Bank of Queensland

Macquarie Connections Australia Conference

7 May 2009

Bank of Queensland

Difficult environment... Our response

The Environment.... Going forward

- Economic growth slowing… Unemployment rising towards 7-8%... Plan for economy to bottom in late 2010
- Wholesale funding markets... Panic factor eliminated... Will remain volatile and expensive
- Credit growth next year in Housing 4-6% and SME lending 1-5%; pockets of excess e.g. First home loans
- Impact of real economy on credit cycle only just starting, corporate defaults so far only leveraged plays...

Our response... Build on sustainable competitive advantages

- Continuing our OMB led growth with a clearing of the decks with respect to underperforming branches
- Sticking to our knitting... Continue to avoid high risk Property and Corporate lending opportunities
- Continued focus on small size lending (less than $5m) , well secured and in line with our value proposition
- Model successfully re-focused on Retail deposits... YTD Feb '09 retail deposits 169% of lending growth
- Record excess liquidity ~18% and Tier 1 capital ratio ~8% comparable to majors despite lower risk
- Significant efficiency drive with initiatives executed giving line of sight to cost to income ratio in mid 40's
- Dividend policy reset to 50-60% payout ratio against a growing earnings trajectory... More sustainable
- Project Pathways underway to exploit the once in a generation opportunities arising in the current market

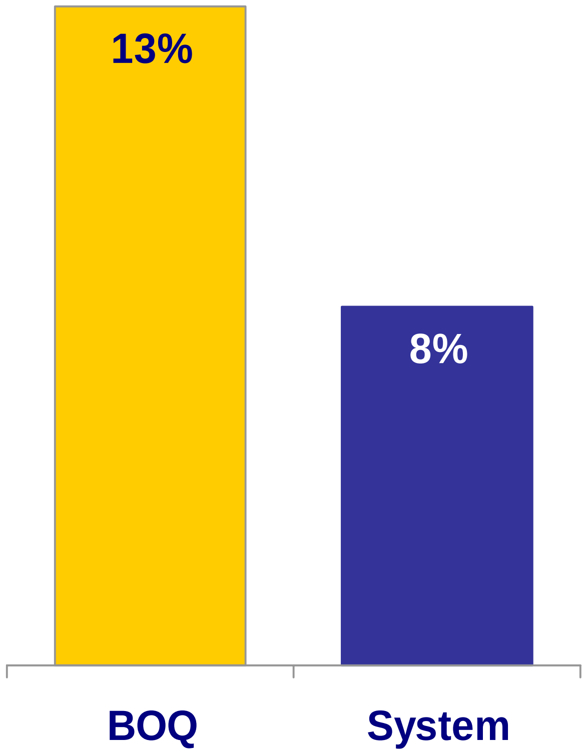
Strong financial results in tough market

	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%

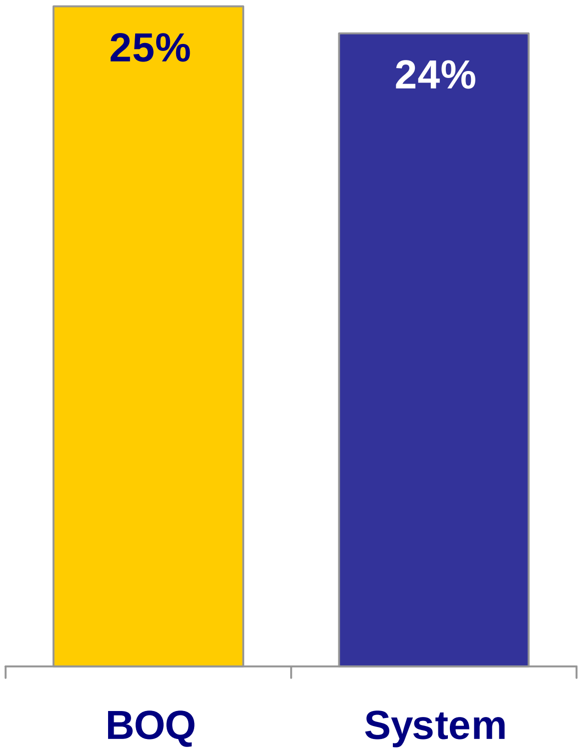
* Excludes contribution from Home Building Society

