Bank of Queensland

Full year results

31 August 2011

Your own personal bank

Agenda

- **Result highlights** — **Ram Kangatharan**
  Acting CEO and Chief Operating Officer

- **Financial results & portfolio details** — **Ewan Cameron**
  Chief Financial Officer

- **Strategy and outlook** — **Ram Kangatharan**
  Acting CEO & Chief Operating Officer

Result highlights

Ram Kangatharan

Acting CEO and Chief Operating Officer

BOQ
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Result highlights

- Normalised underlying profit up 18% at $447m
- Reduction in 2H11 bad debt expense; Collective provisions strengthened with all of 1H Flood & Economic Overlay collective preserved at year end
- Cost-to-income ratio 44.5% beat guidance
- Continued growth above System
- EF business turnaround complete, lowest arrears in two years
- Integration of CIT Aust. & NZ and St Andrew's Insurance completed, organic generation of capital enhanced
- Capital and liquidity levels remain strong, $550m GG Debt repaid early
- Dividend growth resumed with 8% increase in Final dividend vs. interim

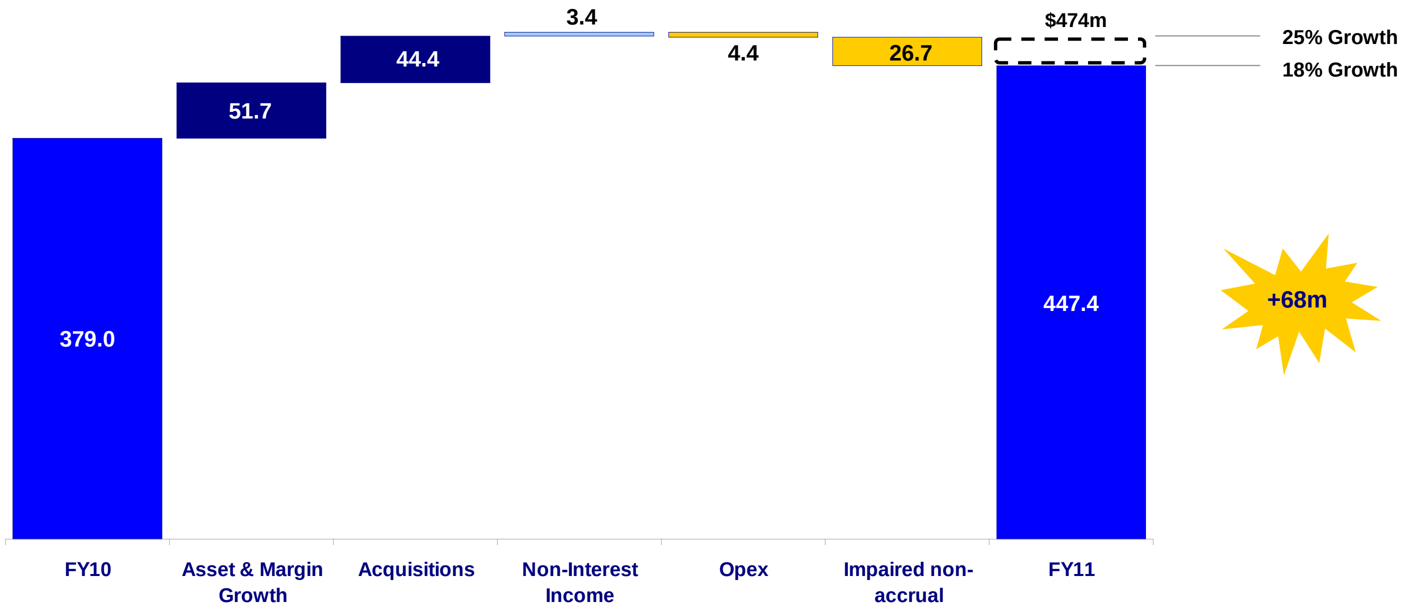
Underlying earnings momentum

	2010	2011		
Normalised Underlying profit	**$379.0m**	**$447.4m**	▲	18%
Normalised cash NPAT	**$197.0m**	**$176.6m**	▼	(10%)
Statutory profit	**$181.9m**	**$158.7m**	▼	(13%)
Cash EPS (normalised fully diluted)	**83.4¢**	**69.8 ¢**	▼	(14¢)
Ordinary dividend	**52¢**	**54¢**	▲	2¢
Loan growth* (pcp)	**11%**	**4%**	▼	(7)pts
Retail deposit growth (pcp)	**11%**	**12%**	▲	1pt
Normalised Net interest margin	**1.60%**	**1.65%**	▲	5bps
Cost-to-income ratio (normalised cash)	**45.8%**	**44.5%**	▲	1.3%

* Loans under management before collective provision.

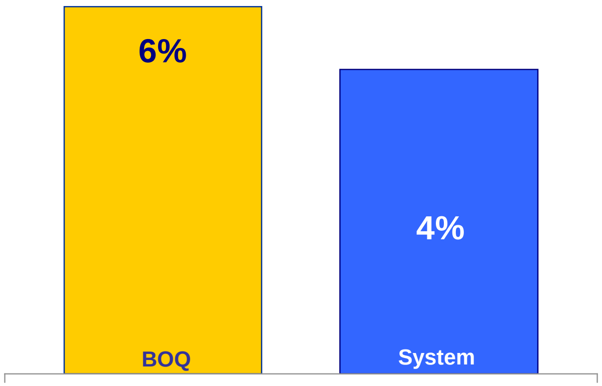
Key drivers of strong underlying profits

- Strong earnings growth year on year (acquisitions 12 vs 2 months contribution), masked by impaired assets spike

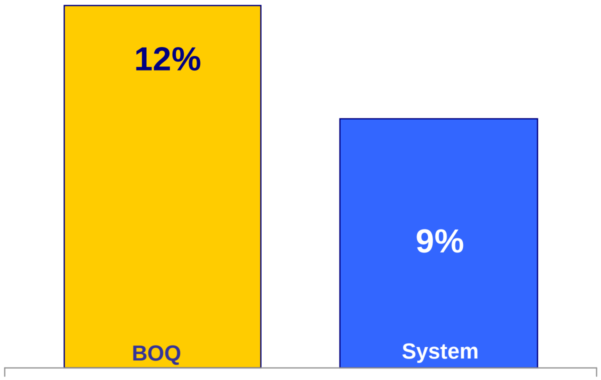


Growth ahead of system

- Lending growth: ~1.4 system*
- Deposit growth: ~1.5x system



Lending growth



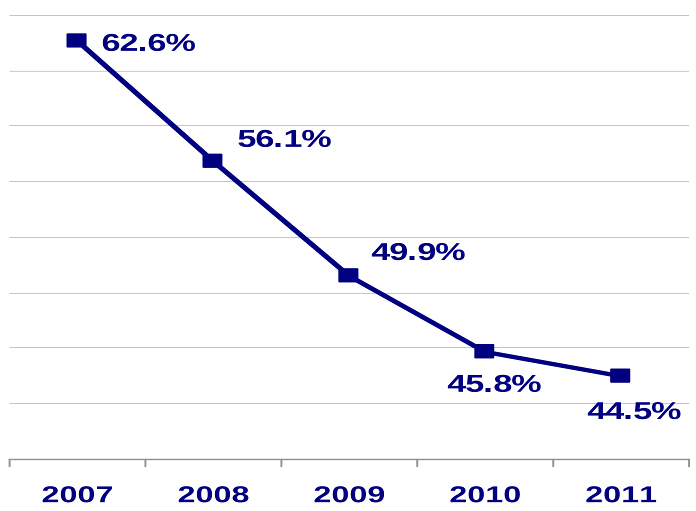
Retail deposit growth

* Last 12 months
Source: APRA data (GLA + Val of HL Securitised). Excludes Leasing (-$220m).

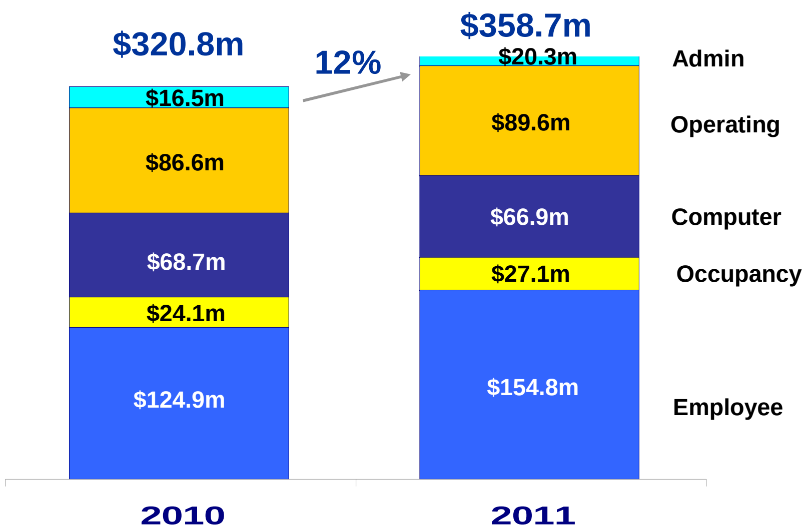
Good expense disciplines

- Expense disciplines continue across the business. Positive jaws maintained while absorbing investment in acquisitions (excluding acquisitions 1% growth)

