

# Proposal to merge Bank of Queensland and Bendigo Bank

Investor Presentation  
19<sup>th</sup> March 2007

# Agenda

- Strategic rationale for a merger between Bank of Queensland (BOQ) and Bendigo Bank (BEN)
- Key terms of the proposal
- Benefits to BEN and BOQ shareholders from a merger
- Proposed strategy and operating model for the merged entity
- Synergy potential

# Strategic rationale for a merger

- ✓ Potential **value enhancement to BOQ and BEN shareholders** (driven by potential pre-tax synergies of \$70 million p.a.)
- ✓ **Enhanced banking proposition** for regional and community banking in Australia
- ✓ **Significantly improved distribution platform** ... the merged entity will have over 575 branches (significantly more than St George Bank & approaching Westpac)
- ✓ **Facilitates creation of “big small bank”**, assisting to foster underlying growth in both banks and strengthens regional banking in Australia
- ✓ **Increased financial and operational scale**
- ✓ **Better position to compete** – efficiencies will assist the merged entity to move towards larger peers’ cost to income ratios
- ✓ Creation of an **S&P / ASX 100** company
- ✓ Two very **complementary** businesses with similar commitment to branch based Community banking and OMB models and superior customer service
- ✓ Provides **employee opportunities** and strengthens the performance culture

# Key terms of the merger proposal

<b>Scrip and cash proposal</b>	Scrip offer on exchange ratio of 0.748 BOQ shares and \$5.50 in cash per BEN share (value of \$17.18) <sup>(1)</sup>
<b>Value</b>	Exchange ratio is calculated based on 1 month VWAP trading prices for BEN and BOQ EPS positive impact for year ended August 2009 for both BOQ and BEN shareholders
<b>Implied premium</b> (based on BOQ 1 month VWAP of \$15.62 to 16 Mar 07)	30% premium to BEN closing share price as at 16 March 2007 of \$13.21 25% premium to BEN 1 month VWAP of \$13.74
<b>Implied premium</b> (based on BOQ closing share price of \$16.60 on 16 Mar 07)	36% premium to BEN closing share price as at 16 March 2007 of \$13.21 30% premium to BEN 1 month VWAP of \$13.74
<b>Board (post merger)</b>	5 BEN Board members to be invited to enlarged BOQ Board
<b>Integration to combine management strengths</b>	David Liddy (MD of BOQ) to be MD of enlarged Group and manage integration "Best of both" approach to choosing senior management
<b>Name (post merger)</b>	To be defined - clear that all present brand names continue to exist
<b>Mechanism to effect merger</b>	BEN scheme of arrangement – vote by BEN shareholders
<b>Conditions</b>	BEN Board to recommend merger proposal Regulatory approvals Conditions typical for public offer

*(1) Value based on \$15.62 (BOQ 1 month VWAP); exchange ratio will be adjusted to reflect BOQ entitlement issue*



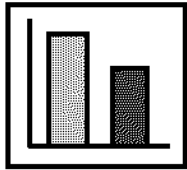
# The offer represents an enhanced financial proposition for BEN shareholders ...

- ✓ **Value creation for BEN shareholders** through premium and ongoing participation in synergies of the merged group
- ✓ **Enhanced earnings per share**
- ✓ **Strong premium** proposed relative to recent share price performance
- ✓ **Enhanced dividends per share** ... as a shareholder in merged group versus shareholder of BEN alone
- ✓ **On-going participation** in synergies and higher growth realised by merged entity
- ✓ Consideration in a **tax effective** form for BEN shareholders via rollover relief for scrip proportion
- ✓ BEN shareholders will own approximately 40% of the merged group

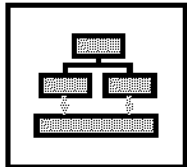
# Current BOQ shareholders benefit via ...

