Bank of Queensland

Half year results

28 February 2010

BOQ

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Agenda

- **Result highlights** — **David Liddy**
  Managing Director & CEO
- **Financial result in detail** — **Ram Kangatharan**
  Chief Operating Officer
- **BOQ portfolio** — **Ram Kangatharan**
  Chief Operating Officer
- **Strategy and outlook** — **David Liddy**
  Managing Director & CEO

Result highlights

David Liddy

Managing Director

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Result highlights

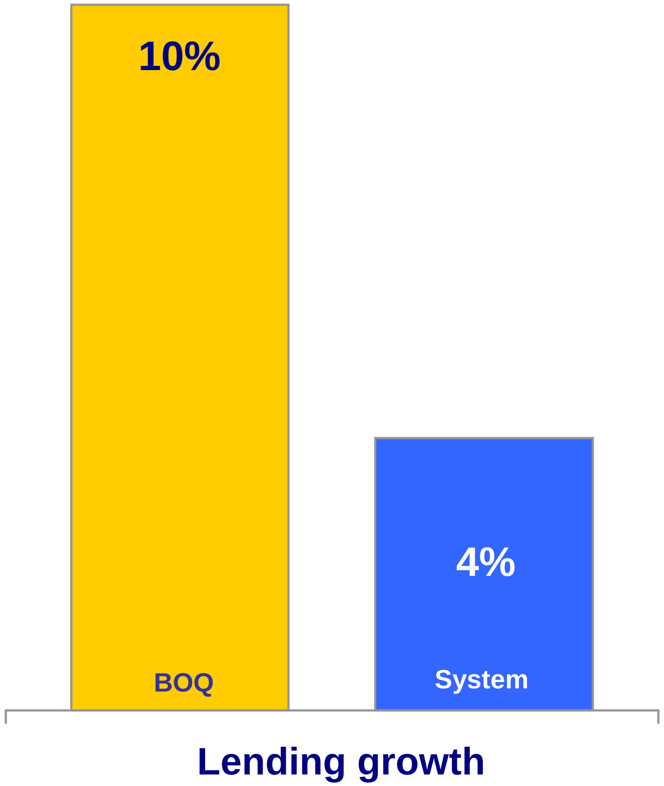
- Continued cash profit growth despite bad debt losses increasing substantially in 1H10 as previously guided
- Sustainable cost disciplines in place – allowing headroom to invest in marketing, technology, compliance and regulatory initiatives
- Headwinds in non-interest income as guided…executing ‘bolt-on’ acquisitions to reverse trend
- Margin improvements delivered as per guidance despite unfavourable conditions in the retail deposit market
- Asset growth in a ‘constrained growth mode’ continues above ~2x system – corporate branches & direct banking channels continue focus on deposits and cross sales
- Dividend policy maintained with growth to resume once strategic ambitions gain traction
- Material capital issuance during the half - constraining EPS but providing platform for future growth opportunities

Strong financial results in tough market

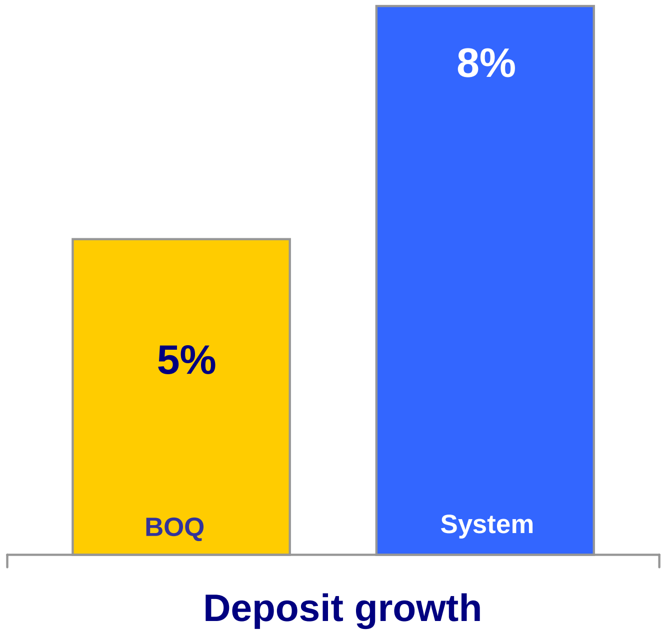
	1H-09	1H-10		
Normalised cash NPAT	$84.2m	**$97.2m**	▲	15%
Cash EPS (normalised fully diluted)	45.9¢	**41.8¢**	▼	9%
Ordinary dividend	26¢	**26¢**		-
Loan growth (pcp)	13%	**10%**		
Retail deposit growth (pcp)	25%	**5%**		
Net interest margin	1.52%	**1.65%**	▲	13bps
Cost to income ratio (normalised cash)	54.3%	**45.1%**	▼	9.2%

Slowing growth continues across system...

- Lending growth: 2.5x system*



- Deposit growth: 0.6x system*

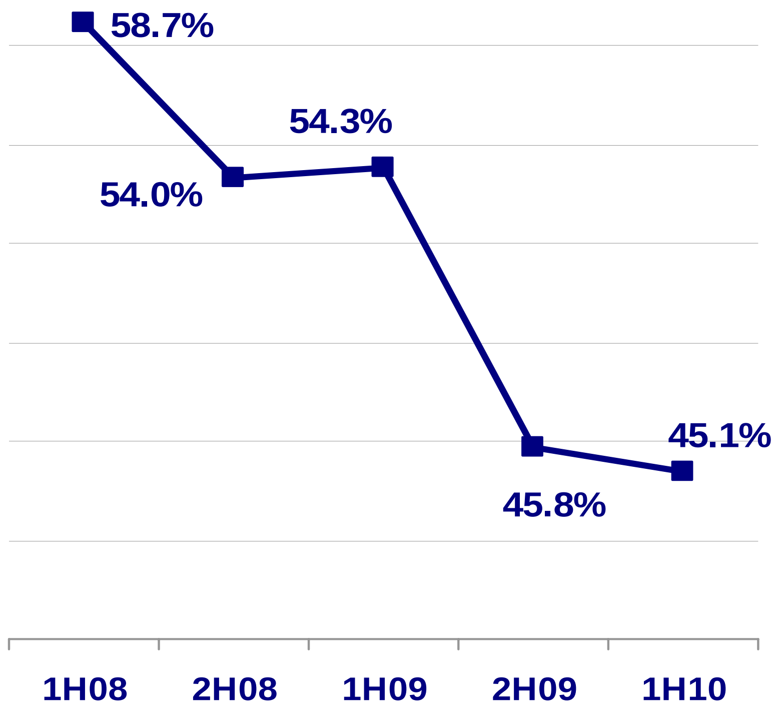


* Last 12 months
Source: APRA data

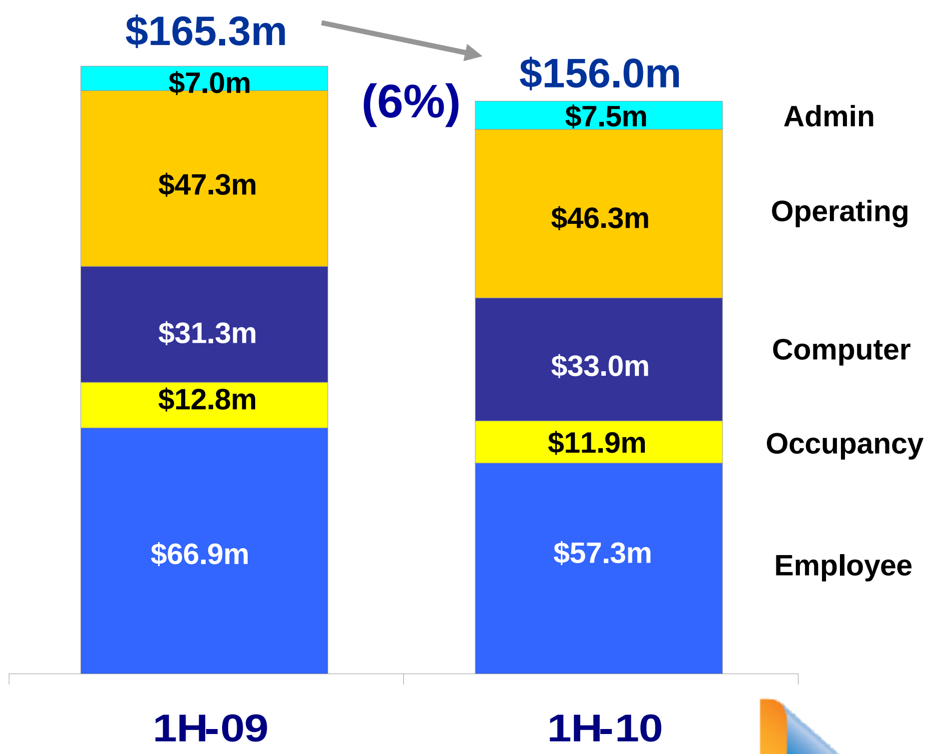
Cost efficiencies accelerating…

- Efficiency initiatives implemented in March '09 gaining traction… run rate allows higher brand investment, compliance & regulatory costs in FY10 & FY11

Cost to income ratio*



Expenses*

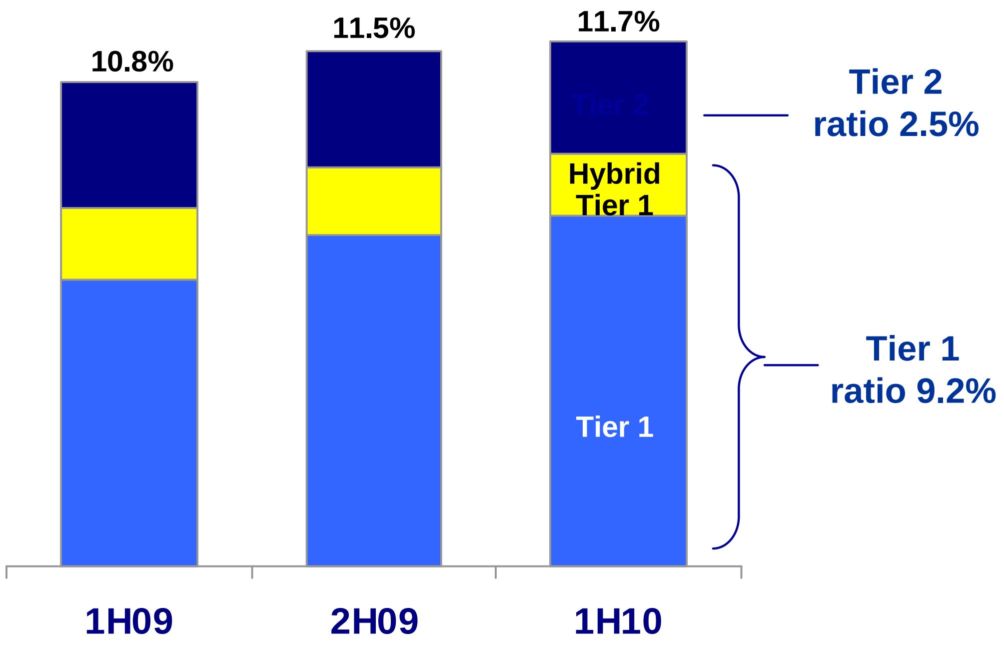


* Based on normalised cash costs, excluding the impacts of normalisation items & amortisation of Customer Contracts

