Bank of Queensland

Half year results

28 February 2011

Your own personal bank

Agenda

- **Result highlights** — **David Liddy**, Managing Director & CEO
- **Financial results & portfolio details** — **Ewan Cameron**, Chief Financial Officer
- **Strategy and outlook** — **David Liddy**, Managing Director & CEO

Result highlights

David Liddy

Managing Director

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Result highlights

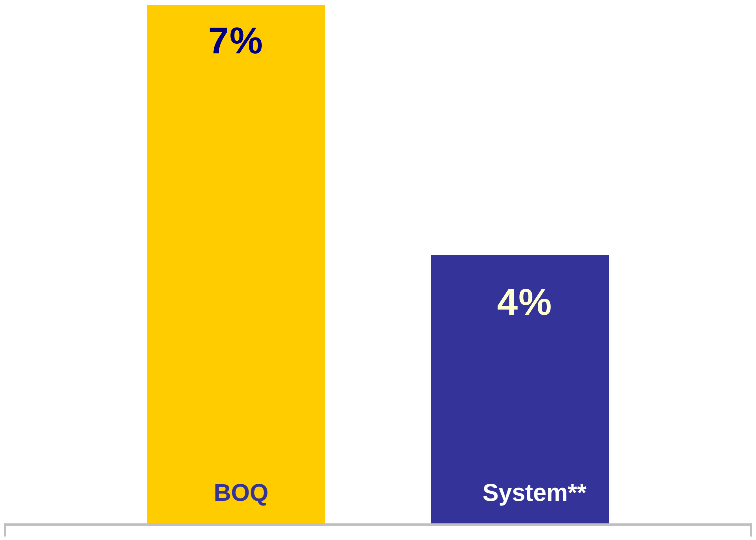
- Strong improvement in underlying profit - up 14%
- Integration of recent acquisitions completed and financial results above expectations
- Cost-to-income ratio in line with guidance at 45%
- Asset and deposit growth continue to outperform system – 1H growth funded 100% by retail deposits
- NIM recovered to 1H10 levels, up 10bps on 2H10
- Increased provisioning levels providing balance sheet support, but one-off impairment charges having a material impact on current period earnings
- Maintaining conservative liquidity and capital positions
- Proven resilience of OMB model

Strong underlying growth

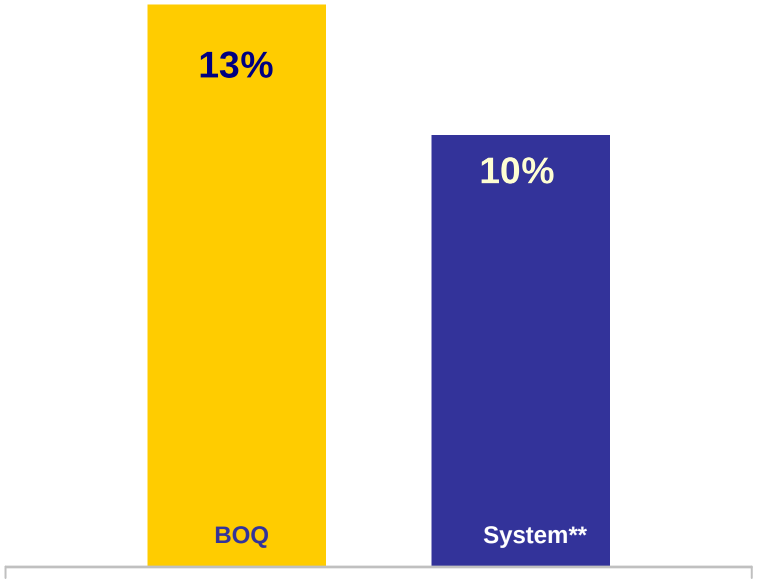
	1H10	1H11		
Underlying profit	$189.7m	**$215.8m**	▲	14%
Normalised cash NPAT	$97.2m	**$57.6m**	▼	41%
Cash EPS (normalised fully diluted)	41.8¢	**23.8¢**	▼	18¢
Ordinary dividend	26¢	**26¢**		-
Loan growth (pcp)	10%	**7%**	▼	(3) pts
Retail deposit growth (pcp)	5%	**13%**	▲	8 pts
Net interest margin	1.65%	**1.65%**		-
Cost-to-income ratio (normalised cash)	45.1%	**45.1%**		-

Growth continues ahead of system with deposits outpacing lending

- Lending growth: ~1.8x system*



- Deposit growth: ~1.3x system*

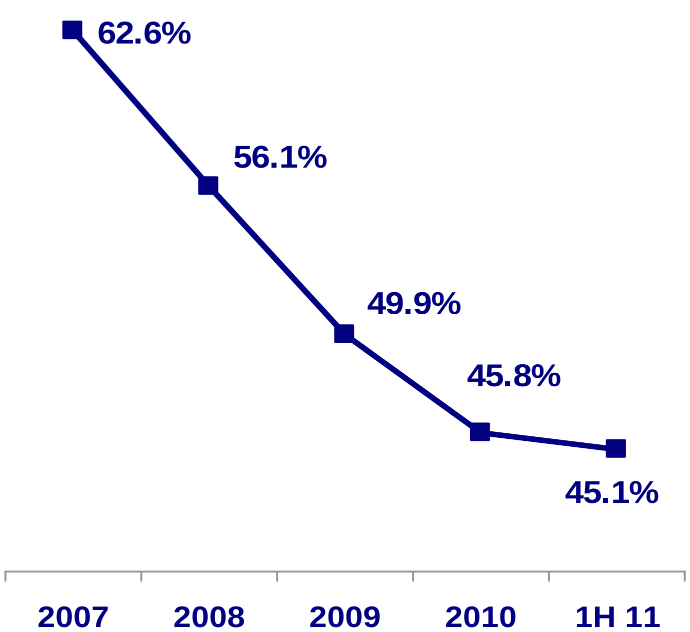


* Last 12 months
** Source: APRA data

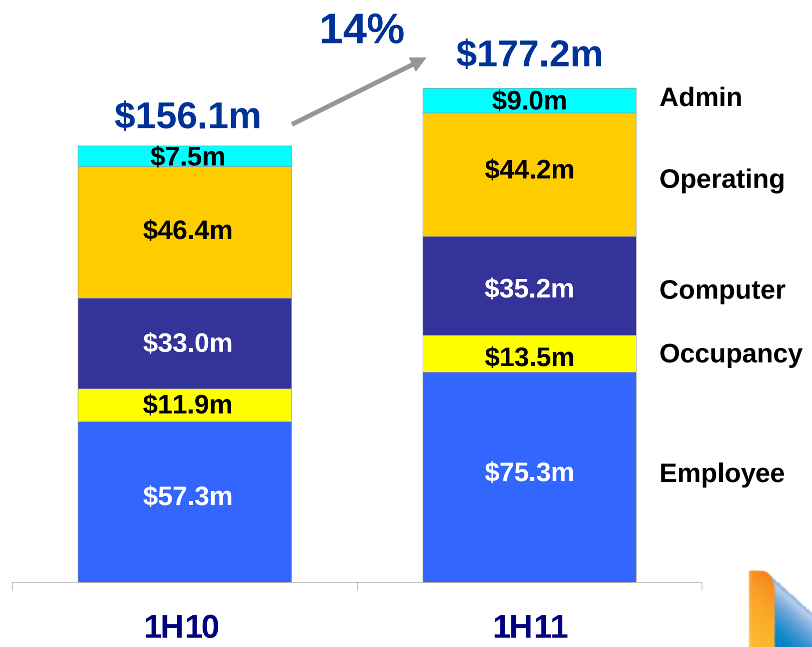
Continued expense management

- Growth in expenses driven by acquisitions, in line with income growth
- Expenses on track to reach full year guidance of 45%

