

Financial report



Contents	Directors' report	24
	Lead auditor's independence declaration	47
	Income statements	48
	Statements of recognised income and expense	49
	Balance sheets	50
	Statements of cash flows	51
	Notes to the financial statements	52
	Directors' declaration	114
	Independent audit report	115
	Shareholding details	117

The directors present their report together with the financial report of Bank of Queensland Limited ("the Bank") and of the Consolidated Entity, being the Bank and its controlled entities for the year ended 31 August 2009 and the auditor's report thereon.

Directors

The directors of the Bank at any time during or since the end of the financial year are:

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
Neil Summerson B Com, FCA, FAICD, FAIM Chairman Non-Executive Independent Director	61	Neil Summerson is a Chartered Accountant with 39 years experience and is a past Chairman of the Queensland branch of the Institute of Chartered Accountants. He was formerly the Queensland Managing Partner at Ernst & Young. He is a Director of AmerAlia Inc, Australian Made Campaign Limited, Australian Property Growth Limited and Moore Stephens (Queensland) Limited. He is a former Chairman of the Brisbane Water Board and is currently Chairman of Motorama Holdings Pty Ltd, IDEC Pty Ltd and Australian Property Growth Fund. Mr Summerson has been a Director of the Bank since December 1996 and was appointed Chairman on 20 August 2008. Mr Summerson is Chair of the Bank's Remuneration and Nomination Committee and a member of the Audit Committee.
Anthony Howarth, AO FAICD, SF Fin Deputy Chairman Non-Executive Independent Director	57	Tony Howarth was Chairman of Home Building Society Ltd which merged with the Bank in December 2007. He has worked in the banking and finance industry for over 31 years. His work has involved a number of overseas appointments. He has been the Managing Director of Challenge Bank Limited and the CEO of Hartleys Limited. He was a former Chairman of Alinta Limited (retired 24 July 2006) and is currently Chairman of Mermaid Marine Australia Limited and Non-Executive Director of AWB Limited and Wesfarmers Limited. He is also involved with a number of business and community organisations being Chairman of St John of God Health Care Group, President of the Australian Chamber of Commerce and Industry and Chair of the Committee for Perth. In addition, he is a member of the Rio-Tinto WA Future Fund, and is on the University of Western Australia's Senate. Tony was appointed Deputy Chair of the Bank in August 2008 and is a member of the Remuneration and Nomination Committee, Risk Committee and Corporate Governance Committee.
David Liddy MBA, FAICD, SF Fin Managing Director & Chief Executive Officer Executive Non-Independent Director	59	David Liddy has over 40 years experience in banking, including international postings in London and Hong Kong. He was appointed Managing Director of the Bank in April 2001. He has a Masters in Business Administration. He is Deputy Chairman of the Australian Bankers' Association Council, Chairman of the Queensland Museum Foundation and a Board member of the Brisbane Lions Australian Football Club. He is also a member of the Federal Treasurer's Financial Sector Advisory Council. Mr Liddy is a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors.
Steve Crane B Com, SF Fin, MAICD, FAIM Non-Executive Independent Director	57	Steve Crane was appointed Director of the Bank at the Annual General Meeting on 11 December 2008. He has almost 40 years' experience in financial markets in Australia, including experience at both AMP and BZW Australia, where he was promoted to Managing Director – Financial Markets in 1995 and became Chief Executive in 1996. In 1998, when RBS Group (Australia) Pty Limited (formerly ABN AMRO Australia Pty Limited) acquired BZW Australia and New Zealand, Steve became Chief Executive and remained in this role until his retirement in June 2003. Steve is now a member of RBS Group's (Australia) Advisory Council and a Director of Transfield Services, APA Ethane Limited, The Sunnyfield Association, Taronga Conservation Society Australia, Australian Reward Investment Alliance, and Chairman of Global Valve Technology Limited. Mr Crane is a member of the Bank's Corporate Governance Committee and the Chair of the Budget Committee.
Roger Davis B.Econ (Hons), Masters Philosophy Non-Executive Independent Director	57	Roger Davis was appointed a Director of the Bank on 20 August 2008. He has almost 31 years' experience in banking and investment banking in Australia, the US and Japan. He is currently a consulting Director at Rothschild Australia Limited. He was previously a Managing Director at Citigroup where he worked for over 20 years and more recently was a Group Managing Director at ANZ Bank. He is a Director of Macquarie Office Management Ltd, Ardent Leisure Management Ltd and Ardent Leisure Ltd, Aristocrat Leisure Ltd, Territory Insurance Office and Trust Ltd. He was formerly Chair of Pengana Hedgefunds Ltd and Esanda and a Director of ANZ (New Zealand) Limited, CitiTrust in Japan and Citicorp Securities Inc. in the USA. He has a Bachelor of Economics (Hons) degree from the University of Sydney, a Master of Philosophy degree from Oxford and is a Rhodes Scholar. Mr Davis is a member of the Risk Committee.
Peter Fox B Bus (Hons) Non-Executive Non-Independent Director	48	Peter Fox has been with the Linfox Group for over 22 years. After a diverse career within the organisation, he was appointed, in chronological order, National Fleet Manager, Executive Officer, and Director of Linfox Pty Ltd, culminating in his appointment as Executive Chairman of Fox Group Holdings in 1994. Mr Fox was appointed a Director of the Bank in May 2001. He is also a Director of the Alfred Foundation and a member of the Australian Graduate School of Management Advisory Council (UNSW). He is a member of the Bank's Budget Committee.
David Graham B Com, B.Econ(Hons), MBA, FCPA Non-Executive Non-Independent Director	67	David Graham has had extensive experience in the financial sector specialising in capital markets transactions. He was appointed as a non-executive Director of the Bank in October 2006. He has been a non-executive Director of a number of ASX listed companies and he is currently a non-executive Director of Bandanna Energy Limited. He is Chairman of DDH Graham Limited, an advisory and funds management company he founded in 1981. He is a member of the Audit and Budget Committee.

Name, qualifications and independence status

Age Experience, special responsibilities and other directorships

Carmel Gray B Bus Non-Executive Independent Director	60	Carmel Gray was appointed a Director of the Bank on 6 April 2006. Ms Gray has had an extensive career in IT and Banking. Ms Gray was Group Executive Information Technology at Suncorp from 1999 to 2004. Prior to her Suncorp appointment she was General Manager of Energy Information Solutions Pty Ltd and Managing Director of Logica Pty Ltd. Ms Gray is Chair of Information Technologies Australia Pty Ltd. Ms Gray is a member of the Bank's Risk Committee and the Chair of the Audit Committee.
Bill Kelty, AC B Econ Non-Executive Non-Independent Director	61	Bill Kelty has over 32 years' experience in industrial relations. He was appointed a Director of the Bank in August 2001 and is currently a Director of the Linfox Group and a Commissioner of the Australian Football League. He is also involved in the Foundation for Rural and Regional Taskforce and was previously Chairman of the Federal Government's Regional Development Taskforce. Mr Kelty was Secretary of the Australian Council of Trade Unions from 1983-2000 and a member of the Reserve Bank Board from 1988-1996. He is the chair of the Bank's Corporate Governance Committee.
John Reynolds B Sc (Hons), Dip Ed, FAICD, FAIM Non-Executive Independent Director	66	John Reynolds was appointed a Director of the Bank in April 2003. He has extensive CEO-level experience at Top 100 media and resource companies in Australian and overseas. He is Chairman of Arrow Energy Limited. He is a Director of Mater Health Services Brisbane Limited and an advisor to various private companies and professional organisations. Mr Reynolds is Chairman of the Bank's Risk Committee, a member of the Audit Committee and a member of the Bank's Remuneration and Nomination Committee.

Antony Love retired as a director on 11 December 2008.

Company Secretary

Mr Brad Edwards LLB was appointed to the position of company secretary and general counsel in May 2000. He is a director of the Prince Charles Hospital Foundation. Prior to his appointment as company secretary and general counsel, Mr Edwards worked as a solicitor and partner in several legal firms in private practice.

Ms Stacey Hester LLB (Hons), LLM, was jointly appointed to the position of Company Secretary on 26 August 2009. Prior to her appointment as company secretary, Ms Hester held various roles within the Bank, including Assistant Company Secretary, Head of Legal and Corporate Solicitor.

Directors' Meetings

The number of meetings of the Bank's directors (including meetings of Committees of directors) and the number of meetings attended by each director during the financial year were:

	Board of Directors		Risk Committee ⁽¹⁾		Audit Committee ⁽¹⁾		Corporate Governance Committee		Remuneration & Nomination Committee		Budget Committee		Investment Committee ⁽²⁾	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Neil Summerson	14	14	-	-	7	9	1	1	3	3	-	-	4	4
Anthony Howarth	13	14	5	5	-	-	-	-	3	3	-	-	1	1
David Liddy ⁽³⁾	14	14	2	5	4	9	-	-	3	3	1	1	4	4
Steve Crane	9	10	-	-	-	-	-	-	-	-	1	1	2	2
Roger Davis	11	14	5	5	-	-	-	-	-	-	-	-	3	3
Peter Fox	10	14	-	-	-	-	-	-	-	-	1	1	-	-
David Graham	14	14	-	-	9	9	-	-	-	-	1	1	2	2
Carmel Gray	14	14	5	5	8	8	-	-	-	-	-	-	1	1
Bill Kelty	11	14	-	-	-	-	1	1	-	-	-	-	2	2
Antony Love ⁽⁴⁾	4	4	-	-	-	-	-	-	-	-	-	-	-	-
John Reynolds	14	14	5	5	9	9	1	1	3	3	-	-	2	2
Total number of meetings held	14		5		9		1		3		1		4	

A - Number of meetings attended

B - Number of meetings held during the time the director was a member of the Board / Committee during the year

(1) The Bank's Audit & Risk Committee was split into two separate committees, the Audit Committee and the Risk Committee, on 8 October 2008. The meeting of the Audit & Risk Committee of 26 October 2008 has been included under Audit Committee in the above table.

(2) The composition of the Investment Committee is not fixed. Composition and meetings held are set by the Board on an as required basis.

(3) David Liddy attends Committee meetings but is not a formal Committee member.

(4) Antony Love retired on 11 December 2008.

Directors' Report

Year ended 31 August 2009

Principal activities

The principal activity of the Consolidated Entity is the provision of financial services to the community. The Bank has an authority to carry on banking business under the Banking Act 1959 (Commonwealth) (as amended). There were no significant changes during the year in the nature of the activities of the Consolidated Entity.

Operating and finance review

Profitability

Profit after tax for the year ended 31 August 2009 increased by 2% to \$141.1 million compared with the 2008 result of \$138.7 million. Profit after tax in the current year was impacted by the one off costs recognised in the interim result primarily relating to the restructure of NSW distribution and head office under Project Pathways and property related impairment charges.

Cash profit, profit after tax excluding non recurring and non cash items, increased by 21% from \$155.4m to \$187.4m. This result is largely due to the cost cutting measures undertaken as part of Project Pathways and increased net interest income. The result was achieved in difficult conditions with margins under pressure and increased bad debt charges.

Income

Total income increased by 10% during the current year to \$629.0 million.

Net interest income for the year ended 31 August 2009 increased by 14% to \$481.1 million from the prior period result of \$421.1 million. This was a strong result given margin pressures and is a result of the Bank's ability to deliver strong asset growth and the benefit of the Home Building Society Ltd ("Home") acquisition which contributed to the increase in net interest income.

Other operating income decreased by 1% to \$147.9 million for the 2009 year from \$149.5 million in the prior year. Other income was impacted adversely by the ATM Direct Charge system introduced in March 2009.

Expenses

The Bank's costs increased by 8% to \$369.8 million in the current financial year from the previous year's expenses of \$341.7 million. However, non-operational expenses such as non-recurring Home integration costs and other due diligence costs amounting to \$13.0m, impairment on primarily property related equity investments of \$13.2m, restructuring costs for NSW distribution and head office of \$18.7m, and amortisation of customer contracts amounting to \$10.9m are included in the years expenses. In the prior year, non-operational expenses such as non-recurring Home integration costs and other due diligence costs amounting to \$14.0m, and amortisation of customer contracts amounting to \$7.7m are included in the expenses.

If these amounts were excluded, the Bank's expenses would be \$314.0m, a decrease of 2% on the prior year of \$320.0m. This decrease in costs is largely due to the Bank's restructure at February 2009 and continued focus on cost control.

Efficiency

The Bank's cash cost to income ratio has decreased from the 2008 result of 58.3% to 57.1% in the current year.

Adjusting for aforementioned non recurring items, the Bank cash cost to income ratio has decreased from 56.1% in the 2008 year to 49.9% in the current year.

Asset quality and provisioning

Impairment on loans and advances

Expenses relating to impairment on loans and advances were \$66.0 million for the year ended 31 August 2009. This expense consisted of \$60.0 million of specific provision impairment expense and \$6.0 million of expense relating to the collective provision.

The impairment expense of \$60.0 million for the 2009 financial year has increased by \$35.7 million or 147% on the prior period expense of \$24.3 million.

Impaired assets

Impaired assets increased in gross terms to \$117.4 million at 31 August 2009 from \$31.6 million for the prior year. Impaired assets as a percentage of non-securitised loans have increased to 0.56% from 0.17% in the prior year. Specific provisions have been raised for \$29.4m (25%) of impaired assets.

Lending approvals and asset growth

Lending approvals for the year were \$13.6 billion, a decrease of \$0.3 billion over the comparative 2008 approval result of \$13.9 billion. This decrease of 2% is due to lower system growth as the Australian economy slows. The Bank has however continued to outperform system growth.

The lending approval growth translated into loans under management balance of \$28.9 billion, an increase of \$2.6 billion from 31 August 2008 which represents growth of 10%.

Of the loans under management balance of \$28.9 billion, \$28.4 billion is on balance sheet and \$0.5 billion off balance sheet. The off balance sheet lending relates to certain REDS EHP leasing trusts which are not consolidated for accounting purposes as the residual risk has been sold by the Bank.

Operating and finance review (continued)

Retail deposit growth

Retail deposits have grown strongly during the 2009 financial year and have reached \$16.2 billion, an increase of \$2.2 billion or 16% from \$14.0 billion as at 31 August 2008.

The Bank has focused on retail deposit growth in response to the dislocation of wholesale funding markets though it should be noted that competition for retail funding has increased its relative cost, negatively impacting net interest margin.

Capital management

The Board has set capital targets at 8.0% of risk weighted assets as Tier 1 capital with a minimum of 7.0% provided that total capital does not fall below 10.0%. The total capital adequacy ratio at 31 August 2009 was 11.5% and Tier 1 capital was 8.9%. Reset Preference Shares ("RePS") and Perpetual Equity Preference Shares ("PEPS"), issued as hybrid capital instruments, comprise 17% of total Tier 1 capital.

Total Tier 1 capital of 8.9% is represented by 7.4% of Core Tier 1 capital and 1.5% of hybrid capital instruments, including preference shares.

Subsequent to balance date the retail component of the non renounceable entitlements issue settled. This raised approximately \$110m in capital lifting both Tier 1 capital and total capital by approximately 70 basis points.

The Bank continued with an active capital management program, including dividend reinvestment program, a share purchase plan, institutional placements and a non renounceable entitlements offer. Securitisation markets continue to provide limited opportunities for capital efficient issues.

Branch network expansion

The Bank opened 4 branches and closed 16 branches during the financial year to bring total branches to 256 as at 31 August 2009.

Of these 256 branches, 104 are located outside Queensland. The Bank has converted 15 corporate branches to owner managed branches during the financial year.

Shareholder returns

Diluted earnings per share decreased 17% from 89.6c in the 2008 year to 74.4c in the current year.

Excluding the impact of non-cash and non-recurring items the Bank's diluted earnings per share would be 98.4c. The 2008 result also adjusted for non-cash and non-recurring items was 99.9c.

On this basis, the current year's diluted earnings per share decreased by 2%.

The Bank has declared a final dividend of 26 cents per share fully franked. This is a decrease of 12 cents (32%) from the 2008 dividend of 38 cents.

Dividends

Dividends paid or declared by the Bank to members since the end of the previous financial year were:

Type	Cents per share	Total Amount \$m	% franked	Date of Payment
Final 2008				
Declared after the end of the year				
- Final – preference shares (RePS)	257	1.2	100%	15/10/2008
- Final – preference shares (SIRPS)	261	1.7	100%	20/10/2008
- Final – preference shares (PEPS)	353	7.1	100%	15/10/2008
- Final – ordinary	38	58.9	100%	24/11/2008
Interim 2009				
Declared and paid during the year				
- Interim – preference shares (RePS)	255	1.2	100%	15/04/2009
- Interim – preference shares (PEPS)	265	5.3	100%	15/04/2009
- Interim – ordinary	26	44.8	100%	19/05/2009
Final 2009				
Declared after the end of the year				
- Final – preference shares (RePS)	257	1.2	100%	15/10/2009
- Final – preference shares (PEPS)	180	3.6	100%	15/10/2009
- Final – ordinary	26	54.8	100%	01/12/2009

All the franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the tax rate of 30%.

The balance of the Bank of Queensland Limited dividend franking account at the date of this report, after adjusting for franking credits and debits that will arise on payment of income tax and dividends relating to the year ended 31 August 2009, is \$31.1 million credit calculated at the 30% tax rate (2008: \$25.1 million credit).

It is anticipated, based on these franking account balances that the Bank will continue to pay fully franked dividends in the foreseeable future.

Directors' Report

Year ended 31 August 2009

Operating and finance review (continued)

Environmental regulation

The Consolidated Entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Consolidated Entity is not aware of any breach of environmental requirements as they apply to the Consolidated Entity.

State of affairs

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows:

Acquisitions

The Bank established the Series 2009-I REDS Trust securitisation vehicle during the year.

Refer to Note 34 of the financial report for further information.

Disposals

The following entities were voluntarily deregistered during the financial year:

- Horizon Portfolio Services Pty Ltd;
- Home Direct WA Pty Ltd; and
- Statewest Conveyancing Pty Ltd.

Refer to Note 34 of the financial report for further information.

Events subsequent to balance date

Dividends have been declared after 31 August 2009, refer to Note 7.

The financial effect of the above transactions have not been brought to account in the financial statements for the year ended 31 August 2009.

On 18 September 2009 the retail entitlement offer settled at an issue price of \$10.00 and 11,080,536 ordinary shares were issued.

Likely developments

The Bank will continue to provide a wide range of banking and financial services for the benefit of its customers, expanding and developing these where appropriate. This will require further investment, particularly in systems and information technology.

Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

Remuneration Report - Audited

Introduction

This remuneration report is prepared for consideration by shareholders at the 2009 Annual General Meeting of the Bank.

The report sets out:

- The Bank's remuneration policy;
- Key management personnel;
- Non-executive directors remuneration framework;
- Executive director remuneration framework;
- Executives remuneration framework;
- Remuneration disclosures for key management personnel;
- At risk remuneration; and
- Award rights and option terms.

Remuneration Policy - Audited

The Bank recognises that it needs to regularly reshape its remuneration programs to effectively support its business operations, goals, strategies and to enhance shareholder value. The Bank needs to remain competitive in the market place and remunerate reasonably and responsibly, helping it to attract, retain, motivate and reward its diverse workforce.

The Remuneration & Nomination Committee, chaired by the Chairman of the Board, is responsible for making recommendations to the Board on remuneration policies and directors' and executives' remuneration (which includes the Company Secretary). This Committee considers remuneration issues at least annually and obtains advice from external independent remuneration specialists to assist in its decisions. The objective is to ensure remuneration packages properly reflect the person's duties and responsibilities and level of performance as well as ensuring that remuneration attracts and motivates people of the highest calibre.

Remuneration Report - Audited (continued)

Remuneration Policy - Audited (continued)

The policies relating to non-executive director remuneration are discussed later in this report in the Non-Executive Directors Remuneration Framework.

Remuneration at all other levels of the organisation can be comprised of 3 main components:

- Fixed Component - salary based pay and benefits
- Short-term incentives - performance based cash bonuses
- Long-term incentives – retention and performance based equity programs

The Bank has guidelines restricting the dealings of directors and executives in Bank securities through its Insider Trading Policy. This policy includes the Board's policies on margin lending and hedging of risk associated with directors' and executives' ownership of Bank securities.

