Neil Summerson
Chairman

Half year results announcement.

Chairman's letter.

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25 May 2012

Dear Shareholder

The first half of the 2012 financial year has been challenging and eventful for BOQ, but I believe we have plotted the company on the right course and are successfully moving in that direction; a feat considering that current global and domestic economic environments are not particularly favourable.

A large degree of uncertainty continues to linger in our global economy, particularly in Europe, as its developed economies instigate or debate austerity packages and deleverage their sovereign debt. The liquidity issues in Europe do not seem to be replicated in the United States, where analysts are reporting positive indicators of a recovery in growth expectations. Fortunately for Australia, the Asian region still continues to be a source of growth, particularly in China and India with trade and production being the major drivers.

The domestic economy appears solid with sustained Gross Domestic Product growth, moderate inflation and ongoing low unemployment. Risks do, however, remain, in the form of ramifications from weak global economic activity and the possibility of a future slow-down in China, along with domestically, the two speed economic imbalances most notably in Queensland and Western Australia. A high exchange rate and weakened confidence have contributed to a difficult economic environment.

The Australian banking system continues to be strong. Banks are less reliant on volatile and expensive wholesale funding as a result of the greater use of funds derived from retail deposits and banks are also holding greater levels of capital due to changes in prudential regulation. On the downside, these changes to regulation can prove to be costly for banks and funding pressures still remain in this slower credit growth environment, further adding strain to banks' net interest margins, which are a key driver of profitability.

Capital raising

We were pleased to recently announce the successful completion of the retail component of our accelerated 8-for-37 pro-rata non-renounceable entitlement offer. The retail offer closed on Tuesday, 24 April 2012 and raised approximately $162 million. The Bank received very strong demand from retail shareholders for the offer and we were able to satisfy 99% of these applications in full.

This followed the completion of the institutional component of the entitlement offer which raised approximately $135 million and an institutional placement which raised in the region of $153 million. Both institutions and retail shareholders were offered the same price of $6.05 per share in these offers.

This capital raising places BOQ's Core Tier 1 capital at the top end of our peer range, allows us to strengthen provisioning of our current loan book and gives us capacity to realise opportunities for growth.

Half year results

BOQ announced a normalised underlying profit before tax of $221 million, which is up from $216 million the same time last year, showing a reasonably sound operating performance in what has been a tough market. The statutory result was a net loss after tax of $91 million, which differs from the first half statutory net profit of $48 million the same time last year. For a brief explanation of the difference between normalised and statutory results, see the note below.

The net loss reported on a statutory basis for the first half of 2012, reflects a more conservative approach to provisioning for bad and doubtful debts. A comprehensive review of the commercial loan portfolio was undertaken during March 2012 using external professional firms, and a detailed assessment of the higher risk exposures and segments has been completed. As a prudent response to the continued weakness in retail and commercial property markets, and in the Queensland market generally, a collective economic overlay of $160 million was taken.

Despite a challenging cost of funding environment, the Bank has been able to maintain discipline in expenditure and BOQ's net interest margin for the first half of 2012 on a normalised basis has increased to 1.68% (1.67% on a statutory reporting basis), primarily through improved asset repricing.

Arrears at the Bank appear to be stabilising and we are making good progress on managing our impaired assets.

BOQ has also seen deposits grow 1.3 times more than the industry average over 6 months to 29 February 2012, which entirely funded asset growth for the half year 2012. The Bank has also increased its reliance on domestic retail funding, which has risen from 52% of our overall funding mix in 2011, to 54% for the half year to 29 February 2012.

The Board approved a fully franked half year dividend of 26 cents per share, matching that paid in the prior corresponding period in 2011.

New direction

BOQ's Managing Director and CEO, Stuart Grimshaw has been working hard to evaluate the business and put in place a new executive team to drive the company's strategy for growth going forward. Underway are programs which should bring productivity improvements to the organisation, while also ensuring that BOQ's service capability remains at the forefront of our business agenda.

I am also pleased to announce that an appointment has been made to the Board since our last Annual General Meeting, being Mr Richard Haire. Mr Haire has extensive experience in agribusiness and global supply chain management of agricultural products. He has a deep understanding of how to establish clear pathways for sustainable growth, something that our business customers will acknowledge as being intrinsic to business success.

Outlook

We anticipate that a moderate credit growth environment will persist in the near-to-medium term, which may depress the margin outlook for banks. The cash rate is expected to remain lower for longer which may produce continued shifts in our currency.

The banking regulatory environment will continue to evolve, particularly impacting the degree of capital that banks are being required to hold, which is a contributing factor driving changes in business models and expected financial returns. BOQ is well prepared for these changes.

BOQ will focus on its relationship based businesses of business banking, agribusiness and our core retail customers and will target growth above system over the long term whilst maintaining costs at or under inflation.

The foundations have now been set for promising organic growth and I believe BOQ is ideally positioned to take advantage of future opportunities that we expect to present.

Thank you for your continued support as a shareholder.

Yours sincerely

Neil Summerson
Chairman

Note: In assessing financial performance, BOQ discloses the net profit (loss) after tax on both a 'Statutory basis' and a 'Normalised Cash basis'. The Statutory basis is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The Normalised Cash basis is used by Management to present a clear view of the Group's underlying operating results. This excludes a number of items that introduce volatility and/or one off distortions of the Group's current period performance, and allows for a more effective comparison of the Group's performance across reporting periods and against peers. These items, such as amortisation of intangibles from acquisitions, and accounting for economic hedges, are calculated consistently year on year and do not discriminate between positive and negative adjustments. BOQ also uses the measure of 'Normalised Underlying Profit', which represents the Normalised Income less Normalised Operating Expenses, to provide users with a view on the underlying growth rate of the business before bad debt and tax expenses, which often carry volatility between periods. Normalised net interest margin excludes amortisation of fair value adjustments. A reconciliation between Statutory profit (loss) and Normalised Underlying Profit is available in BOQ's results market release to ASX of 18 April 2012.