

# Proposal to merge Bank of Queensland and Home Building Society

Investor Presentation  
31<sup>st</sup> August 2007

# Agenda

- Strategic Rationale
- Details of the Proposal
- Benefits to Home and BOQ Shareholders
- Benefits to Other Stakeholders
- The Enlarged Entity
- Highlights of Integration and Synergies

# Strategic rationale for a merger

- ✓ **Creation of a regional banking powerhouse** centred on the two strongest growing State economies in Australia with more than 270 branches
- ✓ **Greater exposure to Western Australia**, the fastest growing State in the country. The merged BOQ-Home entity will have 35 branches in Western Australia, and an expanded business banking presence
- ✓ **Strong cultural alignment** with common commitment towards superior customer service and strong roots in community banking
- ✓ Potential **value enhancement to BOQ and Home shareholders** driven by pre-tax synergies of c.\$20 million in year 3
- ✓ **Enhanced banking proposition** for regional and community banking in Australia
- ✓ **Broader product range and more comprehensive support and services** to both sets of customers, particularly in the business banking sector
- ✓ **Increased financial and operational scale** and **geographic diversification of earnings**
- ✓ **Better positioned to compete** as efficiencies will assist the merged BOQ-Home entity to move towards larger peers' cost to income ratios
- ✓ **Improved value proposition** for customers, employees and communities

# Details of the proposal

<b>Scrip and cash proposal</b>	<ul style="list-style-type: none"><li>▪ Exchange ratio of 0.844 BOQ shares AND \$2.80 in cash per Home share</li><li>▪ Total implied value of the offer of \$18.20 per Home share<sup>1</sup></li></ul>
<b>Implied premium and PER multiple</b>	<ul style="list-style-type: none"><li>▪ 29% premium to Home's closing share price of \$14.11 on 30 August 2007</li><li>▪ c.18.0x FY2008 cash PER multiple<sup>2</sup></li></ul>
<b>Mechanism</b>	<ul style="list-style-type: none"><li>▪ Home scheme of arrangement - vote by Home shareholders</li></ul>
<b>Governance</b>	<ul style="list-style-type: none"><li>▪ One director from Home will be invited to join the BOQ Board</li></ul>
<b>Conditions</b>	<ul style="list-style-type: none"><li>▪ Satisfactory completion of due diligence</li><li>▪ Regulatory approvals (including Treasurer, APRA, ACCC)</li><li>▪ Conditions typical for public offer (including no prescribed occurrences and no material adverse changes)</li><li>▪ Break fee of \$5.9m payable by Home and \$2m payable by BOQ</li><li>▪ Favourable opinion from independent expert</li></ul>

**Home Board unanimously recommends the proposal, in the absence of a superior proposal**

<sup>1</sup>. Based on BOQ's closing share price of \$18.25 on 30 August 2007

<sup>2</sup>. Based on BOQ's closing share price of \$18.25 on 30 August 2007 and Home's consensus 2008 cash NPAT

# Benefits to Home shareholders

- ✓ **Strong premium** relative to Home's recent share price performance
- ✓ **Value creation for Home shareholders** through the opportunity to own c.20% of the merged BOQ-Home entity and participate in the future growth of Australia's fastest growing bank
- ✓ **Benefit from the future synergies** resulting from the combination of the BOQ and Home businesses
- ✓ Participation in a larger **ASX-listed company**
- ✓ Ability to participate in BOQ shares which offers **significantly increased liquidity** relative to Home's present share trading liquidity
- ✓ Consideration in a **tax effective** form for Home shareholders via capital gains tax roll-over relief for the scrip component of the consideration

# Benefits to current BOQ shareholders

- ✓ **Significantly enhanced presence in Western Australia**, the fastest growing State in Australia
- ✓ Expected to be **cash earnings per share accretive** on a normalised basis in FY2009
- ✓ **Access to synergies** generated from the merger
- ✓ **Creation of a regional banking powerhouse** centred on the two strongest growing State economies in Australia
- ✓ **Larger scale** and greater **geographic diversification of earnings**
- ✓ **Enhanced strategic positioning** of the enlarged BOQ entity

