

# Bank of Queensland

Half-Year Results  
28 February 2007

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# Agenda

- **Result highlights**

David Liddy

Managing Director

- **Financial result in detail**

Robert Hines

Chief Financial Officer

- **Strategy and outlook**

David Liddy

Managing Director

# Result highlights

David Liddy, Managing Director

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# Result highlights

- ▶ Record NPAT up 21%
- ▶ Sector leading growth in lending and deposits
- ▶ Improving shareholder returns
- ▶ Stable margin
- ▶ Continuing double digit EPS growth
- ▶ Sound credit quality

# Strong financial results

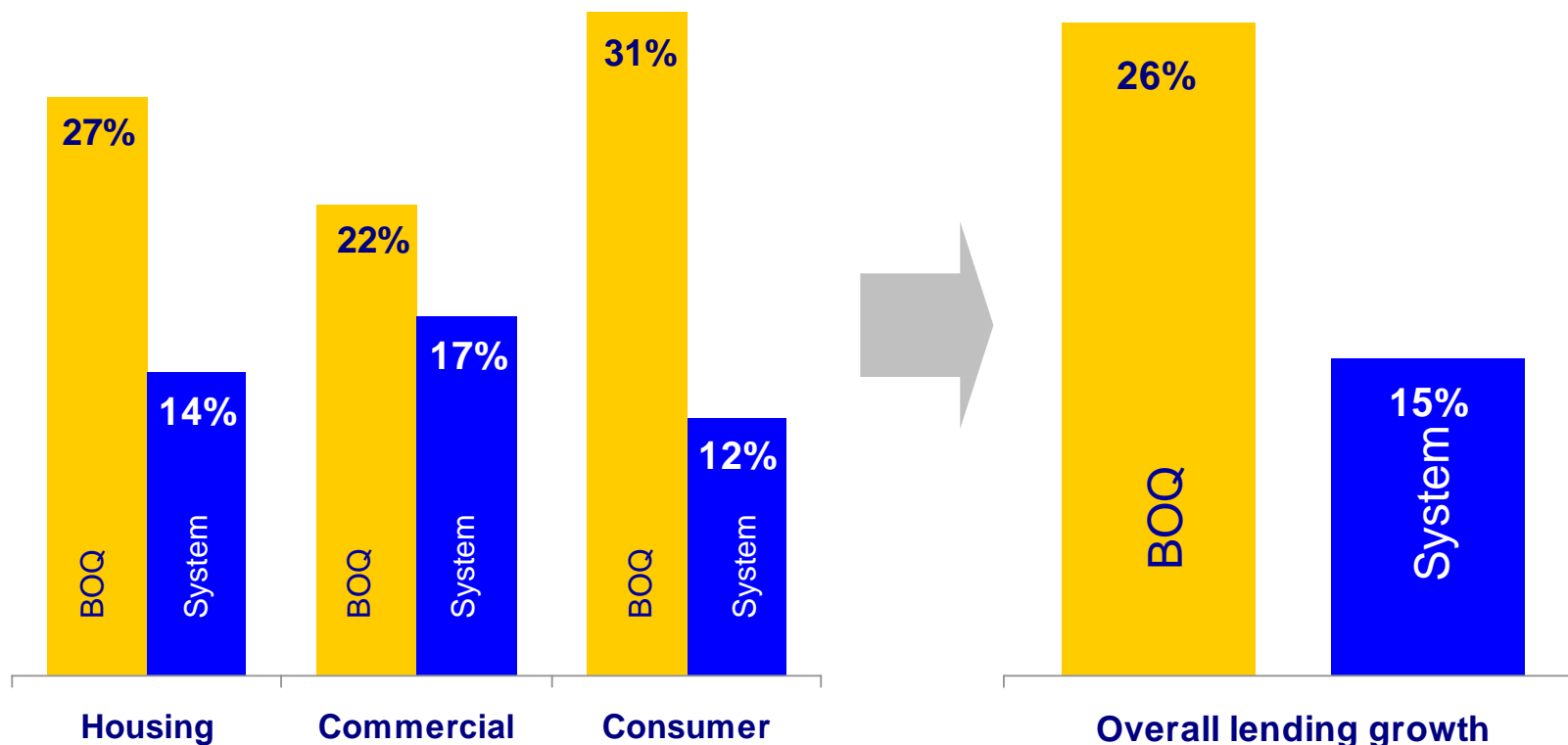
	1H06	1H07	
<b>Net profit after tax</b>	\$40.0m	<b>\$48.4m</b>	↑ 21%
<b>Cash distributable earnings</b>	\$37.6m	<b>\$45.9m</b>	↑ 22%
<b>Cash EPS</b> (diluted, distributable earnings)	35.5¢	<b>40.8¢</b>	↑ 15%
<b>Ordinary dividend</b>	27¢	<b>32¢</b>	↑ 19%
<b>Loan approvals</b>	\$4.5b	<b>\$5.6b</b>	↑ 24%
<b>Loan growth</b> *	19%	<b>26%</b>	1.7x system
<b>Retail deposit growth</b> *	18%	<b>30%</b>	2.8x system
<b>Net interest margin</b>	1.83%	<b>1.85%</b>	+2bps
<b>Cost to income ratio</b> (cash basis)	64%	<b>64%</b>	-

\* Includes growth upon the acquisition of Pioneer Permanent Building Society Ltd.

# Continuing strong lending growth

▶ Strong growth in all areas \*

▶ Overall 1.7x system growth \*



\* Includes growth upon the acquisition of Pioneer Permanent Building Society Ltd. If growth upon acquisition excluded overall growth was 23%, 1.5x system, Housing growth 24%, 1.7x system, Commercial 21%. 1.2x system.