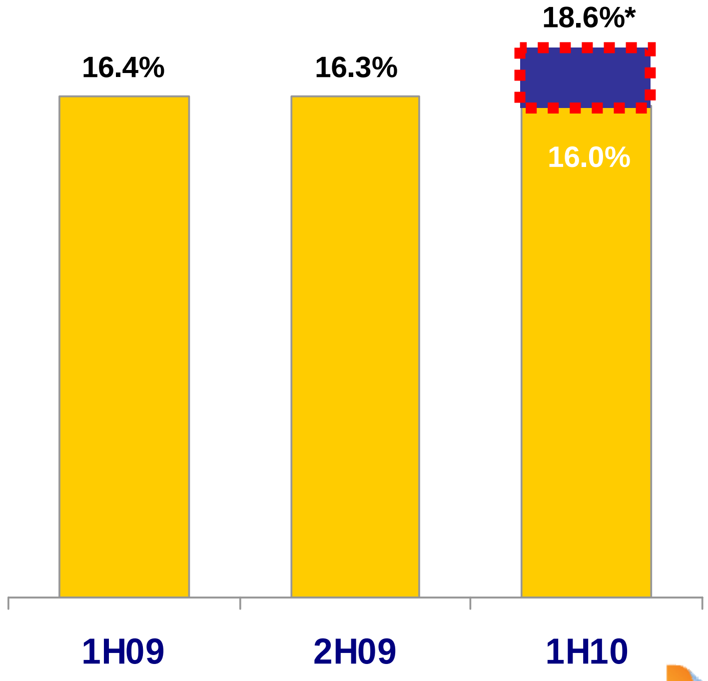
Strong capital base and liquidity

- Tier 1 and total capital levels remain in excess of APRA and internal benchmarks
- Liquidity levels increased to record levels post-GG bond issue

Capital adequacy



Liquidity



* Includes settlement proceeds received from the A$1.0b GG issue that settled on 10 March 2010

The result in detail

Ram Kangatharan

Chief Operating Officer

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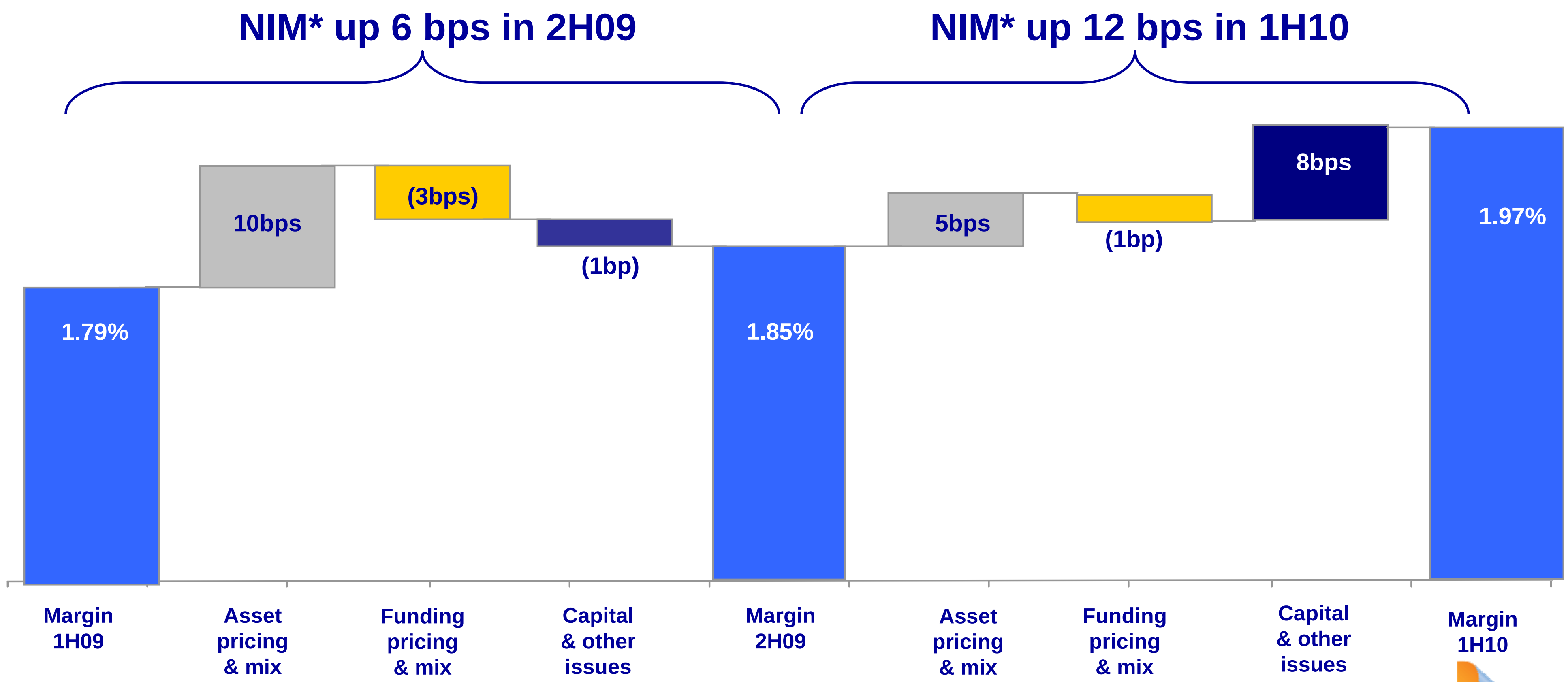
Meeting our commitments

	1H09 $m	1H10 $m	% Change vs pcp
Total operating income	**304.0**	**342.9**	**13%**
Expenses	212.1	160.9	-24%
Adj: Normalisation & non-cash items	46.8	4.9	
Normalised Expenses	**165.3**	**156.0**	**-6%**
Impairment on loans and advances	27.6	51.4	
Adj: Normalisation item	7.2	-	
Normalised impairment charges	**20.4**	**51.4**	152%
Normalised cash profit after tax	**84.2**	**97.2**	**15%**
Cash diluted EPS (normalised)	**46¢**	**42¢**	**-9%**

- **Normalised cash NPAT continues to improve through strong growth in operating income and disciplined expense management initiatives**
- **Impairment charges peaking in FY10 as per guidance**
- **Excess equity capital diluting EPS, but provides platform for growth**

Margin improvement in 1H10

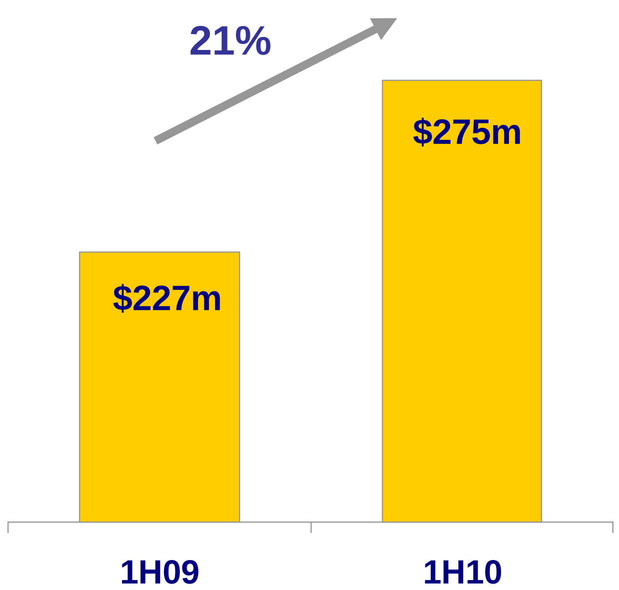
- As per guidance, a similar trend to 2H09 albeit increasing term and retail funding costs have impacted NIM



* Gross NIM illustrated before impact of payments to 3rd parties

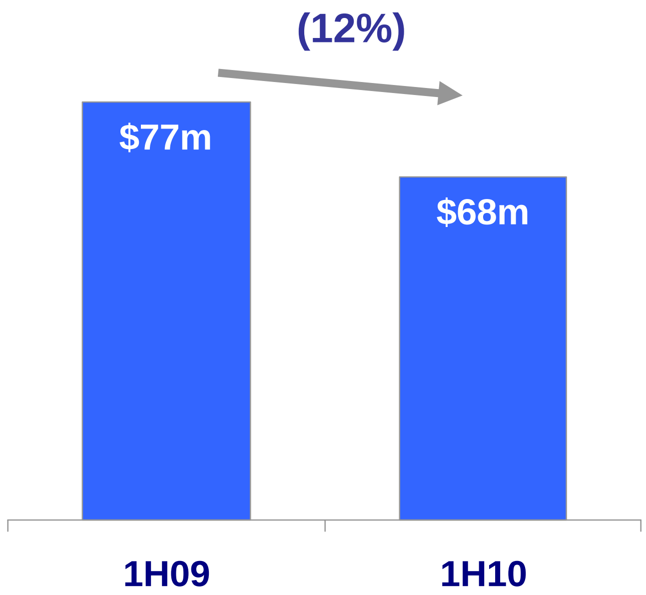
Lending income strong... Non-interest headwinds as guided

Net Interest Income



- Balance sheet continues to grow well above system
- Margin expansion continues
- Delivering strong NII growth

