"The external events impacting on, and the outcomes achieved by Bank of Queensland in FY 2008 highlight just how robust and effective our chosen business model is."

The sub-prime problems flowing out of the United States and subsequent global liquidity crisis have caused one of the toughest years on record for the banking industry.

Our effort in recording a 46% rise in headline normalised net cash profit after tax of $155.4 million was unquestionably a significant achievement in a trading environment not conducive to the banking sector's growth.

Bank of Queensland's stringent cost and asset quality surveillance, along with continued efficiency gains, combined to produce this positive result.

Maintaining a strong balance sheet

In FY 2008, we maintained stringent surveillance on the quality of our balance sheet and specific market conditions that could impact it.

Accordingly, our commercial lending throughout the year remained extremely disciplined. The Bank's exposure to residential building and construction projects remained within pre-set risk parameters, and at financial year end continued to perform well.

We have not suffered any underlying deterioration of credit as, unlike our larger competitors, Bank of Queensland's portfolio has no significant corporate exposures. As at 31 August 2008, the Bank had only 69 exposures over $10 million, representing less than 5% of assets under management, with over half of these facilities due to mature within one year.

In FY 2008, we experienced only a relatively small increase in bad debt provisions, with impaired assets as a percentage of non-securitised loans increasing only 0.08%.

As widely publicised, the events of the past 12 months have had a profound impact on the Australian banking sector's funding channels and costs.

As shareholders may be aware, a result of the global credit crisis has been an upward repricing of risk which has dramatically diminished opportunities in securitisation markets and significantly increased the cost of banks' funding sources.

To ensure strong levels of liquidity, in April 2008 we successfully raised $628 million through an automobile and equipment receivables backed securitisation issue. The Bank also raised over $200 million through a hybrid capital issue, to help fund our forward growth and to maintain our Tier 1 capital adequacy ratios.

Leveraging off acquisitions

In late November 2007, we successfully completed the integration of Mackay-based Pioneer Permanent Building Society, following their members' acceptance of our $49.6 million merger proposal twelve months prior. This acquisition significantly bolstered our foothold in the booming Central and North Queensland economy.

Members of Home Building Society also overwhelmingly endorsed our $592 million merger proposal in November 2007. This merger with Home has delivered us an additional 24 branches, $2.7 billion in loans and advances and, significantly, in today's competitive funding environment, $2.5 billion in retail deposits.

As part of the integration process which was successfully completed nine months ahead of schedule in September 2008, all Home Building Society operations have been migrated to the Bank of Queensland brand and four overlapping branches have been consolidated.

With Western Australia's resource boom continuing to fuel the local economy, we remain committed to growing our retail footprint in this state under the Bank of Queensland banner in the near future.

Branch network

Given the overriding need to integrate Home and Pioneer Permanent into our operations and a softening of some interstate economies, particularly New South Wales, the Bank consciously slowed the rate of new branch openings in FY 2008.

At the time of this report's publication our Australia-wide footprint stood at 286 brances.

The Owner-Managed Branch™ model continued to drive shareholder value through superior sales productivity and a variable cost structure aligned to performance. The success of this model was evidenced by the Bank's retail deposits which grew to $14.0 billion in this difficult financial year.

A small number of Owner-Managed Branches™ struggled in the lagging New South Wales economy. The Bank assumed control of a number of these branches which we will manage until they are performing at a more successful level.

Outlook

There is no doubt that FY 2009 will present both opportunities and challenges. While we expect it will be at least 12 to 18 months before the market problems of liquidity and high borrowing costs stabilise, the underlying fundamentals of our strategy remain strong.

Whilst the forecast for economic conditions in the world are uncertain at the time of writing, the Reserve Bank of Australia and the Federal Government will no doubt continue to closely monitor developments and take action to ease the pressure on the local economy. The Government's recent actions to guarantee all deposits in Australia for the next three years, and to guarantee term wholesale funding by Australian financial institutions, is an excellent example of this.

Bank of Queensland importantly has robust asset quality which reinforces the fact that at the core we are solely a retail bank with essentially low-risk retail assets. We will, however, maintain our rigorous focus on risk assessment.

Additional opportunities for strategic acquisitions in the foreseeable future are likely to materialise, particularly given the operating challenges ahead for smaller financial institutions. Backed by our proven track record of successfully integrating past acquisitions, the Bank is intent on maintaining a proactive position in the financial services consolidation process.

Overall, we will keep adjusting our strategy to respond to the changing market conditions ahead with the aim of continuing to be a rewarding investment for our shareholders.

David Liddy

Managing Director