- ✓ **Development of the platform for the next phase of growth** and for the merged company to become a genuine and sustainable alternative in the Australian banking landscape
- ✓ The merger is expected to be **earnings per share accretive in FY 08/09**
- ✓ **Larger scale** and improved **geographic and revenue diversification**
- ✓ **Ongoing participation** in synergies generated
- ✓ **Enhanced strategic positioning** of the enlarged BOQ
- ✓ BOQ shareholders will own approximately 60% of the merged group
- ✓ Creation of an **S&P / ASX 100** company
- ✓ Entitlements issue to be made to all existing BOQ shareholders
- ✓ David Liddy will run the merged group

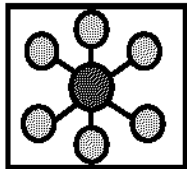
# Merged group will have five unique competitive advantages



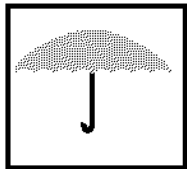
Service leadership and customer satisfaction



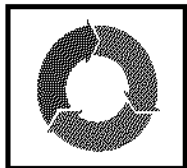
Unique business models embedding branches in local communities



Local knowledge and decision making



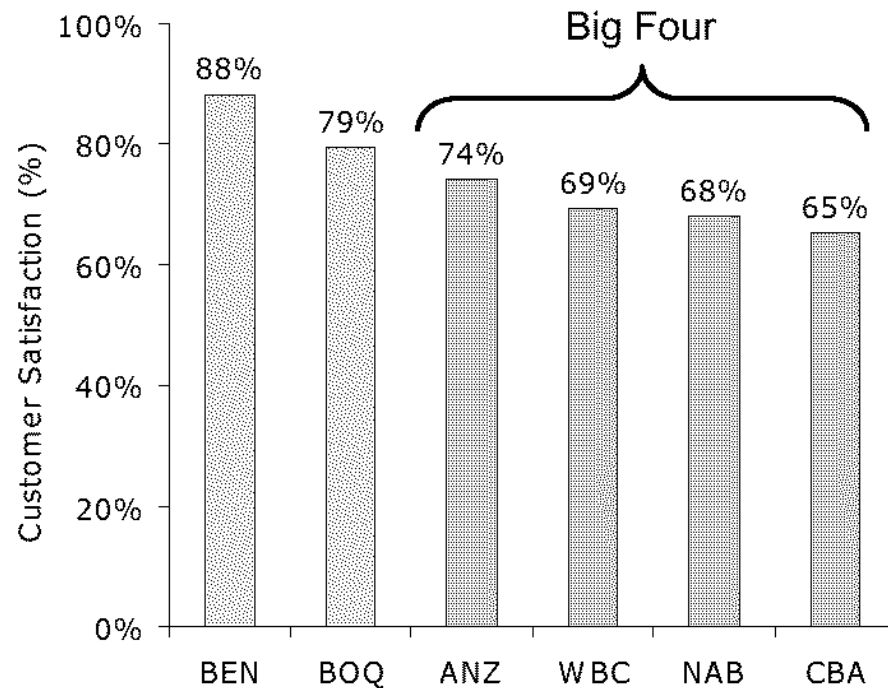
Recognised and trusted brands



Customer and community driven culture

# Merged group is positioned to be a clear service and community leader

## Customer satisfaction<sup>(1)</sup>

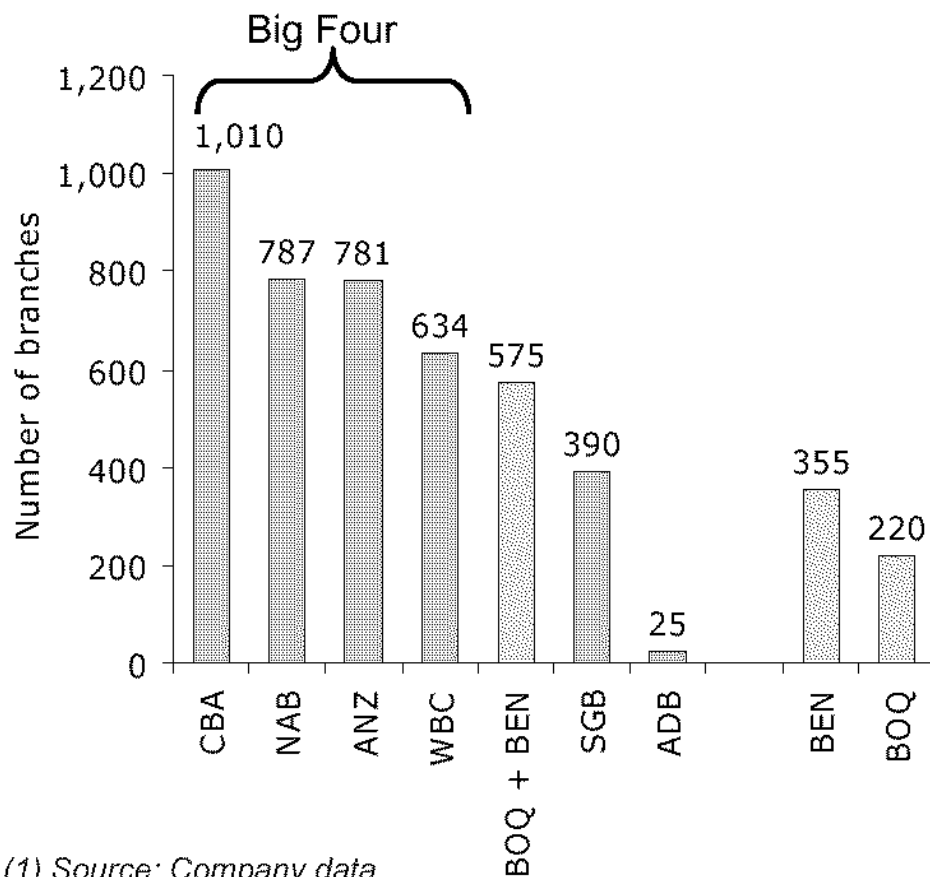


- Clear joint leadership on customer satisfaction
- Recent new advocacy research confirms BOQ and BEN's customer satisfaction leadership