Non Interest Income

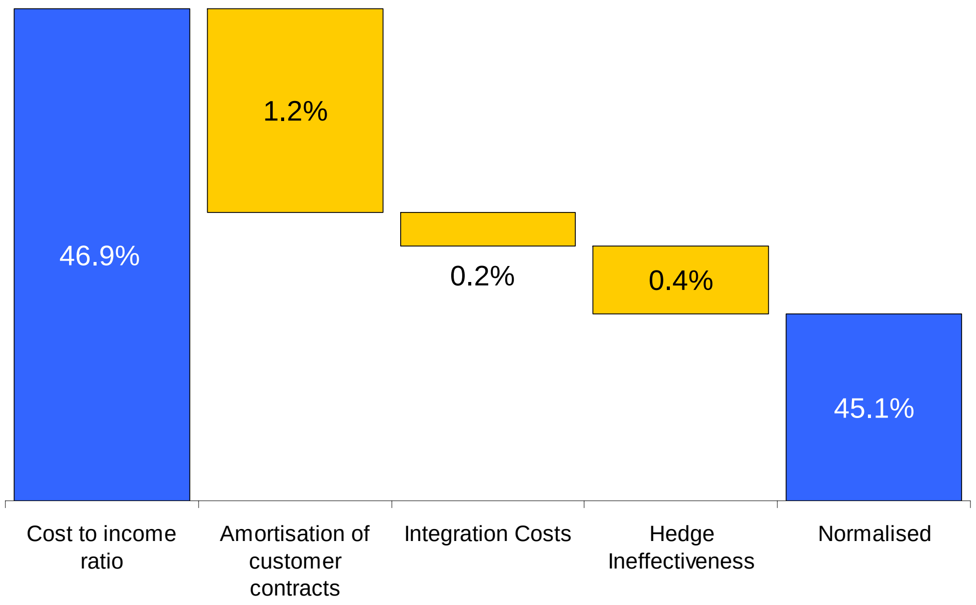


- As guided the headwinds in non-interest income continued to reduce this source of income
- St Andrews acquisition represents a start to the recovery strategy

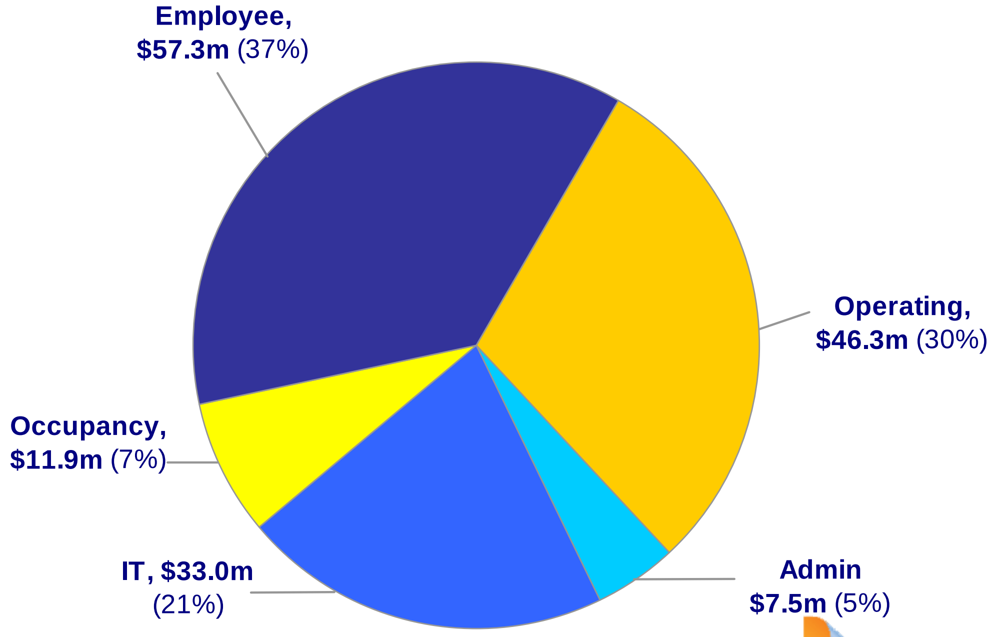
Expense composition

- Sustainable cost initiatives implemented…providing headroom to invest in marketing, brand, technology, compliance and regulatory initiatives
- Maintain previous guidance of 47% in FY10 and 45% in FY11

Cost to Income Ratio



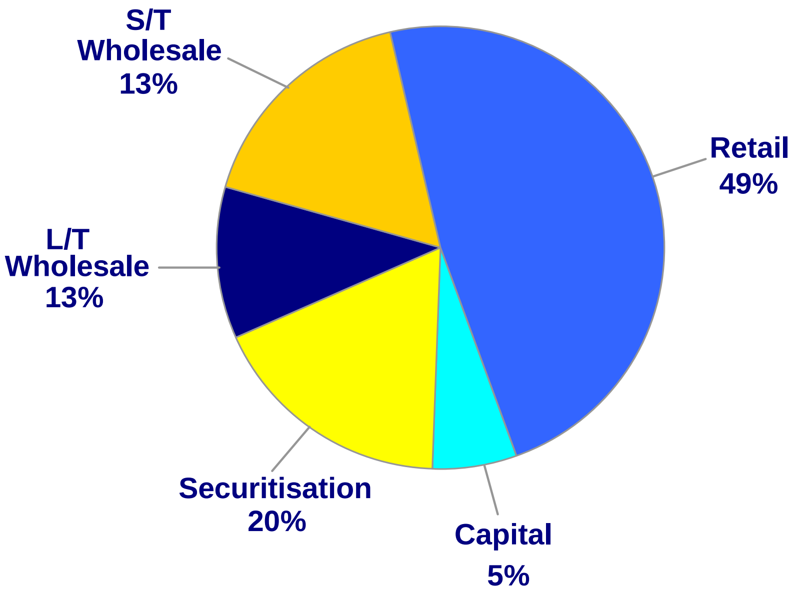
Operating Expenses



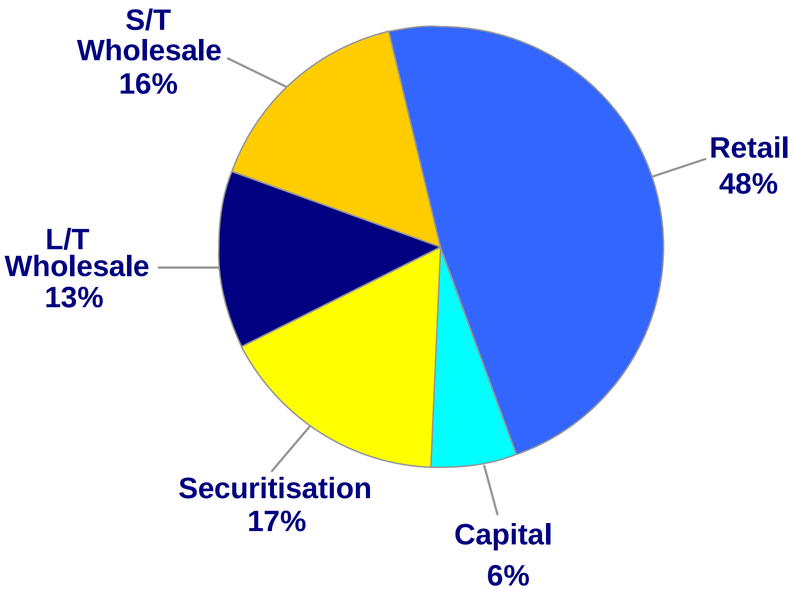
Funding balance sheet impact

- Following capital raising and improvements in market stability, new sources of funding may become available
- Record liquidity levels established in prior periods has enabled us to be more selective in funding options, not dependent on highly competitive deposit markets

1H09 Funding



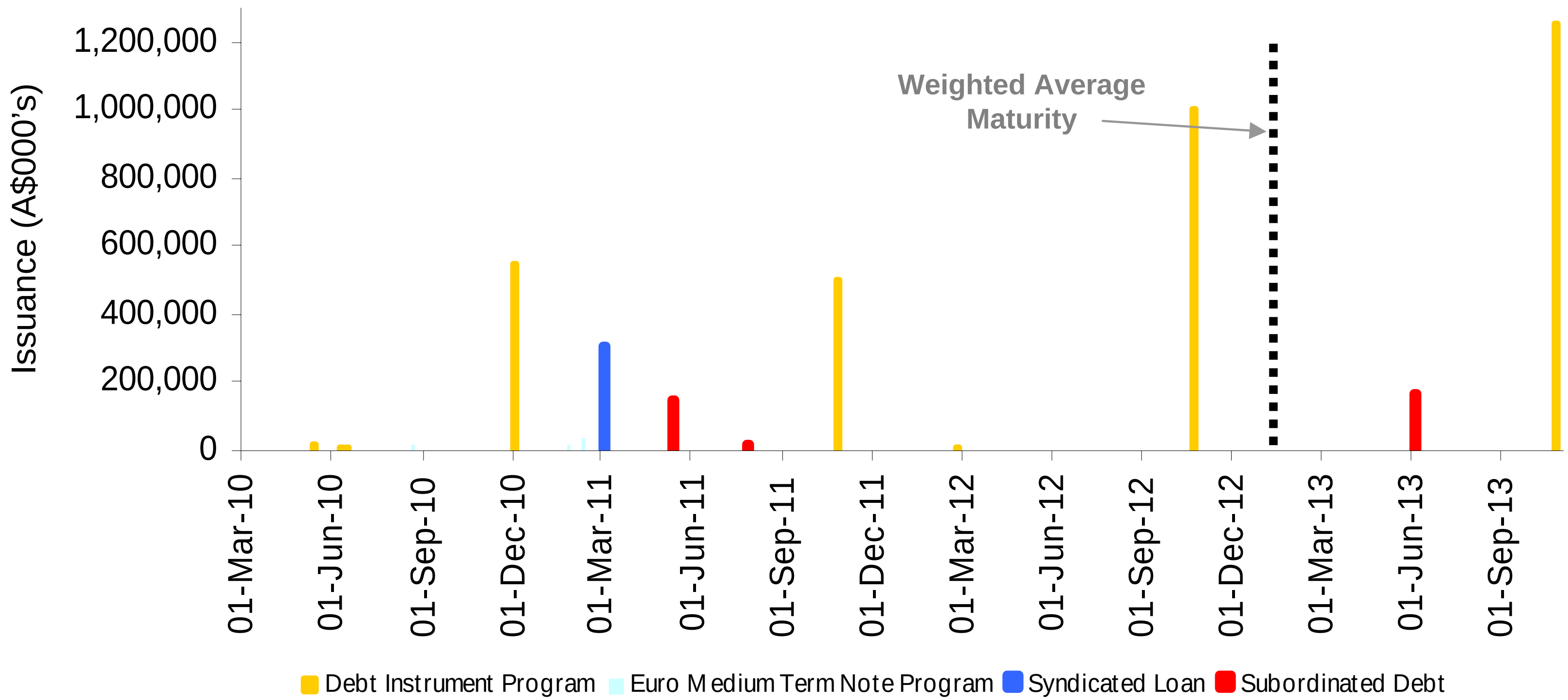
1H10 Funding



Long-term debt maturity profile

- After the recent A$1.0b GG notes issue, the weighted average maturity of long term debt has lengthened to 2.4 years from 1.8 years pre-GFC

