be based on each Home shareholder's assessment of their own circumstances. If Home shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

# Financial Services Guide

# Appendix A

## LONERGAN EDWARDS & ASSOCIATES LIMITED

1. LonerGAN Edwards & Associates Limited (ABN53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
2. LEA holds Australian Financial Services Licence No 246532.

## FINANCIAL SERVICES GUIDE

3. The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its provision of an IER to accompany the Scheme Booklet to be sent to Home shareholders in connection with the Scheme.
4. This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

## FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

5. Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

## GENERAL FINANCIAL PRODUCT ADVICE

6. The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
7. You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

## FEES, COMMISSIONS AND OTHER BENEFITS WE MAY RECEIVE

8. LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER our fees are based on a time cost basis using agreed hourly rates.
9. Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
10. All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
11. We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

## COMPLAINTS

12. If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
13. If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Services (FICS), an external complaints resolution service. You will not be charged for using the FICS service.



## CONTACT DETAILS

14. LEA can be contacted by sending a letter to the following address:

Level 27  
363 George Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Qualifications, Declarations and Consents

## Appendix B

### QUALIFICATIONS

1. LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports.
2. This report was prepared by Mr Craig Edwards (BCom, CA, SF Fin) and Mr Martin Holt (BA (Econ), FCA, SA Fin), who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 14 years and 20 years experience respectively in the provision of valuation advice.

### DECLARATIONS

3. This report has been prepared at the request of the Directors of Home to accompany the Scheme Booklet to be sent to Home shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of the shareholders of Home.

### INTERESTS

4. At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Scheme. LEA is entitled to receive a fee of \$95,000 plus GST for the preparation of this report. With the exception of the above fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

### INDEMNIFICATION

5. As a condition of LEA's agreement to prepare this report, Home agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Home which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

### CONSENTS

6. LEA consents to the inclusion of this report in the form and context in which it is included in Home's Scheme Booklet.

## OUTLINE

1. BOQ is one of Australia's fastest growing regional banks. In the last five years it has more than doubled its branch numbers, its assets under management have more than trebled to almost \$20 billion while its market capitalisation has grown from approximately \$400 million to \$2 billion.
2. BOQ provides a range of banking services including the provision of home mortgage loans, business loans, deposit facilities, credit card facilities, leasing, equipment finance, insurance, corporate and international services.
3. BOQ has won Best Regional Bank in the AB&F Banking and Finance Awards twice in the last five years and is recognised as one of the highest customer service banks in the country.

## HISTORY

4. BOQ was established in 1874 as The Brisbane Permanent Benefit Building and Investment Society, the first permanent building society formed in Queensland. In 1887, the society converted to a bank and became a trading bank in 1942, following mergers with other Queensland based financial institutions.
5. The name Bank of Queensland was adopted in 1970 just as its operations were computerised. A year later BOQ became a publicly traded company listed on the Australian Securities Exchange.
6. Some of the recent corporate activities of BOQ include the acquisition of:
  - (a) ATM Solutions Australasia Pty Limited (ATM Solutions) during 2003. At the time of the acquisition ATM Solutions was Australia's second largest non-bank automated teller machine provider. ATM Solutions was subsequently sold to Macquarie Bank in 2005
  - (b) UFJ Finance Australia Limited, an equipment finance company, in 2003
  - (c) the Debtor Finance division of Orix Australia Corporation Limited in December 2005
  - (d) Pioneer Permanent Building Society Limited (Pioneer) in December 2006. At the time of the acquisition Pioneer was a building society based in Mackay, Queensland.

## CURRENT OPERATIONS

7. BOQ operates a network of approximately 240 branches, 16 business banking centres and 2,400 BOQ-branded ATMs throughout Australia. A large majority of BOQ's branches are operated under the Owner Managed Branch (OMB) model whereby the operation of branches is franchised to third party managers. The model takes advantage of the BOQ brand and policies while utilising the local manager's knowledge and networks.
8. BOQ has formed an alliance with Genesys Wealth Management Limited (Genesys) to provide financial planning and risk management advice. Genesys has a network of over 400 wealth advisers across Australia, providing financial services to around 100,000 customers and advising on more than \$8 billion of investments and \$100 million in annual insurance premiums.
9. Expansion within and beyond Queensland is a priority for BOQ with the number of branches added to year on year. This is also evidenced by BOQ's acquisition of Pioneer as well as the proposed takeover offers for Mackay and Home.

