# Bank of Queensland

## Offshore Investor Presentation

## March 2011

BOQ

Your own personal bank

# Agenda

- Introduction to Bank of Queensland
- Owner-Managed Branch model
- Financial performance
- Strategy update
- BOQ opportunity

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# Introduction to Bank of Queensland

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# Background on BOQ

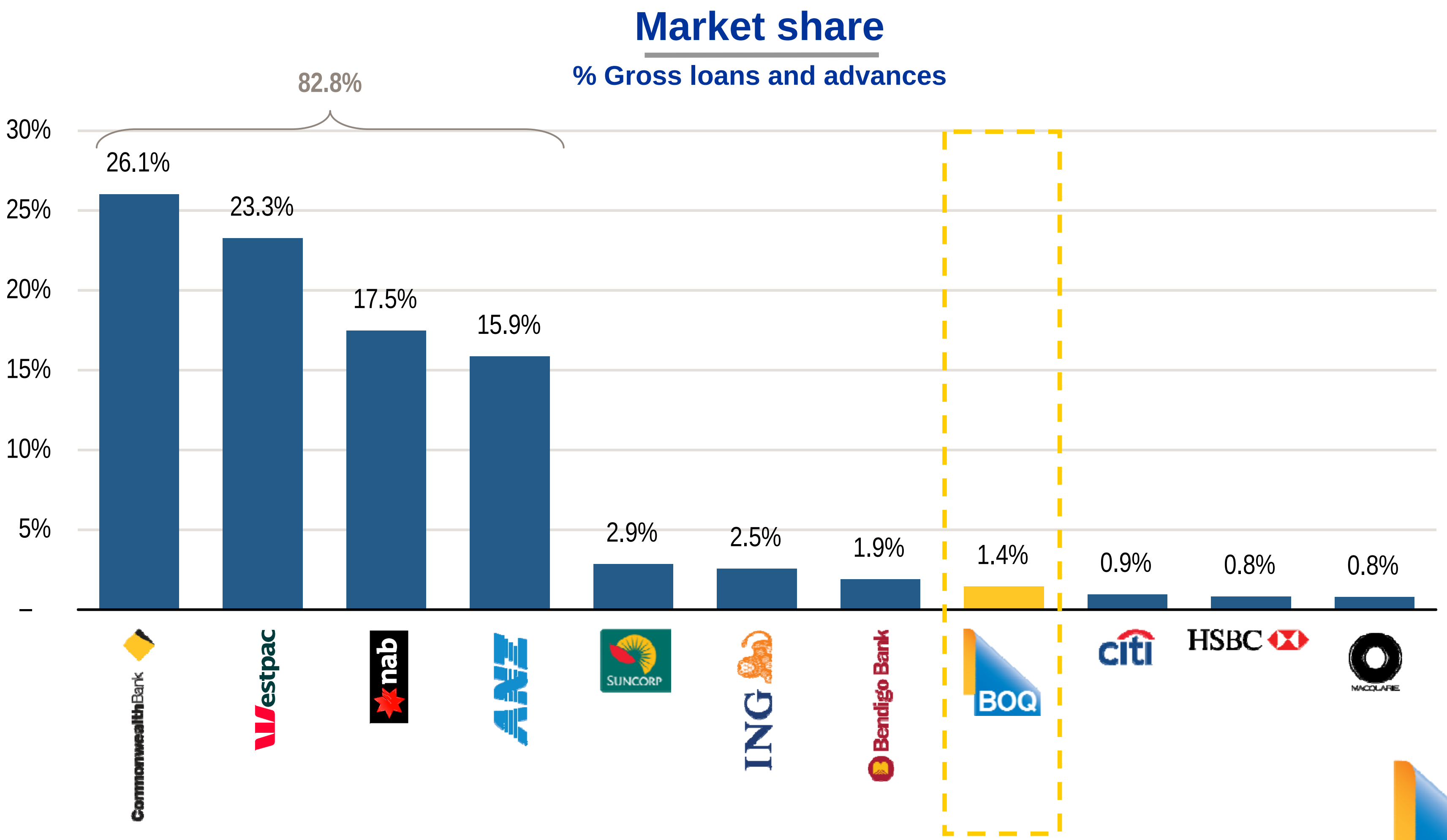
- BOQ is a regional retail bank headquartered in Queensland and listed on the Australian Securities Exchange
- BOQ is one of Australia's top 100 ASX listed companies with current market capitalisation of approximately $2.2b
- Assets under management of $39b as at 31 August 2010
- The Bank operates a widespread network of 269 branches, with 105 branches located outside of Queensland
- BOQ's current strategy is to focus on distribution and differentiate through excellent customer service
- We are growing our finance division – BOQNF, and recently bought a consumer credit insurance company
- We're delivering strong organic growth through the unique Owner- Managed Branch distribution model

# Our goal:

To be the
real alternative
in financial services

# Australian banking landscape




Source: APRA, Capital IQ, company filings.
Note: Market data as at 25 October 2010, calendarised to 31 August FYE.

# Competition in Australian banking

- The amount of genuine competition in banking is currently 'under the spotlight' post-GFC and consolidation
- The Government competition watchdog – ACCC – indicated last year it would be difficult for further major bank consolidation
- Federal Government announced new banking reforms in December to help drive more competition from smaller banks
- Federal Government has successfully lobbied for certain exclusions from Basel III for Australian banks

Positive for Australian banking and BOQ

Source: http://www.edhusic.com/2010/12/14/gillard-government-banking-reforms-empower-consumers-and-drive-competition/

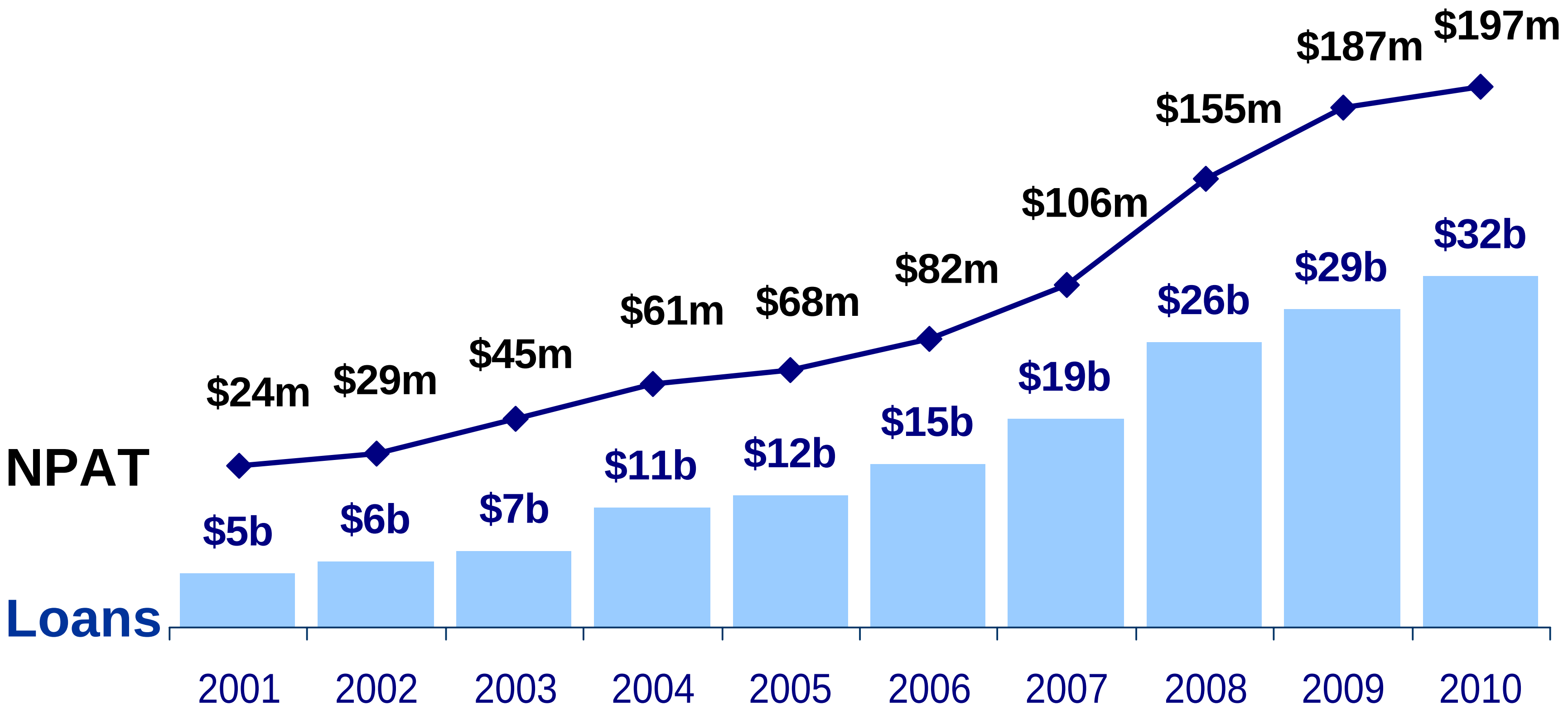
# Strength in high growth Queensland BOQ #2 branch network in the state