Fixed Component

Executives and senior management are offered a competitive fixed component of pay and rewards that reflect the core performance requirements and expectations of the role. This amount is market tested annually by remuneration specialists to ensure that it remains competitive.

Short-term Incentives

Payments in cash are provided to executives and senior management once specified quantifiable results are achieved within appropriate risk management parameters. Linking these short-term incentives to individual and corporate performance within appropriate risk management parameters ensures that executives and senior management continue to create a prudent performance focused work culture within the Bank that supports the long-term financial soundness of the Bank. The target award for each executive level participant is usually stated as a percentage of the executive's total fixed remuneration. Business objectives and Short-term Incentive Plan design features are revisited annually by the Remuneration and Nomination Committee prior to the commencement of the plan year, but typically may include achievement of financial and non-financial targets for a person, team or division, individual performance criteria and risk management and compliance benchmarks.

Long-Term Incentives - Award Rights

The Award Rights Plan is a shareholder approved equity based program under which Award Rights are granted as long-term incentives. During the year ended 31 August 2009, the Bank has granted Performance Award Rights ("PARs") and Deferred Award Rights ("DARs") to executives and senior management.

PARs

The grant of PARs is made to Group Executives and other identified key senior managers due to the pivotal role they will play in achieving the longer-term business goals of the Group. The Board believes that part of the rewards for their services to the Bank should be performance-based and at risk and should involve equity interests in the Bank. This approach reflects national and international best practice in executive remuneration and corporate governance. In structuring the terms of the long-term incentives, the Board carefully considered market practice among comparable companies listed on the ASX.

The grant of the long-term incentives to executives and managers align their interests with those of the Bank and its shareholders. This includes encouraging behaviour that supports the risk management framework of the Bank and the long-term financial soundness of the Bank that in turn supports long-term performance. The performance hurdles for the PARs comprising the long-term incentive, will allow the Board to ensure that the incentives are aligned with the Bank's future strategies and the interest of shareholders.

DARs

DARs are awarded to a broader range of BOQ employees and are designed to promote employee retention and productivity. The number of DARs awarded to an individual employee will depend on their position and relative performance, as determined under the normal performance review and development process that the Bank undertakes for all employees. DARs are performance tensioned and linked to this process by goals (both financial and non-financial, including risk management) which must be achieved to receive DARs.

Long-term Incentives - Options

The Senior Management Option Plan ("SMOP") is a shareholder approved equity based program that offered options over Bank of Queensland Limited shares based on the achievement of specific performance hurdles. The exercise of options previously issued under this plan is conditional upon the Bank achieving specific performance hurdles. Further details of the SMOP are set out later in this report.

The SMOP has now been replaced by the Award Rights Plan as the mechanism for providing long-term incentives.

Further details of the nature and amount of each of the major elements of the remuneration paid to each director and each executive, including the five most highly paid executive officers of the Bank and the Consolidated Entity, are detailed in this report.

Remuneration Report - Audited (continued)

Key management personnel – Audited

Key management personnel including directors and executives have authority and responsibility for planning, directing and controlling the activities of the Bank and Consolidated Entity. Key management personnel include the five most highly remunerated S300A directors and executives of the Bank and Consolidated Entity.

Directors:

Neil Summerson	Chairman (Non-executive)
Anthony Howarth	Director (Non-executive)
David Liddy	Managing Director and Chief Executive Officer
Steve Crane	Director (Non-executive) (appointed 11 December 2008)
Roger Davis	Director (Non-executive)
Peter Fox	Director (Non-executive)
David Graham	Director (Non-executive)
Carmel Gray	Director (Non-executive)
Bill Kelty	Director (Non-executive)
Antony Love	Director (Non-executive)
John Reynolds	Director (Non-executive)

Antony Love retired as a Director on 11 December 2008.

Executives:

Ram Kangatharan	Group Executive and Chief Financial Officer
David Marshall	Group Executive Banking
Daniel Musson	Group Executive People & Corporate Services
Jim Stabback	Group Executive and Chief Information Officer
Bruce Auty	Group Executive Group Risk

Robert Hines resigned as Group Executive Retail Financial Services on 9 April 2009.

Len Stone resigned as Treasurer on 29 May 2009.

Non-executive Directors Remuneration Framework - Audited

Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee, chaired by the Chairman of the Board. These fees and payments reflect advice given by independent remuneration specialists to ensure market comparability. The Chairman's fees are determined independently to the fees of other directors and again are based upon information provided by independent remuneration specialists about market rates. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' Fees

The current fixed component of remuneration for directors is \$90,000 plus superannuation per director per year. The Chairman receives remuneration of \$225,000 plus superannuation per year. The Chairman receives no additional remuneration for involvement with committees.

Additional remuneration is paid to non-executive directors for committee work:

- Audit Committee: Chairman \$35,000, members \$17,500;
- Risk Committee: Chairman \$35,000, members \$17,500;
- Remuneration and Nomination Committee: Members \$8,000;
- Corporate Governance Committee: Chairman \$12,000, members \$8,000;
- Budget Committee: Chairman \$2,250 and members \$1,500 per deliberative meeting; and
- Investment Committee: Chairman \$2,250 and members \$1,500 per deliberative meeting.

Non-executive directors' fees are determined within an aggregate fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$1,500,000 (inclusive of superannuation) and was approved by shareholders on 7 December 2006.

No part of non-executive director remuneration is based on the performance of the director or the Bank or is otherwise at risk. Non-executive directors do not participate in the Bank's plans designed for the remuneration of executives.

Remuneration Report - Audited (continued)

Non-executive Directors Remuneration Framework - Audited (continued)

Equity Participation

Non-executive directors do not receive shares, award rights or share options.

Retirement Benefits

Non-executive directors are no longer provided with retirement benefits apart from statutory superannuation. The accumulated value of non-executive director retirement benefits was frozen effective from 31 August 2003. The balance of the accrued benefits will be increased annually by the Consumer Price Index.

Executive Director Remuneration Framework - Audited

Remuneration for the Managing Director is designed to:

- Incentivise the Managing Director to pursue the long-term growth and success of the Bank within an appropriate risk control framework;
- Demonstrate a clear relationship between the Managing Director's performance and remuneration; and
- Provide sufficient and reasonable rewards for the time and effort required in this role and to ensure retention of the Managing Director for the key role he undertakes.

The Managing Director, David Liddy, commenced employment with the Bank in April 2001 under an initial 5 year contract term expiring on 8 April 2006. On 14 October 2004, the Bank extended the term of David Liddy's appointment as Managing Director until 31 August 2009 under a new employment agreement. On 20 August 2008, the Bank extended the term of David Liddy's appointment as Managing Director until 31 December 2011 under new employment arrangements.

The remuneration structure is consistent with the Bank's remuneration policy and includes:

- base salary (fixed component);
- short-term cash performance incentives that are subject to achievement against targets established annually at the discretion of the Board based on the achievement of specified, quantifiable results including the Bank's performance against budget for profit after tax and cost to income ratio as well as individual performance criteria (short-term incentive); and
- the grant of long-term incentives in the form of performance options and / or award rights (long-term incentive).

On 9 December 2004, shareholders approved the issue of 2,000,000 options over unissued ordinary shares of the Bank as a long-term equity performance incentive package. On 11 December 2008, shareholders approved the grant by the Bank of 175,072 Performance Award Rights as a long-term equity performance incentive package. The options and Award Rights are subject to continuous employment and performance hurdles which are detailed later in this report.

The existing contract may be terminated by the Bank at any time by the payment of a termination benefit equal to the lesser of:

- 1 times base salary; or
- Unearned base salary for the balance of the contract term.

The termination benefit also applies if the Managing Director resigns after ceasing to be the most senior executive of the Bank (whether at the instigation of the Board or as a result of a merger or takeover), or is removed as a director by shareholders.

Executives' Remuneration Framework - Audited

The Bank's executive reward structure is designed to:

- Incentivise management to pursue the long-term growth and success of the Bank within an appropriate risk control framework;
- Demonstrate a clear relationship between key executive performance and remuneration; and
- Provide sufficient and reasonable rewards to ensure the Bank attracts and retains suitably qualified and experienced people for key roles within the Bank.

Executive employment contracts are for a fixed term of 3 years with terms and conditions in line with the standards of the Australian banking and finance industry. Total remuneration is currently a mix of fixed salary in addition to short-term incentives and long-term incentives under the current Award Rights Plan and previous SMOP.

Payment of termination benefits on early termination by the employer, other than for gross misconduct, equal the lesser of 12 months remuneration or the fixed remuneration payable for the balance of the contract term.

Remuneration Report - Audited (continued)

Executives' Remuneration Framework - Audited (continued)

Fixed Component

Executives are offered a competitive fixed component of remuneration that reflects the core performance requirements and expectations of the role. This amount is market tested annually by remuneration specialists to ensure that it remains competitive.

Short-term Incentive

Payments in cash are provided to executives based on the achievement of specified, quantifiable results being normalised cash net profit after tax within an appropriate risk management framework. These results include the Bank's performance against the budget for profit after tax, and the Bank's normalised cash cost to income ratio as well as individual performance criteria. Linking these short-term incentives to individual and corporate performance ensures that executives create a prudent performance-focused work culture within the Bank that supports the long-term financial soundness of the Bank. Short-Term Incentive Plan design features and business objectives are reviewed annually by the Remuneration and Nomination Committee.

Long-Term Incentives - Award Rights

The Award Rights Plan was approved by shareholders on 11 December 2008. It is an equity based program under which Award Rights are granted as long-term incentives. The two types of award rights currently granted to executives under the plan are PARs and DARs. No amount is payable by employees for the grant or exercise of these award rights.

PARs

PARs have a vesting framework based on Total Shareholder Return (TSR) of the Bank as measured against a Peer Group over a 3 year period. The PARs for the Managing Director vest over a 2 year period. The Peer Group consists of the S&P / ASX 200 from time to time excluding selected entities in resources, real estate investment trusts, telecommunications (offshore headquartered), energy and utilities and such other inclusions and exclusions as the Board considers appropriate. TSR is a measure of the entire return a shareholder would obtain from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period.

One half of an employee's PARs will vest if the Bank's TSR performance over the three year period is in the top 50% of the Peer Group. All of the PARs vest if the Bank's TSR performance is in the top 25%. For TSR performance between those targets, a relative proportion of the PARs between one half and 100% would vest.

Vested PARs are generally exercisable within 5 years after they are granted (approximately 2 years after vesting).

DARs

DARs currently on issue vest proportionately over 3 years in the ratio of 20% (end Year 1), 30% (end Year 2) and 50% (end Year 3). There are no market performance hurdles or vesting conditions for DARs but the holder must remain an employee of the Bank.

Vested DARs are generally exercisable within 5 years after they are granted (approximately 2 to 4 years after vesting).

Other PARs and DARs terms

PARs and DARs which lapse, do not vest or are not exercised within 5 years after they are granted will expire.

If an employee's employment ceases for serious misconduct involving fraud or dishonesty, their PARs and DARs (whether exercisable or not) will lapse.

If an employee resigns or is terminated for other reasons, vested PARs and DARs may generally be exercised within 90 days of the employee ceasing employment. PARs and DARs which are not vested may, at the Board's discretion, vest on a pro rata basis and become exercisable if the employment ceases due to a transfer of employment to an Owner Managed Branch, retirement, redundancy, death, total and permanent disablement, or with the Board's consent. Otherwise, PARs and DARs will lapse on cessation of employment.

The shares that are obtained on exercise of the PARs and DARs are initially held by a trustee (appointed by the Board) for the employee's benefit and can remain in the trust for up to 10 years from the date the Award Rights are granted. While the shares are in the trust, they may be forfeited by the Bank if the employee's employment ceases for reasons of serious misconduct involving dishonesty or fraud. The shares held by the trustee may be sold for the benefit of the employee or withdrawn from the trust by the employee, with the Board's approval.

Remuneration Report - Audited (continued)

Executives' Remuneration Framework - Audited (continued)

Long-term Incentive - Options

The SMOP has been replaced by the Award Rights Plan, but options previously granted under the SMOP remain on issue. The ability to exercise options under this plan is conditional upon the Bank achieving specific performance hurdles. Details of these financial hurdles and specifics about issues of SMOP options are detailed later in this report.

The SMOP sets out the general terms and conditions attaching to options. Options are exercisable not less than 3 years and not more than 5 years after they are granted to eligible employees. Each option will convert into one ordinary fully paid share on exercise, after payment to the Bank of a strike price. Options which are exercisable, but which have not been exercised, lapse on the first to occur of the following events:

- their expiry date;
- 6 months after the option holder ceases employment because of a Qualifying Reason, i.e. death, total and permanent disability, redundancy, retirement or other reason determined by the Board;
- the option holder ceasing employment for any reason other than a Qualifying Reason;
- 6 months after a Capital Event (50% or more of the Bank's ordinary shares are acquired by way of takeover or scheme of arrangement, the Bank is wound up or liquidated or another event which the Board considers to be a Capital Event); or
- if the option holder has acted fraudulently, dishonestly or in breach of the option holder's obligations to the Bank.

If an option holder ceases employment because of a Qualifying Reason, then a proportion of unvested options will become exercisable, such proportion being based on the time elapsed in the non-exercise period. The Board may allow more unvested options to become exercisable than the formula allows. If a Capital Event occurs, all unvested options become exercisable.

The Board has discretion to allow options to become exercisable in circumstances where it would otherwise be unfair to the holder for the options to lapse or not be exercisable.

Option holders do not participate in new issues of securities made by the Bank but adjustments are to be made to the number of shares over which the options exist and/or the exercise price to take into account changes to the capital structure of the Bank that occur by way of pro rata and bonus issues, according to the formula set out in the plan and the ASX Listing Rules. In any capital reconstruction, options will be similarly reconstructed in accordance with the Listing Rules.

Remuneration Report - Audited (continued)

Remuneration disclosures for key management personnel - Audited

The following table shows the nature and amount of each major element of the remuneration of all of the directors of the Bank including the five highest paid members of the executive team and other key management personnel, who were officers of the Bank and the Group for the year ended 31 August 2009.

2009 Financial Year		Short-term			Total	Post-employment ⁽³⁾
		Salary and fees	STI Cash Bonus ⁽¹⁾	Non-Monetary benefits ⁽²⁾		
		\$	\$	\$	\$	\$
Non-Executive Directors						
Neil Summerson	2009	231,500	-	-	231,500	23,217
	2008	134,750	-	-	134,750	55,130
Anthony Howarth	2009	117,917	-	-	117,917	10,613
	2008	63,929	-	-	63,929	5,754
Steve Crane (commenced 11 December 2008)	2009	67,500	-	-	67,500	6,075
	2008	-	-	-	-	-
Roger Davis	2009	112,083	-	-	112,083	10,088
	2008	7,500	-	-	7,500	675
Peter Fox	2009	90,000	-	-	90,000	8,789
	2008	90,000	-	-	90,000	10,077
David Graham	2009	155,814	-	-	155,814	14,023
	2008	94,500	-	-	94,500	8,505
Carmel Gray	2009	135,083	-	-	135,083	12,158
	2008	93,000	-	-	93,000	8,370
Bill Kelly	2009	97,833	-	-	97,833	9,416
	2008	100,000	-	-	100,000	10,753
John Reynolds	2009	154,500	-	-	154,500	13,924
	2008	145,083	-	-	145,083	12,925
Former Director						
Antony Love (retired 11 December 2008)	2009	33,333	-	-	33,333	3,000
	2008	104,000	-	-	104,000	17,372
Executive Directors						
David Liddy Managing Director	2009	1,230,424	1,000,000	7,806	2,238,230	13,829
	2008	982,972	1,000,000	7,354	1,990,326	13,197

(1) STI cash reflects amount paid or accrued in respect of the year ended 31 August 2009. Refer to "Executive director remuneration framework" for a discussion of the Bank's short-term incentive arrangement.

(2) The Bank has also paid insurance premiums in respect of Directors' and Officers' Liability Insurance which is not reflected in the above table as there is no appropriate basis for allocation.

(3) This includes superannuation benefits, salary sacrificed benefits and interest which is accrued at the CPI rate on director retirement benefits which was frozen effective from at 31 August 2003.

(4) Comprises long service leave accrued or utilised during the financial year.

(5) The fair value of the options and rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options and rights allocated to this reporting period.

(6) The shares cannot be traded until the term of his engagement as Managing Director terminates.

Directors' Report
Year ended 31 August 2009

Other long-term (4)	Termination benefits	Share based payments		Total	S300A (1)(e)(i)	S300A (1)(e)(vi)
		Options and rights(5)	Shares and units		Proportion of remuneration performance related	Value of options and rights as proportion of remuneration
\$	\$	\$	\$	\$	%	%
-	-	-	-	254,717	-	-
-	-	-	-	189,880	-	-
-	-	-	-	128,530	-	-
-	-	-	-	69,683	-	-
-	-	-	-	73,575	-	-
-	-	-	-	-	-	-
-	-	-	-	122,175	-	-
-	-	-	-	8,175	-	-
-	-	-	-	98,789	-	-
-	-	-	-	100,077	-	-
-	-	-	-	169,837	-	-
-	-	-	-	103,005	-	-
-	-	-	-	147,241	-	-
-	-	-	-	101,370	-	-
-	-	-	-	107,249	-	-
-	-	-	-	110,753	-	-
-	-	-	-	168,424	-	-
-	-	-	-	158,008	-	-
-	188,661	-	-	224,994	-	-
-	-	-	-	121,372	-	-
56,994	-	979,079	500,000	3,788,132	65%	26%
31,958	-	433,895	250,000(6)	2,719,376	62%	16%

Remuneration Report – Audited (continued)

Remuneration disclosures for key management personnel - Audited (continued)

2009 Financial Year		Short-term			Total	Post-employment ⁽³⁾
		Salary and fees	STI Cash Bonus ⁽¹⁾	Other short-term employee benefits ⁽²⁾		
		\$	\$	\$	\$	\$
Executives						
Ram Kangatharan	2009	502,837	275,000	-	777,837	13,829
	2008	409,296	375,000	-	784,296	12,233
David Marshall	2009	396,425	150,000	-	546,425	39,206
	2008	338,548	350,000	-	688,548	33,483
Daniel Musson	2009	356,853	100,000	-	456,853	35,293
	2008	273,867	280,000	115,000	668,867	27,026
Jim Stabback	2009	345,260	115,000	-	460,260	34,147
	2008	-	-	-	-	-
Bruce Auty	2009	321,944	92,500	-	414,444	41,581
	2008	312,682	210,000	-	522,682	35,978
Former Executives						
Robert Hines (resigned on 9 April 2009)	2009	293,658	224,940	-	518,598	30,863
	2008	450,565	450,000	-	900,565	47,519
Len Stone (resigned on 29 May 2009)	2009	230,750	-	-	230,750	49,000
	2008	284,544	275,000	-	559,544	56,608

(1) STI cash reflects amount paid or accrued in respect of the year ended 31 August 2009. Refer to "Executive remuneration framework" for a discussion of the Bank's short-term incentive arrangement.

(2) This relates to a sign on cash incentive.

(3) This includes superannuation and salary sacrificed benefits.

(4) Comprises long service leave accrued or utilised during the financial year.

(5) The fair value of the options and rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options and rights allocated to this reporting period.

