

CHAIRMAN'S ADDRESS



bank different

Chairman's address

Ladies and Gentlemen, it is my privilege to address you on the occasion of the 130th Annual General Meeting of Bank of Queensland.



2004 has proved to be another exceptional year for the Bank.

The Bank delivered a record profit again last year, with improved earnings per share resulting in an increased full year dividend of 43 cents. That result should be understood in context. It was a remarkable result if for no other reason than that it was achieved in a year in which the Bank grew rapidly, both organically and by acquisition, withdrew entirely from the mortgage broking market, and importantly, installed a new electronic banking system at a cost of \$40 million.

BOQ Chairman Neil Roberts

Installation of the new system was an Herculean task for the Bank, and it was accompanied by the usual frustrations that appear to beset any major computer installation. The system has now stabilised though, and the Bank at long last has an excellent platform from which to grow the business.

Our Managing Director David Liddy will give you further details of our operating result shortly. Given that you have all had the opportunity to read the Annual Report, I will not burden you with yet another resume of the year's results in this address.

What I do want to do though, is to take you back three years when David first took up the reins as Managing Director, and to draw your attention to his and his team's achievements during that period.

In 2001, the capitalisation of the Bank was \$400 million : in 2004 it is circa \$1 billion.

In 2001, assets under management were \$5.2 billion : now they are \$12.5 billion.

In 2001, net profit was \$24.1 million : in 2004 it was \$64.5 million before significant items and \$61 million after significant items.

In 2001, cash earnings per share were 33.2 cents : last year they were 64.5 cents.

In 2001, our cost to income ratio was 76% : today it is 63.4%.

The fact is that since 2001 this Bank has doubled in size and profitability. That very impressive achievement occurred during a three-year period which commenced a mere six months after David took on the role of Managing Director.

I believe it to be appropriate to draw this to your attention today, not only to acknowledge the inspired contribution David has made, but also to give you an insight, if I need to do so, into why we will shortly be asking you to approve the equity components of a renegotiated package for David extending his term until August 2009.

Capital

Our strategy of strong growth in an increasingly competitive market spawns a need for capital to a degree which creates real challenges for the Bank.

As I have already mentioned, part of our growth strategy involves taking advantage of appropriate acquisitions when they become available.

Last year we acquired a \$1 billion commercial leasing book when we purchased UFJ Finance Australia Ltd., and we now have the second largest fleet of ATMs in Australia when we purchased ATM Solutions Australasia Ltd.

At the same time, our organic growth was at levels well in excess of our historical market position.

At its peak, we were not only growing business lending at record levels (as we still are), we were also writing home loans at 16% of the Queensland market when our traditional market share was 6%.

Even with the withdrawal from our use of brokers, we are currently writing home loans at approximately 12% of the Queensland market, well above historical levels.

I mention all of this not so much to record the trading successes achieved by the Bank, but rather to highlight that such growth creates a need for capital at unprecedented levels which requires constant and skilled management.

Recently we offered shareholders an opportunity to participate in a capital raising under the Bank's Share Purchase Plan.

The offering to existing shareholders was in part a response to comments made by shareholders at previous meetings that opportunities should be created beyond the Bank's Dividend Reinvestment Plan to facilitate further investment in the Bank by its retail shareholders.

Whilst there will always be a need to access the wholesale markets for funding, the Board's policy is to maintain a balanced approach which does not overlook our retail shareholders' desire to grow their investment in the Bank.

Acquisitions

I want to make a particular point about the two acquisitions I have mentioned, UFJ Finance Australia Ltd and ATM Solutions Australasia Pty Ltd.

There was concern on the part of some analysts that because the Bank did not have a track record in the integration of acquired businesses, there was a risk that the Bank might find it difficult to realise the expected synergy benefits from the acquisition of these entities.

The results have proved that the Bank is well placed not only to make the right target judgements, but also to integrate businesses into the Bank in an efficient and cost effective fashion.

The Board's confidence in management's ability in this area has been vindicated and the policy of taking advantage of opportunities as they arise will continue.

Regulatory Environment

Bank of Queensland believes in and complies with the Principles of Good Corporate Governance promulgated by the Australian Stock Exchange.

A culture of integrity, honesty and transparency is of course an essential ingredient of sustained success in business today, as it always was.

A small percentage of corporations have failed in recent times to measure up to appropriately high standards, with the loss of very substantial amounts of shareholders' funds.

The result has seen unprecedented if not unexpected interest by various regulators in strengthening the regulatory environment across many aspects of business.

Regulations are often spawned in response to the collapse of a corporation within the very small percentage of corporations which have failed to conduct themselves responsibly, yet the burden of compliance always falls on the vast majority of corporations which have a culture of responsible corporate conduct.

I call this the lowest common denominator effect – regulation to control the behaviour of everyone as a reaction to the misbehaviour of a few.

In the months to come, this Bank will have to deal with changes in the Privacy Act, Anti- Money Laundering legislation, the Uniform Consumer Credit Code and the Electronic Funds Transfer Code of Conduct, along with the substantial changes involved in complying with the new Financial Services Reform Act, the new International Financial Reporting regime, and the Basel II risk management regime.

Compliance is a very costly business. It also encourages a compliance culture which tends to discourage management and boards from taking proper business risks to build shareholder wealth. And ultimately it cannot comprehensively work, because it is not possible to legislate proper behaviour. Proper behaviour can only result from an enduring culture of honesty, integrity and transparency shared by everyone in the enterprise.

I do not expect that any of this will change, but at least opportunities such as this should be taken to remind investors of the consequence of an ever increasing array of legislation and regulation and the inevitable cost to business of compliance.

Outlook

The outlook for Bank of Queensland in the coming twelve months is exciting.

Last year at our Annual General Meeting, I spoke of the prospect of increasing interest rates but we are still to see much movement in that area. Probably the greatest challenge at an operational level will be in the maintenance of margins. The market place is very competitive and new players continue to emerge. Our focus will continue to be on building market share in Queensland and in the Southern States as a result of our interstate expansion, and on controlling costs. With a steady margin, we are confident of delivering another successful result in 2005.

Conclusion

Many others have said but it bears repeating that in today's complex business environment, the work of directors has become much more onerous and complex over recent years.

I can assure shareholders that your directors give more to your company every year and last year was no exception. I would like to thank my fellow directors on behalf of you all for their professionalism and commitment.

Again, I thank our Managing Director, David Liddy and his first rate management team for their efforts this year. Many on our executive team have left secure positions with other banks to join Bank of Queensland. That sacrifice should not be forgotten, nor will it be.

I would also like to thank you, our shareholders for your continued interest in and support of the Bank. Whilst we are receiving plaudits from many commentators for our growth and overall performance, it would all be meaningless unless there was benefit to you, both in the short term and into the future.

Bank of Queensland is an important Queensland institution. It has a proud past. It is up to us to ensure it will have a proud future. My judgement is that everything is in place to meet that expectation. If you agree, I hope you will stay with us for the journey ahead.

N. B. Roberts

Chairman

Share registry

**Bank of Queensland's Share Registry is
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