- Queensland's economy is fundamentally strong with major contributors to its growth including the resources sector, property, business services, construction, manufacturing, commodity activities and finance and insurance
- Queensland alone would be the world's second largest exporter of coal, third largest exporter of beef, and largest exporter of bauxite
- Standard & Poors have confirmed Queensland's 'AA+/A-1+' issuer credit ratings and its stable outlook will be unaffected by the current flood crisis

| | Queensland | National | Qld share of national |
|---|---|---|---|
| Gross State Product, 2009 – 2010 | $255bn | $1,283 | 20% |
| - *mining contribution to GSP* | 14.2% | 6.8% | 24% |
| Population, June 2010 | 4.5m | 22.3m | 20% |
| Employment, Q3 2010 | 2.3m | 11.4m | 20% |
| Unemployment rate, Q3 2010 | 5.5% | 5.2% | - |
| Residential dwellings, Q3 2010 | 1.770m | 8.860m | 20% |

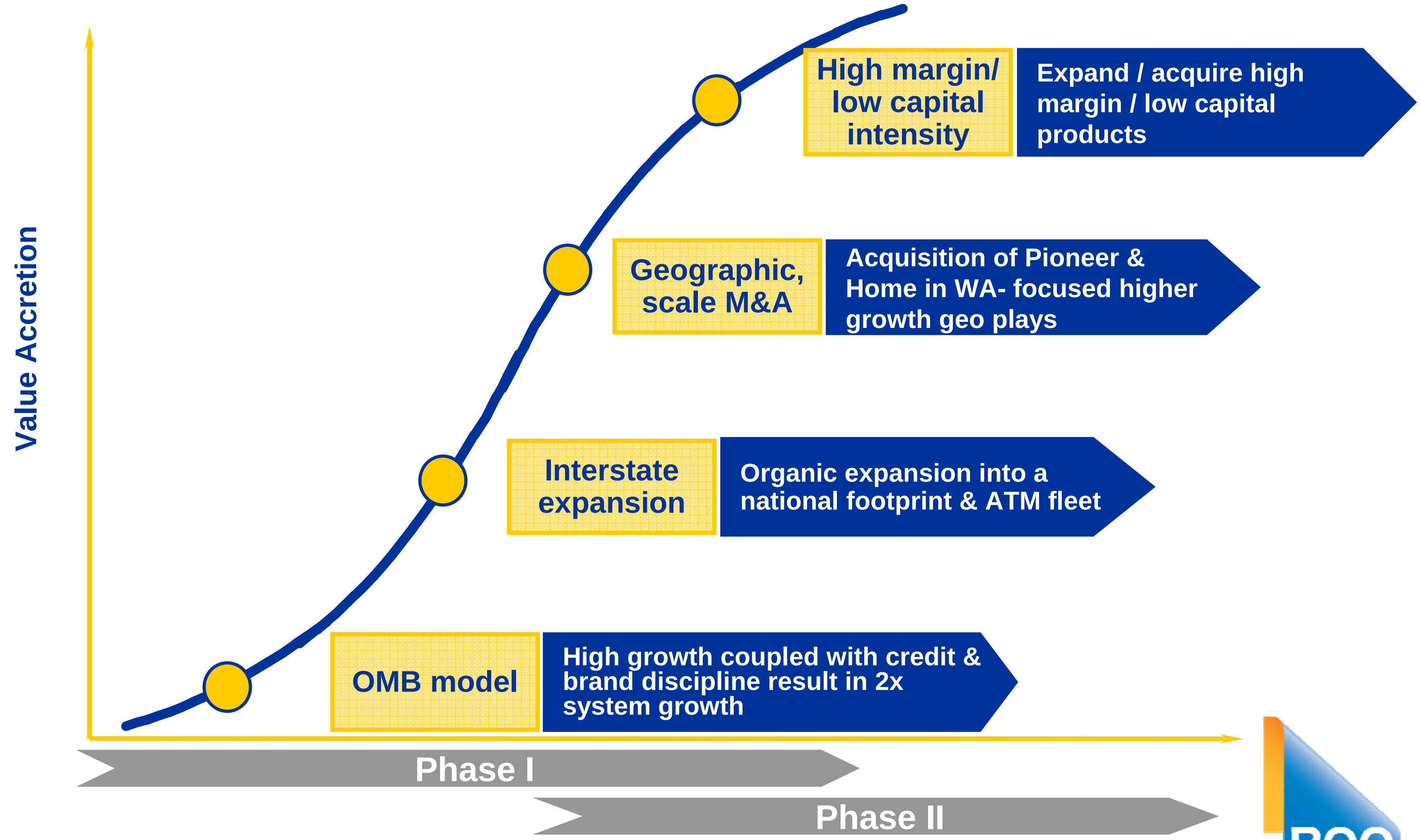
*Source: ANZ Economics*

# 10 years of continuous growth in assets and net profit



# BOQ strategy evolution



# Operating business model

| | | Customers | Segment | Value proposition |
|---|---|---|---|---|
| BOQ Your own personal bank | Banking | Retail<br>***S***ME | Housing 71% of total lending<br>Ave loan size:<br>~ $250k<br>Ave LVR: low 60s<br>~33% securitised<br>***S***ME ~ 16% of total lending<br>~40% secured by residential property | Your own personal bank<br>Relationship based service model – ie. Owner Managers |
| BOQ Your own personal bank | National Finance | Third parties and Direct | **EF** 84% of total lending<br>Ave txn size: $70k<br>~8% securitised<br>**VF** 12% of total lending<br>Ave txn size: $12k<br>**DF** 4% of total lending<br>Ave txn size: ~$300k | Best in class specialist financier |
| St Andrew's AUSTRALIA | Insurance | Third parties and Direct | **MP:** 48% of portfolio[1]<br>Ave premium ~$5k<br>**LP:** 15% of portfolio[1]<br>Avg premium ~$1k<br>**Life:** 23% of portfolio[1]<br>Ave premium ~$0.5k<br>**Other:** 14% of portfolio[1]<br>Ave premium ~$0.2k | Your insurance business partner through customised solutions, proactive sales management and service |

[1] Portfolio mix measures on a FY10 gross written premium

# Owner-Managed Branch model

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# Unique OMB model

- BOQ's Owner-Managed Branches (OMB) are a unique concept in the provision of face-to-face banking services in Australia
- Partnership between BOQ and an experienced bank manager who 'owns' and manages the branch
- OMBs are full-service branches which offer committed staff and managers and more convenient banking hours
- Customers are viewed as personal customers of the Owner-Manager and their staff
- BOQ tightly controls brand, credit policy and procedures
- Owner Managers receive a share of the Bank's revenues from operating a branch
- Commissions are uncapped so there is a very strong incentive to perform
- We believe the OMB model is the most productive distribution platform in Australia!

