Chairman's Address 2002

128th Annual General Meeting

Thursday 12 December 2002

Bank of Queensland

New ideas in Banking

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It gives me great pleasure on behalf of the board to welcome our shareholders and other guests to Bank of Queensland's 2002 Annual General Meeting.

Overview

In this year's Annual Report we highlighted our overriding goal of becoming Australia's most respected, efficient and profitable regional bank. Our financial performance in 2002 and the progress made across so many fronts of our business underscore the Bank's ability to meet this ambitious goal. Clearly there were many major highlights for the Bank in 2002, including:

- Posting a record profit and increasing the dividend paid to shareholders;
- Consolidating a solid foundation from which our business can significantly expand in the years ahead;
- Constraining our expense base and identifying forward cost savings and revenue enhancements;
- Honing our market competitiveness through strengthening our distribution capabilities and our range of market offerings; and
- Heightening our brand profile across the State.

Financial Performance

Judged by any criteria, 2002 was an unequivocally successful financial year. Our 31% growth in lending approvals to \$3.7 billion stamped us as one of Australia's fastest growing banks. This growth was to some degree driven by Queensland's burgeoning housing market – as evidenced by our record 45% hike in home lending to \$2.7 billion. But it also reflects the early success of our longer-term growth strategy to expand our distribution capability and enhance the depth and breadth of our market offerings.

Significantly in 2002, the Bank increased business banking lending 25%, an achievement which highlights our success in diversifying our customer spread.

This growth, combined with a disciplined containment of costs, enabled us to deliver a record $28.7 million profit after tax, a result 19% higher than the prior year. This result represented diluted earnings per share of 39.4 cents, up nearly 19% over 2001. Particularly significant features of the year's financial performance are:

- The successful impact of our Performance Enhancement Program which cut the Bank's cost-to-income ratio from 76.0% to 71.3%. For the full year our total expenses were contained to $124 million, the same level as in 2001. It is worth noting that after allowing for the non-recurring significant item associated with our legal dispute with Metyor, our actual cost-to-income ratio would have been 67.7%. This places us well on target to meeting our goal of 64% by 2004.
- The achievement of solid revenue growth, up 6.5% to $174 million. Of this, our non-interest income increased 14.3% to $65 million, with net interest income increasing more modestly to $109 million.
- Strong asset growth with total assets under management at August 31 up 27% on the prior year to $6.6 billion, including $5.3 billion on balance sheet. The quality of our asset portfolio continues to remain at national industry-leading standards, with the Bank's strong prudential management again maintaining the credit quality of our record lending levels in 2002.

Capital Management

You will have read in the Annual Report of our longer-term growth goals. We have deliberately set the bar high in terms of where we hope to be in three to four years. I should highlight that we are not merely pursuing growth for growth's sake. Our plans for expansion are predicated on maximising shareholder wealth by generating efficiencies and opening new, more profitable avenues of business.

For us to meet our forward goals, it is imperative that our capital base is maintained at levels which can comfortably accommodate our projected growth of assets. As at 31 August the Bank's capital and reserves stood at $259 million, up from $210 million at the close of the prior year. Features of our on-going capital management process in 2002 included:

- Raising $17.7 million through a share purchase plan in May 2002, which was participated in by over 25% of our shareholders;
- The $740 million securitisation of our home loan portfolio;

- Continuation of our dividend reinvestment plan;
- Further issues of reset preference shares raising $20 million; and
- A post-balance date placement of 2.7 million new shares to institutional investors, which raised an additional $18.6 million.

Pleasingly our return on equity increased to 13.3%, which indicates the Bank is on track to realising its target of 14% in 2003.

Litigation

In August the Bank successfully settled its litigation with Metyor, with all claims and counterclaims of all parties dismissed. Most shareholders would be aware of litigation the Bank remains involved in with software company Global Technology Australasia Ltd. The Bank is rigorously defending claims against it made by GTA. We have filed and served a defence and counterclaim against GTA on the grounds of non-performance. Based on legal advice the Bank is confident of succeeding with this litigation. Accordingly no provision has been made in the accounts.

Forward Growth

In covering how we expect 2003 to unfold for Bank of Queensland, I would like to emphasise that the board and senior management have high expectations based on the excellent foundations laid in 2002, including:

- The finalisation of our $480 million sourcing arrangement with global IT services company EDS. While this initiative is expected to accrue $100 million in savings in prospective costs over 10 years, it also provides a platform from which we can expand operations without incurring significant cost base increases;
- Implementation of our Performance Enhancement Program, which we believe can deliver up to $16 million in combined revenue enhancement and cost savings in the current financial year;
- Strengthening of our distribution capability through commencing an aggressive branch-roll out program, and launching internet and phone banking; and
- The consolidation of our top-tier senior executive team.

David Liddy will shortly provide you further details of some of these operational achievements and their likely impact on our future prospects. I would like to expand further on our 2003 growth priorities.

Foremost, we will be continuing our branch expansion throughout Queensland. In the 12 months to Christmas we will have opened an additional 15 branches with another 12 expected over the remainder of the current financial year. This will bring our total representation throughout Queensland to 120 outlets.

We are now firmly committed to our unique, and highly successful owner-manager branch model. With our mainstream rivals continuing to close branches, and a groundswell of public demand for personalised, face-to-face banking, our model provides valuable opportunities for us to seize and grow profitable market positions throughout Queensland and beyond.

Strengthened distribution capabilities will enable us to pursue another key area we have targeted for growth in 2003 – the Business Banking sector. I referred earlier to the 25% growth achieved in this area in 2002. We are confident of capturing further significant Business Banking marketshare in 2003.

Outlook

In 2003 we are targeting double-digit earnings growth based on our planned market expansion throughout Queensland. At the current time Queensland is continuing to experience strong population growth and its buoyant housing market is showing no signs of abating. Having said this, we have taken a conservative stance in formulating our targets for this fiscal year by factoring in some eventual softening of overall market conditions.

However, I must stress that we have not as yet experienced signs of an impending slow-down, and our first quarter performance is ahead of both budget and the corresponding period last year. We are certainly on track for another record result in 2003.

Conclusion

Success in any endeavour is invariably a team result. Our achievements in 2002 and the highly promising horizon which now lies ahead can be attributed to the dedication of David Liddy, his senior executive team and every Bank of Queensland employee.

Their united vision of creating Australia's most respected, efficient and profitable regional bank will continue as the driving force behind our ambitious growth strategy, and I thank them all on your behalf for their unstinting energy and commitment to this cause.

I would also like to acknowledge the efforts of my fellow directors – their counsel and co-operation have also been instrumental factors in the Bank's success.

Last but not least, a vote of thanks to our shareholders for their support and confidence in our plans for the Bank's future. We remain mindful of the need to earn your ongoing loyalty by continuing to build shareholder wealth.

Ladies and gentlemen, I sincerely thank you for attending today's meeting and it gives me great pleasure to introduce David Liddy, the Managing Director of Bank of Queensland.

NEIL ROBERTS
Chairman

Bank of Queensland
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