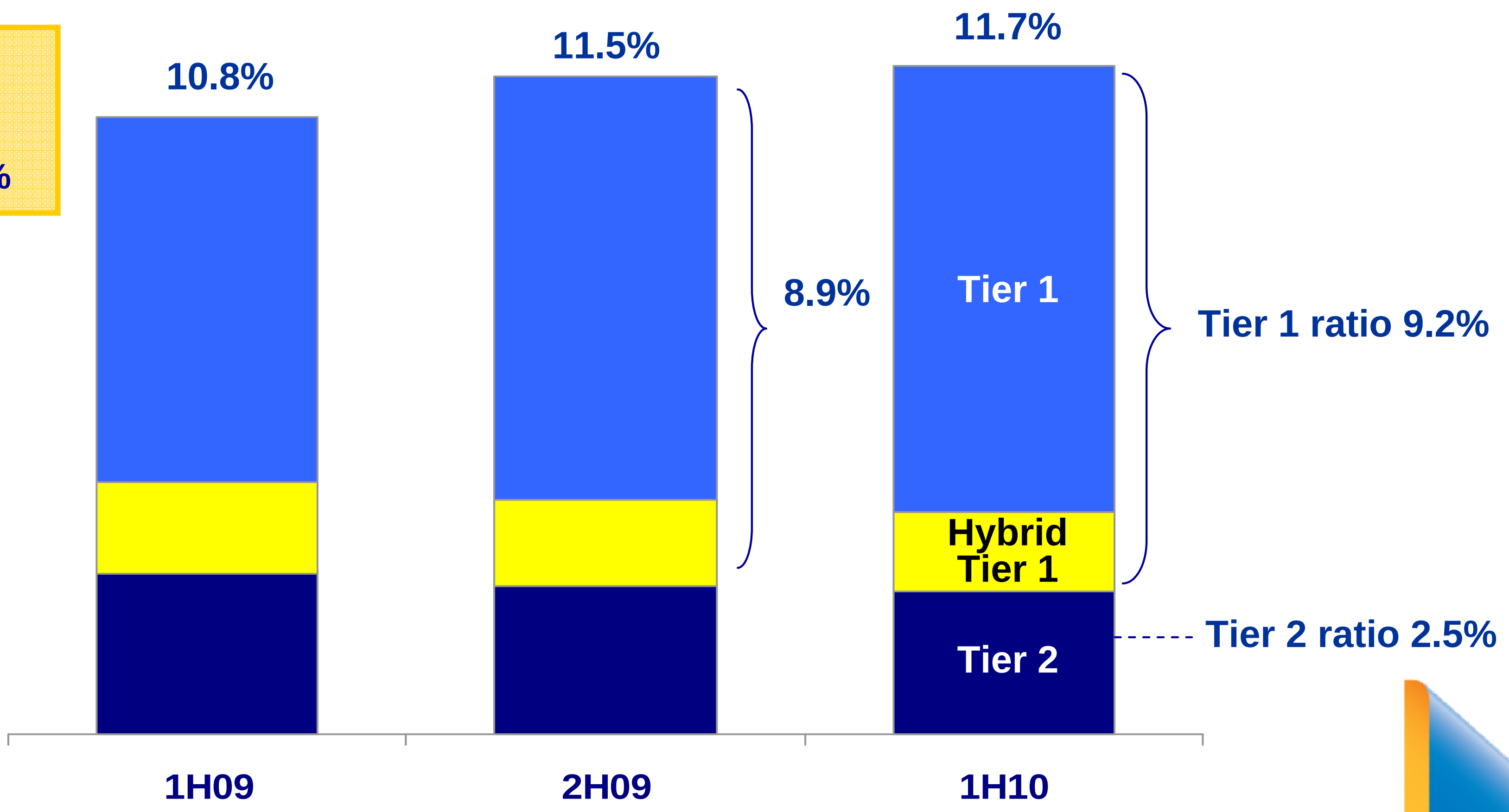
BoQ Funding Programs Maturity Profile ($A)



Strong Capital position

- Tier 1 capital increased to 9.2% - above APRA and internal benchmarks providing a platform to support future growth

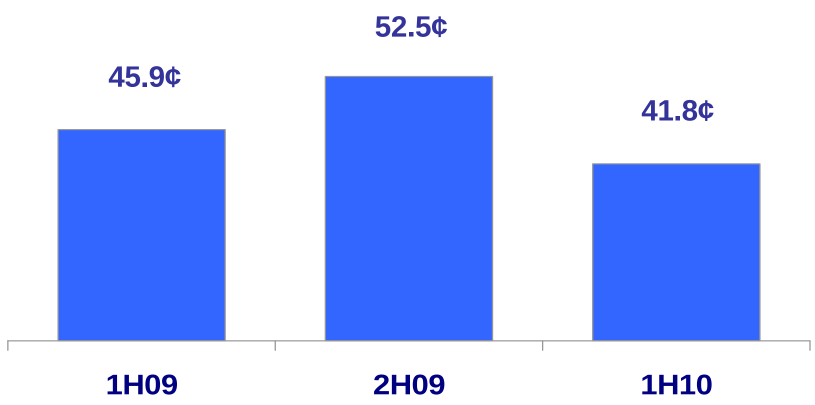
Targets:
Tier 1 of 8%-9%
Total of 11%-12%



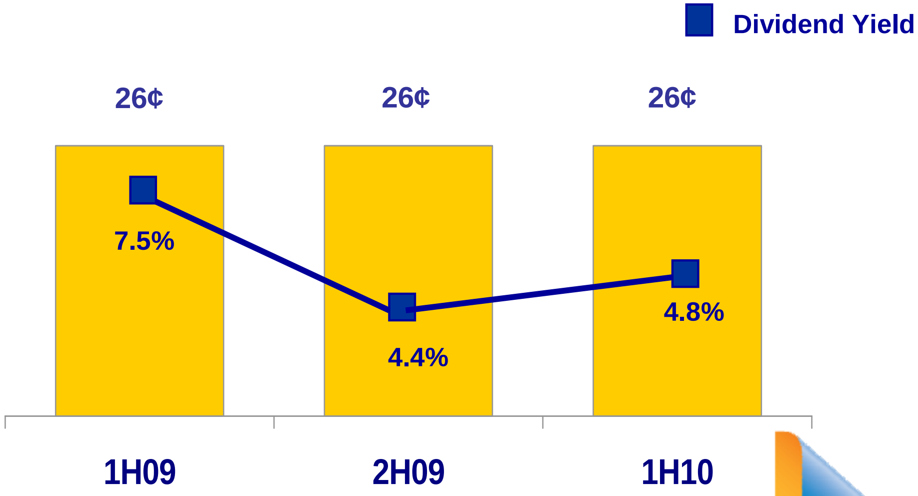
Prudent capital management

- Dividend policy to continue providing for greater organic capital generation
- Excess equity capital diluted EPS during the period, but provides platform for future growth
- Strategic focus on solving the capital intensity (eg. St. Andrew's Insurance acquisition)

Earnings per Share*



Dividends



*Normalised diluted cash earnings per share

BOQ portfolio

Ram Kangatharan

Chief Operating Officer

BOQ

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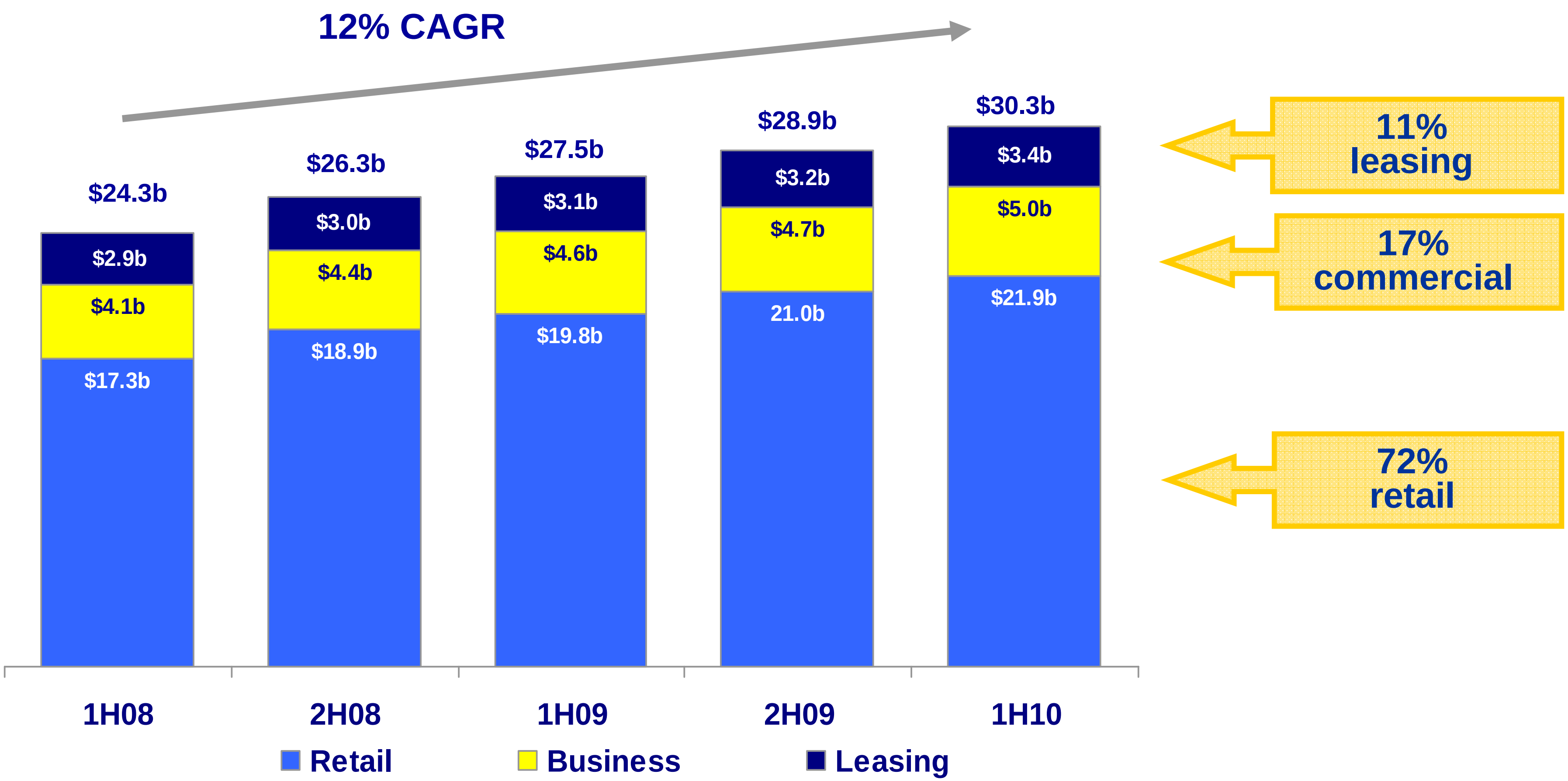
Loans under management by product