## summary of financial performance

10. A summary of BOQ's operating performance for the recent periods is set out below:

Financial performance of BOQ			
	FY05	FY06	FY07
	\$m	\$m	\$m
Interest income	861.7	1,017.0	1,311.1
Interest expense	(629.3)	(747.2)	(989.8)
Net interest income	232.4	269.8	321.3
Other operating income	134.1	115.2	178.7
Total operating income	366.5	385.0	500.0
Expenses	(226.8)	(249.1)	(294.7)
Profit before impairment on loans and advances and tax	139.7	135.9	205.3
Impairment on loans and advances	(13.4)	(12.3)	(20.9)
Profit before tax	126.3	123.6	184.4
Income tax expense	(36.4)	(30.9)	(54.6)
Profit after tax	89.9	92.7	129.8
Interest margin	1.83%	1.83%	1.81%
Cost to income ratio	61.9%	64.5%	62.6%

11. Factors impacting on the operating performance of BOQ during the above periods are outlined below:

### FY05

- Other operating income included a pre-tax profit of \$23.6 million from the sale of ATM Solutions
- Total operating income increased by 22% during the year as a result of growth in net interest income (reflecting commercial and retail loan growth and strong retail deposit growth) and non-interest income (excluding profits from the sale of businesses, the growth was driven by growth in lending approvals and assets)
- Retail deposits grew as a result of growth in the customer base through branch expansion and more product offerings

### FY06

- The results for the period included a \$6.5 million tax benefit associated with the disposal of BOQ's former banking platform
- The agreement to provide financial planning and risk management services through Genesys was formalised
- Expansion accelerated with 42 new branches added during the year
- For FY06 BOQ reported:
  - Loan approval growth of 33%
  - Retail deposit growth of 18%, and
  - Loans under management growth of 22%

### FY07

- BOQ reported a headline profit after tax of \$129.8 million for the 2006/07 financial year, an increase of 40% on the last financial year.
- The result included a one-off tax profit of \$29.1 million on the sale of BOQ's credit card portfolio to Citigroup Pty Ltd.
- The strong performance is on the back of growth in loans under management of 27% and retail deposits of 33% compared to the previous financial year.
- BOQ completed the Pioneer acquisition in December 2006.

## FINANCIAL POSITION

12. The financial position of BOQ as at 31 August 2006 and 31 August 2007 is set out below:

<b>Financial position of BOQ</b>		
	<b>31 Aug 06</b>	<b>31 Aug 07</b>
	<b>\$m</b>	<b>\$m</b>
<b>Assets</b>		
Cash and liquid assets	261.8	479.1
Due from other financial institutions	45.0	46.8
Trading securities	1,083.3	1,474.4
Investment securities available for sale	25.6	132.5
Derivative financial instruments	31.6	35.3
Loans and advances at amortised cost	14,003.7	17,600.8
Property, plant and equipment	19.6	19.7
Deferred tax assets	53.9	–
Other assets	162.9	120.5
Intangible assets	109.7	128.2
<b>Total assets</b>	<b>15,797.1</b>	<b>20,037.3</b>
<b>Liabilities</b>		
Due to other financial institutions	95.6	121.5
Deposits	9,949.6	12,720.3
Derivative financial instruments	11.5	58.1
Accounts payable and other liabilities	161.7	233.4
Current tax liabilities	54.5	21.2
Provisions	16.0	12.7
Deferred tax liabilities	–	11.6
Borrowings including subordinated notes	4,818.4	6,004.2
<b>Total liabilities</b>	<b>15,107.3</b>	<b>19,183.0</b>
<b>Net assets</b>	<b>689.8</b>	<b>854.3</b>
Capital adequacy ratio	12.5%	11.5%

