Bank of Queensland

Half Year Results

28 February 2009

Bank of Queensland

Agenda

Result highlights	**David Liddy** Managing Director & CEO
Financial result in detail	**Ram Kangatharan** Group Executive & CFO
BOQ Portfolio	**Ram Kangatharan** Group Executive & CFO
Strategy and outlook	**David Liddy** Managing Director & CEO

Result highlights

David Liddy, Managing Director

Bank of Queensland

Result highlights

- Increasing normalised cash profits in a tougher environment
- Increased funding costs resulting in NIM compression in 1H09, though likely to be partly unwound in 2H09 - consistent with early signs of re-pricing strategies
- Distribution power of our model again evidenced by its flexibility to switch between retail asset (loan) and liability (funding) growth
- Decision taken to rectify OMB underperformance issues in NSW – clearing the decks
- Strong capital and liquidity levels maintained - dividend payout reduction to prudently conserve capital for growth in current challenging market conditions
- Project Pathways initiatives, including internal efficiency and optimisation streams and M&A / Strategic Partner options, are advancing as the Bank begins the reposition journey to achieve the next wave of growth

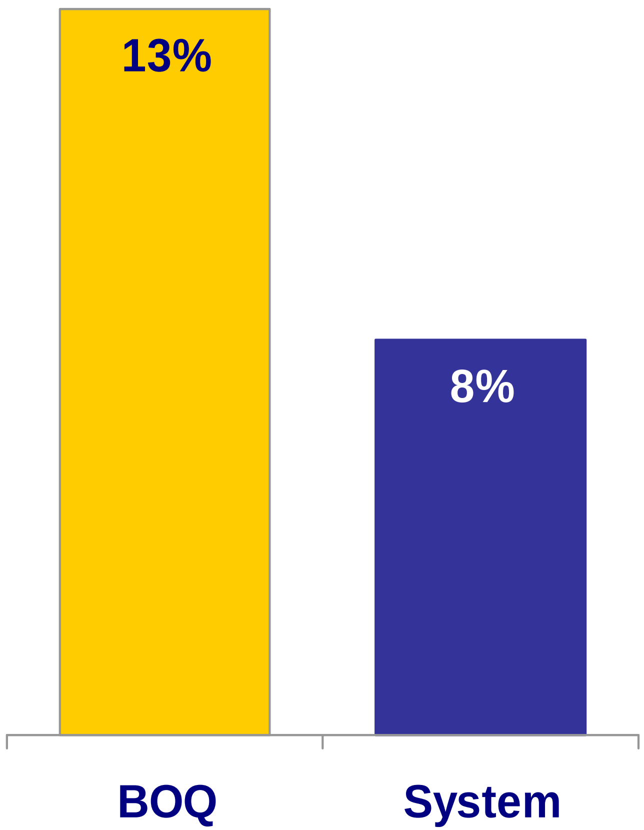
Strong financial results in tough market

	1H08	1H09		
Normalised cash NPAT	$65.3m	**$84.2m**	▲	29%
Cash EPS **(normalised Fully Diluted)**	47.6¢	**47.3¢**	▼	-
Ordinary dividend	35¢	**26¢**	▼	9¢
Loan growth (pcp)	*27%	**13%**		
Retail deposit growth (pcp)	*25%	**25%**		
Net interest margin	1.62%	**1.52%**	▼	10bps
Cost to income ratio **(normalised cash)**	59%	**54%**	▼	5%

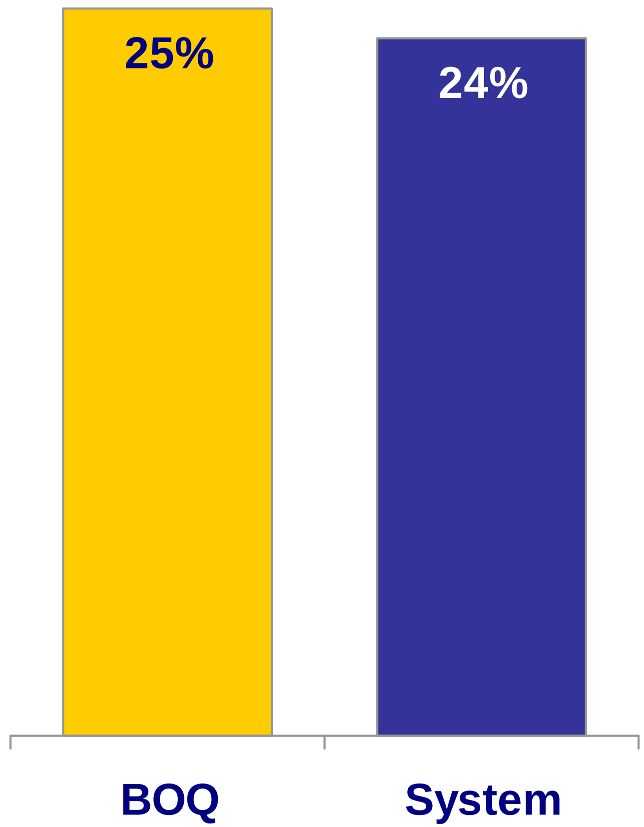
* Excludes contribution from Home Building Society

Strong lending and deposit growth

Lending growth*



Retail deposits*

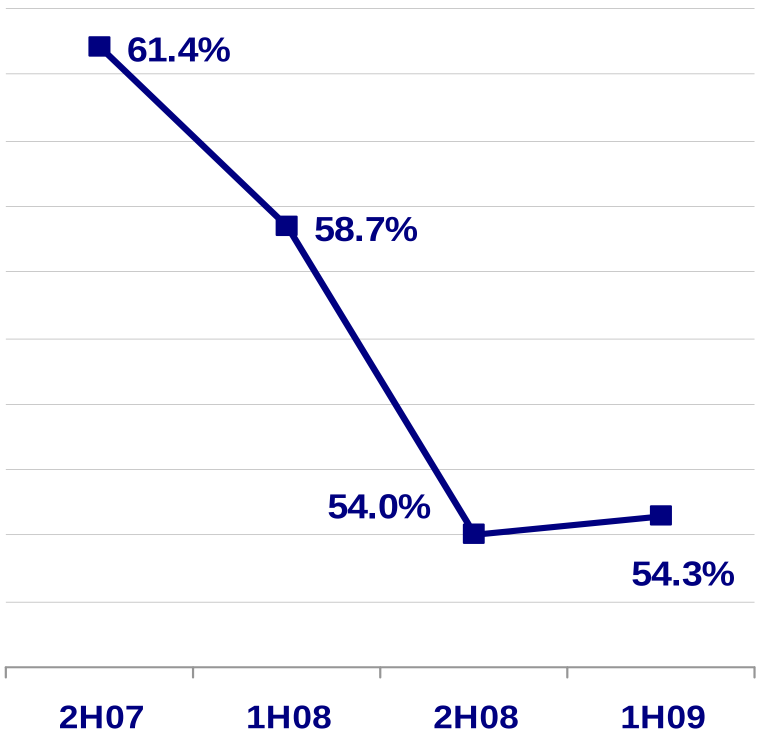


* Last 12 months v pcp
Source: APRA data

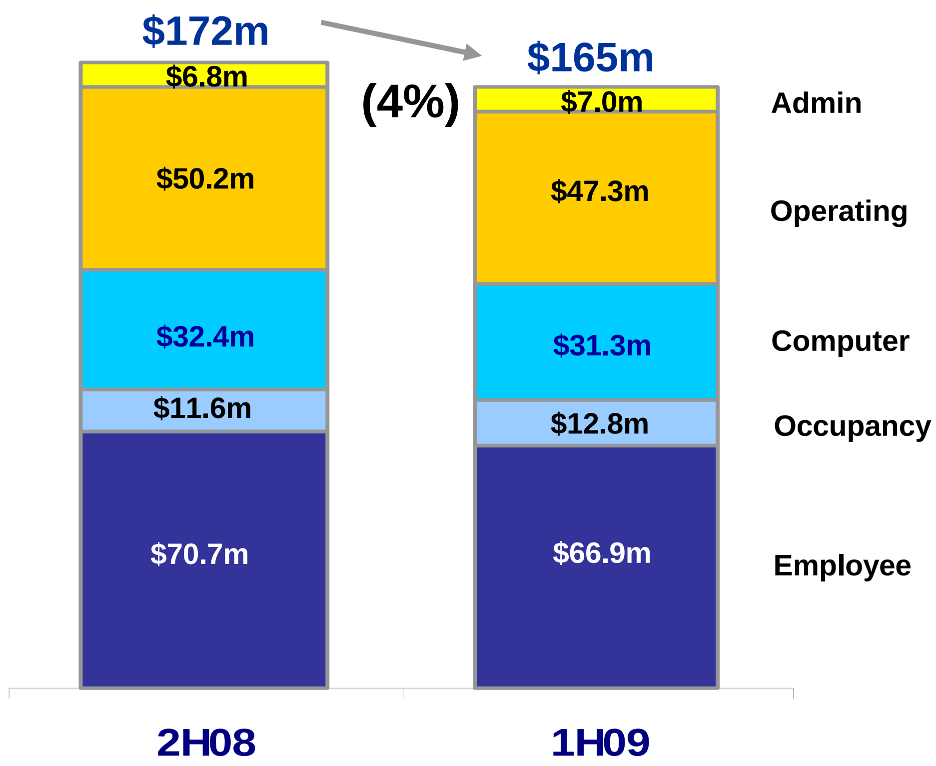
Expense discipline gaining traction

- Home synergy benefit forecast of $15m in FY09 on track

Cost to income ratio*



Expenses*

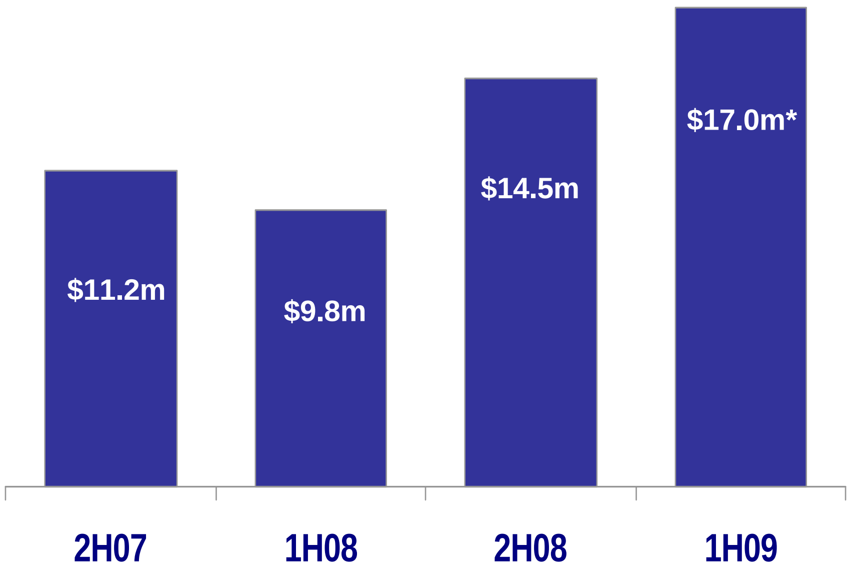


* Based on Normalised Cash costs, excluding the impacts of normalisation items & amortisation of Customer Contracts

Strong asset quality

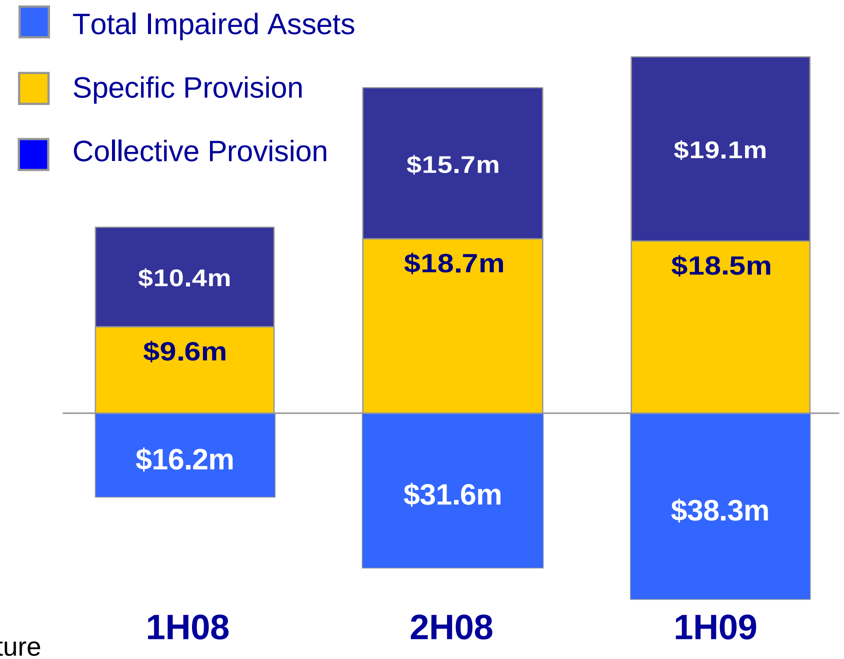
- Focus remains on well secured housing and SME lending
- Level of impaired assets has increased but in line with expectations
- Unlike peer group, no large exposures are impaired

