

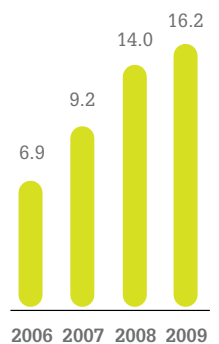
Managing Director's Report



Bank of Queensland emerged at the end of the 2009 financial year a leaner, more robust bank with a platform ready to strategically drive our continued growth forward.

The Bank has continued to grow despite the challenging economic environment and has again recorded a strong profit. Stringent asset quality surveillance and targeted cost savings combined to underpin the Bank's normalised cash net profit after tax of \$187.4 million, a 21% increase over the prior year.

Not only did we achieve our earnings forecasts, but also again outpaced the vast majority of our competitors in loan growth. Increasing retail deposits was particularly important during the first half of the year under review as higher costs of funding led to banks vying for alternative funding sources.



Retail deposits
\$ billion

FY 2009 geographic concentration



As a result aggressive sector-wide competition for deposits intensified during the year. At BOQ, the productivity and flexibility of our unique Owner-Managed Branch model ensured we were able to quickly and efficiently realign the Bank's operational focus to driving deposit growth. With Owner-Managers directly incentivised, the Bank's retail deposits increased 16% from the previous record year.

Also contributing to the strong retail deposit growth achieved was an enhanced product offering. In 2009 Canstar Cannex rated Bank of Queensland as providing the best value nationally for savings accounts - with our Online Savings, Cash Management and Term Deposit products all rated as offering outstanding value for customers.

In the second half of the year we focused on margin improvement in our deposit book, which stifled further growth somewhat but overall put us in a relatively strong position.

The Bank's positive result is also due to our highly disciplined focus on maintaining strong asset quality. As at 31 August 2009, unlike our competitors with large exposures, Bank of Queensland had only 67 exposures over \$10 million, reinforcing that we are essentially a domestic retail bank focused on low risk housing and small commercial lending.

In Australia we have seen many companies struggling in the past year, increasing bad debts for banks. Bank of Queensland has faced a moderate increase in bad debts as was expected with the downturn in the economy, but this is well below those incumbent on the major Australian banks.

Despite the challenging economic environment the Bank started the new financial year more strongly placed than ever to capitalise on future growth opportunities, largely due to Project Pathways.

Project Pathways represents one of the most significant strategic initiatives undertaken by the Bank for many years. Comprising three core streams - efficiency, portfolio optimisation and strategic partnerships, Pathways was implemented to take advantage of opportunities arising out of the financial crisis, to counter the negative effects of the economic downturn and to lay a foundation for our forward growth.

As part of the efficiency stream of Pathways, a cross sectional team of BOQ senior staff examined every aspect of our expenditure in order to effectively target \$50 million in annualised cost savings opportunities. One of the main initiatives of the team and the Portfolio Optimisation Program was to streamline costs and synergies of the Retail and Business Financial Services channels. As a result, these channels were merged into a single Banking division.

One of the most positive outcomes of the efficiency stream of Pathways is the Bank's reduction in the cost-to-income ratio. The cost disciplines we have put in place combined with our expanding revenue base have seen our normalised cash cost-to-income ratio decrease to 49.9% in FY 2009, a 6.2% decrease from the previous year. This is a long way from the 76% cash cost-to-income ratio the Bank had back in 2001, the year I joined BOQ.

By September 2009 we had successfully completed Project Pathways with the efficiency program executed, the portfolio optimisation strategy underway and we had completed an additional equity raising to further bolster our already strong balance sheet.

The retail and institutional equity raisings completed in September 2009 were heavily subscribed, raising \$340 million and contributing to the highest capital position held in the 135 year history of the Bank. Our high capital ratio of 12.2% (Tier One 9.6%) at the writing of this report, is one of the strongest of all Australian banks, and well in excess of both APRA requirements and our own internal benchmarks.

We did look at possible merger and acquisition activity as part of the strategic partnership arm of Project Pathways and received interest from a number of parties looking to gain a strategic relationship with the Bank. However, in the context of preserving the value creation from the Pathways internal initiatives for our existing shareholders, our long term ambitions as an independent bank, and the improving equity markets, we decided to pursue the capital raising rather than choose a strategic partner.

In other initiatives designed to optimise the performance of our sector leading distribution channel, we have now converted 39 corporate branches to higher-yielding Owner-Managed Branches and the under-performing New South Wales branches have now been consolidated to improve the overall performance of the region.

Interstate expansion of our Owner-Managed Branches will continue and this expansion, combined with our acquisition of Western Australia's Home Building Society in December 2007, is diminishing BOQ's traditional geographic concentration in Queensland. This reduces the Bank's geographic risk and provides a nationwide base to further grow our brand.

The Bank has continued its corporate social responsibility strategy which is the process that ensures all stakeholders of the Bank - including shareholders, customers, employees, the environment and community - all collectively benefit as the Bank grows.

As part of our commitment to shareholders we are focused on maximising shareholder value. To do this we will continue to focus on optimising the Bank's portfolio through enhancing our direct channels, using the power of our OMB network to grow deposits and increasing revenue from the SME market through cross selling and enhanced product offerings.

With the Australian public continuing to widely demand a credible, customer-centric alternative to the major banks, our unique OMB channel and the unprecedented strength of our financial position clearly present a major opportunity for us in the immediate future to bridge the void in the banking market following the takeovers of St George and Bank West.

We intend to harness this opportunity so that we can continue to be a rewarding investment for shareholders.



David Liddy

Managing Director and
Chief Executive Officer