

Implications for RePS Holders

New Dividend Rate

An economic alternative to conversion

The Bank proposes these amendments to RePS holders in order to ensure that there is an alternative available to the Bank other than to convert the RePS. Given the uneconomically high Dividend Rate under the current terms, the Bank intends to convert all RePS into ordinary shares if the amendments are not passed. By RePS holders agreeing to the proposed amendments they are giving the Bank the opportunity to maintain the RePS on issue and allow them to continue their investment.

The exact result of a conversion at the Reset Date cannot be known until the 20 day VWAP is known for the period from 19 September to 14 October 2005. However, the conversion formula in the RePS terms is designed to provide RePS holders with ordinary shares (issued at a discount) to the face value of the RePS, ie \$100.

EXAMPLE : If the 20 day VWAP was \$11.69, the conversion formula (including the conversion discount) would result in a holder of 50 RePS receiving 438 ordinary shares. If the ordinary share price at conversion is still \$11.69, these would be worth \$5,120.22. Like all ordinary shares in the Bank, the value of these shares may rise or fall.

In the event that a RePS holder wishes to maintain an investment similar to their current RePS, the holder would have to sell the ordinary shares received on conversion and seek an alternative investment, most likely incurring transaction costs. Further, given the conversion number is set over the 20 days prior to conversion, the value of the ordinary shares received on the conversion date may be different from the 20 day VWAP calculation.

Whether the RePS are reset or converted into ordinary shares, the Bank does not anticipate requiring additional Tier 1 capital in the near term. Accordingly, the Bank does not envisage that it will need to replace the RePS with a similar style security in the event that the RePS are converted.

Accordingly, this is an opportunity for RePS holders to maintain an investment in the amended RePS.

Conversion Discount

Maintain conversion discount benefit even where you request conversion in 2005

Under the current RePS terms, if the Bank chooses to convert the RePS into ordinary shares, RePS holders receive a 2.5% conversion discount. Currently, if Holders request conversion, this discount does not apply.

RePS holders may be reluctant to give the Bank the option to propose a lower Dividend Rate for fear that the Bank will effectively force holders to convert by proposing an unacceptably low Dividend Rate. Under the current terms, this would result in holders losing the conversion discount.

The Bank is not seeking such a power and is willing to provide holders with the conversion discount for this current Reset Date in the event that holders seek conversion. Accordingly, the Bank proposes that the conversion discount be applied in all conversions subject to the forthcoming Reset Date to avoid prejudicing holders' decision regarding the proposed amendments.

This means RePS holders are in no way disadvantaged by passing the proposed amendments. RePS holders can vote yes to the proposed amendments, wait for the proposed Dividend Rate and then still request conversion with the 2.5% conversion discount benefit. The amendments simply provide the Bank (and therefore RePS holders) with an alternative to converting the RePS into ordinary shares.

Accordingly, the Directors recommend the amendments be passed by RePS holders.

If you have any questions after reading this document, please contact the Bank's Share Registry on: 1800 779 639.

Bank of
Queensland

Bank of Queensland wants you to vote

YES



Summary

The directors of the Bank recommend that Reset Preference Share (“RePS”) holders vote to amend the terms of the RePS.

This will provide the Bank with an alternative to converting the RePS into ordinary shares on the Dividend Reset Date (15 October) by enabling the Bank to propose a new Dividend Rate which is reflective of current market conditions and pricing. This will enable:

- + existing RePS holders to continue holding a RePS style security issued by the Bank which pays a fixed rate dividend;
- + existing RePS holders to maintain their conversion options at the Dividend Reset Date; and
- + the Bank to maintain an efficient cost of capital.

Background

The Bank must soon decide what action it wishes to take in regards to the impending 15 October Dividend Reset Date.

There are currently 583,488 RePS on issue with a total face value of \$58.3 million and around 1,500 RePS holders. The RePS comprise approximately 9.6% of total Tier 1 capital.

Under the current RePS terms, two options are available to the Bank:

- + reset of the Dividend Rate and the next Dividend Reset Date; or
- + conversion of RePS to ordinary shares.

The Bank wishes to ensure that the RePS continue to trade as listed securities whilst maintaining their efficiency as part of the Bank’s capital structure. However, under the current terms the Dividend Rate applicable to the RePS will be reset to a rate that the Bank anticipates will be an uncommercial rate on the first Dividend Reset Date of October 15, 2005. The Bank believes this is neither in the best interests of the Bank, nor RePS holders wishing to continue with their investment, as it will force the bank to convert the RePS into ordinary shares on the Dividend Reset Date.

Therefore, RePS holders are being asked to vote ‘yes’ to enable a Dividend Rate reflective of current market conditions to be proposed by the Bank prior to the Reset Date. Further, the Bank proposes that should RePS holders not wish to continue holding RePS at this proposed Dividend Rate, RePS holders will not forego any benefit by way of a conversion discount should they request conversion prior to Reset.

The proposed amendments adhere to the RePS timetable as follows:

Action	Date
General Meeting of Shareholders to amend RePS terms	1 August 2005
Notice to shareholders of meeting outcome	8 August 2005
Amendments become legally effective	1 September 2005
The Bank notifies RePS Holders of new RePS Dividend Rate	5 September 2005
RePS Holders accept new Dividend Rate or seek conversion	16 September 2005
Dividend Reset Date – RePS converted if not reset	15 October 2005

The Current Options

Under the current RePS terms two options are available to the Bank, namely:

Option 1: Reset of the Dividend Rate and the next Dividend Reset Date;

or

Option 2: Conversion of RePS to ordinary shares.

Option 1 – Reset the Dividend Rate

The current RePS terms allow for the reset of the Dividend Rate on 15 October 2005. However, the RePS terms currently require the Dividend Rate to be reset in accordance with the following formula:

$$\text{Dividend Rate} = \frac{s + 2.1157\% \text{ per annum}}{1.1714}$$

where s is the 5 year swap rate.

The exact result of this formula cannot be known until the Reset Date on 15 October 2005. However, using s of 5.58% (the 5 year swap rate on 29 June 2005) this would result in a Dividend Rate of 6.57%, which is fully franked. Whilst this is lower than the current Dividend Rate on the RePS, it is significantly higher than the dividend rate that the Bank would need to pay if it were to issue a replacement RePS style security which pays a fixed rate dividend.

Accordingly the Bank anticipates this option will be uneconomical for the Bank and it does not intend to reset the Dividend Rate in accordance with the current terms.

Option 2 – Conversion of RePS

The RePS terms enable the Bank to convert each RePS into ordinary shares at a 2.5% discount to the volume weighted average price of the 20 trading days (“20 Day VWAP”) immediately preceding the Dividend Reset Date on 15 October.

Due to the uneconomically high cost associated with resetting the Dividend Rate under the current terms (as explained above), the Bank intends to convert the RePS into ordinary shares should the RePS terms not be amended as proposed.

Proposed Amendments

The Bank is seeking a ‘yes’ vote from RePS holders to amend the RePS terms to:

- + enable the Bank to offer RePS Holders a lower Dividend Rate than that allowed for under the current terms; and
- + ensure that Holders will receive the 2.5% conversion discount regardless of whether they are willing to accept the Dividend Rate that is subsequently proposed.

If these amendments are passed, the Bank will propose a new Dividend Rate on 5 September 2005, as designated under the RePS terms.