Directors' Report

Year ended 31 August 2009

Other long-term ⁽⁴⁾	Termination benefits	Share based payments	Total	S300A (1)(e)(i) Proportion of remuneration performance related	S300A (1)(e)(vi) Value of options and rights as proportion of remuneration
\$	\$	Options and rights ⁽⁵⁾ \$	\$	%	%
815	-	247,277	1,039,758	50%	24%
555	-	124,748	921,832	54%	14%
747	-	144,549	730,927	40%	20%
525	-	71,285	793,841	53%	9%
625	-	143,449	636,220	38%	23%
397	-	71,285	767,575	61%	9%
388	-	14,476	509,271	25%	3%
-	-	-	-	-	-
4,077	-	236,502	696,604	47%	34%
4,650	-	160,931	724,241	51%	22%
-	651,998	476,412	1,677,871	42%	28%
22,374	-	253,411	1,223,869	58%	21%
-	734,214	395,791	1,409,755	28%	28%
13,117	-	182,811	812,080	56%	23%

Remuneration Report – Audited (continued)

Remuneration disclosures for key management personnel - Audited (continued)

The following factors and assumptions were used in determining the fair value of rights on grant date:

Right Type	Grant date	Expiry date	Fair value per right	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
Executive Director								
PARs	11 December 2008 ⁽¹⁾	29 June 2014	\$5.76	Nil	\$10.25	26.7%	4.5	5.2%
Executives								
PARs	29 June 2009	29 June 2014	\$4.59	Nil	\$8.89	35.1%	4.2	7.2%
DARs	29 June 2009	29 June 2014	\$7.59	Nil	\$8.89	35.1%	4.2	7.2%

(1) The grant date is deemed to be the date the Award Rights were approved at the Annual General Meeting, the rights were issued on 29 June 2009.

At Risk Remuneration - Audited

Short-term incentive

The short-term incentive referred to in the above remuneration table represents 100% of the short-term incentive component of "at risk" remuneration in the year for the benefit of the executive director and the executives. Those bonuses were determined on the basis of the Bank's and the individual executive's performance over the financial year ended 31 August 2009 and are therefore deemed to be attributable to that year, although payment will not occur until October 2009. Based on the remuneration policies and practices described in this report there were no short-term incentive bonus amounts attributable to the executive director and executives that are considered to have been forfeited or deferred in the year.

Consequences of performance on shareholder wealth

In considering the Consolidated Entity's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee had regard to the following indices in respect of the current financial year and the previous four financial years:

	2009	2008	2007	2006	2005
Normalised cash net profit after tax	\$187.4m	\$155.4m	\$106.1m	\$86.7m	\$75.6m
Normalised cash diluted earnings per share	98.4c	99.9c	93.0c	79.8c	67.7c
Normalised cash cost to income ratio	49.9%	56.1%	62.6%	64.5%	65.8%
Share price	\$11.65	\$15.86	\$18.56	\$15.29	\$11.65

Normalised cash net profit after tax and normalised cash cost to income ratio are considered as targets in setting the short-term incentive. Normalised cash results exclude one-off, non-recurring amounts and amortisation of customer contracts. Normalised cash diluted earnings per share is included in the calculation of current long-term incentives for executives and for the Managing Director's options.

Currently, the average performance-linked component of remuneration comprises approximately 49% (2008: 54%) of total payments made to the Managing Director and executives.

Directors' Report

Year ended 31 August 2009

Remuneration Report – Audited (continued)

Options and Rights Terms – Audited

Details of the vesting profile of the options over and rights to ordinary shares in the Bank granted as remuneration to each key management person of the Bank is detailed below:

		Options or rights granted				Value yet to vest					
	Number	Date	% vested during year	% Forfeited in year ⁽¹⁾	Financial years in which options or rights vest	Fair value per option or right at grant date (\$)	Exercise Price per option (\$)	Expiry Date	Min ⁽²⁾ (\$)	Max ⁽³⁾ (\$)	Value of Options (\$)
Executive Director											
David Liddy Managing Director											
Options	500,000	1 November 2005	100%	-	31 August 2009	2.16	13.37	20 December 2010	Nil	-	1,080,000
	500,000	1 November 2006	-	-	31 August 2010	2.13	16.40	20 November 2011	Nil	242,583	1,065,000
PARs	175,072	11 December 2008	-	-	31 August 2011	5.76	Nil	29 June 2014	Nil	672,277	1,008,415
Executives											
Ram Kangatharan											
Options	350,000	1 November 2007	-	-	31 August 2011	2.57	19.25	1 November 2012	Nil	550,082	899,500
DARs	8,550	29 June 2009	-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	10,816	56,243	64,895
PARs	45,600	29 June 2009	-	-	31 August 2012	4.59	Nil	29 June 2014	Nil	195,350	209,304
David Marshall											
Options	200,000	1 November 2007	-	-	31 August 2011	2.57	19.25	1 November 2012	Nil	314,333	514,000
DARs	6,840	29 June 2009	-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	8,653	44,993	51,916
PARs	30,210	29 June 2009	-	-	31 August 2012	4.59	Nil	29 June 2014	Nil	129,420	138,664
Daniel Musson											
Options	200,000	1 November 2007	-	-	31 August 2011	2.57	19.25	1 November 2012	Nil	314,333	514,000
DARs	6,270	29 June 2009	-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	7,932	41,244	47,589
PARs	28,500	29 June 2009	-	-	31 August 2012	4.59	Nil	29 June 2014	Nil	122,094	130,815
Jim Stabback											
DARs	7,410	29 June 2009	-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	9,374	48,743	56,242
PARs	22,800	29 June 2009	-	-	31 August 2012	4.59	Nil	29 June 2014	Nil	97,675	104,652
Bruce Auty											
Options	150,000	17 October 2005	100%	-	31 August 2009	2.16	13.37	17 October 2010	Nil	-	324,000
	100,000	20 November 2006	-	-	31 August 2010	2.13	16.40	20 November 2011	Nil	78,903	213,000
	100,000	1 November 2007	-	-	31 August 2011	2.57	19.25	1 November 2012	Nil	157,166	257,000
DARs	5,700	29 June 2009	-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	7,211	37,495	43,263
PARs	13,680	29 June 2009	-	-	31 August 2012	4.59	Nil	29 June 2014	Nil	58,605	62,791

Remuneration Report – Audited (continued)

Options and Rights Terms – Audited (continued)

Options or rights granted									Value yet to vest		
Number	Date	% vested during year	% Forfeited in year ⁽¹⁾	Financial years in which options or rights vest	Fair value per option or right at grant date (\$)	Exercise Price per option (\$)	Expiry Date	Min ⁽²⁾ (\$)	Max ⁽³⁾ (\$)	Value of Options (\$)	
Former Executives											
Robert Hines											
Options	200,000	17 October 2005	100%	-	31 August 2009	2.16	13.37	17 October 2010	Nil	Nil	432,000
	175,000	20 November 2006	81%	19%	31 August 2010	2.13	16.40	20 November 2011	Nil	Nil	372,750
	175,000	1 November 2007	50%	50%	31 August 2011	2.57	19.25	1 November 2012	Nil	Nil	449,750
Len Stone											
Options	150,000	17 October 2005	100%	-	31 August 2009	2.16	13.37	17 October 2010	Nil	Nil	324,000
	100,000	20 November 2006	95%	5%	31 August 2010	2.13	16.40	20 November 2011	Nil	Nil	213,000
	130,000	1 November 2007	63%	37%	31 August 2011	2.57	19.25	1 November 2012	Nil	Nil	334,100

(1) The % forfeited in the year represents the reduction in number of options or rights available due to cessation of employment. The value of forfeited options during the year was \$80,091 for SMOP 6 & \$348,238 for SMOP 7.

(2) The minimum value of options or PARs yet to vest is \$nil as the performance criteria may not be met and consequently the options or rights may not vest. The DARs reflect service conditions as at the end of the financial year.

(3) The residual fair value expense to be recognised in future years assuming all performance criteria are met.

(4) The DARs will vest 20% in financial year 2010, 30% in financial year 2011 and 50% in financial year 2012.

No options or rights have been granted since the end of the financial year. No options or rights were exercised during the year. The above options or rights were provided at no cost to the recipients.

No shares were issued on the exercise of award rights granted as remuneration during the year ended 31 August 2009.

Award rights and options have been granted under the Award Rights Plan or SMOP to executives and senior management on an ongoing basis in line with the Bank's remuneration policy. The performance hurdles are reviewed annually by the Board Remuneration and Nomination Committee.

There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when vested award rights or options are exercised. Award rights or options may lapse in the event of cessation of employment depending on the circumstances of such cessation.

Directors' Report

Year ended 31 August 2009

Remuneration Report – Audited (continued)

Options and Rights Terms – Audited (continued)

Managing Director's options and rights

The Managing Director, David Liddy, has been granted the following PARs as approved by shareholders at the Annual General Meeting held on 11 December 2008:

Number of PARs	Vesting date	Expiry date	Exercise price	Issue price
175,072	Date of release of financial results in October 2010	29 June 2014	Nil	Nil

The ability to exercise the PARs is conditional on the Bank achieving certain market performance hurdles. The performance hurdles for vesting of the PARs to be granted to Mr Liddy are:

- the Total Shareholder Return (TSR) of the Bank relative to a Peer Group (based on the S&P/ASX 200 and constituted of the same entities as the Peer Group for the PARs of other executives as outlined above in this report) over a 2 year period (instead of the 3 year period applicable to the PARs of other executives); and
- for the first \$500,000 of PARs, the Board must have determined that the Managing Director has fulfilled his special responsibilities as Managing Director and Chief Executive Officer as agreed with the Board, including to have managed the process of succession planning for those positions, to the satisfaction of the Board.

The PARs granted to Mr Liddy under the Award Rights Plan are otherwise granted on the same terms outlined above in this report as apply to the other executives of the Bank.

Using industry accepted pricing methodologies, each PAR had a value of \$5.76 as at date of grant.

The market value of shares at 31 August 2009 was \$11.65 (2008: \$15.86).

Options

The Managing Director has been granted the following options as approved by shareholders at the Annual General Meeting held on 9 December 2004:

Tranche	Number of options	Exercise date	Expiry date	Exercise price	Issue price
4	500,000	Date of release of financial results in October 2009	20 November 2011	\$16.40	Nil

Tranche 4 was granted on 1 November 2006.

Tranche 3 vested during the year as the performance hurdles required by the Managing Director Option Plan had been met.

The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdle for Tranche 4 is based on diluted cash EPS growth and requires the Bank's diluted cash EPS growth to outperform the average diluted cash EPS growth of the Comparison Banks over financial years 2007 - 2009.

To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:

Percentage range by which cash EPS growth exceeds comparison banks	Percentage of options to vest
5% and up to but not exceeding 10%	25%
10% and up to but not exceeding 15%	50%
15% and up to but not exceeding 20%	75%
20% or more	100%

Should any Tranche 4 options remain unvested as at November 2010, the EPS test will be applied across financial years 2007, 2008, 2009 and 2010.

Should any Tranche 4 options remain unvested as at November 2011, the EPS test will be applied across financial years 2007, 2008, 2009, 2010 and 2011.

There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the vested options are exercised. Options may lapse in the event of cessation of employment depending on the circumstances of such cessation.

Using industry accepted pricing methodologies, each Tranche 4 option had a value of \$2.13 as at date of granting.

The market value of shares at 31 August 2009 was \$11.65 (2008: \$15.86).

Remuneration Report – Audited (continued)

Options and Rights Terms – Audited (continued)

Details of all options and rights on issue at 31 August 2009, are set out below:

Senior Managers' options and rights

1. Options issued on 10 November 2003 (SMOP 3):

Options originally issued:	3,120,000;
Options lapsed during the year:	Nil;
Options exercised during the year:	10,000;
Options on issue at balance date:	Nil;
Exercise date:	10 November 2006;
Expiry date:	10 November 2008;
Options exercisable at balance date:	Nil;
Issue price:	\$Nil; and
Exercise price:	\$9.49.

2. Options issued on 20 December 2004 (SMOP 4):

Options originally issued:	3,005,000;
Options lapsed during the year:	20,000;
Options exercised during the year:	21,000;
Options on issue at balance date:	377,000;
Exercise date:	20 December 2007;
Expiry date:	20 December 2009;
Options exercisable at balance date:	377,000;
Issue price:	\$Nil; and
Exercise price: ⁽¹⁾	\$10.57.

(1) The exercise price was adjusted due to the entitlements offer as required under the plan rules.

3. Options issued on 17 October 2005 (SMOP 5):

Options originally issued:	3,805,000;
Options lapsed during the year:	196,635;
Options exercised during the year:	Nil;
Options on issue at balance date:	2,388,740;
Exercise date:	17 October 2008;
Expiry date:	17 October 2010;
Options exercisable at balance date:	2,388,740;
Issue price:	\$Nil; and
Exercise price: ⁽¹⁾	\$13.23.

During the year, 2,523,740 options vested under this plan as the performance hurdles had been met.

4. Options issued on 20 November 2006 (SMOP 6):

Options originally issued:	3,370,000;
Options lapsed during the year:	295,497;
Options exercised during the year:	Nil;
Options on issue at balance date:	2,059,959;
Exercise date:	20 November 2009;
Expiry date:	20 November 2011;
Options exercisable at balance date:	553,025;
Issue price:	\$Nil; and
Exercise price: ⁽¹⁾	\$16.26.

The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdles are based on diluted cash EPS growth and require the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the financial years 2007, 2008 and 2009 ("performance period"), as described above.

Remuneration Report – Audited (continued)

Options and Rights Terms – Audited (continued)

Senior Managers' options and rights (continued)

To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:

Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest
5% and up to but not exceeding 10%	25%
10% and up to but not exceeding 15%	50%
15% and up to but not exceeding 20%	75%
20% or more	100%

Should any SMOP 6 options remain unvested as at November 2010, the EPS test will be applied across financial years 2007, 2008, 2009 and 2010.

Should any SMOP 6 options remain unvested as at November 2011, the EPS test will be applied across financial years 2007, 2008, 2009, 2010 and 2011.

Using the trinomial pricing methodology, each option had a value of \$2.13 as at date of granting. The market value of shares at 31 August 2009 was \$11.65 (2008: \$15.86).

During the year 566,729 options vested under this plan at the discretion of the directors, as permitted under the terms of the option plan.

5. Options issued on 1 November 2007 (SMOP 7):

Options originally issued:	3,999,000
Options lapsed during the year:	544,925;
Options exercised during the year:	Nil;
Options on issue at balance date:	3,073,582;
Exercise date:	1 November 2010
Expiry date:	1 November 2012
Options exercisable at balance date:	382,582;
Issue Price:	\$Nil; and
Exercise Price: ⁽¹⁾	\$19.11.

(1) The exercise price was adjusted due to the entitlements offer as required under the plan rules.

The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdles are based on diluted cash EPS growth and require the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the financial years 2008, 2009 and 2010 ("performance period"), as described above.

To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:

Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest
5% and up to but not exceeding 10%	25%
10% and up to but not exceeding 15%	50%
15% and up to but not exceeding 20%	75%
20% or more	100%

Should any SMOP 7 options remain unvested as at November 2011, the EPS test will be applied across financial years 2008, 2009, 2010 and 2011.

Should any SMOP 7 options remain unvested as at November 2012, the EPS test will be applied across financial years 2008, 2009, 2010, 2011 and 2012.

Using the trinomial pricing methodology, each option had a value of \$2.57 as at date of granting. The market value of shares at 31 August 2009 was \$11.65 (2008: \$15.86).

During the year 380,584 options vested under this plan at the discretion of the directors, as permitted under the terms of the option plan.

Remuneration Report – Audited (continued)

Options and Rights Terms – Audited (continued)

Senior Managers' options and rights (continued)

6. PARs issued on 29 June 2009:

PARs originally granted:	429,292;
PARs lapsed during the year:	4,997;
PARs vested during the year:	703;
PARs on issue at balance date:	424,295;
Vesting date:	Date of release of financial results in October 2011
Expiry date:	29 June 2014
Issue Price:	\$Nil; and
Exercise Price:	\$Nil.

The ability to exercise the PARs is conditional on the Bank achieving certain market performance hurdles. Refer to "Executives Remuneration Framework" for further details.

Using the Monte Carlo simulation approach, each PAR had a value of \$4.59 as at date of grant. The market value of shares at 31 August 2009 was \$11.65 (2008: \$15.86).

During the year 703 PARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

7. DARs issued on 29 June 2009:

DARs originally granted:	269,072;
DARs lapsed during the year:	9,312;
DARs vested during the year:	1,746;
DARs on issue at balance date:	259,760;
Vesting date:	17 December 2009 (20%), 16 December 2010 (30%), 15 December 2011 (50%);
Expiry date:	29 June 2014;
Issue Price:	\$Nil; and
Exercise Price:	\$Nil.

The ability to exercise the DARs is conditional on a qualifying service period. Refer to "Executive Remuneration Framework" for further details.

Using the Monte Carlo simulation approach, each DAR had a value of \$7.59 as at date of grant. The market value of shares at 31 August 2009 was \$11.65 (2008: \$15.86).

During the year 1,746 DARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

Indemnification of officers

The Bank's Constitution provides that all officers of the Bank are indemnified by the Bank against liabilities incurred by them in the capacity of officer to the full extent permitted by the Corporations Act 2001.

Insurance of officers

Since the end of the previous financial year the Bank has paid insurance premiums in respect of a Directors' and Officers' liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the *Corporations Act 2001*) of the Bank against certain liabilities arising in the course of their duties to the Bank and its controlled entities. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

Directors' interests

Directors' interests as at the date of this report were as follows:

Director	Ordinary Shares
Neil Summerson	25,057
Anthony Howarth	46,514
David Liddy ⁽¹⁾	1,018,052
Steve Crane	12,224
Roger Davis	3,463
Peter Fox	1,775,499
David Graham	9,576
Carmel Gray	5,899
Bill Kely	1,165
John Reynolds	1,000

(1) Includes 28,239 restricted shares

Antony Love retired as Director on 11 December 2008.

Audit and Non-audit services

During the year KPMG, the Bank's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor are in accordance with written advice provided by resolution of the Audit Committee, and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Bank and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor's independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Bank, acting as an advocate for the Bank or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Bank, KPMG and its related practices for audit and non-audit services provided during the year are set out below:

	Consolidated		Bank	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Audit services – KPMG Australia				
- Audit and review of the financial reports	613.8	843.0	555.3	763.9
- Other regulatory and audit services	177.2	189.5	99.9	81.7
	791.0	1,032.5	655.2	845.6
Audit related services – KPMG Australia				
- Other assurance services ⁽¹⁾	278.3	307.8	95.1	65.6
	278.3	307.8	95.1	65.6
Other services – KPMG Australia				
- Tax advisory services	27.7	-	21.5	-
	27.7	-	21.5	-
Other services – KPMG Australia				
- Due diligence services	436.9	193.5	53.8	86.0
	436.9	193.5	53.8	86.0

(1) Other assurance services comprise accounting opinions, and audit related services provided in relation to mortgage securitisation trusts which are consolidated under Australian International Financial Reporting Standards.

Fees for audit and non-audit services paid to KPMG which were provided in relation to leasing securitisation trusts which are not consolidated by the Bank were \$86,677 (2008: \$139,159).

Directors' Report

Year ended 31 August 2009

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 47 and forms part of the directors' report for the year ended 31 August 2009.

Rounding of amounts

The Bank is a company of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (as amended by Class Order 04/667 dated 15 July 2004) and in accordance with that Class Order, amounts in this financial report and directors' report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

Dated at Brisbane this fifteenth day of October 2009.

Signed in accordance with a resolution of the directors:



Neil Summerson
Chairman



David Liddy
Managing Director

Lead Auditor's Independence Declaration

under Section 307C of the Corporations Act 2001



To the directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 August 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

KPMG

A handwritten signature in black ink, appearing to read 'John Teer', written in a cursive style.

John Teer
Partner

Brisbane
15 October 2009

Income Statements

For the year ended 31 August 2009

	Note	Consolidated		Bank	
		2009 \$m	2008 \$m	2009 \$m	2008 \$m
Interest income	4	2,031.2	2,043.1	1,963.1	1,808.0
Less: Interest expense	4	1,550.1	1,622.0	1,588.7	1,518.2
Net interest income		481.1	421.1	374.4	289.8
Other operating income	4	147.9	149.5	215.6	194.7
Total operating income		629.0	570.6	590.0	484.5
Less: Expenses	5	369.8	341.7	339.4	294.4
Profit before impairment on loans and advances and tax		259.2	228.9	250.6	190.1
Less: Impairment on loans and advances	13	66.0	27.0	49.1	20.3
Profit before income tax		193.2	201.9	201.5	169.8
Less: Income tax expense	6	52.1	63.2	60.9	52.9
Profit for the year	23	141.1	138.7	140.6	116.9
Basic earnings per share Ordinary shares	8	75.9c	94.4c		
Diluted earnings per share Ordinary shares	8	74.4c	89.6c		

The above income statements should be read in conjunction with the accompanying notes.