Underlying bad debts*



* Excludes the impairment charges of $7.2m made for the NSW distribution restructure

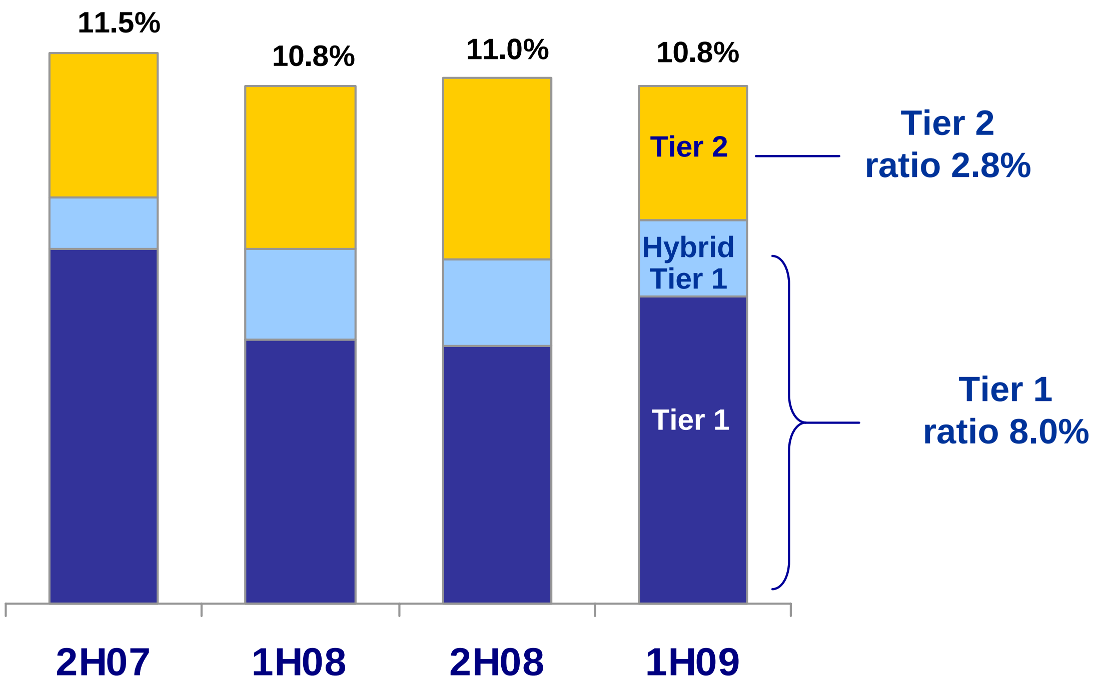
Impaired assets vs Collective & Specific Provisions



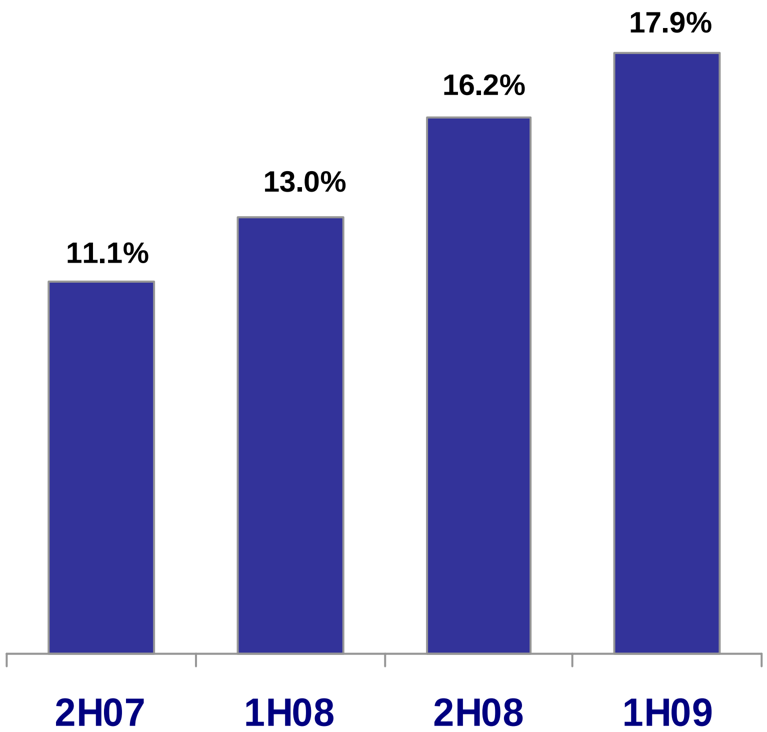
Conservative capital and excess liquidity

- Tier 1 capital improved 0.8% to 8.0% at 1H09
- Record liquidity levels well in excess of APRA and internal benchmark

Capital adequacy



Liquidity



The result in detail

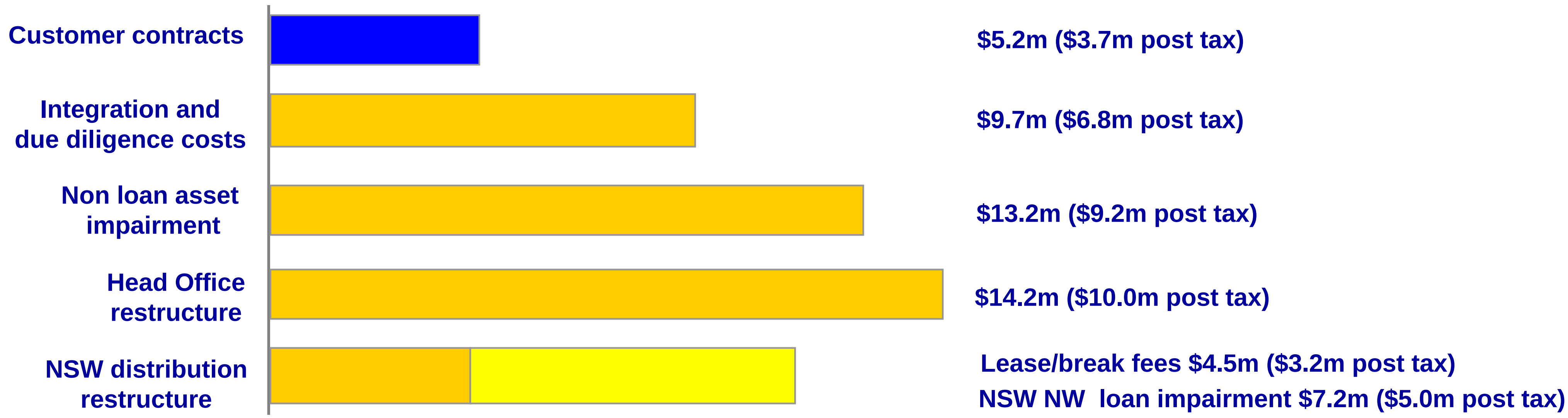
Ram Kangatharan, Chief Financial Officer

Meeting our commitments

	1H08 $m	**1H09 $m**	**% Change vs PCP**
Total operating income	**252.9**	**304.0**	**20%**
Expenses	152.9	212.1	39%
Adj: Normalisation & non-cash Items	4.6	46.8	
Normalised Expenses	**148.3**	**165.3**	**11%**
Impairment on loans and advances	9.2	27.6	
Adj: Normalisation Item	-	7.2	
Normalised Impairment charges	**9.2**	**20.4**	122%
Normalised cash profit after tax	**65.3**	**84.2**	**29%**
Cash diluted EPS (normalised)	**47.6¢**	**47.3¢**	**-**

- **Normalised cash NPAT slightly above guidance of 25-28% growth**
- **Normalised expense growth 11% reflecting 6mths Home in 1H09 vs 2.5mths in 1H08**
- **Impairment charges tracking above plan but materially lower vs. peers**

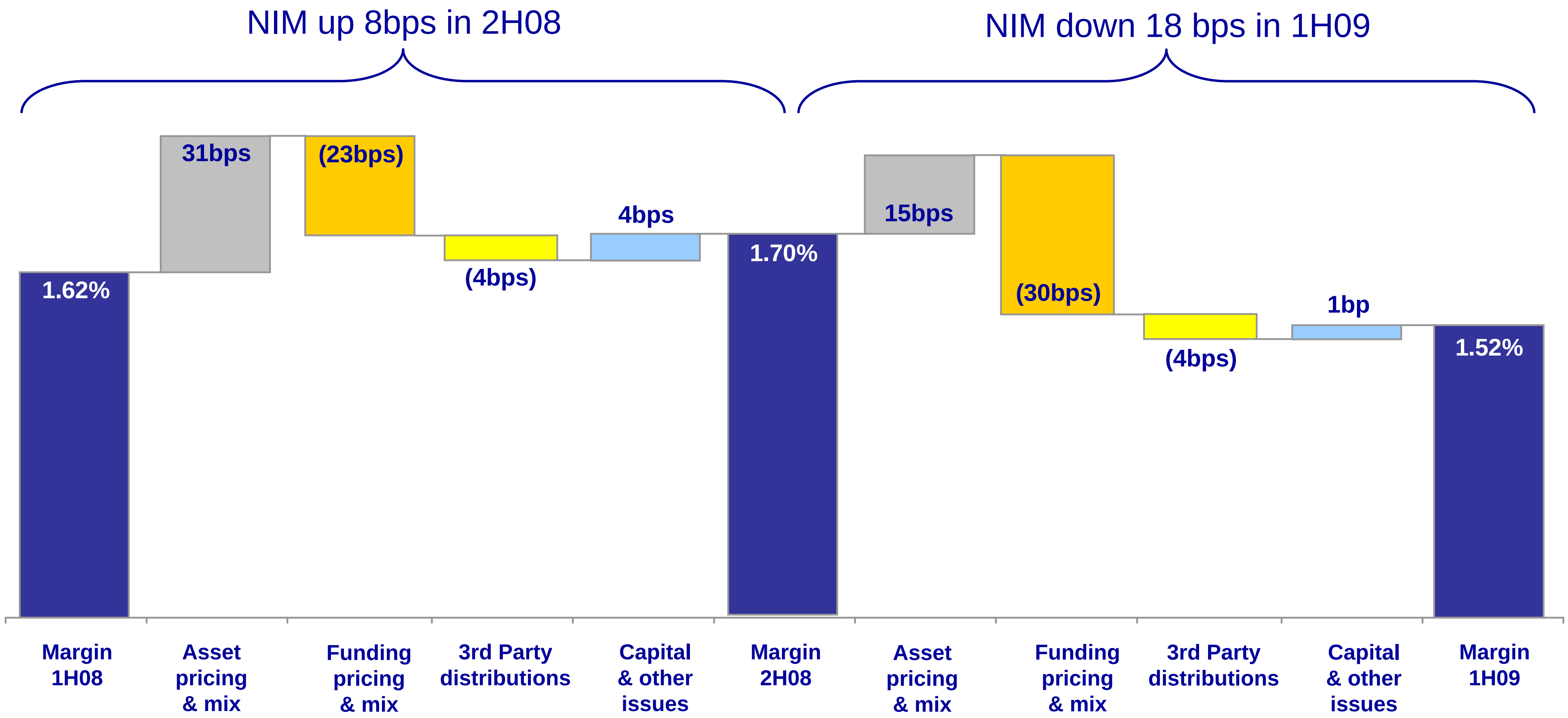
Normalisation & restructuring charges



Total Normalisation	- Amortisation of customer contracts	$5.2m
	- Non-recurring / restructuring costs	$41.6m
	Expense normalisations	**$46.8m**
	NSW network loan impairment	**$7.2m**