### Loans and advances at amortised cost

13. Loans and advances at amortised cost comprise:

<b>Loans and advances at amortised cost</b>		
	<b>31 Aug 06</b>	<b>31 Aug 07</b>
	<b>\$m</b>	<b>\$m</b>
Loans by type		
Residential property loans – secured by mortgages	6,584.3	8,591.5
Securitised residential property loans – secured by mortgages	3,183.1	4,218.8
Personal loans	246.8	336.6
Credit cards	224.3	0.4
Overdrafts	265.1	328.3
Commercial loans	2,480.1	3,135.5
Leasing finance	1,182.9	1,167.6
Gross loans and advances at amortised cost	14,166.6	17,778.7
Less:		
Unearned lease finance income	(149.1)	(164.0)
Collective provision for impairment	(8.1)	(7.7)
Specific provisions for impairment	(5.7)	(6.2)
	<b>14,003.7</b>	<b>17,600.8</b>

## Deposits

14. The key categories of deposits are summarised below:

Categories of deposits	31 Aug 06	31 Aug 07
	\$m	\$m
At call	4,341.2	6,148.4
Term deposits	3,199.3	3,740.9
Certificates of deposit	2,409.1	2,831.0
	9,949.6	12,720.3

## SHARE CAPITAL

15. As at 22 October 2007 BOQ had 113,430,550 quoted ordinary shares on issue.

16. The company also has a number of options on issue which are held by executives.

## SHARE PRICE PERFORMANCE

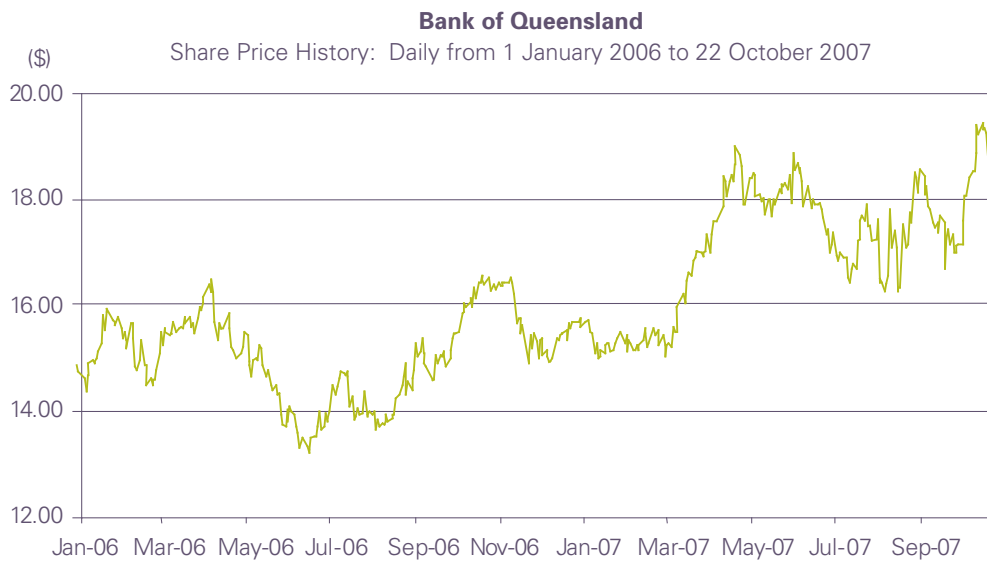
17. The price of BOQ's shares from 1 January 2006 to 22 October 2007 is summarised in the table below:

Quarter ended	High	Low	Close	Monthly Volume <sup>(1)</sup>
	\$	\$	\$	000
Mar-06	16.35	14.35	16.15	3,948
Jun-06	16.50	13.05	14.00	5,278
Sep-06	15.47	13.65	15.47	3,514
Dec-06	16.80	14.82	15.57	4,448
<b>Month</b>				
Jan-07	15.74	14.98	15.11	4,541
Feb-07	15.58	15.00	15.04	5,378
Mar-07	17.39	15.10	17.32	8,719
Apr-07	19.15	17.00	18.40	7,989
May-07	18.90	17.70	18.90	4,728
Jun-07	18.98	17.00	17.36	5,166
Jul-07	17.95	16.36	17.63	4,894
Aug-07	18.56	15.62	18.56	6,157
Sep-07	18.63	16.55	17.18	6,207
1 Oct - 22 Oct 2007	19.54	17.18	18.95	6,069