Strong lending and deposit growth

Lending growth*



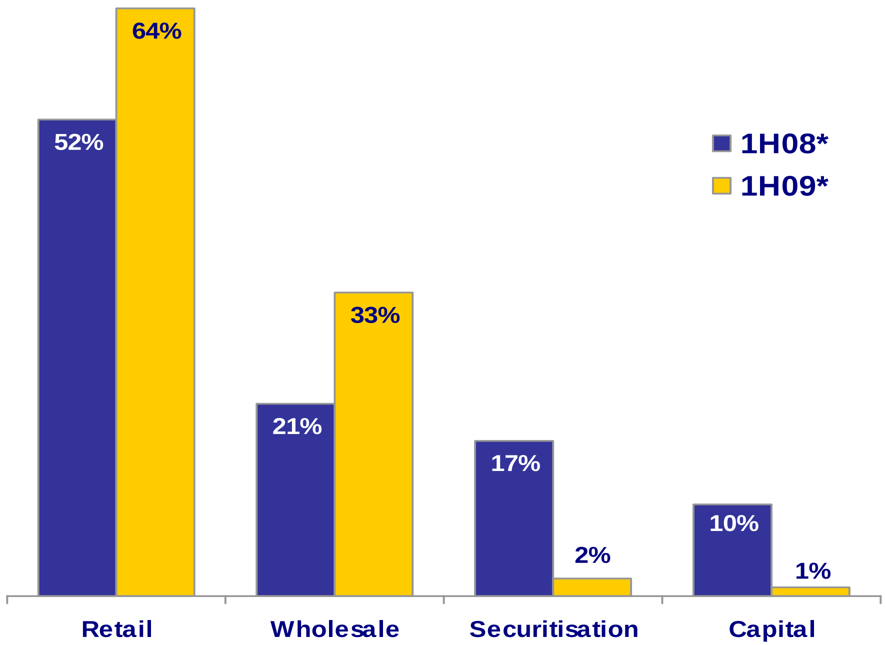
Retail deposits*



* Last 12 months v pcp
Source: APRA data

Funding our growth

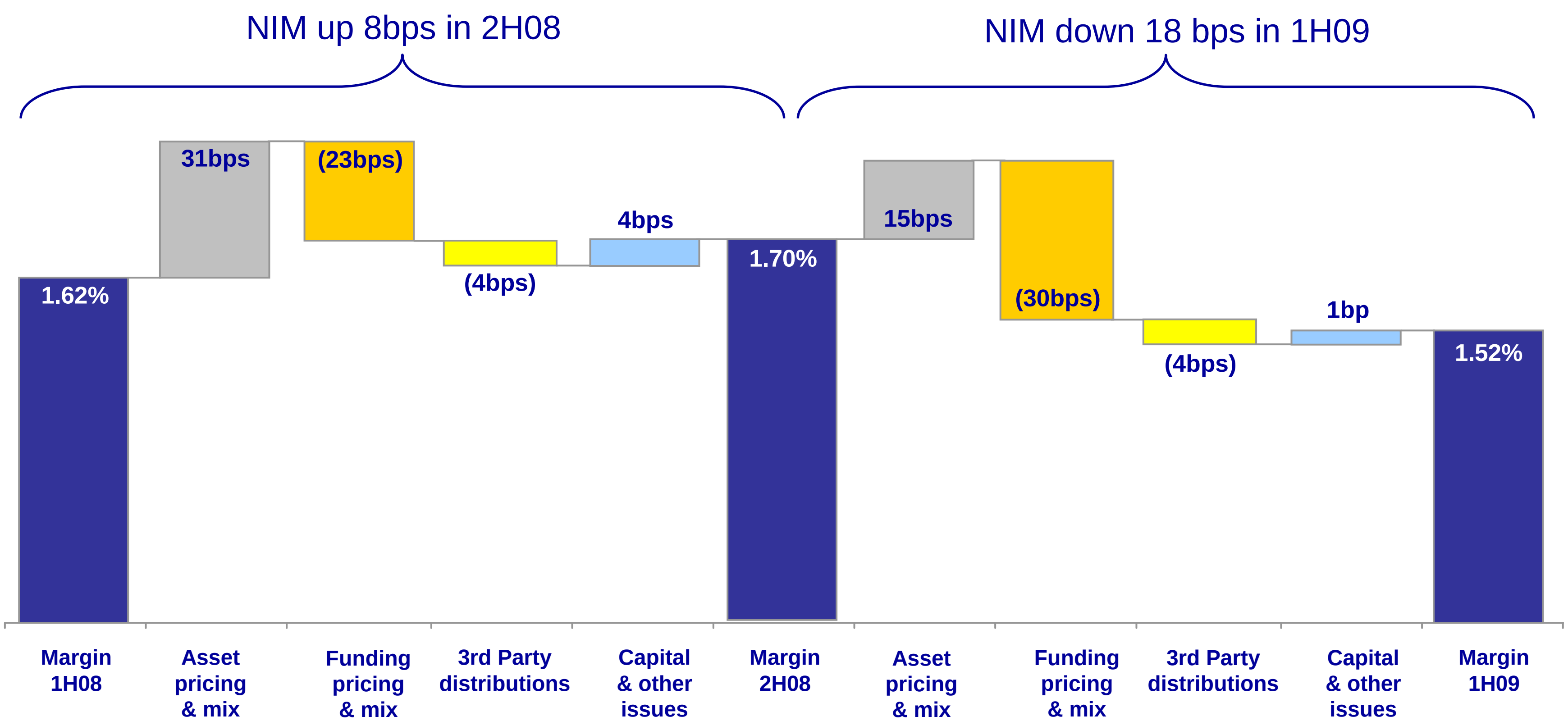
- Reduced availability of wholesale funding increased reliance on retail deposits
- Retail deposits funding 169% of year to date LUM growth
- Last 12 months retail and wholesale sources have funded $1.4b in additional liquidity



* Last rolling 12 months v pcp

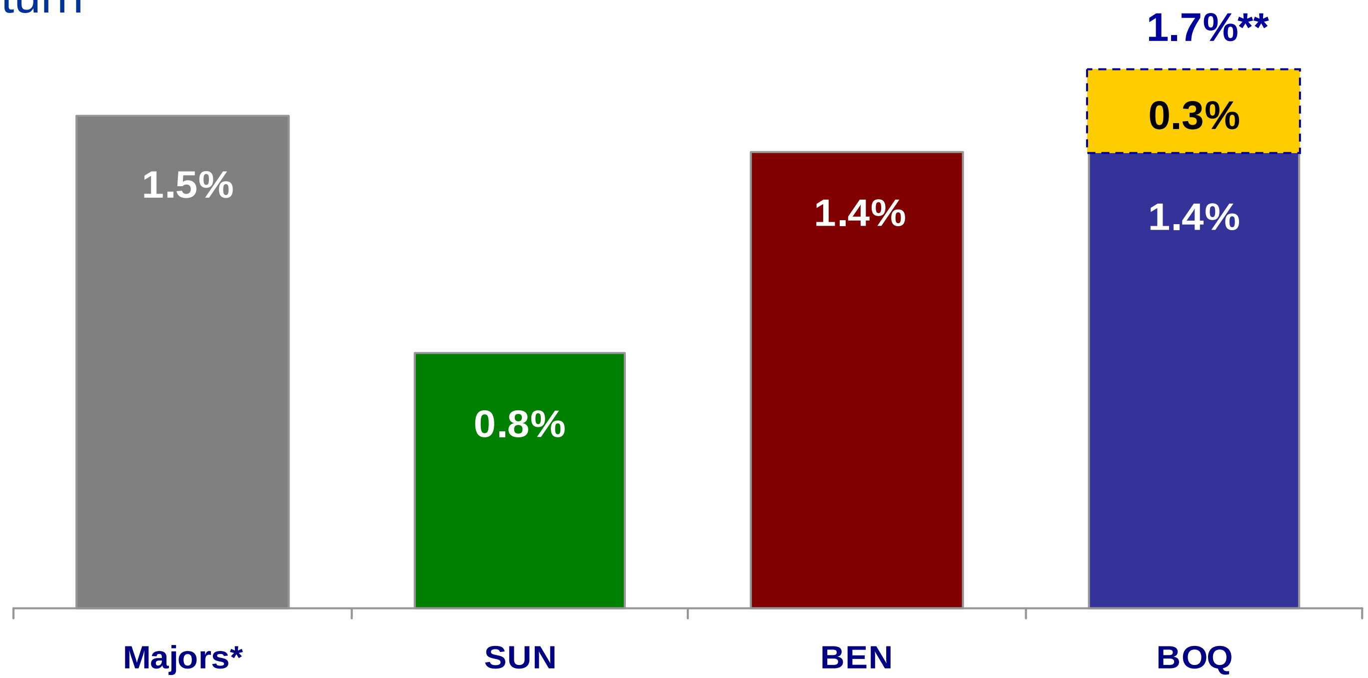
NIM pressure in 1H09... Bounce in 2H09

- Excess liquidity and the Mar '09 RMBS enables better margins in 2H09
- Similar trend to FY08, with improvement in second half expected



Risk adjusted NIM.....even playing field

- Reported NIM adjusted for impairment charges shows a more even playing field across the banking sector
- Major bank risk adjusted NIM could be under greater pressure in a prolonged down turn