Cost-to-income ratio*



Expenses*

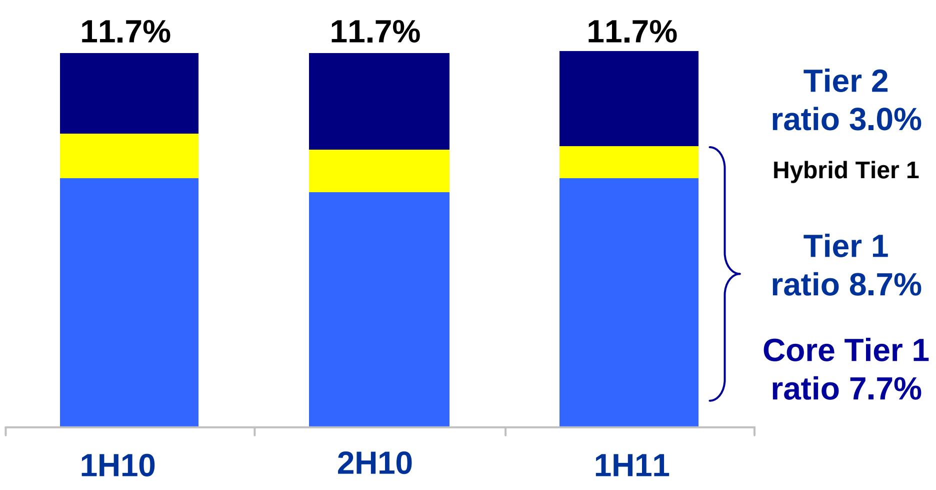


* Based on normalised cash costs, excluding the impacts of normalisation items and amortisation of customer contracts

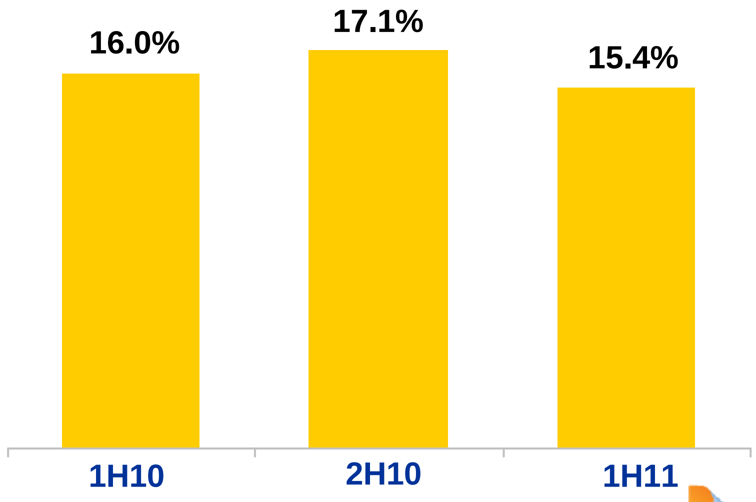
Strong capital base and liquidity

- Tier 1 and total capital levels remain in excess of APRA and internal benchmarks; well positioned to assume additional securitisation assets
- Continue to hold conservative liquidity buffer over 12% regulatory minimum

Capital adequacy



Liquidity



Financial results and portfolio details

Ewan Cameron

Chief Financial Officer

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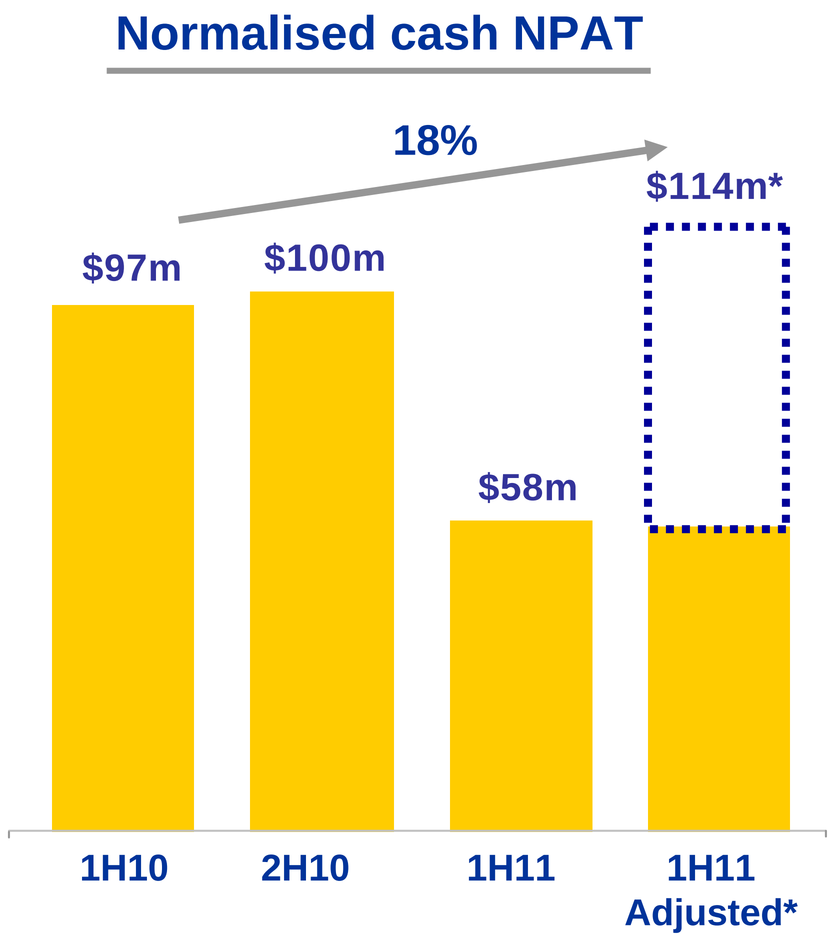
Delivering commitments on income growth and expense management

	1H10 $m	1H11 $m	% Change vs pcp
Normalised total income	345.8	393.0	14%
Normalised total expenses	156.1	177.2	14%
Underlying profit	189.7	215.8	14%
Total impairment charges	51.4	134.4	161%
Normalised cash profit after tax	97.2	57.6	(41)%
Cash diluted EPS (normalised)	41.8¢	23.8¢	(43)%

- Normalised total income growth and expense growth of 14% driven by acquisitions and asset growth
- As per recent market guidance, impairment charges impacted by one-off large exposure losses and weather related provisions

