

# Half year results announcement. *Chairman's letter.*

Neil Summerson  
Chairman



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Dear Shareholder

Notwithstanding the dreadful natural disasters that marred the start of 2011, the underlying strength of the world economy remains steady and while macroeconomic conditions have been challenging post-GFC, the economy is improving, with world Gross Domestic Product (GDP) estimated to continue to grow above trend this year.

There are positive signs emerging from the US, with many economic indicators starting to regain traction. The health of this immense economy has an enormous impact globally and other developed nations will undoubtedly benefit in the medium-term if the US economy recovers swiftly.

In Australia, there have been some marginal short-term weather-related economic impacts, mostly attributable to the floods in Queensland, such as decreased business activity and a slight increase in inflation due to the heightened costs of those goods that were produced on floodplains.

Despite this, the Queensland economy remains fundamentally strong and unfavourable economic impacts are expected to reverse in the near future, if they have not already done so. BOQ was subjected to an increase in bad debts and a dip in revenue from December to February due to flood effects, but I am pleased to say that business activity at the Bank is rebounding to pre-flood levels.

Queensland, even with a downturn in coal production due to some flooded mines, still benefits from strong mining revenues, as does Western Australia. Both states are also supported by many major developments planned or underway that will drive growth.

The New South Wales economy has been weaker, however plans for infrastructure investment should prove positive for the local economy; and while growth in Victoria is showing signs of slowing, Victorians are still benefiting by having one of the strongest housing markets in Australia.

Australian households are continuing to show some signs of caution post-GFC, represented by a higher rate of savings, and BOQ has clearly capitalised on this. The Bank has once again out-performed the Australian banking sector in terms of deposit growth, recording 1.2 times more growth in deposits than the industry average in the half year to 28 February 2011.

BOQ was also able to achieve 1.8 times more growth in loans than the industry average, a testament to our highly productive Owner-Managers and frontline employees, whose exceptional level of customer service continues to attract customers in droves.

This strong growth, combined with cost disciplines and positive contributions from recent acquisitions, assisted BOQ to announce a normalised net profit after tax of \$57.6 million on 14 April 2011. This was significantly reduced from previous years', as flagged in our recent market guidance, given a material increase in bad debt expense to \$134.4 million in the half year to 28 February 2011. These bad debts are largely one-off in nature, and include the impact of the recent weather events. Pleasingly, underlying profit increased by 14%.

The Bank maintained strong cost disciplines despite ongoing investment in brand, new product development, technology and compliance initiatives, and this has been reflected in an improvement in the Bank's cost-to-income ratio.

The insurance and vendor finance businesses purchased last year are also performing better than expected and have allowed us to not only increase our product offering, but also to diversify the Bank's income sources.

Directors declared the dividend for the period ending 28 February 2011 to be 26 cents per share, matching that paid in the prior corresponding period. The Board decided to keep to a 100% payout ratio, despite the one-off nature of the recent bad debts.

### **CEO update**

We announced in April that Managing Director and CEO David Liddy had informed the Board he will not be seeking an extension of his contract when it expires in December this year. Mr Liddy has provided BOQ with over 10 years of outstanding leadership, and been the driving force behind the transformation of the Bank from a small, Queensland regional bank to an ASX Top 100 company and a national financial services institution. Under his leadership the Bank has more than doubled its share price, grown its assets under management by more than 600%, introduced a unique distribution model, and significantly expanded its operations.

The Board was grateful David agreed to stay on and guide the Bank through the tumultuous GFC period, and he has positioned the Bank as a key competitor in today's highly competitive market and ready for its next wave of growth. After 43 years in banking, he has decided it is time to transition to non-executive life.

As such, the Board have commenced a search for his replacement, and will keep shareholders informed of progress in this regard.

### **Board developments**

In February, I was pleased to announce the appointment of Ms Michelle Tredenick as an independent non-executive Director. Ms Tredenick brings not only extensive banking and finance experience, but also a deep understanding of regulatory and corporate governance environments and extensive experience in mergers and acquisitions. Ms Tredenick resides primarily in Queensland where the majority of the Bank's business is.

### **Shareholder matters**

To assist in reducing the Bank's costs, we encourage all shareholders to sign up for email communications if this is accessible to you. To sign up for e-communications, please fill in the form included with your dividend statement and return this to the share registry in the pre-paid envelope provided.

While the Bank's AGM is held in Brisbane each year, David Liddy and I like to keep abreast of shareholder opinions nationwide and we will be travelling to Western Australia, where nearly half of the Bank's shareholders are located, to hold a Shareholder information session on Thursday, 23 June at 6pm at the Perth Convention and Exhibition Centre. Shareholders who would like to attend are asked to RSVP by calling 1800 779 639.

### **Outlook**

BOQ derives more than 60 per cent of its income from Queensland and is ideally placed to capitalise on increased lending activity from the flood reconstruction effort in this state. It is estimated that the benefits of the rebuild will start to be seen by the Bank within six months, when the signing of contracts commencing after insurance and Government payouts have been received by those who are eligible.

We see growth opportunities across our three business lines of Banking, Finance and Insurance, which will be bolstered by an enhanced product suite and we will continue to look at further bolt-on acquisition opportunities as they emerge.

The Board will be focusing on increasing shareholder value and the plans are in place in the business to strive towards this goal. Accordingly, the Board will be aiming to increase the full year dividend later this year.

Thank you for your continued support.

Yours sincerely



**Neil Summerson**  
Chairman