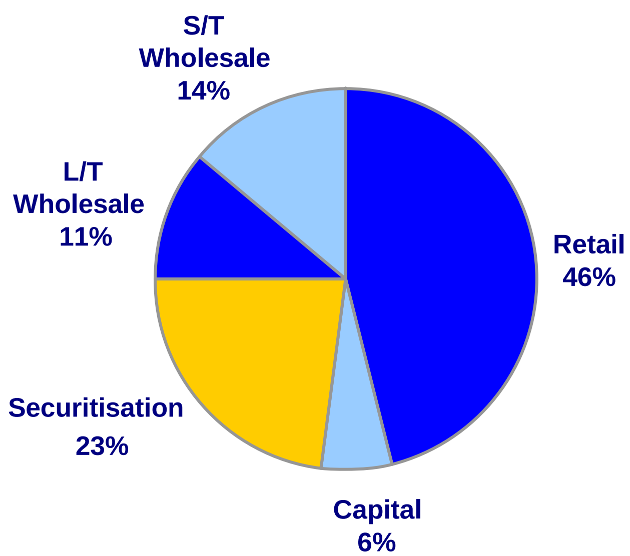


* Average of major banks
** BOQ reports margins net of OMB share of margins (27bps). This adjustment aligns BOQ with competitors.

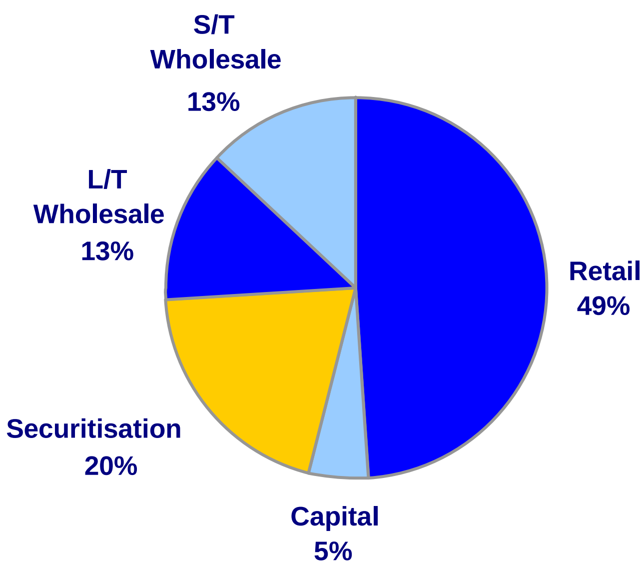
Funding balance sheet impact

- Shorter duration funding vs majors means higher costs of funds absorbed
- Securitisation funding retained with warehousing and 2H09 AOFM issue
- Material uplift in retail funding with long term target of 55-60%
- 87% of funding sources have immaterial (0-20bps) cost disadvantage v majors

1H08 Funding

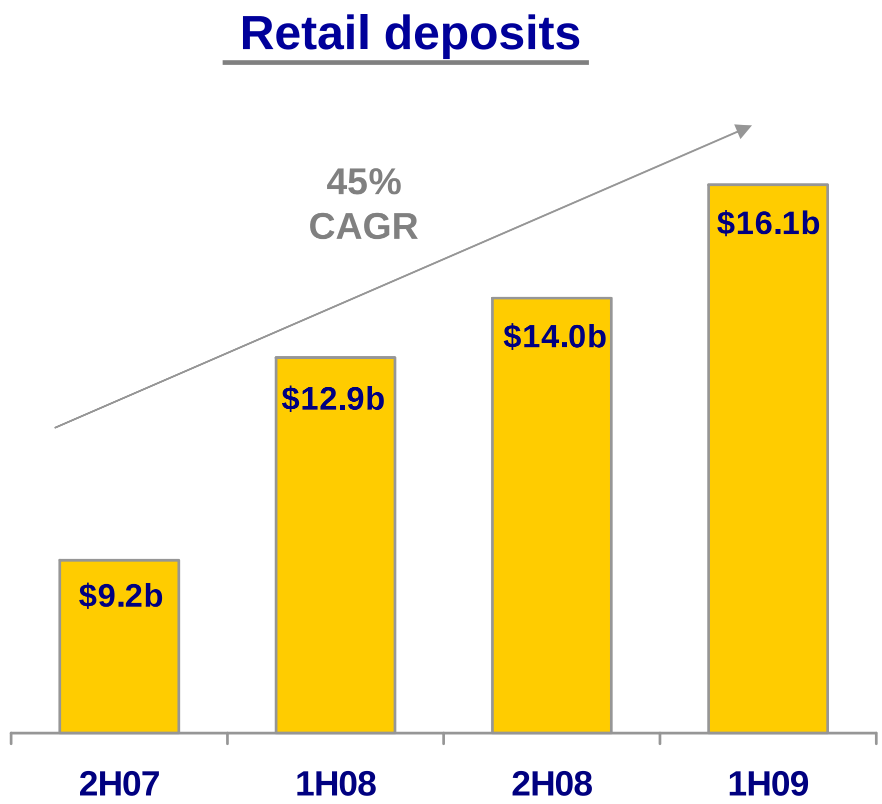


1H09 Funding



Targeting retail deposit self sufficiency

- Bank strategy has been able to secure a larger deposit base
- OMB model highly effective in securing new retail deposits
- Retail deposits growth accounted for 169% of LUM growth in 1H09
- Retail deposits + matched RMBS funding sufficient to cover all Retail lending allowing quick transmission of changes in wholesale costs to Commercial