Source: RBA, rolling 12 months

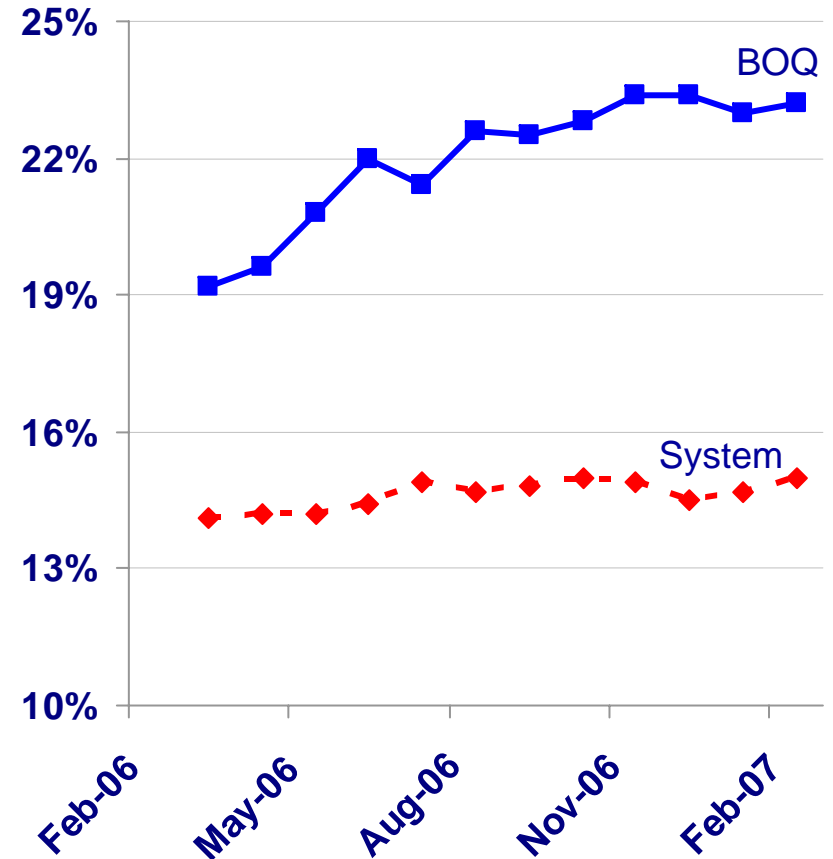
**FY07 Half-Year Results**

# Increasing sales flowing through to growth

## Loan approvals



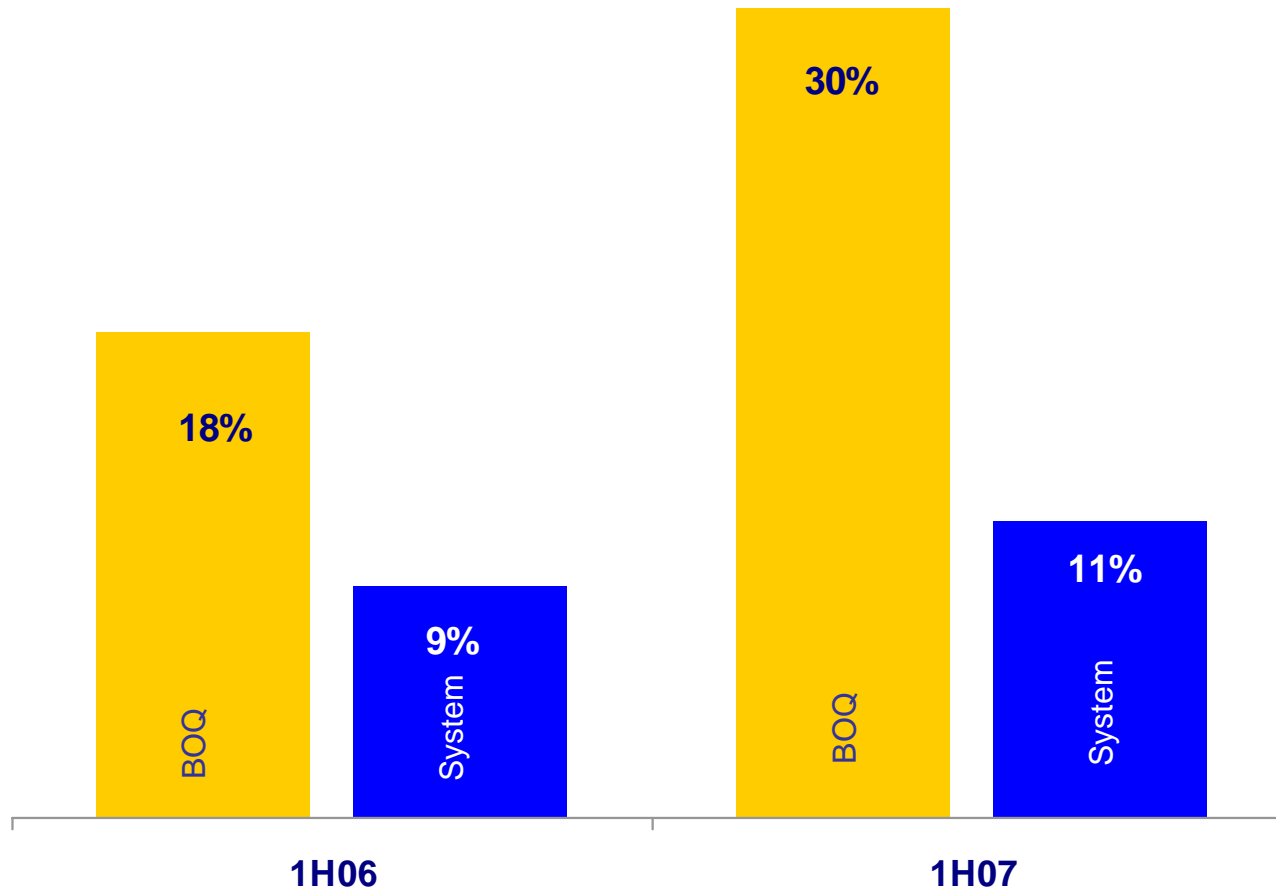
## Lending growth exceeding system\*



Source: RBA

\* Excludes the growth upon acquisition of Pioneer Permanent Building Society Ltd.

# Excellent retail deposit growth



System: APRA monthly statistics, household deposits

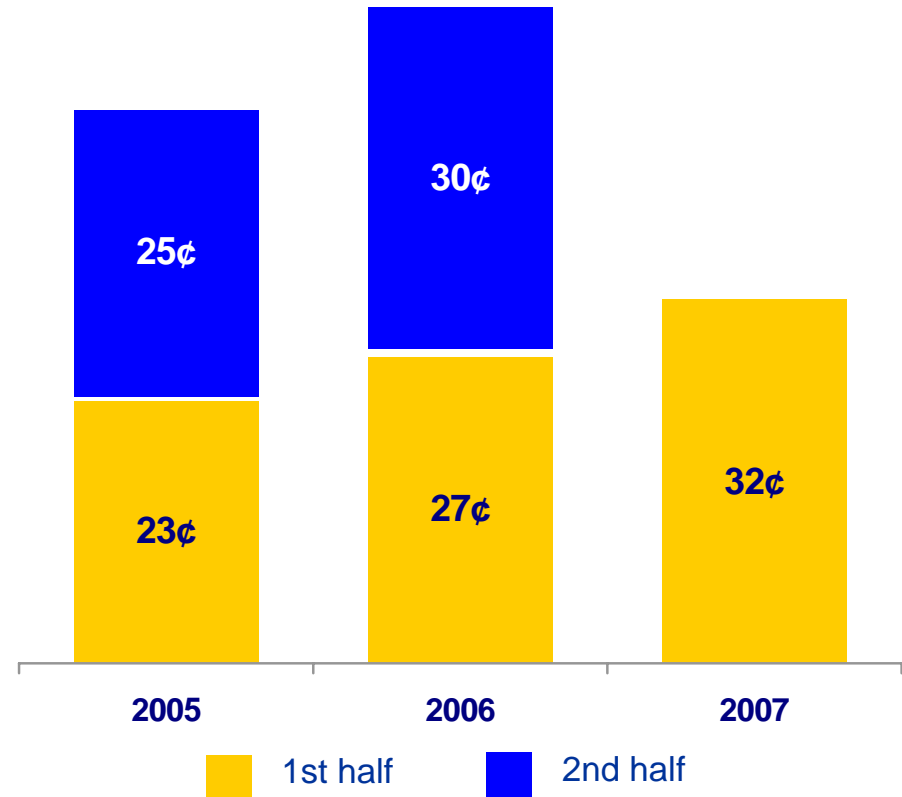
\* Includes growth upon the acquisition of Pioneer Permanent Building Society Ltd. If growth upon acquisition excluded overall growth was 23%, 2.1x system,

**FY07 Half-Year Results**



# Increasing shareholder returns

- ▶ 24% average 5 year annual total shareholder return



1H payout ratio*	72%	75%	78%
	2005	2006	2007

\* Excludes special dividends, on a cash distributable earnings basis

# The result in detail

Robert Hines, Chief Financial Officer

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The logo for Bank of Queensland, featuring a stylized blue and orange shape resembling a folded corner or a flag, with the text "Bank of Queensland" in white on a dark blue background.

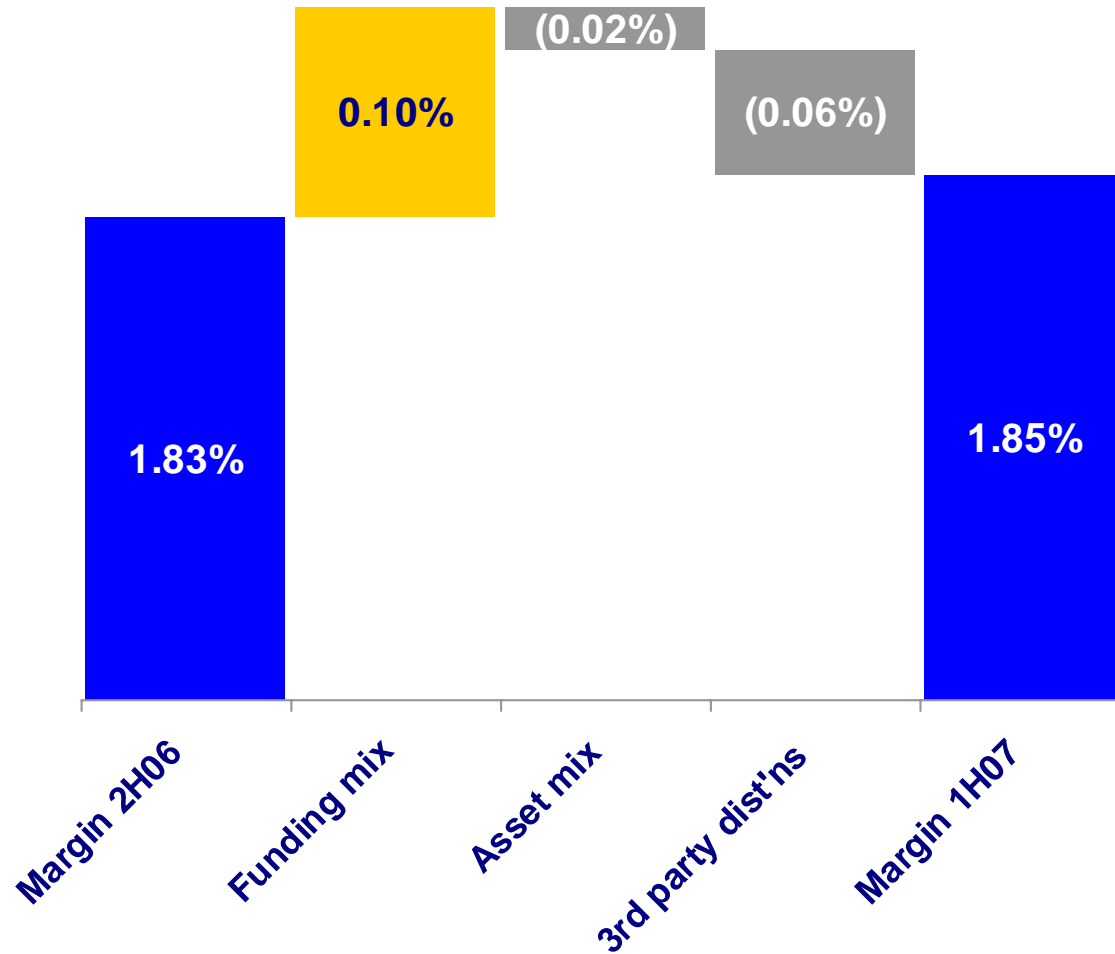
Bank of  
Queensland

# Summary of results

	1H06 \$m	1H07 \$m	% Change vs PCP
Total operating income	177.1	219.6	24%
Total expenses	113.5	141.7	25%
<b>Underlying profit</b>	63.6	77.9	22%
Impairment on loans and advances	3.4	9.3	174%
<b>Profit before tax</b>	60.2	68.6	14%
Income tax	20.2	20.2	0%
<b>Net profit after tax</b>	40.0	48.4	21%
Movement in GRCL *	2.5	3.4	36%
<b>Distributable earnings</b>	37.5	45.0	20%
Add: Amortisation of customer contracts *	0.1	0.9	-
<b>Cash distributable earnings</b>	37.6	45.9	22%
<b>Cash diluted EPS (distributable)</b>	35.5¢	40.8¢	15%

\* Tax effected.