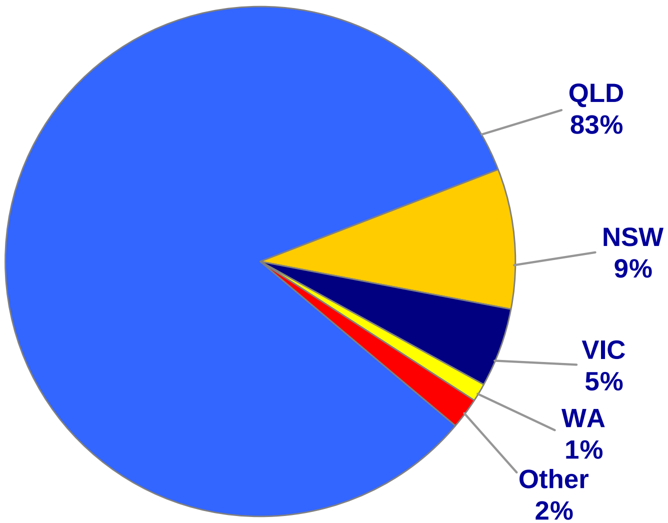


- Focus continues to remain towards retail mortgages and residentially secured ***S***ME lending - resulting in lower risk profile

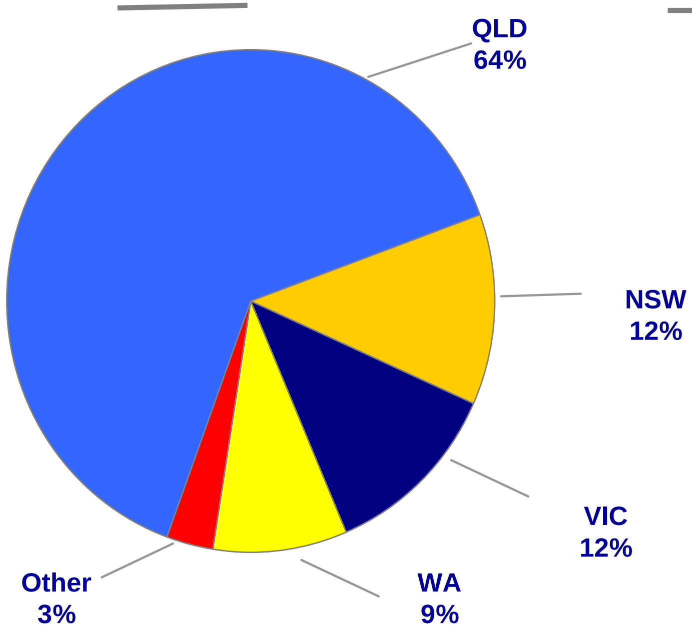
Geographic diversification growing

- BOQ historically has had most of its business in Queensland
- As a result of interstate OMB expansion and acquisition of Home there has been a material and growing geographic diversification trend

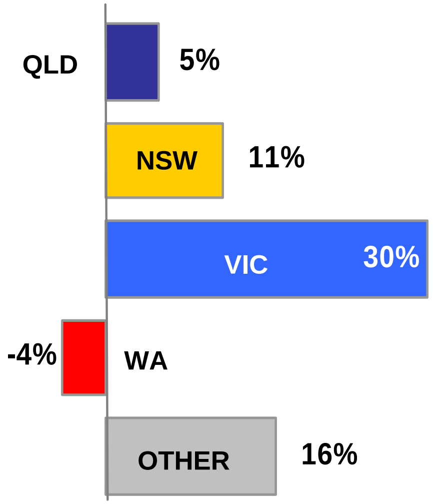
1H06



1H10



1H10 – Growth Rate %

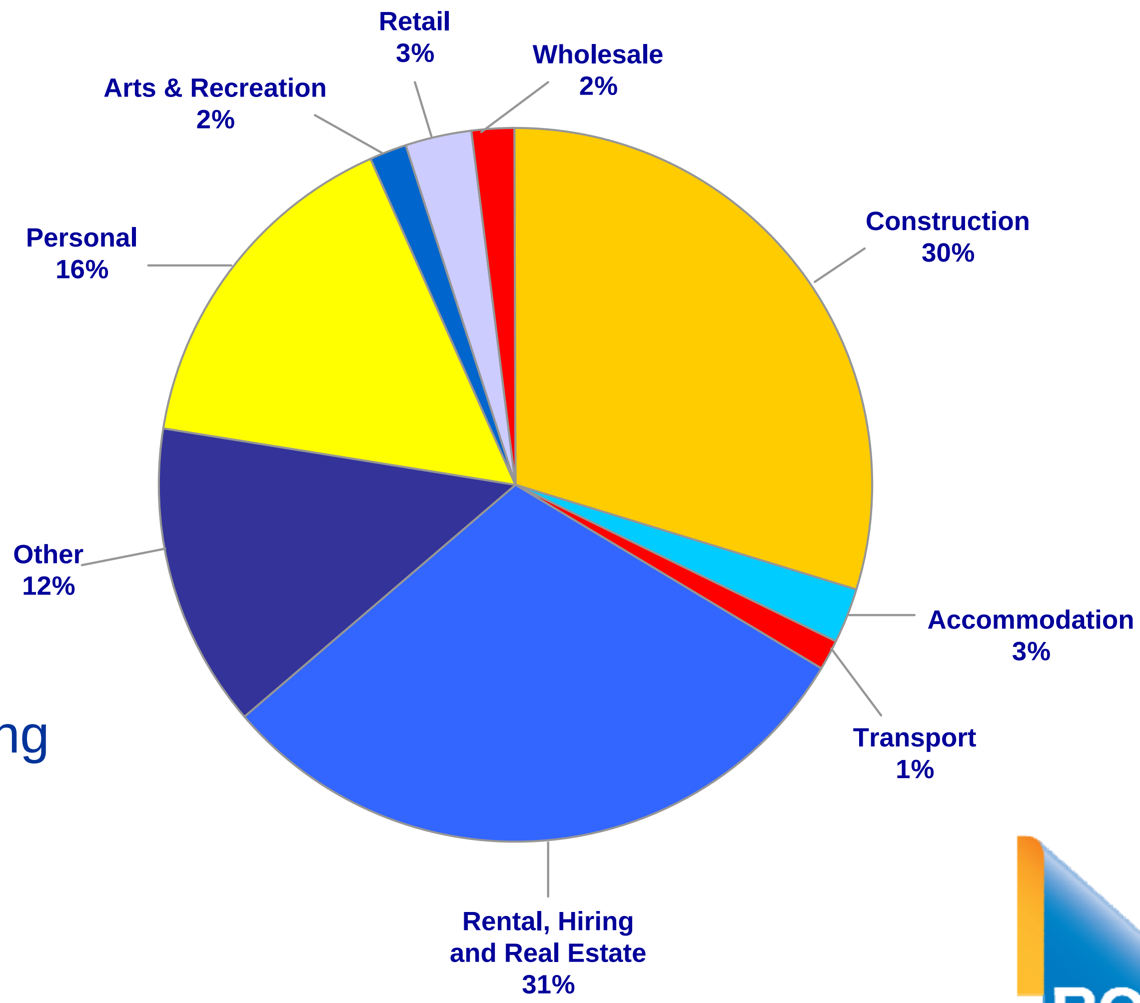


- Material change in mix of loan portfolio – greater distribution across all states ex WA. Focused on organic growth in WA following the exit of the broker channel