Normalised Cost-to-income ratio*



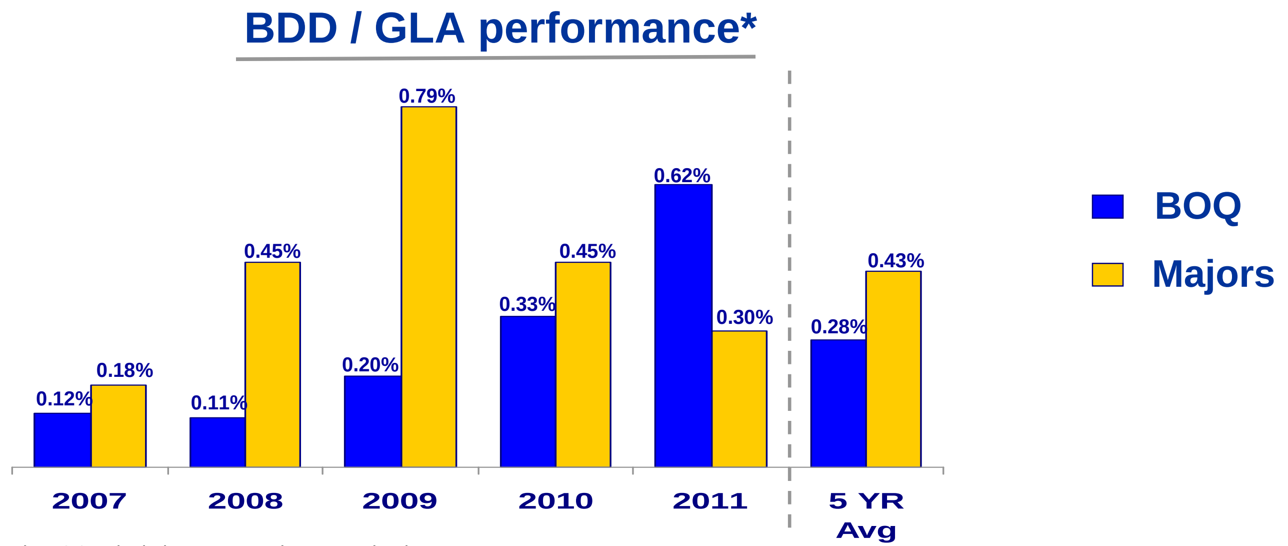
Expenses*



* Based on normalised cash costs, excludes impacts of normalisation items and amortisation of customer contracts.

Asset quality should return to industry trend

- High level of 2011 losses as a result of flood and economic overlays and 3 large exposures
- Overall level of bad debts well below major banks through the cycle

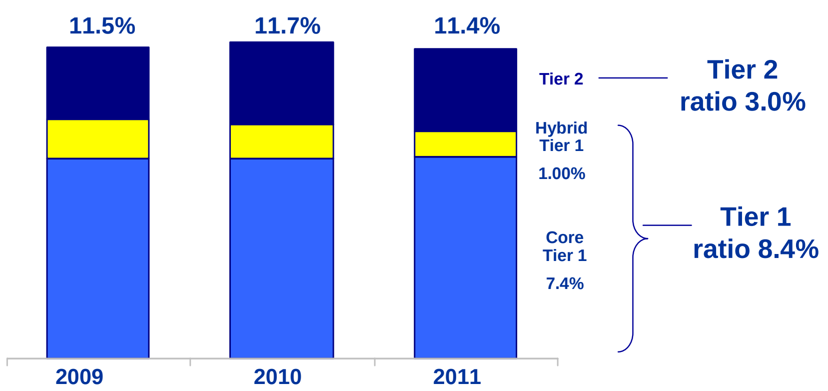


* Source – Morgan Stanley Research. BOQ calculations prepared on same basis.

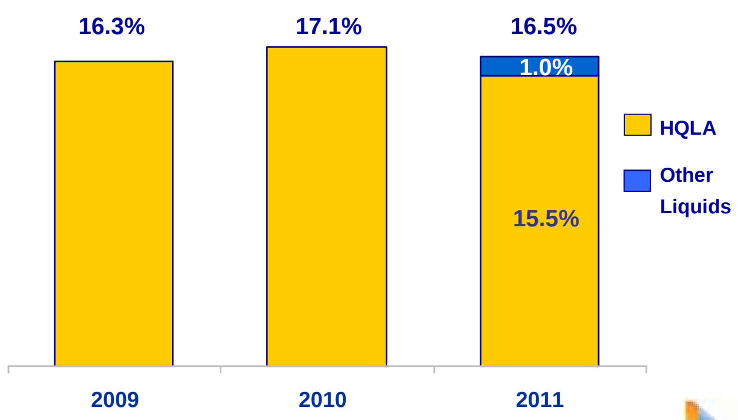
Strong capital base and liquidity

- Tier 1 and total capital levels remain in excess of APRA and internal benchmarks, whilst absorbing impact of securitised assets coming back on balance sheet
- Conservative liquidity maintained above 15%, whilst paying down $550m GG Debt

Capital adequacy



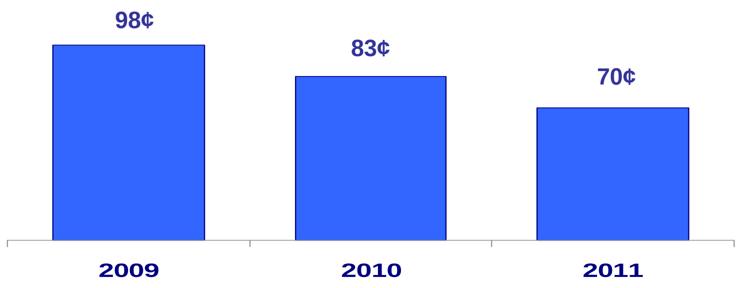
Liquidity



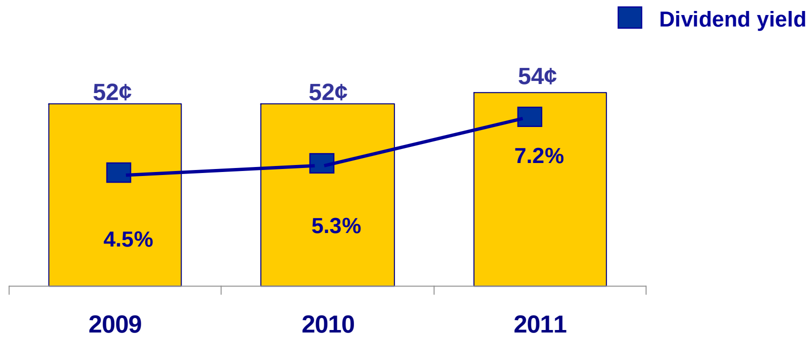
Restarting dividend growth…

- Final dividend of 28¢ up 2¢ (or 8%) from pcp, bringing the full year dividend up to 54¢
- Spike in bad debts dilutes EPS during the period, but better organic capital generation provides platform for future dividend growth

Earnings per share*



Dividends



*Normalised diluted cash earnings per share.

Financial results and portfolio details

Ewan Cameron

Chief Financial Officer

BOQ

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Delivering commitments on income growth and expense management

	2010 $m	2011 $m	% Change vs pcp
Total Income	710.6	796.4	12%
Adj: Normalisation & non-cash items	(10.8)	9.7	
Normalised Total Income	**699.8**	**806.1**	**15%**
Expenses	348.3	374.1	7%
Adj: Normalisation & non-cash items	(27.5)	(15.4)	
Normalised Operating Expenses	**320.8**	**358.7**	**12%**
Underlying Profit	**379.0**	**447.4**	**18%**
Impairment on loans and advances	104.2	200.5	92%
Statutory Profit After Tax	**181.9**	**158.7**	**(13)%**
Adj: Normalisation & non-cash items	15.1	17.9	19%
Normalised cash profit after tax	**197.0**	**176.6**	**(10)%**

- In line with market practice, a number of non-cash and non-recurring items have been normalised to better illustrate underlying performance
- Normalised underlying profit grew strongly at 18%, showing continued strength in the underlying business

Normalisation items

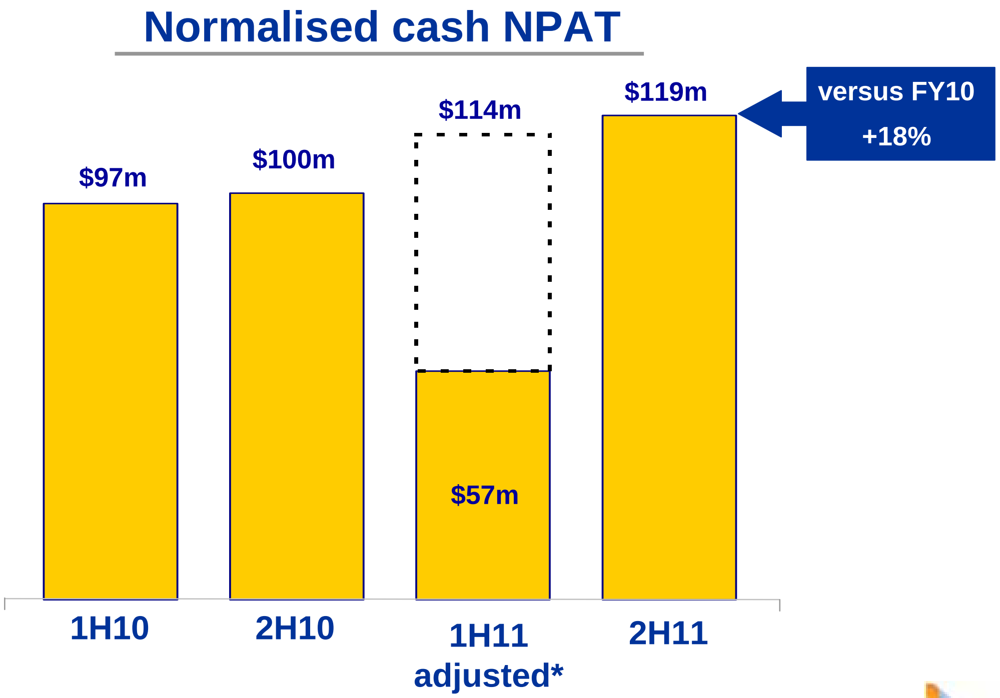
- Summary of normalised income and expense items below