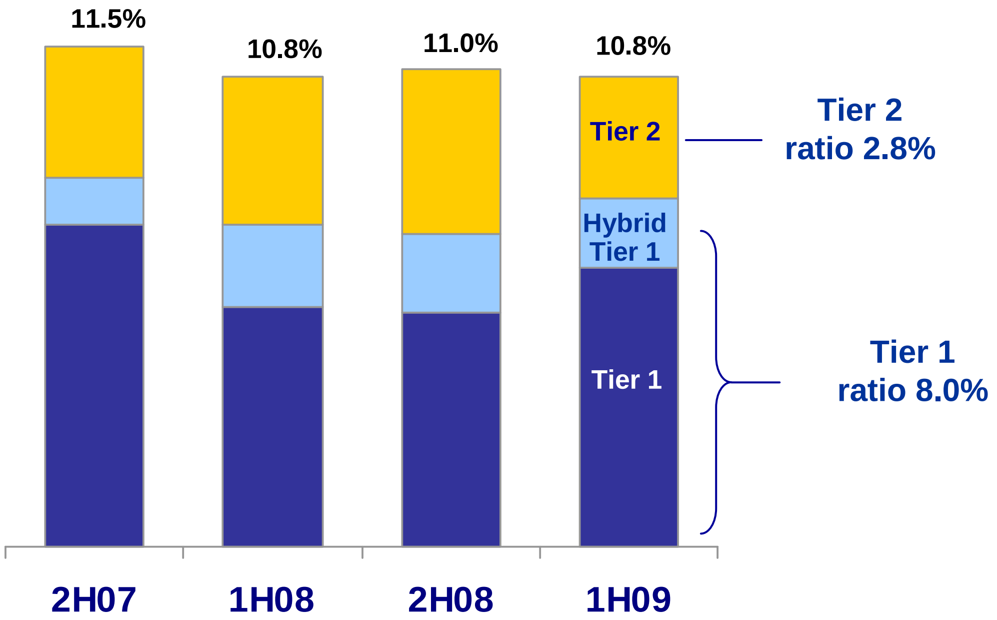


% of LUM	48%	53%	53%	58%

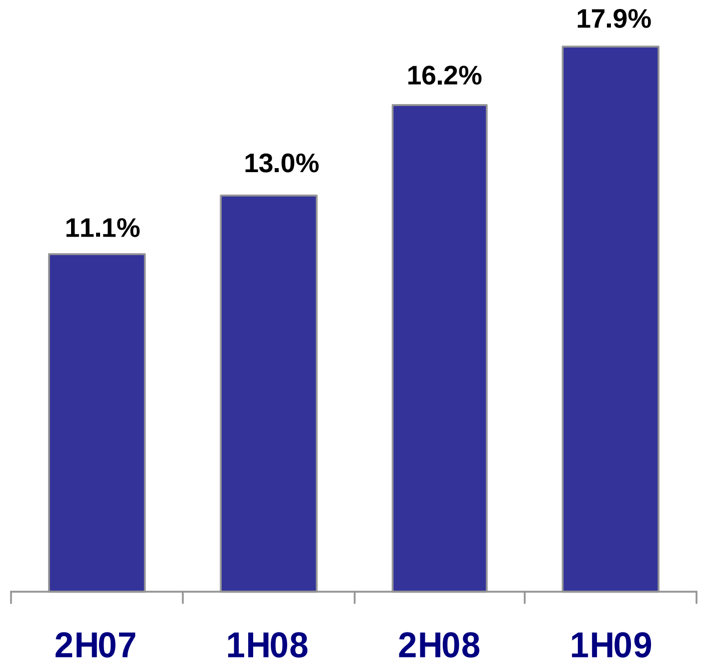
Conservative capital and excess liquidity

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

Capital adequacy



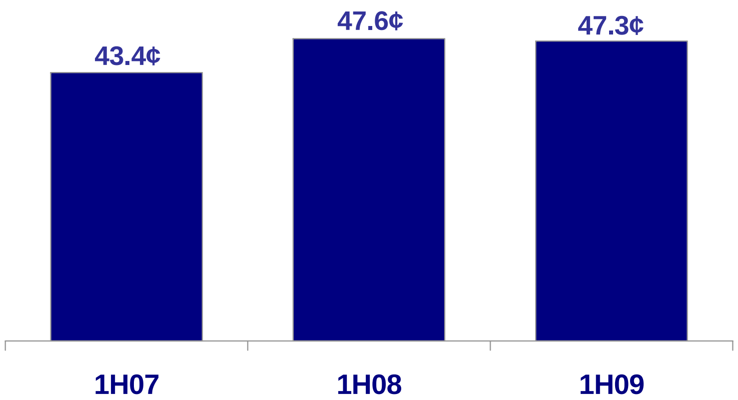
Liquidity



Prudent capital management

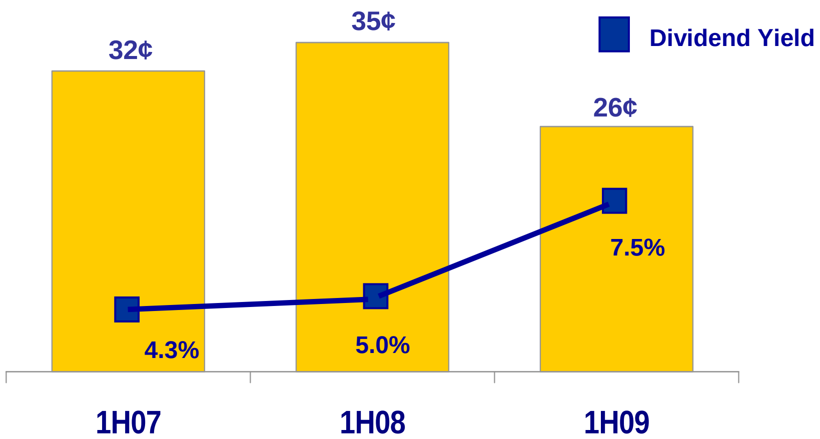
- Dividend policy aimed at preserving capital strength in current volatile markets
- 9cps reduction in dividend maintains appropriate yield whilst preserving capital for continued growth
- Project Pathways delivering significant distribution and efficiency gains to earning base and higher organic capital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