Large exposures

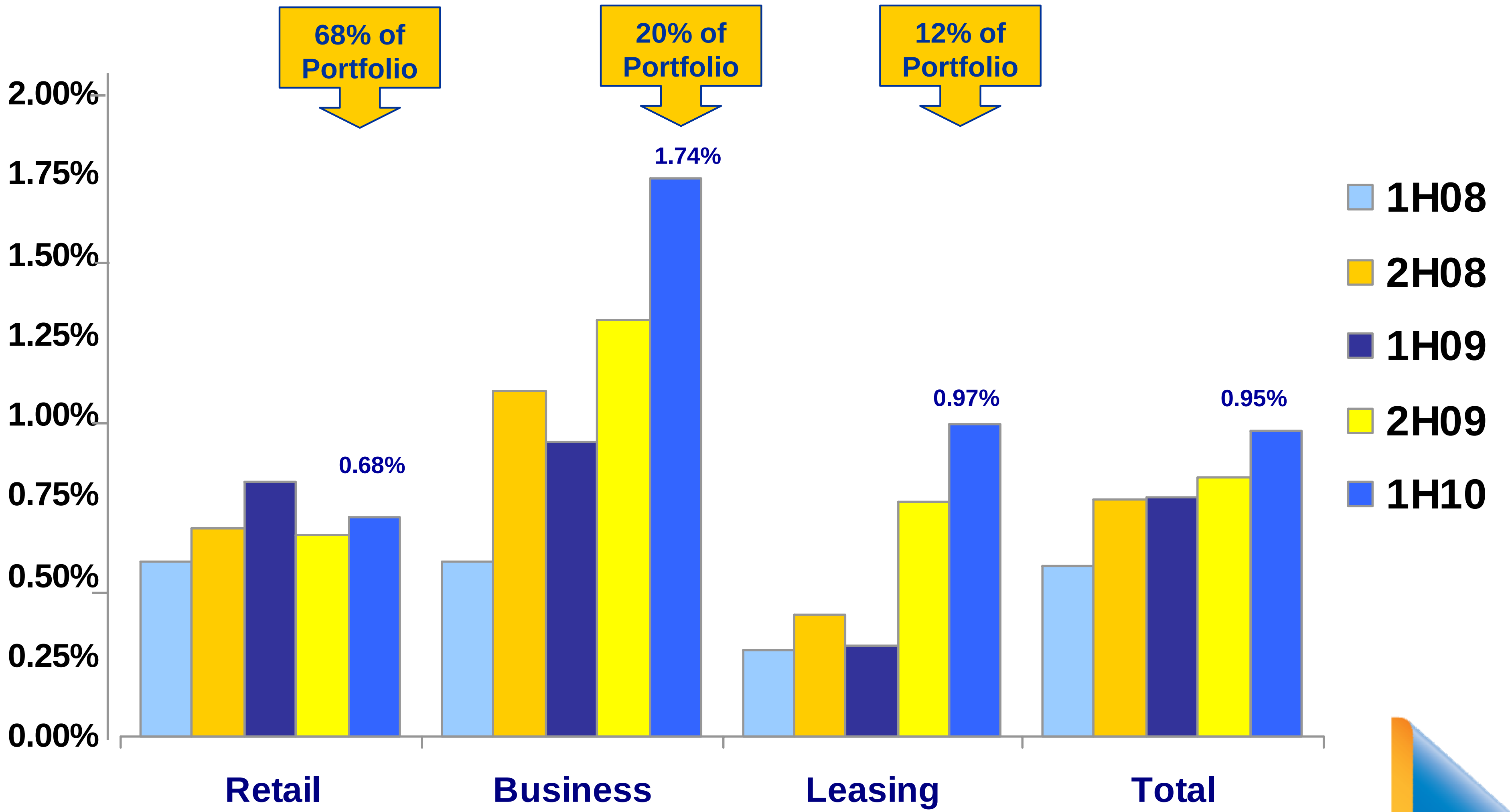
- The Bank has 68 connections with exposures >$10m
- Total commitment exposure $1,486m (drawn balance $1,299m)
- 4.3% of total loans under management
- ~30% matures within 1yr
- Large exposures are concentrated in the Property & Construction sectors, accounting for ~ 63% of large exposures

Largest exposures by ANZSIC Group



Portfolio quality

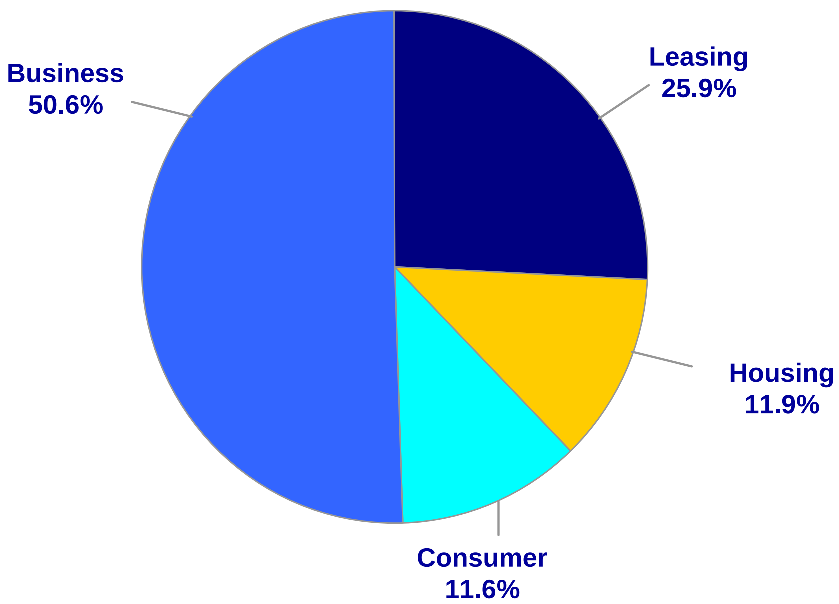
Arrears 90+ days (% of portfolio, excluding securitised loans)



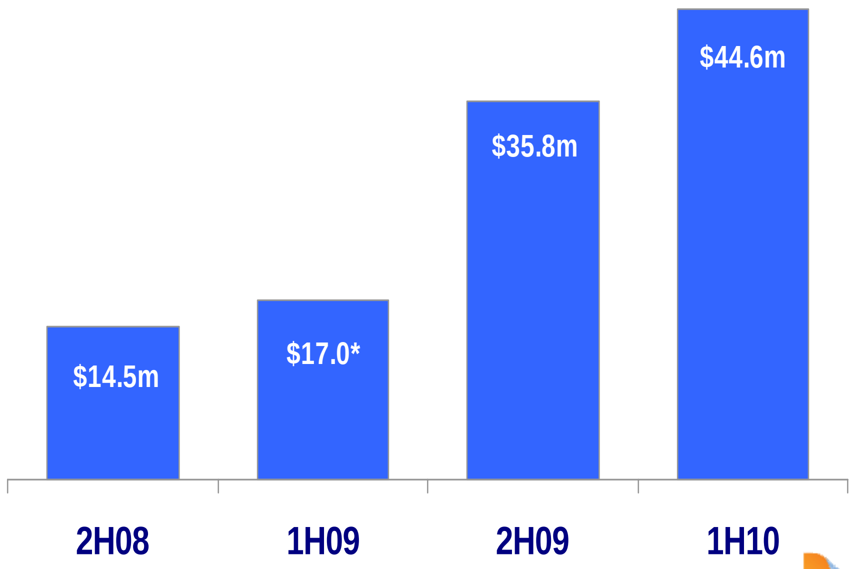
Bad debt analysis

- Leasing and commercial portfolios showed increased stress in 1H10
- As per guidance peak bad debts in FY10
- Arrears and write-offs are stabilising and improving

Bad debts by product



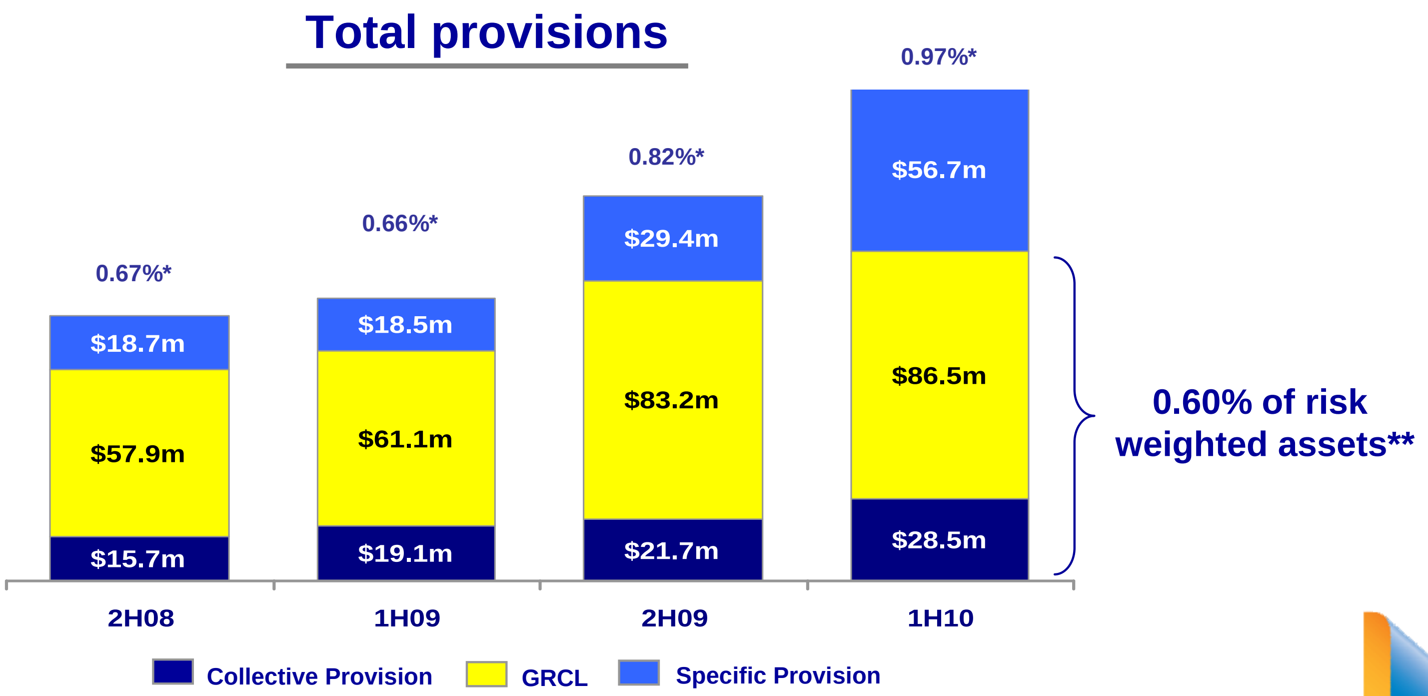
Underlying bad debts



* Excludes the impairment charges of $7.2m made in 1H09 for the NSW distribution restructure

Increased provisioning...providing buffer

- Significant increase in provisions in line with peak loss expectations in FY10
- Consistent provisioning despite emerging signs of strength in the economy
- Portfolio focus remains on well secured housing and SME lending



* Total provisions / RWA. ** Collective Provision after tax effecting is added to the GRCL balance to arrive at 60bps of RWA.