Normalisation adjustments	Income ($m) (before tax)	Expenses ($m) (before tax)	After tax
Amortization of customer contracts		(8.4)	(6.2)
Integration and due diligence costs		(5.9)	(4.1)
Amortisation of fair value adjustments	(5.0)		(3.5)
Govt guarantee break fee	(6.1)		(4.3)
Hedge ineffectiveness	1.4		1.0
Flood impact		(1.1)	(0.8)
	(9.7)	(15.4)	(17.9)

Net normalisation adjustments after tax: ($17.9m)

Strong recovery in normalised cash NPAT as indicated by 1H11 trend

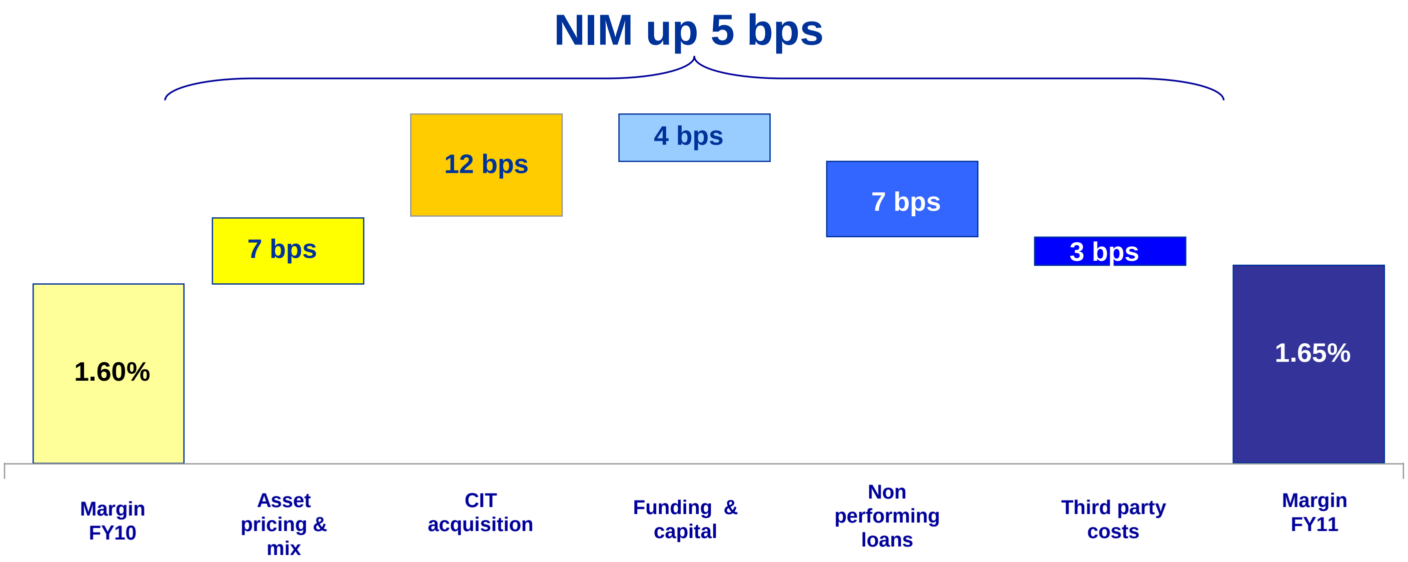
- Adjusting for flood provision and one-off losses on large exposures, cash NPAT increased 18%
- 2H11 Increase by 19% driven by acquisitions and loan growth



* Adjustment to 1H11 bad debts - $45m provision relating to weather related events and $35m large exposure specific provisions.

Positive NIM Trend

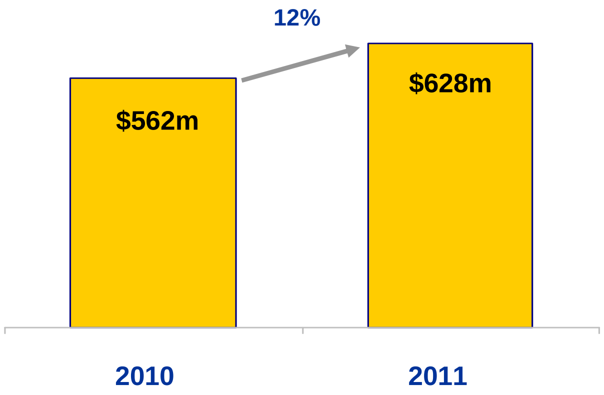
- On a normalised basis NIM* increased 5bps through the year
- Increase in non-performing loans in line with increase in impaired asset balances



* Normalised Cash Net Interest Margin adjusted for Amortisation of Fair Value Adjustments on Acquisition of CIT $5m. NIM on Statutory basis is 1.63%

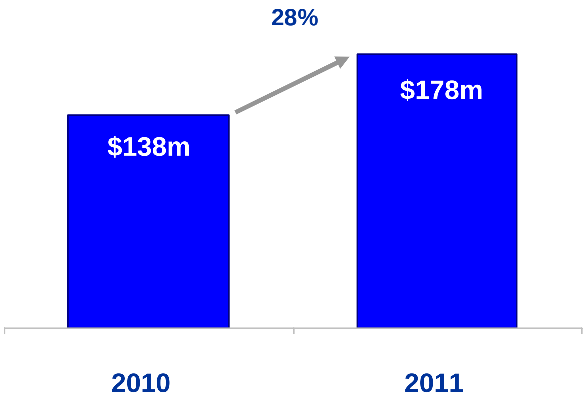
Growth across both major income lines

Net Interest Income



- Acquisition of CIT, combined with Asset Growth offset Non-Earning drag

Non Interest Income

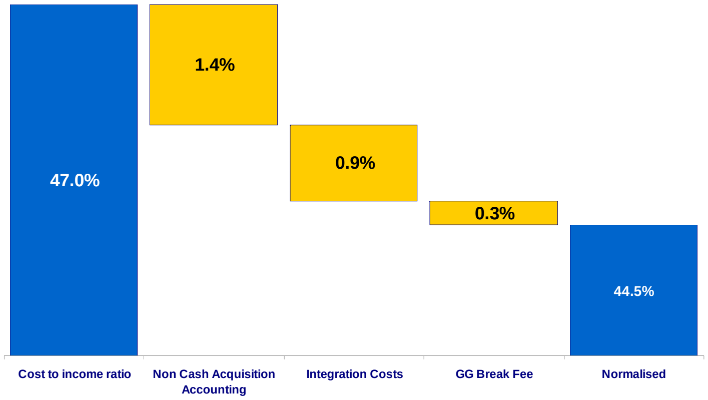


- FY11 Non Interest Income increased $40m, or 28% year on year
- St Andrews acquisition contributed strongly to the result

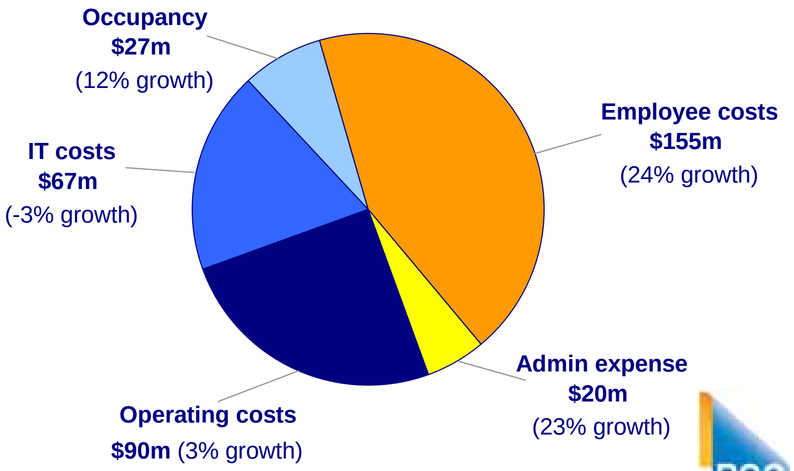
Expense composition

- Cost initiatives implemented have created a more efficient and productive organisation
- Cost-to-income ratio target of sub 45% achieved, with delivery of increased capability from FY10 acquisitions

Cost-to-income ratio



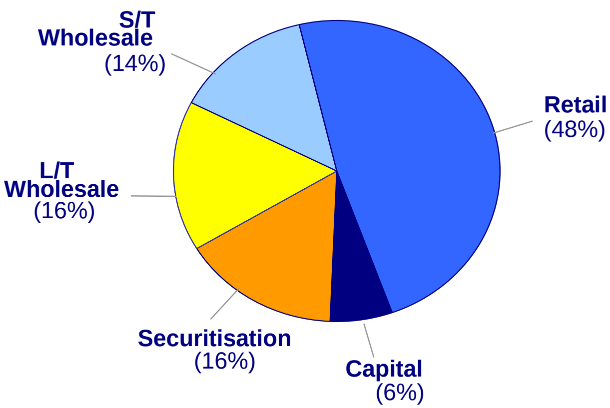
Operating expenses



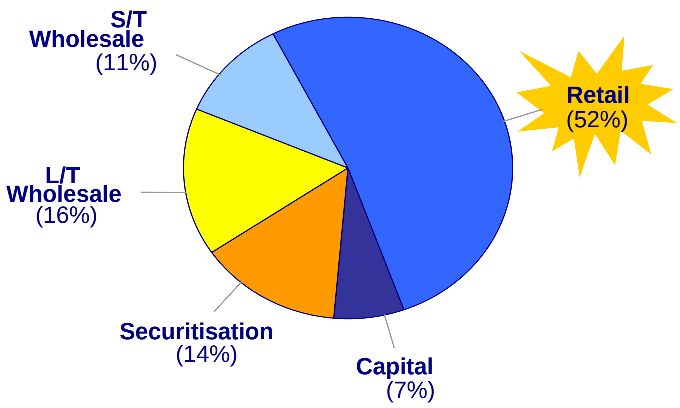
Increasing Retail Deposits

- Core retail deposit growth, at 52% of Total Funding. On the path to 60%
- LT Wholesale proportion remains steady, reduction in ST wholesale and securitisation

