



Neil Summerson
Chairman

Half year results announcement

Chairman's letter



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Dear Shareholder,

Economic conditions continue to be challenging for banks and their shareholders as share prices remain volatile and profits are tested in these uncharted times.

The global financial crisis has increased the costs that banks pay to secure their funding and although the Federal Government has guaranteed funding for the time being, this has been at a higher cost for regional banks.

Given the volatile market conditions and increased cost of funding, it has been necessary for the Bank to conduct a stringent review of all expenses and to adopt a more conservative capital management policy. These measures have contributed to the Bank recording an increase in normalised cash profit after tax to \$84.2 million, up from \$65.3m in the prior corresponding period.

Our profit has been supported by having no single name bad debt exposures of significance. The Bank maintains sound credit quality and gross impaired assets remain near historical lows, particularly when compared to major Australian banks.

Project Pathways

At our last Annual General Meeting we launched Project Pathways, which is a formal process to further enhance the Bank's strength through efficiency initiatives, portfolio optimisation, strategic partnerships and complementary mergers. Project Pathways is being spearheaded by your Managing Director David Liddy and overseen by a sub-committee of the Board. This project is progressing extremely well, with approximately \$50 million in structural and organisational cost benefits already being realised.

An objective of Project Pathways is to develop a healthy platform to enable successful growth. To achieve this, a comprehensive diagnostic review of all products and channels has recently been undertaken. An organisational restructure was implemented which involved merging our Retail

and Business Financial Services channels into a single Banking channel. Head Office support functions have also been realigned and refined. This organisational realignment has resulted in after tax benefits of \$20 million being realised.

Furthermore, the Bank intends to consolidate some underperforming branches in New South Wales. This will allow greater focus on remaining branches and for portfolios to be transferred to continuing branches to ensure greater strength and profitability. It is estimated that there will be 45 branches remaining in New South Wales, taking the Bank's national footprint to approximately 274 branches.

The Bank has also been examining the best way for it to play a role in the consolidation of the Australian financial services industry, be this through continual acquisitive growth, or introducing a strategic partner, complementary merger opportunities or another means of participation. The Bank continues to talk to a range of parties about various ideas and concepts and we have processes in place to examine opportunities if they arise and to move quickly to capitalise on them.

Capital management policy

With the funding pressures and market turmoil created by the global financial crisis, increasing retail deposit growth has become very important for the Bank. The Bank's Owner-Managed Branch model, where Branch Managers are directly incentivised to develop their own profitable business, has assisted in recording higher growth than our banking peers. As a result, retail deposits have increased 25% in the last 12 months when compared to the prior corresponding period.

A conservative dividend policy has also been adopted by your Board to ensure prudent capital management. This measure is necessary to ensure capital levels remain above regulatory requirements and to enable the Bank to continue to expand and maintain a competitive position in the marketplace. The dividend for the period ending 28 February 2009 is 26 cents per share and it is expected that a dividend payout ratio of 50-60% will remain while challenging market conditions continue.

Outlook

Australian companies are not yet 'out of the water' and there is still much to be done to adapt to the changing business environment. I am confident however, that Bank of Queensland is taking the best possible steps to ensure the Bank's success.

We expect to continue to grow all aspects of our business ahead of our competitors while maintaining pricing and credit disciplines. Project Pathways is beginning to deliver significant cost savings and other benefits and we will continue to drive these efficiencies with the main aim of maximising shareholder value.

I thank you for your continued support.



Neil Summerson
Chairman