Earnings per share*

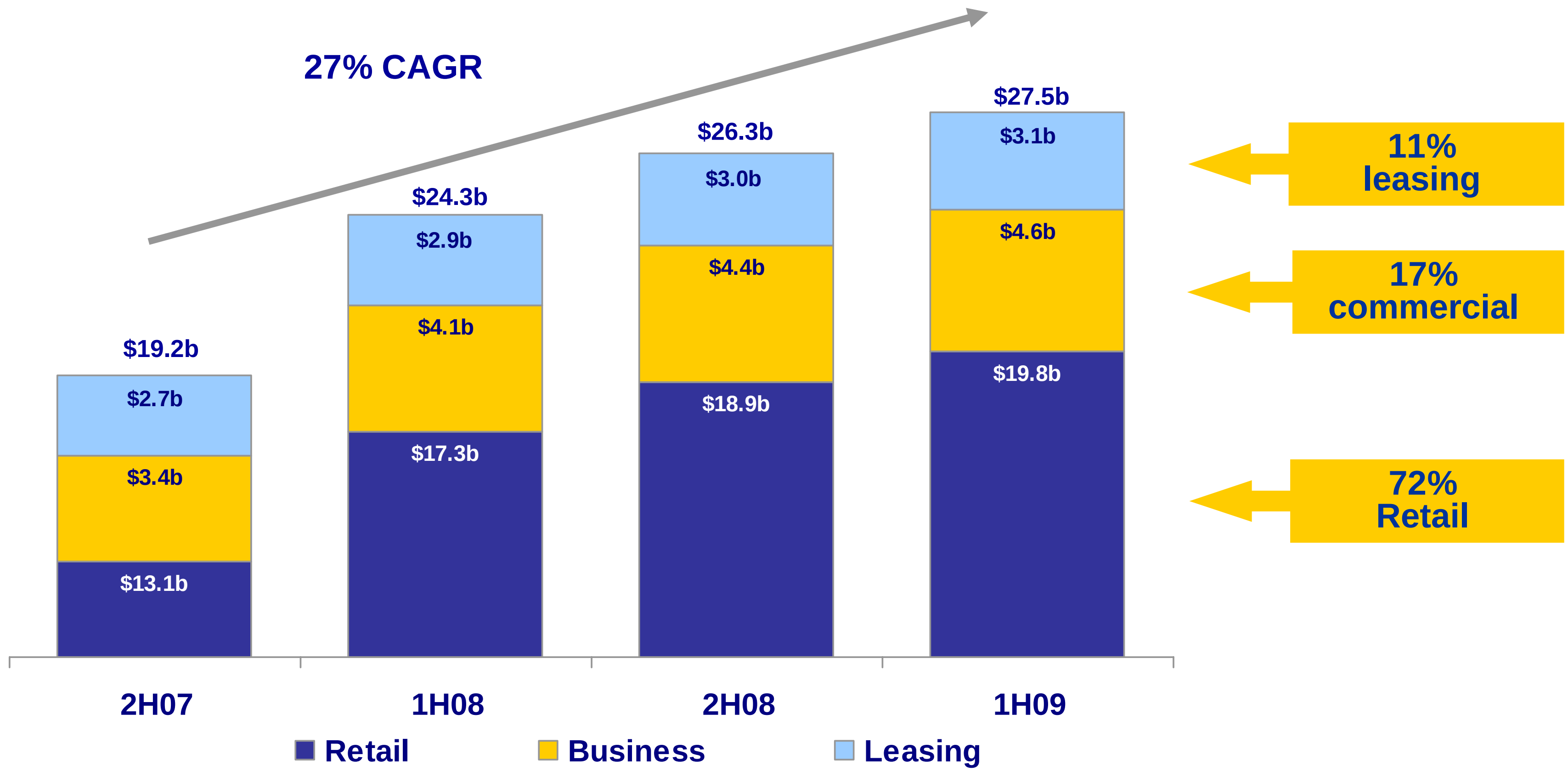


*Normalised diluted cash earnings per share

Dividends



Loans under management by product



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

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
Avg loan size: ~$250k	Book size: $0.4bn	Avg transaction size: $70k	SME focus (<$10m exp)	66 names
Avg LVR: low 60's	No exposure to credit cards or margin lending	Loss rates lower vs peers	~40% secured on residential property	Avg loan size: $20m
~30% securitised		~26% securitised		No single exp >$100m

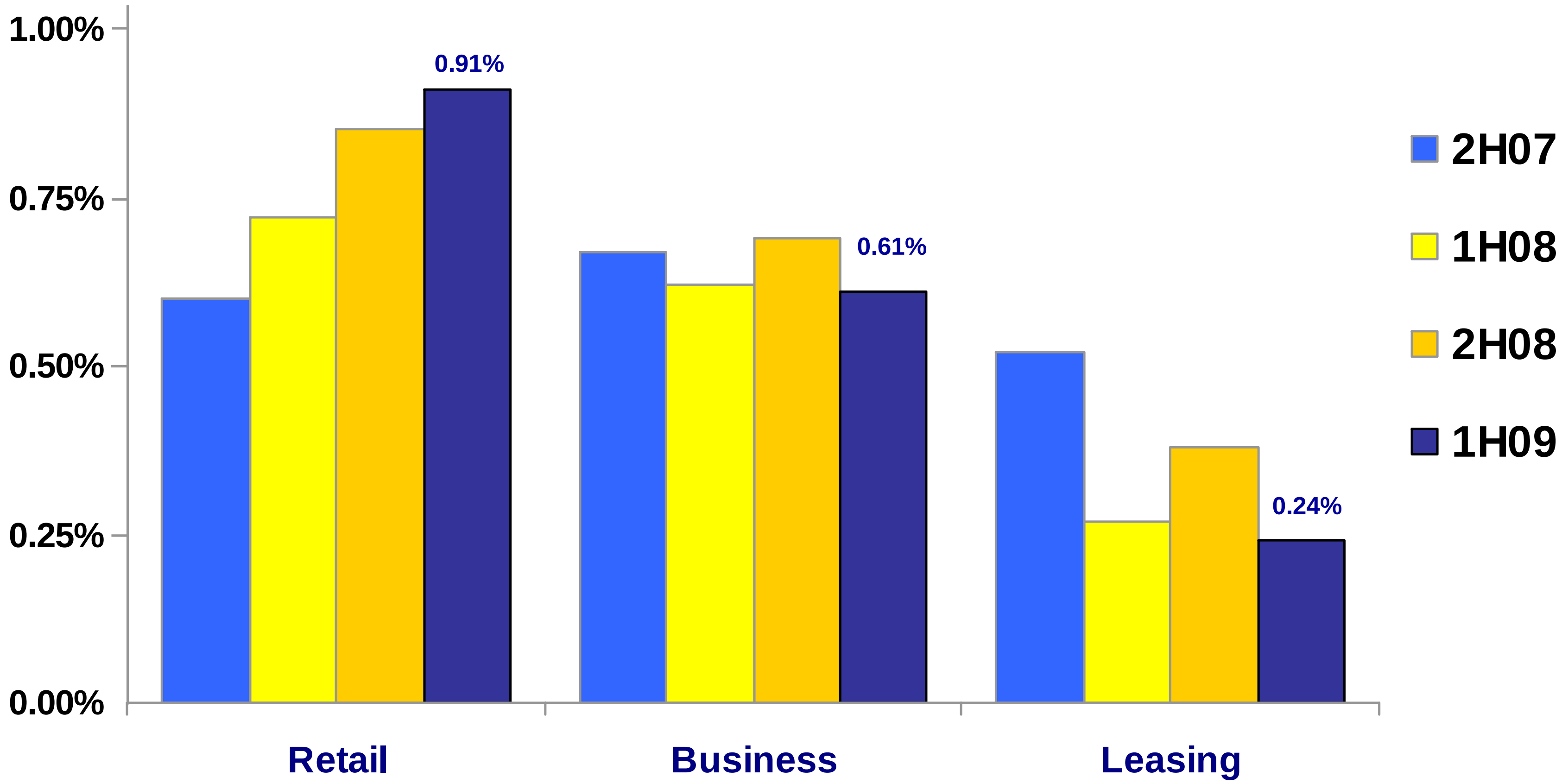
Our provisioning:

- 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**

Portfolio quality

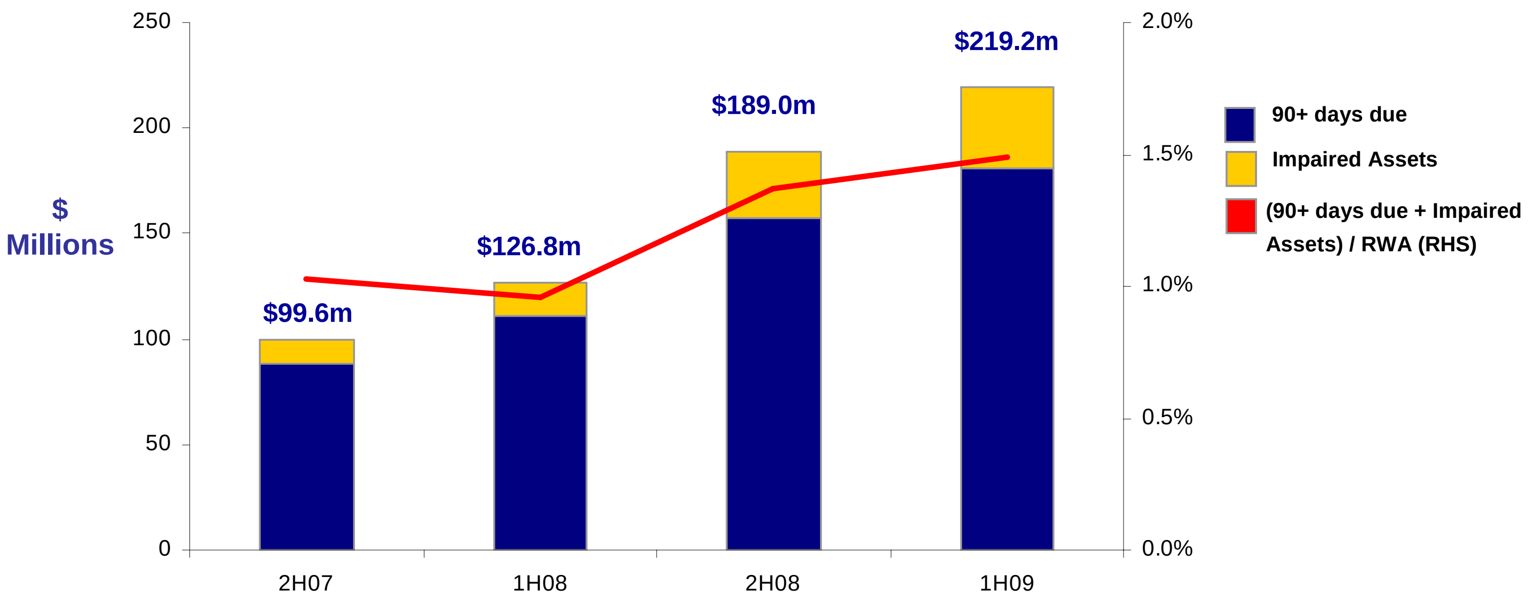
Arrears 90+ days (% of portfolio, excluding securitised loans)



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

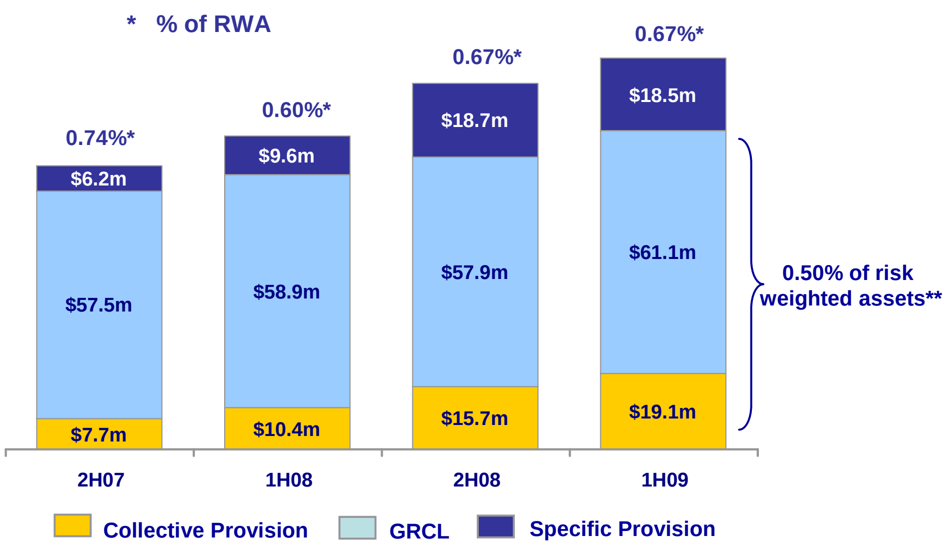


LUM	$19.2b	$24.3b	$26.3b	$27.5b
RWA	$9.7b	$13.2b	$13.8b	$14.9b

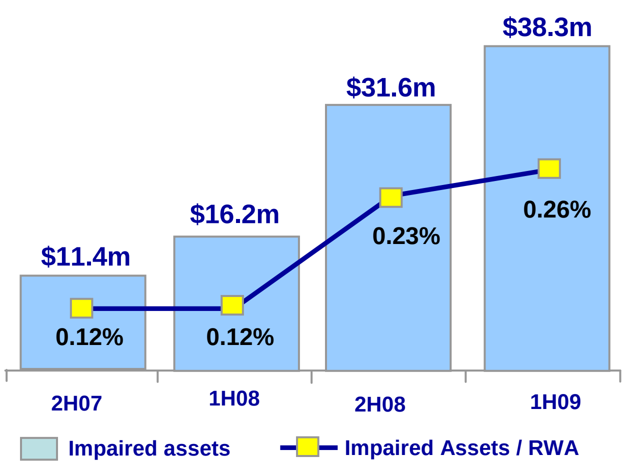
Conservative provisioning

- 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.

Efficiency initiatives next phase…

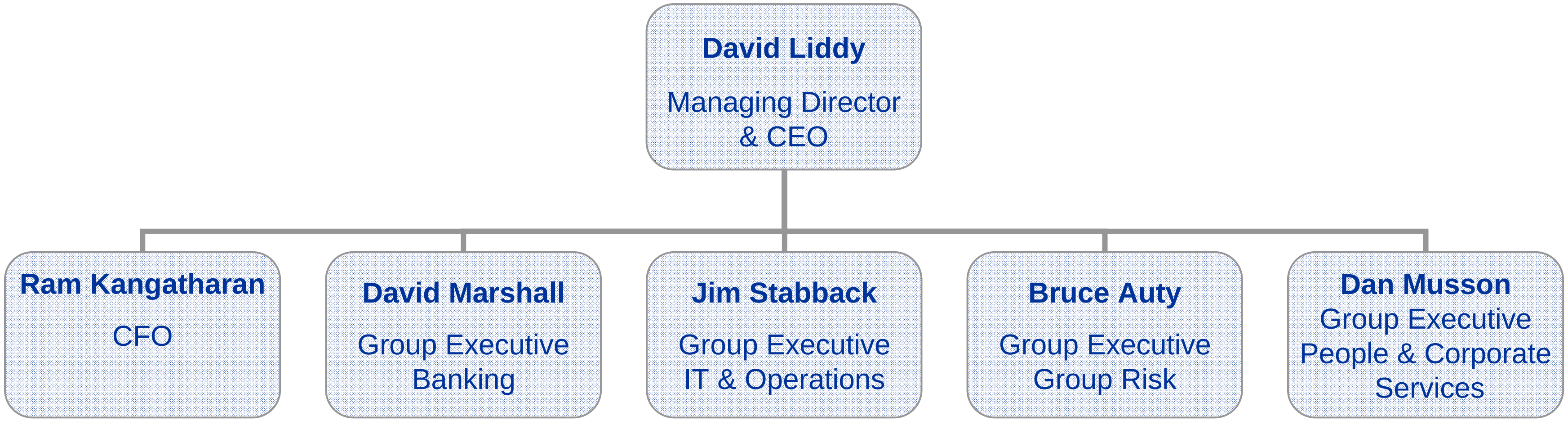
- Objective of the Efficiency Team was to reposition the current cost base to react to the current financial environment and for future growth
- A cross functional group of senior staff were brought together to target a combined ~$50 million+ in cost saving opportunities (50% realisable in FY09)
- The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