(1) Source: Roy Morgan customer satisfaction survey released March 2007

# Branch network of the merged group will be larger than SGB and approaching WBC

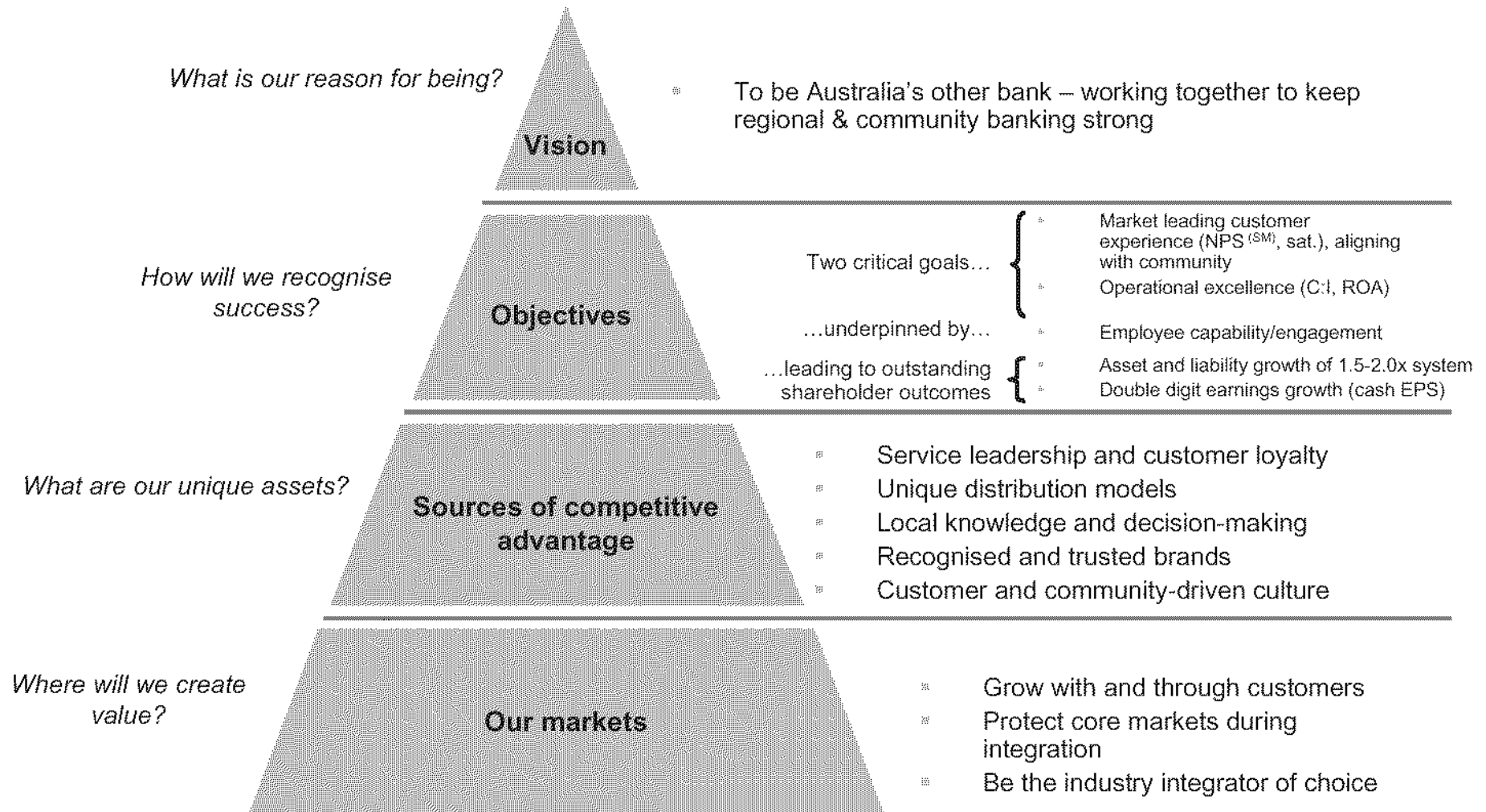
Branch numbers<sup>(1)</sup>



(1) Source: Company data

- The merged entity will have a significant footprint on the eastern seaboard
- Significantly more branches than St George and broadly comparable with Westpac

# The strategy for the merged company



# The strong brands will be retained and grown going forward



- Both brands have high levels of recognition and trust
- Brand message consistent with vision and strategy
  - Reputation for strong customer service
  - Recognised as contributors to local communities
- We will retain and build on these existing brands

# A clear operating philosophy will guide organisational decisions

## **Corporate Centre**

### **Lean leadership, policy and compliance**

P&L accountability close to the relevant market with external perspective

#### **BU-specific capabilities**

Decisions which do not fit in a 'lean' corporate centre or shared services environment are in the business units

Model open to 'plug in' acquisitions

## **'One factory'**

### **Value-adding shared services**

Drive **operational excellence** and continuous improvement in shared services

**Standardisation** of products and important processes

Exploit **synergies** where possible