Statements of Recognised Income and Expense

For the year ended 31 August 2009

	Note	Consolidated		Bank	
		2009 \$m	2008 \$m	2009 \$m	2008 \$m
Items of income and expense (net of tax)					
Cash flow hedges:					
Net losses taken to equity	23	(68.1)	(28.0)	(70.8)	(31.8)
Net gains transferred to income statement	23	(5.6)	(2.1)	(5.6)	(2.1)
Change in fair value of assets available for sale	23	(1.4)	(2.8)	(2.3)	(0.9)
Net expense recognised directly in equity		(75.1)	(32.9)	(78.7)	(34.8)
Profit for the year		141.1	138.7	140.6	116.9
Total recognised income and expense for the year		66.0	105.8	61.9	82.1
Attributable to:					
Equity holders of the parent		66.0	105.8	61.9	82.1

Other movements in equity arising from transactions with owners as owners are set out in Note 23. The amounts recognised directly in equity are disclosed net of tax, refer to Note 6.

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

Balance Sheets

As at 31 August 2009

	Note	Consolidated		Bank	
		2009 \$m	2008 \$m	2009 \$m	2008 \$m
Assets					
Cash and liquid assets	9	353.8	399.5	250.3	242.9
Due from other financial institutions	10	74.6	56.9	74.6	56.9
Other financial assets	11	4,423.3	3,263.9	4,536.4	3,180.6
Derivative financial instruments	27	88.5	111.7	58.7	74.9
Loans and advances at amortised cost	12	28,310.8	25,246.8	25,694.4	20,669.5
Shares in controlled entities	34	-	-	681.0	680.8
Property, plant and equipment	14	24.5	25.4	24.5	18.3
Current tax assets		-	-	-	0.3
Deferred tax assets	15	13.3	-	12.1	-
Other assets	16	104.3	150.7	221.1	256.0
Intangible assets	17	587.8	590.6	96.1	89.8
Investments accounted for using the equity method	39	31.1	37.7	-	-
Total assets		34,012.0	29,883.2	31,649.2	25,270.0
Liabilities					
Due to other financial institutions	18	192.7	135.6	192.7	135.6
Deposits	19	24,197.2	20,036.5	24,413.5	17,920.1
Derivative financial instruments	27	205.0	109.0	205.0	109.0
Accounts payable and other liabilities		277.6	296.5	246.5	222.9
Current tax liabilities		24.4	6.8	24.4	-
Provisions	20	20.9	17.0	13.8	12.8
Deferred tax liabilities	15	-	11.4	-	18.5
Borrowings including subordinated notes	21	6,982.8	7,579.5	1,369.0	1,514.1
Amounts due to controlled entities		-	-	3,118.0	3,687.4
Total liabilities		31,900.6	28,192.3	29,582.9	23,620.4
Net assets		2,111.4	1,690.9	2,066.3	1,649.6
Equity					
Issued capital	22	1,903.1	1,439.4	1,903.4	1,439.4
Reserves	23	17.4	60.3	(4.3)	46.2
Retained profits	23	190.9	191.2	167.2	164.0
Total Equity		2,111.4	1,690.9	2,066.3	1,649.6

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 31 August 2009

	Note	Consolidated		Bank	
		2009 \$m	2008 \$m	2009 \$m	2008 \$m
Cash flows from operating activities					
Interest received		2,006.1	2,000.0	1,816.8	1,732.3
Fees and other income received		171.2	142.7	239.1	119.0
Dividends received		1.3	0.1	0.6	-
Interest paid		(1,538.4)	(1,564.8)	(1,566.6)	(1,462.2)
Cash paid to suppliers and employees		(350.0)	(306.9)	(203.5)	(282.8)
Operating income tax paid		(29.3)	(58.9)	(29.3)	(56.3)
Other taxes paid		-	(0.3)	-	(0.3)
		260.9	211.9	257.1	49.7
<i>Increase in operating assets:</i>					
Loans and advances at amortised cost		(3,133.0)	(5,032.2)	(5,497.7)	(3,309.2)
Other financial assets		(1,156.7)	(1,315.5)	(1,499.4)	(2,265.8)
<i>Increase / (decrease) in operating liabilities:</i>					
Deposits		4,250.5	4,786.0	6,576.0	5,550.3
Securitisation liabilities	21	(394.1)	1,240.0	-	-
Net cash from operating activities	28	(172.4)	(109.8)	(164.0)	25.0
Cash flows from investing activities					
Payments for property, plant and equipment		(9.2)	(11.3)	(9.2)	(6.9)
Payments for intangible assets - software		(25.6)	(20.2)	(25.6)	(20.2)
Cash distribution received from equity accounted investments		1.7	3.0	-	-
Payments for acquisition of Home Building Society Ltd	34 (b)	-	(66.2)	-	(103.3)
Proceeds from sale of property, plant and equipment		2.4	5.5	2.1	0.8
Net cash from investing activities		(30.7)	(89.2)	(32.7)	(129.6)
Cash flows from financing activities					
Proceeds from issue of ordinary shares	22	374.5	90.0	374.5	90.0
Cost of capital issues		(8.6)	(6.2)	(8.6)	(6.2)
Proceeds from borrowings and foreign exchange instruments	21	1,416.0	2,758.6	1,462.4	2,757.9
Repayments of borrowings	21	(1,539.0)	(2,866.0)	(1,539.0)	(2,866.0)
Payments for treasury shares		(0.3)	-	-	-
Proceeds from issue of Perpetual Equity Preference Shares		-	200.0	-	200.0
Dividends paid		(85.2)	(57.0)	(85.2)	(57.0)
Net cash from financing activities		157.4	119.4	204.1	118.7
Net increase / (decrease) in cash and cash equivalents		(45.7)	(79.6)	7.4	14.1
Cash and cash equivalents at beginning of year		399.5	479.1	242.9	228.8
Cash and cash equivalents at end of year	9	353.8	399.5	250.3	242.9

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

Note	Contents	Page
1.	Reporting entity	53
2.	Basis of preparation	53
3.	Significant accounting policies	54
4.	Operating income	62
5.	Expenses	63
6.	Income tax expense	64
7.	Dividends	65
8.	Earnings per share	66
9.	Cash and liquid assets	66
10.	Due from other financial institutions	66
11.	Other financial assets	67
12.	Loans and advances at amortised cost	67
13.	Provisions for impairment	68
14.	Property, plant and equipment	69
15.	Deferred tax assets and liabilities	71
16.	Other assets	71
17.	Intangible assets	72
18.	Due to other financial institutions	74
19.	Deposits	74
20.	Provisions	75
21.	Borrowings including subordinated notes	76
22.	Issued capital	77
23.	Reserves and retained profits	78
24.	Segment reporting	79
25.	Risk management	79
26.	Capital management	87
27.	Financial instruments	89
28.	Notes to the statements of cash flows	91
29.	Auditors' remuneration	92
30.	Contingent liabilities	92
31.	Commitments	93
32.	Employee benefits	93
33.	Key management personnel disclosures	101
34.	Controlled entities	108
35.	Related parties information	110
36.	Average balances and margin analysis	110
37.	Deed of cross guarantee	111
38.	Events subsequent to balance date	113
39.	Investments accounted for using the equity method	113

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

1. Reporting entity

Bank of Queensland Limited (the "Bank") is a company domiciled in Australia. The address of the Bank's registered office is Level 17, 259 Queen Street, Brisbane, QLD, 4000. The consolidated financial report of the Bank for the financial year ended 31 August 2009 comprises the Bank and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interest in equity accounted investments.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs" – including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial statements and notes of the Consolidated Entity and Bank also comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The consolidated financial report was authorised for issue by the directors on 15 October 2009.

(b) Basis of measurement

The financial report is prepared on the historical cost basis with the exception of the following assets and liabilities which are stated at their fair value:

- derivative financial instruments;
- financial instruments designated at fair value; and
- financial instruments classified as available-for-sale.

(c) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Bank's functional currency and the functional currency of the majority of the Consolidated Entity.

(d) Rounding

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in this financial report and directors' report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

(e) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Provisions for impairment – Note 13;
- Intangible assets - Note 17;
- Provisions - Note 20;
- Financial instruments - Note 27; and
- Controlled entities - Note 34.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

2. Basis of preparation (continued)

(f) Restatement of acquisition accounting adjustments

The prior period income statement and balance sheets were stated using provisional entries in accordance with AASB 3 *Business Combinations*. These provisional entries have now been finalised resulting in restatement of several income statement and balance sheet items. A summary of these restatements are provided in the table below.

	31 August 2008		
	Restated \$m	Reported \$m	Increase / (Decrease)
Income Statement			
Amortisation of intangibles	7.7	26.7	(19.0)
Income tax expense	63.2	56.1	7.1
Profit for the year	138.7	126.8	11.9
Balance Sheet			
Intangible assets	590.6	571.6	19.0
Current tax asset	-	0.3	(0.3)
Current tax liabilities	6.8	-	6.8
Retained profits	191.2	179.3	11.9

3. Significant accounting policies

The following standards and amendments have been identified as those which may impact the Bank and were available for early adoption at 31 August 2009 but have not been applied in these financial statements:

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interest at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Bank's 31 August 2010 financial report and only applies to business combinations after 31 August 2009 and is not expected to impact business combinations prior to the date;
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Bank as the standard is only concerned with disclosures;
- AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Bank's 31 August 2010 financial report. The Bank has not yet determined the potential effect of the revised standard on the Bank's disclosures;
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Bank's 31 August 2010 financial statements. The Bank has not yet determined the potential effect of the revised standard on the Bank's financial report;
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Bank's 31 August 2010 financial statements. The Bank has not yet determined the potential effect of the amending standard on the Bank's financial report;
- AASB 2008-5, AASB 2008-6, AASB 2009-4, AASB 2009-5, AASB 2009-6 and AASB 2009-7 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Project, makes amendments to a number of accounting standards. These standards become mandatory for the Bank's 31 August 2010 financial statements. The Bank has not yet determined the potential effect of these amending standards on the Bank's financial report;

3. Significant accounting policies (continued)

- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* makes the following changes: the definition of 'cost method' is removed; all dividends from subsidiaries, jointly controlled entities or associates to be recognised as income in the separate financial statements of the investor; receipt of dividend may be an indicator of impairment if certain criteria are met; and specified accounting for certain transaction where a newly formed entity become the new part of another entity in a group. AASB 2008-7 becomes mandatory for the Bank's 31 August 2010 financial statements. The Bank has not yet determined the potential effect of the amending standard on the Bank's financial report;
- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Bank's 31 August 2010 financial statements, with retrospective application. The Bank has not yet determined the potential effect of the amendment; and
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*. These amendments primarily require enhanced disclosures regarding fair value measurements and liquidity risk under AASB 7 *Financial Instruments: Disclosures*. The Bank has not yet determined the potential effect of the amendment.

Except as described in the subsequent notes, the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report, and have been applied consistently across the Consolidated Entity.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases. In the Bank's financial statements, investments in subsidiaries are carried at cost.

(ii) Securitisation

The Bank conducts a loan securitisation program whereby mortgage loans are packaged and sold to the REDS Securitisation and Warehouse Trusts ("RMBS Trusts").

The Bank also securitises Hire Purchase, Chattel Mortgages and Finance Leases which are packaged and sold to REDS EHP Securitisation Trusts ("REDS EHP Trusts").

Consolidated Entity

The Consolidated Entity receives the residual income distributed by the RMBS Trusts after all payments due to investors and associated costs of the program have been met and as a result the Consolidated Entity is considered to control the RMBS Trusts and they are treated as controlled entities.

The RMBS Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. The securities are issued by the RMBS Trusts. These are represented as other liabilities of the Consolidated Entity, however the Consolidated Entity does not stand behind the capital value or the performance of the securities or the assets of the RMBS Trusts. The Consolidated Entity does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the RMBS Trusts. The Consolidated Entity is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

The Bank also securitises Hire Purchase, Chattel Mortgages and Finance Leases to the REDS EHP Trusts. Where the residual income units in these trusts are held by external investors the trusts are not consolidated as the Consolidated Entity does not meet the conditions associated with control of an entity as defined by AASB 127 *Consolidated and Separate Financial Statements* and the original sale of these assets meets the de-recognition criteria set out in AASB 139.

To the extent that the Consolidated Entity does not substantially transfer all the risk and rewards associated with these assets, the level of the Consolidated Entity's continuing involvement in these assets continues to be recognised.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Bank

Interest rate risk from the RMBS Trusts is transferred back to the Bank by way of interest rate swaps. Accordingly, under AASB 139 the original sale of the mortgages from the Bank to the RMBS Trusts does not meet the de-recognition criteria set out in AASB 139. The Bank continues to reflect the securitised loans in their entirety and also recognises a financial liability to the RMBS Trusts. The interest payable on the intercompany financial asset / liability represents the return on an imputed loan between the Bank and the RMBS Trusts and is based on the interest income under the mortgages, the fees payable by the RMBS Trusts and the interest income or expense not separately recognised under interest rate and basis swaps transactions between the Bank and the RMBS Trusts.

All transactions between the Bank and the RMBS Trusts are eliminated on consolidation.

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired, or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership, or where control is not retained. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expired.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement.

Where a foreign currency transaction is part of a hedge relationship it is accounted for as above, subject to the Hedge Accounting rules set out in Note 3 (c) Derivative financial instruments and hedging.

(c) Derivative financial instruments and hedging

Treasury shares

Ordinary shares of the bank may be purchased from time to time by a subsidiary of the Bank authorised to do so under the Bank's Award Rights Plan. Where these shares remain unvested to employees they are treated as treasury shares and deducted from capital as required by AASB 132 *Financial Instruments: Presentation and Disclosure*. No profit or loss is recorded on purchase, sale, issue or cancellation of these shares.

Derivatives

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the Consolidated Entity can hold derivative financial instruments for trading purposes. Also, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at trade date fair value and are subsequently remeasured at fair value at the reporting date. The gain or loss on re-measurement is recognised immediately in the Income Statement. However, when derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship discussed below.

The fair value of interest rate swaps is the estimated amount that the Consolidated Entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of futures contracts is their quoted market price.

All of the Bank's hedging relationships are designated as cash flow hedges. The Bank has not designated any hedges as fair value hedges.

3. Significant accounting policies (continued)

(c) Derivative financial instruments and hedging (continued)

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability of the cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised immediately in the Income Statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods in which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the Consolidated Entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss is recognised immediately in the Income Statement.

Financial investments

The Bank classifies its financial investments into one of the following two categories upon initial recognition:

(i) Financial assets at fair value through the Income Statement

Financial assets that are held as part of the Bank's Trading Book (refer Note 11) are designated at fair value through the Income Statement if the Bank manages such financial assets and makes purchase and sale decisions based on their fair value in accordance with the Bank's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through the Income Statement are measured at fair value, and changes therein are recognised in the income statement.

(ii) Available-for-sale

Assets that are intended to be held for an indefinite period of time but which may be sold in response to changes in interest rates, exchange rates and liquidity needs are classified as available for sale. These assets are initially measured at fair value with any changes in fair value being recognised in equity until the asset is sold. Interest income received on these assets is recorded as net interest income and any realised gains or losses recorded in other revenue from other activities.

(d) Cash and Liquid assets

Cash and liquid assets comprise cash at branches, cash on deposit, balances with the Reserve Bank of Australia and money market deposits at call.

(e) Receivables due from other Banks

Receivables due from other banks are recognised and measured at amortised cost and include nostro balances (an account held with a foreign bank usually in a foreign currency) and settlement account balances.

(f) Loans and advances at amortised cost

Loans and advances are originated by the Bank and are recognised upon cash being advanced to the borrower. Loans and advances are initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.

Refer Note 3 (j) for impairment of loans and advances.

(g) Leases

Finance Leases

Finance leases in which the Bank is the lessor, are recorded in the Balance Sheet as loans and advances at amortised cost. They are recorded on the commencement of the lease as the net investment in the lease, being the present value of the minimum lease payments.

The Consolidated Entity does not have finance leases as lessee.

Operating Leases

Operating leases in which the Bank is the lessee, are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. When an operating lease terminates before the lease period expires, any payment required to be made to the lessor by way of penalty, is recognised as an expense in the period in which termination takes place.

The Consolidated Entity does not have any operating leases as lessor.

3. Significant accounting policies (continued)

(h) Property, plant and equipment

Recognition and initial measurement

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Subsequent Costs

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the assets will flow to the Bank in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

Subsequent Measurement

The Bank has elected to use the cost model to measure property, plant and equipment after recognition. The carrying value is the initial cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

	Years
• Buildings	40
• IT equipment	3 – 10
• Plant, furniture and equipment	3 – 25
• Leasehold improvements	10 (or term of lease if less)

The residual value, if not insignificant, is reassessed annually.

(i) Intangible Assets

Initial recognition and measurement

Intangible assets are stated at cost less any accumulated amortisation and any impairment losses. Expenditure on internally generated goodwill, research costs and brands is recognised in the Income Statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets of the acquired subsidiary. Any goodwill is tested annually for impairment, with any impairment taken directly to the Income Statement. Refer Note 3 (j).

Amortisation

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful life of the intangible asset unless the life of the intangible asset is indefinite. Where applicable, intangible assets are amortised from the date they are available for use. The amortisation period and method are reviewed on an annual basis.

The amortisation rates used in the current and comparative periods are as follows:

	Years
• Software	5-10
• Customer related intangibles and brands	3-10
• Technology Infrastructure	12

3. Significant accounting policies (continued)

(j) Impairment

The carrying value of the Bank's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. For goodwill, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset has previously been revalued in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess being recognised through the Income Statement.

Impairment losses recognised in respect of cash-generating units are allocated firstly to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and secondly to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cashflow of the asset that can be reliably measured, the cumulative loss recognised directly in equity is recognised in the Income Statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the Income Statement is the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in the Income Statement.

Calculation of recoverable amount

Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

Impairment of loans and advances

The Bank uses two methods for calculating impairment:

(i) Specific impairment provisions

Impairment losses on individually assessed loans and advances are determined on a case-by-case basis. If there is objective evidence that an individual loan or advance is impaired, then a specific provision for impairment is raised. The amount of the specific provision is based on the carrying amount of the loan or advance, including the security held against the loan or advance and the present value of expected future cash flows. Any subsequent write-offs for bad debts are then made against the specific provision for impairment.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

(ii) Collective impairment provisions

Where no evidence of impairment has been identified for loans and advances, these loans and advances are grouped together on the basis of similar credit characteristics for the purpose of calculating a collective impairment loss. Collective impairment provisions are based on historical loss experience adjusted for current observable data. The amount required to bring the collective provision for impairment to its required level is charged to the Income Statement.

(k) Financial Liabilities

Financial liabilities including current accounts, deposits, subordinated notes and term deposits are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability and are subsequently measured at amortised cost using the effective interest method.

Securitisation set-up costs relating to on-balance sheet assets are included with securitisation borrowings and amortisation is recorded as interest expense.

(l) Employee benefits

(i) Wages, Salaries and Annual Leave

Liabilities for employee benefits to wages, salaries and annual leave represents present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Bank expects to pay as at reporting date including related on-costs.

(ii) Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employee's services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs, and expected settlement dates based on turnover history and is discounted using the rates attached to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

3. Significant accounting policies (continued)

(l) Employee benefits (continued)

(iii) Superannuation plan

The Bank contributes to a number of defined contribution superannuation plans which complies with the Superannuation Contributions Act Legislation. Contributions are charged against income as they are made.

(iv) Share based payments

The Bank operates the following equity-settled compensation plans:

- Managing Director Option Plan ("MD plan");
- Senior Management Option Plan ("SMOP"); and
- Award Rights Plan.

