



Neil Summerson
Chairman

Half year results announcement.

Chairman's letter.



Your own personal bank

Bank of Queensland Limited

ABN 32 009 656 740

All correspondence to:
Link Market Services Pty Ltd
Locked Bag A14
Sydney South NSW 1235

For all enquiries call:
(within Australia) 1800 779 639
(outside Australia) +61 2 8280 7626

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Dear Shareholder,

The global economy has begun to stabilise and domestic market conditions have been recovering to more tolerable levels. Shareholders would have witnessed the vast improvement in market confidence with Australian company share prices rebounding on average almost 60% since the lowest point of the global financial crisis.

BOQ has emerged from the crisis a much stronger company than we were going in and the Bank is now in a position to continue its growth momentum. On 15 April 2010 BOQ announced a record increase in normalised cash net profit after tax of \$97.2 million, a 15% increase when compared to the prior corresponding period.

This outstanding result is due to many factors, most notably our unique and highly productive Owner Managed Branch (OMB) model, the Bank's disciplined approach to achieving cost efficiencies, maintaining a strong balance sheet and strategic adaptation to the changing economic conditions.

The Bank's decision to be one of the few banks in Australia to continue lending throughout the crisis has resulted in achieving lending growth more than twice that recorded by the average of the Australian banking sector.

We have also once again met, and in fact exceeded, our commitment to becoming a more efficient organisation. The efficiency initiatives that the Bank put in place early last year as part of Project Pathways have been delivering positive results. This is evidenced by our cost to income ratio decreasing 9.2% to 45.1%.

The Bank's capital and funding positions continue to improve, with the Bank establishing the ability to fund the business without any disruption by accessing diverse sources of funding and growing retail deposits. We are also executing strategic initiatives to reduce the capital intensity of the business and improve return on equity.

The Bank adopted a prudent capital management approach during the crisis, consistent with nearly all other financial institutions. Directors declared the dividend for the period ending 28 February 2010 to be 26 cents per share, while also acknowledging that once strategic initiatives gain traction, dividends will increase.

Retail branch expansion and development

Throughout the economic downturn our OMB model continued to grow and drive up revenues. Having Branch Managers who are directly responsible for their own profitability is a compelling force to provide exceptional customer service and we continue to acquire large quantities of customers who recognise this and are dissatisfied with other bank's service.

The strong performance of our unique Owner Managed Branch network throughout the crisis has now given us the confidence to re-establish our branch expansion strategy. More details of this strategy will be provided to shareholders in the Bank's annual report and shareholder review.

Scale through complementary acquisitions

In March of this year BOQ signed an agreement with Commonwealth Bank to purchase St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd. St Andrew's is a leading Australian manufacturer of consumer credit insurance products with a solid history of partnering with financial institutions to deliver insurance solutions.

This acquisition fits within the BOQ growth strategy, including income diversification through businesses with complementary products to our core mortgage distribution. Importantly, BOQ is already a significant customer of St Andrew's and we have a deep understanding of its business model and how to successfully sell St Andrew's products.

In April BOQ also signed an agreement to acquire the Australian and New Zealand subsidiaries of CIT Group Inc, a leading supplier of vendor finance to small businesses and middle market companies. CIT has a reputable standing in these markets and this acquisition should assist the Bank in growing in the SME market and diversifying our balance sheet to include higher margin products.

Outlook for BOQ

The global financial crisis brought risk management into the spotlight and international bodies including the G-20 and the Financial Stability Board, along with our domestic regulators are reviewing financial services regulation to limit extremities if such an economic event were to occur again.

The capital and liquidity requirements of banks are considered likely focuses of the regulatory review. BOQ has substantial liquidity stores and diverse sources of funding going forward, to ensure the Bank can easily comply with the changes while not experiencing any disruption to our growth.

We believe we have the most productive distribution platform in Australian banking and this will be our means to pursue future scale. We will also continue to look for complementary acquisitions in areas of our core competencies.

BOQ has emerged from the global financial crisis ideally placed to capture potential opportunities. We clearly see opportunities that we believe will have the means to deliver greater shareholder value in the future.

Thank you for your continued support.

Yours sincerely,



Neil Summerson
Chairman