# OMB model: A win-win proposal

**OMBs** rewarded for excellent customer service

- Attract
- Grow
- Retain

**Customers** are valued

**Shareholders** benefit through strong growth

**Communities** benefit from having an SME operator in their community for the long haul

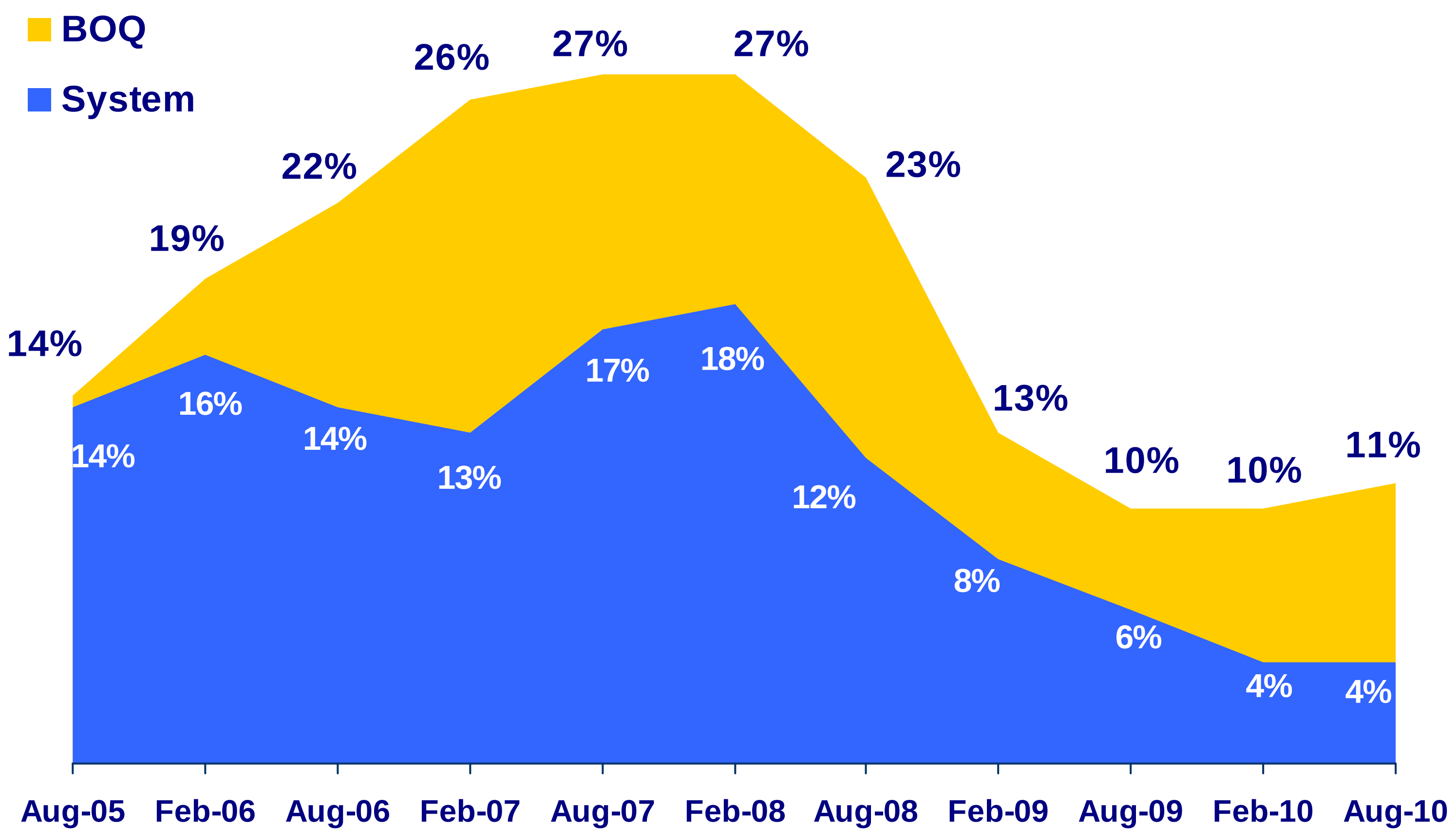
# OMB model based on alignment of interests

**Individual remuneration together with growing a valuable business has been the key to the success of the model**

| The Owner Manager covers: | The Owner Manager receives: |
| --- | --- |
| • Set-up and ongoing operating costs<br>• Salaries for branch staff<br>• IT supply, lease payments and premises costs | • Share of net revenues generated from lending and deposits<br>• Share of non-interest and fee income<br>• A fee per transaction processed |

**The Owner Manager also receives the capital appreciation from any increase in value of the business**

# Model consistently delivers superior growth - 1.5x – 2.0x market




1) Represents whole of Bank growth in total loans under management. Growth measures are based upon prior comparable period. Excludes growth from the acquisition of Home Building Society. Source: APRA.

# Financial performance

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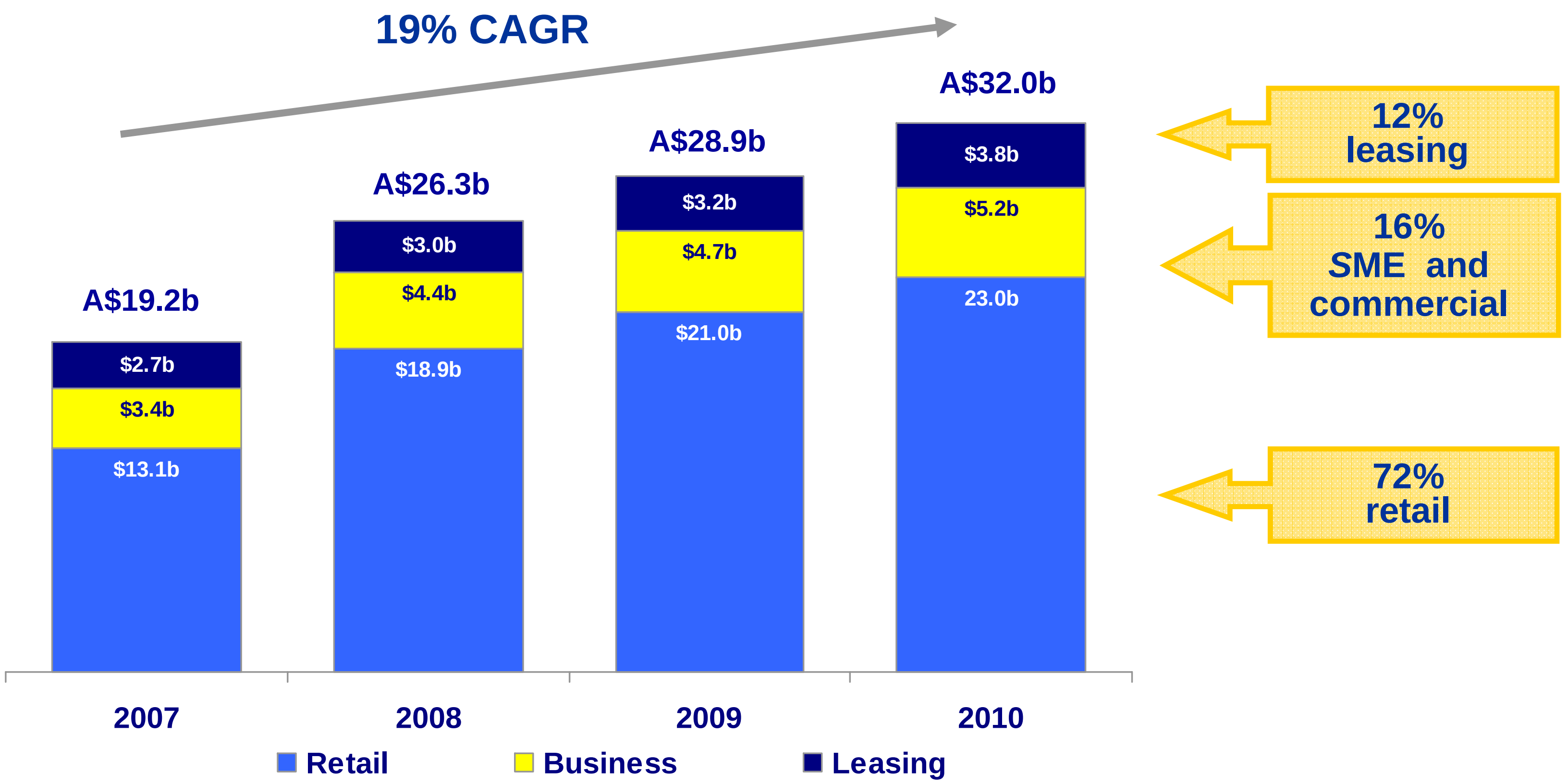
# 2010 Results