The above plans allow Bank employees to acquire shares in the Bank. The fair value of options and rights granted is recognised as an employee expense with a corresponding increase to the Employee Benefits Reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options and rights. The fair value of the options and rights granted is measured using industry accepted option pricing methodologies, taking into account the terms and conditions upon which the options and rights are granted. The fair value of the options and rights is expensed over the vesting period. Where options and rights do not vest due to failure to meet a non market condition (e.g. employee service period) the expense is reversed. Where options and rights do not vest due to failure to meet a market condition (e.g. Total Shareholder Return test) the expense is not reversed.

(m) Provisions

A provision is recognised in the Balance Sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(n) Preference Shares

Preference share capital is classified as equity if it is non-redeemable or redeemable only at the Bank's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the income statement as accrued.

(o) Revenue

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in the Income Statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Transaction costs include loan acquisition costs such as commissions paid to Owner Managed Branches, Agents and other intermediaries.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairments.

Non-interest income

Non-yield related lending application fees received are recognised as income when the loan is disbursed or the commitment to lend expires.

Service fees that represent the recoupment of the costs of providing the service are recognised on an accruals basis when the service is provided.

Lending fees that are considered an integral part of the effective interest rate are recognised within interest revenue on an effective interest rate basis.

Fair value gains and losses from financial assets held at fair value are recognised in the Income Statement immediately.

Franchise fees received under Owner Managed Branch agreements are recognised as income upon the signing of an unconditional agreement.

3. Significant accounting policies (continued)

(p) Income tax

Income tax on the Income Statement for the periods presented comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the Balance Sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax Consolidation

The Bank is the head entity in the tax consolidated group comprising all the Australian wholly-owned subsidiaries. The implementation date for the tax-consolidated group was 1 September 2004.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a 'group allocation' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Bank as an equity contribution, or distribution from the subsidiary.

The Bank recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding and tax sharing arrangements

The Bank, in conjunction with other members of the tax-consolidated group, has entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding agreement requires payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Bank recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed.

Contributions to fund the current tax liabilities are payable as per the Tax Funding Arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Bank, in conjunction with other members of the tax-consolidated group, has also entered into a Tax Sharing Agreement ("TSA"). The TSA provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the TSA is considered remote.

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(r) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Consolidated Entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Bank, adjusted for any bonus issues.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

3. Significant accounting policies (continued)

(s) Business Combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Consolidated Entity.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed by the Consolidated Entity, plus costs directly attributable to the acquisition. The subsidiary's identifiable assets, liabilities and contingent liabilities are measured at their fair values at the acquisition date. If the cost of acquisition is more than the fair value of the Consolidated Entity's share of the identifiable net assets acquired, the excess is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

(t) General reserve for credit losses

The Bank is required by the Australian Prudential Regulation Authority ("APRA") to maintain a general provision for credit losses. As the Bank is unable to hold a general provision under current accounting standards, the Bank has created a general reserve for credit losses. The general reserve for credit losses and collective provision for impairment are aggregated for the purpose of satisfying the APRA requirement for a general reserve for credit losses.

(u) Investment in jointly controlled operations

The Bank has interests in joint ventures that are part of jointly controlled operations. The Bank's investments in jointly controlled joint venture entities are accounted for under the equity method of accounting in the consolidated financial statements. These are entities in which the Bank has joint control over all operational decisions and activities.

Under the equity method, the investments in joint ventures are recognised at the cost of acquisition and the carrying value is subsequently adjusted by the Bank's share of the joint venture entity's profit or loss and movement in post-acquisition reserves, after adjusting to align the accounting policies with that of the Bank.

The Bank's share of the joint venture entity's net profit or loss is calculated based on the sale of land, together with any tax expense, and is brought to account based on the proportion of settled land sales contracts.

4. Operating income	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Interest income				
Loans and advances	1,835.2	1,811.8	1,721.2	1,597.6
Securities at fair value	196.0	231.3	241.9	210.4
Total interest income	2,031.2	2,043.1	1,963.1	1,808.0
Interest expense				
Retail deposits	722.6	731.7	713.2	617.2
Wholesale deposits and borrowings	827.5	890.3	875.5	901.0
Total interest expense	1,550.1	1,622.0	1,588.7	1,518.2
Net interest income	481.1	421.1	374.4	289.8
Income from operating activities				
Other customer fees and charges	122.4	116.6	122.2	110.8
Securitisation income ⁽¹⁾	3.3	5.7	48.5	36.9
Net income / (loss) from financial instruments and derivatives at fair value	8.6	(8.9)	8.7	(4.7)
Commission – insurance and financial planning	8.9	9.8	7.0	5.5
Franchise fees	2.9	2.6	2.9	2.6
Management fee – controlled entities	-	-	26.9	24.9
Bad debts recovered	2.1	1.4	1.6	0.7
ATM branding royalties	-	4.8	-	4.8
Foreign exchange income – customer based	5.3	4.8	5.3	4.8
Income from outside operating activities				
Profit on sale of property, plant and equipment	0.5	2.3	0.5	0.3
Other income ⁽²⁾	7.9	20.3	6.0	18.0
Share of fee revenue paid to Owner Managed Branches	(14.0)	(9.9)	(14.0)	(9.9)
Other operating income	147.9	149.5	215.6	194.7
Total operating income	629.0	570.6	590.0	484.5

(1) At a consolidated level represents securitisation income from the Bank's leasing trusts which are not consolidated.

(2) The prior year includes the gain on the Visa Initial Public Offering of \$6.3m after tax.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

5. Expenses	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Operating expenses				
Advertising	11.8	12.5	11.8	11.8
Commissions to Owner Managed Branches	6.8	10.2	6.8	10.2
Communications and postage	13.8	13.9	13.6	12.4
Printing and stationery	4.0	4.7	3.9	4.5
Non-lending losses	3.4	5.8	3.3	5.2
Processing costs	30.7	32.9	30.7	29.1
Amortisation – securitisation setup costs	1.8	1.7	0.5	0.8
Impairment ⁽¹⁾	13.2	-	7.8	-
Other operating expenses	13.1	12.8	12.6	12.6
	98.6	94.5	91.0	86.6
Administrative expenses				
Professional fees	9.8	6.3	9.5	5.8
Directors' fees	1.3	1.0	1.3	1.0
Other	5.0	4.5	4.3	3.9
	16.1	11.8	15.1	10.7
Computer costs				
Data processing	44.5	46.8	44.5	45.5
Amortisation – computer software (intangible)	16.9	14.2	16.9	13.9
Amortisation – technology infrastructure (intangible)	1.5	1.5	1.5	1.5
Depreciation – IT equipment	1.5	2.0	1.5	1.5
	64.4	64.5	64.4	62.4
Occupancy expenses				
Lease rental	17.4	16.3	17.2	13.7
Depreciation of plant, furniture, equipment and leasehold improvements	5.1	3.9	5.1	3.1
Other	2.0	1.6	1.9	1.5
	24.5	21.8	24.2	18.3
Employee expenses				
Salaries and wages	99.2	96.6	96.0	84.3
Superannuation contributions	9.5	10.7	9.2	9.6
Fringe benefits tax	1.7	1.5	1.5	1.1
Amounts set aside to provision for employee entitlements	0.6	3.1	0.4	2.2
Payroll tax	6.0	5.2	5.7	4.4
Equity settled transactions	4.9	5.2	4.9	5.2
Other	3.9	5.2	3.9	4.8
	125.8	127.5	121.6	111.6
Other				
Amortisation – acquired intangibles ⁽²⁾	10.9	7.7	1.1	1.0
Pioneer integration costs	-	0.3	-	0.3
Home integration costs ⁽³⁾	10.8	13.6	3.3	3.5
Restructuring expenses ⁽⁴⁾	18.7	-	18.7	-
Expenses	369.8	341.7	339.4	294.4

(1) Impairment primarily relating to property related equity investments.

(2) The prior period amortisation of acquired intangibles has been restated. Refer to Note 2(f).

(3) Relates to non-recurring integration costs associated with the acquisition of Home Building Society Ltd.

(4) Relates to the provision raised for the NSW distribution restructure and head office restructure.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
6. Income tax expense				
Recognised in the Income Statement				
Current tax expense				
Current year	50.5	45.3	59.2	39.1
Adjustments for prior years	(2.4)	(1.9)	(2.5)	(1.6)
	48.1	43.4	56.7	37.5
Deferred tax expense				
Origination and reversal of temporary differences	4.0	19.8	4.2	15.4
	4.0	19.8	4.2	15.4
Total income tax expense in Income Statement	52.1	63.2	60.9	52.9
Attributable to:				
Continuing Operations	52.1	63.2	60.9	52.9
Deferred tax recognised in equity				
Equity raising costs	(2.6)	(1.9)	(2.6)	(1.9)
Cash flow hedge reserve	(23.5)	(14.5)	(24.9)	(14.3)
Other	(0.6)	(1.2)	(1.0)	(0.8)
	(26.7)	(17.6)	(28.5)	(17.0)
Numerical reconciliations between tax expense and pre-tax profit				
Profit before tax - continuing operations	193.2	201.9	201.5	169.8
Profit before tax	193.2	201.9	201.5	169.8
Income tax using the domestic corporate tax rate of 30% (2008: 30%)	57.9	60.6	60.4	50.9
Increase in income tax expense due to:				
Non-deductible expenses	5.3	5.1	3.3	3.2
Decrease in income tax expense due to:				
Research and development expenses	-	(0.5)	-	(0.5)
Tax exempt revenues	(2.8)	(2.3)	-	-
Investment allowance	(4.8)	-	-	-
	55.6	62.9	63.7	53.6
Under / (Over) provided in prior years	(3.5)	0.3	(2.8)	(0.7)
Income tax expense on pre-tax net profit	52.1	63.2	60.9	52.9

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

7. Dividends	Bank					
	2009			2008		
	Cents per share	\$m	Percentage franked %	Cents per share	\$m	Percentage franked %
Ordinary shares						
Final 2008 dividend paid 24 November 2008 (2008: 26 November 2007)	38	58.9	100%	37	42.5	100%
Interim 2009 dividend paid 19 May 2009 (2008: 16 May 2008)	26	44.8	100%	35	51.3	100%
		103.7			93.8	
Preference shares recognised as liabilities						
RePS half-yearly dividend paid 15 October 2008 (2008: 15 October 2007)	257	1.2	100%	257	1.2	100%
SIRPS half-yearly dividend paid 20 October 2008 (2008: 22 October 2007)	261	1.7	100%	261	1.7	100%
RePS half-yearly dividend paid 15 April 2009 (2008: 15 April 2008)	255	1.2	100%	257	1.2	100%
SIRPS half-yearly dividend (2008: 21 April 2008)	-	-	-	261	1.7	100%
		4.1			5.8	
Preference shares not recognised as liabilities						
Half-yearly PEPS dividend paid on 15 October 2008 (2008: nil)	353	7.1	100%	-	-	-
Half-yearly PEPS dividend paid on 15 April 2009 (2008: 15 April 2008)	265	5.3	100%	216	4.3	100%
		12.4			4.3	

All the franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the prevailing tax rate of 30%.

Since the end of the financial year, the directors have declared the following dividends:	Cents per share	\$m	Percentage franked %	Date of payment
- RePS half-yearly dividend (BOQPA)	257	1.2	100%	15 October 2009
- PEPS half-yearly dividend (BOQPC)	180	3.6	100%	15 October 2009
- Final - ordinary shares (BOQ)	26	54.8	100%	1 December 2009

Dividend franking account	Bank	
	2009 \$m	2008 \$m
30% franking credits available to shareholders of the Bank for subsequent financial years	31.1	25.1

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking debits that will arise from the refund of the amount of the current tax assets and franking credits arising from the payment of current tax liabilities;
- franking debits that will arise from the payment of dividends subsequent to year-end;
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

All the franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the tax rate of 30%.

The balance of the Bank of Queensland Limited dividend franking account at the date of this report, after adjusting for franking credits and debits that will arise on payment of income tax and dividends relating to the year ended 31 August 2009, is \$31.1 million credit calculated at the 30% tax rate (2008: \$25.1 million credit).

It is anticipated, based on these franking account balances that the Bank will continue to pay fully franked dividends in the foreseeable future.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

8. Earnings per share	Consolidated	
	2009 cents	2008 cents
Basic earnings per share	75.9c	94.4c
Diluted earnings per share	74.4c	89.6c
	2009 \$m	2008 \$m
Earnings reconciliation		
Net profit	141.1	138.7
Less other equity instrument dividends	(12.4)	(4.3)
Basic earnings	128.7	134.4
Effect of distributions on convertible preference shares	15.3	10.2
Diluted earnings	144.0	144.6

Weighted average number of shares used as the denominator	Consolidated	
	2009 Number	2008 Number ⁽¹⁾
Number for basic earnings per share		
Ordinary shares	169,662,278	142,435,783
Number for diluted earnings per share		
Ordinary shares	169,662,278	142,435,783
Effect of SMOP ⁽²⁾	81	840,452
Effect of Managing Director options ⁽³⁾	-	251,244
Effects of converting preference shares	23,746,231	17,860,112
	193,408,590	161,387,591

(1) Comparatives for basic and diluted earnings per share have been adjusted for the effect of the rights issue that occurred during the current financial year and up to the date of the issuance of this report.

(2) During the year 31,000 (2008: 2,824,736) options were converted into ordinary shares under the Senior Management Option Plan. The diluted EPS calculation includes that portion of these options assumed to be issued for nil consideration weighted with reference to the date of conversion. The weighted average number included is 81 (2008: 260,199).

(3) During the year no (2008: 500,000) options were converted into ordinary shares under the Managing Director Option Plan. The diluted EPS calculation includes that portion of these options assumed to be issued for nil consideration weighted with reference to the date of conversion. The weighted average number included is nil (2008: 166,978).

9. Cash and liquid assets	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Notes, coin and cash at bank	256.7	334.0	153.2	177.4
Bills receivable and remittances in transit	97.1	65.5	97.1	65.5
	353.8	399.5	250.3	242.9
10. Due from other financial institutions				
Term deposits	74.6	56.9	74.6	56.9
	74.6	56.9	74.6	56.9

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
11. Other financial assets				
At fair value through income statement				
Floating rates notes and bonds	936.0	435.6	936.0	435.6
Negotiable certificates of deposit	2,071.6	1,522.5	2,071.6	1,522.5
Deposits at call	275.1	152.4	275.1	217.4
Bank accepted bills	399.3	593.1	399.3	323.9
Promissory notes	370.5	139.7	370.5	139.7
	4,052.5	2,843.3	4,052.5	2,639.1
Investment securities available for sale				
Debt instruments	354.5	401.0	467.6	531.5
Unlisted equity instruments	16.3	19.6	16.3	10.0
	370.8	420.6	483.9	541.5
Total other financial assets	4,423.3	3,263.9	4,536.4	3,180.6

12. Loans and advances at amortised cost

Residential property loans - secured by mortgages	13,706.3	12,441.5	13,713.1	10,487.4
Securitised residential property loans - secured by mortgages	6,929.8	5,960.4	6,929.8	5,589.5
Personal loans	360.1	457.5	360.1	380.7
Overdrafts	486.7	481.8	487.6	461.7
Commercial loans	4,247.0	3,956.8	4,247.0	3,768.9
Leasing finance	3,083.6	2,365.6	0.2	2.9
Gross loans and advances at amortised cost	28,813.5	25,663.6	25,737.8	20,691.1
Less:				
Unearned lease finance income	(451.6)	(382.4)	-	(0.1)
Collective provision for impairment	(21.7)	(15.7)	(17.8)	(9.8)
Specific provisions for impairment	(29.4)	(18.7)	(25.6)	(11.7)
Total loans and advances at amortised cost	28,310.8	25,246.8	25,694.4	20,669.5

Loans and advances at amortised cost include the following finance lease receivables for leases of certain property and equipment where the Bank is the lessor:

Gross investment in finance lease receivables:

Less than one year	179.3	145.8	0.2	2.4
Between one and five years	2,824.6	2,127.7	-	0.5
More than five years	79.7	92.1	-	-
	3,083.6	2,365.6	0.2	2.9
Unearned finance income	(451.6)	(382.4)	-	(0.1)
Net investment in finance leases	2,632.0	1,983.2	0.2	2.8
The net investment in finance leases comprise:				
Less than one year	174.4	137.4	0.2	2.3
Between one and five years	2,399.7	1,774.7	-	0.5
More than five years	57.9	71.1	-	-
	2,632.0	1,983.2	0.2	2.8

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

12. Loans and advances at amortised cost (continued)

The securities issued under the REDS programs do not represent deposits or other liabilities of Bank of Queensland Limited or any other member of the Bank of Queensland group. Neither Bank of Queensland Limited nor any other member of the Bank of Queensland group in any way stands behind the capital value or performance of the REDS programs. The Bank does however provide the REDS programs with arm's length services and facilities including the management and servicing of the leases securitised.

The Bank has no right to repurchase any of the securitised leases and no obligation to do so, other than in certain circumstances where there is a breach of warranty within 120 days of the sale or when certain criteria are met under the Clean up Provision per the Trust Deed Supplement.

Securitisation of leases

The Bank has entered into a securitisation program via the REDS EHP Trusts ("REDS EHP program") whereby the Bank securitises chattel, hire purchase and finance leases.

Where the residual income units of the REDS EHP Trusts are held by external investors, these Trusts are not recognised on the balance sheet of the Bank as the original sale of these assets meet the de-recognition criteria set out in AASB 139 Financial Instruments: Recognition and Measurement. The assets of these Trusts are not consolidated under AASB 127 Consolidated and Separate Financial Statements as the Consolidated Entity does not meet the conditions associated with control of an entity. In the current year, Series 2008-1E EHP REDS Trust is recognised on the balance sheet as the residual income unit is not held by external investors. As at 31 August 2009, off balance sheet securitised leases under management amounted to \$533.8m (2008: \$1,006.3m).

