ANNUAL GENERAL MEETING 2008

CHAIRMAN'S ADDRESS

Bank of Queensland
bank different®

11 December 2008

The past year has been described as the worst global financial crisis since the market crash of the 1930s. Like the roaring twenties before that crash, our economy had been going from strength to strength until the beginning of the liquidity crisis in September 2007.

Shareholders would be aware that the problems of this crisis began with the failure of large United States financial institutions that were exposed to poor quality or sub-prime mortgage loans. In 2008, a total of 23 banks failed in the United States with several others rescued by acquisition or government intervention.

All Australian's should take some comfort in the fact that our economy has not, experienced problems to this degree. We should consider ourselves most fortunate that the Australian banking industry is one of the strongest and most regulated in the world.

The repercussions from these sub-prime problems has however created substantial fear in the consumer market and has resulted in an upward repricing of risk, which has greatly increased costs for all banks to secure their funding. As previously disclosed to the market, Bank of Queensland has had no exposure to the failed American companies, but in the year under review, we were not immune to the increased funding costs and extreme market volatility.

While shareholders would no doubt be worried by the dramatic falls in share prices, those banks with strong management, cost disciplines and the flexibility to adapt to the changing market conditions have fared well in this very difficult environment.

Another record profit

It is a noteworthy achievement in these troubled times that the Bank was able to announce a 46% increase in normalised cash net profit after tax to $155.4 million. This was once again another record 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 is an increase of 6% from the 2007 financial year.

We were able to offset increased funding costs and subsequently record this strong profit and dividend increase by altering our strategy to maximise deposits and to further tighten cost disciplines. By financial year-end our deposits had grown 25% and all major expense categories had been kept flat relative to income growth.

In the 2008 financial year our balance sheet was strengthened by gains from the acquisitions of Home and Pioneer Permanent Building Societies.

In late November 2007, we successfully completed the integration of Pioneer Permanent Building Society, which consolidated our strategic presence in the buoyant Central and North Queensland economy, adding $300 million to our asset base, and delivering 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 of this year. The synergies from this integration have already been tracking on an upward basis and are expected to be $15m in FY09 and $30m in FY10. This has been a positive acquisition for shareholders.

The integration of these building societies in 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 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.

Throughout the 2008 financial year, heightened risk awareness and sound capital management was also imperative to succeeding in this time of extreme market volatility.

Our risk was mitigated by not lending internationally and by having no exposure to sub-prime mortgage lending. Furthermore, our provision for doubtful debts has been more than adequate and Bank of Queensland retains one of the best provisioned loan books of any financial institution in Australia.

To further 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.

You would be aware the Board made the decision to partially underwrite the final Dividend Reinvestment Plan. We are pleased to announce that this raised $29.6 million that will be used to further strengthen the Bank's capital position.

Share Purchase Plan Offer 2008

I would also like to announce here today another important capital raising initiative in the form of a shareholder offer. From the 15th December 2008 until the 23rd of January 2009, Bank of Queensland will provide shareholders with the opportunity to participate in a Share Purchase Plan.

Participating in this offer will allow you to increase your BOQ shareholding at a discount to the average market price and without paying any brokerage or other charges.

The issue price per share will be the lesser of:

(a) a significant 7.5% discount to the Volume Weighted Average Price over the 5 business days[1] before and including the closing date for the offer on which shares are traded; and

(b) $10.08, being the approximate price at which shares were issued under the Bank's recent Dividend Reinvestment Plan issue and partial underwriting[2].

Accordingly, you will pay no more than $10.08 per share.

Shareholders will be receiving a Share Purchase Plan pack in the mail next week which will contain the terms and conditions and an application form. If you wish to take advantage of this offer, this application form must be returned by Friday 23rd of January.

This offer is part of the Bank's continuing plan to actively and effectively manage its capital base and to fund future growth for the Bank.

I hope you are able to take advantage of this great opportunity to acquire more BOQ shares at a discount to the average market price.

[1] 'Business day' has the same meaning as in the ASX Listing Rules.
[2] The price of $10.08 has been rounded down from the Dividend Reinvestment Plan price of $10.0882.

Outlook

Before I hand over to David I would like to comment on the outlook of the industry and our Bank. While our operating environment still remains somewhat uncertain, pressure on the Australian banking industry is beginning to reduce.

The federal Government made substantial steps to reduce funding pressure in September of this year when it announced all term wholesale funding for authorised deposit-taking institutions was guaranteed for the next three years.

Stress on the consumer market has also been reduced with the guarantee of bank deposits for the next three years. This too has been positive for the Bank, with a substantial amount of Australians in search of guaranteed financial security, depositing money in our Bank.

The Reserve Bank of Australia's decision on December 2nd to further cut the cash rate by 1% to 4.25% is additional evidence of the RBA's willingness to stimulate the economy to avoid a prolonged downturn. Although APRA and the RBA have provided support and assistance, there is still much to be done by the banking sector.

Managing interest margins and minimising bad debts will continue to be a strong focus for the industry in 2009. Your Bank intends to place strong emphasis on improvements in efficiency, with plans for reductions in the cost-to-income ratio.

Liquidity levels will remain at ample levels to support our business over the coming year, certainly assisted by the Share Purchase Plan I have announced here today. We will also be supporting our funding position by maintaining focus on deposit growth.

The current global financial crisis has created new challenges for the banking sector – but it has also been a catalyst for structural changes in the Australian financial landscape and more broadly, banking globally.

We have recently seen the takeovers of two of our large regional banking competitors in St George and BankWest, with a further phase of opportunities likely to emerge in due course. We need to ensure that the bank is in a position to take full advantage of these opportunities.

Given this backdrop, we have decided to initiate a formal review of the bank's options to continue to leverage off BOQ's existing growth trajectory. The formal review, which we have titled Project Pathways, is to be managed by our Managing Director and overseen by a Board sub committee and will provide Bank of Queensland with a framework to identify our options to ensure we continue to grow in a manner similar to that which you have experienced over the last seven years. Mr Liddy will speak about this more in his address.

Conclusion

I would like to conclude my address today by saying that while the Government guarantees have provided some stability to our operating environment, it would be remiss of me to suggest that the banking industry will not face challenges ahead. I would like to assure all shareholders however, that Bank of Queensland is well managed and strongly positioned to weather any challenges.

The Australian market is still feeling the negative sentiment from offshore and there may be continued market volatility to come. I would like to thank all shareholders for their support and dedication over these challenging times. Thank you for your time today and for your continued loyalty to the BOQ brand. I will now ask David to address you.