1H bad debt one-off's masking underlying positive trend

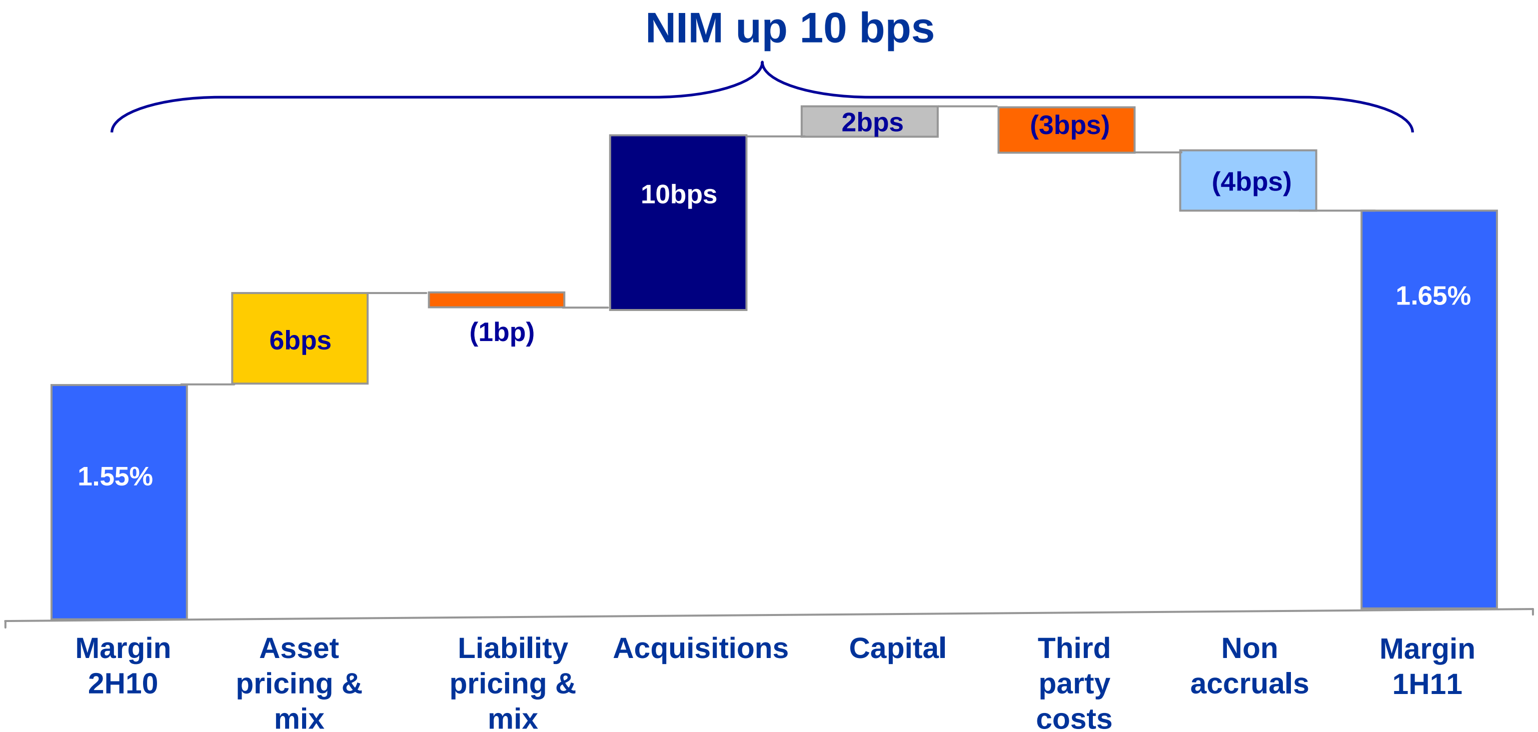


- Adjusting for flood provision and one-off losses on large exposures, cash NPAT increased 18%
- Growth in earnings driven by acquisitions and 7% loan growth

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

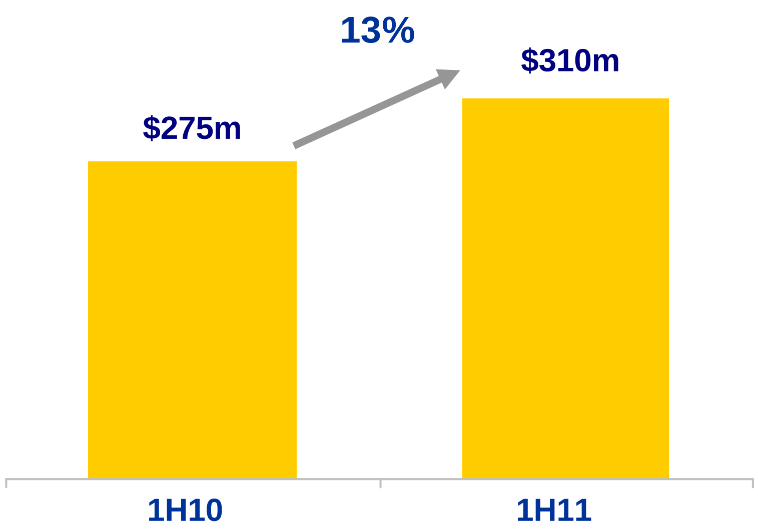
Funding costs impact NIM

- NIM benefit from repricing retail assets in November. Deposit pricing was relatively flat as term funding now fully repriced. Pricing for retail deposits remain competitive
- Benefit of higher margin vendor finance business helped improve NIM



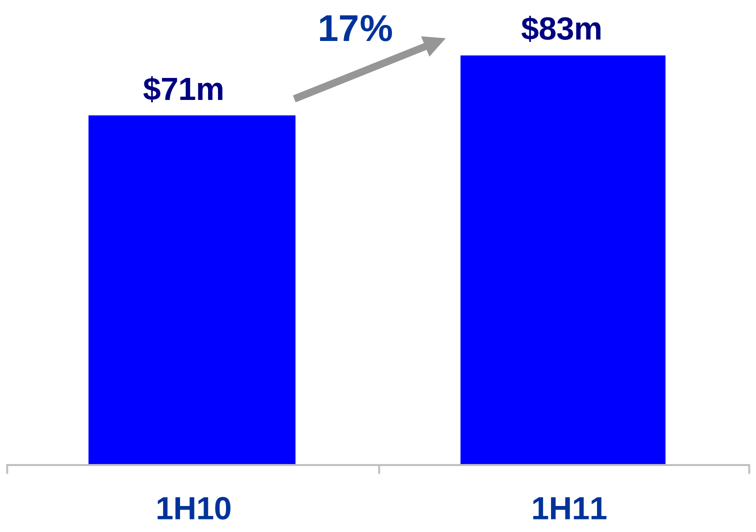
Strong income growth

Net Interest Income



- Balance sheet growth in excess of system continues to drive income growth

Non-Interest Income

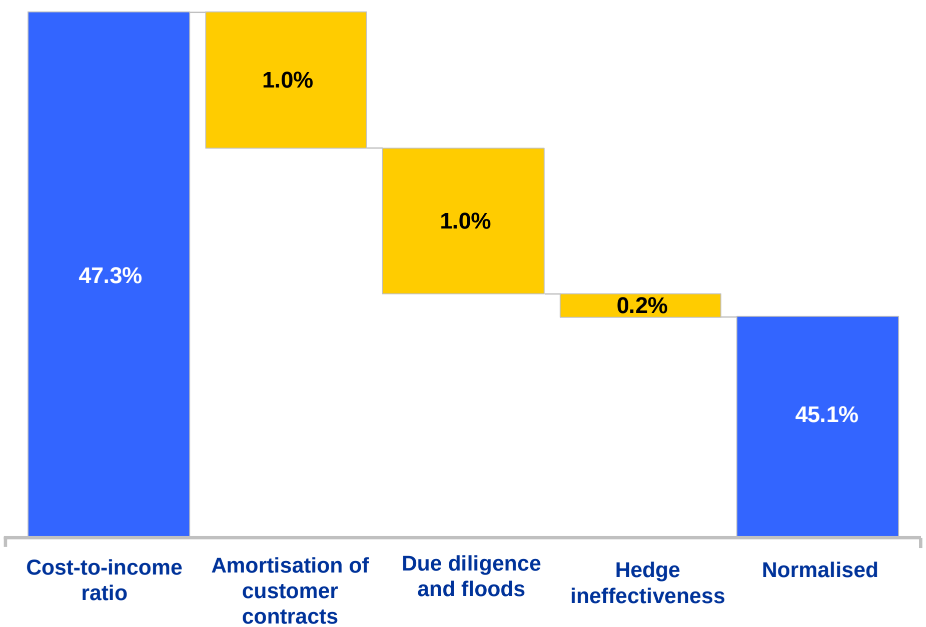


- St Andrew's acquisition helping to diversify income sources and drive recovery in non-interest income

