ANNUAL GENERAL MEETING 2009

CHAIRMAN'S ADDRESS

10 December 2009

When I stood before shareholders this time last year providing my first address as Chairman of Bank of Queensland, the global economy was facing unprecedented and extraordinary stress. Overseas pillars of the banking industry were failing, market confidence was at a low and wholesale funding channels were all but closed.

As I stand here today however, while overseas countries are battling recession, there are signs of a more buoyant economic outlook in Australia. Consumer confidence has rebounded with household spending and business investment gaining traction, share prices have been recovering and the Reserve Bank of Australia, the Federal Government and the International Monetary Fund have all stated that conditions in Australia have recovered more quickly than expected. In fact, our economy has been the only advanced economy in the world to record positive GDP growth in the year to June 2009.

The relatively strong Government balance sheet at the start of the crisis and the stimulus of expansionary fiscal and monetary policy, have to a large degree insulated Australia from the worst of the global recession. Demand for exports of resources and commodities generally from emerging countries such as China and India has assisted. The unique strength and high regulation of our domestic banking industry has also undoubtedly played a major role.

Let me assure you however that the past 18 months has been one of the most difficult times faced by the Australian financial services industry since the market crash of the 1930s. Extreme funding pressures, collapsing overseas and Australian companies which have increased bad debts and impaired assets for banks and low market confidence have been some of the difficulties encountered.

Successfully overcoming the challenges

It is an outstanding achievement that despite these challenges, Bank of Queensland has been able to increase normalised cash net profit after tax by 21% to $187.4 million. Importantly during this time the Bank has also consolidated one of the strongest capital positions of all Australian banks.

One of the most challenging consequences of the global financial crisis has been the severe contraction of traditional wholesale funding channels and while the Federal Government's guarantee has been necessary in assisting banks to secure wholesale funding, this has been at a higher cost for regional banks. Despite the Senate Economics Reference Committee recently recommending that the Government review the need to apply a differential price structure, and regional banks calling for this recommendation to be acted upon in the interests of fair competition, there have been no indications to date that the pricing mechanism will be adjusted.

As a result of wholesale funding pressures, demand for alternative sources of capital intensified throughout the year. In response, Bank of Queensland successfully deployed numerous equity and debt raising initiatives.

Shareholders provided tremendous support by taking advantage of the 1-for-9 pro-rata non renounceable Entitlement Offer, which was successfully completed in September 2009. The retail component raised $111 million and followed the completion of an institutional component and placement which raised approximately $230 million. The Share Purchase Plan and institutional placement announced at our last AGM also raised $108 million in January 2009.

In addition, and in a clear reinforcement of our credit standing in the debt markets, the Bank's Government guaranteed bond issue launched in early July, was three times oversubscribed and raised $750 million.

This exceptional show of support should be considered as an endorsement of the Bank's business model and strategic growth potential. Bank of Queensland now has exceptionally strong capital and liquidity positions which will help counter funding pressures and will also enable us to fully capitalise on growth opportunities as they arise throughout the current financial year and beyond.

Project Pathways was instrumental in identifying these opportunities and in creating the platform that will strategically drive our continued growth. Shareholders will recall that Project Pathways was the formal process announced at our AGM last year and was designed to further strengthen the Bank's foundations and forward growth prospects through efficiency initiatives, portfolio optimisation, strategic partnerships and complementary mergers.

Within six months this comprehensive diagnostic review of our entire organisation had identified $50 million in annualised cost saving opportunities. One of the advantages of being a smaller Bank is that management can move quickly to counter the effects of adverse change. In this regard the Board gives full credit to the Managing Director and his senior executive team in moving rapidly to implement initiatives to reduce costs yet at the same time maintain a growth strategy.

Among the key restructuring outcomes achieved through Project Pathways was the merging of our Retail and Business Financial Services channels into a single Banking channel that will better drive targeted growth in the retail and SME segments.

Project Pathways also included a work stream focusing on merger and acquisition opportunities, and we did receive significant interest from European and Asian investors. While we did not take on a cornerstone investor as we did not believe the proposals received would maximise shareholder value, potential investors took part in our recent capital raising.

The deteriorating economy also forced some significant Australian companies to fail in the 2009 financial year, which in turn increased bad debts for banks. Fortunately, Bank of Queensland's bad debt experience is much better than the major banks due to our lower risk profile and our traditionally low levels of corporate exposure.