| | 2009 | 2010 | | |
|---|---|---|---|---|
| Normalised cash NPAT | $187.4m | $197.1m | ▲ | 5% |
| Cash EPS (normalised fully diluted) | 98.4¢ | 83.4¢ | ▼ | 15¢ |
| Ordinary dividend | 52¢ | 52¢ | | - |
| Loan growth (pcp) | 10% | 11% | | |
| Retail deposit growth (pcp) | 16% | 11% | | |
| Net interest margin | 1.56% | 1.60% | ▲ | 4bps |
| Cost-to-income ratio (normalised cash) | 49.9% | 45.8% | ▼ | 4.1% |

# Retail focus with growing SME and leasing businesses

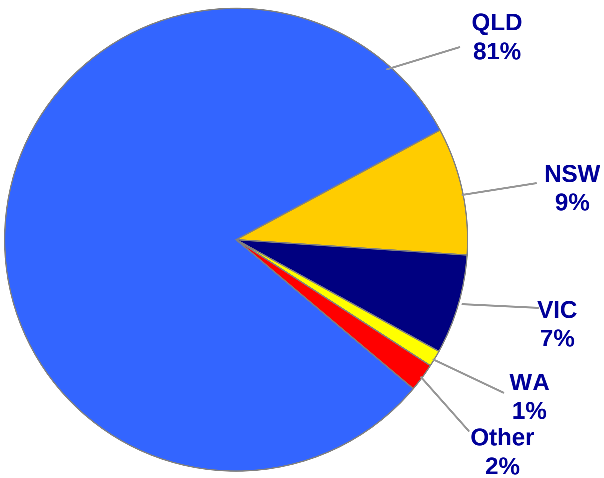



- Focus continues to remain towards retail mortgages and residentially secured SME lending, resulting in lower risk profile

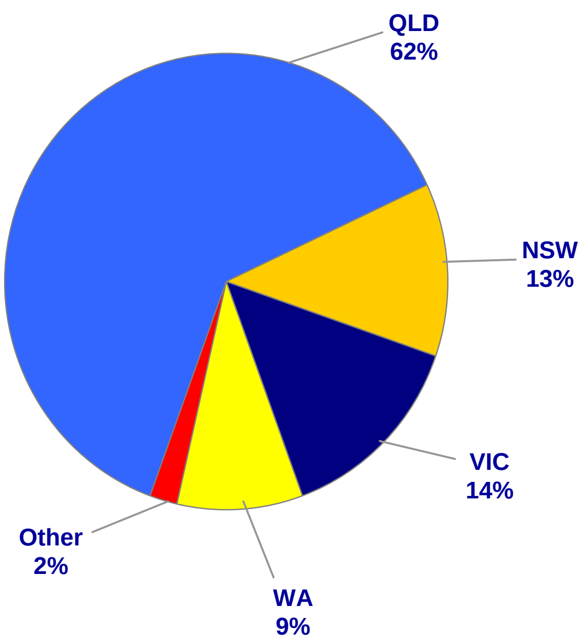
# Geographic diversification continues

- Consistent pattern of growing geographic diversity – less reliance on Queensland
- Strongest growth from interstate franchise, particularly VIC and NSW