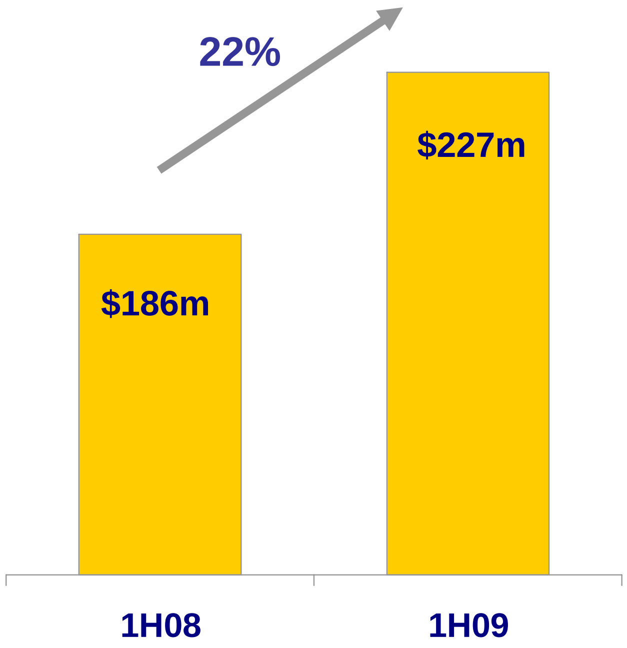
Margin pressure in 1H09

- Increasing term and retail funding costs have impacted NIM
- Similar trend to FY08, with improvement in second half expected



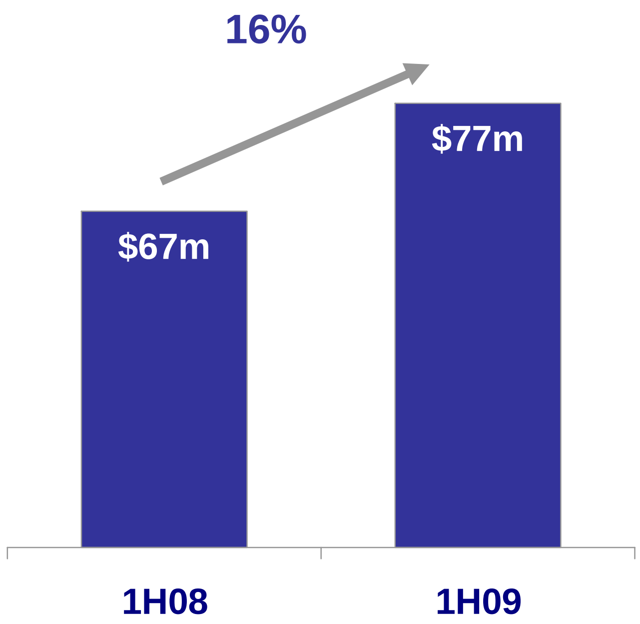
Continued strong revenue growth

Net Interest Income



- NII increase driven by balance sheet growth, partially offset by increased NIM compression

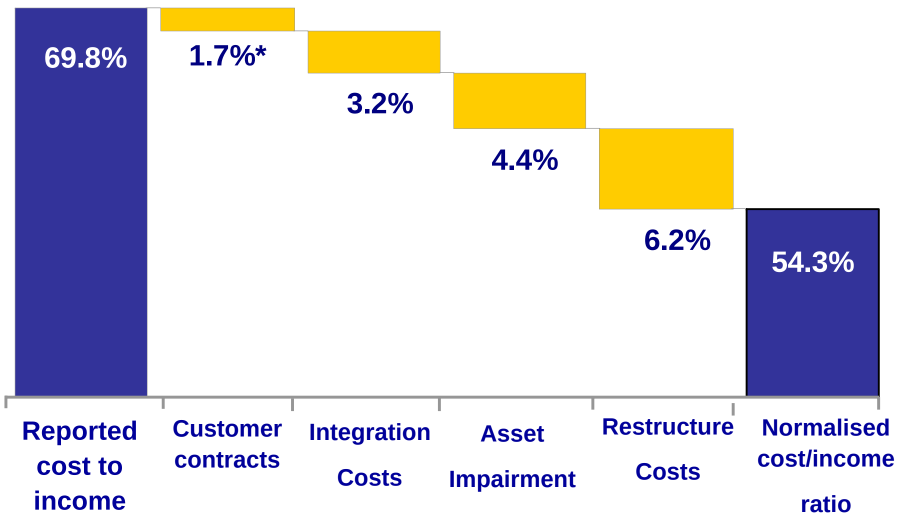
Non Interest Income



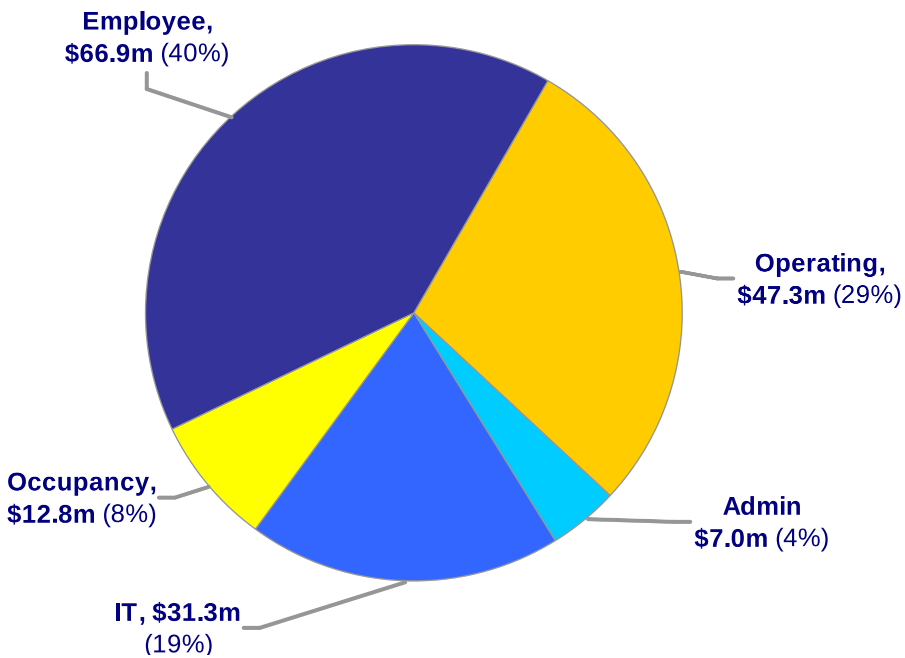
- Strong growth in core banking fees facilitated a 16% increase in non interest income

Expenses

Cost to Income Ratio



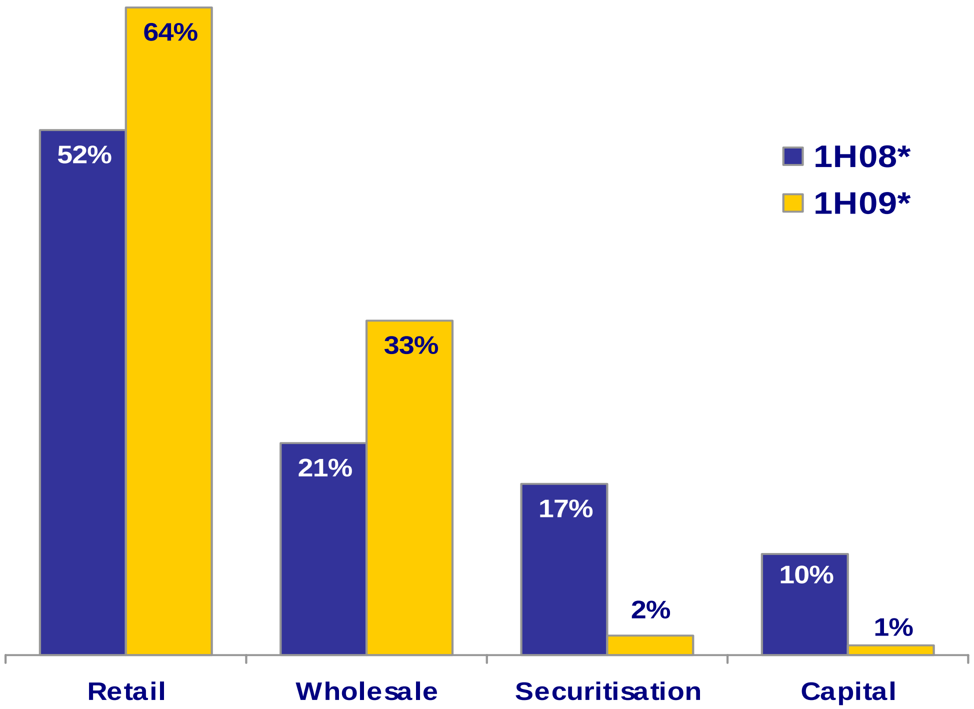
Operating Expenses



* Amortisation of intangible assets (customer contracts) – change of underlying amortisation period reduced amortisation amount in current period

Funding our growth

- Reduced availability of wholesale funding increased reliance on retail deposits
- Retail deposits funding 169% of year to date LUM growth
- Last 12 months retail and wholesale sources have funded $1.4b in additional liquidity

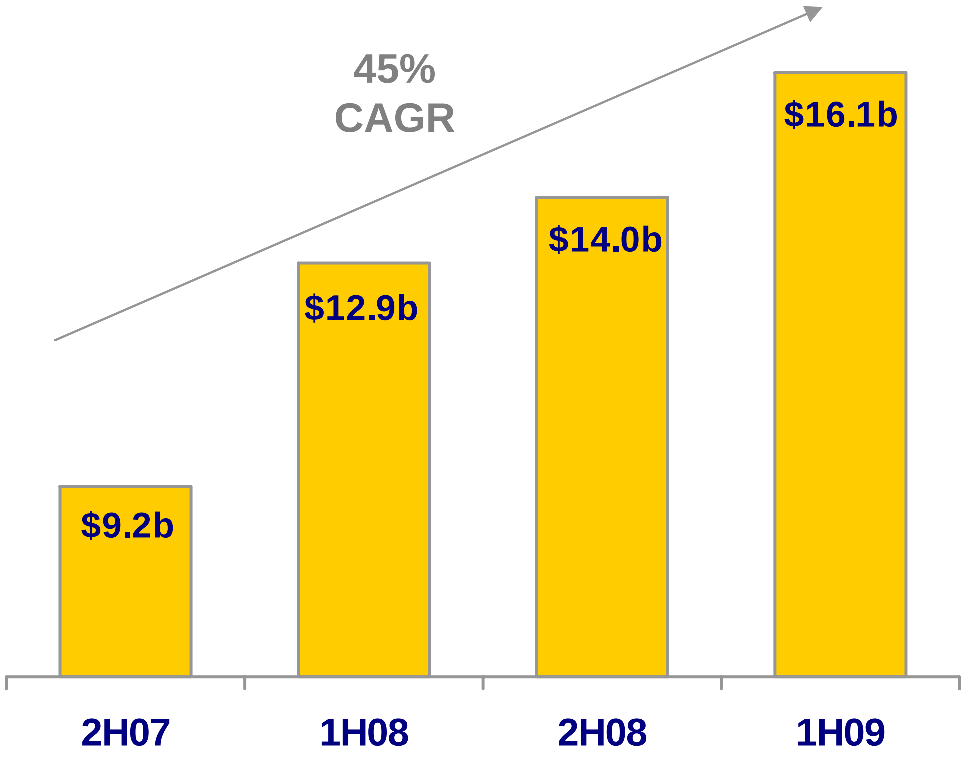


* Last rolling 12 months v pcp

Focus on retail deposits

- Bank strategy has been able to secure a larger deposit base
- Market turmoil led to significant inflows to retail markets
- OMB model highly effective in securing new retail deposits
- Retail deposits growth accounted for 169% of LUM growth in 1H09
- Current excess liquidity from retail deposits and the AOFM RMBS funding enables better pricing / margins in 2H09