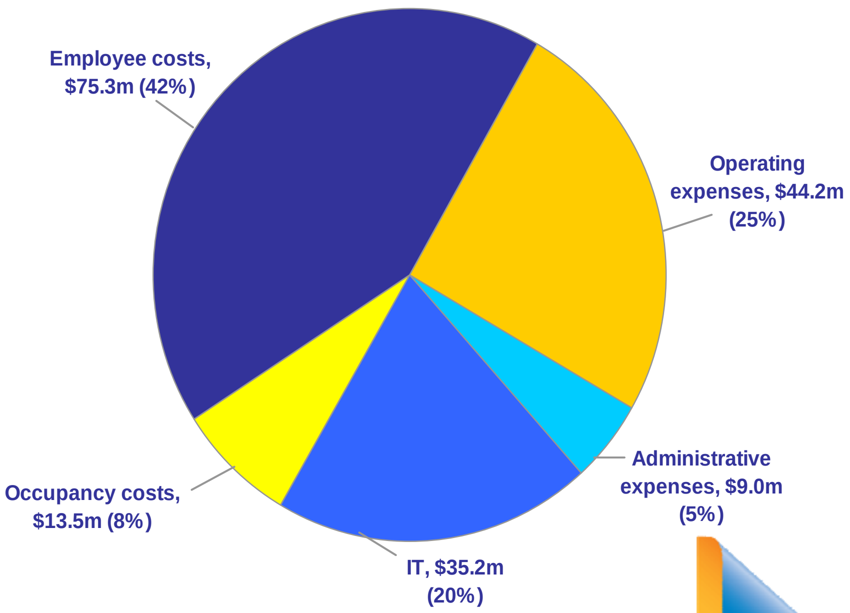
Expense composition

- On track to deliver 45% in FY11, despite ongoing investment in acquisitions, brand, new products, technology and compliance and regulatory initiatives

Cost-to-income ratio



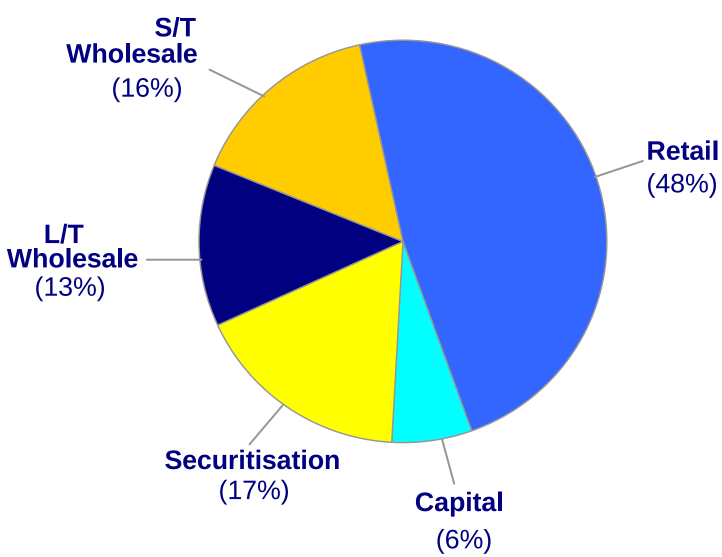
Expenses



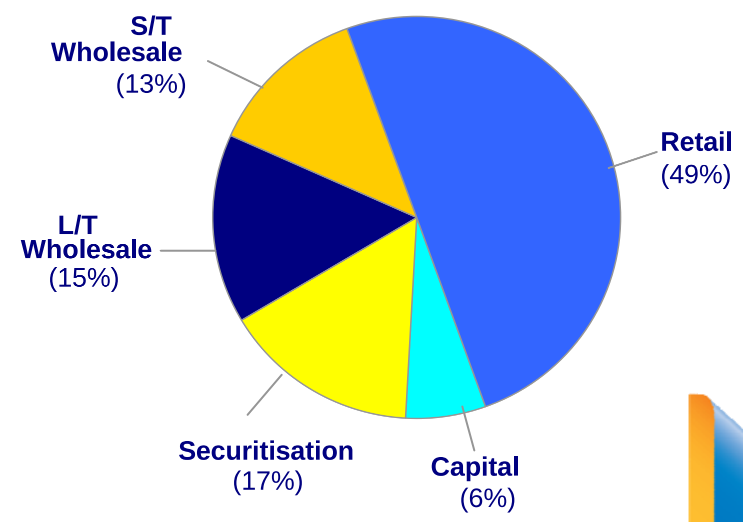
Funding profile

- Focus on retail growth in 2011, increasing retail deposits to 49%
- Retail deposits funding >100% of LUM growth
- L/T debt funding profile holding at 2.3 years
- Overall share of funding from securitisation steady

1H10 Funding



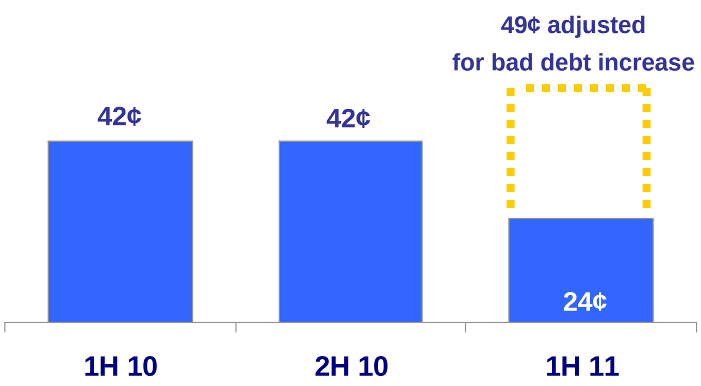
1H11 Funding



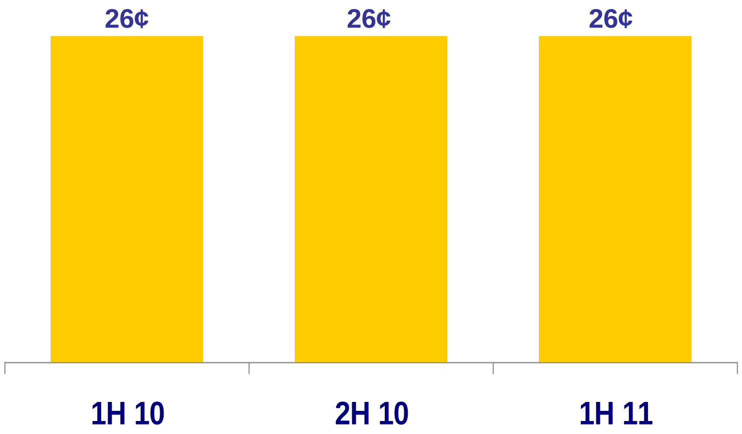
Consistent capital management

- Maintaining 26c dividend due to one-off nature of 1H11 result. Positive EPS growth assuming a normalised BDD charge
- Aiming to deliver 2H dividend growth in line with previous guidance