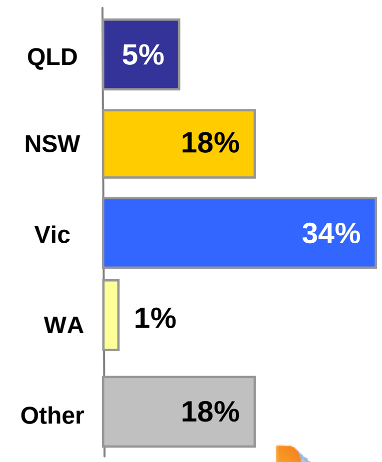
**2006**




**2010**



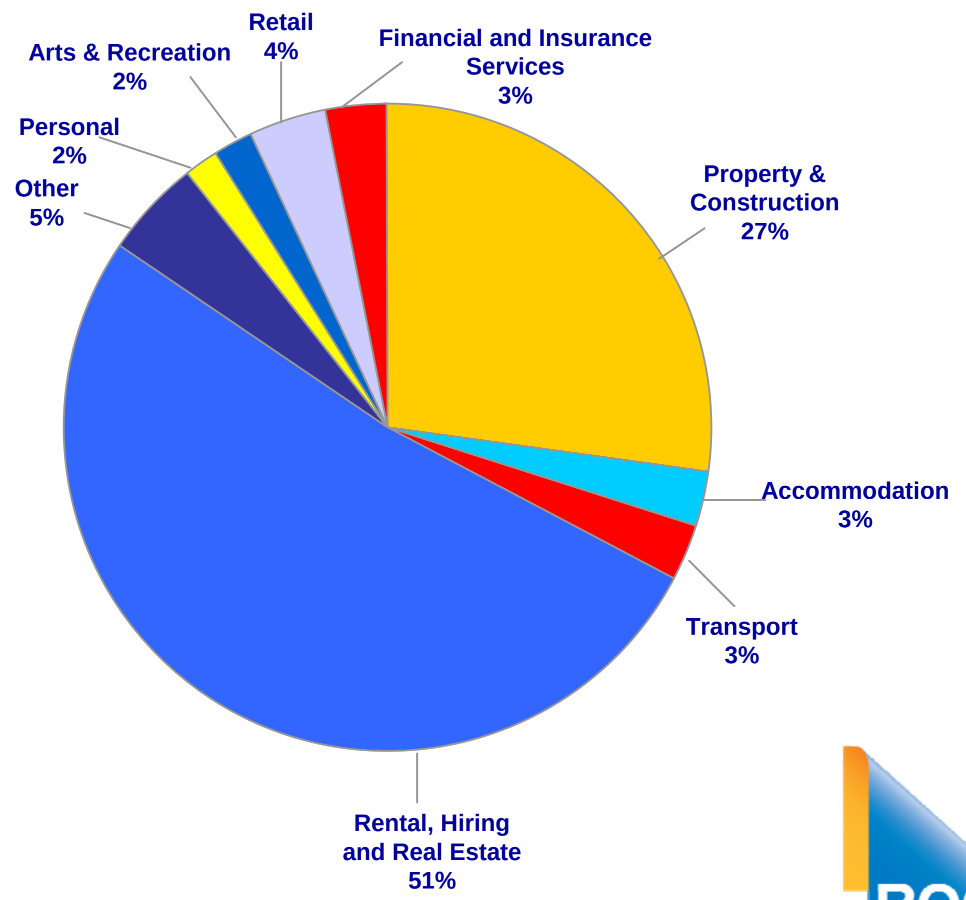

**FY10 – Growth rate %**



# Large exposures

## Largest exposures by ANZSIC Group

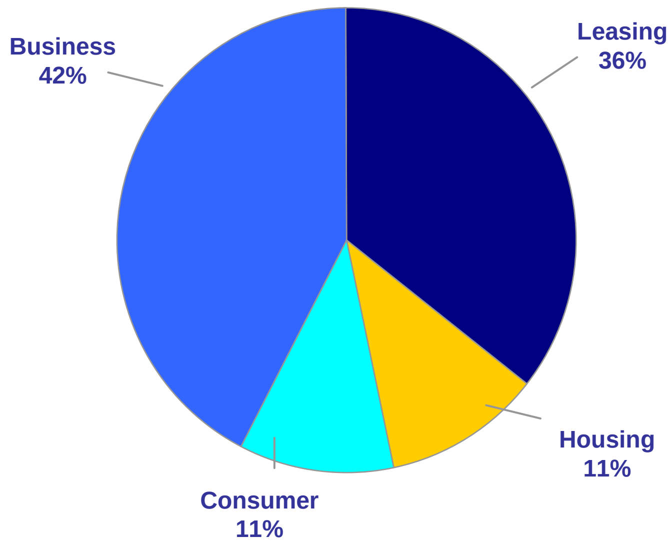
- The Bank has 25 connections with exposures >$20m
- Total commitment exposure $796m (drawn balance $691m)
- 2.5% of total loans under management
- 35% matures within 1yr
- Large exposures are concentrated in the Property & Construction sectors, accounting for ~78% of large exposures



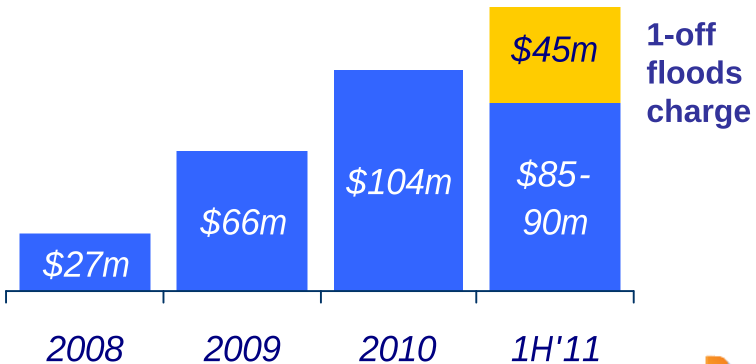
# Bad debt update

- As per guidance, commercial bad debts impacted in 1H'11 by $25m-$30m as a result of two large exposures in Queensland retail shopping centres; Top 250 accounts reviewed in detail (November 2010)
- $45m collective provision to be booked to cover impact of January 2011 weather events and the prevailing economic conditions

## 2010 bad debts by product




## Total bad debt expense

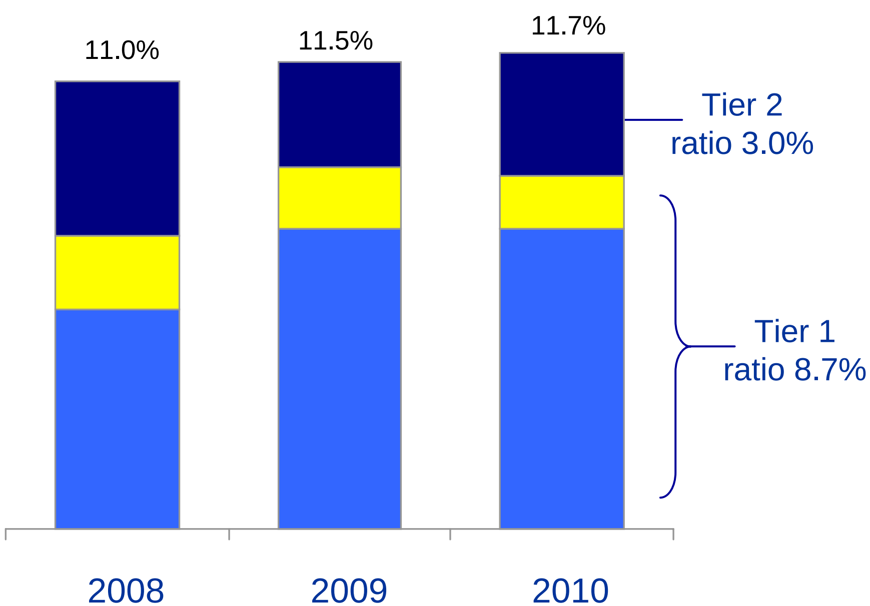



| | | | | |
|---|---|---|---|---|
| Loss % | 11bps | 20bps | 33bps | ~40-43bps |

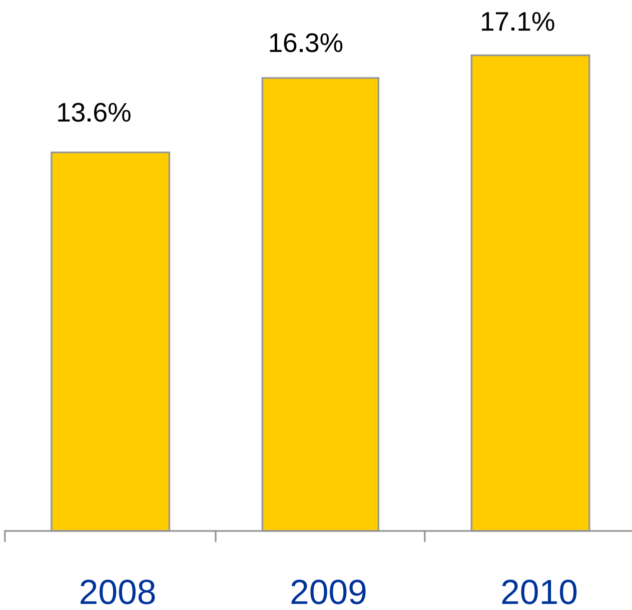
# Strong capital base and liquidity

- Tier 1 and total capital levels remain in excess of APRA and internal benchmarks
- Conservative liquidity position maintained during half to ensure smooth completion of recent acquisitions and recently buoyed by record post-GFC securitisation issue