Scale

Expertise

Deliver '**contestable**' centre functions for the front line (internal customers)

## **Frontline**

### **Profit engines of the company**

Provide **enterprise leadership**

Strategic direction

Shared vision, values, identity and image

Corporate relationship management

Set **governance requirements** and oversight of the control environment

Appropriate **risk management and audit** independent of operating units

# Highlights of the integration

- ✓ No Community Bank branches or Owner Managed Branches will be closed and distribution footprint will continue to expand
- ✓ Both brands will be maintained and grown
- ✓ Continuing investment in BEN's Community Enterprises, ensuring the ongoing sustainability of local communities and economies
- ✓ BEN and BOQ headquarters will be maintained with functions split between locations
- ✓ BOQ's IT partner EDS has made a commitment to BOQ to consider establishing a presence in Bendigo

# The synergy potential is compelling

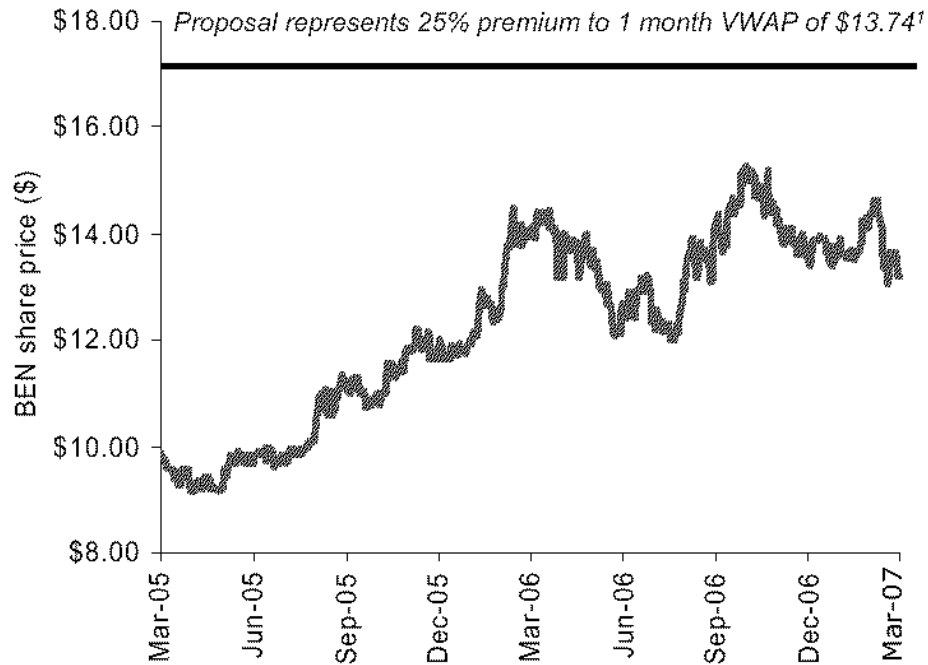
- We estimate synergies of **c.\$70 million** per annum are achievable
- Cost synergies expected to be generated from:
  - **IT systems**
  - **Operating expenses**
  - **Listing and regulatory costs**
  - **Funding benefits**
- Revenue synergies will be targeted but have not been included in the \$70 million