Strategy and outlook

David Liddy

Managing Director

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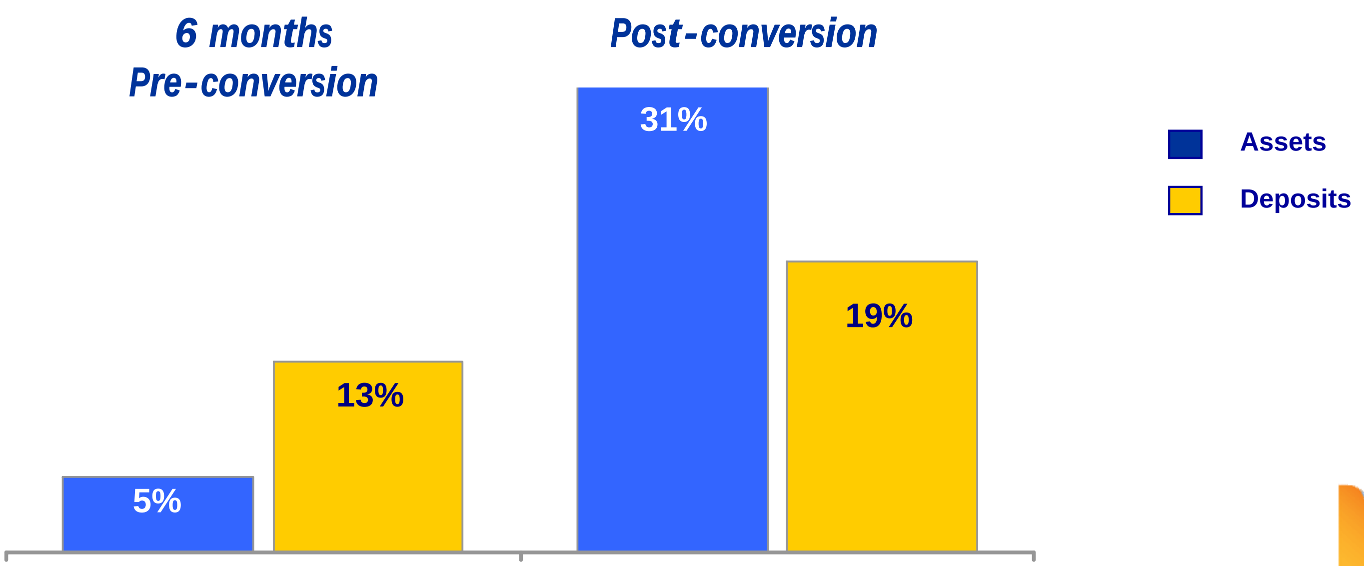
Positioned for Growth

- Key planks of our strategy are now coming together:
  - OMB Model has proved resilient and a more productive distribution channel to address Retail and **S**ME lending
  - Returning to organic expansion of OMB model in high growth geographies
  - Funding concerns are receding and the balance sheet has been strengthened with a surplus of capital and funding
  - Line of sight to capital-lite, higher margin bolt-on acquisitions… St. Andrew's deal signed
  - Adopting a sustainable and truly differentiated position on our brand with "Its Personal" and hardwiring it throughout the organisation with new organisational structure

We believe our OMB model is superior…

- The productivity of the OMB model is proven to be unmatched…even throughout the GFC
- We have now converted 39 corporate branches to OMBs where average monthly settlements have increased 65% post conversion
- Key to unlocking shareholder value is to exploit this advantage…

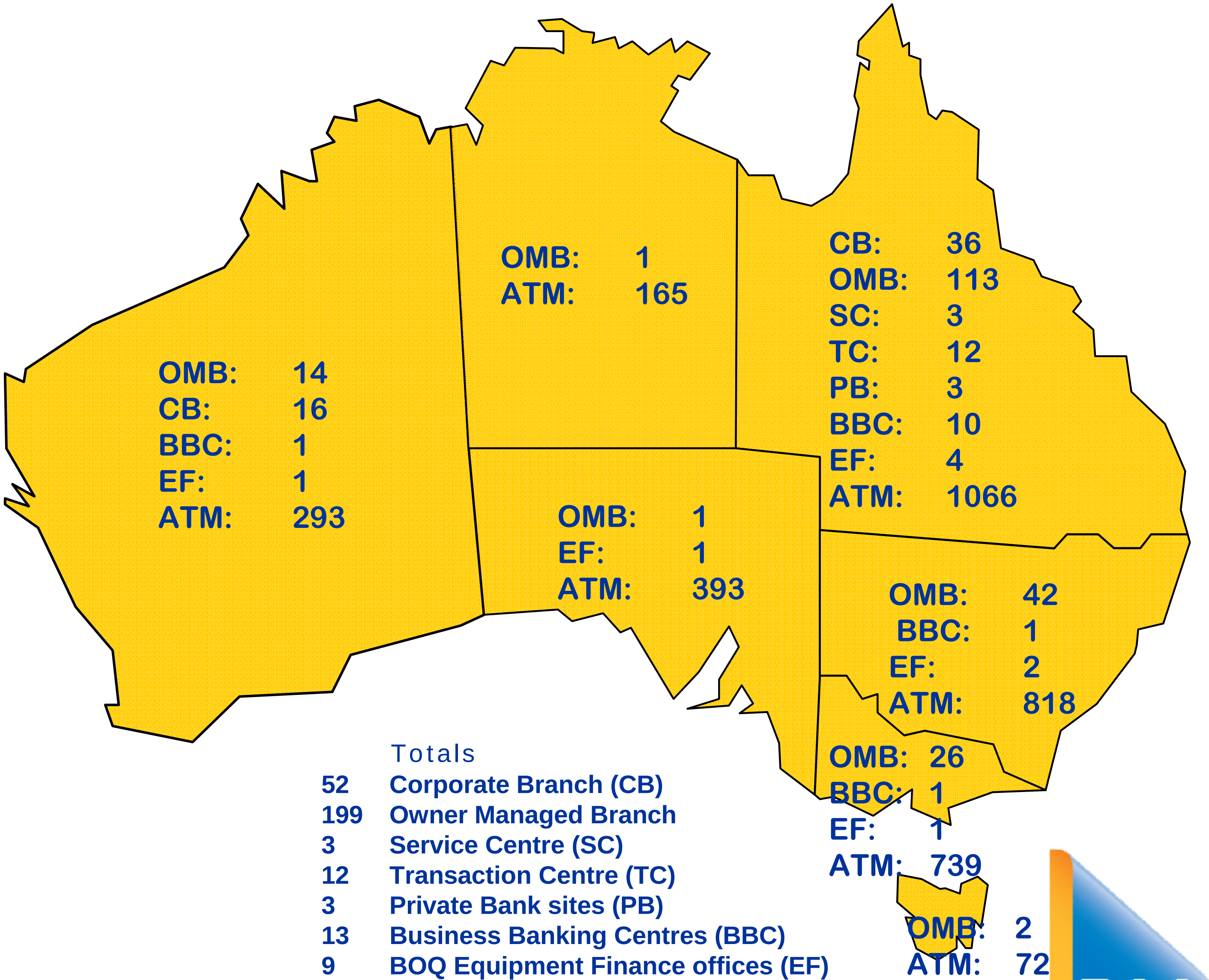
Annualised growth before and after conversion (Qld branches)*



* Based on Qld branches converted with at least 3months of results since conversion.

Accelerating the pace of growth...

- The performance of the OMB network and the improvements throughout the GFC has given us the confidence to re-establish our organic branch expansion
- Details will be announced at the FY10 presentation

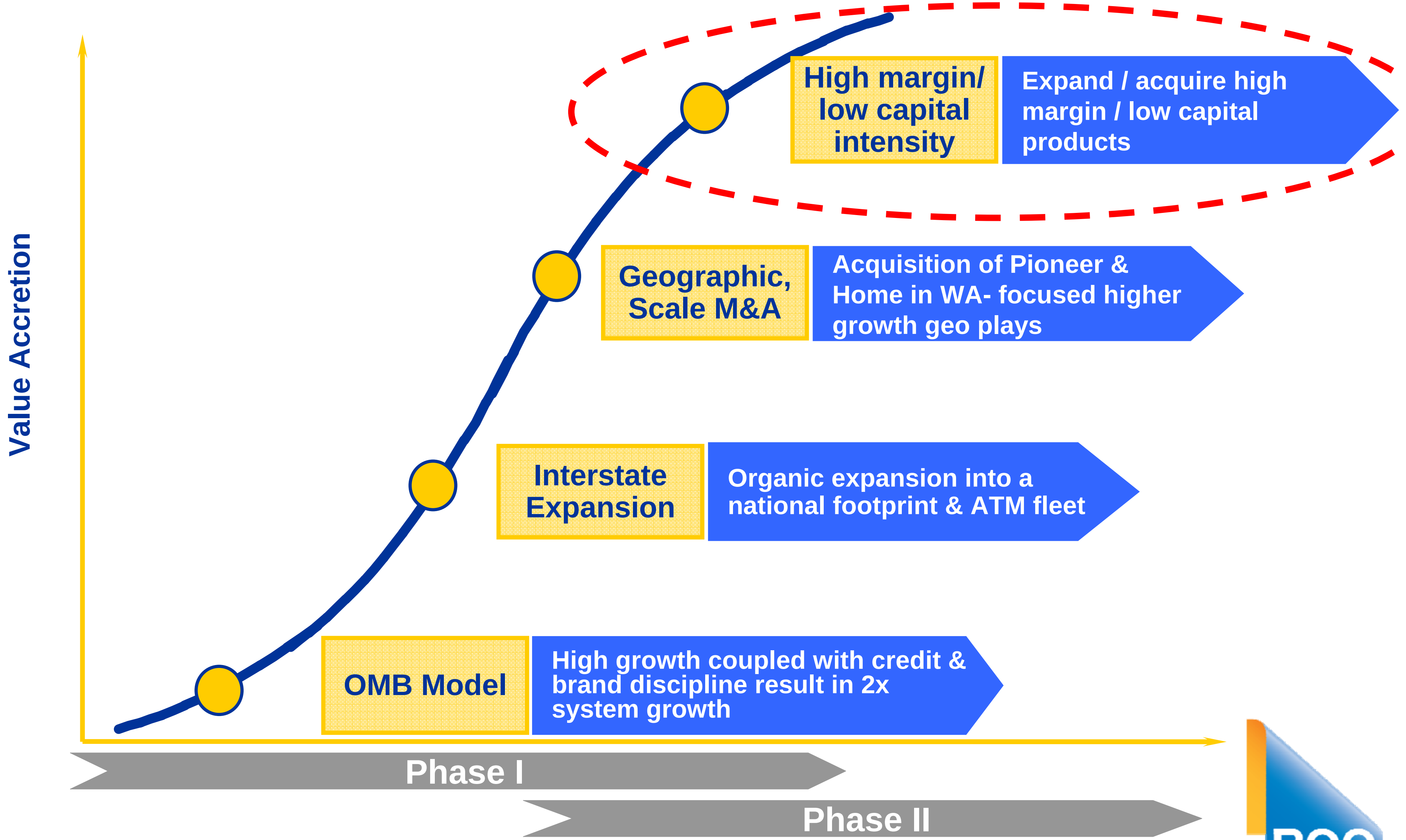


Totals

52	Corporate Branch (CB)
199	Owner Managed Branch
3	Service Centre (SC)
12	Transaction Centre (TC)
3	Private Bank sites (PB)
13	Business Banking Centres (BBC)
9	BOQ Equipment Finance offices (EF)
3,546 ATMs	

* As at 28 February 2010

Sticking to the plan...