2010 Funding

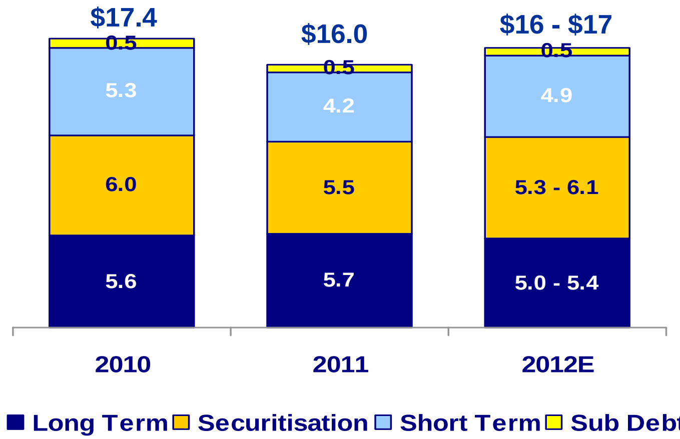


2011 Funding



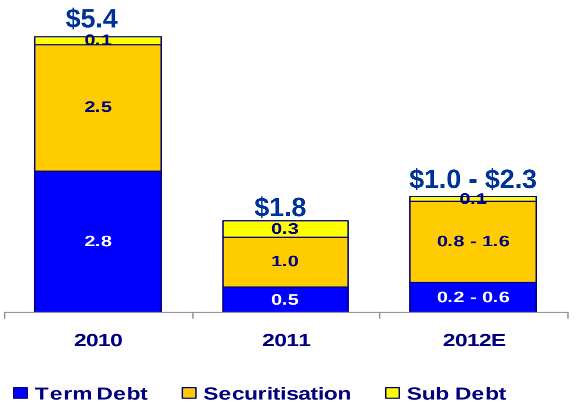
Wholesale funding task manageable

Wholesale funding ($b)



- Wholesale funding reduced $1.4bn during 2011 due to strong deposit growth
- Early redemption of $0.5bn GG debt in May 2011 & maturity of $0.5bn in Oct 2012
- Immaterial level of overseas funding

Long term debt issuance ($b)



- Level of 2011 issuances below current capacity levels
- $0.9b available in securitisation warehouses

Portfolio Details

Ewan Cameron

Chief Financial Officer

BOQ

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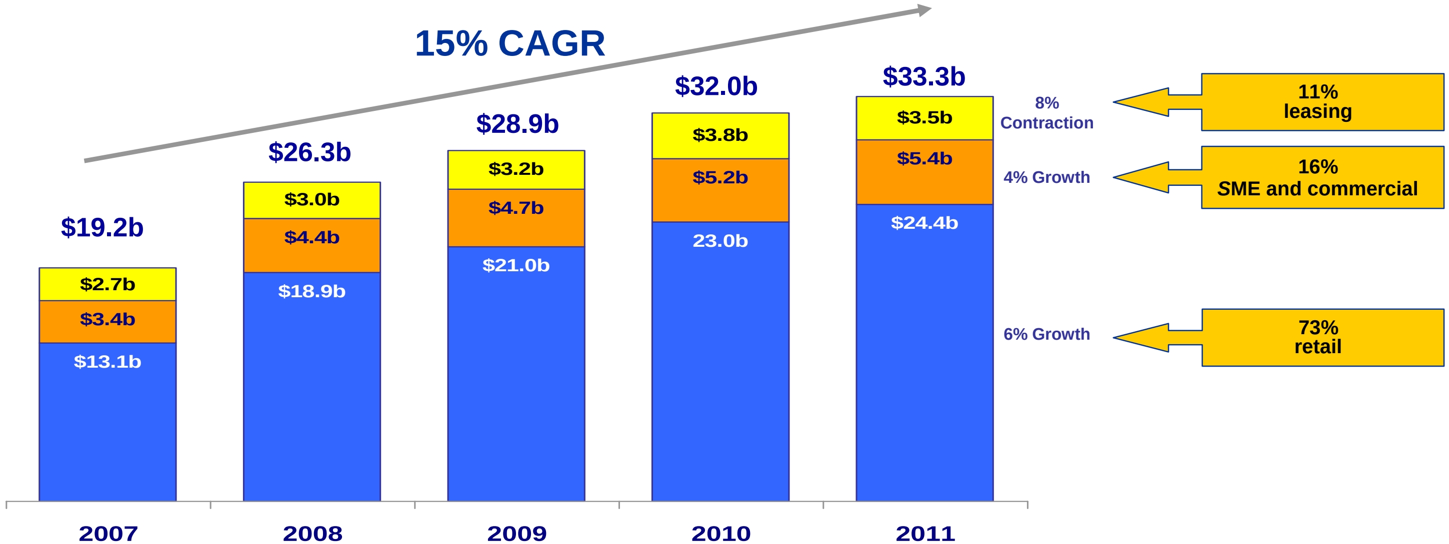
Loans under management by product

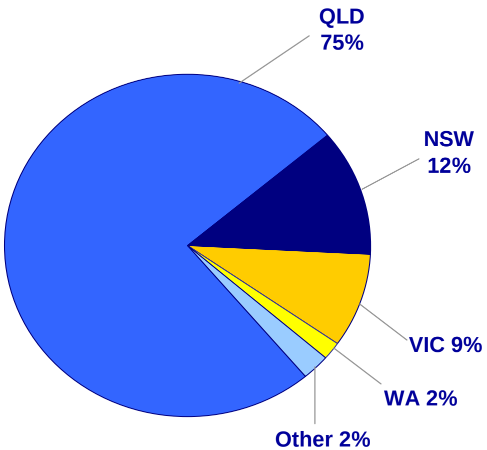


- Focus continues to remain towards retail mortgages and residentially secured SME lending, resulting in lower risk profile
- Leasing portfolio de-risking undertaken during FY11 to provide a stable foundation for future growth

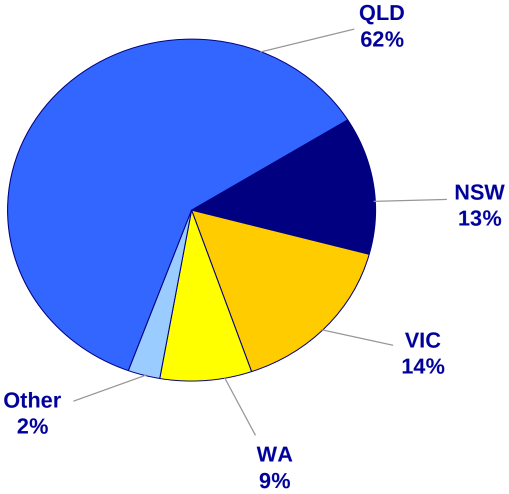
Geographic diversification continues

- Consistent trend of growing geographic diversity – less reliance on Queensland
- Strongest growth from interstate franchise, particularly VIC and NSW
- WA turnaround plan in place

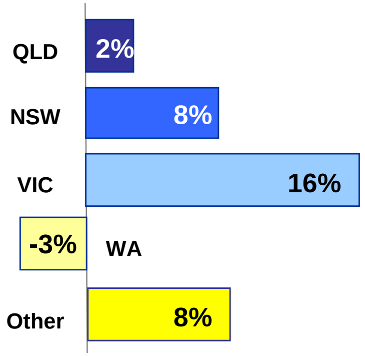
2007



2011



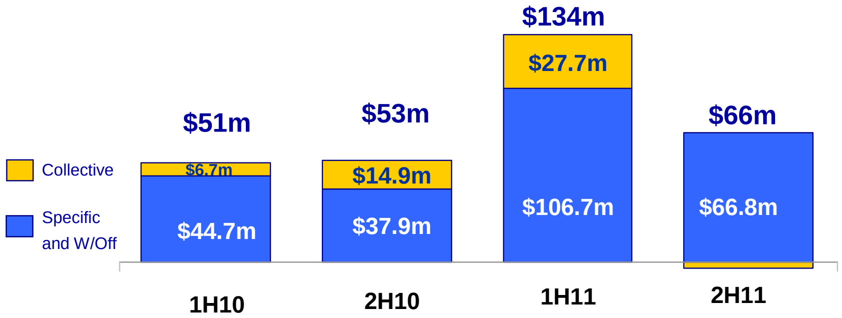
FY11 – Growth rate %



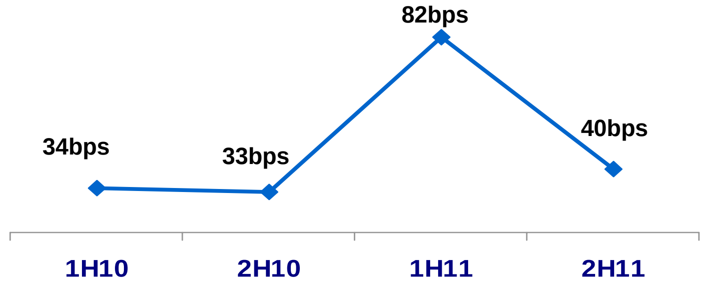
Impairments stepping down from 1H11

- Impairment charges for the year at $201m driven by 1H11 flood provision and large exposures
- 2H11 charges down $68m from 1H11 to $66m
- Significant strengthening of collective provisions, up $27m in FY11 as a result of flood and general economic overlay taken in 1H11
- 1H11 collective balance preserved through improved methodology and property overlay