Earnings per Share*



Dividends



*Normalised diluted cash earnings per share

Portfolio Details

Ewan Cameron

Chief Financial Officer

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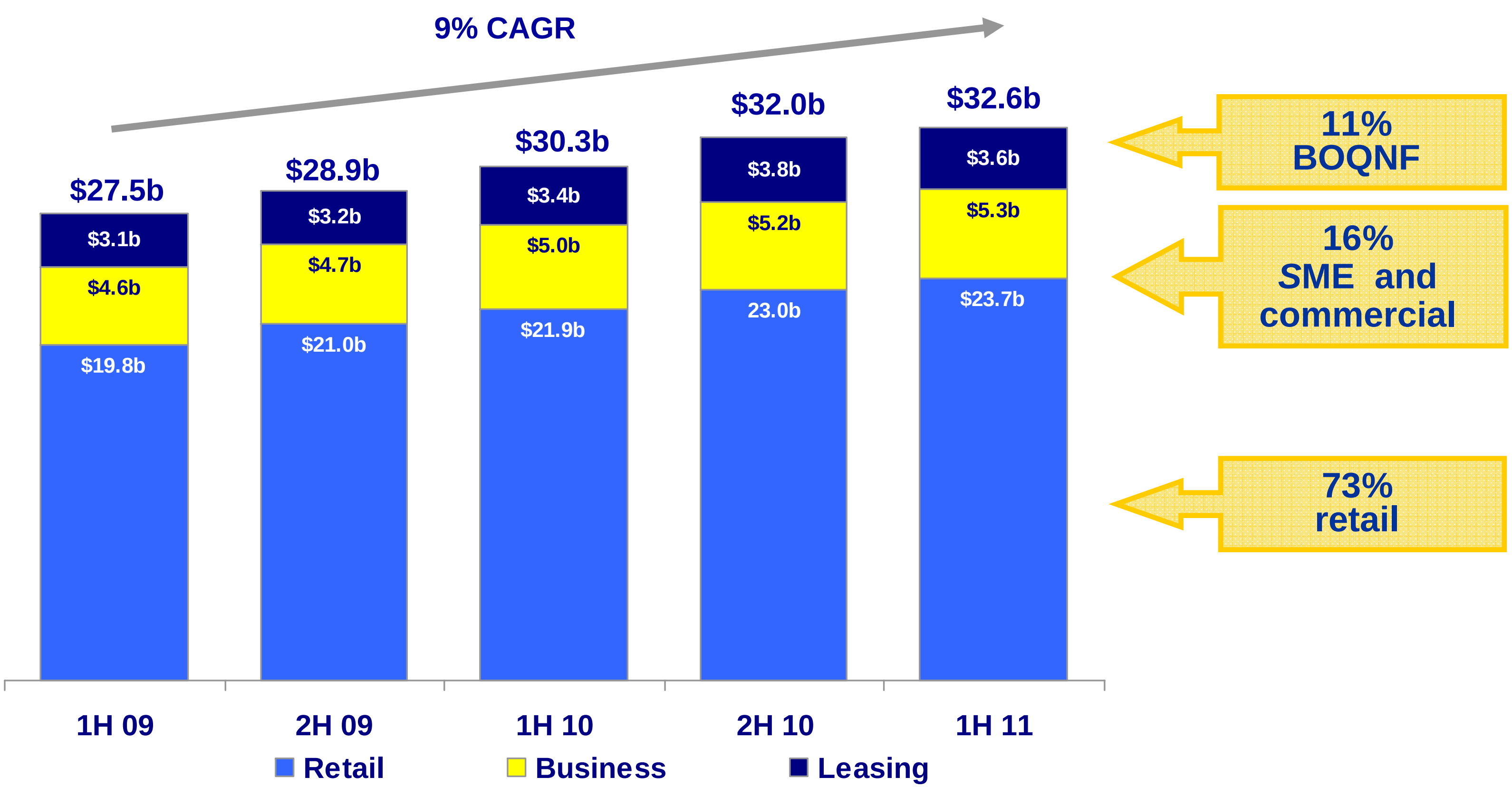
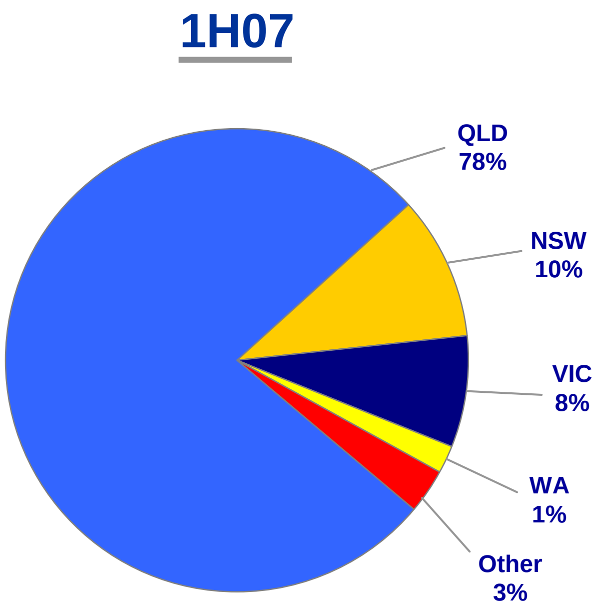
Loans under management by product

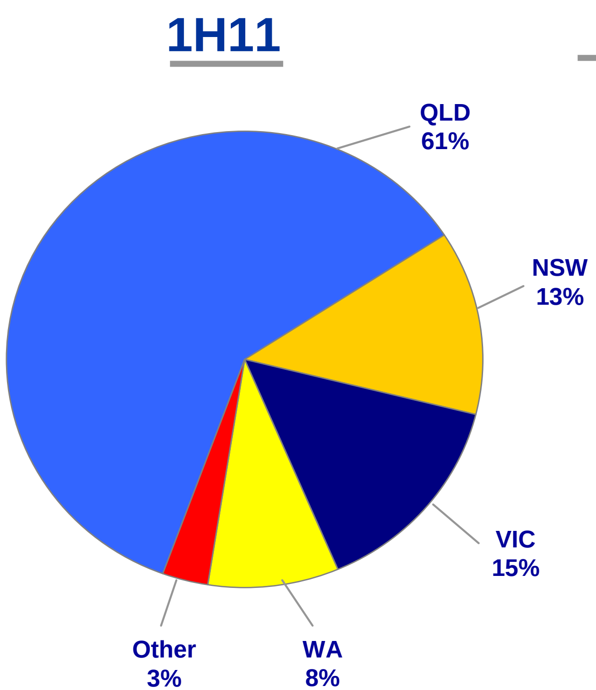


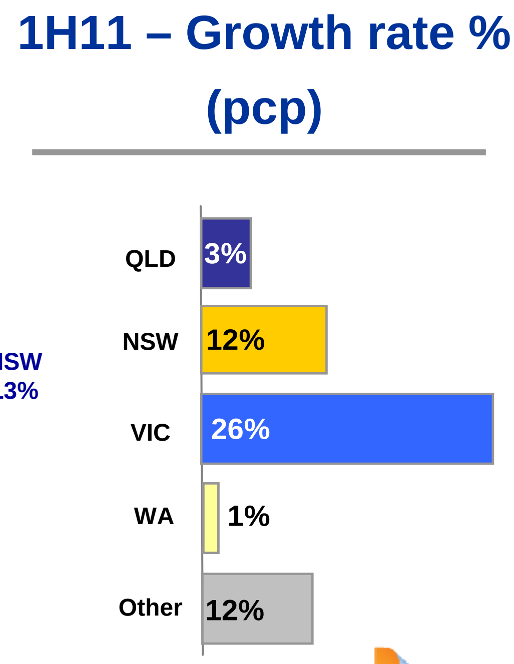
- Continuing to grow in SME and commercial lending despite ongoing negative system growth