Efficiency program overview

Phase	Initiative	Status	Annualised Benefit
Phase One	**Organisational alignment**	Completed	~$20m
	Expense optimisation	Completed	~$30m
			~$50m
Phase Two	Simplification	WIP	TBD
	Sourcing Review & Opportunities	WIP	TBD

Key initiative: structural efficiency

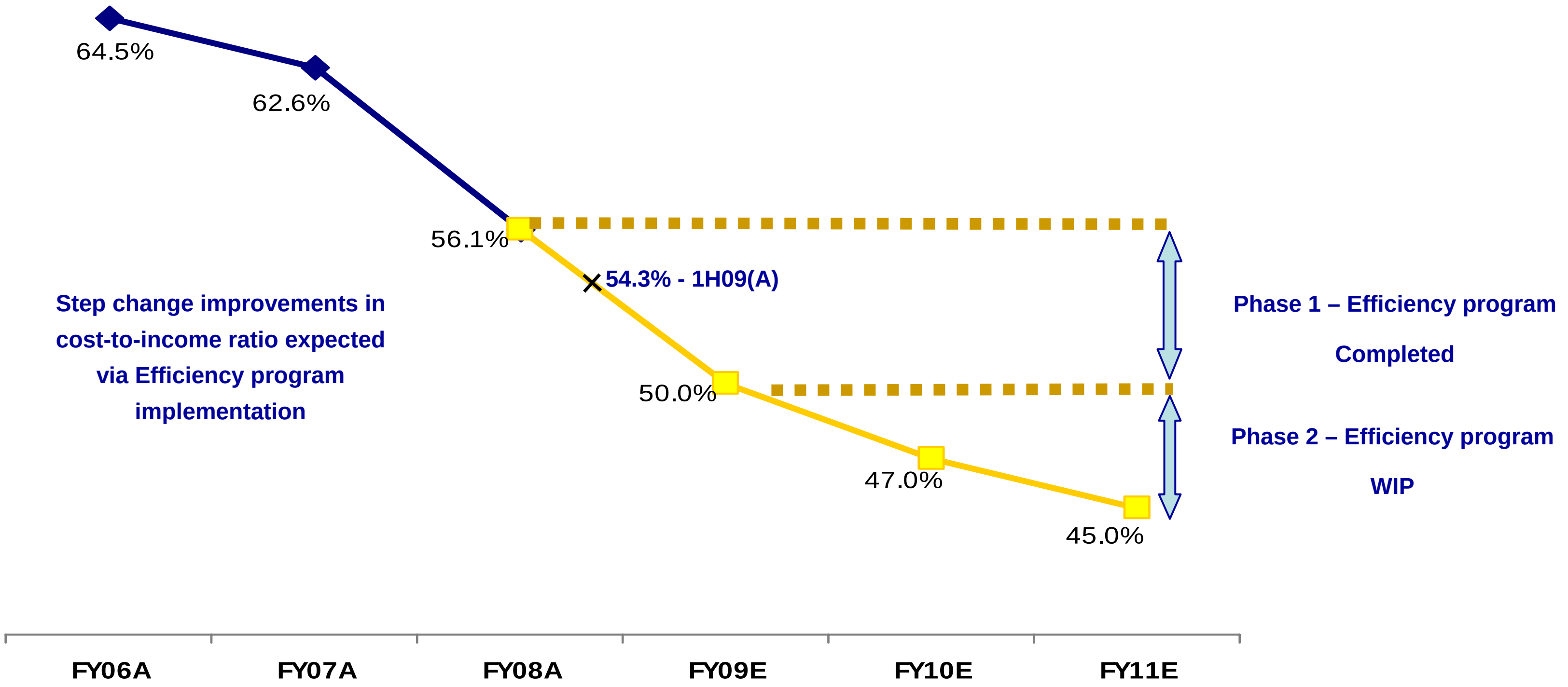
- Organisational restructure now complete
- Involved merging our Retail and Business Financial Services channels into one channel: Banking
- Head Office support functions realigned and refined
- Frontline staff not affected



