Chairman's address

2011 Annual General Meeting

Good morning Ladies and Gentlemen,

In my time on the BOQ Board, which has spanned 15 years, the last three years have undoubtedly been the most challenging not only for the banking sector generally but also for BOQ.

Indeed I would claim that the last year has been the most difficult year for the Bank since I joined the Board - for a number of reasons which I will outline shortly.

Financial performance

I will start my address with the Bank's financial performance.

Although the Board was disappointed in the statutory net profit there were three significant matters that affected our performance during the year. When these factors are taken into consideration the Board believes that the underlying business of BOQ has done well under the circumstances.

Firstly, the floods and cyclones had a material effect on our business. The majority of the Bank's customers are located in Queensland. There is no other bank in Australia with such a concentration of business in this State. It was natural to expect that BOQ would be affected by these natural disasters.

Not only was our Head Office in Queen St affected but many of our branches were inundated for several weeks. As a consequence our business in Queensland was severely affected in the months immediately following the floods and cyclones. This obviously resulted in a slow down in new business, a loss in revenue and customers who found themselves out of work or without cash flow to meet commitments.

I also want to mention that many of our staff, our owner managers and the staff of our owner managers also had their homes inundated by flood waters but despite these terrible circumstances many of them still managed to return to work shortly after the flood waters receded to look after our customers. I want to acknowledge these wonderful people and all the other staff who worked tirelessly during January to ensure the Bank continued to function effectively.

BOQ assisted more than one thousand three hundred customers who experienced hardship. As a consequence of these adverse natural events and prevailing economic conditions we announced to the market in February that the Bank was increasing its bad debt provision for the first half of 2011 by $45 million to cover potential unrecoverable debts. Since that time we have been working with our affected customers to ensure that these debts can be managed.

Secondly, we announced just before our last Annual General Meeting that the Bank had experienced large write downs in the value of assets held as security against three shopping centres that had been placed under administration. As a result of an internal review of all of the Bank's major exposures and the impact from these shopping centres, impairment charges increased by $100 million.

I would like shareholders to note that these loans were written well before the Global Financial Crisis and all met the normal lending criteria applicable at that time. The retail sector has been severely tested since 2008, as many of you will know, and values of most shopping centres fell substantially during the GFC. Whilst all banks have experienced problems in the retail sector these three shopping centres represented proportionally a significant exposure for BOQ.

Our systems of identifying problem loans have been strengthened over the past twelve months and appropriate action is taken early to identify and work with customers experiencing difficulties.

Thirdly, the economy in Queensland has performed poorly compared to other States. The State's credit rating was reduced by ratings agency Standard & Poor's as a result. Queensland continues to have a record number of insolvencies in the small business sector and the tourism, property, manufacturing and agribusiness sectors have all had an extremely difficult year. Apart from home lending, the small, medium business market is the market in which we lend. We do not lend to the large public companies. Mortgage defaults in home lending in Queensland across all lenders reached a record high this past year and as a consequence the Bank has had to increase its provisioning for potential bad debts.

All this resulted in a level of bad debts in 2011 of $201m. This is unprecedented in the Bank's history.

Consequently, the Company's statutory net profit for the year was $159m which was a reduction from the previous year of $23m. In 2010, BOQ recorded a statutory profit of $182m.

It is apparent therefore had it not been for the provisions taken against bad and doubtful debts we would have recorded a solid increase in net profit once again. As mentioned, management has devoted a considerable effort to ensure we identify and manage customers who are experiencing problems and after three months of this financial year we are seeing a more encouraging trend.

This past year was the first time in 14 years the Bank has not recorded a new record profit. To keep the year's result in perspective it was still ahead of that recorded in 2009 by $17m. The Board's expectation is that the Bank will return to normal trends in 2012.

I don't want these factors to sound like excuses but rather explanations as to why our performance this year has been disappointing to you and your Board. If these factors are eliminated from the statutory result the underlying performance of our Company has shown a solid gain of 18%.

Earnings per share was disappointing off the back of the reduced profit but again the Board expects management to achieve a much improved performance this year so that the company returns to earnings consistent with previous years.