## Capital adequacy

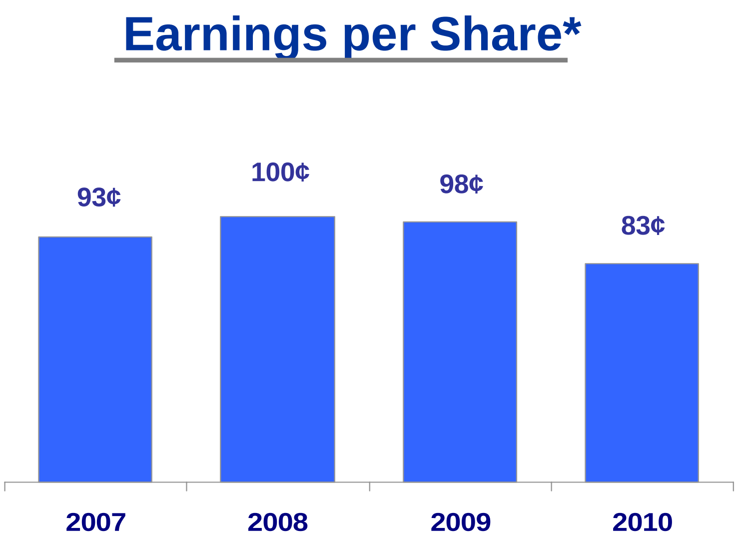


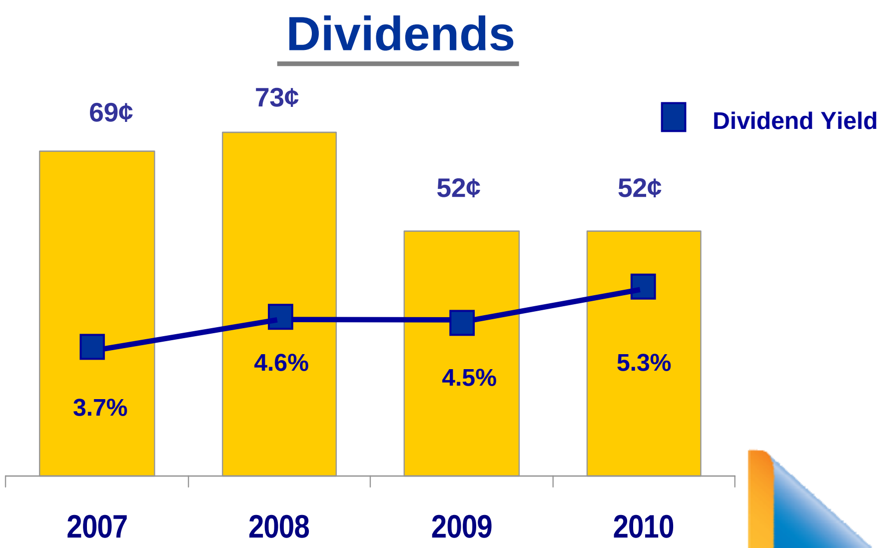

## Liquidity



# Consistent capital management

- Dividend policy aimed at preserving capital strength
- Excess equity capital diluted EPS during the period, but provides platform for future growth and bolt-on acquisition opportunities
- A number of proposed regulatory changes in progress that may impact capital position. We are well positioned to maintain adequate capital levels



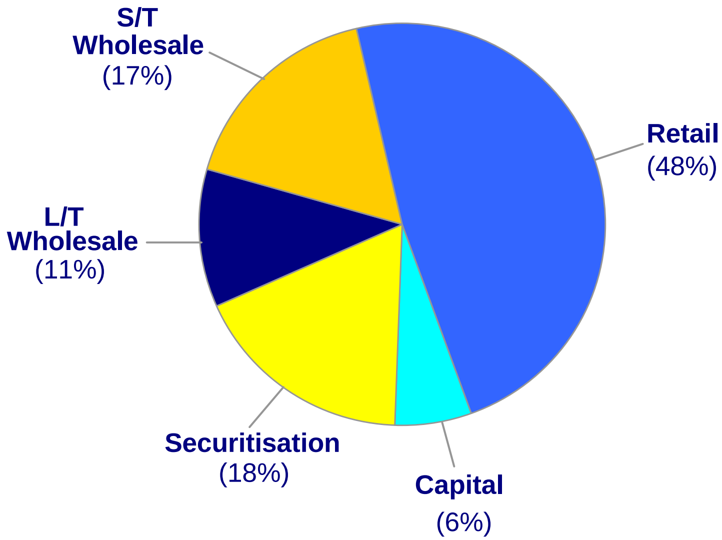




*Normalised diluted cash earnings per share

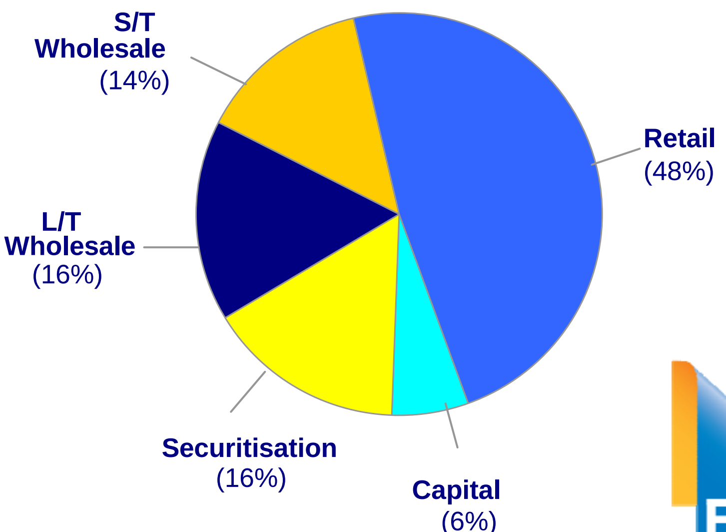
# Funding profile

- High liquidity levels enabled more selective funding options
- Opportunistic issuance of long term debt lengthening funding profile to 2.4 years
- Recent record securitisation issue and significant warehouse capacity providing further room to grow