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
13. Provisions for impairment				
<i>Specific provision:</i>				
Balance at the beginning of the year	18.7	6.2	11.7	4.6
Add: Expensed during the year	60.0	24.3	46.4	17.1
Add: Acquired during the year ⁽¹⁾	-	3.2	-	-
Less: Amounts written off against specific provision	(49.3)	(15.0)	(35.8)	(10.0)
Transferred in from subsidiary	-	-	3.3	-
Balance at the end of the year	29.4	18.7	25.6	11.7
<i>Collective provision:</i>				
Balance at the beginning of the year	15.7	7.7	9.8	6.6
Add: Expensed during the year	6.0	2.7	2.7	3.2
Add: Acquired during the year ⁽¹⁾	-	5.3	-	-
Transferred in from subsidiary	-	-	5.3	-
Balance at the end of the year	21.7	15.7	17.8	9.8
Total provisions for impairment	51.1	34.4	43.4	21.5

(1) Provisions acquired in the prior year relates to the acquisition of Home Building Society Ltd on 18 December 2007.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

14. Property, plant and equipment

2009	Leasehold improvements \$m	Plant, furniture and equipment \$m	IT equipment \$m	Capital works in progress \$m	Total \$m
Consolidated					
Cost					
Balance at the beginning of the financial year	16.4	27.8	28.7	1.1	74.0
Additions	6.4	1.4	1.3	0.1	9.2
Disposals	(3.4)	(4.6)	(0.9)	-	(8.9)
Transfers between categories	1.0	0.1	-	(1.1)	-
Balance at the end of the financial year	20.4	24.7	29.1	0.1	74.3
Depreciation					
Balance at the beginning of the financial year	7.4	16.3	24.9	-	48.6
Depreciation charge for the year	3.3	1.8	1.5	-	6.6
Disposals	(1.9)	(2.8)	(0.7)	-	(5.4)
Balance at the end of the financial year	8.8	15.3	25.7	-	49.8
Carrying amounts					
Carrying amount at the beginning of the financial year	9.0	11.5	3.8	1.1	25.4
Carrying amount at the end of the financial year	11.6	9.4	3.4	0.1	24.5
Bank					
Cost					
Balance at the beginning of the financial year	14.6	22.9	27.8	1.1	66.4
Transferred from subsidiary	1.8	4.9	0.9	-	7.6
Additions	6.4	1.4	1.3	0.1	9.2
Disposals	(3.4)	(4.6)	(0.9)	-	(8.9)
Transfers between categories	1.0	0.1	-	(1.1)	-
Balance at the end of the financial year	20.4	24.7	29.1	0.1	74.3
Depreciation					
Balance at the beginning of the financial year	7.2	16.1	24.8	-	48.1
Transferred from subsidiary	0.2	0.2	0.1	-	0.5
Depreciation charge for the year	3.3	1.8	1.5	-	6.6
Disposals	(1.9)	(2.8)	(0.7)	-	(5.4)
Balance at the end of the financial year	8.8	15.3	25.7	-	49.8
Carrying amounts					
Carrying amount at the beginning of the financial year	7.4	6.8	3.0	1.1	18.3
Carrying amount at the end of the financial year	11.6	9.4	3.4	0.1	24.5

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

14. Property, plant and equipment (continued)

2008	Land \$m	Buildings \$m	Leasehold improvements \$m	Plant, furniture and equipment \$m	IT equipment \$m	Capital works in progress \$m	Total \$m
Consolidated							
Cost							
Balance at the beginning of the financial year	1.1	1.3	11.6	22.6	31.5	0.8	68.9
Acquired during the year ⁽¹⁾	-	-	1.8	3.4	1.7	-	6.9
Additions	-	0.1	2.9	6.2	1.0	1.1	11.3
Disposals	(1.3)	(1.4)	(0.5)	(4.4)	(5.5)	-	(13.1)
Transfers between categories	0.2	-	0.6	-	-	(0.8)	-
Balance at the end of the financial year	-	-	16.4	27.8	28.7	1.1	74.0
Depreciation							
Balance at the beginning of the financial year	-	-	5.4	16.4	27.4	-	49.2
Depreciation charge for the year	-	-	2.3	1.6	2.0	-	5.9
Disposals	-	-	(0.3)	(1.7)	(4.5)	-	(6.5)
Balance at the end of the financial year	-	-	7.4	16.3	24.9	-	48.6
Carrying amounts							
Carrying amount at the beginning of the financial year	1.1	1.3	6.2	6.2	4.1	0.8	19.7
Carrying amount at the end of the financial year	-	-	9.0	11.5	3.8	1.1	25.4
Bank							
Cost							
Balance at the beginning of the financial year	-	-	11.6	22.0	29.8	0.8	64.2
Transferred from subsidiary	-	-	-	0.6	1.6	-	2.2
Additions	-	0.1	2.9	2.0	0.8	1.1	6.9
Disposals	(0.2)	(0.1)	(0.5)	(1.7)	(4.4)	-	(6.9)
Transfers between categories	0.2	-	0.6	-	-	(0.8)	-
Balance at the end of the financial year	-	-	14.6	22.9	27.8	1.1	66.4
Depreciation							
Balance at the beginning of the financial year	-	-	5.4	16.0	26.2	-	47.6
Transferred from subsidiary	-	-	-	0.4	1.3	-	1.7
Depreciation charge for the year	-	-	2.1	1.0	1.5	-	4.6
Disposals	-	-	(0.3)	(1.3)	(4.2)	-	(5.8)
Balance at the end of the financial year	-	-	7.2	16.1	24.8	-	48.1
Carrying amounts							
Carrying amount at the beginning of the financial year	-	-	6.2	6.0	3.6	0.8	16.6
Carrying amount at the end of the financial year	-	-	7.4	6.8	3.0	1.1	18.3

(1) The increase in property, plant and equipment is due to the acquisition of Home Building Society Ltd on 18 December 2007.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

15. Deferred tax assets and liabilities

Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Consolidated						
Accruals	0.7	1.0	-	-	0.7	1.0
Capitalised expenditure	-	-	(30.7)	(24.4)	(30.7)	(24.4)
Intangibles	2.0	6.0	(0.4)	(7.5)	1.6	(1.5)
Leasing	4.2	6.9	-	-	4.2	6.9
Property, plant, equipment and software	-	-	(14.5)	(16.4)	(14.5)	(16.4)
Provision for impairment	15.3	9.1	-	-	15.3	9.1
Provisions other	9.6	9.1	-	-	9.6	9.1
Receivables	-	-	(0.3)	(4.3)	(0.3)	(4.3)
Unrealised trading gains	-	-	(4.4)	(6.2)	(4.4)	(6.2)
Unrealised trading losses	4.2	4.5	-	-	4.2	4.5
Other	7.3	6.1	(6.0)	(3.4)	1.3	2.7
Equity reserves	32.0	8.1	(5.7)	-	26.3	8.1
Tax assets / (liabilities)	75.3	50.8	(62.0)	(62.2)	13.3	(11.4)
Bank						
Accruals	0.7	1.0	-	-	0.7	1.0
Capitalised expenditure	-	-	(27.5)	(20.1)	(27.5)	(20.1)
Intangibles	-	-	(0.4)	(0.7)	(0.4)	(0.7)
Property, plant, equipment and software	-	-	(14.5)	(16.5)	(14.5)	(16.5)
Provision for impairment	13.0	6.5	-	-	13.0	6.5
Provisions other	7.5	7.0	-	-	7.5	7.0
Receivables	-	-	(0.3)	(4.3)	(0.3)	(4.3)
Unrealised trading gains	-	-	(4.4)	(6.2)	(4.4)	(6.2)
Unrealised trading losses	2.4	4.5	-	-	2.4	4.5
Other	7.5	2.7	(0.1)	-	7.4	2.7
Equity reserves	33.9	7.6	(5.7)	-	28.2	7.6
Tax assets / (liabilities)	65.0	29.3	(52.9)	(47.8)	12.1	(18.5)

16. Other assets

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Accrued interest	48.0	56.4	48.0	56.0
Other debtors and prepayments	56.3	94.3	173.1	200.0
	104.3	150.7	221.1	256.0

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

17. Intangible assets

	Consolidated				
	Goodwill \$m	Customer related intangibles and brands \$m	Computer software \$m	Technology infrastructure \$m	Total \$m
2009					
Cost					
Balance at the beginning of the financial year	443.5	78.6	151.8	18.0	691.9
Acquisitions through business combinations	0.9	-	-	-	0.9
Transferred from subsidiary	-	-	-	-	-
Other acquisitions	-	-	25.6	-	25.6
Disposals	-	-	(0.8)	-	(0.8)
Balance at the end of the financial year	444.4	78.6	176.6	18.0	717.6
Amortisation and impairment losses					
Balance at the beginning of the financial year	-	11.1	80.5	9.7	101.3
Transferred from subsidiary	-	-	-	-	-
Amortisation for the year	-	10.9	16.9	1.5	29.3
Disposals	-	-	(0.8)	-	(0.8)
Balance at the end of the financial year	-	22.0	96.6	11.2	129.8
Carrying amounts					
Carrying amount at the beginning of the financial year	443.5	67.5	71.3	8.3	590.6
Carrying amount at the end of the financial year	444.4	56.6	80.0	6.8	587.8
2008					
Cost					
Balance at the beginning of the financial year	45.0	12.0	131.9	18.0	206.9
Acquisitions through business combinations	398.5	66.6	0.5	-	465.6
Other acquisitions	-	-	20.2	-	20.2
Disposals	-	-	(0.8)	-	(0.8)
Balance at the end of the financial year	443.5	78.6	151.8	18.0	691.9
Amortisation and impairment losses					
Balance at the beginning of the financial year	-	3.4	67.1	8.2	78.7
Amortisation for the year	-	7.7	14.2	1.5	23.4
Disposals	-	-	(0.8)	-	(0.8)
Balance at the end of the financial year	-	11.1	80.5	9.7	101.3
Carrying amounts					
Carrying amount at the beginning of the financial year	45.0	8.6	64.8	9.8	128.2
Carrying amount at the end of the financial year	443.5	67.5	71.3	8.3	590.6

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

Bank				
Goodwill \$m	Customer contracts \$m	Computer software \$m	Technology infrastructure \$m	Total \$m
8.1	5.0	151.4	18.0	182.5
-	-	-	-	-
-	-	0.4	-	0.4
-	-	25.6	-	25.6
-	-	(0.8)	-	(0.8)
8.1	5.0	176.6	18.0	207.7
-	2.7	80.3	9.7	92.7
-	-	0.2	-	0.2
-	1.1	16.9	1.5	19.5
-	-	(0.8)	-	(0.8)
-	3.8	96.6	11.2	111.6
8.1	2.3	71.1	8.3	89.8
8.1	1.2	80.0	6.8	96.1
8.1	5.0	131.9	18.0	163.0
-	-	-	-	-
-	-	20.2	-	20.2
-	-	(0.7)	-	(0.7)
8.1	5.0	151.4	18.0	182.5
-	1.7	67.1	8.2	77.0
-	1.0	13.9	1.5	16.4
-	-	(0.7)	-	(0.7)
-	2.7	80.3	9.7	92.7
8.1	3.3	64.8	9.8	86.0
8.1	2.3	71.1	8.3	89.8

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

17. Intangible assets (continued)

Impairment testing of the cash generating unit containing goodwill

The aggregate carrying amounts of goodwill are:

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
BOQ Equipment Finance Limited	12.9	12.9	-	-
Orix debtor finance division	8.1	8.1	8.1	8.1
Pioneer Permanent Building Society Limited	24.0	24.0	-	-
Home Building Society Ltd	399.4	398.5	-	-
	444.4	443.5	8.1	8.1

The cash generating unit ("CGU") to which all goodwill has been allocated is the Consolidated Entity's primary segment, retail banking.

The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount is based on the CGU's value in use.

Value in use was determined by discounting the future cash flows generated from the continued use of the CGU and was based on the following assumptions:

- cash flows based on the Consolidated Entity's 3 year projections;
- a medium term growth rate of 10% for the 7 years subsequent to these projections;
- a terminal value at year 10 based on a long term growth rate of 2.5% and a terminal price earnings multiple of 11.5 times earnings; and
- a pre tax discount rate of 15.4%.

The values assigned to the key assumptions represent management's assessments of future trends in retail banking and are based on both external sources and internal sources. The assumed medium term growth rate would need to reduce from 10% to 5.6% before the carrying value for the CGU would exceed its recoverable value.

18. Due to other financial institutions

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Amounts payable – at call	192.7	135.6	192.7	135.6

19. Deposits

Deposits at call	8,979.2	8,039.9	9,210.9	6,614.3
Term deposits	9,598.3	7,308.5	9,582.9	6,563.8
Certificates of deposit	5,619.7	4,688.1	5,619.7	4,742.0
Total	24,197.2	20,036.5	24,413.5	17,920.1
Concentration of deposits:				
Retail deposits	16,248.9	13,984.5	16,481.8	11,849.3
Wholesale deposits	7,948.3	6,052.0	7,931.7	6,070.8
Total	24,197.2	20,036.5	24,413.5	17,920.1

Deposits are well-diversified across industries and regions. All deposits are sourced in Australia.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
20. Provisions				
Employee benefits	10.6	13.2	10.6	11.0
Directors' retiring allowance ⁽¹⁾	0.3	0.4	0.3	0.4
Leases	0.5	1.3	0.5	0.1
Restructuring ⁽²⁾	1.1	-	1.1	-
Other	8.4	2.1	1.3	1.3
Total	20.9	17.0	13.8	12.8

(1) The directors' retiring allowance has been frozen as at 31 August 2003 and will only be increased in line with CPI movements.

(2) Provision relates to the NSW distribution restructure and head office restructure.

Movements in provisions

Movements in each class of provision during the year, other than employee benefits, are as follows:

	Consolidated			Bank		
	Leases \$m	Restructuring ⁽¹⁾ \$m	Other \$m	Leases \$m	Other \$m	Restructuring ⁽¹⁾ \$m
2009						
Carrying amount at beginning of year	1.3	-	2.1	0.1	1.3	-
Transferred in from subsidiary	-	-	-	0.4	-	-
Additional provision recognised	0.2	18.7	7.1	0.2	0.3	18.7
Payments made	(1.0)	(17.6)	(0.8)	(0.2)	(0.3)	(17.6)
Carrying amount at end of year	0.5	1.1	8.4	0.5	1.3	1.1
	Consolidated			Bank		
	Leases \$m	Restructuring ⁽¹⁾ \$m	Other \$m	Leases \$m	Other \$m	
2008						
Carrying amount at beginning of year	0.1	1.6	0.8	0.1	0.8	
Additional provision recognised	0.1	0.4	0.5	0.1	0.5	
Acquired during the period ⁽²⁾	1.2	-	0.8	-	-	
Payments made	(0.1)	(2.0)	-	(0.1)	-	
Carrying amount at end of year	1.3	-	2.1	0.1	1.3	

(1) Provision relates to the NSW distribution restructure and head office restructure and the prior year relates to integration costs associated with the acquisition of Pioneer Permanent Building Society Limited.

(2) Provision transferred in the current year relates to the integration of Home Building Society Ltd.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

21. Borrowings including subordinated notes

The Consolidated Entity recorded the following movements on borrowings including subordinated notes:

	Securitisation liabilities ⁽¹⁾ \$m	EMTN Program \$m	ECP Program \$m	Borrowings including subordinated notes \$m	Preference shares ⁽²⁾ \$m	Syndicated Loan \$m	Total \$m
Year ended 31 August 2009							
Balance at beginning of year	6,018.7	464.4	558.8	425.7	111.9	-	7,579.5
Proceeds from issues	1,628.7	15.5	1,048.7	-	-	311.7	3,004.6
Repayments	(2,022.8)	-	(1,459.0)	(80.0)	(64.7)	-	(3,626.5)
Deferred establishment costs	(5.8)	-	-	-	-	-	(5.8)
Amortisation of deferred costs	5.6	-	-	-	-	-	5.6
Foreign exchange translation	(10.6)	13.1	15.9	-	-	7.0	25.4
Balance at end of the year	5,613.8	493.0	164.4	345.7	47.2	318.7	6,982.8

	Securitisation liabilities ⁽¹⁾ \$m	EMTN Program \$m	ECP Program \$m	Borrowings including subordinated notes \$m	Preference shares ⁽²⁾ \$m	Total \$m
Year ended 31 August 2008						
Balance at beginning of year		4,375.8	853.1	398.4	111.9	6,004.2
Recognised on acquisition of Home		365.0	-	-	46.0	411.0
Proceeds from issues		2,763.0	-	2,588.9	169.7	5,521.6
Repayments		(1,522.3)	(331.1)	(2,479.9)	(55.0)	(4,388.3)
Deferred establishment costs		(7.3)	-	-	-	(7.3)
Amortisation of deferred costs		2.9	-	-	-	2.9
Foreign exchange translation		41.6	(57.6)	51.4	-	35.4
Balance at end of the year		6,018.7	464.4	558.8	111.9	7,579.5

(1) Securitisation liabilities are secured by a floating charge over securitised assets for amounts owing to noteholders and any other secured creditors of the securitisation vehicles.

The Bank recorded the following movements on borrowings including subordinated notes:

	EMTN Program \$m	ECP Program \$m	Borrowings including subordinated notes \$m	Preference shares ⁽²⁾ \$m	Syndicated Loan \$m	Total \$m
Year ended 31 August 2009						
Balance at beginning of year	464.4	558.8	379.0	111.9	-	1,514.1
Proceeds from issues	15.5	1,048.7	46.7 ⁽³⁾	-	311.7	1,422.6
Repayments	-	(1,459.0)	(80.0)	(64.7)	-	(1,603.7)
Foreign exchange translation	13.1	15.9	-	-	7.0	36.0
Balance at end of the year	493.0	164.4	345.7	47.2	318.7	1,369.0

(2) The Reset Preference Shares ("RePS") do not give the holders any voting rights at any general shareholder meetings, except in certain special circumstances. In the event of the winding up of the Bank the holders of these preference shares rank before the holders of ordinary shares in relation to return on capital. Series 1 reset preference shares (S1RPS) were converted to ordinary shares.

(3) Transferred from subsidiary.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

21. Borrowings including subordinated notes (continued)

The Bank recorded the following movements on borrowings including subordinated notes:

	EMTN Program \$m	ECP Program \$m	Borrowings including subordinated notes \$m	Preference shares \$m	Total \$m
Year ended 31 August 2008					
Balance at beginning of year	853.1	398.4	265.0	111.9	1,628.4
Proceeds from issues	-	2,588.9	169.0	-	2,757.9
Repayments	(331.1)	(2,479.9)	(55.0)	-	(2,866.0)
Foreign exchange translation	(57.6)	51.4	-	-	(6.2)
Balance at end of the year	464.4	558.8	379.0	111.9	1,514.1

	Note	Consolidated		Bank	
		2009 \$m	2008 \$m	2009 \$m	2008 \$m
22. Issued capital					
Issued and paid up capital					
Ordinary Shares, fully paid	(a)	1,707.4	1,243.7	1,707.7	1,243.7
Perpetual Equity Preference Shares, fully paid	(b)	195.7	195.7	195.7	195.7
Balance at end of year		1,903.1	1,439.4	1,903.4	1,439.4
(a) Ordinary shares					
Movements during the year					
Balance at the beginning of the year – 149,947,719 (2008: 113,188,223), fully paid		1,243.7	615.7	1,243.7	615.7
Dividend reinvestment plan – 3,389,282 shares (2008: 2,572,109)		30.9	41.1	30.9	41.1
Share issued under an Underwriting Agreement – 4,259,053 shares (2008: 3,258,880)		36.6	52.7	36.6	52.7
Exercise of options – 31,000 shares ⁽¹⁾ (2008: 3,324,736)		0.3	37.3	0.3	37.3
Conversion of Series I reset preference shares (SIRPS) to ordinary shares – 5,069,360 (2008: nil)		64.7	-	64.7	-
Home Acquisition – nil shares (2008: 27,603,771) ⁽²⁾		-	496.9	-	496.9
Share purchase plan and placement – 14,177,758 (2008: nil) ⁽³⁾		106.7	-	106.7	-
Treasury Shares - 25,412 (2008: nil) ⁽⁴⁾		(0.6)	-	(0.3)	-
Institutional placement and entitlements offer – 22,915,775 (2008: nil) ⁽⁵⁾		225.1	-	225.1	-
Balance at the end of the year – 199,815,359 (2008: 149,947,719), fully paid		1,707.4	1,243.7	1,707.7	1,243.7

(1) Refer to Note 32 (c) for further information.

(2) Net of costs before tax of \$4.4m.

(3) The share purchase plan commenced on 15 December 2008 and closed on 23 January 2009. Existing shareholders as at 10 December 2008 were eligible to purchase shares from a minimum of \$1,000 to a maximum of \$10,000. The issue price was the lesser of a 7.5% discount to the volume weighted average market price over the five business days before and including the closing date of the new shares being issued or \$10.08 which was the approximate price at which shares were issued under the Bank's most recent dividend reinvestment plan issue and partial underwriting. 5,781,993 shares were issued under this plan at an issue price of \$7.64. On 3 February 2009, the Bank completed a placement of 8,395,765 ordinary shares at \$7.64 to a range of institutional investors. The amount raised is net of costs of \$2.6m before tax.

(4) Treasury shares represent the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. The amount includes costs of \$0.4m before tax.

(5) The institutional placement and entitlements offer was announced on 19 August 2009 and settled on the 31 August 2009. The entitlement offer was a 1-for-9 accelerated pro rata non-renounceable entitlement offer. Institutional investors settled their right at 31 August 2009 at an issue price of \$10.00. The issue price was at an 11.5% discount to the last closing price of BOQ shares on Tuesday, 18 August 2009 and a 9.8% discount to the theoretical ex-rights price. The amount raised is net of costs of \$5.6m before tax. The retail entitlement offer settled on 18 September 2009.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Bank, ordinary shareholders rank after RePS and PEPS shareholders and creditors and are fully entitled to any proceeds of liquidation.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

22. Issued capital (continued)

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
(b) Perpetual Equity Preference Shares ("PEPS")				
Balance at beginning of the year – 2,000,000 (2008: nil) ⁽¹⁾	195.7	195.7	195.7	195.7
Balance at end of the year – 2,000,000 (2008: 2,000,000), fully paid	195.7	195.7	195.7	195.7

⁽¹⁾ Net of costs before tax of \$5.9m.