Retail deposits

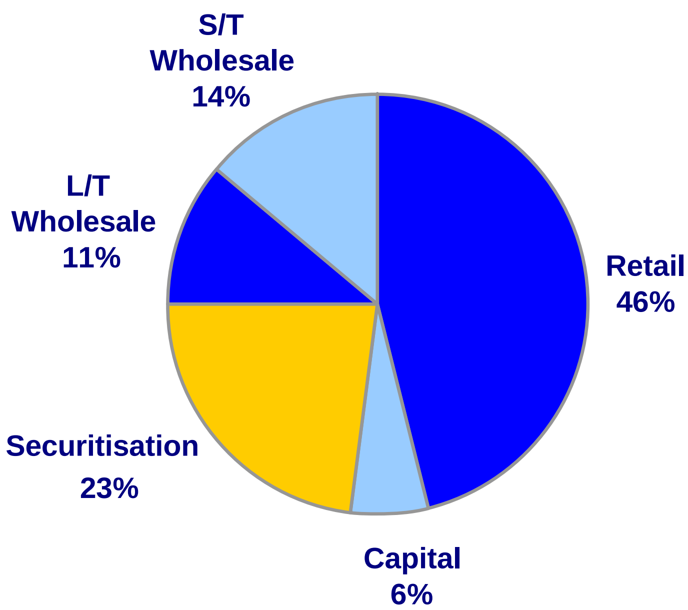


% of LUM	48%	53%	53%	58%

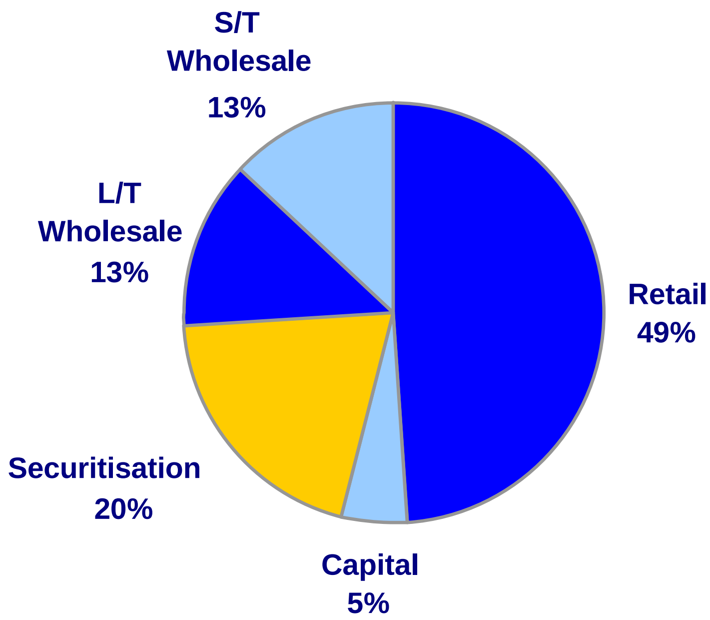
Funding balance sheet impact

- Retail deposit growth driving self sufficiency on funding loans growth
- Securitisation funding retained with warehousing and 2H09 AOFM issue

1H08 Funding

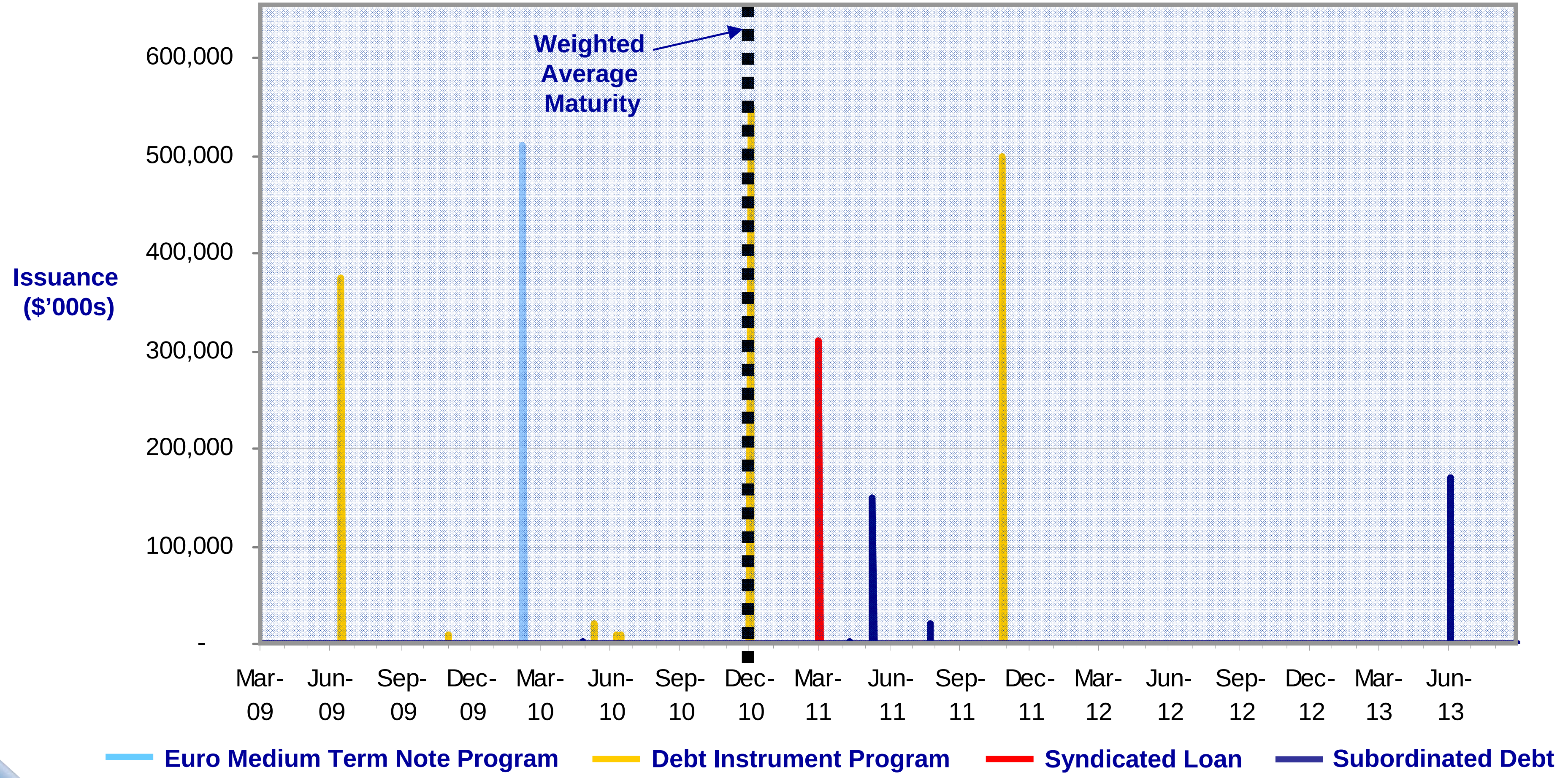


1H09 Funding



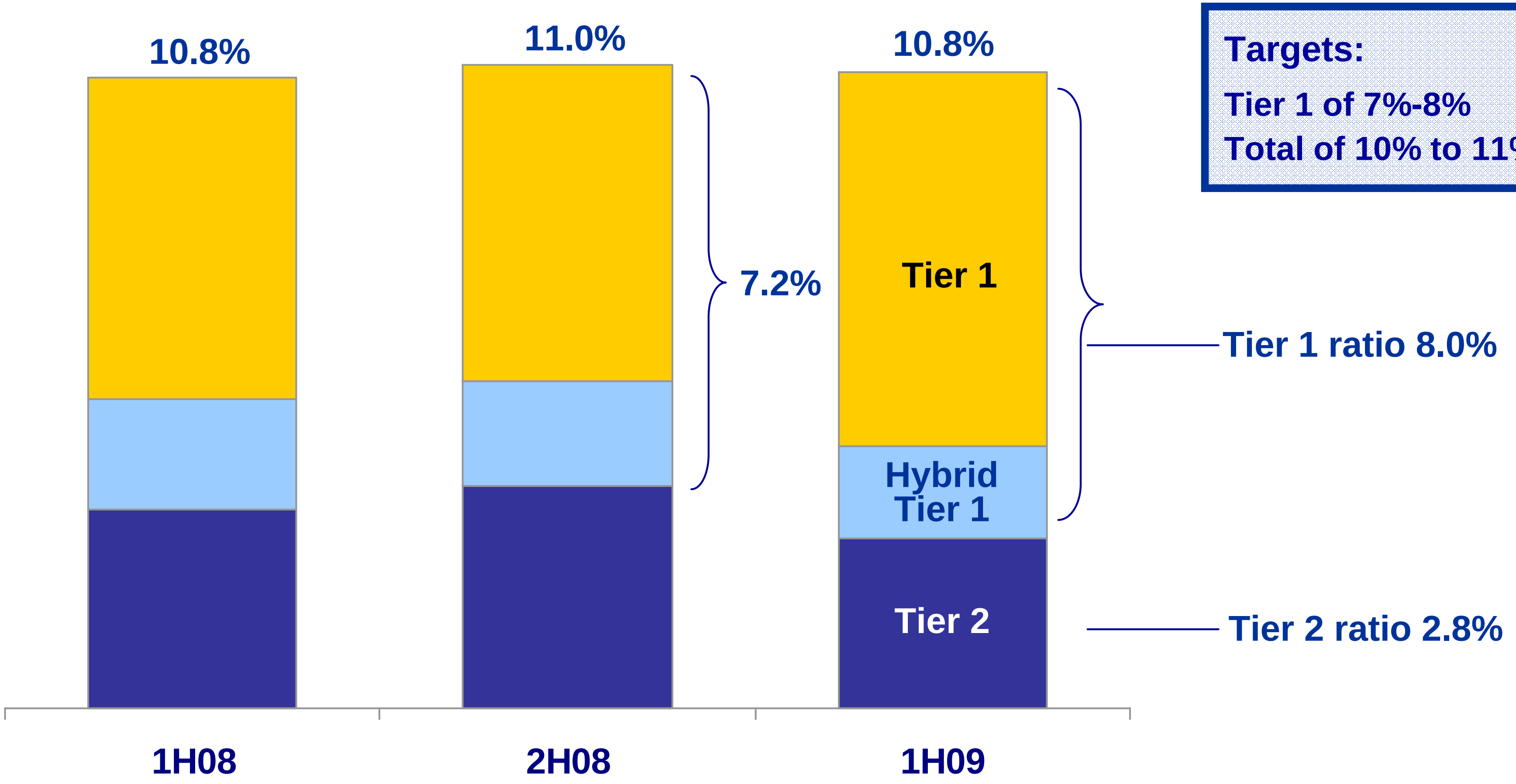
Long-term debt maturity profile

- Weighted average maturity of long term debt is 1.8 years which remains at pre-crisis levels
- No necessity to return to term debt markets in 2H09



Capital adequacy

- Capital levels remain at the upper end of target levels, with higher Tier 1



Targets:

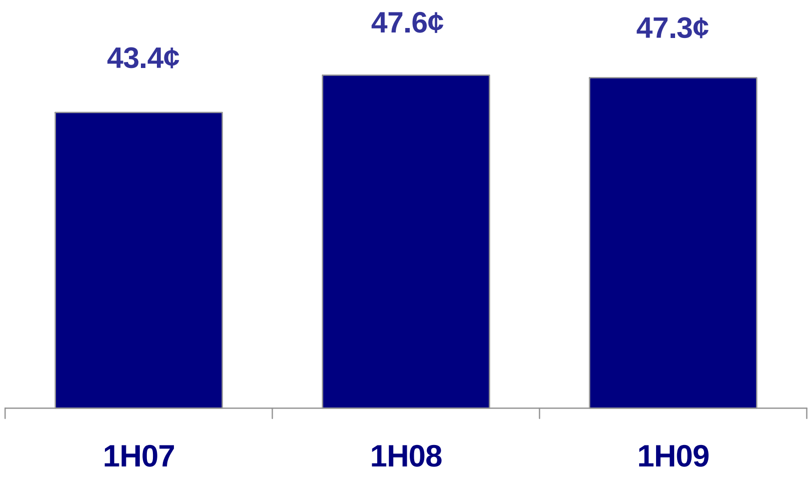
Tier 1 of 7%-8%

Total of 10% to 11%

Prudent capital management

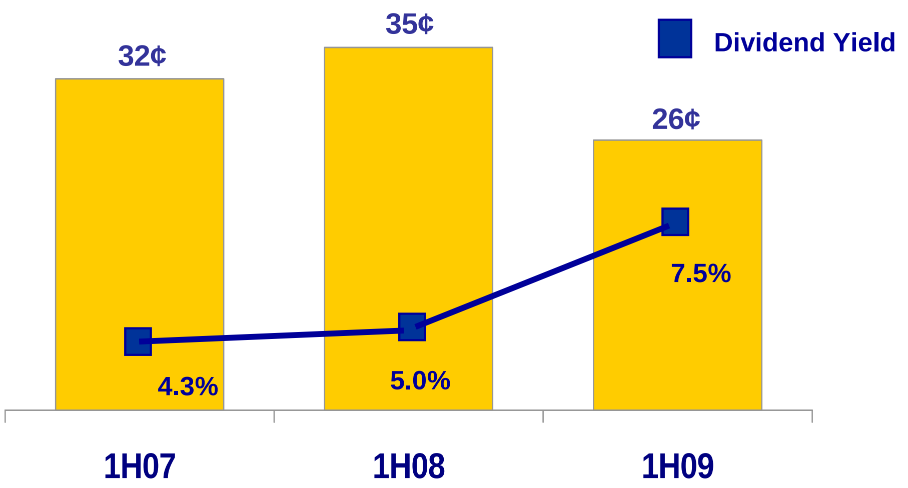
- Dividend policy aimed at preserving capital strength in current volatile markets
- 9cps reduction in dividend maintains appropriate yield whilst preserving capital for continued growth
- Project Pathways delivering significant distribution and efficiency gains to improve earning base for organic capital generation
- Fully provisioned for upfront costs related to restructuring under Project Pathways

