Bank of Queensland Limited
ACN 009 656 740

Chairman's address

2012 Annual General Meeting

Good morning Ladies and Gentlemen,

As I mentioned in my address last year, since the Global Financial Crisis the banking sector for regional banks has been difficult for many reasons not least of which include funding, capital, scale, and technology disadvantages.

This year has not been any different. We have had to respond to these challenges appropriately and diligently as we seek to look after shareholder interests.

To this end, the past year has very much been a year of restructuring and repositioning for growth. This has occurred in a number of ways, which I will now explain.

The year of restructure and repositioning

The strengths of any bank are its capital position, its asset quality, its strategy, the quality of management to execute that strategy, its earnings and its liquidity.

I would like to elaborate on a couple of these core strengths as they pertain to BOQ and highlight for you the positive changes that have occurred over the last 12 months, as we reposition the bank for growth.

Firstly, we have restructured our executive management team and as a consequence, substantially strengthened, I believe, our competitive positioning in the banking sector.

Last year I introduced you to your new Managing Director and CEO Stuart Grimshaw. After my address Stuart will introduce to you his new leadership team, all of whom have commenced since last year's Annual General Meeting.

The banking environment has changed dramatically over the past few years. It has moved from a growth environment with relatively freely available capital to one where this is no longer the case and banks are forced to carefully consider costs, capital management, funding and growth. This requires a different management approach and the Board has reacted to this by supporting a major management change.

This team is an exceptional team and a huge asset to the bank. The Board has great confidence in its ability to execute the strategy that was set earlier this year.

Each of these executives has left outstanding careers elsewhere (mostly from other banks) to join Stuart. This must demonstrate to shareholders that they have great confidence in BOQ to be an outstanding company.

The second plank of our restructuring was to change and strengthen the method of provisioning for our outstanding debts.

Prior to 2008 the bank did not have a history of having large write offs for bad debts. The onset of the Global Financial Crisis saw this all change.

Until 2011 the Bank only made specific provisions against its outstanding debts, but in February of 2011, with the full impact of the economic slowdown, Cyclone Yasi, and the Brisbane floods all unknown to the Bank at that time, the Board considered it prudent to take an “economic overlay” in our provisioning of $32.5m.

An economic overlay is basically a cushion against unknown circumstances which may lead to bad debts. During the second half of 2011 and again this year this overlay was used to offset the debts stemming from the effects of the floods and Cyclone Yasi.

In early this year the Board and management became aware of a continuing fall in property values particularly in Queensland. As over 60% of our business is in this State, the Board decided to take an additional economic overlay of $175m during the year to provide a buffer against falling property values. This is referred to in our published financial accounts as a “collective provision”.

Accounting standards required that, in taking this provision, the expense went through the Statement of Comprehensive Income (or the Profit and Loss Statement), resulting in the Bank recording a loss of $17.1m.

Prior to 2011 the Bank had never adopted this approach to collective provisioning but rather used the General Reserve which was not reflected in the Profit and Loss Statement. This was an appropriate approach to provisioning until this year.

If the conservative approach to collective provisions had not been adopted, the bank would have recorded a profit for the year. I point this fact out because much has been said about the accounting loss but very little said or written about the change in provisioning methodology.

Taking the economic overlay was a very conservative decision and was supported overwhelmingly by the institutional investors and our regulators, and has substantially strengthened our balance sheet.

As a result, our provisioning level today (as measured by our Collective Provisioning levels as a % of Gross Lending Assets) is at the highest of any of the Australian banks, providing us with strength and flexibility to recommence our growth strategy.

At the same time as we announced the change in provisioning, the Board announced a capital raising.

This was very well supported and both institutional and retail investors were able to participate in the entitlement offer on the same basis. In the case of the retail offer, 99% of shareholders received the allocation they requested.

There has been some criticism as to the level of discount offered and the fact that 33% of the raising was done by way of a placement. The discount was set after taking into account the prevailing market conditions, the competition for funds at the time, the discounts offered by other institutions, the views of the underwriters and the speed with which we had to move.