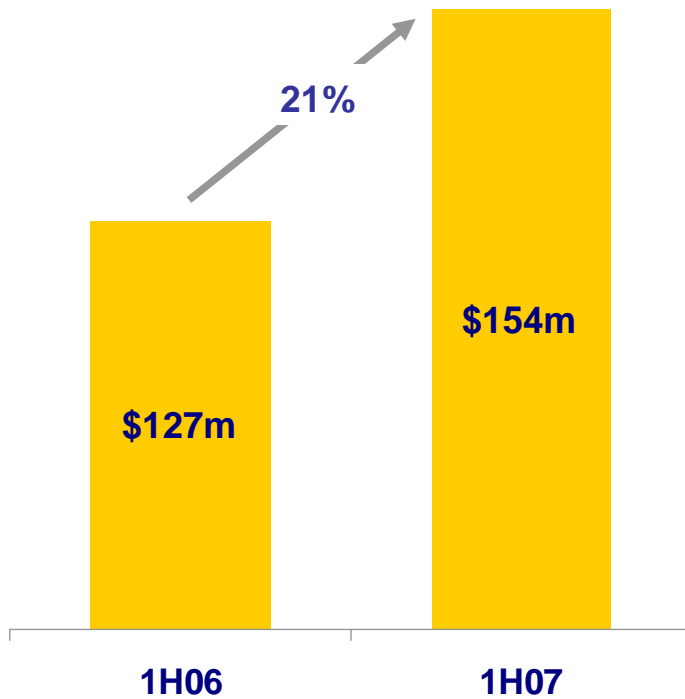
# Margin improvement



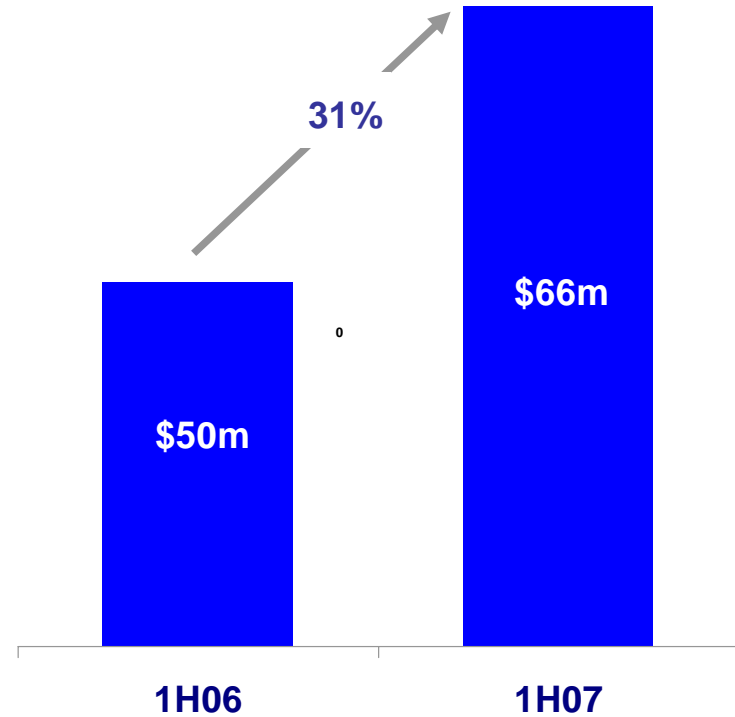
# Growing income

- ▶ Strong growth flowing through to total income, up 24%

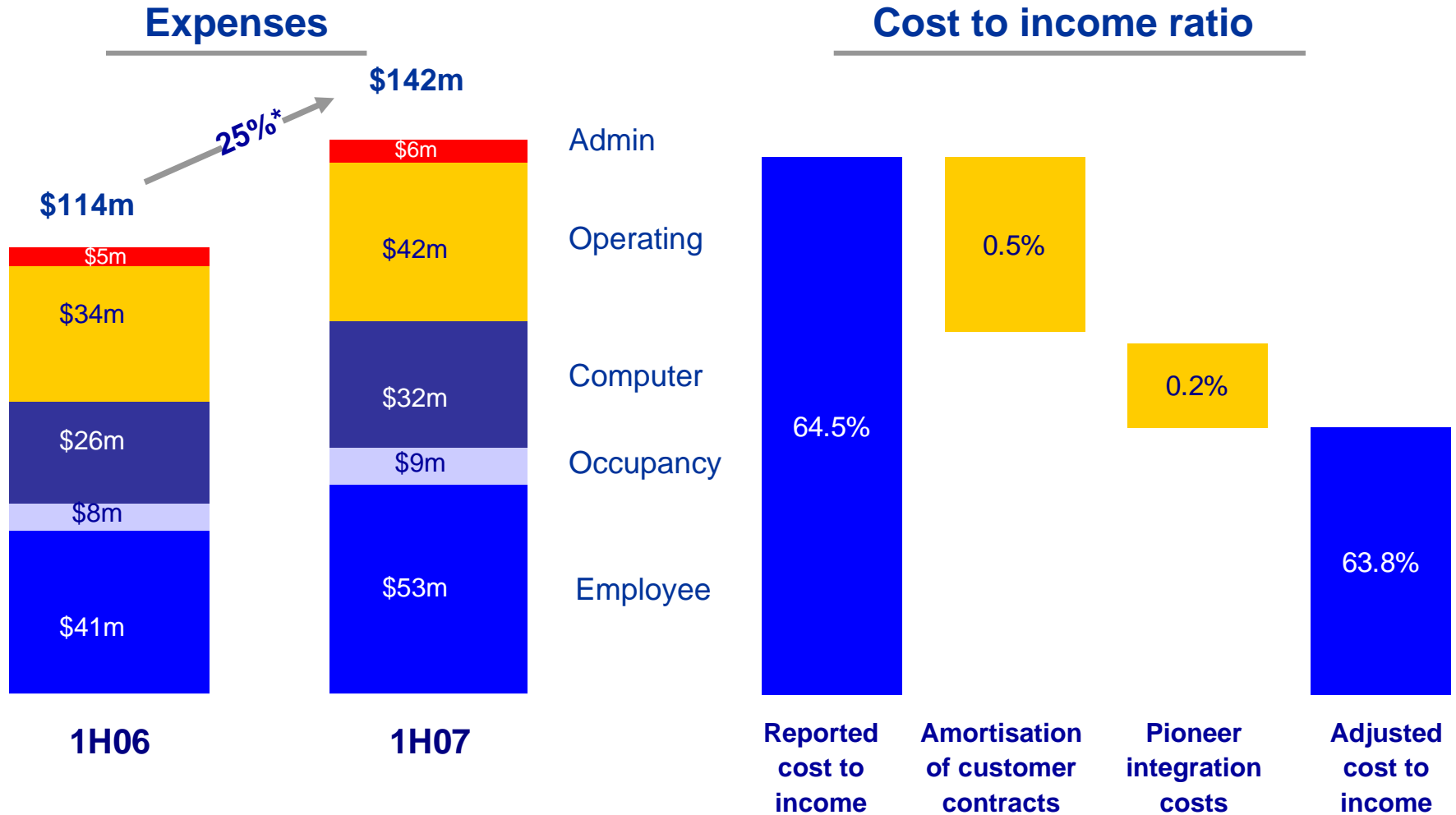
## Net interest income



## Non interest income



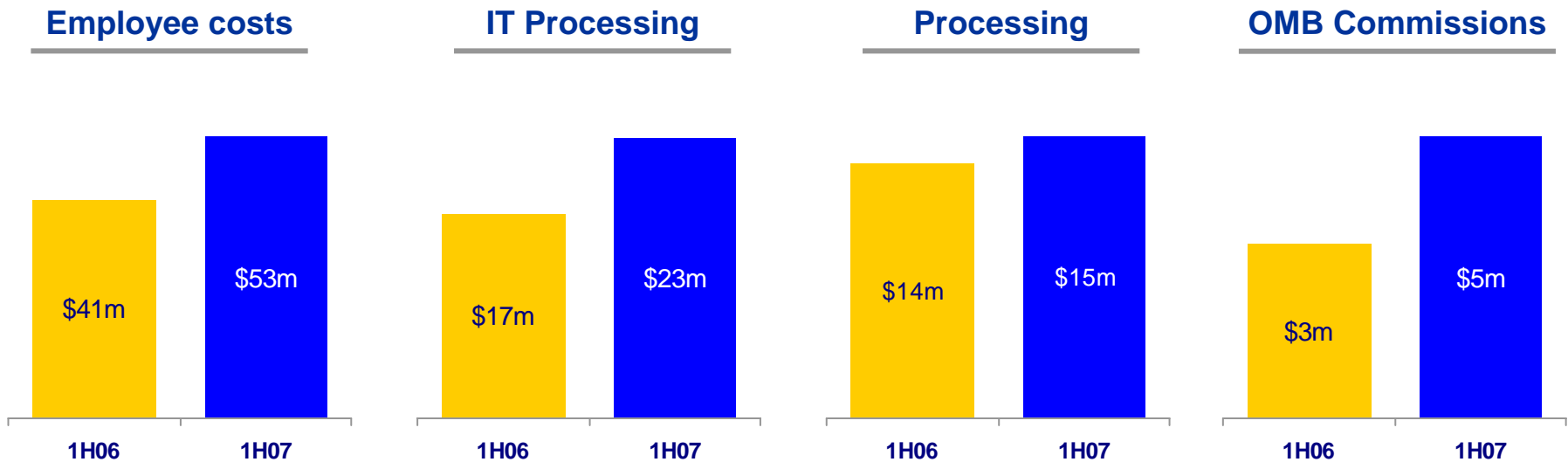
# Expenses



\* Excluding Pioneer expenses in 1H07 and excluding amortisation of customer contracts expenses grew 22%.