## 2009 Funding

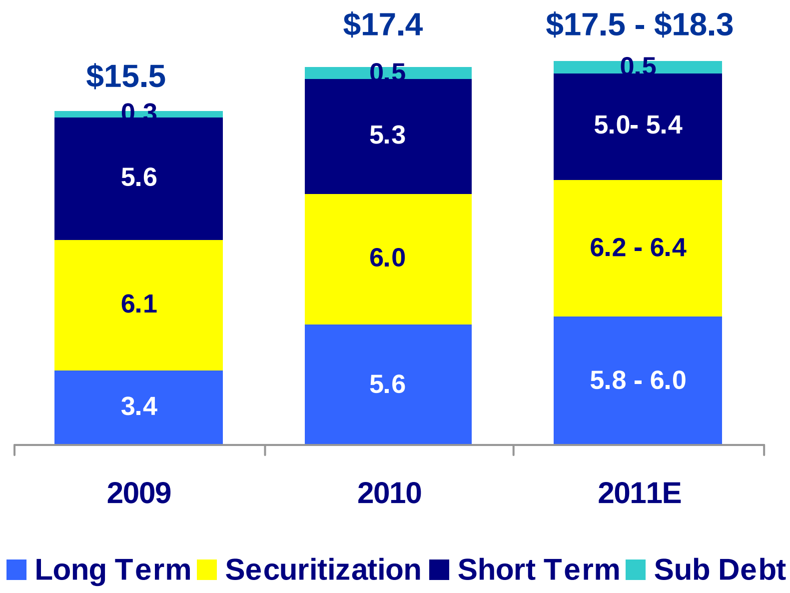



## 2010 Funding

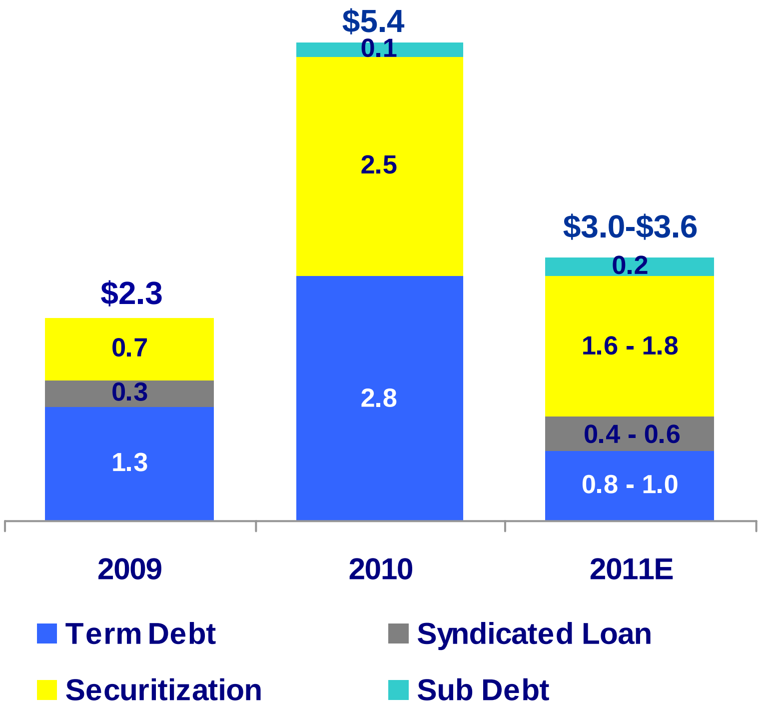


# Wholesale funding task manageable

## Wholesale Funding ($b)




## Long Term Debt Issuance ($b)

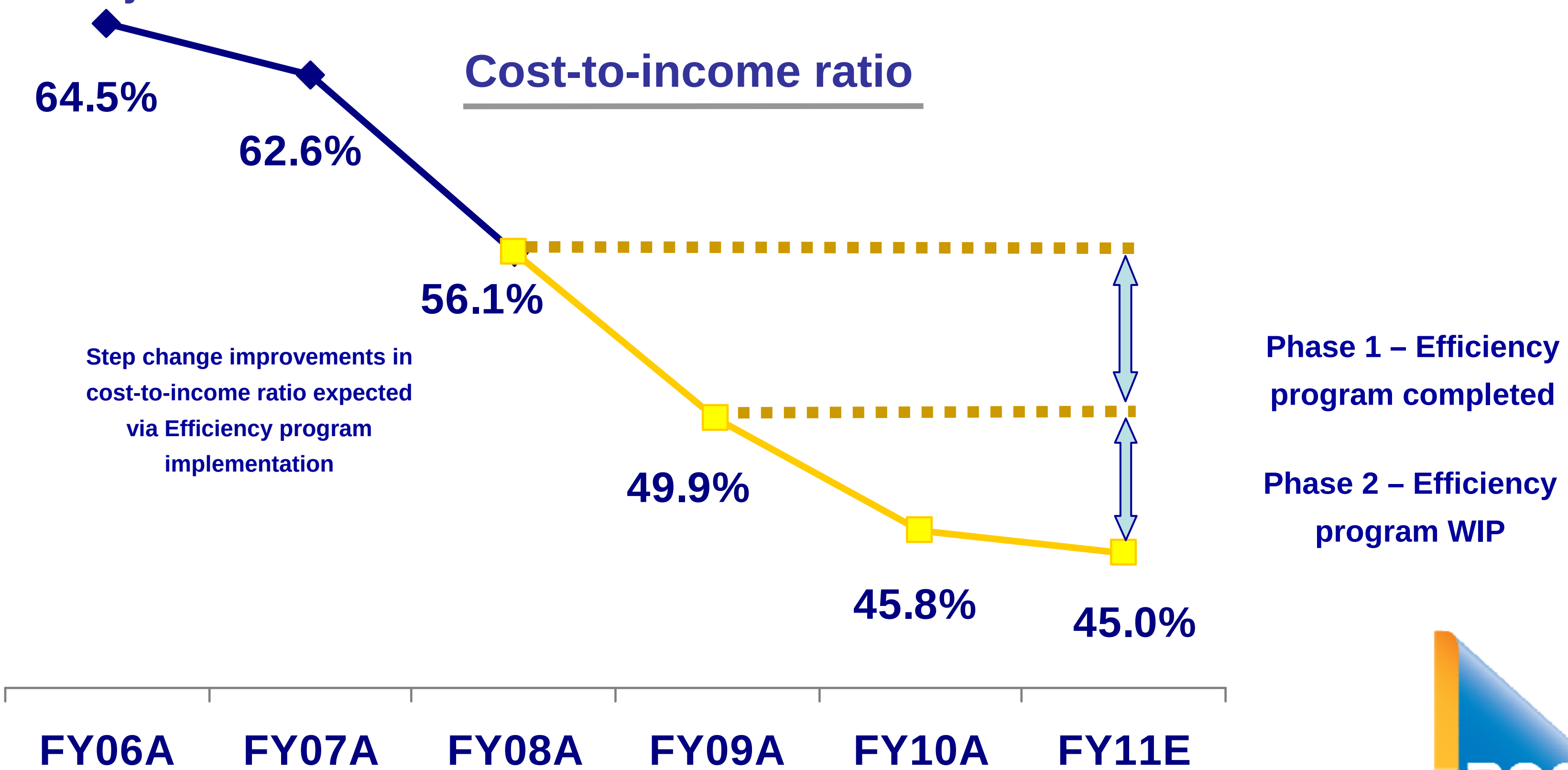



- Forecasting growth in term debt covering $1b of rollovers
- Oversubscribed $1.6b term securitization in 2010 was record post GFC
- GG debt in place, not rolling off until 2012-2014

- Level of 2011 issuances below current capacity levels
- $1.6b available in securitization warehouses
- Term securitization markets continue to develop
- Growing interest in domestic debt program
- Excess liquidity available to fund refinancing and growth

# A more efficient model to challenge scale players

- Current efficiency initiatives executed give line of sight to dramatic improvement in our cost-to-income ratio, challenging the majors whilst 1/15th their size




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

# BOQ opportunity

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# Addressing the 'market void'

## As a strong challenger brand, BOQ is ideally positioned to capitalise on the current 'market void'

**Industry consolidation**

- The Australian banking industry has recently undergone a period of consolidation with the acquisitions of BankWest & St. George Bank
- Consolidation has limited consumer choice, increasing the 'strangle hold' of the major banks

**Departure of non-bank lenders**

- The global financial crisis has effectively shutdown the RMBS market
- Australia's smaller non-bank lenders were heavily reliant on the RMBS market
- Non bank lenders were forced to 'close shop', or sell out; RAMS, Aussie Home Loans & Wizard acquired by majors