The placement was made to ensure we could raise the total amount of capital we considered prudent.

As it was, the offer was massively oversubscribed and this supported the shortfall in the entitlement offer.

Capital raisings of this type typically happen quickly and it is not always possible to please everyone, but the Board endeavoured to be fair and equitable, particularly to our existing shareholders.

The end result of these two major restructuring initiatives, is that the Bank has arguably the best protected balance sheet of any major or regional bank, with the highest level of collective provisioning coverage and, at 8.6%, the highest Common Equity Tier 1 ratio of this peer group. The Common Equity Tier 1 ratio is the most important ratio under APRA's new Basel 111 capital rules.

This conservatively structured balance sheet is important for investors, our regulators, and the ratings agencies.

The Bank's repositioning and restructuring initiatives during the year also involved undertaking a complete review of our strategic plan and business model. This exercise included reviews of the IT systems, processes and capabilities under which the bank operates in the context of the current and emerging digital world, and a review of our head office property infrastructure, cost levels and staffing structures to mention just a few of the issues that the executive team and Board have addressed during 2012.

I know Stuart will talk more about some of these shortly.

Combined, our restructuring of the Bank's senior executive ranks, our strengthening of our provisioning and capital, our strong pre-provisioning operating profits reflective of the inherent diversified portfolio across the country, our strong liquidity and our strong capital levels subsequent to the recent capital raising, all favourably position us for growth. We are now fit for purpose and we believe we have the risk disciplines, management and capital to successfully execute this strategy.

The economy

The Queensland economy has stabilised but continues to be subdued.

Over the last month we have seen commentary from various market participants and commentators including Stockland, Mirvac and the Insolvency and Trustee Service Australia, which reiterate what a difficult year 2012 has been for the State of Queensland.

Again, with over 60% of our business is sourced in Queensland, I would like shareholders to appreciate that this bank is unique in that no other listed bank in Australia has the same concentration of business as we have in this State.

I would, however, like to re-iterate my earlier comments about how well protected our Balance Sheet is following our shift to a more conservative provisioning basis during this past year.

Notwithstanding the above, the Queensland State Government is predicting 4% growth over the next year. In addition, tourism numbers on the Gold Coast and the Sunshine Coast in the period from September to November were up substantially on the previous year and the current State Government has initiated various programs (the boost in first home owners grant for new homes, as an example) to stimulate the economy. Indeed, the Premier stated only last Friday that he thought that Queensland should see some positive economic signs within 12 months.

In addition, the bank is seeing some early indication that the downward movement in property values has started to reverse. With borrowers better able to meet their mortgage commitments as a result of successive interest rate reductions, including that of last week, we have reason to be optimistic about recovery in the important housing market.

Despite the many challenges over these past twelve months which have been outlined above, the underlying profit of the Bank before doubtful debts expense was a profit of $444m compared to $447m in 2011. This is a solid performance against the backdrop of the largely external issues confronting the bank in its home State.

As shareholders know, the Bank embarked upon an expansion into other States over a decade ago so as to reduce the concentration risk in Queensland. A meaningful and sustainable geographic spread cannot be achieved quickly but we remain committed to this path with a particular emphasis on Western Australia, which of course, is the other high growth Australian State and one in which we are well represented.

Stuart will discuss this in more detail shortly.

At a national level much is stated about the multispeed economy and, in particular, its effects on regional Australia.

While Australia is generally seen to be performing relatively well compared to other countries it is very patchy with various industry sectors undergoing structural reform to remain competitive as a result of high wages (compared to Asia), the flow on effect of the introduction of the carbon tax, the high cost of utilities, the high level of the Australian dollar and the ever increasing changes in consumer spending patterns and behaviours.

Unemployment is expected to rise modestly over the next two years. Combined with a shift in Australians saving more than ever, credit growth for the banking sector is expected to remain subdued.

Nevertheless, we are expecting to deliver growth in top and bottom line and after the first three months of this financial year we are comfortably meeting our internal targets.