# Expenses

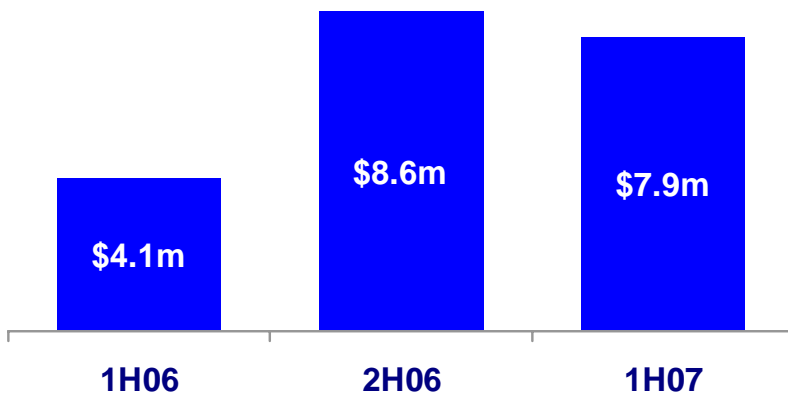
- ▶ Expense growth impacted by growth and volume of new business:



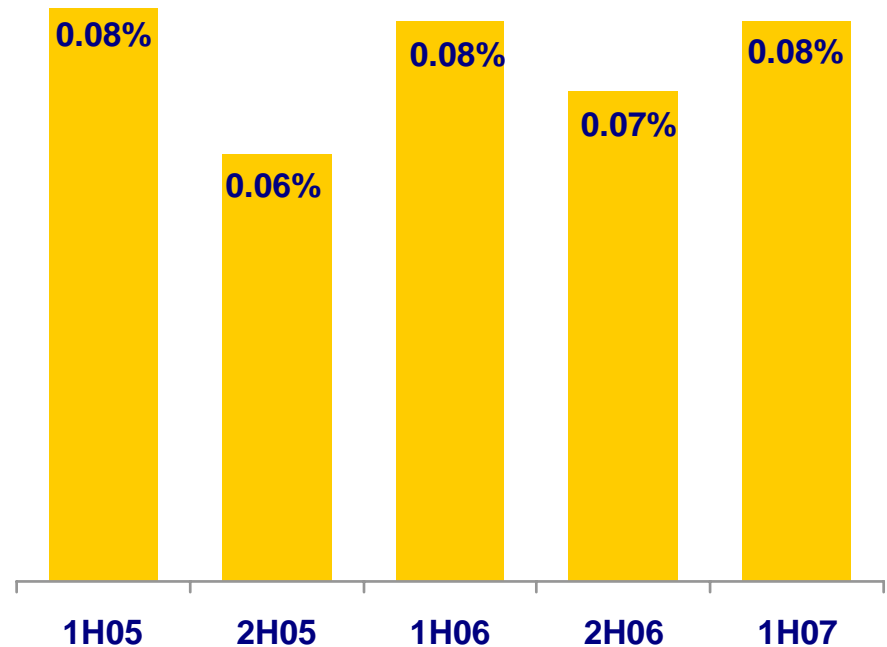
# Continuing strong asset quality

- ▶ Focus remains on well secured housing and SME lending
- ▶ Minimal levels of low doc loans:
  - \$0.4b of low doc loans, 3.6% of housing LUM

## Underlying bad debts



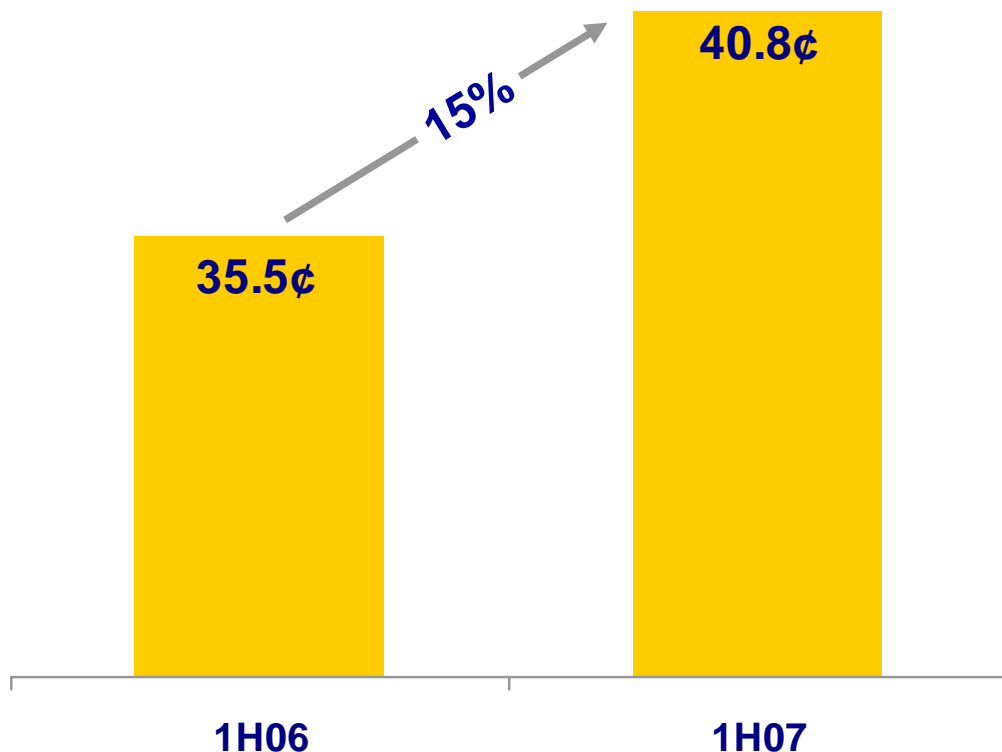
## Impaired assets to non-securitised lending