# Benefits to other stakeholders

## Customers

- ✓ Access to a wider product offering and a more complete customer service, particularly in SME and business lending
- ✓ Access to an enhanced branch network of a total of more than 270 branches throughout Australia with more branches to be opened in WA following the merger
- ✓ Access to Australia's second largest and most widespread banking ATM network of more than 2,300 BOQ branded ATMs

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## Employees

- ✓ Enhanced career opportunities through a larger and more diversified company
- ✓ BOQ's OMB franchise model allows opportunity for Home employees to become Owner Managers in the enlarged BOQ-Home entity in Western Australia

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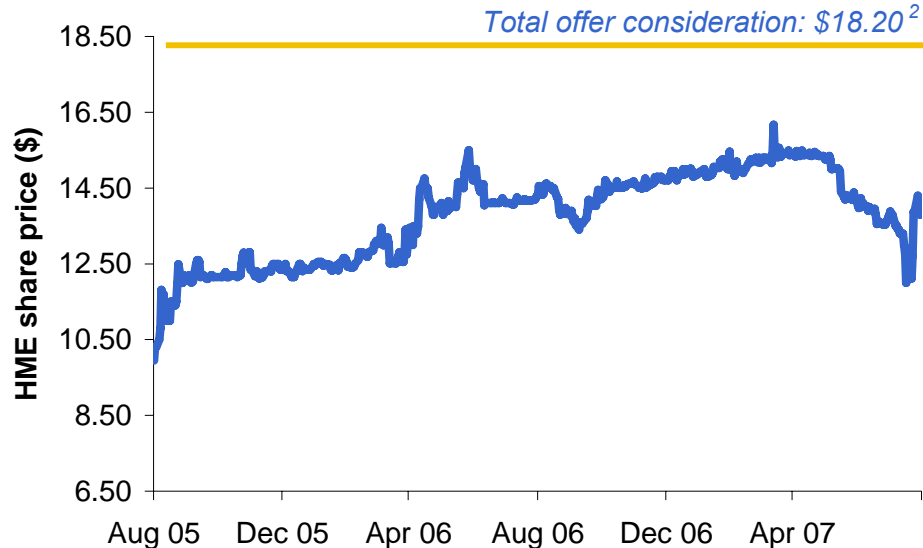
## Community

- ✓ Expanding branch network to bring more customer accessibility in Western Australia
- ✓ Extensive community support program focusing on youth, including the successful annual Banking on Our Kids program which raised funds for Children's Hospital Australia Foundation this year
- ✓ Continued support for Western Australian communities through a dedicated program through both the merged bank and individual branches

# Premium to Home's recent share price performance

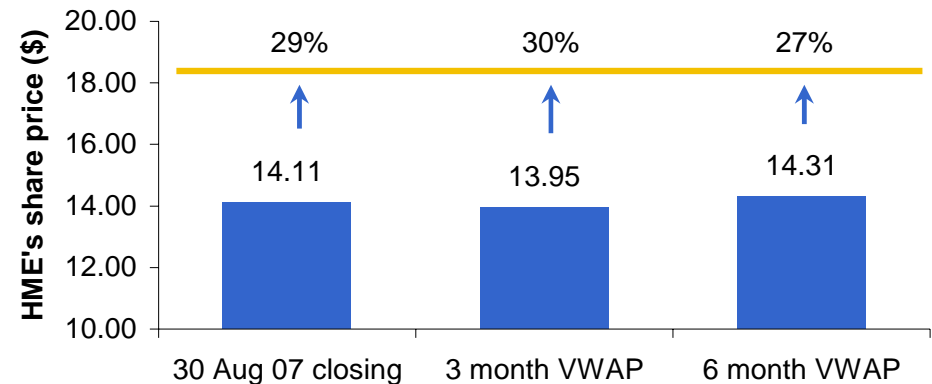
## Home's historical share price<sup>1</sup>

The Offer represents a 29% premium<sup>2</sup> to Home's closing share price of \$14.11 as at 30 August 2007