There has been intense media speculation concerning the Bank's relationship with Storm Financial based in Townsville. In the Bank's opinion a lot of this reporting in the press has been inaccurate and misleading particularly concerning the Bank's role in providing home equity loans to clients of Storm Financial. The Bank has taken a position of not debating the issue publicly, however Senior Executives of the Bank have appeared before the Parliamentary Joint Committee on Corporations and Financial Services and the recent liquidator's public examination and the Bank has provided full co-operation to the investigation being conducted by ASIC. Our prime concern is for the care of our customers. Every customer is different and every case is different, and as such we are working with any customer suffering genuine hardship – on a one-on-one basis – to find the best solution for them. The Bank has stated its position publicly and as there are now two legal actions taken against the Bank neither the Managing Director nor I are able to further comment on this matter at this meeting.

Another undoubted impact on the Australian financial system has been the significant increase in impaired assets for many banks. Notably, Bank of Queensland's impaired assets in the financial year under review were much lower than our competitors, reflecting our continued focus on well-secured housing and SME lending.

Shareholder matters

A flow on effect from the global financial crisis for shareholders has unfortunately been reduced dividends and share price instability. Shareholders should take comfort in knowing that the share price has recovered to around the same price it was 12 months ago.

Consistent with the prudent approach by the wider banking market, directors remained conscious of the over-riding need to preserve capital given prevailing market conditions and responsibly, declared a reduced final dividend of 26 cents per share fully franked. This took the full-year dividend to 52 cents per share fully franked. Directors will always aim to increase dividends when possible, however a conservative dividend payout ratio is appropriate while funding pressures remain.

To assist in reducing the Bank's costs further, we encourage all shareholders to sign up for email communications if this is accessible to you. Receiving communications via email not only represents a significant cost saving for the Bank, but also ensures that you receive information faster and reduces the Bank's environmental footprint. Shareholders can choose between email or hardcopy - this is an option the Bank has made available as it understands that some shareholders may not have access to the Internet or would like to continue receiving dividend statements via post. Details on how to sign up are available at the dedicated Shareholder Centre on the Bank of Queensland website. You can also log in to view your holding, download past dividend statements and update your personal details online via our Shareholder Centre. We also have representatives at today's meeting to assist you if you wish.

Your Board

Before I provide my outlook and pass over to your Managing Director, I would like to congratulate Mr Liddy on his appointment as Deputy Chair of the Australian Bankers' Association. Given the key role played by the ABA in policy setting and consultation with key industry stakeholders, his appointment to this influential position reflects Mr Liddy's standing and respect within the domestic banking sector.

I must also thank your Board for the valued input and strategic advice they have provided to assist in successfully navigating the Bank through these very challenging economic conditions. During the year under review your Board has undertaken a comprehensive review to improve the Bank's Corporate Governance policies to ensure continued best practice in governing our bank. Details of the Bank's Corporate Governance policies are available in the Annual Report, on the Bank's website or by contacting the Bank.

I would also like to thank Peter Fox who retired from the Board on 25 November 2009. Mr Fox indicated to me some months ago that his personal commitments to the Fox Group were increasing and that he may not be able to continue to serve as a Director in 2010.

The Fox family have made a great contribution to the growth of the Bank since joining the company as shareholders in 2001. I want to publically acknowledge the Group's commitment to the Bank as a major shareholder and to Mr Fox's role as a Director.

In anticipation of Mr Fox's retirement your Board has been seeking a new Director and are hopeful of making an announcement in the very near future.

Outlook

In concluding, I would like to say that while the worst of the financial crisis in Australia may well be behind us, there are still many risks, particularly as overseas countries continue to be in recession and Governments and regulators begin to unwind stimulus packages. The International Monetary Fund has advised countries to not rush in unwinding stimulus as the global recovery remains slow and inflation is likely to stay low for some time. Australia, being in a much more fortunate position, has been one of the first to gradually remove some stimulus, with the RBA increasing interest rates and analysts forecasting more rate rises in 2010.

Maintaining substantial liquidity levels will continue to be important and it is likely there will be increased regulatory focus in this area. Climate change regulation will also affect many companies. Bank of Queensland is fortunately a very low emitter of carbon pollution, but we still identify ways to reduce our emissions and examine how we can play a positive role in assisting to reduce Australia's carbon footprint.

Economic data is pointing to more conducive trading conditions for the Bank in 2010 than the past 12 months and we believe this, combined with the sustainable lower cost base now in place as a result of the successfully completed Project Pathways, can be leveraged to grow shareholder wealth.

The Bank has proactive growth strategies going forward both organic and inorganic and along with other Regional Banks has a very important role to play in making sure there is competition in the Australian banking system. We have the capacity and resolve to make this happen.

The Bank in supporting the public comments made by Mr LIddy once again calls upon the Federal Government to remove the differential cost in the Government's guarantee in accessing wholesale funding. This will ensure that Regional Bank's can take competition to the four major banks.

On behalf of the Board, I thank all shareholders for their loyalty and support over the past year and going forward. I will now hand over to Mr Liddy to provide his address to you.