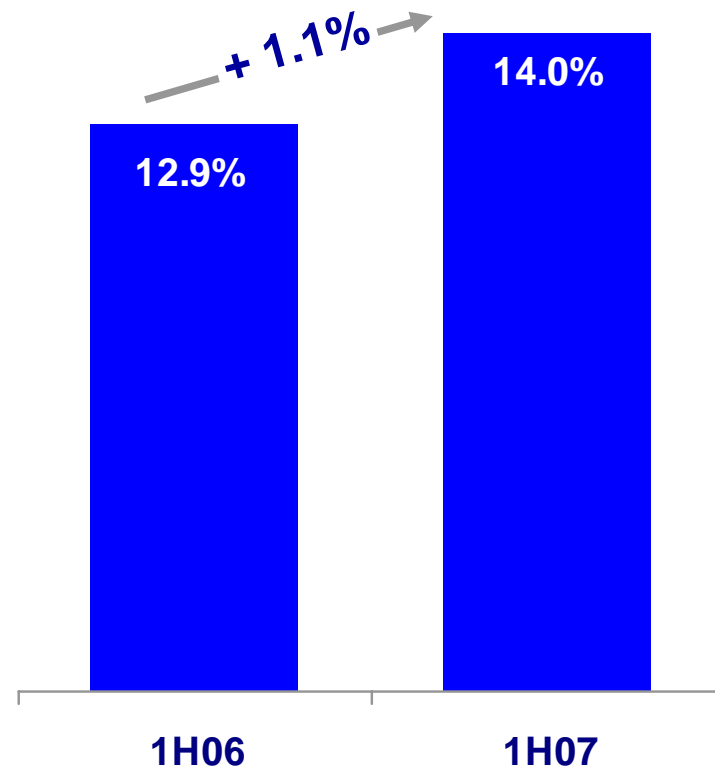


# Increasing shareholder returns

Cash EPS growth\*



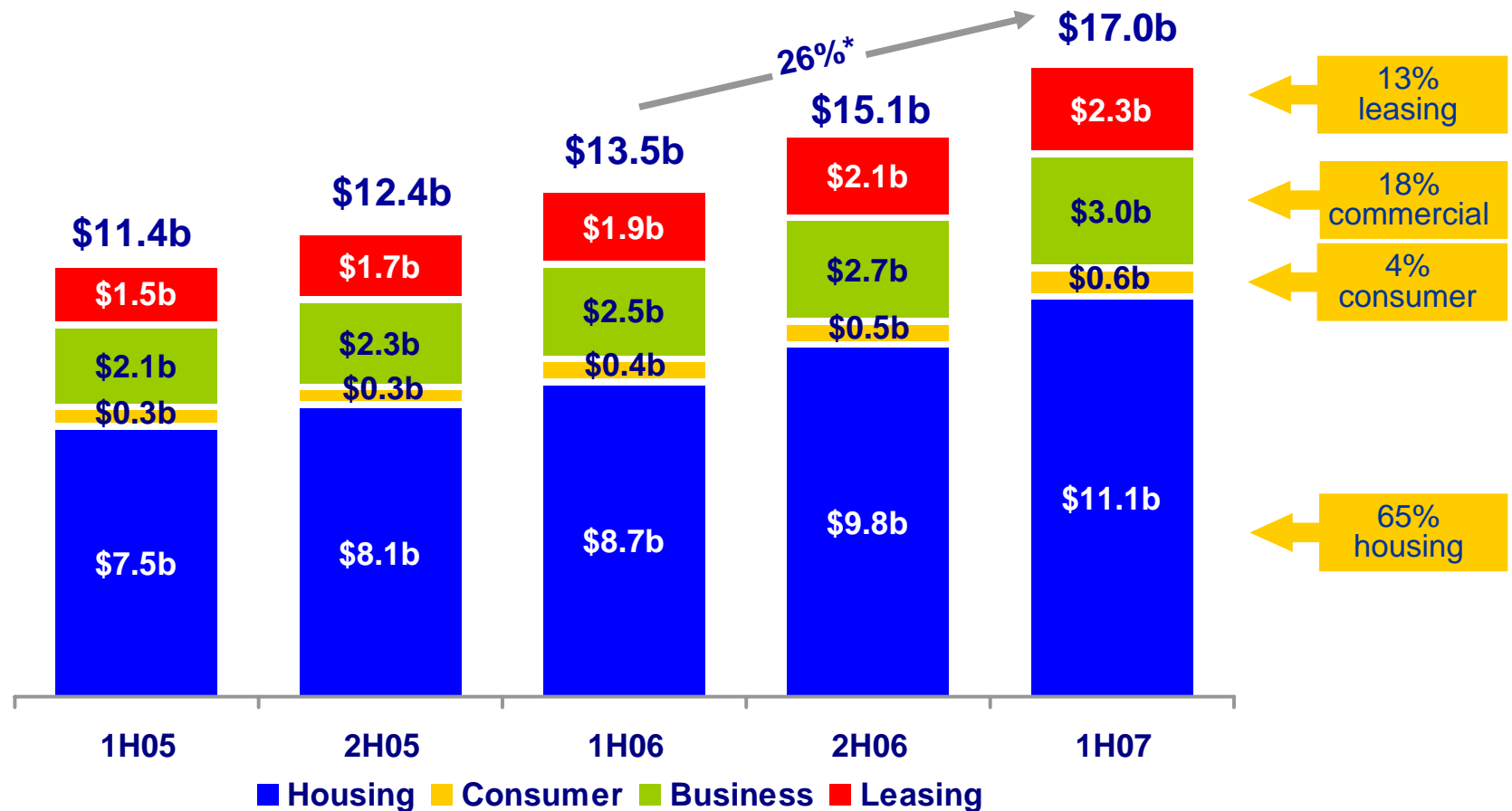
Cash return on equity\*\*



\* Diluted EPS cash distributable earnings

\*\* Cash distributable earnings, weighted average basis

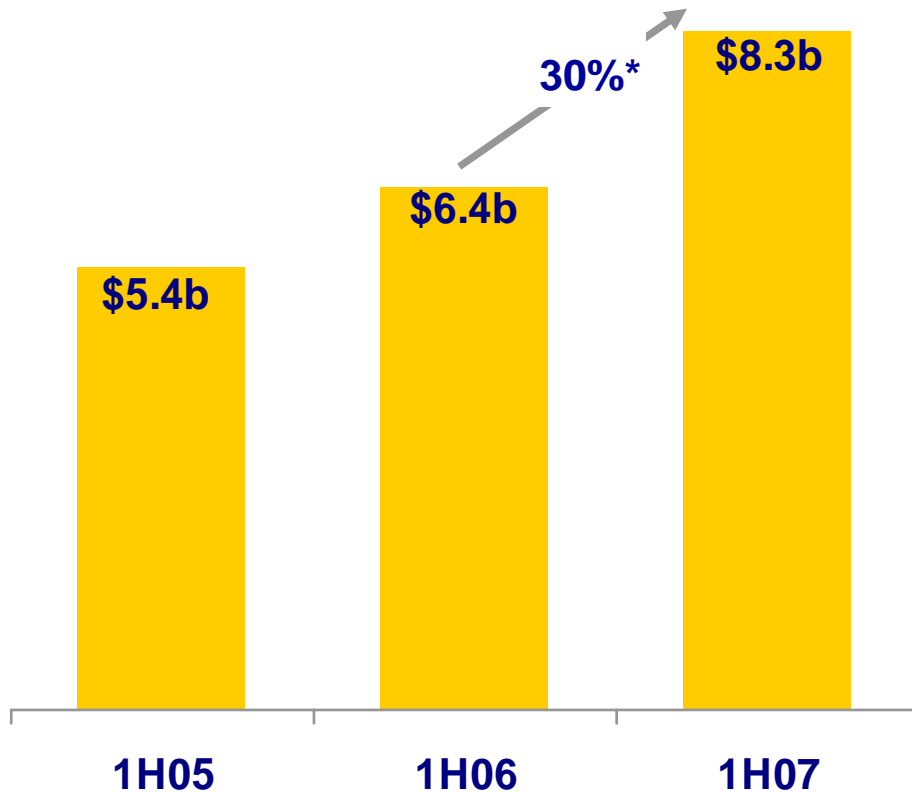
# Growing loans under management



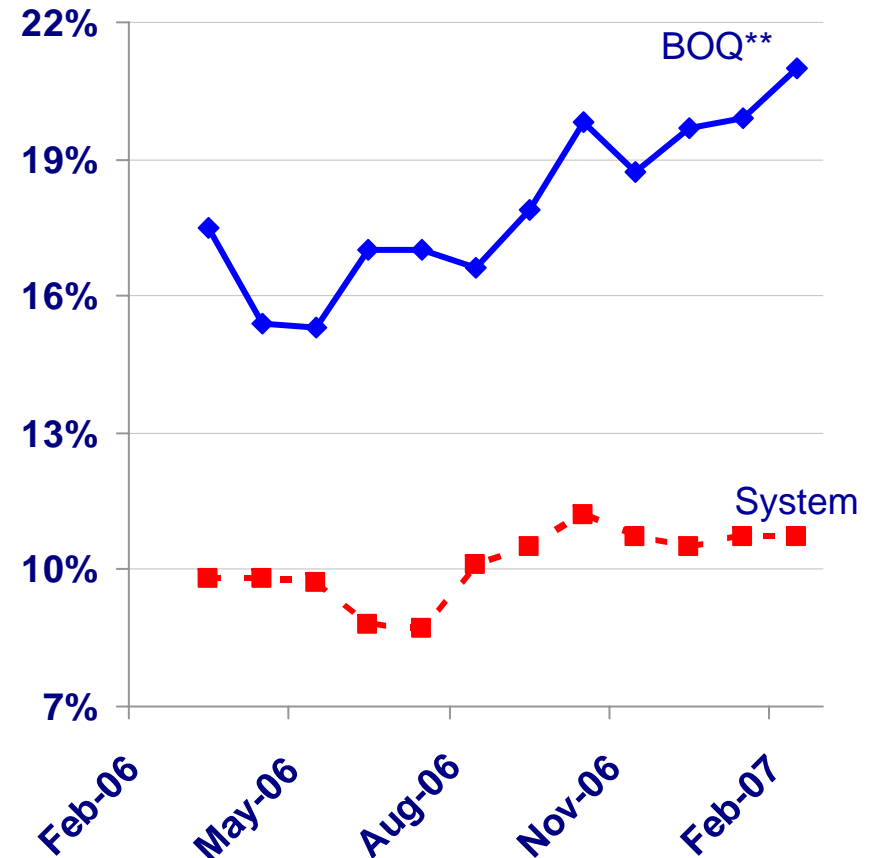
\* 23% growth if loans acquired through the acquisition of Pioneer Permanent Building Society Ltd are excluded.

# Strong retail deposit growth

## Retail Deposit Growth



## Deposit growth exceeding system



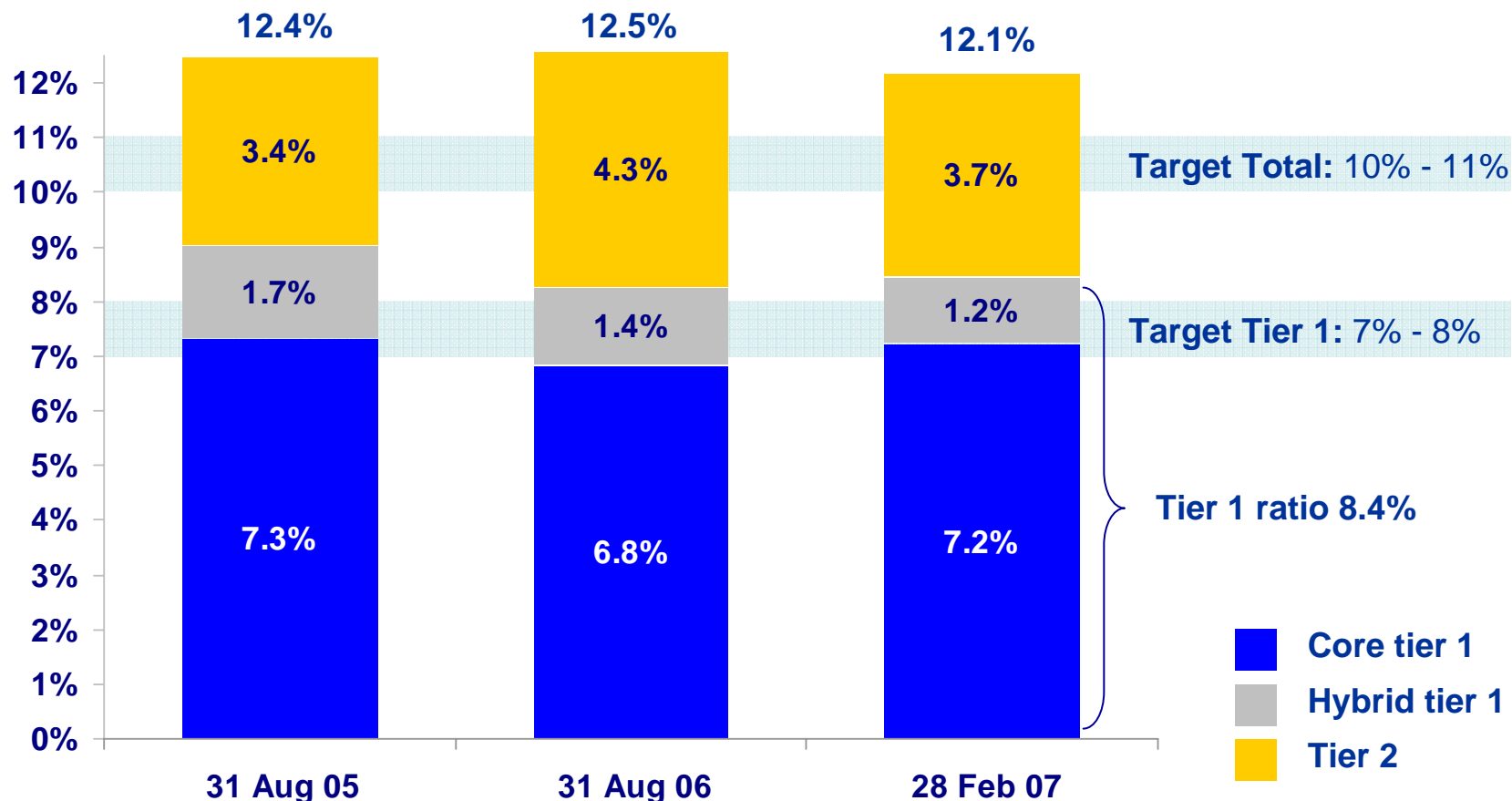
\* 23% growth if deposits acquired through the acquisition of Pioneer Permanent Building Society Ltd are excluded.