Geographic diversification continues

- Strong growth from interstate franchise continues, particularly VIC
- Queensland and Northern NSW impacted by weather events from December to February



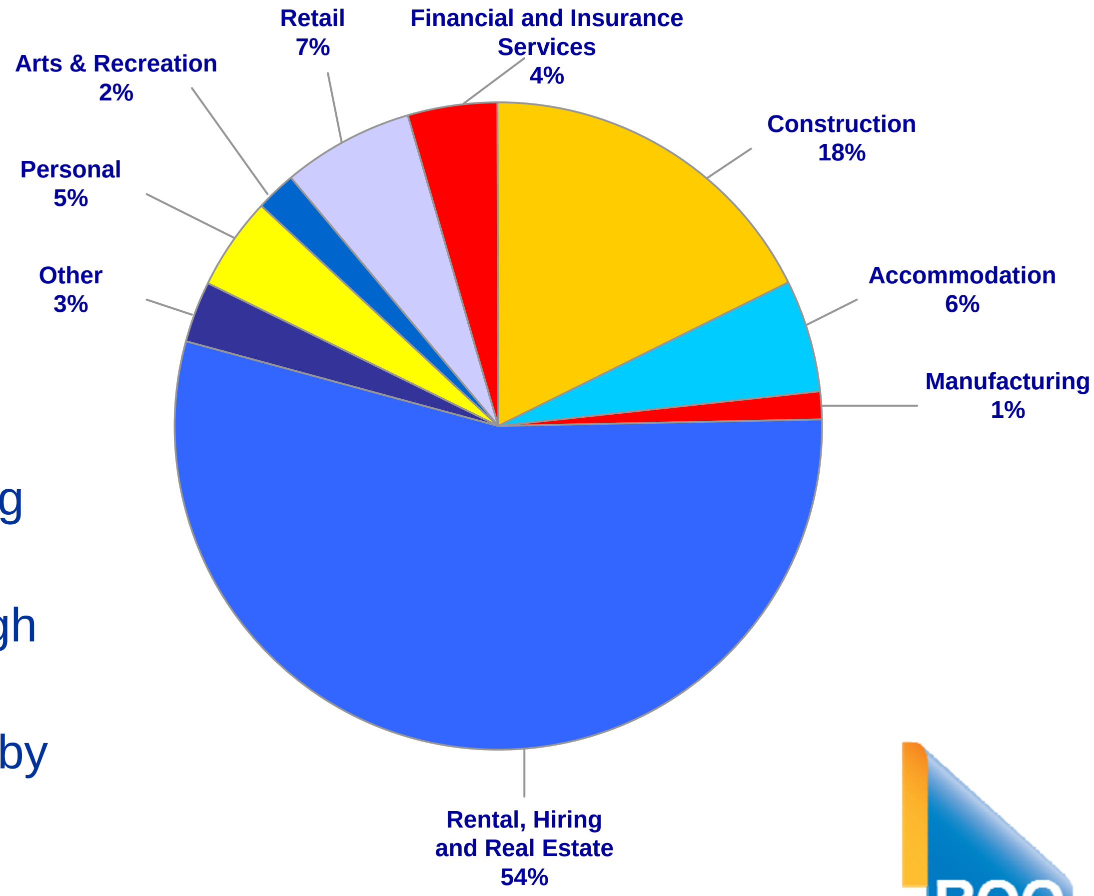




Large exposures

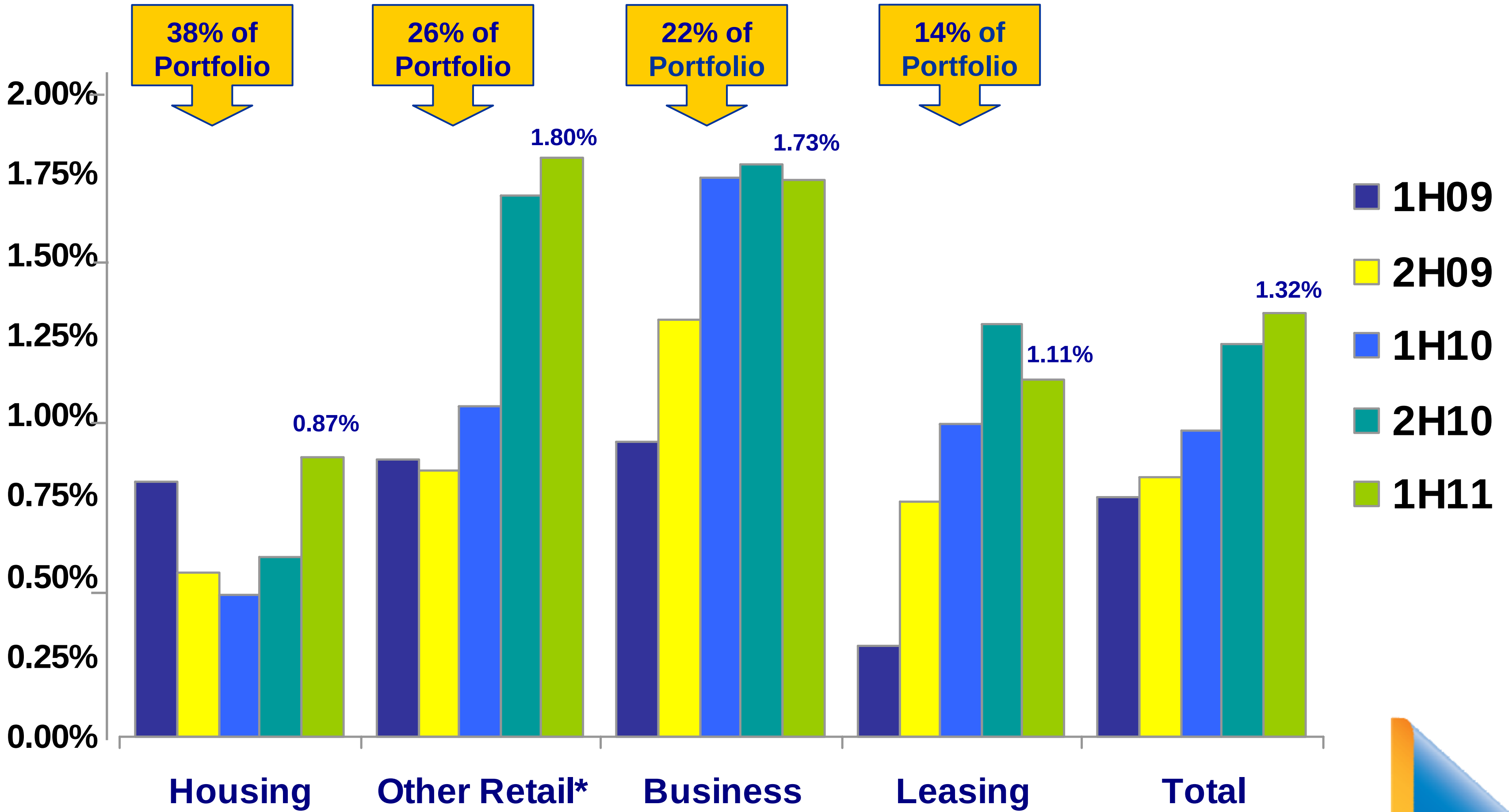
- The Bank has 22 connections with exposures >$20m
- Total commitment exposure $730m (drawn balance $629m)
- 2% of total loans under management
- 46.5% matures within 1 year
- Large exposures are concentrated in the Property & Construction sectors, accounting for ~ 72% of large exposures
- No exposure to Gold Coast / high rise
- 4 exposures impaired, covered by specific provisions