Terms and conditions

The PEPS are fully paid, redeemable, perpetual, non-cumulative preference shares. Dividends are non-cumulative and payable semi-annually at the discretion of directors and subject to certain conditions being met, such as sufficient distributable profit. BOQ is entitled to redeem, buy-back or cancel the preference shares on a call date (5 years from issue date) and each subsequent dividend payment date, subject to the prior written approval from APRA. BOQ is also entitled to redeem the preference shares on the occurrence of a regulatory event, tax event or a control event. The preference shareholders have no right to demand redemption of the preference shares but they are entitled to receive a liquidation amount being equal to the issue price plus all dividends due but unpaid. PEPS are subordinate to all creditors and depositors, holders of RePS, and rank ahead of ordinary shareholders for return of capital on liquidation.

23. Reserves and retained profits

Consolidated	Employee benefits reserve \$m	General reserve for credit losses \$m	Cashflow hedge reserve \$m	Available for sale reserve \$m	Total reserves \$m	Retained profits \$m
2009						
Balance at beginning of year	21.3	57.9	(17.7)	(1.2)	60.3	191.2
Total recognised income and expense	-	-	(73.7)	(1.4)	(75.1)	141.1
Dividends to ordinary shareholders	-	-	-	-	-	(103.7)
Dividends to PEPS	-	-	-	-	-	(12.4)
Equity settled transactions	6.9	-	-	-	6.9	-
Transfers	-	25.3	-	-	25.3	(25.3)
Balance at end of year	28.2	83.2	(91.4)	(2.6)	17.4	190.9
2008						
Balance at beginning of year	16.1	57.5	12.4	1.6	87.6	151.0
Total recognised income and expense	-	-	(30.1)	(2.8)	(32.9)	138.7
Dividends to ordinary shareholders	-	-	-	-	-	(93.8)
Dividends to PEPS	-	-	-	-	-	(4.3)
Equity settled transactions	5.2	-	-	-	5.2	-
Transfers	-	0.4	-	-	0.4	(0.4)
Balance at end of year	21.3	57.9	(17.7)	(1.2)	60.3	191.2

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

23. Reserves and retained profits (continued)

Bank	Employee benefits reserve \$m	General reserve for credit losses \$m	Cashflow hedge reserve \$m	Available for sale reserve \$m	Total reserves \$m	Retained profits \$m
2009						
Balance at beginning of year	21.3	44.3	(20.1)	0.7	46.2	164.0
Total recognised income and expense	-	-	(76.4)	(2.3)	(78.7)	140.6
Dividends to ordinary shareholders	-	-	-	-	-	(103.7)
Dividends to PEPS	-	-	-	-	-	(12.4)
Equity settled transactions	6.9	-	-	-	6.9	-
Transfers	-	21.3	-	-	21.3	(21.3)
Balance at end of year	28.2	65.6	(96.5)	(1.6)	(4.3)	167.2
2008						
Balance at beginning of year	16.1	49.2	13.8	1.6	80.7	140.3
Total recognised income and expense	-	-	(33.9)	(0.9)	(34.8)	116.9
Dividends to ordinary shareholders	-	-	-	-	-	(93.8)
Dividends to PEPS	-	-	-	-	-	(4.3)
Equity settled transactions	5.2	-	-	-	5.2	-
Transfers	-	(4.9)	-	-	(4.9)	4.9
Balance at end of year	21.3	44.3	(20.1)	0.7	46.2	164.0

24. Segment reporting

Business segments

The Consolidated Entity comprises one segment, this being the provision of retail banking services and products. This determination is based on the risks involved with the provision of these services and products and the Consolidated Entity's management reporting system.

Geographical segments

The Consolidated Entity's business segment operates principally in Australia, with the majority of customers being in Queensland, with the exception of leasing assets which are spread throughout Australia and New Zealand.

25. Risk management

The Bank adopts a "managed risk" approach to its banking and trading activities. As such, the articulation of a risk aware culture is prevalent throughout the Bank's credit, liquidity, market, operational risk and compliance policies and procedures. The Board has adopted policies in relation to the assessment, management and monitoring of these risks and ownership of the frameworks within which these risks are managed, reside with the Group Executive, Group Risk.

Group Executive, Group Risk contributes towards the achievement of the Bank's corporate objectives through the operationalisation and progressive development of the group's risk management function. In particular, improvement of the risk management function is focussed in a number of areas:

1. the efficiency and effectiveness of the Bank's credit, liquidity, market, operational risk and compliance management process controls and policies to support improved competitive advantage, support growth and enable improved cost controls;
2. to provide management and the Board with risk reporting that contributes to the further development of sound corporate governance standards;
3. to maintain regulatory compliance in line with regulators' expectations;
4. to provide a sound basis from which the Bank can progress to the required compliance level under the Basel II accord; and
5. to contribute to the Bank achieving risk based performance management.

Group Risk is an independent function and is responsible for providing the framework, policies and procedures for managing credit, liquidity, market, operational risk and compliance throughout the Bank. Policies are set in line with the governing strategy and risk guidelines set by the Board.

25. Risk management (continued)

(a) Market risk

Market risk is the risk that movements in market rates and prices will result in profits or losses to the Bank.

(i) Interest rate risk management

The management of interest rate market risk is separated into balance sheet (non-traded) and traded market risk.

Balance sheet (non-traded) market risk

The operations of the Bank are subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rates on the Bank's assets and liabilities.

It is the principal objective of the Bank's asset/liability management process to maximise levels of net interest income whilst limiting the effects of volatile and unpredictable movements in interest rates. To achieve these objectives, the Bank uses derivative financial instruments, principally interest rate swaps, forward rate agreements and futures.

The current policy of the Bank is to eliminate market risk in the balance sheet where practical and to consciously establish specific positions within conservative limits for changes in value of the residual risk.

A 1% parallel shock in the yield curve is used to determine the potential adverse change in net interest income in the ensuing 12 month period. This is a standard risk quantification measure used by the Bank. A number of supplementary scenarios comprising variations in size and duration of interest rate moves together with changes in the balance sheet size and mix are also used to provide a range of net interest income outcomes.

The figures in the table below indicate the potential change in net interest income for an ensuing 12 month period. The change is expressed as a percentage and dollar impact of expected net interest earnings based on a 1% parallel adverse shock.

Consolidated and Bank	2009 %	2008 %	2009 \$m	2008 \$m
Exposure at the end of the year	3.37	0.43	20.6	2.1
Average monthly exposure during the year	1.79	1.02	11.0	4.9
High month exposure during the year	3.87	1.83	23.7	8.8
Low month exposure during the year	0.48	0.30	2.9	1.5

Traded market risk

Traded market risk is primarily measured and monitored using a value-at-risk ("VaR") analysis. VaR is a statistical technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified holding period and to a given level of confidence. The Bank uses a 1-day holding period and a 99% confidence level.

As VaR is a statistical measure and only attempts to cover losses to a 99% confidence level, the Bank supplements this analysis with stress testing. Stress testing attempts to adequately assess the risks inherent in its trading activities by applying appropriate scenario analyses.

The VaR for the Bank's trading portfolio for the year was as follows:

Trading VaR	2009 \$m	2008 \$m
Average	0.45	0.28
Maximum	0.85	0.52
Minimum	0.12	0.08

(ii) Foreign exchange risk

It is the Bank's policy not to carry material foreign exchange rate exposures. At balance date there are no material foreign exchange rate exposures.

The Bank uses cross currency swaps and foreign exchange forwards to hedge its exchange rate exposures arising from borrowing off-shore in foreign currencies. The Bank uses forward foreign exchange contracts to hedge potential exchange rate exposures created by customer-originated foreign currency transactions.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

25. Risk management (continued)

(b) Credit risk

Credit risk arises in the business from lending activities, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes, financial market transactions and other associated activities. Credit risk is the potential loss arising from the possibility that customers or counterparties fail to meet contractual payment obligations to the Bank as they fall due.

The Board of Directors have implemented a structured framework of systems and controls to monitor and manage credit risk comprising:

- documented credit risk management principles which are disseminated to all staff involved with the lending process;
- documented policies;
- a process for approving risk, based on tiered delegated approval authorities, whereby the largest exposures are jointly assessed by the Managing Director and the Group Executive Group Risk;
- risk grading the Bank's commercial exposures for facilities greater than \$100,000 based on items inclusive of financial performance and stability, organisational structure, industry segment and security support. Exposures within this segment of the portfolio are generally subject to annual review including reassessment of the assigned risk grade;
- an automated scorecard approval model for the Bank's retail portfolio inclusive of home loans, personal loans, lines of credit and credit cards. This model is supported by experienced Risk Assessment Managers; and
- a series of management reports detailing industry concentrations, counterparty concentrations, loan grades and security strength ratings.

The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the Consolidated Entity can hold derivative financial instruments for trading purposes. Credit risk on derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Maximum exposure to credit risk

The amounts disclosed are the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. For customer commitments, the maximum exposure to credit risk is the full amount of the committed facilities as at reporting date.

The carrying amount of the Consolidated Entity's and Bank's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Cash and liquid assets	353.8	399.5	250.3	242.9
Due from other financial institutions	74.6	56.9	74.6	56.9
Other assets	4,471.3	3,320.3	4,584.4	3,236.6
Derivative financial instruments	88.5	111.7	58.7	74.9
Financial assets other than loans and advances	4,988.2	3,888.4	4,968.0	3,611.3
Gross loans and advances at amortised cost	28,813.5	25,663.6	25,737.8	20,691.1
Total financial assets	33,801.7	29,552.0	30,705.8	24,302.4
Customer commitments ⁽¹⁾	1,175.4	1,453.7	722.7	953.1
Total potential exposure to credit risk	34,977.1	31,005.7	31,428.5	25,255.5

(1) Refer to Note 31 for full details of customer commitments.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

25. Risk management (continued)

(b) Credit risk (continued)

Distribution of financial assets by credit quality

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Neither past due or impaired				
Gross loans and advances at amortised cost	27,503.6	24,622.6	24,590.7	19,840.3
Financial assets other than loans and advances	4,988.2	3,888.4	4,968.0	3,611.3
Past due but not impaired				
Gross loans and advances at amortised cost	1,192.5	1,009.4	1,045.8	827.1
Impaired				
Gross loans and advances at amortised cost	117.4	31.6	101.3	23.7
	33,801.7	29,552.0	30,705.8	24,302.4

There is no item included in impaired assets which exceeds 5.0% of shareholders' equity (2008: nil).

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees and mortgage insurance. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. An estimate of the collateral held against past due but not impaired and impaired loans and advances at amortised cost was:

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Held against past due but not impaired assets	1,236.1	1,093.8	1,090.1	906.0
Held against impaired assets	88.0	12.9	75.7	12.0

Credit quality

The credit quality of our financial assets has been determined based on Standard and Poors credit ratings, APRA risk weightings and the Bank's standard risk grading.

The table below presents the analysis of the Bank's financial asset credit quality:

	Consolidated							
	2009 \$m				2008 \$m			
	Gross loans and advances				Gross loans and advances			
	Retail	Commercial	Total loans and advances	Financial assets other than loans and advances	Retail	Commercial	Total loans and advances	Financial assets other than loans and advances
High Grade	17,175.5	1,610.5	18,786.0	4,954.9	15,609.9	1,269.6	16,879.5	3,842.9
Satisfactory	3,162.7	4,802.8	7,965.5	5.1	2,631.0	4,348.5	6,979.5	8.0
Weak	457.2	917.3	1,374.5	28.2	330.8	704.3	1,035.1	37.5
Unrated ⁽¹⁾	687.5	-	687.5	-	769.5	-	769.5	-
	21,482.9	7,330.6	28,813.5	4,988.2	19,341.2	6,322.4	25,663.6	3,888.4

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

25. Risk management (continued)

(b) Credit risk (continued)

	Bank							
	2009				2008			
	\$m				\$m			
	Gross loans and advances				Gross loans and advances			
	Retail	Commercial	Total loans and advances	Financial assets other than loans and advances	Retail	Commercial	Total loans and advances	Financial assets other than loans and advances
High Grade	17,175.5	1,495.7	18,671.2	4,873.3	13,441.9	1,148.7	14,590.6	3,512.6
Satisfactory	3,170.4	2,547.1	5,717.5	5.1	2,476.0	2,582.0	5,058.0	8.0
Weak	457.2	204.4	661.6	89.6	328.9	41.1	370.0	90.7
Unrated ⁽¹⁾	687.5	-	687.5	-	672.5	-	672.5	-
	21,490.6	4,247.2	25,737.8	4,968.0	16,919.3	3,771.8	20,691.1	3,611.3

(1) Those items that remain unrated for retail gross loans and advances represent mainly personal loans and advances, which although are not secured, are not determined to be weak. Any loans which have been rated, have been included in the appropriate category.

Restructured / Renegotiated Loans

Generally, the terms of consumer loans are primarily renegotiated on a temporary basis in the event of customer hardship. Should temporary hardship conditions need to be extended, some examples of assistance offered include:

- Concessional interest rates;
- Restructured loans to extend the period of repayment; and
- Repayment holidays.

The carrying value of consumer loans that would otherwise be past due or impaired whose terms have been re-negotiated is considered immaterial.

Where business loans require restructuring, and the borrowing would not normally be entertained if it were from a customer new to the Bank, extended repayment terms and concessional interest rates may apply.

The carrying value of business loans that would otherwise be past due or impaired whose terms have been restructured, is considered minimal.

Loans and advances which were past due but not impaired

Loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal and interest amounts due. No losses are anticipated from these loans as they are adequately secured, for housing products usually by residential mortgage, and are spread across a range of customer and product groups.

	Consolidated		Bank	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Less than 30 days	762.1	564.9	672.4	425.3
31 to 90 days	238.4	287.1	200.0	262.7
More than 90 days	192.0	157.4	173.4	139.1
	1,192.5	1,009.4	1,045.8	827.1

Income received on impaired assets

	Consolidated		Bank	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Income received on impaired assets for the year:				
Gross interest receivable	2.8	1.1	2.8	1.1
Less : Interest foregone	(2.8)	(1.1)	(2.8)	(1.1)
Interest taken to account	-	-	-	-

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

25. Risk management (continued)

(b) Credit risk (continued)

Concentration of exposure for gross loans and advances at amortised cost

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The Bank monitors concentrations of credit risk by geographical location for loans and advances. An analysis of these concentrations of credit risk at balance sheet date is shown below:

Geographical concentration of credit risk for loans and advances at amortised cost (before provisions and unearned income):	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Queensland	18,575.7	16,750.7	17,428.4	16,013.1
New South Wales	3,481.9	2,885.0	2,947.0	2,445.9
Victoria	3,230.4	2,324.4	2,490.1	1,679.1
Northern Territory	75.3	59.7	71.9	54.2
Australian Capital Territory	354.4	288.8	181.2	159.0
Western Australia	2,760.5	3,091.9	2,482.1	272.7
South Australia	147.7	116.0	48.4	27.7
Tasmania	92.7	45.4	88.7	39.4
International (New Zealand)	94.9	101.7	-	-
	28,813.5	25,663.6	25,737.8	20,691.1

(c) Liquidity risk

Liquidity risk arises from the possibility that the Bank is unable to meet its financial obligations as they fall due. Liquidity risk is managed through a series of detailed policies, including the management of cash flow mismatches, the maintenance of a stable, core retail deposits base, the diversification of the funding base and the retention of adequate levels of high quality liquid assets.

The Consolidated Entity manages liquidity risk by maintaining adequate reserves and facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

Consolidated 2009	Carrying amount \$m	At Call \$m	3 mths or less \$m	3 to 12 mths \$m	1 to 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m
Financial liabilities							
Due to other financial institutions	192.7	192.7	-	-	-	-	192.7
Deposits	24,197.2	8,350.5	9,888.7	3,916.5	2,532.4	-	24,688.1
Derivative financial instruments ⁽¹⁾	1.6	0.1	0.6	0.9	-	-	1.6
Accounts payable and other liabilities	277.6	-	277.6	-	-	-	277.6
Securitisation liabilities ⁽²⁾	5,613.8	-	357.4	2,749.0	1,977.0	727.5	5,810.9
Borrowings including subordinated notes	1,321.8	-	168.9	521.8	721.2	-	1,411.9
Preference shares	47.2	-	1.2	1.2	48.4	-	50.8
Total	31,651.9	8,543.2	10,694.4	7,189.4	5,279.0	727.5	32,433.6

(1) Derivative financial instruments other than those designated in a cashflow hedge relationship.

(2) Repayment of securitisation bonds is forecast based on the expected repayment profile of the underlying assets of the trusts.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

25. Risk management (continued)

(c) Liquidity risk (continued)

Consolidated 2009	Carrying amount \$m	At Call \$m	3 mths or less \$m	3 to 12 mths \$m	1 to 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	(0.5)	(303.8)	(702.6)	(634.2)	(2.9)	(1,644.0)
Contractual amounts receivable	-	0.9	347.4	836.7	746.7	5.5	1,937.2
	119.1	0.4	43.6	134.1	112.5	2.6	293.2
Consolidated 2008	Carrying amount \$m	At Call \$m	3 mths or less \$m	3 to 12 mths \$m	1 to 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m
Financial liabilities							
Due to other financial institutions	135.6	135.6	-	-	-	-	135.6
Deposits	20,036.5	6,862.3	8,333.4	4,479.8	817.6	-	20,493.1
Derivative financial instruments ⁽¹⁾	3.8	-	0.5	3.3	-	-	3.8
Accounts payable and other liabilities	296.5	-	296.5	-	-	-	296.5
Securitisation liabilities ⁽²⁾	6,018.7	-	576.3	3,215.9	2,517.2	630.7	6,940.1
Borrowings including subordinated notes	1,448.9	-	590.3	82.3	914.7	-	1,587.3
Preference shares	111.9	-	67.6	1.2	50.8	-	119.6
Total	28,051.9	6,997.9	9,864.6	7,782.5	4,300.3	630.7	29,576.0
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	(1.0)	(696.0)	(430.0)	(1,154.0)	(4.0)	(2,285.0)
Contractual amounts receivable	-	1.0	670.0	469.0	1,121.0	4.0	2,265.0
	0.2	-	(26.0)	39.0	(33.0)	-	(20.0)

(1) Derivative financial instruments other than those designated in a cashflow hedge relationship.

(2) Repayment of securitisation bonds is forecast based on the expected repayment profile of the underlying assets of the trusts.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

25. Risk management (continued)

(c) Liquidity risk (continued)

Bank 2009	Carrying amount \$m	At Call \$m	3 mths or less \$m	3 to 12 mths \$m	1 to 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m
Financial liabilities							
Due to other financial institutions	192.7	192.7	-	-	-	-	192.7
Deposits	24,413.5	8,566.7	9,888.7	3,916.5	2,532.4	-	24,904.3
Derivative financial instruments ⁽¹⁾	1.6	0.1	0.6	0.9	-	-	1.6
Accounts payable and other liabilities	246.5	-	246.5	-	-	-	246.5
Borrowings including subordinated notes	1,321.8	-	168.9	521.8	721.2	-	1,411.9
Preference shares	47.2	-	1.2	1.2	48.4	-	50.8
Amounts due to controlled entities	3,118.0	3,118.0	-	-	-	-	3,118.0
Total	29,341.3	11,877.5	10,305.9	4,440.4	3,302.0	-	29,925.8
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	(0.5)	(303.8)	(702.6)	(634.2)	(2.9)	(1,644.0)
Contractual amounts receivable	-	0.9	347.4	836.7	746.7	5.5	1,937.2
	148.9	0.4	43.6	134.1	112.5	2.6	293.2

(1) Derivative financial instruments other than those designated in a cashflow hedge relationship.