Apart from our normal banking division our acquisitions of St Andrews Insurance and CIT on 1st July 2010 have proven to be most successful. The integration has gone extremely well and profits were ahead of expectations. CIT has now been rebranded BOQ Finance.

How does the rest of the world affect our Bank?

Let me now turn to the events in Europe.

Greece, Italy and Spain seem so far away yet the problems in Europe affect our financial sector in several ways.

Australia has never had the capital to fund its own expansion. We simply don't have the "old wealth" that many northern hemisphere countries have. This only comes from wealth accumulation over centuries.
Australia needs to borrow from overseas to meet the demand for debt funding to fund the growth in our economy.

Therefore all banks need to raise funds through various channels including from overseas. A percentage of this for the major banks comes from Europe. When the banks believe the risk of default on outstanding loans becomes too high then credit markets shut down and borrowing costs escalate.

This event occurred in 2008 when Lehmans collapsed and there is speculation that events in Europe may cause a similar event again.

BOQ has minimal exposure to Europe and I want to inform shareholders that we do not see a necessity at this stage to borrow or refinance our wholesale debt within the next twelve months.

The events in Europe and indeed throughout the world should be of concern to all investors. Whilst we can have an optimistic view that Australia is somewhat insulated from these events the fact remains that we are not.

As the Governor of the Reserve Bank said in Tuesday this week and I quote "The sovereign credit and banking problems in Europe are likely to weigh on economic activity there over the period ahead."

Financial markets have experienced considerable turbulence and financing conditions have become much more difficult, especially in Europe. This, together with precautionary behaviour by firms and households, means that the likelihood of further material slowing in global growth has increased."

The world does not stop because of these concerns or events. Business keeps going and it is up to us as a Board and management to ensure we take advantage of these circumstances. Despite my earlier comments about Queensland there are strong signals that this State's economy is starting to gain some momentum again. More will be said about this shortly.

Transition of CEO

There has been a changing of the guard this year with David Liddy retiring from BOQ and Stuart Grimshaw being appointed CEO and Managing Director.

I want to thank David Liddy for an outstanding career with the Bank. David commenced on April 1st 2001 and transformed the Bank from a Queensland - centric bank to a national company, with branches operating in every Australian state and territory.

I want to welcome Stuart Grimshaw who commenced on 1st November this year. Stuart has had a long 30 year career with two of the big four banks and for the last three years was Managing Director of an investment company which managed approximately $2 billion for more than 400 investors.

He has the unique experience of being a career banker but also knowing what shareholders want from bank stocks, including BOQ.

I welcome Stuart to BOQ and know that he will bring a high level of energy to lead us into the next phase of our journey.

Strategy

Our franchise model continues to work well. It is in a very good position to continue to deliver outstanding service by Owner–Managers and their teams.

Our unique model, where branch managers actually own the branch and are directly responsible for their own profitability, is a compelling force to provide superior customer service and we continue to attract customers who recognize this and who are looking for an alternative to the big banks. We intend to continue to expand the numbers of Owner-Managed Branches.

In regard to diversifying outside Queensland we have been focused on doing just that over the past few years, moving away from a Queensland centric organisation to becoming a national company and our purchase of Home Building Society, St Andrews Insurance and CIT were major factors in this plan.

We will, of course, continue to use our Queensland base to our advantage where appropriate, including maximising any opportunities arising from the post-floods rebuild, but we will continue to investigate national opportunities.

It is well recorded that the next phase of the resources boom is just beginning in Australia. From all accounts this will bring prosperity to the whole of Australia but in particular to two states– Western Australia and Queensland. These are the very two states in which the company is the strongest in its branch representation.

We have a clear strategy, a strong capital base, high levels of staff and customer engagement, and continuing good growth across our various channels.

We are an Australian Bank operating in an Asian region. We do not see the need to expand offshore but to remain in Australia to challenge the Australian banks in their traditional ways of banking.

We will continue to grow and be profitable.

Under the new CEO we will continue to be very customer focused and build our base accordingly.

Share price

Let me turn now to our share price.