Largest exposures by ANZSIC Group



Portfolio quality

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

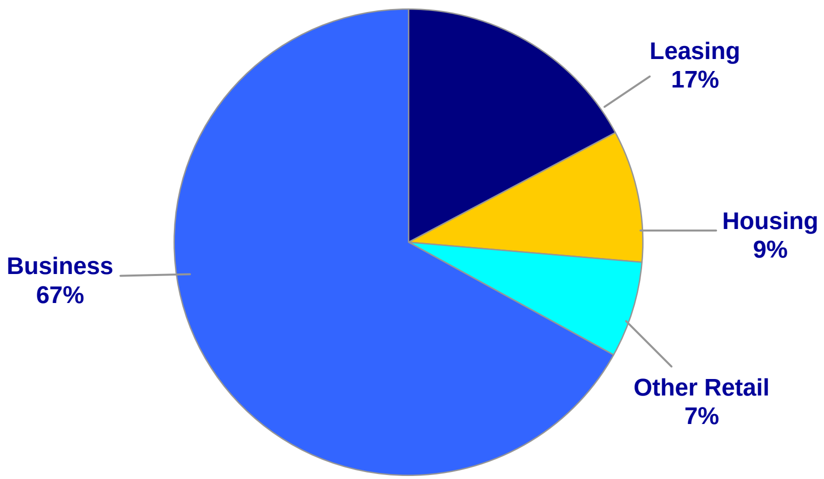


*Other Retail includes Lines of Credit ($5.8b) and Personal Loans ($0.3b)

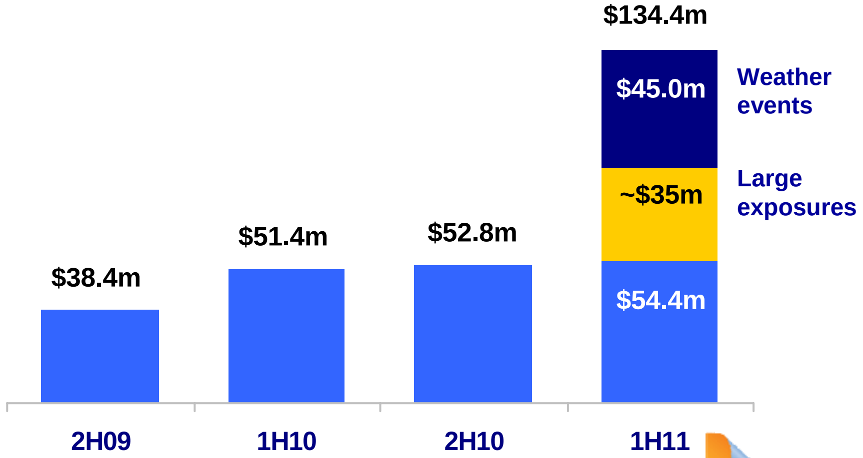
Bad debt analysis

- Increase in total bad debt expense driven by 'one-off' weather events and impairment of large exposures
- Improving trends within Equipment Finance book

Total bad debts by product

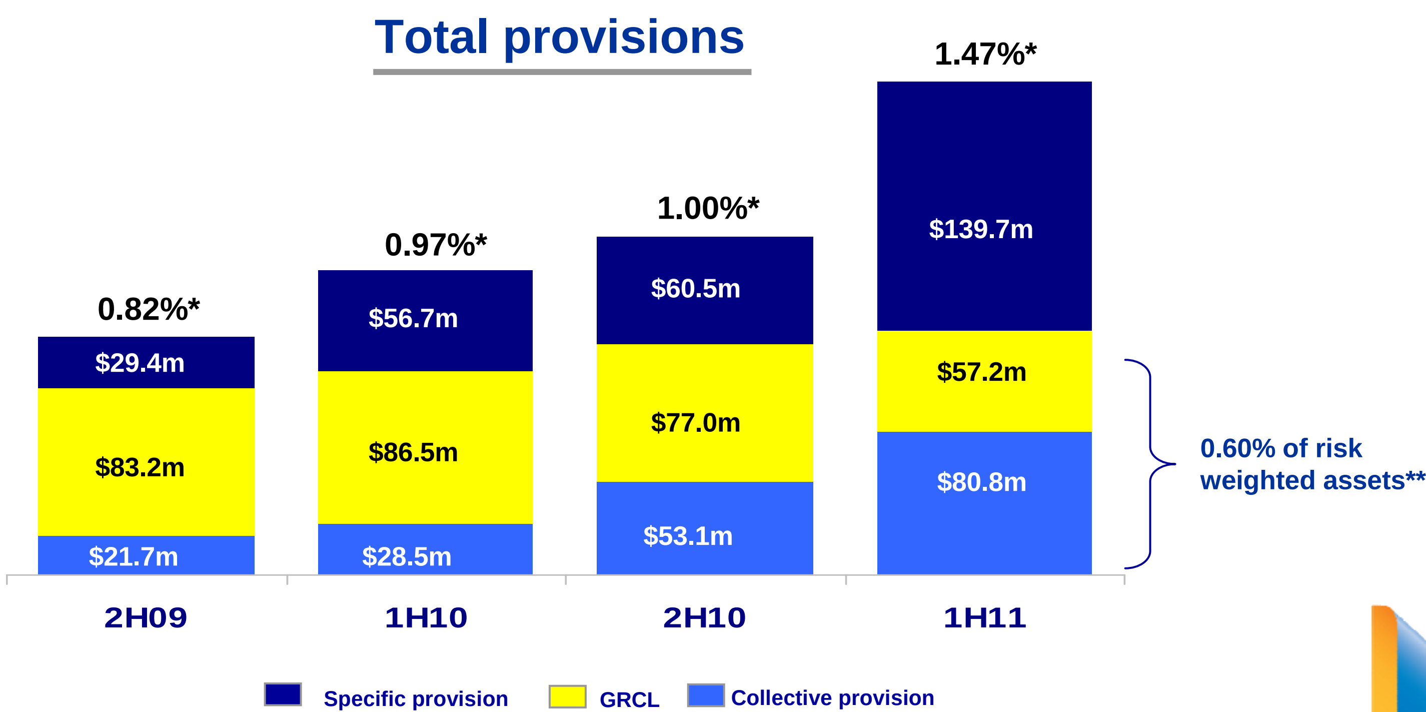


Normalised impairment charge



Increased provision coverage

- Significant increase in level of provisions as a result of floods and specific commercial exposures
- Majority of book 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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Operating model

- St Andrew's and CIT were acquired as part of our ongoing strategy to expand in high margin and low capital intensity areas
- Post acquisitions, BOQ is running three key business lines:

Banking	National Finance	Insurance

- FY11 focus is on growth, transitioning and integrating these business lines, and looking to further expand BOQNF and St Andrew's