# Financing the proposal

- Consideration to be paid to BEN shareholders to comprise cash and BOQ shares
- Following the merger BEN shareholders will own approximately 40% of the merged entity
- BOQ will finance the merger through both equity and senior debt
- Equity to be raised through the issue of shares directly to BEN shareholders and an entitlements issue to BOQ shareholders
- Entitlement issue conditional on the merger completion
- BEN shareholders' scrip proportion to be adjusted for BOQ entitlement issue

# The proposal represents a significant premium to BEN's historical trading range...

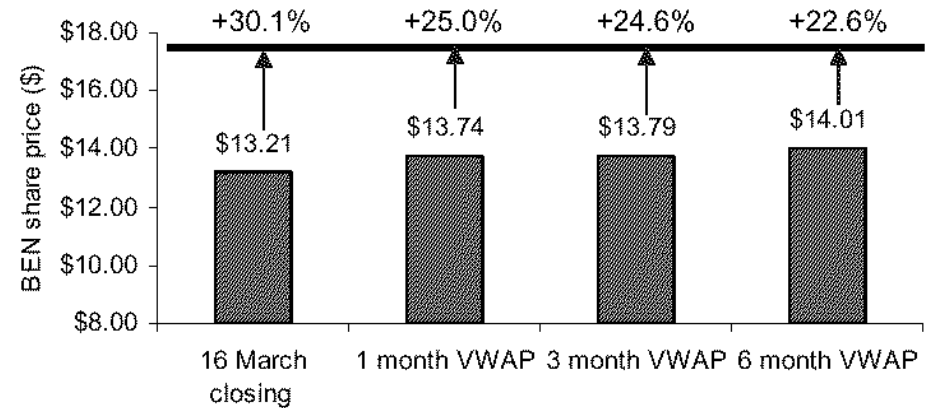
## BEN historical share price



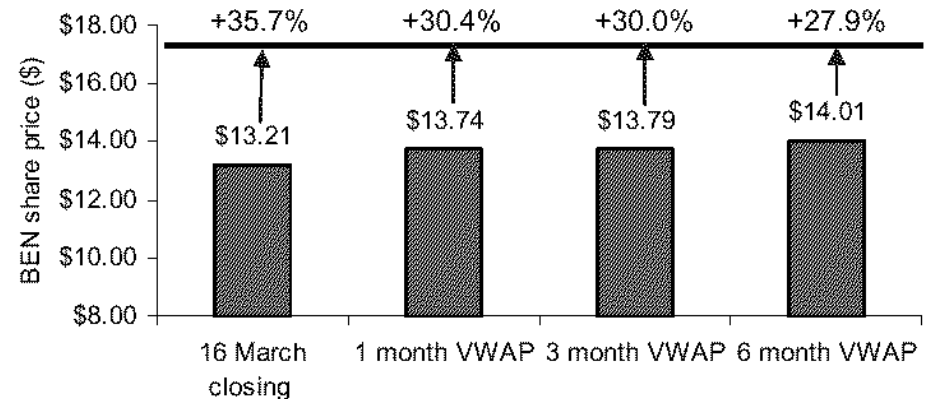
Source: IRESS

## Premium relative to historical prices

Based on BOQ's 1 month VWAP to 16 March (\$15.62)



Based on BOQ's closing price as at 16 March (\$16.60)