## Premium relative to historical prices

Offer consideration per share of \$18.20 based on BOQ's closing share price of \$18.25 on 30 August 2007



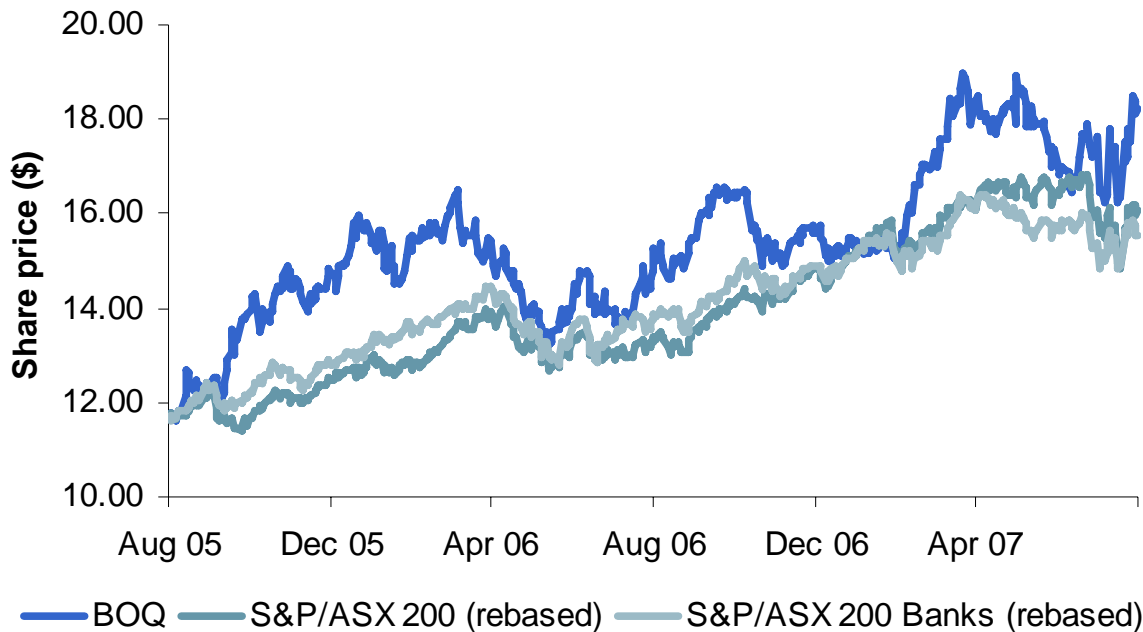
<sup>1</sup> Source: IRESS

<sup>2</sup> Based on an offer consideration per share of \$18.20 based on BOQ's closing share price of \$18.25 on 30 August 2007

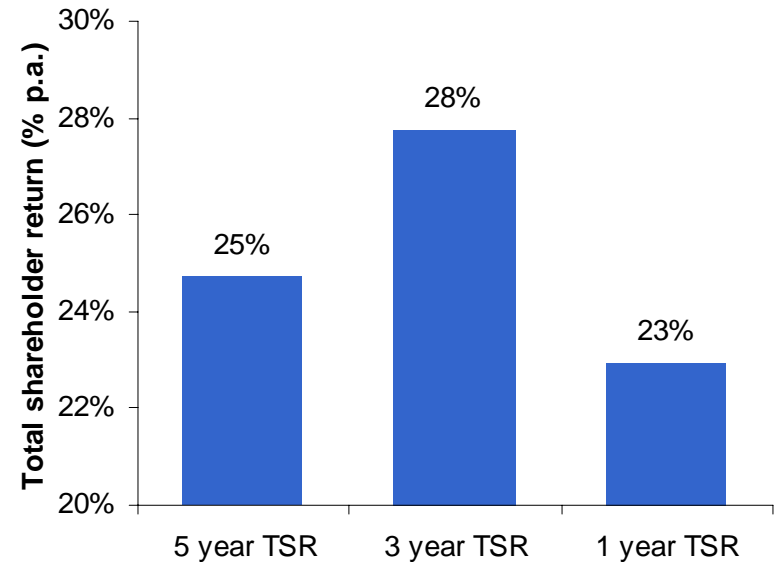


# Attractiveness of BOQ scrip

## BOQ share price performance<sup>1</sup>



## BOQ total shareholder return<sup>2</sup>



**BOQ has outperformed the S&P/ASX 200 and S&P/ASX 200 Banks over the last 2 years and delivered significant total shareholders returns**