Our strategy

We remain totally committed to our unique owner managed model which has performed well during this difficult economic period.

We are also committed to growing this Bank in a focused and profitable way. We intend doing this with a multi-channel approach through the owner managed branches, corporately owned branches, brokers and exploiting on-line capability including social media.

Our management of risk and controls over adverse developments in our lending book has been substantially strengthened and contemporized to reflect a rapidly changing lending and regulatory environment, and we are moving quickly to develop the requisite capability to achieve operational excellence. This should result in us meeting our internal management targets.

Stuart will talk more about this in his address

Our share price

All the directors are shareholders and we, like you, are disappointed at our share price.

There is no doubt that our price has been affected by our profit performance this past year as well as having a high concentration of business activity in Queensland.

We want the share price to be higher but we need to demonstrate that the restructure and repositioning is producing increased profits and that our impairment issues are behind us. In other words, we need to strengthen shareholders' trust in us to deliver upon what we say we will do.

The Board is confident we are in that position and, as said earlier, our internal management targets are demonstrating that fact.

We have all the fundamentals in place to deliver improved results this coming year. I go back to the key strengths mentioned in my opening comments. The Bank is well capitalized, it has sound asset quality, it has excellent management, the strategy has been renewed and is being executed, its earnings are tracking on our internal management targets and our liquidity is strong. All these fundamentals are now in place.

I am hopeful that next year will clearly illustrate that we are a genuine alternative to the big four banks with a clear strategy that is performing well and offering a good dividend stream to our shareholders.

Our dividends

Despite the fact that we changed the method of provisioning for our debts, the directors unanimously agreed that it was important to maintain the dividend payment policy of paying as much as we can and, to acknowledge shareholders' ongoing support, the Board declared a 52 cent dividend.

This should demonstrate to shareholders that the Board is extremely confident about the Bank's strategy and the new executive team's ability to execute the strategy and produce a solid result for you.

The dividend would not be possible without a strong profit in the second half of this past year and shareholders should be comforted by that fact.

It remains the policy of the Board to pay out to shareholders as much of the profits each year as possible after taking into consideration the capital requirements required by our regulators and to fund our growth.

Our social responsibility

The Bank is ever mindful of its corporate and social responsibilities. I am regularly asked what we do and I want to just briefly mention a couple of programs of which we are proud.

- This year's Banking on our Kids fundraising appeal raised approximately $150,000 to help sick children. This appeal, which involves our people collecting donations and fundraising, has raised over $1,150,000 since the appeal started in 2004.

- We also provide the opportunity for our employees and shareholders to be engaged in our Corporate Social Responsibility activities. Our employees participated through Dollar-for-Dollar donation matching which has resulted in approximately $70,000 being donated to charity in the past year. Those Shareholders who elect to donate to children's hospitals around Australian this year via our Investing in Hope program, this year donated $40,000, taking the total contributed since the program's inception in 2004 to $240,000.

It is important that this Bank helps others and these are just two of many community partnerships in which we invest. I hope you agree with me that this is also an important investment in our future.

The future

Finally, let me turn to the future.

The banking sector is changing rapidly. BOQ has a very clear strategy to continue to grow and our new executive team, led by an outstanding CEO, WILL make that happen. Despite the tough economic times the Bank is very well managed and has a great future.

While the share price is disappointing it does present great opportunities for investors to come on board and share the upside as the new team deliver on the strong foundations already laid.

People of this calibre do not leave great jobs unless they share a common belief that there is a huge upside for them as well as the shareholders. Their reward is so intrinsically linked to the reward of shareholders that they cannot afford but to make it a success.

As I said last year, Western Australia and Queensland still remain the two states where economic activity will boom in the years ahead. With over 70% of our business in these two states BOQ is well placed to capitalize on this opportunity.

BOQ is a strong, dynamic organization with a 138 year history of enduring and prospering through many economic cycles.

I am very confident that your Board and management will continue to grow your company and therefore grow shareholder value. I will now ask Stuart Grimshaw to address you.

Neil Summerson
Chairman
13 December 2012