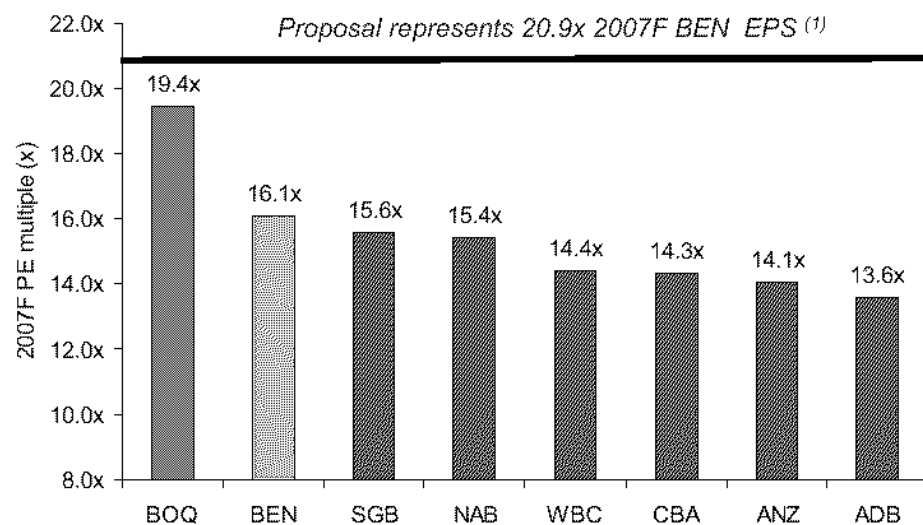


1 Based on BOQ's 1 month VWAP of \$15.62, implying an offer price of \$17.18

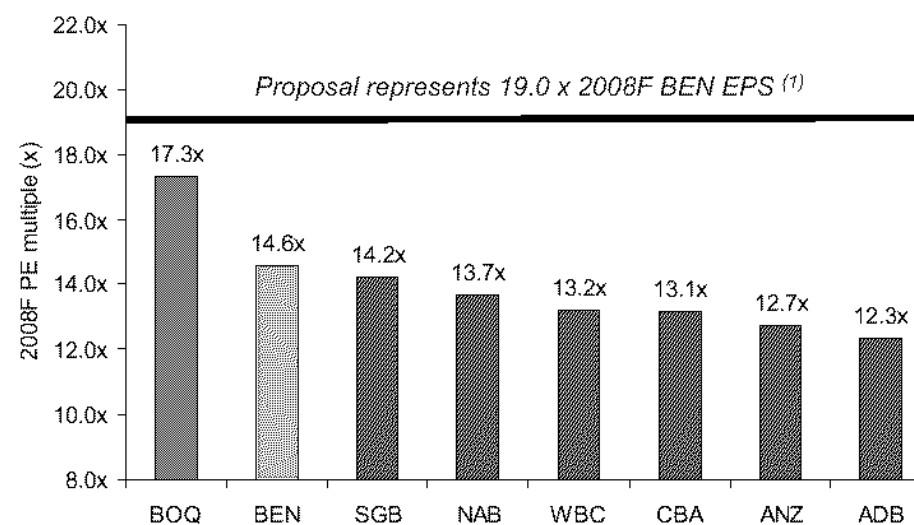


# ... and a PE multiple far above peers' trading multiples

## 2007F PE multiples



## 2008F PE multiples



<sup>(1)</sup> Based on BOQ one month VWAP of \$15.62

Source: IRESS, analyst consensus (rebased to June) – share prices as at 16 March

# Summary

- Strong strategic rationale for a merger exists
- The offer represents an enhanced financial proposition for shareholders of Bendigo Bank and Bank of Queensland
- Value enhancement driven by potential pre-tax synergies of \$70m per annum
- A merger will create the “Big small Bank”

# Creating Australia's banking alternative...key statistics

- Combined market capitalisation in excess of \$4 billion<sup>1</sup> (before value of synergies generated)
- More than 1.5 million customers and 575 branches
- Pro forma combined total assets of over \$30 billion<sup>2</sup>
- Pro forma combined net profit after tax of \$209 million<sup>3</sup> (before \$70 million of pre-tax) synergies



1. Based on closing market capitalisations for BOQ and BEN on 15 March 2007 and proposed BOQ entitlements issue
2. Calculated on reported total assets for BOQ as at 31 August 2006 and reported total assets for BEN as at 31 December 2006
3. Calculated on reported net profit after tax for BOQ for the year to 31 August 2006 and reported net profit after tax for BEN for the year to 31 December 2006