### Note:

1 Monthly volumes for the quarters represent average monthly volumes.

18. The following graph illustrates the movement in BOQ's share price:



## Trading Multiples of Listed Companies

## Appendix D

1. There are a number of listed companies involved in the Australian banking and finance sector. The listed share market values as a multiple of profit after tax are shown below:

	Market Capitalisation \$m <sup>(1)</sup>	PE Multiples <sup>(2)</sup>	
		2007	2008
<b>Major Banks</b>			
Commonwealth Bank	77,229	17.3	15.5
National Australia Bank Ltd	67,757	15.4	13.9
ANZ Banking Group Ltd	58,425	14.9	13.7
Westpac Bank	55,393	16.0	14.6
<b>Regional Banks</b>			
St George Bank Ltd	20,205	17.3	15.7
Bank of Queensland Ltd <sup>(3)</sup>	2,205	17.2	19.3
Bendigo Bank Ltd <sup>(4)</sup>	1,904	16.8	15.1
Adelaide Bank Ltd <sup>(5)</sup>	1,603	15.6	14.1
<b>Building Societies</b>			
Wide Bay Australia Ltd	315	19.6	17.7
Rock Building Society Ltd	89	23.5	20.2

**Note:**

- 1 Market capitalisation as at 15 October 2007 with the exception of Bendigo Bank and Adelaide Bank (refer note 4).
- 2 Forecast multiples based on average broker forecasts sourced from Reuters.
- 3 BOQ has recently announced proposals to acquire Home and Mackay Permanent Building Society.
- 4 On 19 March 2007 Bendigo Bank announced that it had received a conditional merger proposal from BOQ. Subsequently, on 9 August 2007 Bendigo Bank and Adelaide Bank announced their intention to merge. In order to exclude the impact of these announcements on the market price, the PE multiple for Bendigo Bank has been calculated based on the one month VWAP of Bendigo Bank shares prior to the 19 March 2007 announcement.
- 5 As stated above Bendigo Bank and Adelaide Bank announced on 9 August 2007 their intention to merge. In order to exclude the impact of this announcement on the market price, the PE multiple for Adelaide Bank has been calculated based on the one month VWAP of Adelaide Bank shares prior to the announcement of the proposal.



## Glossary

## Appendix E

ADI	Authorised Deposit Taking Institution
AIFRS	Australian equivalent to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATM	Automatic Teller Machines
ATM Solutions	ATM Solutions Australasia Pty Limited
BOQ	Bank of Queensland Limited
Corporations Act	Corporations Act 2001 (Cth)
CUSCAL	Credit Union Services Corporation (Australia) Limited
DCF	Discounted cash flow
EPS	Earnings per share
FICS	Financial Industry Complaints Services
FSG	Financial Services Guide
FY	Financial year
Genesys	Genesys Wealth Management Limited
Gold Estates	Gold Estates Holdings Pty Limited
HCM	Home Credit Management Ltd
Home	Home Building Society Limited
IER	Independent expert's report
LEA	LonerGAN Edwards & Associates Limited
Mackay	Mackay Permanent Building Society Limited
MID	Merger Implementation Deed
NPAT	Net profit after tax
NPV	Net present value
NTA	Net tangible assets
OMB	Owner Managed Branch
PE	Price earnings
Pioneer	Pioneer Permanent Building Society Limited
PNCS	Police & Nurses Credit Society
Proposal	The merger proposal under which BOQ is to acquire all the shares and options in Home
Scheme	The scheme of arrangement between Home and its shareholders
Scheme Consideration	0.844 BOQ shares and \$2.80 cash per Home share
SPG	Satterley Property Group Pty Ltd
StateWest	StateWest Financial Services Ltd
VWAP	Volume weighted average price
WA	Western Australia
Wide Bay	Wide Bay Australia Limited