Banking division update

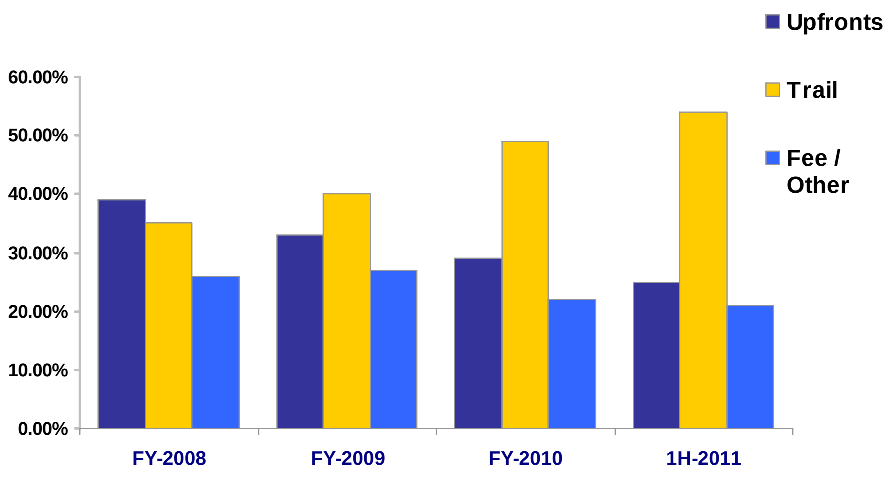
- Branch network continues to grow; strongest growth rates still outside Qld
- Seeking to be as innovative in product design as in our unique distribution model (The Big Deal, Day to Day Plus, Save to Win)
- Brand campaigns working – 3.3% average gain in spontaneous brand awareness; 4.5% average gain in brand meaning
- Strong Queensland branch network places BOQ in a positive position to be part of the flood recovery stimulus
  - QLD Treasury have forecast gross state product to grow at 1.25% in 2010/11 (forecast growth was 3% pre-flood), however strong rebound to 5% growth in 2011/12
  - Total dwelling commitments to grow by 23% in Qld in 2011/12[1]
  - Retail expenditure and construction spending to grow[2]; mining sector earnings will have short-term impacts but most production resumed, and new coal and gas projects forecast to start in the next year[3]

[1] State Budget 2010-11 – Mid Year Fiscal and Economic Review; [2] BIS Shrapnel; 2011 [3] PWC – Economic impact of Queensland's natural disasters, March 2011

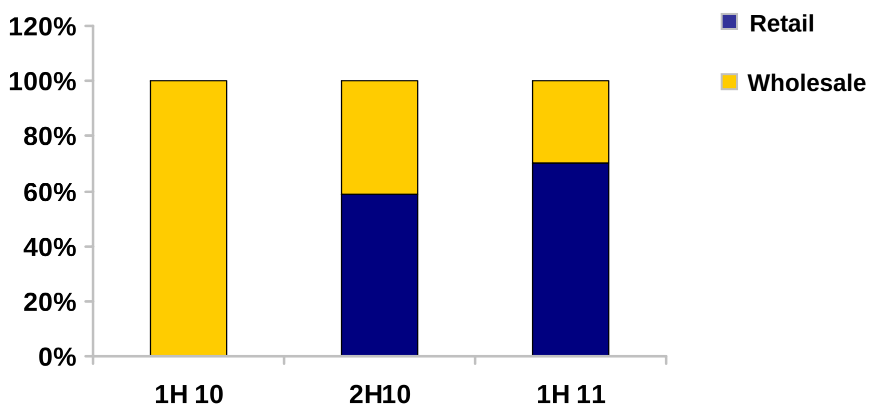
Banking division update

- OMBs are improving revenue profile and quality – leading to underlying BOQ financial performance improvement

Less reliance on upfronts



More growth funded by deposits



- New OMB incentive system designed to increase all-round performance – mortgage protection strike rates have doubled since introduction four months ago

BOQNF update

- Successfully integrated with Equipment Finance and Debtor Finance to form BOQ National Finance
  - Rebuild of IT environment completed on target and on budget
  - Including compliance requirements under National Consumer Credit Protection regulations
- Management team intact and employee turnover reduced
- Experienced management team hired for motor vehicle initiative
  - Dealer pipeline building and system investment nearing completion
- Retail new business on 3 key vendors up 27% year-on-year
- New vendor finance agreements signed in Print, Office Products and Access equipment segments with strong pipeline

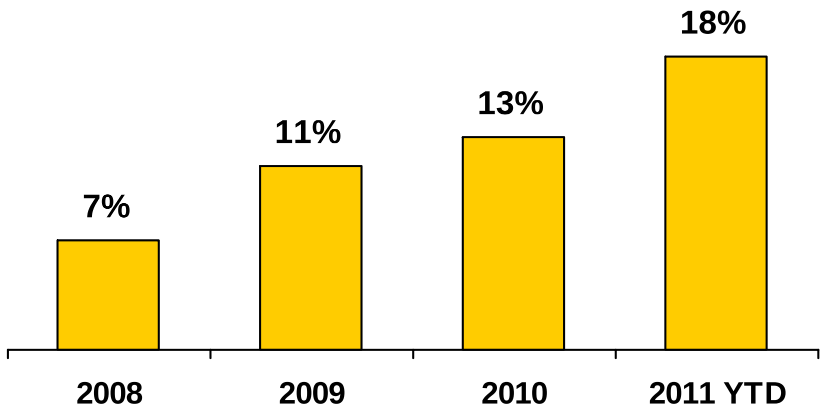
St Andrew’s update

- Integration complete – four offices relocated and systems infrastructure transitioned without interruption to operations
- All major corporate partners have been ‘locked in’ to medium- to long-term distribution agreements
- New corporate partner – Macquarie Life
- Investment focus has been on business development and organic growth
- Business continues to look out for complementary acquisition opportunities
- Over half the acquisition cost of the business has already been repaid via dividend payments
- Cost-to-income ratio in the low 30% range

Acquisitions performing ahead of expectations

- Revenue from both St Andrew's and CIT are above original forecasts
- St Andrew's payback is expected to be achieved ahead of forecast in ~18 months
- ROE is above original benchmarks – combined ROE is ~30% vs forecast ~25%
- Cross-sell rate improving and better than expected

Mortgage Protection strike rate



Continuing our strategy – acquiring high margin, low capital intensive businesses

	Target	Acquisition parameters
BOQNF	Debtor finance	ROE > 20%
	Vendor finance	ROE > 20%
	Equipment finance	ROE > 15%
	New business lines	ROE > 20%
Insurance	Consumer credit insurance	ROE > 25%

FY11 guidance

GROWTH	CASH NPAT (normalised)
Maintain 1.5 – 2x system growth	$175m - $195m

DIVIDEND GROWTH	EFFICIENCY
2H11: ~10%	45% cost-to-income (excluding acquisitions)

Summary

- Underlying improvement in normalised cash profit after excluding bad debt loss one-offs and weather related provisions
- Management and Board remain committed to a 15% ROE target

Headwinds	Tailwinds
• Funding costs remain high with increasing retail mix • Significant regulatory and technology spend • Increased pricing “promotions” in mortgage space • Short-term slowing in Queensland growth as a result of 2011 weather events	• Growth opportunities in our model in our 3 business lines • Cost disciplines continue to hold • Retail funding spreads improving • Strong capital and liquidity • Bolt-on acquisitions opportunities • Expected “mini-boom” in Queensland due to post-flood rebuild investment

BOQ

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