Shareholders will be disappointed with the company's share price.
All of our directors own BOQ shares as well, so we have all been affected. Indeed most of our directors have increased their shareholding in the past six weeks while the trading window for Directors has been open. We all have an optimistic view of BOQ's future.

Movements in a company's share price are dependent on many factors. Some are not controllable by the company, for example, macroeconomic and political conditions and others, which can be managed, such as the operations of the company, including profits, growth and other financial data.

In terms of the manageable factors that influence a share price, it is possible that the market has negatively perceived our current high rate of bad debts from weather events and this State's economic downturn as long lasting issues. If this view is held we believe this will prove to be inaccurate in the next twelve months.

Having such a strong presence in Queensland and with this state having the natural disasters earlier this year also could have negatively affected investor sentiment.

As shareholders know, the Bank consistently outperformed system growth for many years. When the securitisation markets closed in 2007 this took away part of our competitive advantage. This could also be a factor affecting our share performance.

Having profit downgrades in December last year and February this year, no matter what the reasons, do affect shareholder confidence.

We recognize this and we therefore need to restore that confidence by having solid results over the next twelve months.

It is also not unusual for a company's share price to be affected when there is a change of management, but let me assure you that the Board is very confident our new CEO will be able to successfully lead our company, increase profits and therefore increase shareholder value.

Dividends

The Board recently announced an increase in the dividend paid to shareholders of 54 cents per share for the full year 2011 and this was consistent with my pledge last year to reward shareholders with an increase in dividend payments if conditions allowed.

I might add that despite the reduction in net profit from events mentioned earlier, which the Board believes are mostly 'one off', the dividend represents a payout of 69% of net profit.

In setting future dividend payments the Board will continue to monitor closely the changing need for capital especially with new regulatory requirements. We are however expecting steady growth in dividends going forward as profits rebound, maintaining a 50-60% payout ratio.

Our social responsibility

The Bank is ever mindful of its corporate and social responsibilities.

I would like to inform shareholders of just a few of the programs we are involved with.

- $1m has been raised through our Banking on Kids appeal since its inception in 2004, with $274,000 donated in 2011.
- BOQ's re-building Communities program was started to help communities impacted by natural disasters. Over 110 communities and sporting groups have been provided with donations to address specific needs, such as having new carpet laid, buying new computers, sourcing new sporting equipment and general building repairs.
- BOQ is helping the Smith Family to provide disadvantaged children with mentoring support and financial scholarships so that they can realize their potential through education. More than 1,000 Australian secondary schools have signed up to use this free innovative teaching resource.

In a very tangible way you would have seen people outside offering to clean your shoes. This is a program called “Buffed”.

Buffed is Australia’s first social franchise providing unemployed or underemployed individuals with the opportunity to own and run a shoe shine stand franchise. This ground breaking model allows these individuals to purchase and operate their own business with the provision of no interest loans to assist in funding the acquisition fee and extensive training, development and support throughout their life as a Buffed franchisee.

It is important that this Bank helps others and these are just 4 of many community partnerships we are investing in. I hope you agree with me that this is an important investment in our future.

The future

Finally, let me turn to the future.

The banking world is rapidly changing. BOQ has a VERY clear strategy to continue to grow and our new CEO WILL make it happen. Despite the tough economic times, the Bank is well managed and has demonstrated once again it can contain costs.

While the share price is disappointing at present, it does reflect circumstances and events primarily outside our control and these will reverse as economic conditions improve.

Western Australia and Queensland are 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 capitalise on this opportunity.

BOQ is a strong, dynamic organization with a 137 year history of enduring and prospering through many economic cycles.

I am confident that the Board and management will continue to grow your company and grow shareholder value.

I would now like to ask our Chief Operating Officer, Mr Ram Kangatharan to say a few words, before handing over to your new Managing Director and CEO Stuart Grimshaw.

Ram was Acting CEO for the period of 1 September to 31 October 2011 and in his usual capacity of Chief Operating Officer, it is appropriate for Ram to provide a report to shareholders on the year under review.

Neil Summerson
Chairman
8 December 2011