Specific and collective expense ($m)



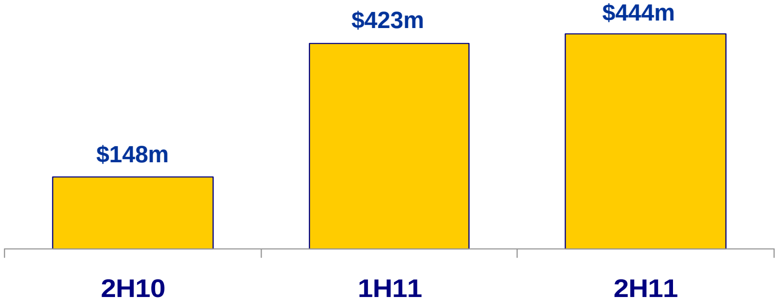
Impairment charge to gross loans (bps)



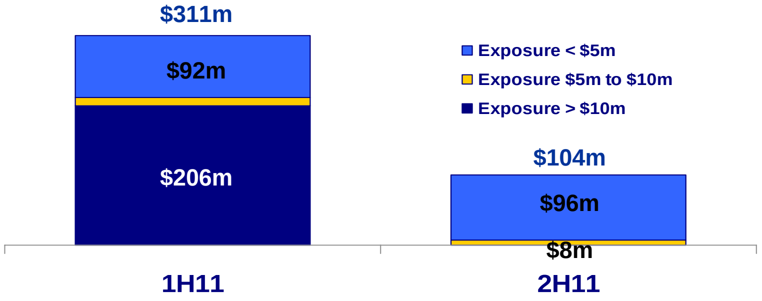
Impaired loans stabilising

- Impaired loans increased by $21m in 2H11, following $275m increase in 1H11
- Significant reduction in new impaired; although levels still elevated as a result of increased arrears level seen during 2011
- 1H11 increase driven by large exposures; 4 exposures over $20m & 2 over $10m; for shopping centres and englobo land
- No new exposures over $10m impaired in 2H11; largest $8.1m
- Exit of impaired properties progressing well

Total impaired loans



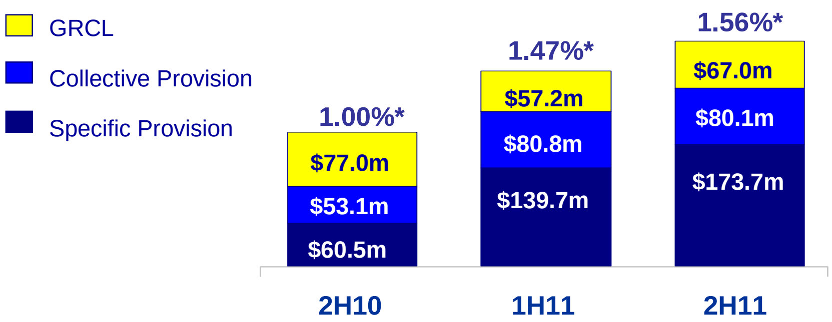
New individual impaired loans



Stronger provision coverage

- Increasing provision coverage, reflecting a more prudent approach
- Marginal increase in impaired during 2H11
- Specific provision coverage increasing from 33% to 39% during 2H11

Provision Coverage



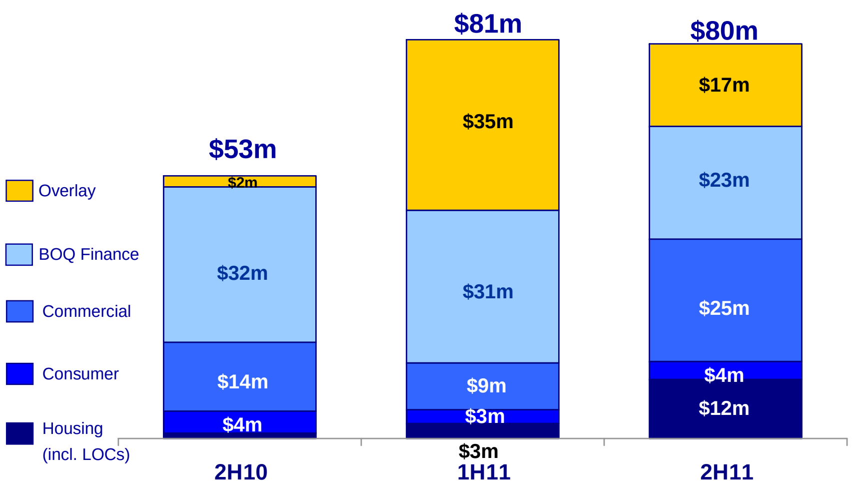
Portfolio metrics	2H10	1H11	2H11
Specific / Impaired	41%	33%	39%
Collective / RWA	28bps	43bps	39bps
GRCL / RWA	41bps	30bps	33bps

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

More robust collective coverage

- Collective provisions for FY2011 remain at $80m following 1H11 flood and general economic overlay
- During 2H11, flood and general economic overlay migrated through to product collectives and more conservative methodologies, ensuring a more robust collective coverage ($18m)
- Maintaining economic overlay against further potential valuation declines as Impaired are run-off ($13m)

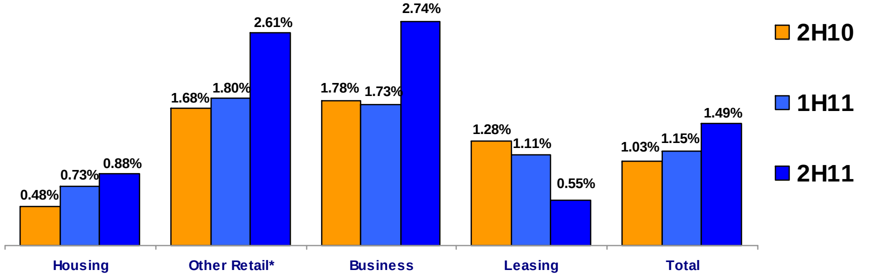
Collective provision



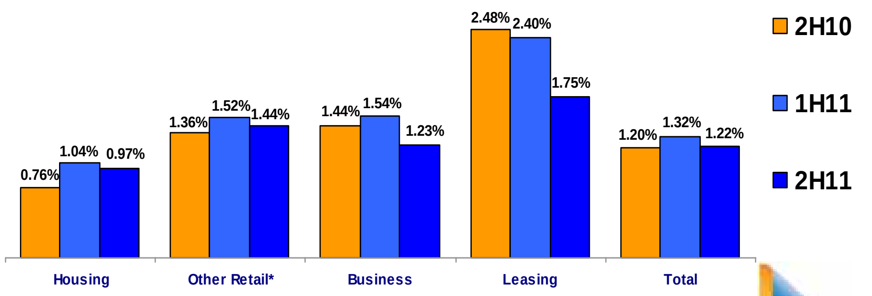
Arrears management

- Collection strategy improvements initiated during 2H11 in the EF portfolio yielding dividend
- Uptick in 30+ & 90+ in Retail and Business lending following 2010 rate rise, holiday period & weather events
- Substantial increase in focus, including use of outsourced partners, beginning to show improvements since June