\*\* Excludes the growth upon acquisition of Pioneer Permanent Building Society Ltd.

System: APRA monthly banking statistics, household deposits.

# Managing capital adequacy ratio

- ▶ Projected to be under the 15% innovative capital limit by 1 January 2008
- ▶ Remaining limit of 10% is available for the issue of non-innovative capital



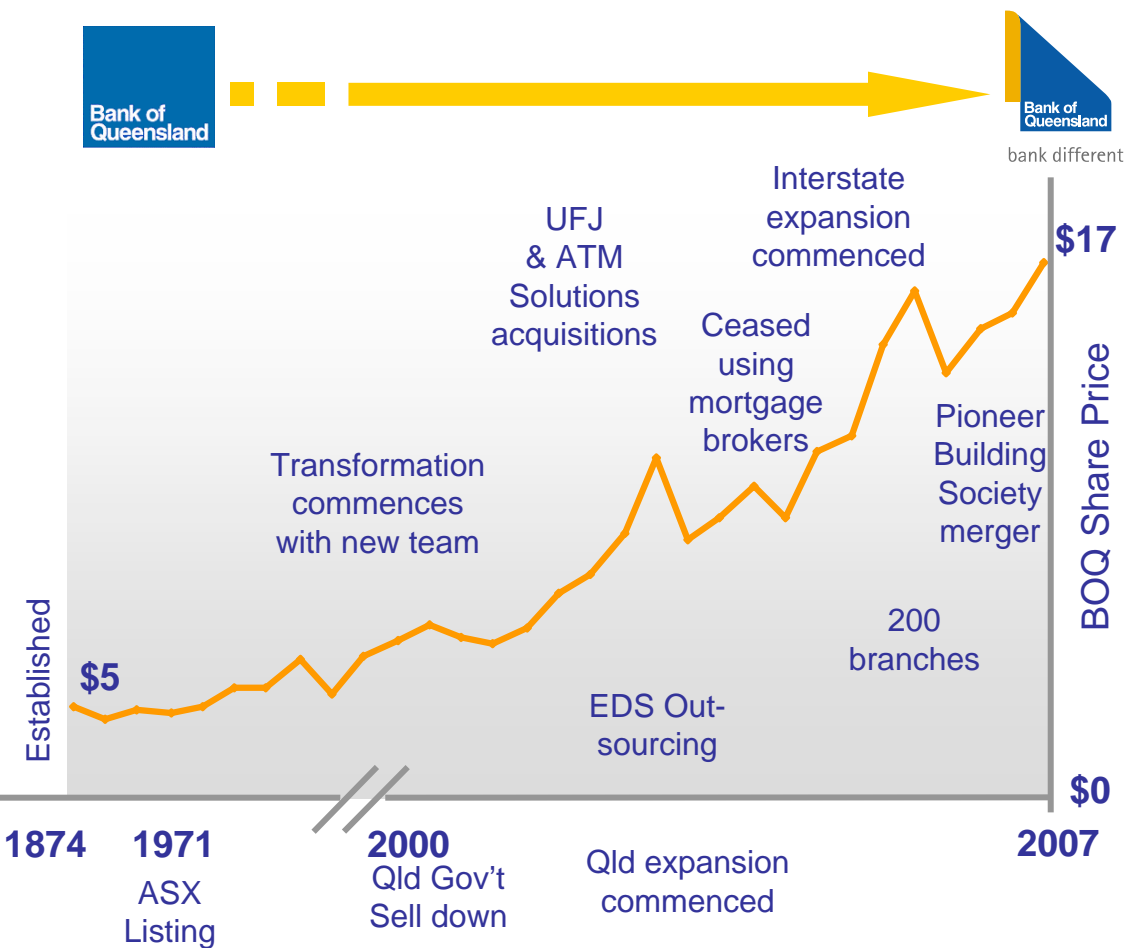
# Strategy and outlook

David Liddy, Managing Director

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# Six year transformation, a platform for growth

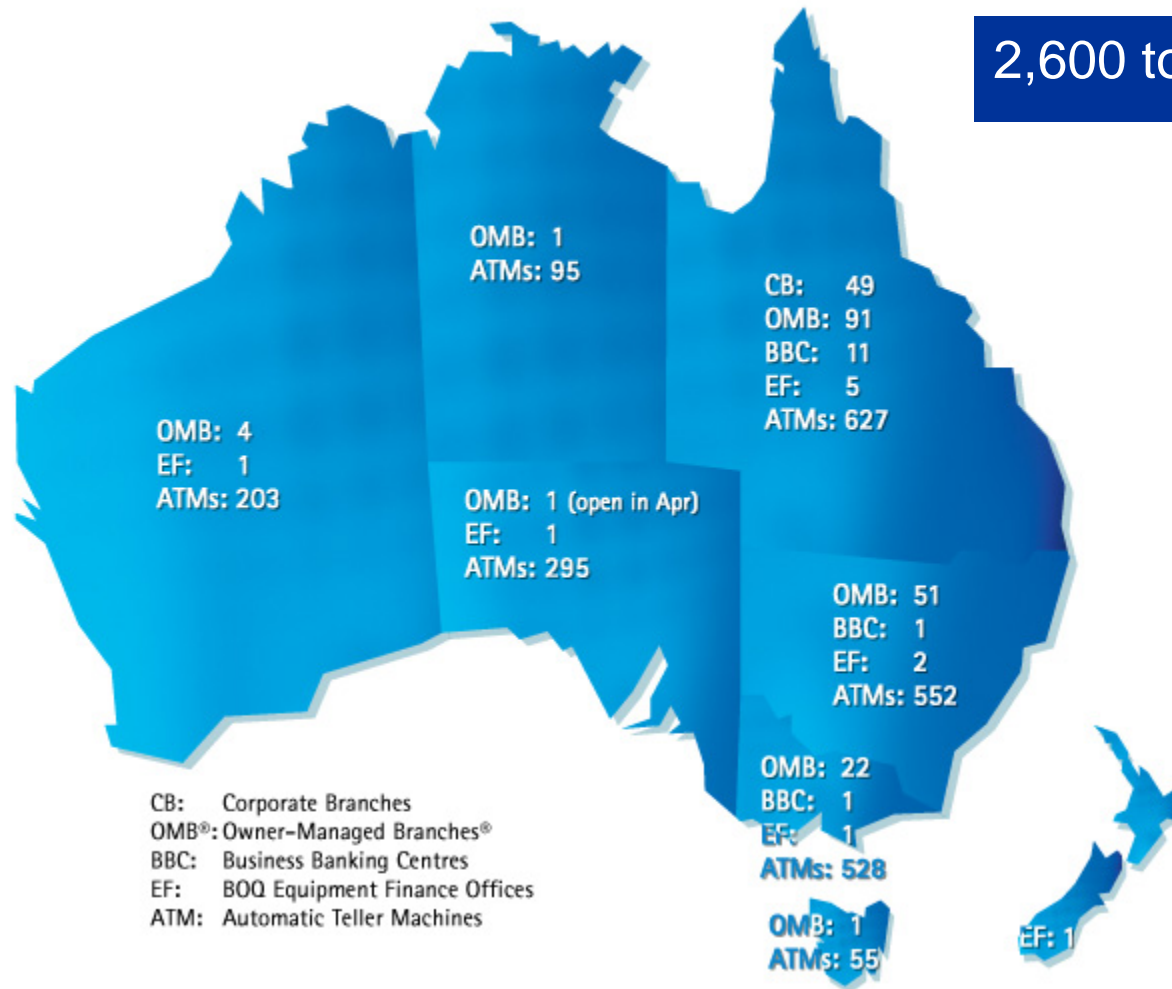


## The next phase:

- ▶ Leverage our platform for growth
- ▶ Seek growth opportunities
- ▶ Further expansion, proposed merger with Bendigo Bank
- ▶ Outsourcing of credit card business
- ▶ Leverage increased scale, reach and range of merged company