St Andrew's

- The acquisition of the St Andrew's business fits within our growth strategy
  - True bolt-on acquisition – within existing capital footprint
  - Simple income and life protection products closely aligned to core mortgage, personal loans and credit card sales
  - Income diversification through capital-lite products
  - Scale efficiency and scalability come through B2B business model
- BOQ is already a significant customer of St Andrew's and has a deep understanding of its business model
- Will be operated as a stand-alone business
- The acquisition when completed will have no material impact on FY10 results but accretive to EPS and ROE from FY11

New Executive structure

Managing Director & CEO
David Liddy

Head of MD's Office
Tarryn McMullen

Chief Financial Officer
TBD

Chief Operating Officer
Ram Kangatharan

General Manager Risk
Amanda Lawson

General Manager Credit
Lindsay Johnston

Group Executive Banking
David Marshall

Group Executive IT & Ops
Jim Stabback

Heads of HR, Marketing, Product, Direct Banking

General Counsel / Legal
Brad Edwards

Prospects for FY10

Headwinds	Tailwinds
Significant margin pressure as retail deposits competition continues	Growth opportunities in our model in SME and Housing
Non-interest income pressure continues until acquisitions come on stream	Strong presence in growth economies
Significant regulatory and technology spend	Cost disciplines holding and will now be extended to project design and delivery
Ongoing payment of GG term debt guarantee costs @1.50%	Bolt-on acquisition opportunities emerging assisting ROE target
	Bad debts cycle improving

Outlook to FY10 & beyond

- Outlook has changed from "bunkering down" to returning to growth, with a stronger balance sheet ready for expansion – organic and acquisitions
- Our OMB model has continued to grow and demonstrate its resilience, further establishing its credibility as a branch distribution model
  - We will continue to invest and grow this channel
  - Our target customers are those who are dissatisfied with the major banks – this market will continue to increase, regardless of system growth
- Our focus on efficiency will continue (cost to income ratio has reduced from 64% in 2007 to 45% 1H10), however not at the same step change rate
  - Enabling investment in regulatory and technology projects in FY11-12, and investment in our brand and marketing
- We will continue to look at expansion in areas that increase margin and reduce our capital intensity
  - We will continue to diversify our income
  - We have a core competency in leasing, will focus on this and consumer finance

Capital and funding

- Aug/Sep-09 capital raising provides buffer to exploit organic and inorganic opportunities
- Dealing from a position of strength on capital to expand our funding options
- Securitisation markets continue to improve…. BOQ continues to have access to increased warehouse capacity ($800m spare capacity)
- Conservative dividend payout ratio to be maintained – increasing organic capital generation
- No DRP underwrite of FY10 interim dividend

Pathway to 15% ROE in FY12

- Strategic plan to support ROE guidance – some dependencies include NIM & BDD improvement, continued incremental efficiency gains and improving securitisation markets
- Bolt-on acquisitions in line with plans to fill the gap…. recent St Andrew’s insurance acquisition consistent with our strategy

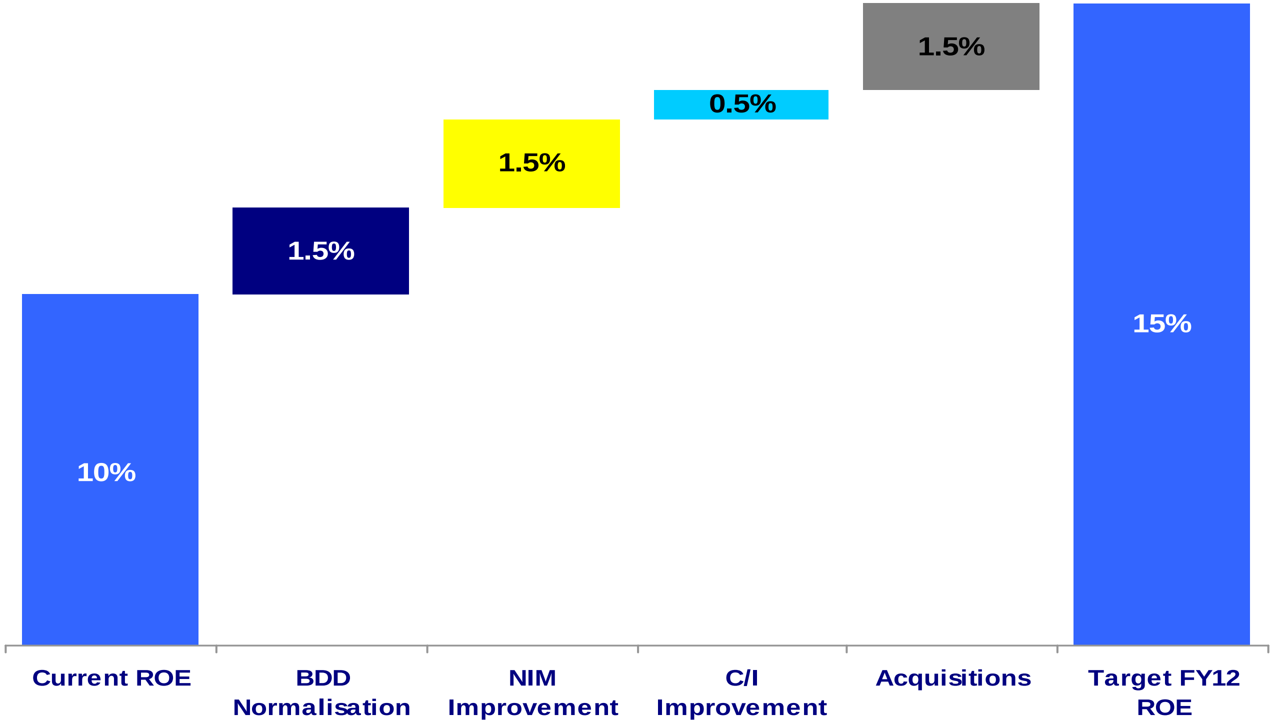
Assumptions FY12:

Asset growth 11% pa

NIM 175bps

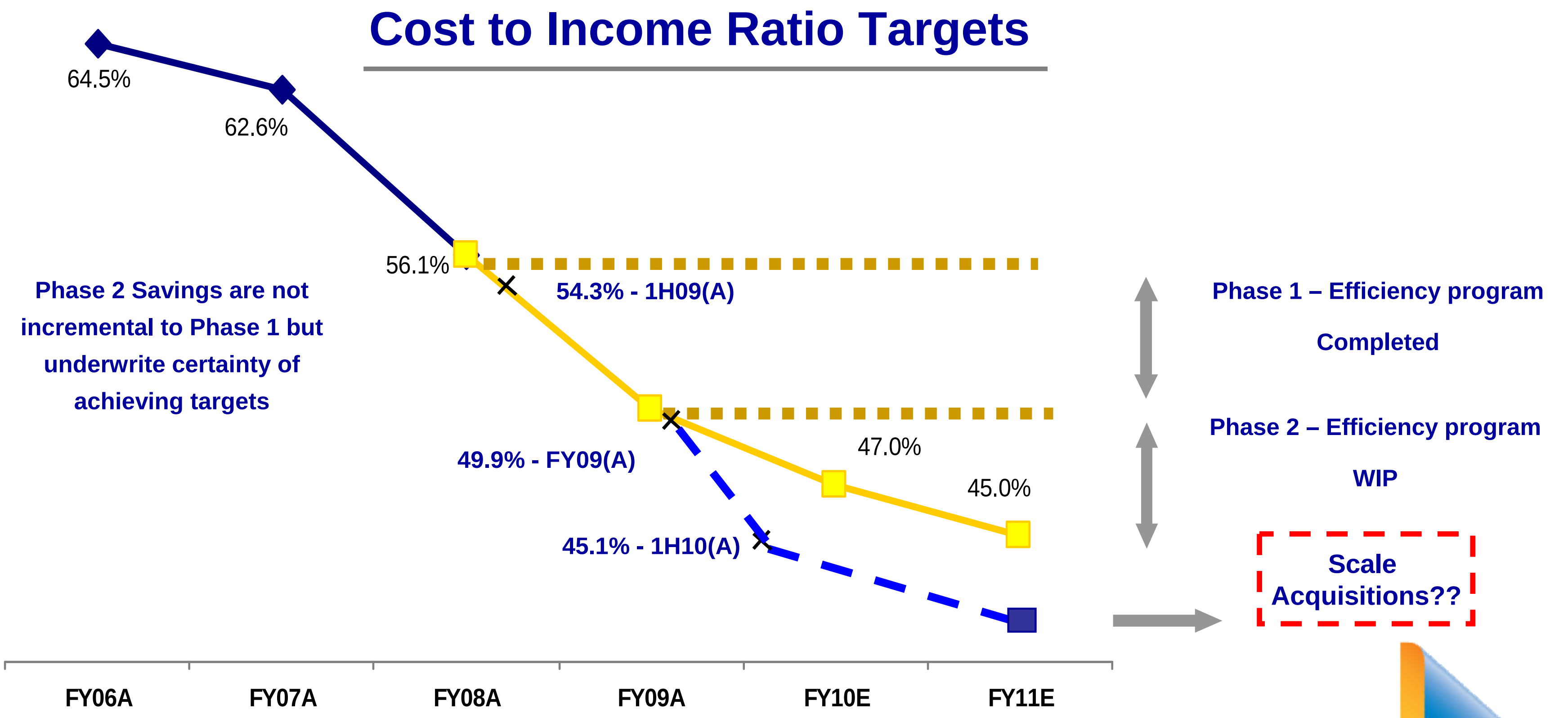
C/I Ratio 43%

BDD/GLA 15 - 20 bps



Expense initiatives gaining traction

- Disciplined expense management has given headroom to allow continued investment in brand & operational requirements
- Maintain guidance of 47% in FY10 and 45% in FY11



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

Summary

- We have emerged from the GFC as a stronger organisation
- We didn't stop lending throughout the GFC
- We've been unique in that we've met the commitments we made to the market
  - Earnings, growth and cost reduction guidance
  - Acquisition strategy within existing capital and funding footprint
- We've established the ability to fund without disruption through both wholesale and retail markets
- We've established a balance sheet with equity and funding to enable a bolt-on acquisition strategy to increase our margins and reduce our capital intensity
- The new Executive structure, with the creation of a COO role, will help enable us to hardwire the small bank advantages
- We're on our journey to become the real alternative in banking

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