Arrears 90 Day + by product

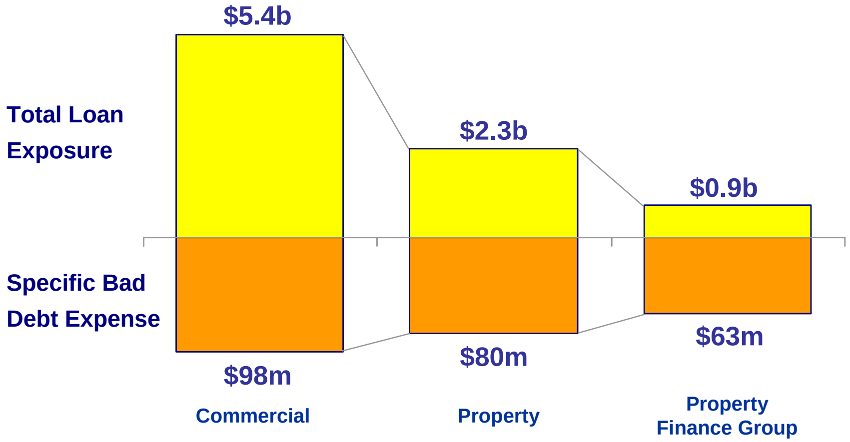


Arrears 30-89 Days by product

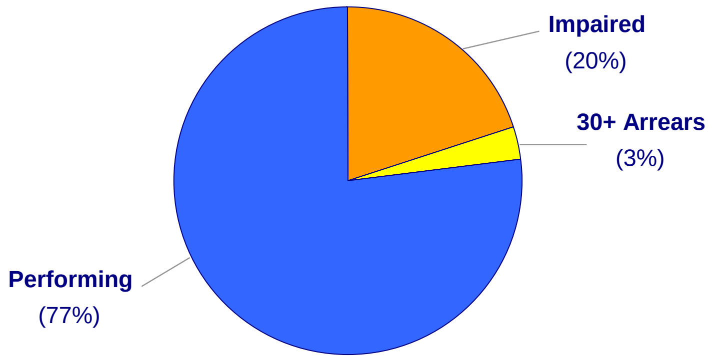


*Other Retail includes Lines of Credit

Small number of large exposures driving 2011 bad debts



Property Finance Group

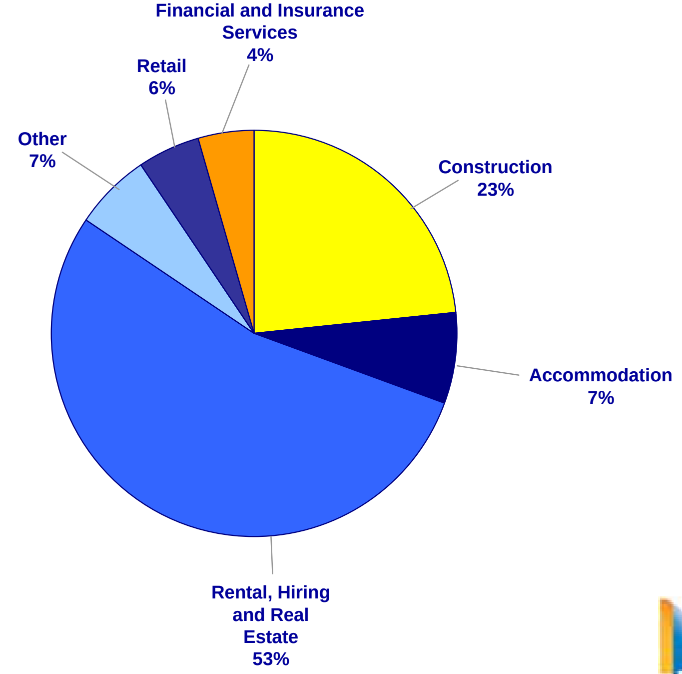


- OMB network commercial origination well diversified and performing well (only $19m bad debt losses or 64bps of loans)
- 20% of book is impaired & well provided for. Remaining arrears accounts watched closely

Large exposures

- The Bank has 21 relationships with exposures greater than $20m. Down from 25 at FY10
- Total commitment exposure $734m (drawn balance $612m)
- 2% of total loans under management
- 11% Retail network originated
- Large exposures are concentrated in the Property & Construction sectors, accounting for 78% of large exposures
- 4 impaired exposures remain for ~$180m

Largest exposures by Industry group



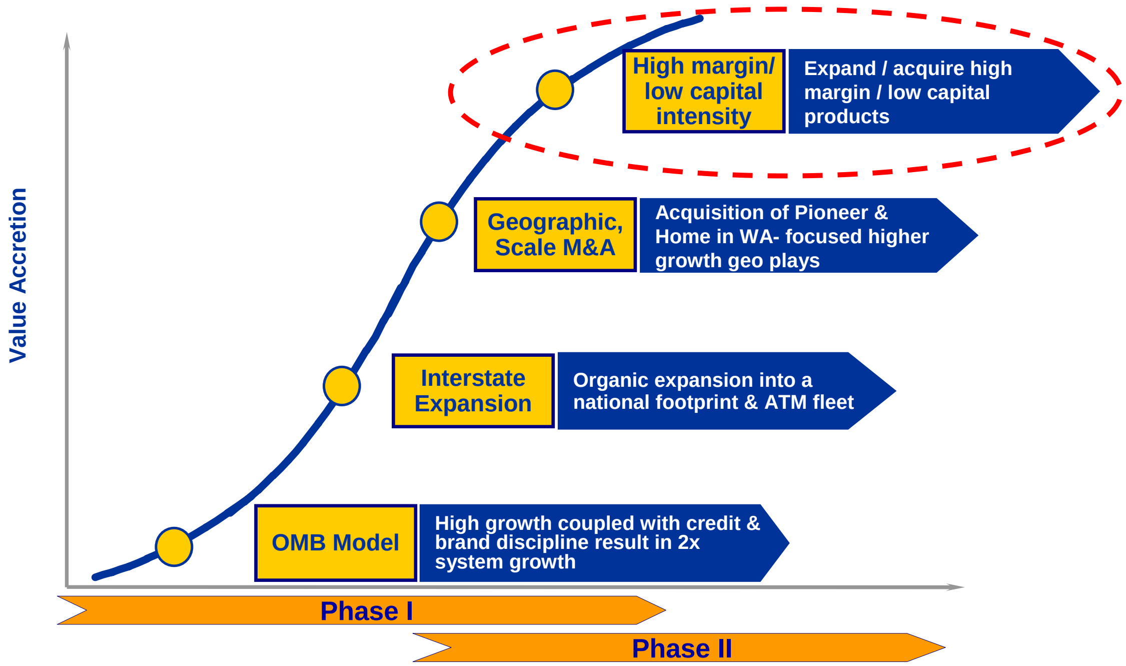
Strategy and outlook

Ram Kangatharan

Acting CEO and Chief Operating Officer

Your own personal bank

Sticking to the plan



FY11 Progress…

- 2 new divisions – BOQ Finance in Sydney and St Andrew's in Perth
- Merged $3.1bn EF business and Debtor Finance business in to BOQ Finance
- 2 new divisions operating above 15% target ROE

Operating model

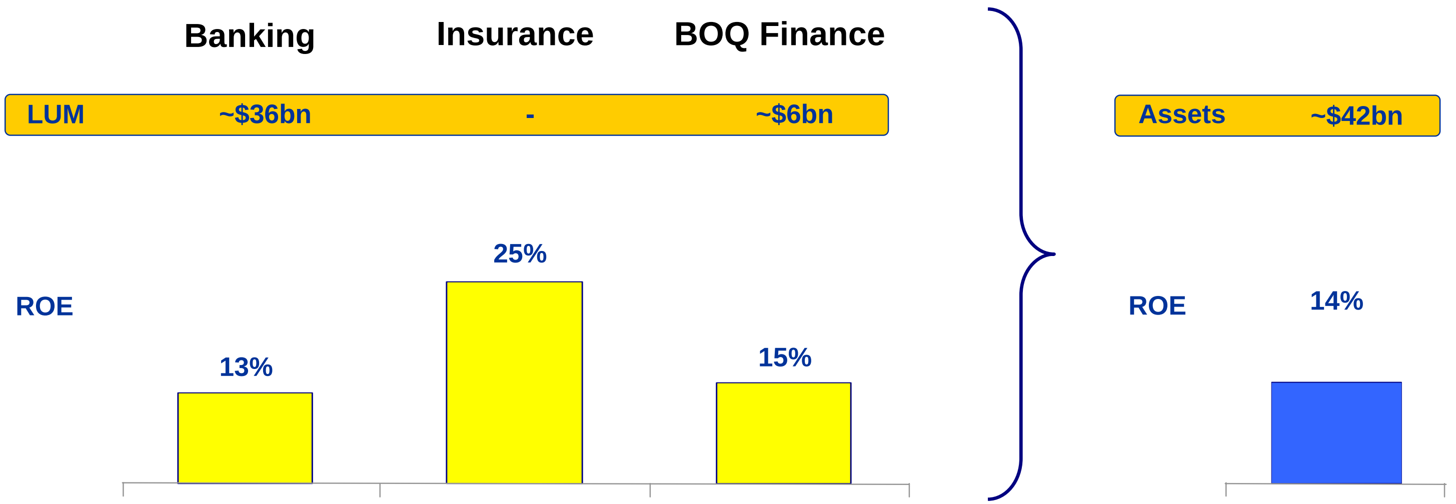
- St Andrew’s and CIT now fully transitioned and operating as stand-alone businesses
- BOQ is running three key business lines, 2 new divisions driving capital-lite & higher margin business

Banking	Finance	Insurance

- Combined ROE for the acquired businesses is ~35% vs. forecast of 25%; ~$70m of $105m of deployed capital paid back in the first 14 months
- FY12 focus on completing the build out of the BOQ Finance business, diversifying the St Andrew’s business organically and further enhancing our Banking cross sale capability

Shifting the ROE profile of the BOQ group… pathway to FY14

Business units **Group**



- The new business units have introduced positive impetus to the group ROE and transform the profitability & organic growth profile of the Group

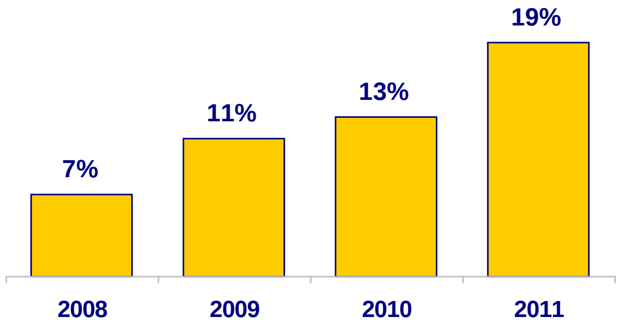
Cross sales critical link

In a lower credit growth environment, the OMB model is being repositioned to continue its lending outperformance, but also to drive cross sales:

- Low cost sticky deposits ➔ New Day 2 Day Plus account performing well
- Mortgage protection ➔ Premiums increase 31% vs FY10;

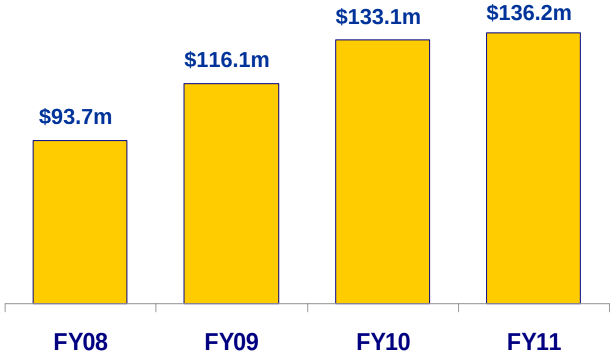
A new incentive scheme implemented in Dec 2010 has seen a dramatic improvement in a range of performance metrics, including cross sales ➔