# Building a national distribution presence

2,600 touchpoints



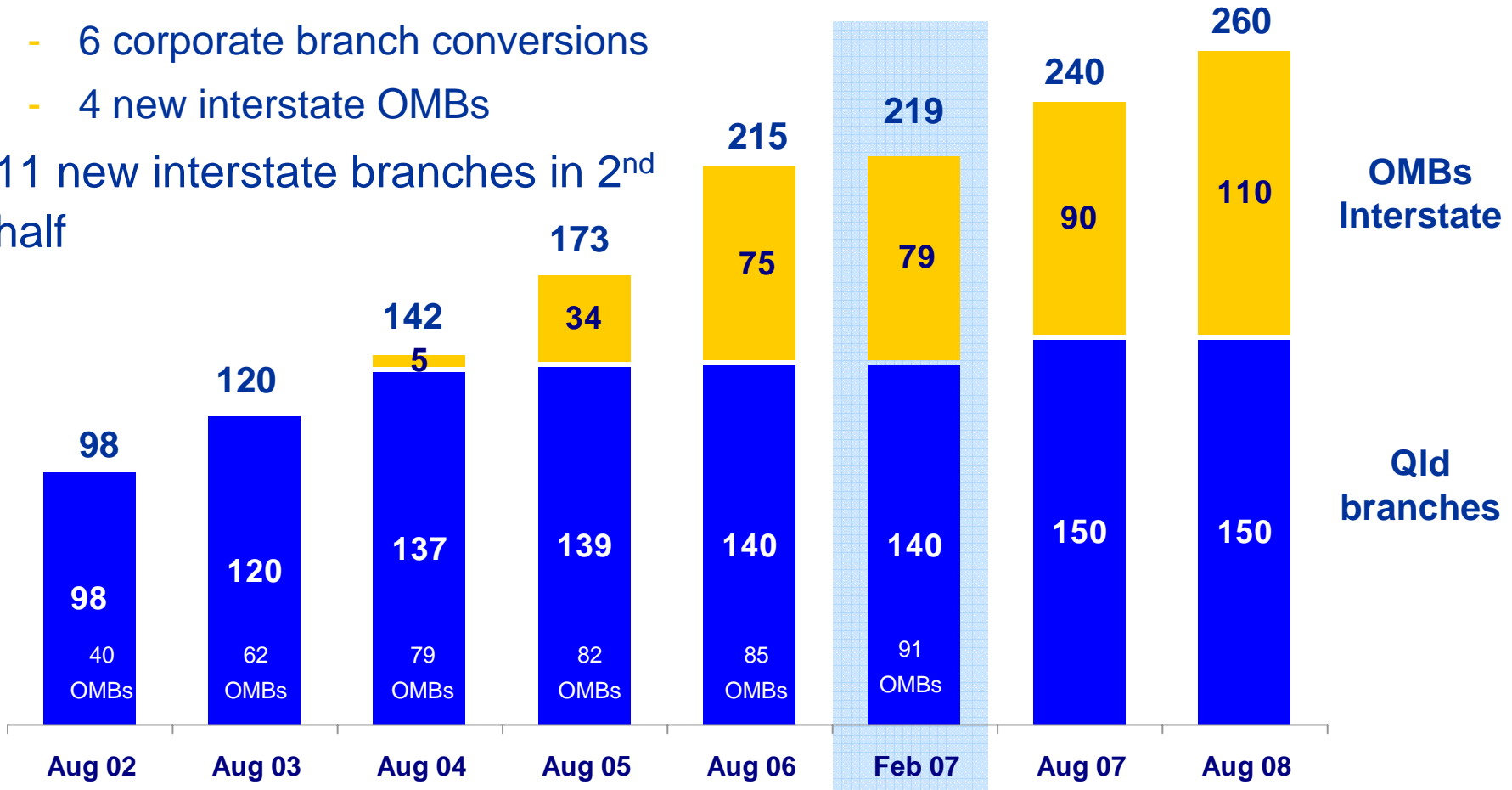
CB: Corporate Branches  
OMB®: Owner-Managed Branches®  
BBC: Business Banking Centres  
EF: BOQ Equipment Finance Offices  
ATM: Automatic Teller Machines

# Continuing branch expansion

▶ This half:

- 6 corporate branch conversions
- 4 new interstate OMBs

▶ 11 new interstate branches in 2<sup>nd</sup> half



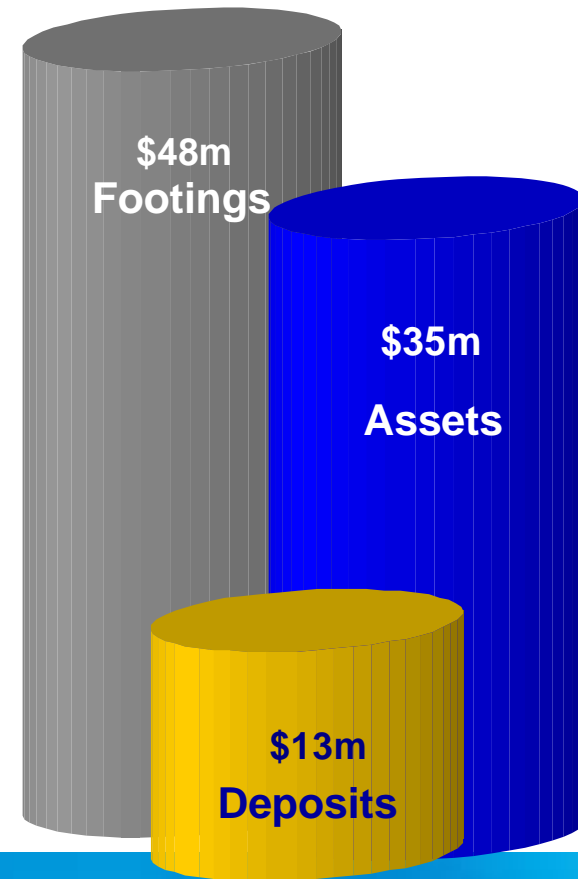
Excludes the Pioneer branches currently under integration.



# Success of OMBs outside Queensland

- ▶ Consolidating our presence across all States
- ▶ 79 branches outside Queensland (33 open less than 12 months)
- ▶ Providing platform for sustained future growth
- ▶ Overall growth levels and success of our OMBs proves the value of this unique model

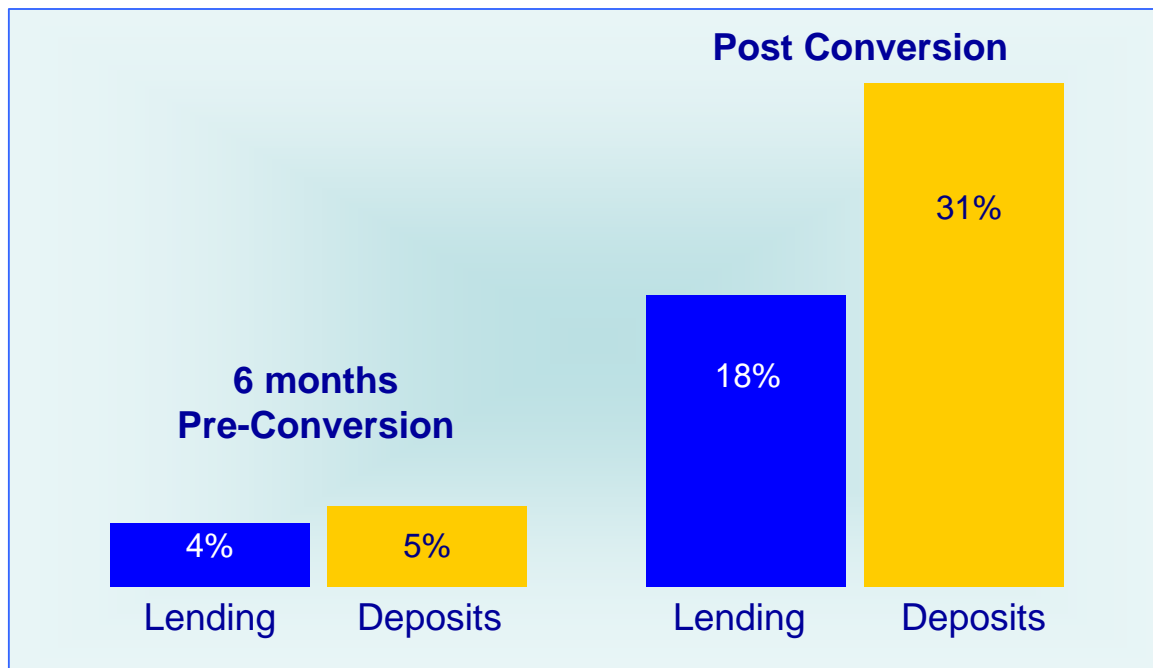
**Average per interstate branch,**  
(for all 46 branches  
open at least 12 months)



# Increased productivity from OMBs

- ▶ Now converted 10 corporate branches to OMBs (6 during this half)
- ▶ Positive outcomes from each:

## Annualised growth before and after conversion \*



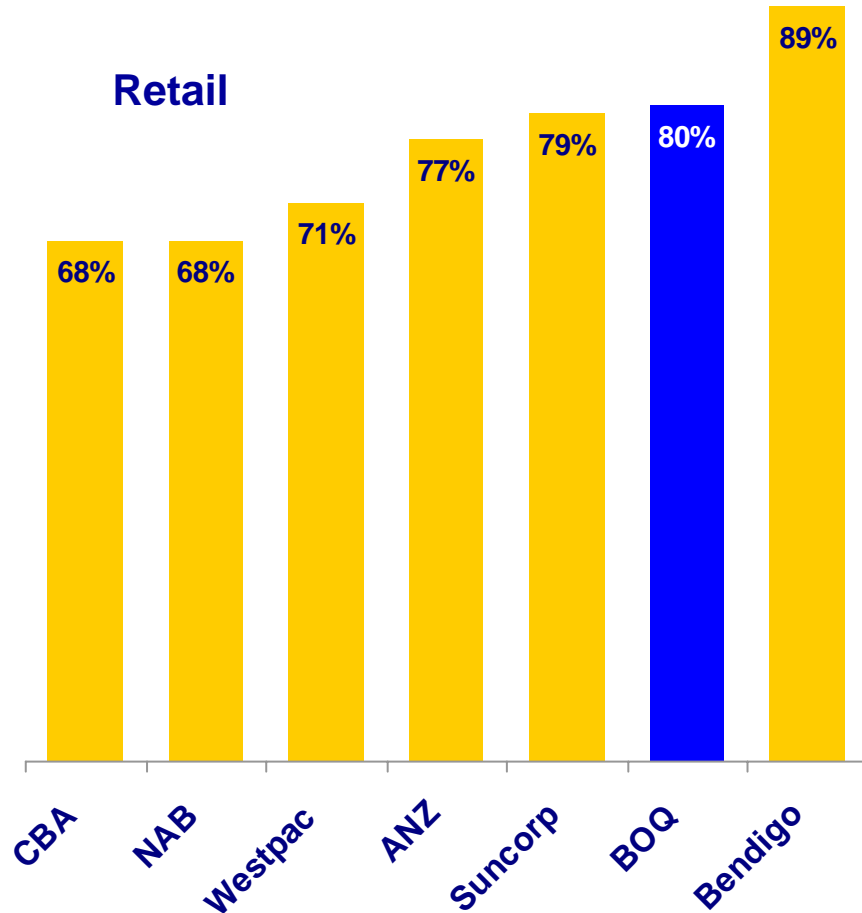
\* For the 8 branches converted with at least 3 months of results since conversion.