1. Source: IRESS

2. Source: Datastream

# Expected impact on EPS and capital

- Marginally EPS dilutive for BOQ shareholders in FY2008
- EPS accretive in FY2009, c.2%<sup>1</sup>
- Over 5%<sup>2</sup> EPS accretive in FY2010
- The enlarged BOQ will maintain capital targets of 7% - 8% of risk weighted assets as Tier 1 capital

1. Based on FY2009 normalised cash NPAT, excluding integration costs

2. Based on FY2010 normalised cash NPAT, excluding integration costs

3. Based on 32,527,376 Home ordinary shares on issue, a total consideration based on BOQ's closing share price of \$18.25 on 30 August 2007 and Home's net tangible assets as at 30 June 2007

# The merged BOQ-Home entity will be a regional banking powerhouse

	<b>BOQ</b>	<b>Mackay</b>	<b>Home</b>	<b>Merged BOQ-Home business - Pro forma</b>
<b>Market capitalisation (\$bn)<sup>1</sup></b>	2.1	0.05	0.5	<b>2.6</b>
<b>Customers (#)</b>	530,000	21,000	126,000	<b>677,000</b>
<b>2007 cash NPAT (\$m) before synergies<sup>2</sup></b>	98.0 <sup>3</sup>	1.8	20.2	<b>120.0</b>
<b>Pre-tax synergies (\$m)<sup>4</sup></b>	-	-	-	<b>c.20 by year 3</b>
<b>Loans under management (\$bn)</b>	17.0 <sup>5</sup>	0.3	2.4	<b>19.7</b>
<b>Customer deposits (\$bn)</b>	8.3 <sup>5</sup>	0.3	2.2	<b>10.8</b>

1. Based on shares outstanding and 30 August 2007 closing share prices of \$18.25, \$9.45 and \$14.11 for BOQ, Mackay Permanent and Home respectively

2. Cash NPAT after GRCL adjustment

3. Based on consensus estimates

4. Excluding integration costs

5. As at 28 February 2007

# History of successful integration

- The merged entity will maintain dual BOQ and Home brands in WA for up to 18 months to assess best market branding going forward
  - ✓ Successfully merged with Pioneer Building Society over recent months. Integration is expected to be completed in November 2007
- Existing Home branches will be maintained in line with BOQ's strategy to expand its interstate branch network
- Home branches to be converted to BOQ's successful Owner Managed Branch model, where appropriate
  - ✓ BOQ have successfully converted 15 BOQ corporate branches to Owner Managed Branches (OMBs) which have resulted in significant increases in loans and deposits
  - ✓ The BOQ brand is well received in Western Australia. All four existing BOQ OMBs in Western Australia are performing well with the Subiaco branch being the fastest growing branch in BOQ's entire national network
- Significant regional headquarters to be retained in Perth
- Consolidation of technology platforms

# Synergies

- Pre-tax cost synergies of c.\$3m, c.\$10m and c.\$20m are expected in years 1 to 3 respectively
- Synergies are expected to be generated from:
  - Conversion of Home branches to BOQ's OMB branches
  - Migration onto common IT platforms
  - Funding benefits
  - Consolidation of back office functions and procurement savings from greater purchasing power
- Further potential revenue synergies from productivity gains and cross-selling opportunities of BOQ's existing products (such as SME and business banking product offerings) to Home's customer base

# Summary

- The merger between BOQ and Home will create a regional banking powerhouse anchored in the two fastest-growing States in Australia
- BOQ's Board and management are enthusiastic about the combination of the BOQ and Home businesses
- The proposal will provide significant benefits to shareholders, customers, employees and communities
- The Board of Home unanimously recommends all Home shareholders support the proposal