Mortgage protection strike rate



OMB Network resilience grows…

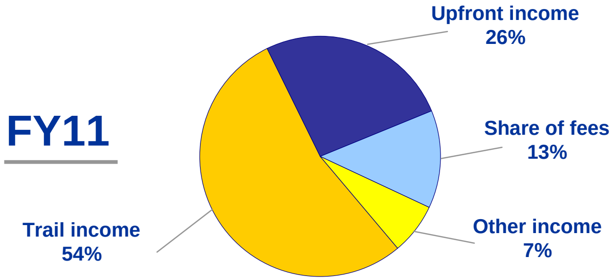
Total OMB commissions



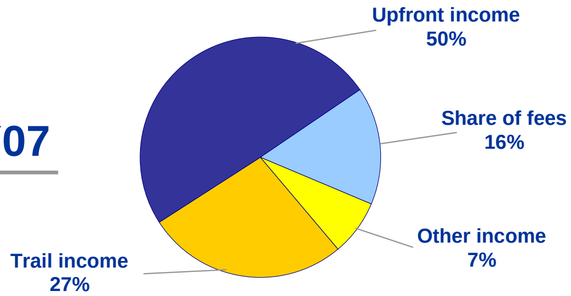
- Total OMB commission payments continue to increase, driven by existing balance sheet
- OMB network originations well diversified and performing well

OMB income split

FY11



FY07



BOQ Finance – a specialist Asset Finance company

Bank

- Financial strength
- Funding diversity
- Integrity
- Branch Distribution

Finance company

- Specialist asset knowledge
- Out of the square mentality
- Relationship approach

Smart finance, your way

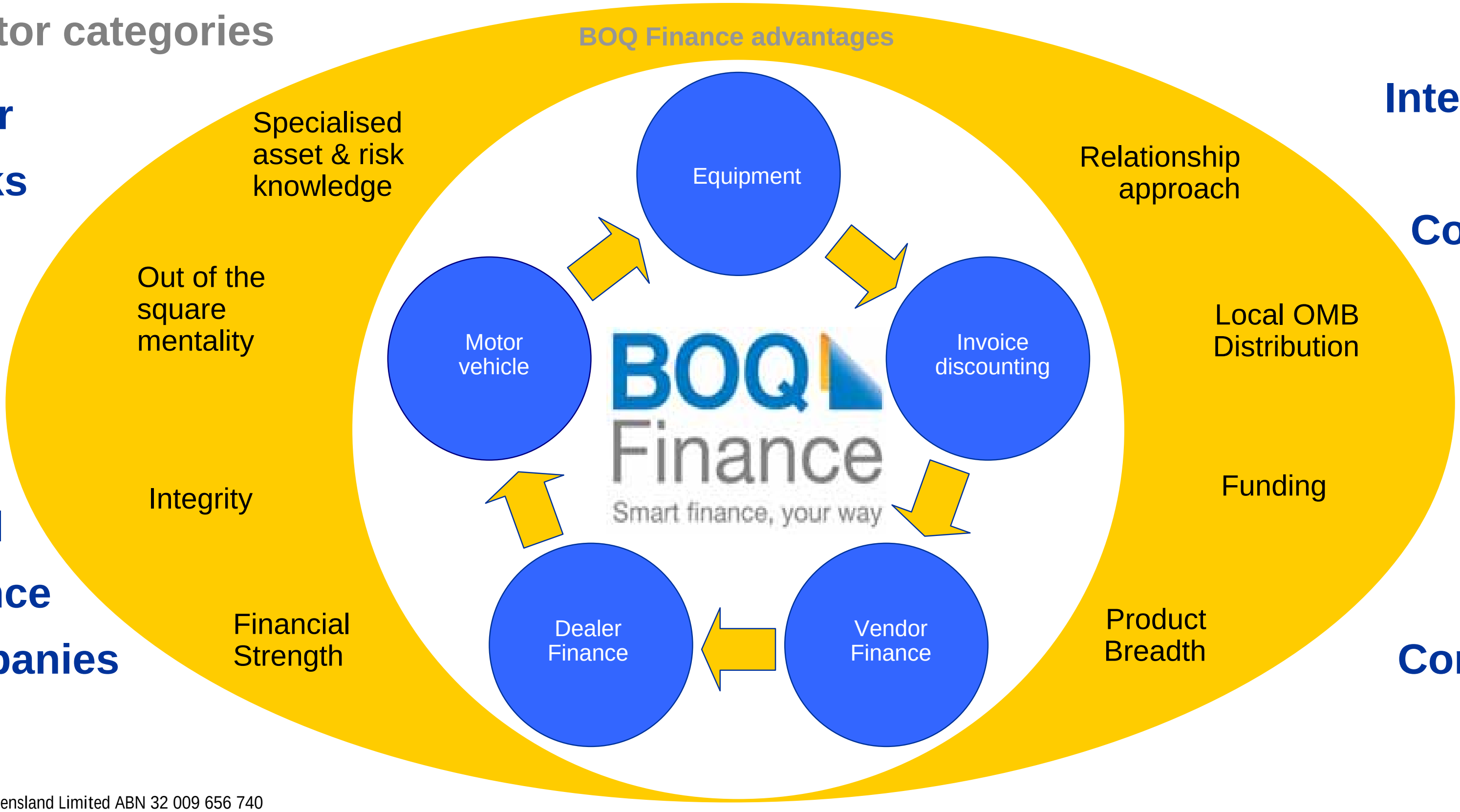
Combines the best of being a Bank and a Finance company

Clear competitive advantages

Competitor categories

Major Banks

International Finance Companies



Small Finance Companies

Captive Finance Companies

BOQ Finance - Key success factors

Risk management

- Predictable loss outcomes
- Specialist risk knowledge
- Mitigation of non-credit risks

Pricing discipline

- Price for risk
- Price for services and value delivered
- Monitor and adapt pricing assumptions

Product & distribution differentiation

- Add value to distribution channels
- Specialist asset based finance products

Relationship approach

- BOQ's personal service
- Portfolio approach
- Partner and customer focus

Key competencies provide stable return with better risk & asset management

Comprehensive risk capabilities

4% of Assets
High growth

Consumer

- Automated risk processes
- Efficient sales distribution
- Regulatory compliance

Loss targets
3-5%

3% of Assets
High growth

Small Ticket Commercial

- Automated risk processes
- Portfolio approach
- Lease and loan products

Loss targets
1.5-2.0%

87% of Assets
5-10% growth

Large Ticket Commercial

- Individual risk assessment
- Equipment risk
- Asset management

Loss targets
0.5-0.75%

2% of Assets
High growth

Inventory Finance

- Manufacturer partnerships
- Performance monitoring and audit
- Additional credit support

Loss targets
0.5%

4% of Assets
High growth

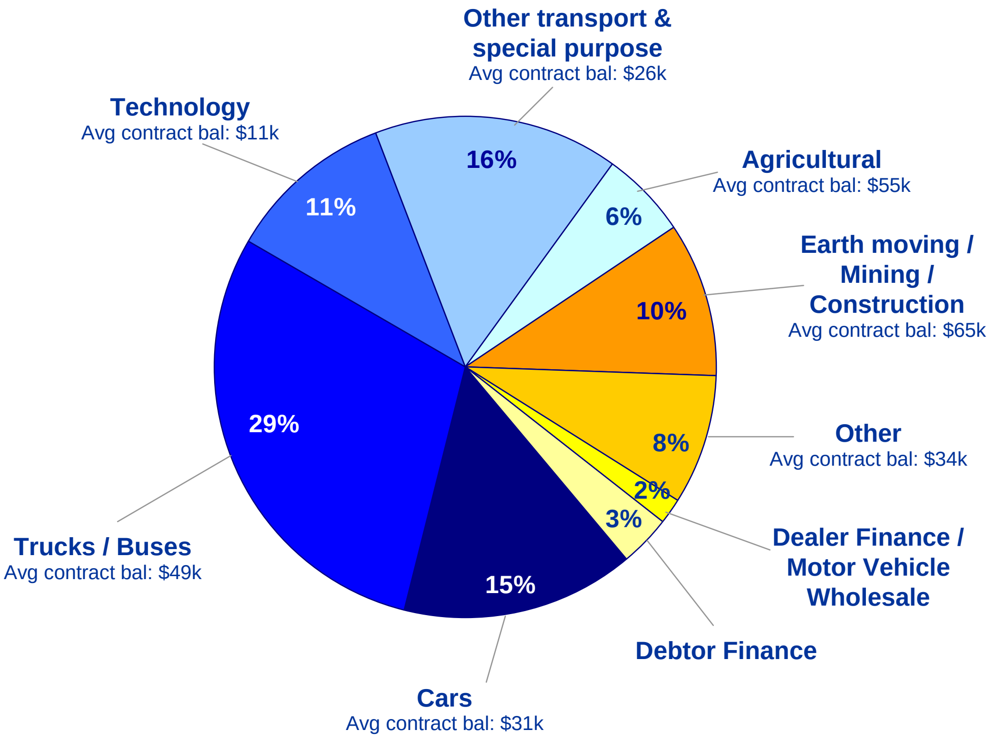
Invoice Discounting

- Look through to ultimate credit
- Operational risk
- Early warning and remedy

Loss targets
0.5%

Pricing reflects risk profile and operating costs in each category

BOQ Finance security & risk profile



- 30% of contract volumes in Technology, smaller tickets means only 11% of portfolio
- 137 exposures in EF & VF over $1.5m (total $370m)
- Debtor finance 109 exposures with limits >$1m total $184m drawdown $84m
- Dealer & MVF has 25 exposures between $1m & $6m