# Growing our business banking presence

- ▶ Overall strategy continues to be to achieve SME dominance in chosen segments in Queensland
- ▶ Roll out of enhanced internet banking platform with additional features for SME customers
- ▶ Introduction of market competitive Small Business Package
- ▶ Strong growth in equipment/debtor finance
  - Equipment Finance
    - receivables now in excess of \$2.3b (\$1.9b at 1H06, up 21%)
    - ranked no.1 nationally by East & Partners survey of Equipment Finance market and no.1 in Victoria by Finance Brokers Association of Victoria
  - Debtor finance
    - continuing growth (39% increase in receivables on pcp)
    - maintained and grown in our home market and built upon the Orix Debtor Finance business acquired in December 2005

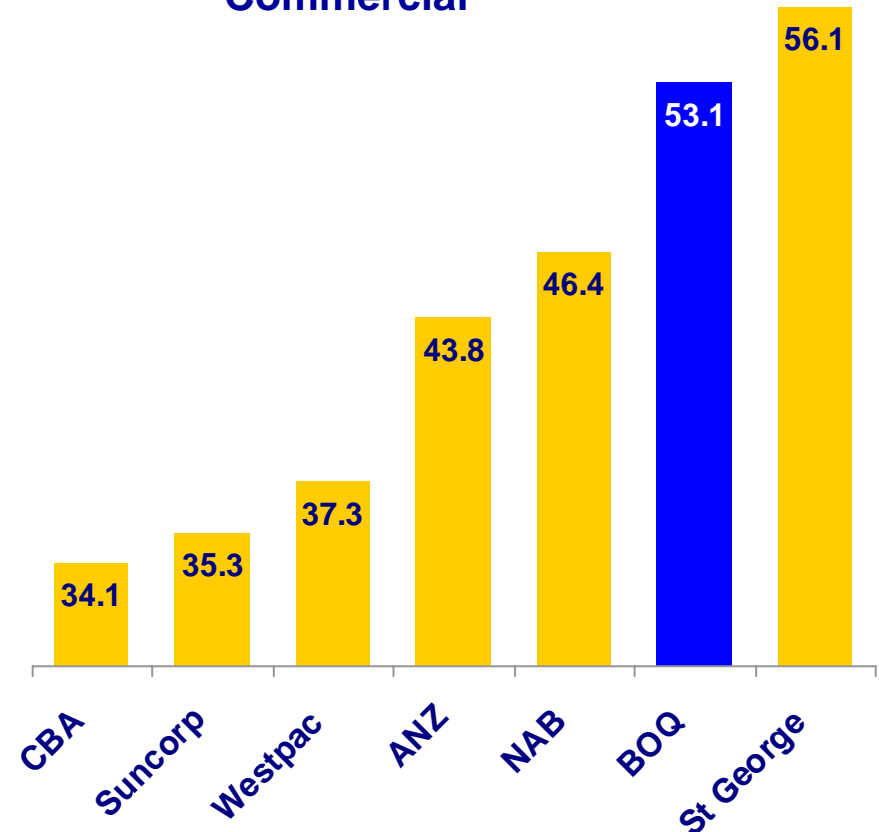
# Satisfied customers

## Retail



February 2007 Roy Morgan Research Queensland Customer Satisfaction

## Commercial



February 2007 East & Partners Business Banking Sentiment

# Pioneer Building Society merger

- ▶ Scheme of arrangement was approved, ownership effective from 5 December 2006
- ▶ Integration commenced immediately, major milestone will be migration onto BOQ systems by end of calendar year
- ▶ Increase in customer numbers and business
- ▶ This is delivering:
  - A strengthened footprint in central/northern Queensland, and
  - EPS accretion in year 1 (excluding integration costs)

# Proposed merger with Bendigo Bank Deal Outline

<b>Scrip and cash proposal</b>	Scrip offer on exchange ratio of 0.748 BOQ shares and \$5.50 in cash per BEN share (value of \$18.47) <sup>(1)</sup>
<b>Value</b>	Exchange ratio is calculated based on 1 month VWAP trading prices for BEN and BOQ EPS positive impact for year ended August 2009 for both BOQ and BEN shareholders
<b>Implied premium</b> (based on BOQ 1 month VWAP of \$15.62 to 16 Mar 07)	30% premium to BEN closing share price as at 16 March 2007 of \$13.21 25% premium to BEN 1 month VWAP in the period to 16 March of \$13.74
<b>Implied premium</b> (based on BOQ closing share price of \$17.34 on 3 Apr 07)	40% premium to BEN closing share price as at 16 March 2007 of \$13.21 34% premium to BEN 1 month VWAP in the period to 16 March of \$13.74
<b>Board (post merger)</b>	5 BEN Board members to be invited to enlarged BOQ Board
<b>Integration to combine management strengths</b>	David Liddy (MD of BOQ) to be MD of enlarged Group and manage integration “Best of both” approach to choosing senior management
<b>Mechanism to effect merger</b>	BEN scheme of arrangement – vote by BEN shareholders
<b>Conditions</b>	BEN Board to recommend merger proposal Regulatory approvals Conditions typical for public offer

*(1) Value based on BOQ closing share price of \$17.34 as at 3 April 2007; exchange ratio will be adjusted to reflect BOQ entitlement issue*

# Two natural allies vs the big banks

- ✓ Potential **value enhancement to BOQ and BEN shareholders** (driven by potential pre-tax synergies of \$70 million p.a.)
- ✓ **Enhanced banking proposition** for regional and community banking in Australia
- ✓ **Significantly improved distribution platform** ... the merged entity will have over 575 branches (significantly more than St George Bank & approaching Westpac)
- ✓ **Facilitates creation of “big small bank”**, assisting to foster underlying growth in both banks and strengthens regional banking in Australia
- ✓ **Increased financial and operational scale**
- ✓ **Better position to compete** – efficiencies will assist the merged entity to move towards larger peers' cost to income ratios
- ✓ Creation of an **S&P / ASX 100<sup>(1)</sup>** company
- ✓ Two very **complementary** businesses with similar commitment to branch based Community banking and OMB models and superior customer service
- ✓ Provides **employee opportunities** and strengthens the performance culture

*(1) Based on closing share prices as at 16 March 2007 the Merged Group ranks in the top 70 companies by market capitalisation on ASX*

# Status of merger discussions

- ▶ Proposal announced 19 March 2007
- ▶ BOQ funding in place
- ▶ Bendigo Bank Board stated willingness to engage
- ▶ Next steps, if the proposal proceeds, would be:
  - a Merger Implementation Agreement
  - due diligence
- ▶ Presentation to Bendigo Bank Board and management next week



# Addressing market issues

## Integration

- Both banks experienced in integration
- Retention of broad management experience in both banks – ‘Best of Breed’
- Specialised and experienced Integration team
- EDS IT expertise and commitment

## Cultural

- Both focused on ‘shop front’
- Both embraced regional banking successfully
- Continuation of BEN’s community enterprises
- Culturally aligned – two small regional banks
- Top two banks in regards to customer satisfaction

## Operating Models

- ABSOLUTE commitment to retain HQ in Bendigo and Brisbane
- ABSOLUTE commitment to retain and grow Community banks & OMB’s
- Similar business models :
  - Customer centric
  - Reward growth in the customer base
- Minimal geographic overlap

# Why BOQ/Why now?

- ✓ Attractive premium with post merger upside
- ✓ Similar business cultures and strong community focus
- ✓ Natural progression for Australia's two leading regional banks
- ✓ We have been jointly discussing the merits of merging for two years
- ✓ Preserve Bendigo Bank head office/Bendigo Bank brands/Bendigo Bank community branch model
- ✓ Status quo not in the best interests of shareholders, customers and the communities we serve

**MERGER BEST OPTION FOR BOTH BANKS TO THRIVE**

# Outlook

- ▶ Underlying BOQ business in a strong position:
  - Established retail and commercial national distribution points
  - Growing strongly and profitably
  - Healthy Queensland economy and expanding into other growth States
- ▶ Bendigo Bank merger to leverage this position
- ▶ Confirm financial goals for 2007 financial year:
  - 1.5x – 2x system lending and deposit growth
  - Maintain credit quality
  - EPS\* growth of 10% - 12%

\* On a diluted cash distributable earnings basis

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