



“In my first report to shareholders as Chairman of Bank of Queensland, I look back on what has been a very challenging year”.

The repercussions from the sub-prime problems in the United States have created immense pressure on the entire banking industry. While Bank of Queensland has had no direct exposure to the failed US companies, we have not been immune to the increased costs all banks have faced to secure their funding.

To manage our risk and in line with our funding strategy, we continued to diversify our borrowing, accessing across the interbank market, securitisation, short and long term senior debt, and domestic and offshore markets. This strategy ensured our liquidity was maintained at ample levels to support our operations throughout the year.

Shareholders would have witnessed the escalating market volatility. In response, the Bank heightened cost disciplines already in place across all levels of the organisation. By financial year end, all major expense categories had been kept flat relative to income growth.

Not surprisingly, there has been substantial fear in the market from shareholders as to the strength of the Australian banks. We are however most fortunate that the Australian banking industry is one of the strongest and most well regulated in the world.

It is noteworthy that even in this difficult environment, the Bank has announced our normalised cash net profit after tax of \$155.4 million, an increase of 46% from the previous year.

Directors were able to declare a final dividend of 38 cents per share fully franked, which lifted the full year dividend to 73 cents per share fully franked. This compares to the 69 cents per share fully franked dividend paid the prior year.

In FY 2008, our balance sheet was strengthened by gains from the acquisitions of Home and Pioneer Building Societies.

In late November 2007, we successfully completed the integration of Pioneer Building Society, which consolidated our strategic presence in the buoyant Central and North Queensland economy, adding \$300 million to our asset base, and delivering decisive revenue and earnings growth.

Furthermore, after receiving overwhelming support from Home's shareholders, we acquired Western Australia's largest building society in December 2007. After the move to a single brand in May 2008, our integration of Home Building Society was successfully completed nine months ahead of schedule in September 2008. At the close of the financial year the synergies being realised were already tracking on an upward basis.

The integration of these building societies in these testing market conditions is a testimony to the skills of our senior Executives and the commitment and service orientation of our front line people.

I also congratulate our senior managers, the Bank's Owner-Managers and business bankers throughout Australia and the 2,500 BOQ people that so admirably support their efforts. Their dedication and loyalty to our proud brand should be applauded.

In August 2008, we announced that our Managing Director, David Liddy, had agreed to extend his contract until 2011. David has had an enormous impact on the Bank's success over recent years, including the introduction of our highly effective Owner-Managed Branch™ model and dramatically expanding our reach from 93 branches solely within Queensland, to 286 nationally. His decision to remain at our helm for another three years is undoubtedly wonderful news for all shareholders.

I would also like to acknowledge our outgoing Chairman Neil Roberts, who has played an equally influential role for the Bank. In Mr Roberts' 13 years as Chairman, the Bank's market capitalisation has grown from \$25 million to over \$2.4 billion at the time of his retirement.

We are also fortunate to have appointed two highly qualified people to the Bank's Board during the year under review. Mr Tony Howarth, the former Chairman of Home Building Society, is our new Deputy Chairman. In addition Mr Roger Davis, who has extensive Australian and international banking and finance experience, including previous positions with Citibank and ANZ, joined us as a Director in August 2008.

I also pay tribute to Tony Love who is retiring as a Director at this year's Annual General Meeting. Tony has been a valuable Director for 14 years and has Chaired the Governance Committee and the Audit and Risk Committee during his term. I wish him well in his retirement.

Following Tony's retirement, Steve Crane has offered himself for election as a Director and the Board fully supports his election. Steve has extensive public company experience following a distinguished career in the banking and financial services industries. His skills and experience will be a valuable addition to the existing mix of skills on the Board.

Last but not least, I would like to thank our shareholders for their continued support throughout these troubled times. Although the immediate outlook for our operating environment remains uncertain, we remain robust and strongly positioned to weather the storm.

A handwritten signature in black ink, appearing to read 'Neil Summerson'. The signature is fluid and cursive, written on a white background.

Neil Summerson

Chairman