Earnings per Share*



*Normalised diluted cash earnings per share

Dividends



Funding & capital self sufficiency

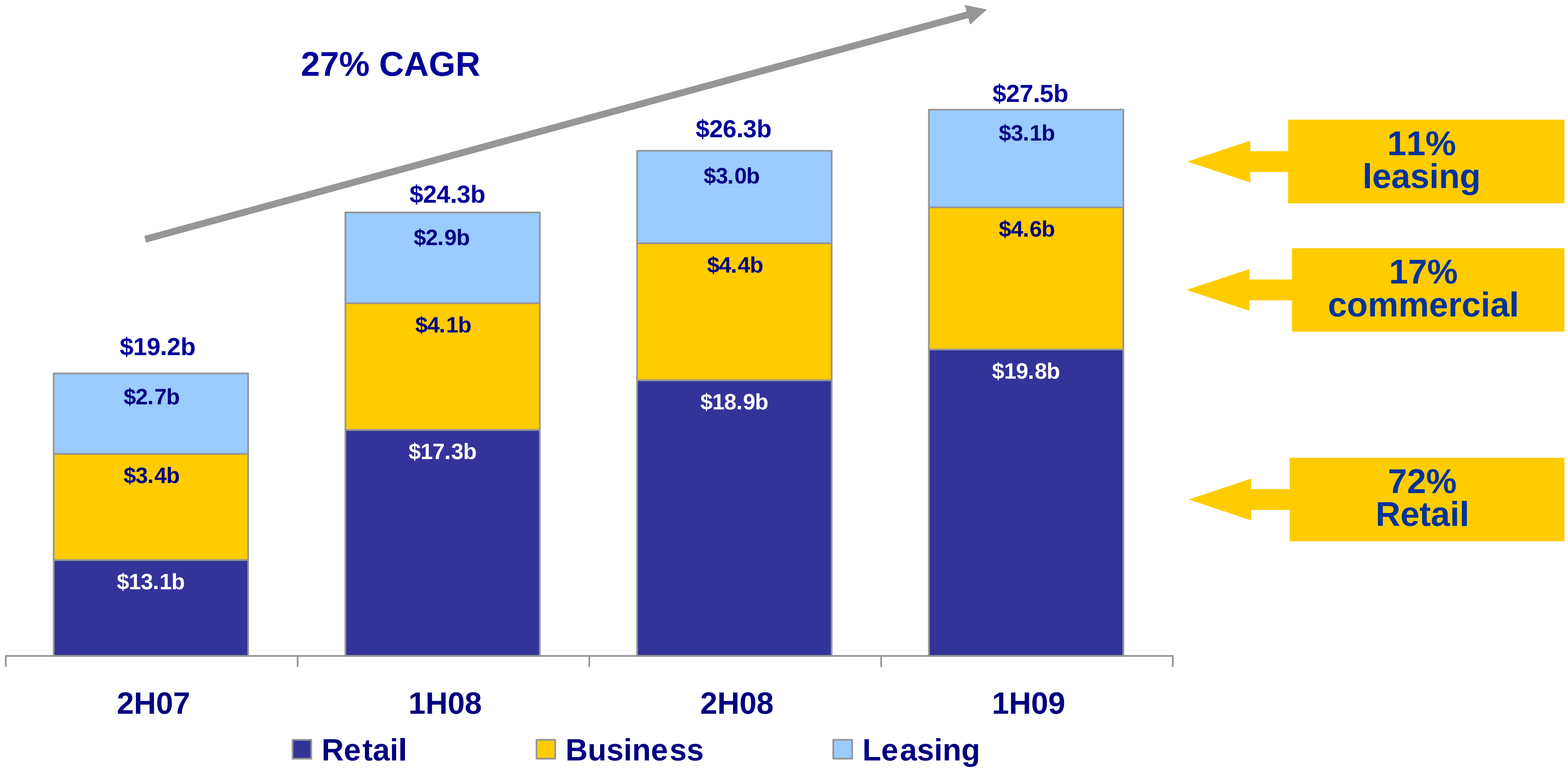
- Strong emphasis on retail deposit growth
  - Not just price driven; influencing customer interaction model
- Executed a $712m Securitisation deal priced at 128bps (blended) as part of $500m mandate from the AOFM in March 09
- BOQ will continue to access the term debt market as opportunities arise (as in FY08)
  - $500m GG Floating Rate Note 3 year issued in Jan 09
- Dividend policy modified to increase organic capital generation leading to self sufficiency
- Option to underwrite DRP or execute a strategic private placement depending on market conditions

BOQ portfolio

Ram Kangatharan, Chief Financial Officer

Bank of Queensland

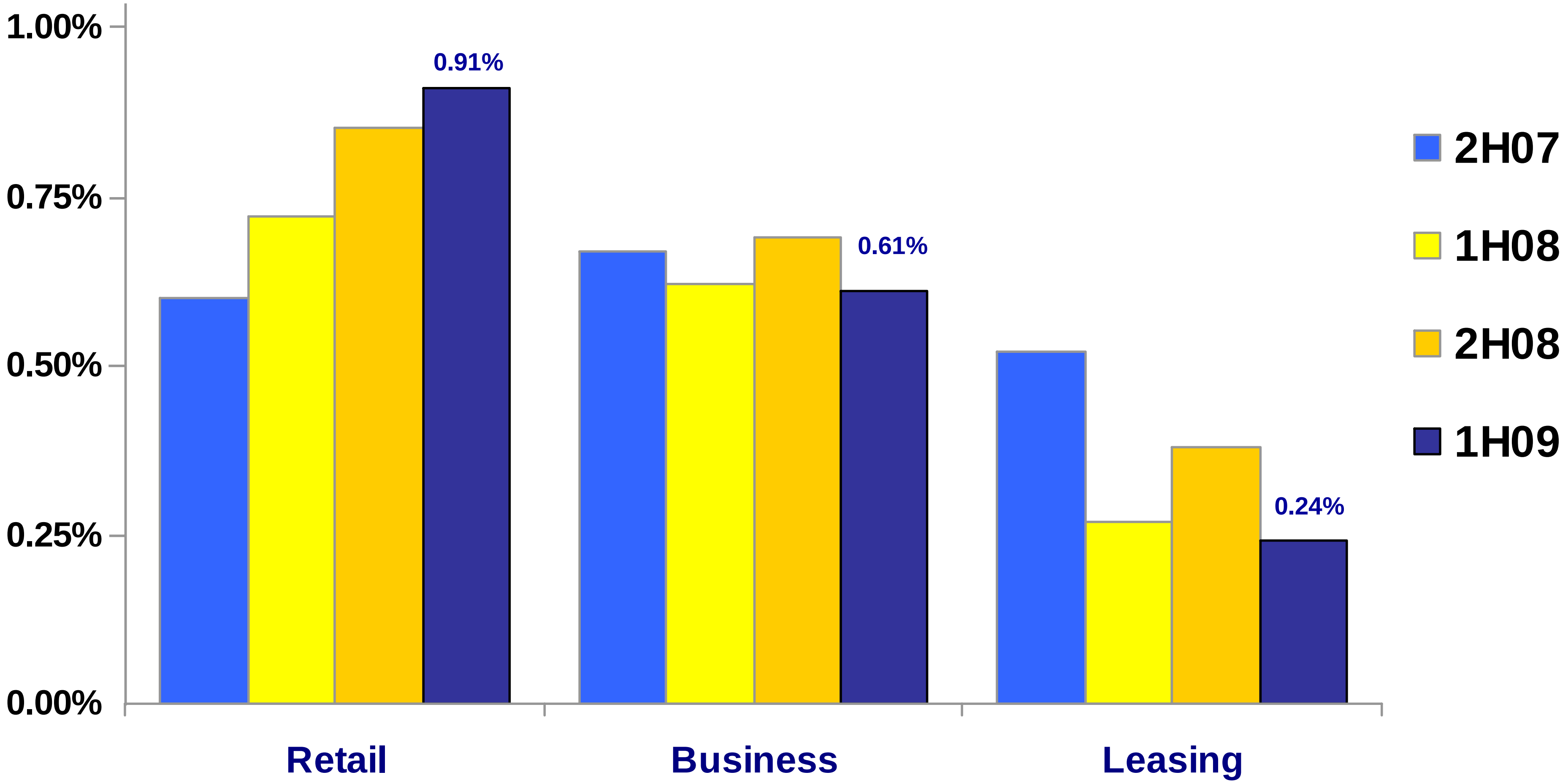
Loans under management by product



- Balance sheet skewed towards retail mortgages and residentially secured SME lending - resulting in lower risk profile

Portfolio quality

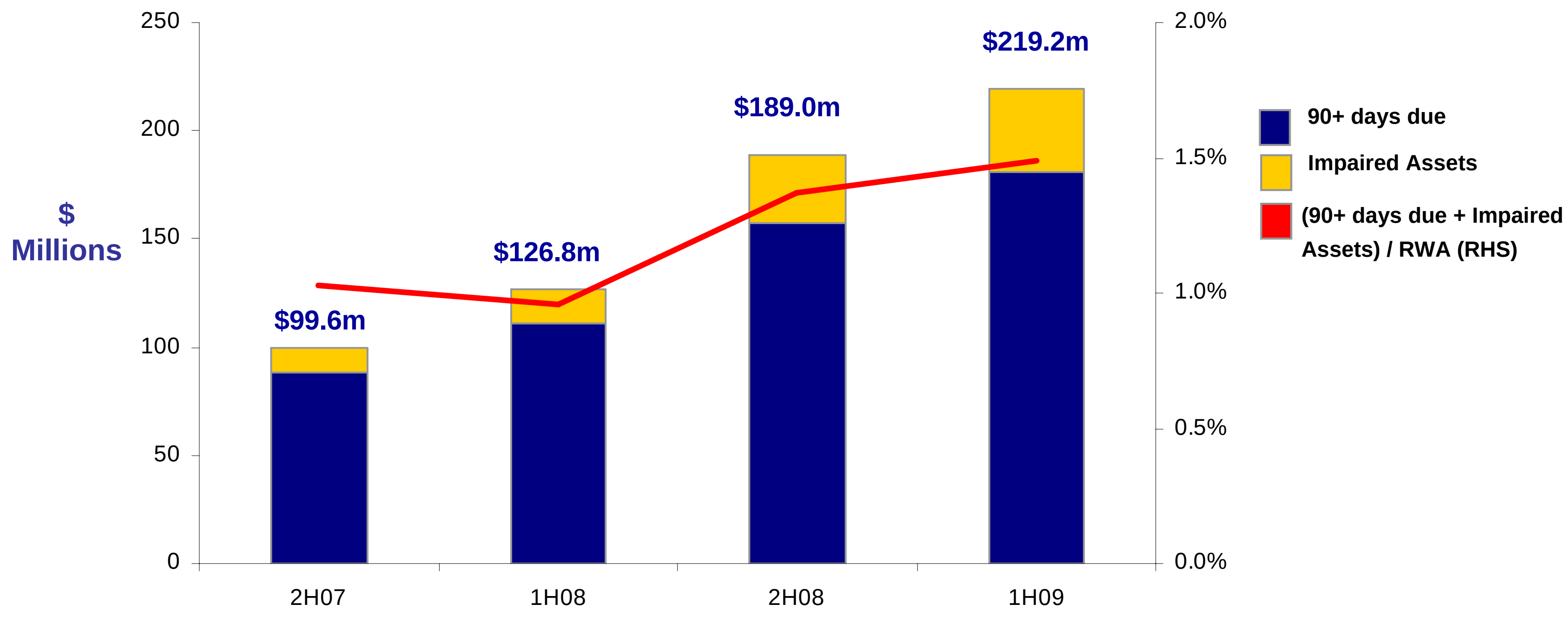
Arrears 90+ days (% of portfolio, excluding securitised loans)