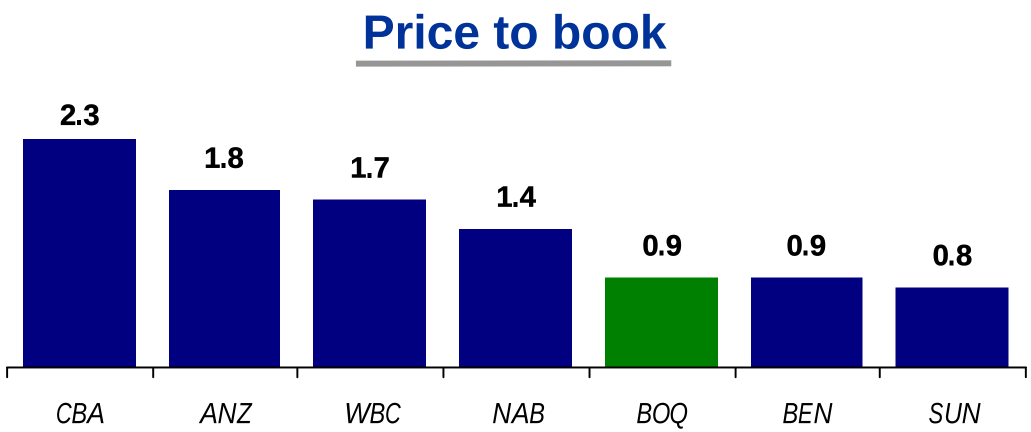
**Departure of foreign banks**

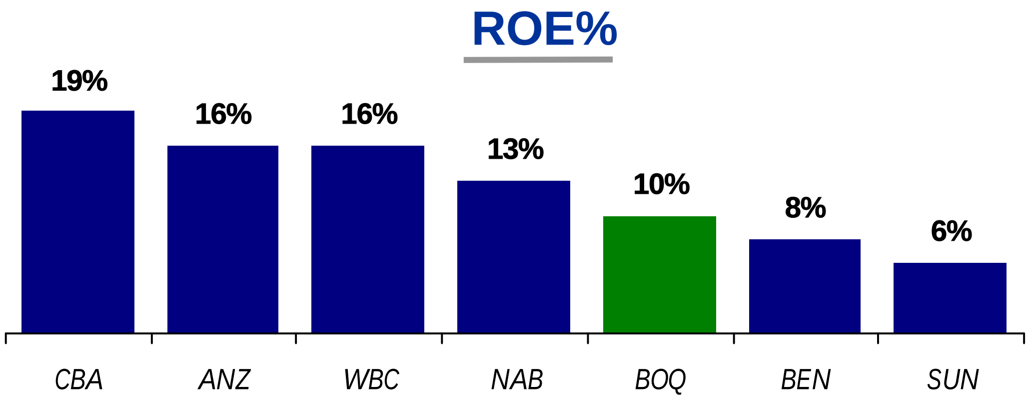
- The global economic crisis has led foreign banks to reduce lending in Australia
- Foreign banks and finance companies cut-back originations; GE Money Motor Solutions and GMAC ceased writing auto loans

# BOQ as the real alternative

- Customer satisfaction with the major banks continues to decline and will accelerate as acquired regional banks are integrated into the big bank model
- The OMB model is uniquely qualified and productive in growing our lending platform and successfully leveraging our personal service proposition
- Our ability to take a more customised and localised approach to small business banking using a more productive distribution channel is key to unlocking the differentiated value proposition
- BOQ has a unique opportunity to enhance its small business product offering by growing BOQ National Finance
- We have proven that we can preserve the personal service proposition while improving efficiency and compliance with better technology and processes
- Recent acquisitions of CIT & St Andrew's demonstrate our commitment to pursue scale and strategic growth opportunities

# Improving ROE key to unlocking value in BOQ stock



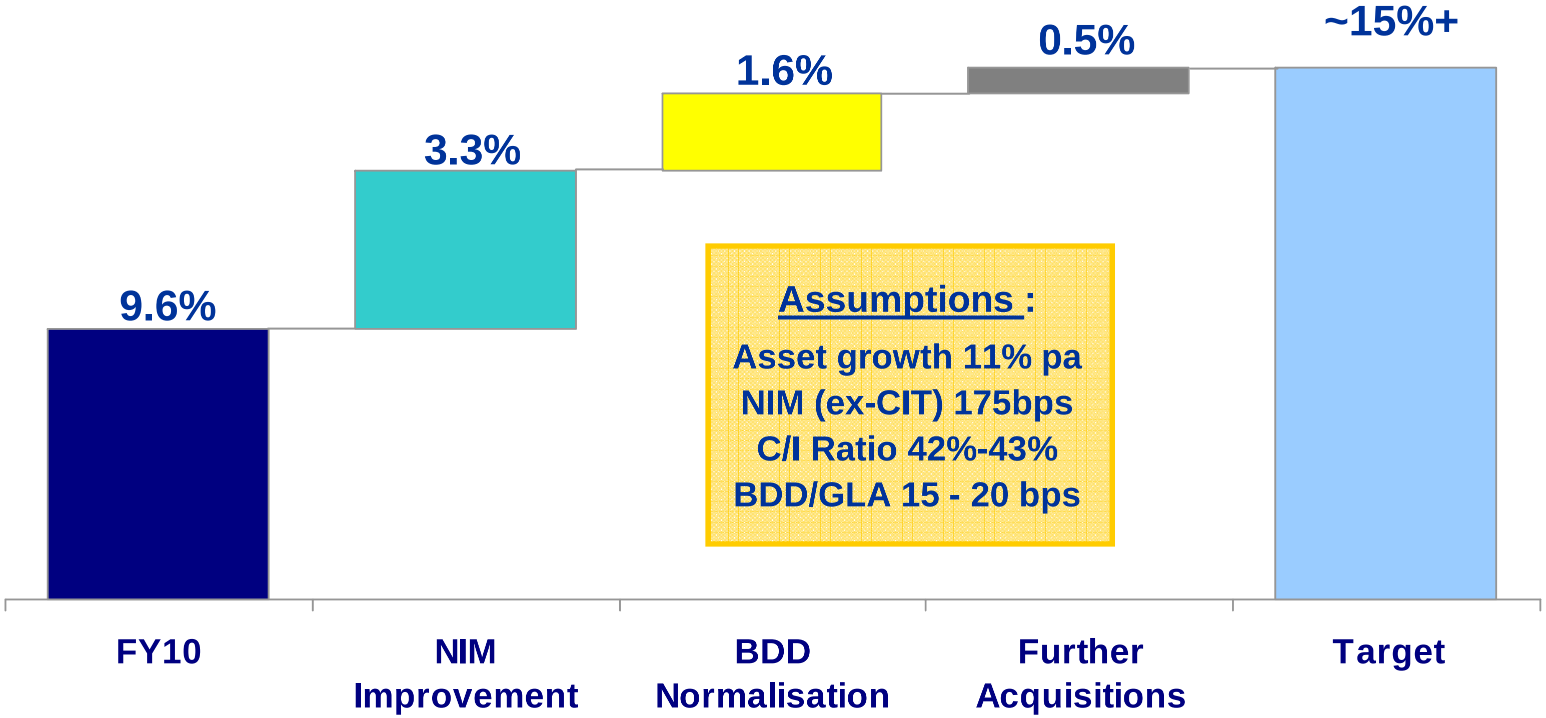




- BOQ traditionally traded at a 30% premium to Majors; currently trading ~20% discount
- Improving ROE critical to closing the gap; BOQ targeting15% ROE
- Recovery of funding markets & Government Guaranteed debt roll-off critical to goal

Source: Southern Cross Equities- Bank Cheque Book – February 2011

# Pathway to 15% ROE aspiration

- NIM improvement as funding markets recover and BBB+ spreads reduce relative to A/AA banks; Government Guarantee debt begins to roll-off in October 2011
- Credit rating upgrade and Basel II advanced status are game-changers in the medium term strategy
- Bad debt normalisation expected as economic conditions improve



# Summary

| Headwinds | Tailwinds |
|---|---|
| • Margin pressure still present<br>• Funding costs still high<br>• Significant regulatory and technology spend<br>• Ongoing payment of GG term debt costs at 1.50%<br>• Short term slowing in state growth as a result of 2011 weather events | • 2010 acquisitions performing better than pro-forma<br>• Growth opportunities in our model in our 3 business lines<br>• Cost disciplines holding<br>• New products targeting customer growth and lower cost funding<br>• Further bolt-on acquisition opportunities emerging<br>• Expected “mini-boom” in Queensland due to post flood rebuild investment |

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