

## chairman's report

Over the past year the global economic recovery from the GFC has been mixed, with some countries, like Australia, seeming to recover easily, but there are many other countries still facing dire economic circumstances.

### NORMALISED CASH NET PROFIT AFTER TAX UP **5%**

\$ million

106.1      155.4      187.4      197.1



The European Central Bank has extended emergency lending measures for banks and is keeping interest rates unchanged until 2011, in an effort to even out the economic recovery of the 16 nations that use the euro as their currency. Meanwhile, the US Government is trying to stimulate its economy, and tunnel out of its huge trade and budget deficits, by keeping interest rates low, thus allowing the dollar to depreciate and encouraging exports in the process.

Here in Australia, the share market has rallied, we are nearing full employment and the Australian dollar is going from strength to strength, so there are clear and obvious signs of economic improvement.

However, the impact of the GFC lives on in the banking environment - financial institutions are generally cautious on credit, system growth has slowed since June / July 2010, and house prices have stabilised.

New South Wales and Victoria have reported moderate, steady growth and while Queensland has been lagging behind other states on some economic indicators, the Bank believes the outlook is becoming much more positive, supported by growing business investment. The outlook in Western Australia is also upbeat with many major developments underway or planned that will drive growth in the local economy.

BOQ has enjoyed strong growth in these states over the past year, reinforcing the Bank's move to re-brand from the region-specific Bank of Queensland to the more national BOQ.

Pleasingly in the 2010 financial year, the Bank grew loans 2.5 times higher and deposits 1.5 times higher than that of our competitors.

The Bank recorded a full year normalised profit after tax of \$197.1 million for the full year 2010, a 5% increase from 2009. A strong balance sheet, cost disciplines and the productivity of our Owner-Managed branch model, assisted to achieve this strong result.

In an effort to conserve our capital strength, the Bank announced a fully franked final dividend of 26 cents per share, taking the full year dividend to 52 cents per share, matching that paid in 2009.

In keeping with our growth strategy to expand in to higher margin and less capital intensive businesses that complement our existing network, the Bank acquired a consumer protection insurance business and a vendor finance business, both of which add to the long-term sustainability of the Bank and help us to remain a viable competitor.

The Bank's focus does remain towards retail mortgages and residentially secured SME lending, resulting in a low risk profile. SMEs are however

feeling the delayed effects of the macroeconomic slowdown and this is reflected in bad debts, but we are confident that these losses have peaked and an improvement will be seen over the coming year.

#### **BOARD MATTERS**

As part of our process of continual improvement, the Board has recently carried out a full review of all corporate governance policies. There have also been a number of changes to the Board composition, with two directors retiring and a new director appointed.

Mr Anthony Howarth, who joined us following the acquisition of Home Building Society retired in July and Mr David Graham who has been a director for the past four years, retired in October. I am joined by fellow members of the Board in recognising both of their contributions to the Bank and wishing them all the very best for the future.

We were pleased to announce the appointment of Mr David Willis as a non-executive independent Director in February. Mr Willis has over 32 years' experience in financial services in the Asia Pacific, the UK and the US. Mr Willis' extensive experience complements the Board's current skill set and he has been providing vast assistance in strategically driving the Bank's continued growth. Mr Willis has also taken over as Chairman of the Board Remuneration Committee.

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## UNSOLICITED OFFERS TO BUY YOUR SHARES

Before I conclude, I must warn all shareholders about unsolicited offers to buy your shares.

The Australian Government is taking positive steps to prevent ruthless companies and individuals from offering to buy your shares. The changes to the Corporations Amendment (No 1) Bill 2010 introduced to Federal Parliament in June, will make it harder for individuals and businesses to make unsolicited offers.

Shareholders of all Australian companies should be wary that there may be a spate of unsolicited offers before the legislation becomes effective. An unsolicited offer was made to BOQ shareholders by Direct Share Purchasing in 2010, offering to purchase BOQ shares for significantly less than their market value at that time.

If you do receive an unsolicited offer, shareholders are urged to read the documents carefully, check the current market value of their shares and obtain professional financial advice before taking any action.

## OUTLOOK

The global outlook is improving, although it is expected that growth in most advanced economies will remain sluggish over the coming year, while emerging economies will experience much higher levels of growth.

It is probable that the Reserve Bank of Australia will raise interest rates over the coming year.

These higher interest rates and rising costs of living will slightly dampen consumer spending and housing market activity, but not to any extent that it will deter an improvement in GDP.

The Bank is aiming to increase our normalised cash net profit after tax for 2011 to between \$220 million to \$250 million. In striving to achieve this strong profit, the Bank will continue to look after its staff, excel on customer service, invest in the community and reward our shareholders. The Board is committed to showing gratitude to our shareholders for their support by increasing the 2011 full year dividend by 10% to 20%.

On behalf of the Board, I thank all shareholders for their loyalty over the past year and going forward.



**NEIL SUMMERSON**  
Chairman