Total 90 days past due $156.7m which represents 0.78% of portfolio (non-sec)

Impairment levels remain low

- Impaired assets increasing in line with softer conditions, but no systemic issues
- Conservative risk profile leading to superior credit quality

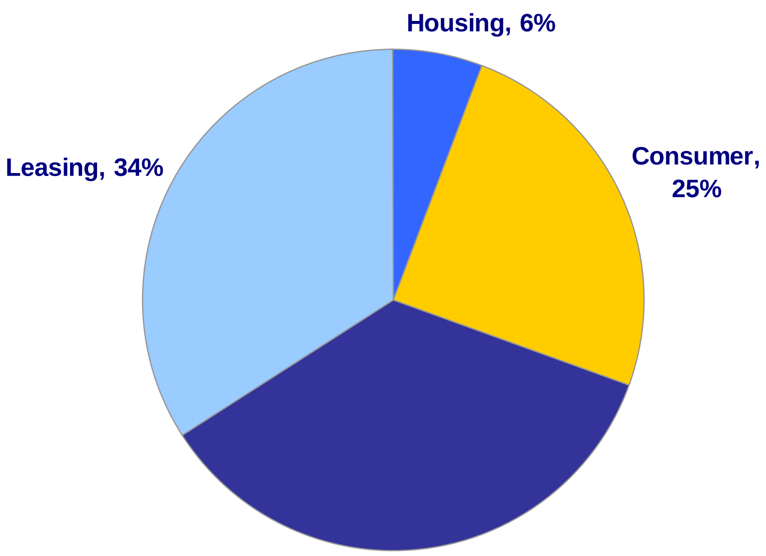


LUM	$19.2b	$24.3b	$26.3b	$27.5b
RWA	$9.7b	$13.2b	$13.8b	$14.9b

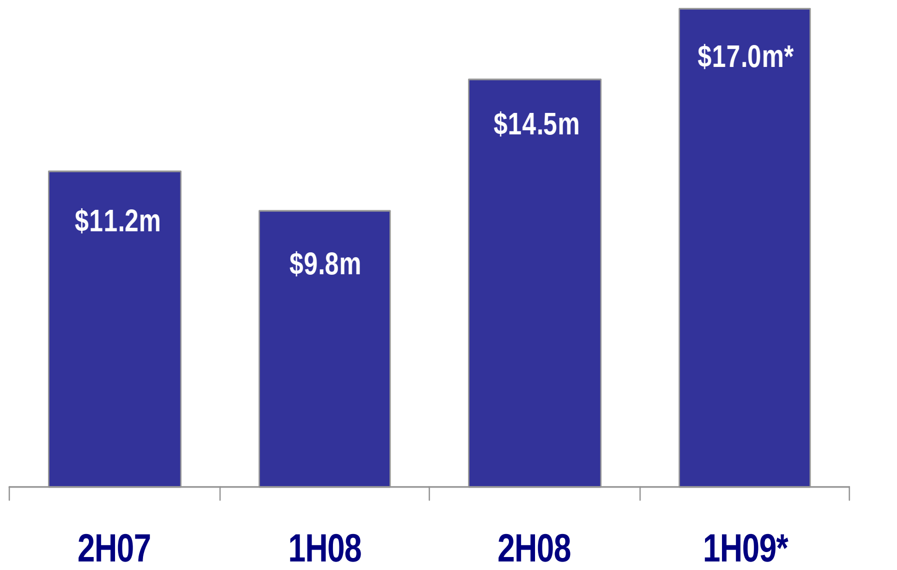
Bad debt analysis

- Sound credit quality, moderate increase in bad debts
- Leasing only part of the portfolio to show deterioration on relative terms
- $7.2m of impairment expense relates to NSW distribution restructure

Bad debts by product



Underlying bad debts

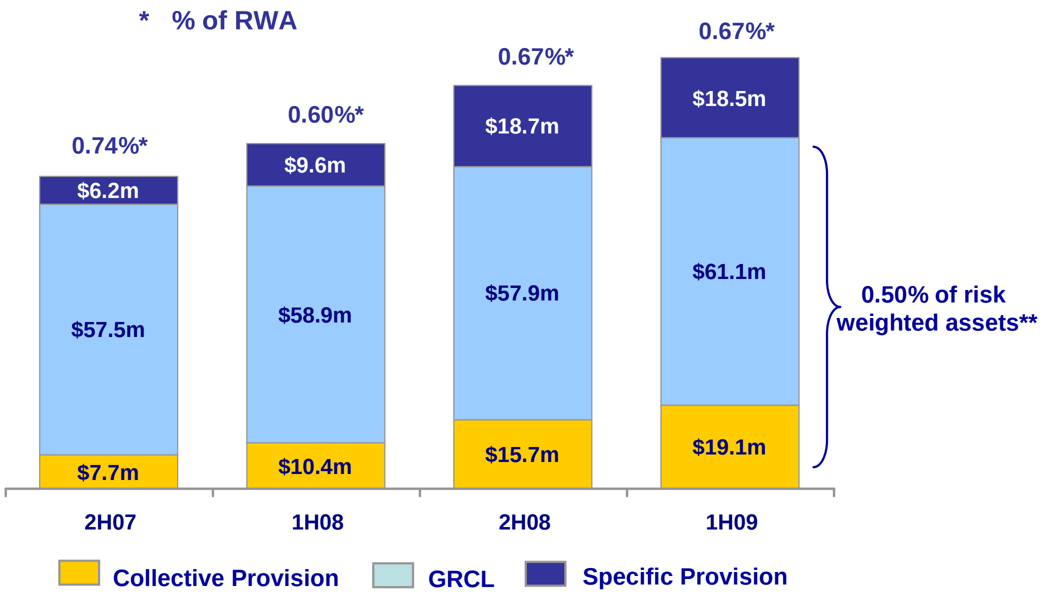


* Excludes the impairment charges of $7.2m made for the NSW distribution restructure

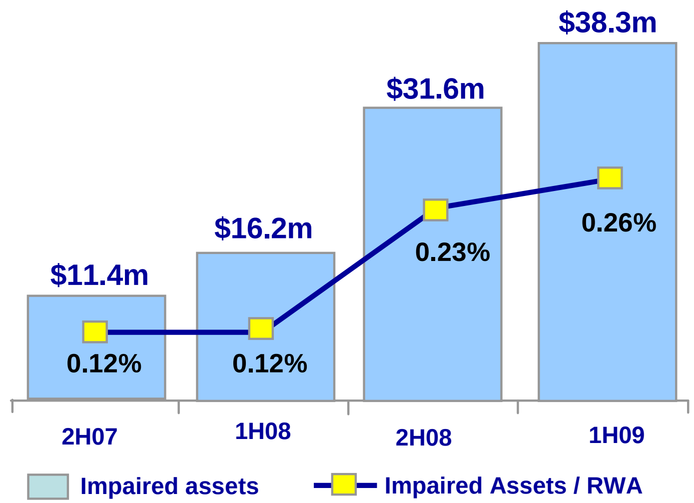
Conservative provisioning

- Portfolio focus remains on well secured housing and SME lending with no single name exposures of significance.
- Gross impaired assets remain near historical lows, particularly when compared to major banks and peer group

Total provisions



Impaired assets / RWA

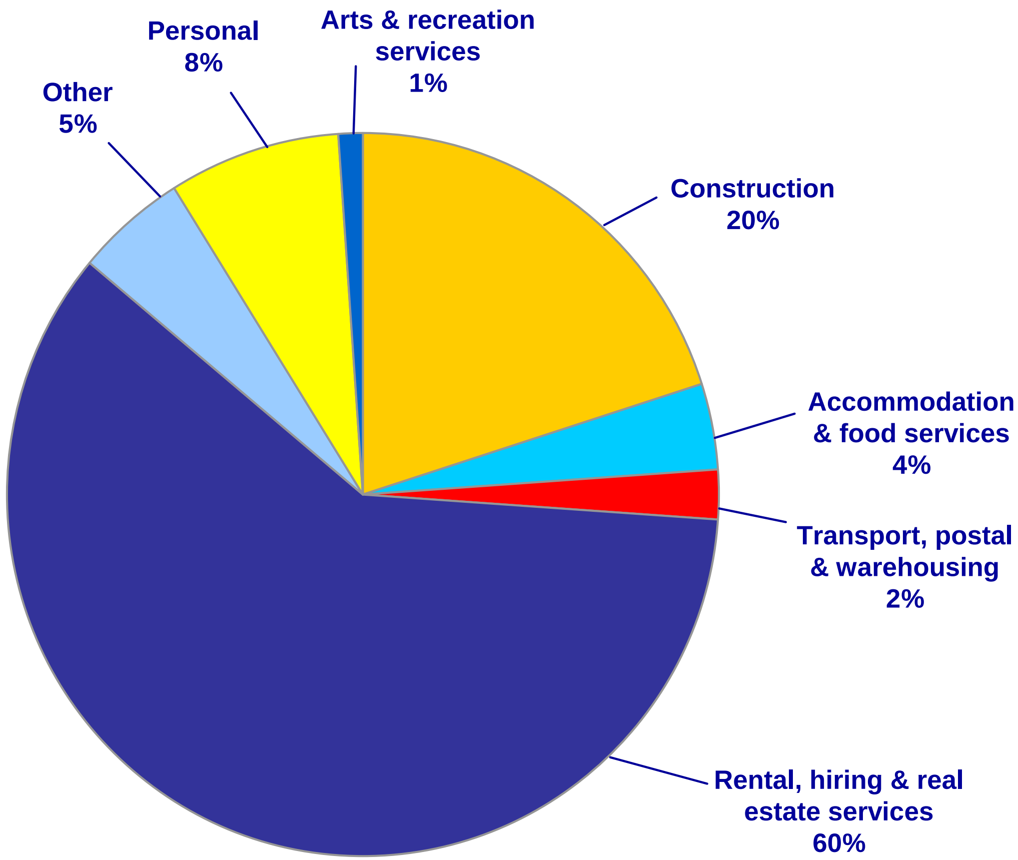


** Collective Provision after tax effecting is added to the GRCL balance to arrive at 50bps of RWA. Note reversal of excess GRCL provisions in FY08 flagged at the FY07 results.

Large exposures

- The Bank has 66 connections with exposures >$10m
- Total commitment exposure $1,601m (drawn balance $1,359m)
- ~5% of total loans under management
- ~57% matures within 1yr
- Large exposures are concentrated in the Property & Construction sectors, accounting for 80% of large exposures

Largest exposures by ANZSIC Group



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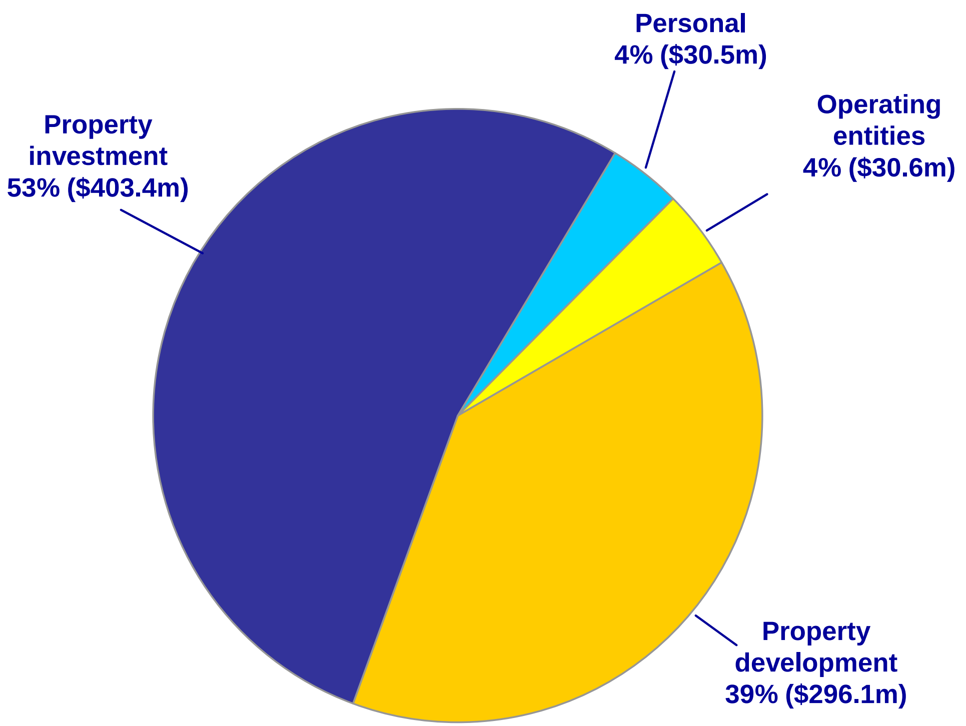
Top 20 large exposures



