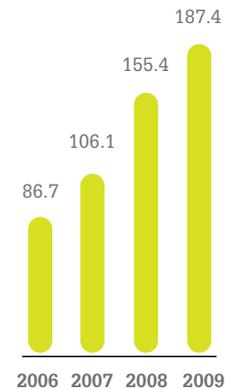
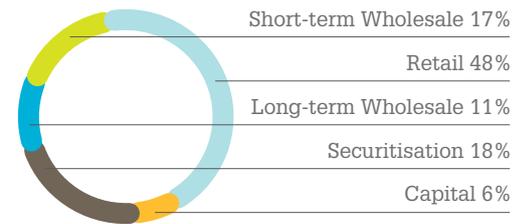


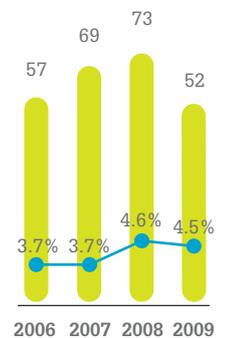
Chairman's Report



FY 2009 funding mix



Normalised cash net profit after tax
\$ million



Dividends
Cents per share
● Dividend yield

It is no exaggeration to say that the past 18 months has been an unprecedented time, not only for the Australian financial services industry, but for the global economy. Fortunately, the unique strength of our domestic banking system and the stimulus of expansionary fiscal and monetary policy have to a large degree insulated Australia from the worst of the global recession.

Notwithstanding, an inescapable consequence of the global financial crisis for Australian banks has been the severe contraction of traditional wholesale funding channels. Despite intensified demand within the marketplace for alternate funding, over the past 12 months Bank of Queensland has consolidated one of the strongest capital positions of Australian banks and sourced additional liquidity.

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 2009 financial year were much lower than our competitors, reflecting our continued focus on well-secured housing and SME lending.

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

Against this backdrop of challenges, the Bank's ability to increase normalised cash net profit after tax by 21% to \$187.4 million is an outstanding achievement.

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 declared a reduced final dividend of 26 cents per share fully franked. This lifted the full-year dividend to 52 cents per share fully franked.

During the year under review we not only increased profitability but also, through the successful completion of Project Pathways, created a platform that will strategically drive our continued growth into the future.

Project Pathways was the formal process announced at our 2008 AGM 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. 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.

In early 2009 the Bank commenced the search for a strategic partner and received significant interest from European and Asian investors. The improved market conditions in August 2009 allowed for a successful capital raising where the potential strategic partners competed for BOQ stock.

The Bank received tremendous support from shareholders for 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.

Our institutional shareholders subscribed for approximately 93% of their entitlements. This exceptional show of support by our institutional shareholders is an endorsement of the Bank's business model and strategic growth blueprint.

Furthermore, 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.

As a result of these various equity and debt raising initiatives, the Bank has exceptionally strong capital and liquidity positions which will enable us to fully capitalise on growth opportunities we expect to progressively unfold throughout the current financial year and beyond.

I must thank your Board for the valued strategic input and sage advice collectively made to the Bank's successful result. In addition to guiding the Bank through this challenging time, your Board has also undertaken a comprehensive review to improve the Bank's Corporate Governance policies to ensure continued best practice in governing our bank.

Our Managing Director David Liddy must also be congratulated on his appointment as Deputy Chair of the Australian Bankers' Association (ABA). Given the key role played by the ABA in the regulation of a stable Australian banking system, his appointment to this influential position reflects Mr Liddy's standing and respect within the domestic banking sector.

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

At the start of the new financial year there were emerging signs of a more buoyant Australian economic outlook, with both household spending and business investment gaining traction. In early September the Reserve Bank of Australia noted that domestic economic conditions had not only been stronger than expected, but that sentiment in global financial markets had also continued to improve.

The RBA's synopsis indicates that there should be 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 in the year ahead.



Neil Summerson

Chairman