Bank of Queensland Limited

Chairman's Address

127th Annual General Meeting

Thursday 13 December 2001

On behalf of the Board of Bank of Queensland, it is my great pleasure to welcome shareholders to this, the 127th Annual General Meeting of the Bank of Queensland.

Overview

2001 has been a landmark year for the Bank — one of transformation, regeneration, and new direction; and a year filled with challenge and opportunity.

- We have examined our past and have begun to lay the foundations for a more prosperous future.
- We have set new goals to grow the Bank's market share, representation, product offerings and services in our home state — and by doing that, we intend to deliver long term sustainable results and value to our shareholders.
- We have redefined our vision and developed a new strategic blueprint;
- We have undertaken a comprehensive analysis of our business operating model to help us restructure the Bank for growth and greater efficiency;
- We have set an agenda of judiciously investing in growth and enhancing revenue streams; and
- We have a refreshed executive team under the leadership of David Liddy, our new — in fact our first — Managing Director. David and his team are clearly focused on implementing the Bank's new strategic direction, and have the drive and energy to further develop our strengths and fully realise our capabilities.
- There are also some new faces on the Board. During the year, Mr Peter Fox and Mr Bill Kelty, joined the Board. They have contributed insight and experience that has added to the existing strength of our Board and our business.

FINANCIAL HIGHLIGHTS

Profit performance

The Bank has continued its record of solid performance throughout this period of transformation, set against a competitively challenging environment and an uncertain global economic climate.

This year the Bank has delivered an 8 percent increase in profit to $24.1 million. That profit was built on some solid results that confirm the underlying strength of the business.

Let me touch on them briefly:

- Net operating income was $163 million — up 13 percent.

- Net interest income increased by 11 percent to $106.6 million, while non-interest income grew strongly by 16 percent to $56.6 million.

- Assets under management grew by 19 percent to $5.2 billion during the year, making Bank of Queensland one of the fastest growing banks in Australia.

  This growth was primarily achieved through continued strong growth in home lending, which was one of the highlights of the Bank's performance, with new lending approvals remaining strong in a difficult market. Lending approvals rose a healthy 29 percent lifting loan approvals from $2.2 billion in the previous year to a record $2.8 billion in financial year 2001.

  The growth in lending approvals has resulted in loans under management hitting the $4.5 billion mark, an increase of 21 percent.

- If significant one-off expenditure items are excluded, our profit after tax increased by 24 percent to $27.5 million.

As I have said already, these results demonstrate the underlying strength of our business.

Interest margin

The Bank's net interest margin remains among the highest in Australia, despite a slight fall from 2.9 percent last year to 2.7 percent this year.

This was due to the Bank's predominantly retail funded balance sheet absorbing the impact of three separate official interest rate reductions during the year, which always adversely affects us compared with most other banks with a different funding bias. The large increase in new housing loans at low start rates also affected our interest margin, although this situation will turn around once these loans convert to a higher margin at the end of the initial 12 month low start period.

Bad debt expense

Our asset quality has always been and remains high. Bad debt expense increased only marginally during the year, despite record lending levels and a 21 percent increase in the loan portfolio size. This is a direct reflection of the quality of the Bank's loan portfolio, which is heavily weighted towards secured home loans.

At 0.52 percent of total risk weighted assets, the general provision for doubtful debts remains above the industry standard and APRA guidelines of 0.50 percent.

It is fair to say that Bank of Queensland's asset portfolio remains one of the best quality and best provisioned books of any bank in Australia.

Operating costs

Our operating expenses as a percentage of total average assets under management remained steady at 2.5 percent during the year in the face of significant asset growth and the impact of the write down of software development costs.

However, the impact of expansion into new product areas, the impact of the GST, an increase in information technology spending to improve systems and processes, and the ongoing increase in compliance costs served to push up our expenses.

Our ongoing operating expense base and our cost to income ratio are issues that are being addressed as a matter of priority and a number of initiatives have already been implemented to contain and substantially reduce our operating costs.

The Bank established a Performance Enhancement Program (PEP) to identify and oversee the implementation of group initiatives, including sourcing and procurement projects, to deliver significant improvements in our revenue, and reductions in our expenses.