Type	Weighted Average Security Cover
Operating Entities	1.38
Property Development	1.61
Property Investment	1.28
Personal	2.01
Total Cover	**1.44**

- Top 20 exposures at $760m has reduced by 22% from August 2008
- Property Development exposure reduced by $150m

Differentiated risk profile & fully provisioned

BOQ lending: secured, small exposures, no syndicated loans*, avoid non-recourse lending, high pre-sales on development

Housing	Personal	Leasing	Commercial	Large exposures
70% of total lending	2% of total lending	11% of total lending	12% of total lending	5% of total lending
Ave loan size: ~$250k	Book size: $0.4bn	Ave txn size: $70k	SME focus (<$10m exp)	66 names
Ave LVR: low 60's	No exposure to credit cards or margin lending	Loss rates lower vs peers	~40% secured on residential property	Ave loan size: $20m
~30% securitised		~26% securitised		No single exp >$100m

Our provisioning:

- Combined specific, collective and GRCL 36bps of GLA
- Current impairment charges ~15bps of GLA equating to approx. 25% of the majors' average
- Stress testing on peak loss cycle demonstrates ability to absorb 'worst case' benchmarked on 1990's experience

*** BOQ has one syndicated loan exposure**

Strategy and outlook

David Liddy, Managing Director

Bank of Queensland

Project Pathways: the next growth phase

Objectives

1	**Support growth** ▸ Organic business growth platform ▸ Portfolio optimisation
2	**Consolidation participant** ▸ M&A activity – niche bolt-on vs transformational ▸ Introduce ‘strategic partners’
3	**Increase business efficiency** ▸ Cost restructure – back-office processes ▸ Review internal processes to increase productivity
4	**Maximise value** ▸ Grow shareholder returns

Comprehensive evaluation of a wide array of organic and inorganic opportunities

Project Pathways: workstreams

1. M&A / Strategic Partner
2. Efficiency
3. Portfolio Optimisation Program

1 Workstream 1: M&A / Strategic Partner

- BOQ has a unique opportunity to position itself to begin to bridge the ‘void’ in the banking market left behind by the takeovers of St George and BankWest in recent times
- Commenced the M&A / Strategic Partner initiative in early 2009 against a back drop of equity market volatility
- We continue to talk to a range of parties about various ideas and concepts
- We have processes in place to examine opportunities if they arise and to move quickly to capitalise on them
- We will provide more information to the market at the appropriate junction

2 Workstream 2: Efficiency

- Objective of the Efficiency Team was to reposition the current cost base to react to the current financial environment and for future growth
- A cross functional group of senior staff were brought together to target a combined ~$50 million+ in cost saving opportunities (50% realisable in FY09)
- The scope was unlimited (ie. “no sacred cows”) and focused broadly across three key areas:
  - Organisational - Operational - Strategic

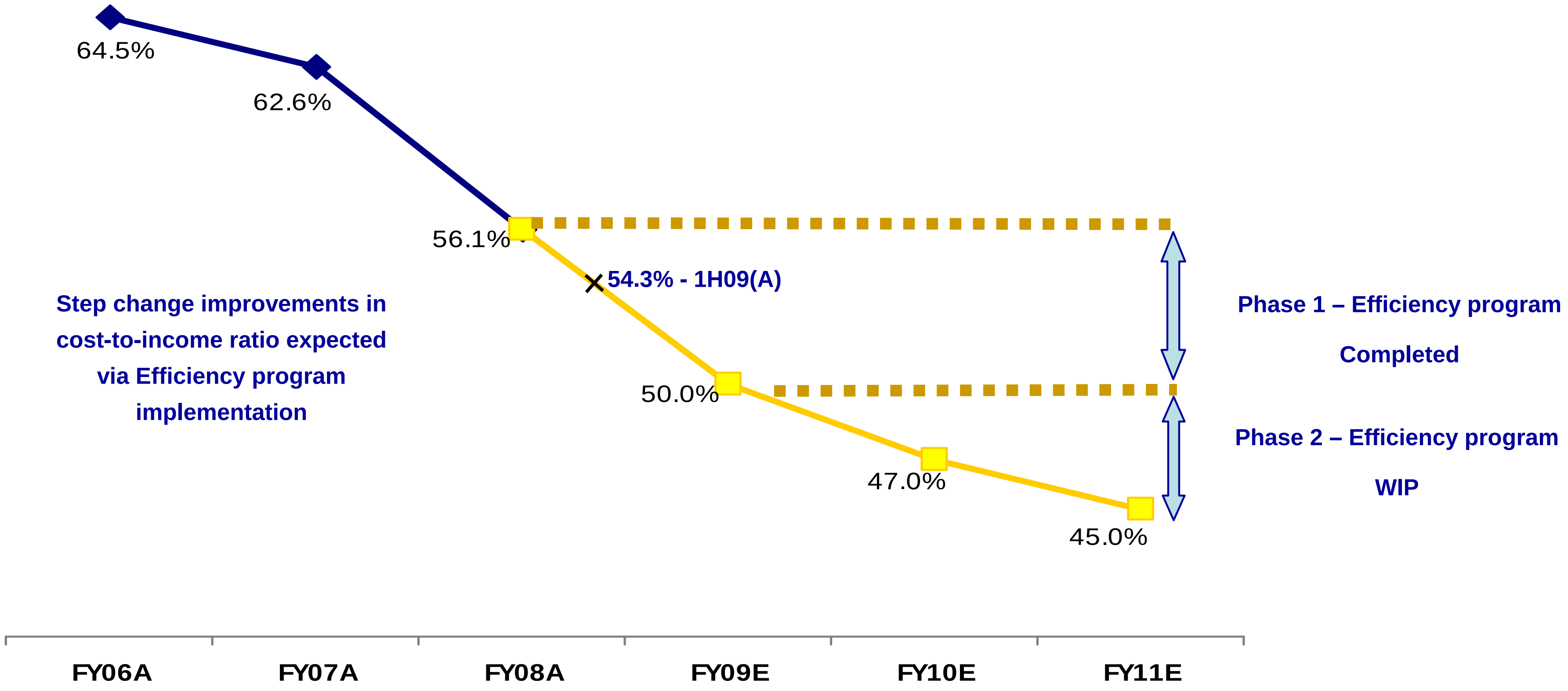
2 Efficiency program overview

	Program	Status	Annualised Benefit
Phase One	**Organisational Alignment**	Completed	~$20m
	Expense Optimisation	Completed	~$30m
			~$50m
Phase Two	Simplification	WIP	TBD
	Sourcing Review & Opportunities	WIP	TBD

2 A more efficient model to challenge scale players

- These initiatives expect to show further step change improvements in next three years, via structural, distribution and key sourcing changes

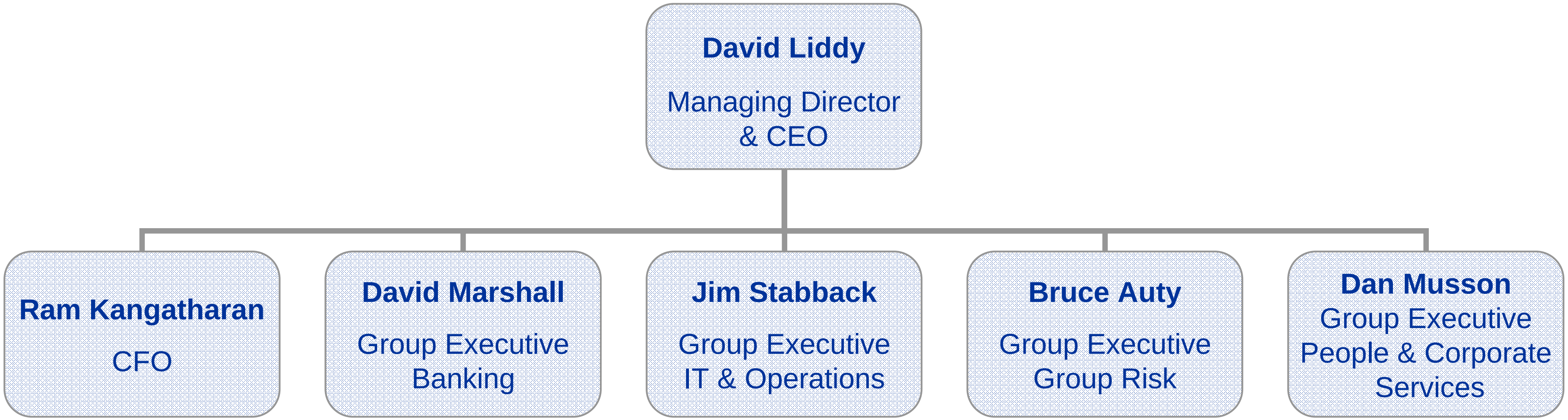
Cost-to-Income Ratio Targets



* Forecast cost-to-income targets are dependent on achievement of revenue and cost forecasts

2 Key initiative: structural efficiency

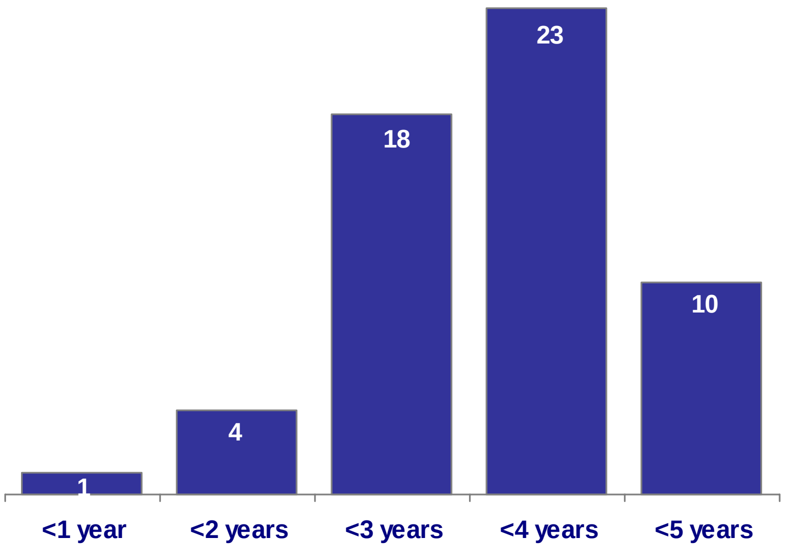
- Organisational restructure now complete
- Involved merging our Retail and Business Financial Services channels into one channel: Banking
- Head Office support functions realigned and refined
- Frontline staff not affected

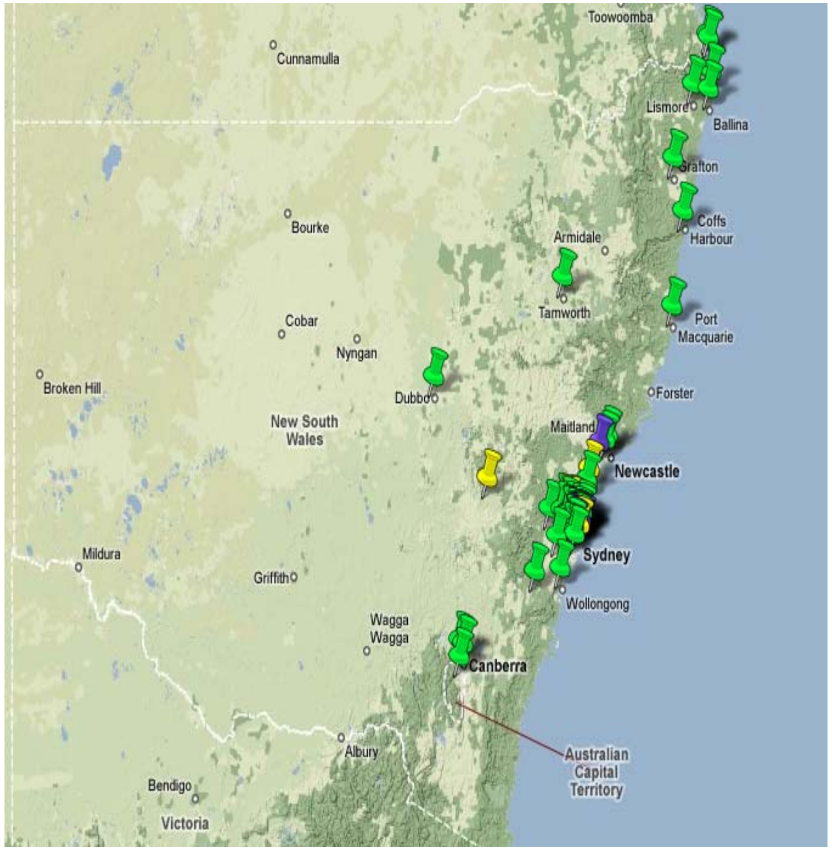


2 Key initiative: NSW consolidation

- 56 branches in NSW
- Total loans under management in NSW of $2.7b
- Deposit growth has been a positive with >60% growth during FY09, total deposits in NSW now $1.8b
- Majority open for over 3 years
- BOQ operating 15 OMBs