St Andrew's update

- ~90% of the full acquisition cost of the business has already been repaid via dividend payments (< 14 months)
- Discussions progressing with several potential corporate partners
- BOQ account St Andrew's premium growth 31% vs FY10
- Product diversification strategies being implemented
- Cost-to-income ratio in the low 30% range
- Business continues to keep a lookout for complimentary acquisition opportunities

Summary

- FY11 strong underlying result, despite challenging economic climate & weather events
- FY12 is a turnaround year for BOQ Group
  - Growth of 1.5x system; with good risk/reward disciplines
  - BOQ Finance positioned for expansion maintaining 15% ROE returns
  - Cost disciplines now part of the DNA, but no step change planned
  - OMB Network quality origination and growth track record proven
  - Acquisitions in July ‘10 expected to be fully paid back in FY12 and organic capital generation sufficient for expected growth and small bolt-ons
  - Provisions coverage strengthened to cope with adverse market conditions
  - Confidence in the underlying earnings momentum…. Returning to dividend growth

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Appendix

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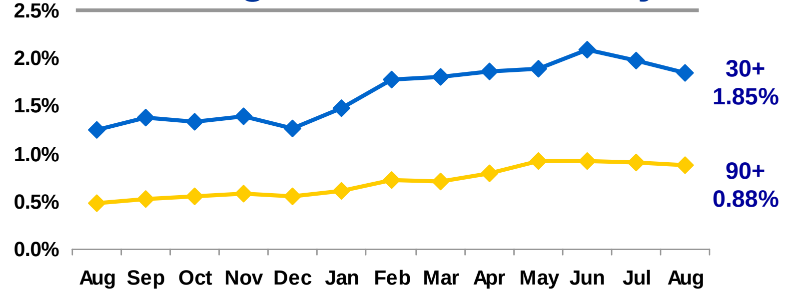
Housing portfolio

- Geographic diversification strategy into other states continues
- Execution of collection strategy change in Q4, resulting in reducing 30 days trend
- Increase in 30+ reversed with 90+ arrears starting to show improvement
- Modest increase in repossessed homes; Softness in valuations increasing level of impaired assets
- Increased collective provision coverage

Housing arrears 30 / 90 Days

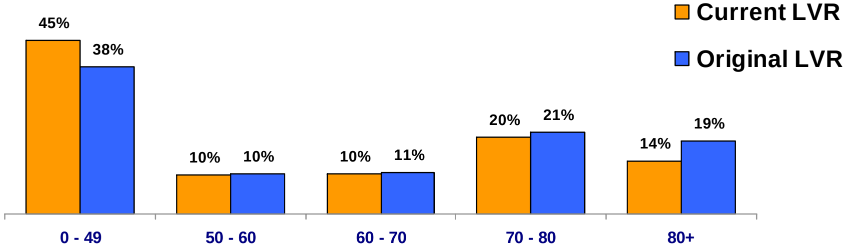


Portfolio metrics	2H10	1H11	2H11
Portfolio size ($b)	16.7	17.5	18.4
Impaired ($m)	22.5	59.1	61.6
Impaired %	0.14%	0.34%	0.34%
Specific BDD expense ($m)	3.8	10.3	10.7
Specific BDD / Portfolio (%Ann)	0.05%	0.12%	0.12%
Specific provisions ($m)	4.1	12.3	16.9
Collective provisions ($m)	1.1	2.0	6.5
Total provision coverage	0.03%	0.08%	0.13%

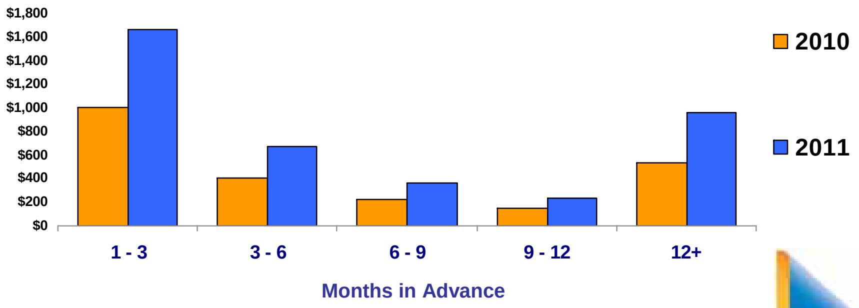
Strong mortgage book

- The Bank's mortgage book is in a strong position. 56% of the book has an LVR of less than 60%
- Mortgages typically secured by the property and by Lenders Mortgage Insurance (LMI) if the LVR is over 80% for regular loans, or 60% for low document loans
- As more customers come into advance, the overall LVR of the mortgage book is improving

LVR Band



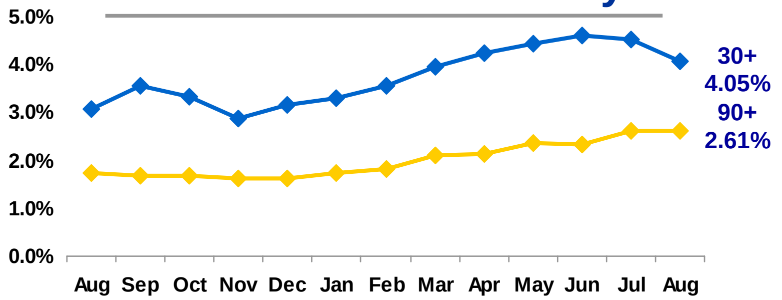
Loans in advance



Lines of Credit portfolio

- Majority of 'Other retail' is Lines of Credit, secured by residential property
- Increase in arrears more amplified than home loans as measurement is 'time over limit'
- Same collection strategies as Home Loans resulting in improvement more immediate improvement in 30+
- 90+ will take longer to improve; payment plans in place

Line of Credit 30 / 90 days

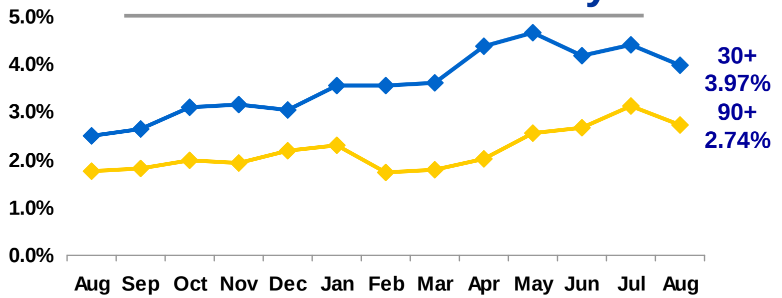


Portfolio metrics	2H10	1H11	2H11
Portfolio size ($b)	5.7	5.7	5.5
Impaired ($m)	7.0	23.5	27.7
Impaired %	0.12%	0.41%	0.50%
Specific BDD expense	0.5	4.8	7.5
Specific BDD / Portfolio (%Ann)	0.02%	0.17%	0.27%
Specific provisions ($m)	3.0	5.3	10.7
Collective provision ($m)	0.1	1.0	5.4
Total provision coverage	0.05%	0.11%	0.29%

Commercial portfolio

- Commercial 30+ arrears has reduced by 70bps since May 11 peak
- 4 large exposures contribute ~50% of the commercial impaireds and provisions, and are concentrated in property
- $13m overlay for property valuations
- Achieved reduction in impaired assets in 2H11; asset management and exit strategies underway

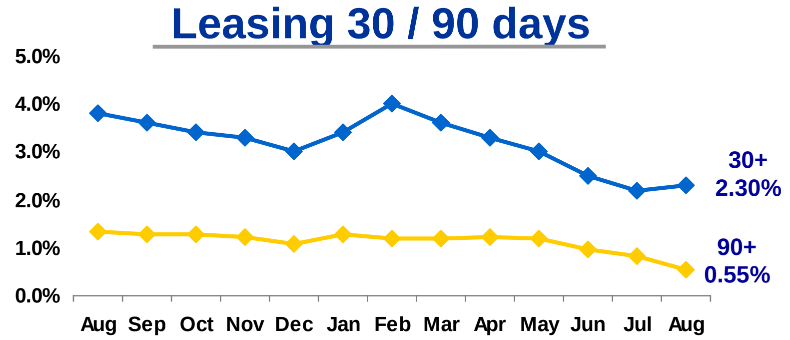
Commercial 30 / 90 days



Portfolio metrics	2H10	1H11	2H11
Portfolio size ($b)	5.2	5.2	5.4
Impaired ($m)	90.5	337.1	325.0
Impaired %	1.73%	6.42%	6.05%
Specific BDD expense ($m)	12.5	70.8	26.9
Specific BDD / Portfolio (%Ann)	0.48%	2.70%	1.00%
Specific provisions ($m)	41.5	91.3	125.0
Collective provisions ($m)	13.9	9.3	24.8
Total provision coverage	1.06%	1.92%	2.79%

Leasing portfolio continues to improve

- 50%+ reduction in 90+ arrears from August 2010, demonstrating effectiveness of 2010 collection strategy, and impact of risk appetite setting through origination strategy from 2010
- Bad debts expense in line with SME leasing portfolio over the cycle
- Impaired assets moving quickly; high levels of provision coverage



Portfolio metrics	2H10	1H11	2H11
Portfolio size ($b)	3.8	3.6	3.6
Impaired ($m)	25.3	15.7	28.4
Impaired %	0.67%	0.43%	0.80%
Specific BDD expense ($m)	20.7	19.0	23.5
Specific BDD / portfolio (%Ann)	1.09%	1.05%	1.32%
Total BDD / portfolio (%Ann)	1.48%	1.22%	0.60%
Specific provisions ($m)	9.5	10.9	19.3
Collective provisions ($m)	31.6	31.1	22.8
Total provision coverage	1.08%	1.16%	1.18%

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