We estimate that PEP initiatives completed in the 2002 financial year will realise approximately $12 million in annual benefits on an ongoing basis. One PEP initiative, the outsourcing of IT requirements, could produce savings of $100 million of prospective costs over a 10-year period.

We have also addressed issues such as our non-interest income, however I will leave it to David Liddy to give you more detail about the raft of initiatives that are being implemented, and which I believe will begin to show improvement in our underlying operating performance in this 2002 financial year.

Capital management

Capital and reserves reached $210 million this year — up from $180 million last year. The Bank pursued an energetic capital management program during the year to provide ongoing value to shareholders.

Key activities included:

- a $40 million issue of Reset Preference Shares
- a $25 million off market ordinary share buy-back
- the repurchase of $31 million of convertible notes from Bank of Hawaii and the issue of term subordinated debt to replace it

- the sale of $495 million of residential mortgages into the REDS securitisation program.

Return on equity was adversely affected during this financial year by the conversion of Bank of Hawaii's shareholding from partly paid to fully paid shares. This was partly offset however by the off market buy-back of ordinary shares in June.

Taxation

The Bank's taxation expense, at $7.2 million, is almost half that of the previous year.

This is due to the reduction in the corporate tax rate from 36 to 34 percent (saving some $2.4 million compared with the previous year), combined with the tax treatment on the convertible notes buy-back from the Bank of Hawaii resulting in a further saving of $2.4 million.

Litigation

It is my duty to inform shareholders of certain litigation against the Bank.

GTA Litigation

Software company Global Technology Australasia ("GTA") is seeking recovery of amounts invoiced to the Bank in respect of software licensing and services. The Bank is defending these claims and has filed its own counter claim against GTA on the grounds of its non-performance under the relevant agreements.

The Bank expects to be successful in this litigation.

Metyor Litigation

In April 2001, Queensland Electronic Switching Pty Ltd ("QES"), a wholly owned subsidiary of the Bank, commenced proceedings to wind up a venture company formed with various parties for the provision of certain ATM services to the Bank.

In August 2001 two of the parties to these proceedings, Metyor Incorporated, formerly Talisman technologies, and Saracen Financial Services Limited commenced their own proceedings against the Bank and QES, claiming damages and other relief in relation to the venture agreement.

In the proceedings, Metyor and Saracen claim "not less than $100 million". Particulars of these claims have been requested but have not yet been provided.

The Bank regards these claims as ambit claims without merit or foundation, and is defending the litigation in addition to pursuing its own remedies against these parties.

OUTLOOK

Although profits are always difficult to predict, the Board and management strongly believe that the Bank's operational strategies will deliver long term sustainable growth and profitability, thereby increasing shareholder wealth. Providing the current resilience of the Queensland economy is not adversely affected to any significant degree by any further deterioration of the world economic climate, there are a number of features of our business which enable us to be reasonably confident that this bank will continue to deliver value to its shareholders.

The first is that our business is focussed on the Queensland market, which continues to enjoy economic strength.

The second is the underlying strength of the business itself which will generate increased profitability in ensuing years.

The third is the addition of wealth management services and insurance products to our offerings.

The fourth is our focus on building our presence in the business banking market. In the medium term, we aim to increase this portfolio from less than 20% of assets to more than 30%.

The fifth is the implementation of strategies to reduce expenses as a proportion of income as the business grows.

The sixth is the delivery of electronic distribution channels including telephone banking launched yesterday and internet banking which will be launched in mid 2002.

Conclusion

Before I hand over to David Liddy, I would like to offer my thanks to the management team and staff of the company. There has been a great deal of work and contribution from all levels of the company, top to bottom, to map out a new direction and to start the intensive task of implementing the new business operating agenda. I believe they have performed exceptionally well and would like to express my personal appreciation, and that of the Board, for their efforts.

In closing, I would also like to thank my fellow directors for their assistance and cooperation, and for the continued confidence and support of shareholders.

Without any further ado, it gives me great pleasure to introduce the Bank's Managing Director, David Liddy, who will now address the meeting.

NEIL ROBERTS
CHAIRMAN