NSW branch maturity





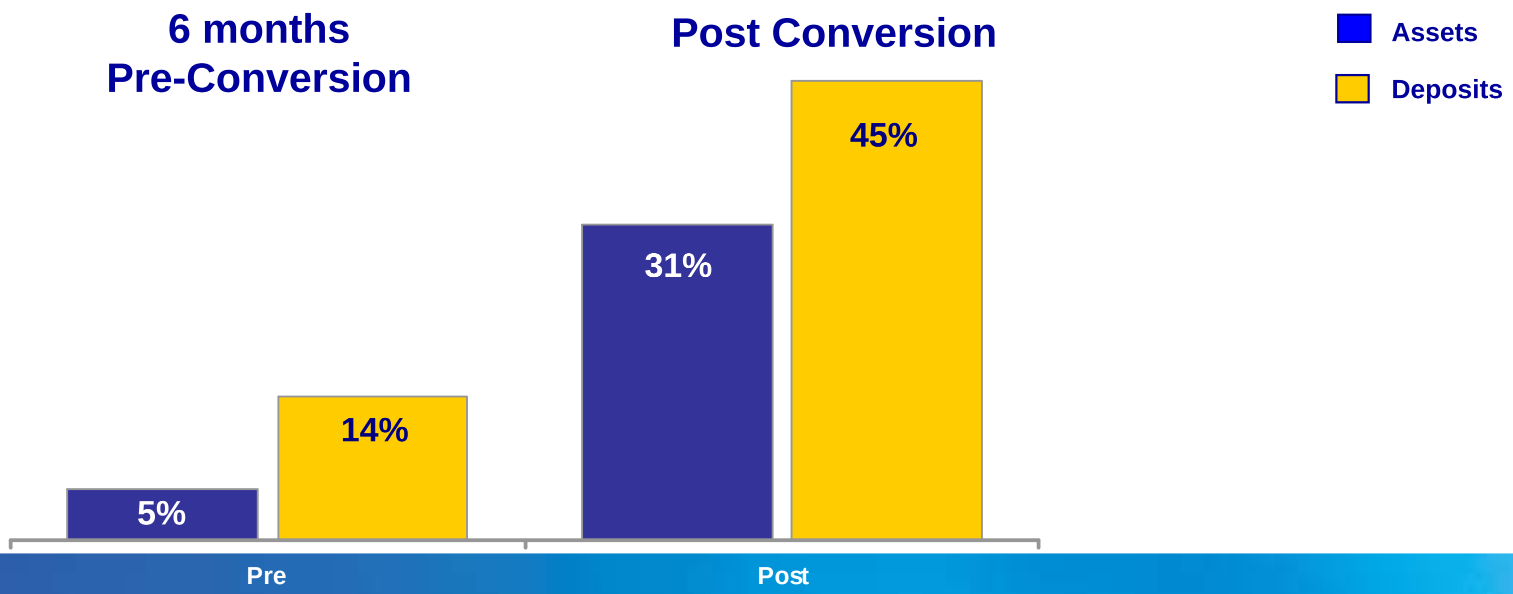
2 NSW – imperatives for consolidation

- A number of NSW OMBs are below expectations
  - As a comparison, on average Victorian branches have loan books 50% larger than NSW, with a similar maturity
- Combination of factors including:
  - NSW economy
  - Poor selection and performance of some Owner-Managers
- The Bank intends to consolidate branches down to a core of approximately 45 branches
- Restructuring charges of $11.7m provided in the accounts
- Key benefits include:
  - Greater focus on successful OMBs
  - Distribute the portfolios to strengthen continuing branches
  - Eliminate cost of running corporate branches

2 OMBs remain core to our strategy

- The rest of the OMB network is performing in line with expectations
- The productivity of the model is unmatched
- We have now converted 31 corporate branches to OMBs
- Average monthly settlements have increased 64% post conversion

Annualised growth before and after conversion

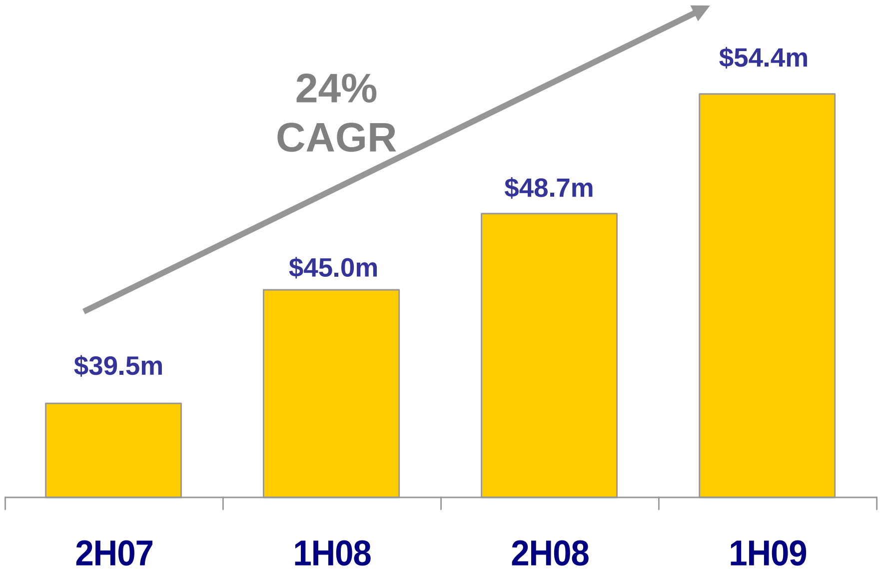


Note: For branches converted with at least 3 months of results since conversion.

Resilient network gaining momentum

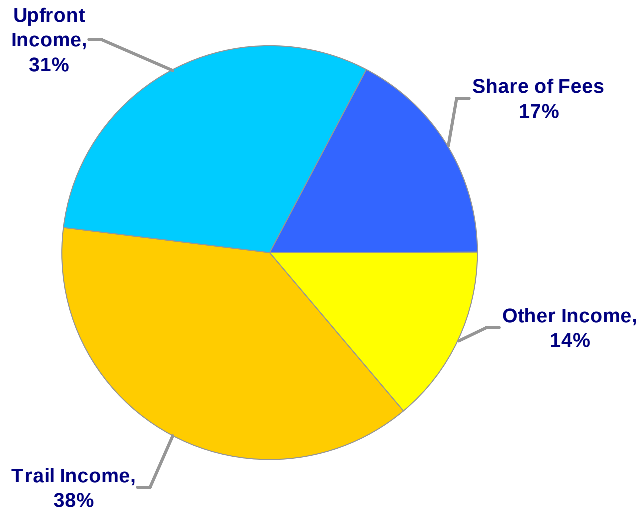
2

Total OMB Commissions



- Total OMB commission payments have consistently increased
- Demonstrates resilience of model even in a downturn

OMB Income Split 1H09



- Majority OMB income comes from existing balance sheet with less reliance on upfronts
- Sales capability now starting to focus on deposits & cross sales

3

Workstream 3: Portfolio Optimisation Program

Objectives:

- Undertake a channel and product diagnostic:
  - Performance of all existing channels and products - revenues, productivity, margins, cost pools, risks, outlook, customer service, capability strategic and brand fit
  - Performance v market
- Identify emerging trends, channel, product and segment gaps and business optimisation opportunities
- Capture interdependencies with efficiency, finance and M&A teams

3 POP – key findings and priorities

Priorities

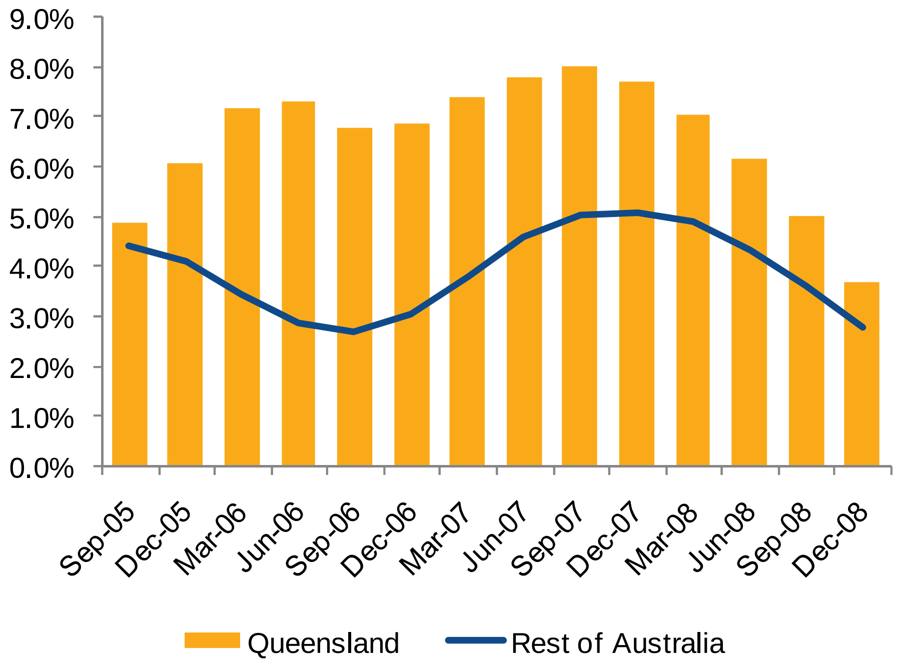
- Clearly focused on target markets – SME and housing
- Grow SME market share
- Improve cross sell and enhance product suite

Enablers

- Reinvigorate OMB commission model (underway)
- Structural integration of BFS and RFS (underway)
- SME credit process simplification (underway)
- Designated sales support for OM's (in place)
- Business Assistance Team (in place)

The long-term outlook for the QLD economy remains strong

QLD state final demand[1] (GDP equivalent[2])



Queensland represents circa one fifth of the national economy

1) Annual percentage change based upon chain volume trend estimates
2) Excludes international trade (import and export)
Source: ABS

Highlights

- The Queensland economy has exceeded national growth for the last 12 consecutive years
  - Expected to have the highest level of growth over the next ten years
- Queensland population growth continues to outstrip the national growth rate
  - increased 2.5% in the year ending September 08, well above the rest of Australia at 1.7%
- Although it is expected to rise, Queensland's unemployment rate of 4.4% (Feb 09) remains below the rest of Australia at 5.1% (Feb 09)
- The proportion of total dwelling approvals in Australia represented by Queensland remains high at 20.1% (Jan 09)
- Residential vacancy rates remain low at 2.8% (Queensland) and 1.7% (Brisbane) – Dec 08

Market guidance

- The model is proving its resilience and productivity in the toughest of conditions – we've cleared the decks on underperforming NSW footprint
- We expect to continue to grow profitably all aspects of our business ahead of our competitors whilst maintaining pricing and credit disciplines
- We have executed a series of efficiency initiatives that give us line of sight to achieving cost to income ratio that challenges the majors even at a fraction of their size and without the benefit or risk of corporate lending.
- Having built a funding buffer in1H09, expect NIM to improve in 2H09
- Bad debts tracking upwards with deteriorating economy, but likely to be well below peers, expect 2H09 outcome similar to normalised 1H09 impairment
- Management targeting 20-25% growth in normalised cash NPAT in FY09
- Expected dividend payout ratio of 50-60% whilst the challenging market conditions continue

Summary

- Strong performance given current economic climate
- Very successful in retail and wholesale funding growth
- OMB network resilient despite conditions
  - NSW actions provide a platform for a future healthy network in that State
- Single channel to market strengthens our model
- Strong credit and cost disciplines holding
  - Significant and sustainable lower cost base on which to build our business
- Sticking to the basics with ever increasing discipline
- Project Pathways on track to achieve its objective of positioning the Bank for ongoing growth

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