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

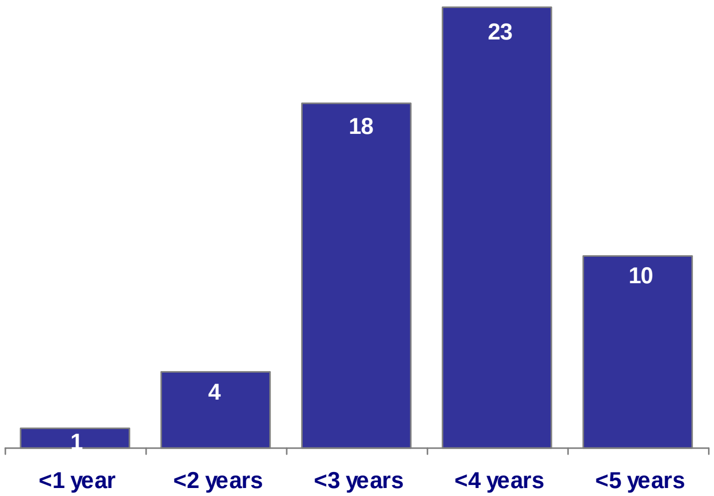


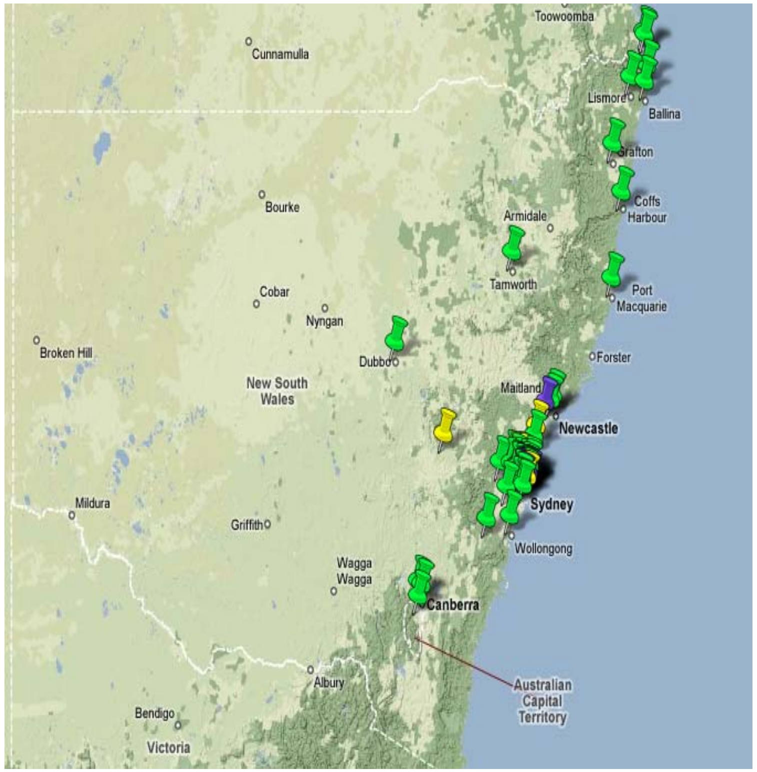
* Forecast cost-to-income targets are dependent on achievement of revenue and cost forecasts

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

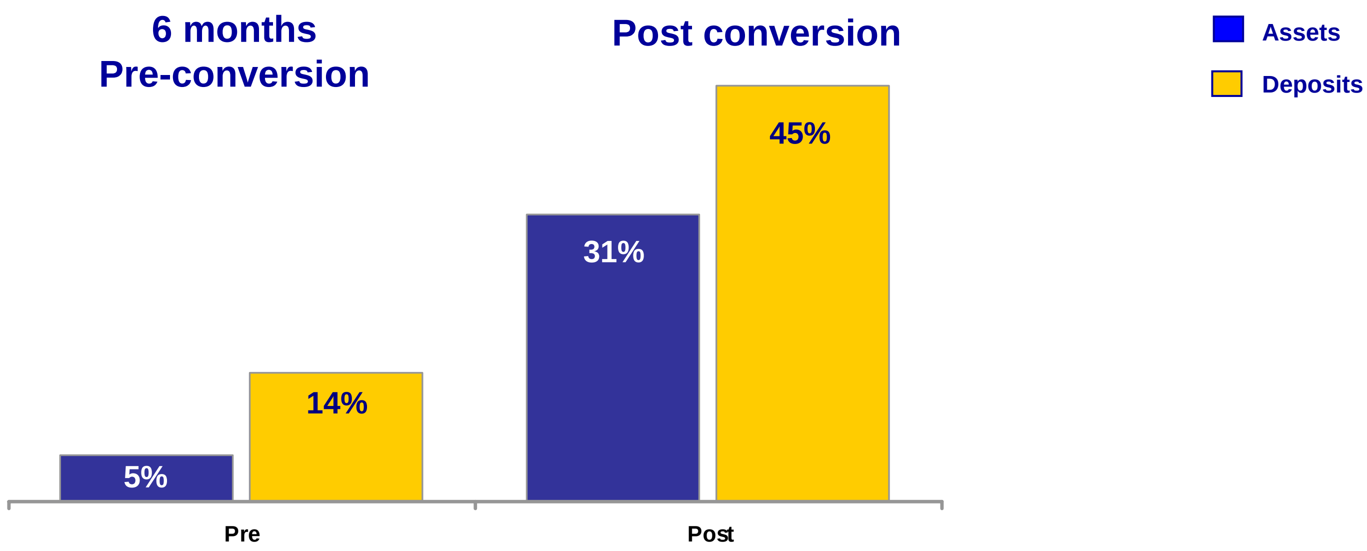




OMBs remain core to our strategy

- 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

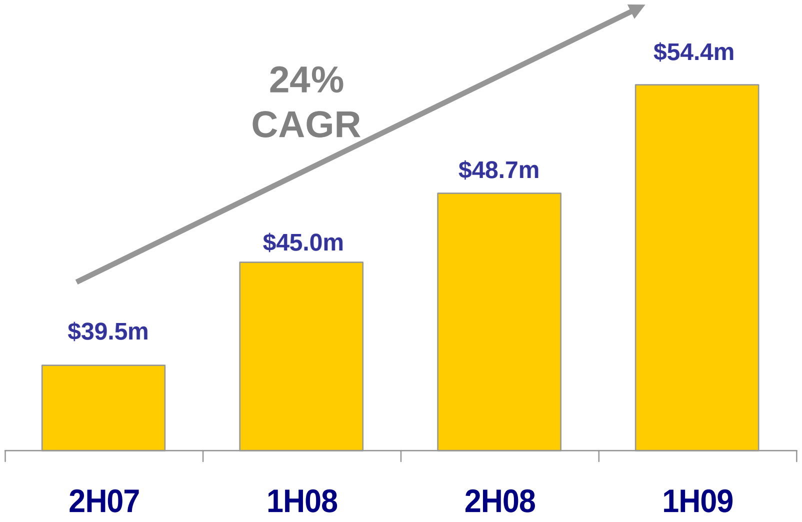
Annualised growth before and after conversion



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

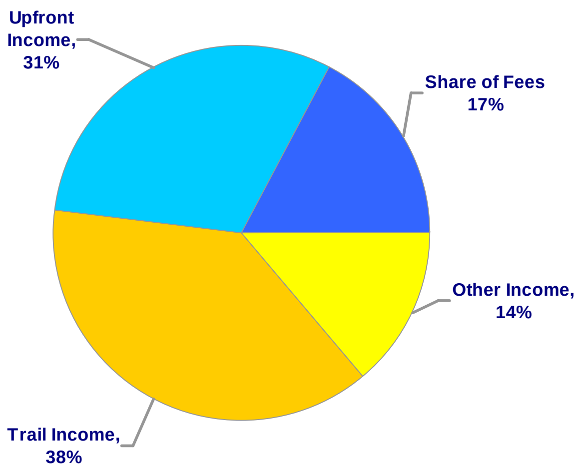
Resilient network gaining momentum

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

Project Pathways

Rationale

- Current actions ensure viability and shareholder accretion stand alone
- Consolidation in Australian banking is inevitable... irreversible
- St. George and Bankwest takeovers leaves a big 5th Bank alternative open

Enablers

- Internal efficiency and portfolio optimisation initiatives in execution
- Competition concerns may be a significant barrier to the majors further consolidating
- Significant interest in partnerships from domestic and global players seeking a beach head in a stable and profitable banking market
- BOQ distribution platform seen as most productive and disciplined in quality asset origination in the Mortgage and SME market segments

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 Retail & SME market strengthens our model
- Strong credit and risk management disciplines
  - Sticking to our knitting... Secured Retail and SME lending
- Removing the scale disadvantages vs. the major banks
  - Initiatives executed give line of sight to cost to income ratio in mid 40's
- Project Pathways on track to achieve its objective of positioning the Bank for ongoing growth

bank different®

Bank of Queensland