Bank 2008	Carrying amount \$m	At Call \$m	3 mths or less \$m	3 to 12 mths \$m	1 to 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m
Financial liabilities							
Due to other financial institutions	135.6	135.6	-	-	-	-	135.6
Deposits	17,920.1	6,149.4	7,186.5	3,974.6	814.2	-	18,124.7
Derivative financial instruments ⁽¹⁾	3.8	-	0.5	3.3	-	-	3.8
Accounts payable and other liabilities	222.9	-	222.9	-	-	-	222.9
Borrowings including subordinated notes	1,402.2	-	589.3	59.3	884.6	-	1,533.2
Preference shares	111.9	-	67.6	1.2	50.8	-	119.6
Amounts due to controlled entities	3,687.4	3,687.4	-	-	-	-	3,687.4
Total	23,483.9	9,972.4	8,066.8	4,038.4	1,749.6	-	23,827.2
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	(1.0)	(696.0)	(430.0)	(1,154.0)	(4.0)	(2,285.0)
Contractual amounts receivable	-	1.0	670.0	469.0	1,121.0	4.0	2,265.0
	37.0	-	(26.0)	39.0	(33.0)	-	(20.0)

(1) Derivative financial instruments other than those designated in a cashflow hedge relationship.

25. Risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is managed by the Bank through appropriate reporting lines, defined responsibilities, policies and procedures and an operational risk program which incorporates quarterly risk monitoring and reporting by each Business unit. Operational Risks and their mitigants are documented in the Business unit risk databases. These provide the basis for the business unit and Bank wide risk profile. The Bank wide risk profile is reported to the Board on a regular basis.

26. Capital management

The Bank and Group's capital management strategy aims to ensure that the Consolidated Entity maintains adequate capital to act as a buffer against risks associated with activities whilst maximising returns to shareholders.

The Bank's capital is measured and managed in line with Prudential Standards issued by APRA. This regulatory capital differs from statutory capital in that certain liabilities such as preference shares are considered capital from a regulatory perspective and certain assets including goodwill and other intangibles are considered a deduction from regulatory capital.

The Bank and Group have a capital management plan, consistent with their overall business plans, for managing capital levels on an ongoing basis. This plan sets out:

- (i) the strategy for maintaining adequate capital over time including the capital target, how the target level is to be met and the means available for sourcing additional capital when required; and
- (ii) the actions and procedures for monitoring compliance with minimum regulatory capital adequacy requirements, including trigger ratios to alert management to, and avert, potential breaches of these requirements.

The capital management plan is updated at least annually and submitted to the Board for approval. Current and projected capital positions are reported to the Board and APRA on a monthly basis.

The Board has set capital targets at 8.0% of risk weighted assets as Tier I capital with a minimum of 7.0% provided that total capital does not fall below 10.0%. The total capital adequacy ratio at 31 August 2009 was 11.5% and Tier I capital was 8.9%. Reset Preference Shares ("RePS") and Perpetual Equity Preference Shares ("PEPS"), issued as hybrid capital instruments, comprise 17% of total Tier I capital.

Total Tier I capital of 8.9% is represented by 7.4% of Core Tier I capital and 1.5% of hybrid capital instruments, including preference shares.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

26. Capital management (continued)

A summary of the consolidated capital position is shown in the table below:

Qualifying capital	Consolidated	
	2009 \$m	2008 \$m
Tier 1		
Fundamental Tier 1		
Ordinary Share Capital	1,707.4	1,243.7
Reserves	28.2	1.2
Retained profits ⁽¹⁾	176.1	156.9
	1,911.7	1,401.8
Residual Tier 1		
Non Innovative (PEPS)	195.7	195.7
Innovative (RePS and SIRPS)	47.2	111.9
Residual Tier 1 transferred to Upper Tier 2	-	(57.4)
	242.9	250.2
Tier 1 Deductions		
Deferred Expenditure	(82.1)	(66.6)
Goodwill and other identifiable intangibles	(587.8)	(573.1)
Other deductions	(24.1)	(11.3)
	(694.0)	(651.0)
Net Tier 1 Capital	1,460.6	1,001.0
Tier 2		
Upper Tier 2		
General Reserve for Credit Losses	98.5	68.9
Residual Tier 1 transferred to Upper Tier 2	-	57.4
	98.5	126.3
Lower Tier 2		
Term subordinated debt	346.0	426.0
	346.0	426.0
Tier 2 Deductions	(24.1)	(31.4)
	(24.1)	(31.4)
Net Tier 2 Capital	420.4	520.9
Capital Base	1,881.0	1,521.9
Risk Weighted Assets	16,360.1	13,813.0
Capital Adequacy Ratio	11.5%	11.0%

(1) For calculation of capital adequacy retained profits includes current year's profit less accrual of expected dividends net of expected dividend reinvestment.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

27. Financial instruments

(a) Derivative financial instruments

The Consolidated Entity and Bank used derivative financial instruments for both hedging and trading purposes in the current year.

Refer to Note 25 for an explanation of the Consolidated Entity and Bank's risk management framework.

The following table summarises the notional and net fair value of the Bank's commitments to derivative financial instruments at 31 August 2009. Notional amounts do not represent amounts exchanged by the transaction counterparties, and thus, are not a measure of the exposure of the Bank through its use of derivatives. Net fair value in relation to derivative financial instruments is calculated using the quoted market price less transaction costs. Where the instrument does not have a quoted market price, the net fair value is estimated using the net present value techniques.

	Consolidated					
	2009			2008		
	Notional Amount	Net Fair Value Asset / (Liability)		Notional Amount	Net Fair Value Asset / (Liability)	
	\$m	Asset \$m	Liability \$m	\$m	Asset \$m	Liability \$m
Derivatives held for trading						
Interest Rate Swaps	679.4	0.1	(0.6)	1,369.6	2.2	(2.8)
Forward Rate Agreements	-	-	-	500.0	0.1	-
Foreign Exchange Forwards	51.7	1.1	(1.0)	55.3	0.7	(1.0)
Futures	3,481.0	3.0	-	5,582.2	3.7	-
	4,212.1	4.2	(1.6)	7,507.1	6.7	(3.8)
Derivatives held as cash flow hedges						
Interest Rate Swaps	15,062.7	46.3	(158.6)	8,924.2	46.8	(53.0)
Cross Currency Swaps	1,775.4	37.9	(38.5)	1,659.6	38.7	(51.6)
Foreign Exchange Forwards	169.9	0.1	(6.3)	524.8	19.5	(0.6)
	17,008.0	84.3	(203.4)	11,108.6	105.0	(105.2)
	21,220.1	88.5	(205.0)	18,615.7	111.7	(109.0)
	Bank					
	2009			2008		
	Notional Amount	Net Fair Value Asset / (Liability)		Notional Amount	Net Fair Value Asset / (Liability)	
	\$m	Asset \$m	Liability \$m	\$m	Asset \$m	Liability \$m
Derivatives held for trading						
Interest Rate Swaps	679.4	0.1	(0.6)	1,369.6	2.2	(2.8)
Forward Rate Agreements	-	-	-	500.0	0.1	-
Foreign Exchange Forwards	51.7	1.1	(1.0)	55.3	0.7	(1.0)
Futures	3,481.0	3.0	-	5,582.2	3.7	-
	4,212.1	4.2	(1.6)	7,507.1	6.7	(3.8)
Derivatives held as cash flow hedges						
Interest Rate Swaps	15,062.7	46.3	(158.6)	8,924.2	46.7	(53.0)
Cross Currency Swaps	904.8	8.1	(38.5)	577.7	2.0	(51.6)
Foreign Exchange Forwards	169.9	0.1	(6.3)	524.8	19.5	(0.6)
	16,137.4	54.5	(203.4)	10,026.7	68.2	(105.2)
	20,349.5	58.7	(205.0)	17,533.8	74.9	(109.0)

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

27. Financial Instruments (continued)

(b) Other financial instruments

Where an active and liquid market exists for a financial instrument, net fair value is calculated using the quoted market price adjusted for any transaction costs of disposal.

Where there is no market for a financial instrument, or an illiquid market exists, estimates of net fair value have been made using net present value techniques. If such a financial instrument has no specific maturity or is at call, and the interest rate is either discretionary or will reprice in the short term, the historical cost or face value is used to approximate net fair value.

Net fair values which are based on estimates and which rely on information current at only one point in time are subjective, change continuously and are not necessarily representative of the underlying value of the financial instrument to the economic entity.

Fair values of financial instruments at balance date are as follows:

	Consolidated Entity			
	Carrying value		Net fair value	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Assets				
Cash and liquid assets	353.8	399.5	353.8	399.5
Due from other financial institutions	74.6	56.9	74.6	56.9
Other financial assets	4,423.3	3,263.9	4,423.2	3,263.9
Loans and advances at amortised cost	28,310.8	25,246.8	28,321.4	25,202.8
Liabilities				
Balances due to other banks	(192.7)	(135.6)	(192.7)	(135.6)
Deposits	(24,197.2)	(20,036.5)	(24,167.5)	(20,047.2)
Borrowings including subordinated notes	(6,982.8)	(7,579.5)	(6,952.5)	(7,608.0)
Bank				
Assets				
Cash and liquid assets	250.3	242.9	250.3	242.9
Due from other financial institutions	74.6	56.9	74.6	56.9
Other financial assets	4,536.4	3,180.6	4,536.4	3,180.6
Loans and advances at amortised cost	25,694.4	20,669.5	25,705.0	20,610.7
Liabilities				
Balances due to other banks	(192.7)	(135.6)	(192.7)	(135.6)
Deposits	(24,413.5)	(17,920.1)	(24,383.8)	(17,930.8)
Borrowings including subordinated notes	(1,369.0)	(1,514.1)	(1,338.7)	(1,542.6)

The fair value of derivative financial instruments can be found in Note 27 (a). The estimated net fair values disclosed do not include the assets and liabilities that are not considered financial instruments.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

28. Notes to the statements of cash flows

Reconciliation of profit for the year to net cash provided by operating activities:

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Profit from ordinary activities after income tax	141.1	138.7	140.6	116.9
Add / (less) items classified as investing / financing activities or non cash items				
Depreciation	6.6	5.9	6.6	4.6
Amortisation	10.9	7.7	1.1	1.0
Joint venture distribution	(0.7)	(1.3)	-	-
Software amortisation	18.4	15.7	18.4	15.4
Loss on sale / asset writedowns	1.6	3.5	1.6	0.5
Share based payments	6.9	5.2	6.9	5.2
Property, plant & equipment	-	(0.1)	-	-
Purchase of Home Building Society Ltd	-	90.6	-	-
Profit on sale of property, plant and equipment	(0.5)	(2.3)	(0.5)	(0.3)
Increase in due from other financial institutions	(17.7)	(20.5)	(17.7)	(20.5)
(Increase) in other financial assets	(1,137.3)	(1,661.6)	(1,334.9)	(1,668.9)
Increase in loans and advances at amortised cost	(3,080.7)	(7,666.5)	(5,046.8)	(4,370.8)
Increase in derivatives	(17.9)	(68.5)	(8.3)	(46.0)
Increase in provision for impairment	16.7	20.5	21.9	10.3
Increase in deferred tax asset	(45.3)	(0.3)	(1.9)	(0.3)
(Increase) / decrease in other assets	46.5	(22.8)	34.9	(62.9)
(Increase) / decrease in investments accounted for using the equity method	5.6	(36.4)	-	-
Increase / (decrease) in amounts due from controlled entities	-	-	(584.7)	424.3
Increase in due to other financial institutions	57.1	14.1	57.1	14.1
Increase in deposits	4,160.7	7,316.2	6,493.4	5,589.0
Increase / (decrease) in accounts payable and other liabilities	(18.9)	63.1	23.6	18.4
Increase / (decrease) in current tax liabilities	23.6	(14.1)	24.6	(21.2)
Increase in provisions	3.9	4.3	1.0	0.5
Increase / (decrease) in deferred tax liabilities	41.1	16.4	(0.9)	15.7
Increase / (decrease) in borrowings including subordinated notes	(394.1)	1,682.7	-	-
Net cash from operating activities	(172.4)	(109.8)	(164.0)	25.0

Cash flows from the following activities are presented on a net basis in the statements of cash flows:

- Sales and purchases of investment securities;
- Customer deposits in and withdrawals from deposit accounts; and
- Loan drawdowns and repayments.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

29. Auditors' remuneration

	Consolidated		Bank	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Audit services – KPMG Australia				
– Audit and review of the financial reports	613.8	843.0	555.3	763.9
– Other regulatory and audit services	177.2	189.5	99.9	81.7
	791.0	1,032.5	655.2	845.6
Audit related services – KPMG Australia				
– Other assurance services ⁽¹⁾	278.3	307.8	95.1	65.6
	278.3	307.8	95.1	65.6
Other services – KPMG Australia				
– Tax advisory services	27.7	-	21.5	-
	27.7	-	21.5	-
Other services – KPMG Australia				
– Due diligence services	436.9	193.5	53.8	86.0
	436.9	193.5	53.8	86.0

(1) Other assurance services comprise accounting opinions, and audit related services provided in relation to mortgage securitisation trusts which are consolidated under Australian International Financial Reporting Standards.

Fees for audit and non-audit related services paid to KPMG which were provided in relation to leasing securitisation trusts which are not consolidated were \$86,677 (2008: \$139,159).

30. Contingent liabilities

	Consolidated		Bank	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Guarantees	125.8	63.4	125.8	62.0
Letters of credit	14.9	47.3	14.9	47.3

Guarantees, indemnities and letters of credit

There are contingent liabilities arising in the normal course of business for which there are equal and opposite contingent assets and against which no loss is anticipated. Guarantees are provided to third parties on behalf of customers. The credit risks of such facilities are similar to the credit risks of loans and advances.

As at 10 September 2009 Bank of Queensland has around 261 customers who were associated with Storm Financial Ltd (a financial planning firm that went into liquidation on 26 March 2009) and is currently the subject of an ASIC investigation. Aggregate loan exposure to these customers is \$85.8m. All loans are home equity loans secured by residential property. The Bank has received 45 hardship applications as at 7 September 2009 from affected Storm Financial customers, 43 of which have been approved. The Bank has received two legal claims in respect of former Storm Financial customers. The claims are not considered financially material to the Bank. The Bank is dealing with the claims in the normal course and as at the date of the report the likelihood of any material liability arising out of this claim is considered remote.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

31. Commitments

	Consolidated		Bank	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
(a) Lease commitments				
Future rentals in respect of operating leases (principally in respect of premises) not provided for in these financial statements comprise amounts payable:				
Within 1 year	37.2	40.1	37.2	36.7
Between 1 year and 5 years	96.7	104.1	96.7	93.8
Later than 5 years	8.7	16.1	8.7	10.5
	142.6	160.3	142.6	141.0
(b) Customer funding commitments				
Loans to customers approved but not drawn at year end	885.8	780.8	433.1	750.4
Amounts undrawn against lines of credit	289.6	672.9	289.6	202.7
	1,175.4	1,453.7	722.7	953.1

In the normal course of business the Bank makes commitments to extend credit to its customers. Most commitments either expire if not taken up within a specified time or can be cancelled by the Bank within one year. Credit risk is significantly less than the notional amount and does not crystallise until a commitment is funded.

32. Employee benefits

(a) Superannuation commitments

The Consolidated Entity contributes to any defined contribution superannuation plan which complies with the Superannuation Contributions Act legislation.

Basis of contributions

Employee superannuation contributions are based on various percentages of employees' gross salaries. The Consolidated Entity's contributions are also based on various percentages of employees' gross salaries.

The Consolidated Entity is under no legal obligation to make superannuation contributions except for the minimum contributions required under the Superannuation Guarantee Legislation.

During the year employer contributions were made, refer Note 5.

(b) Employee share plan

The Bank's Employee Share Plan ("ESP") was originally approved by shareholders on 5 December 1996 and is re-approved every three years. If the Board approves an offer to be made under the plan, all full time and part time employees of the Bank who have completed a prerequisite period of continuous service may be offered shares to a market value of \$1,000 at no cost. Only one offer may be made each financial year. Shares issued under the plan cannot be sold for three years or until the employee leaves the Bank and rank equally with other fully paid ordinary shares.

During the year nil (2008: nil) shares were issued. Since the commencement of the plan 841,953 shares have been issued. At 31 August 2009, these shares were valued at \$9,808,752 (2008: \$13,353,375) under the terms of the plan.

The aggregate number of shares issued under the plan or any other employee share plan during any five year period must not exceed 5% of the total issued capital of the Bank at the end of that five year period.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments

The Consolidated Entity has two options plans. The Managing Director option plan, which was established in 2001 and the Senior Management Option Plan ("SMOP"), which was established in 2001.

For options issued before 7 November 2002, the recognition and measurement principles in AASB 2 have not been applied to these grants in accordance with the transitional provisions in AASB 1.

The terms and conditions of options granted under the above plans are as follows, whereby all options are settled by physical delivery of shares:

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options										
Options granted to key management at 10 November 2003 – SMOP 3	3,120,000 ⁽¹⁾	<p>To reach the performance hurdle the Consolidated Entity must achieve a minimum return on equity of 14.5% in the financial year immediately preceding the third anniversary of the issue date (31 August 2006). A return on equity of 14.5% will result in 50% of the issued options vesting. Each 0.01% return on equity in excess of 14.5% will result in an additional 1% of options vesting. A return on equity equal to or greater than 15.0% will result in 100% of the issued options vesting.</p> <p>At the Annual General Meeting on 9 December 2004, ordinary shareholders approved the following change under ASX Listing Rule 6.23.4:</p> <ul style="list-style-type: none"> that should any SMOP 3 options remain unvested as at November 2007, the new earnings per share test will be applied across financial years 2005, 2006 and 2007; and should any SMOP 3 options remain unvested as at November 2008, the new earnings per share test will be applied across financial years 2005, 2006, 2007 and 2008. <p>The new Earnings Per Share ("EPS") test requires the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of a group of comparison banks over approximately the same period. The comparison banks are seven peer group banks, being ANZ, National Australia Bank, Commonwealth Bank, Westpac, St George Bank, Adelaide Bank and Bendigo Bank ("Comparison Banks"). The Bank engages an independent analyst to make adjustments to reported EPS figures to ensure they are prepared on a comparable basis. A cap of 20% growth and a floor of 10% decline will be applied to each adjusted EPS growth figure to account for abnormal results of a Comparison Bank.</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												

(1) These options vested in the 2007 financial year.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments (continued)

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options										
Options granted to Managing Director at 24 December 2004	500,000 ⁽¹⁾	<p>The performance hurdle is based on diluted cash EPS growth and requires the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the relevant performance period (financial years 2005 – 2006).</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table> <p>Should any options remain unvested as at November 2007, the EPS test will be applied across financial years 2005, 2006 and 2007. Should any options remain unvested as at November 2008, the EPS test will be applied across financial years 2005, 2006, 2007 and 2008.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	4 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												
	500,000 ⁽²⁾	<p>The performance hurdle is based on diluted cash EPS growth and requires the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the relevant performance period (financial years 2005 – 2007).</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table> <p>Should any options remain unvested as at November 2008, the EPS test will be applied across financial years 2005, 2006, 2007 and 2008. Should any options remain unvested as at November 2009, the EPS test will be applied across financial years 2005, 2006, 2007, 2008 and 2009.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												

(1) These options vested in the 2007 financial year.

(2) These options vested in the 2008 financial year.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments (continued)

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options										
Options granted to key management at 20 December 2004 – SMOP 4	3,005,000 ⁽¹⁾	<p>The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdles are based on diluted cash EPS growth and require the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the financial years 2005, 2006 and 2007 ("performance period"), as described above.</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table> <p>Should any SMOP 4 options remain unvested as at December 2008, the EPS test will be applied across financial years 2005, 2006, 2007 and 2008. Should any SMOP 4 options remain unvested as at December 2009, the EPS test will be applied across financial years 2005, 2006, 2007, 2008 and 2009.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												
Options granted to key management at 17 October 2005 - SMOP 5	3,805,000 ⁽²⁾	<p>The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdles are based on diluted cash EPS growth and require the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the financial years 2006, 2007 and 2008 ("performance period"), as described above.</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table> <p>Should any SMOP 5 options remain unvested as at November 2009, the EPS test will be applied across financial years 2006, 2007, 2008 and 2009. Should any SMOP 5 options remain unvested as at November 2010, the EPS test will be applied across financial years 2006, 2007, 2008, 2009 and 2010.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												

(1) These options vested in the 2008 financial year.

(2) These options vested in the 2009 financial year.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments (continued)

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options										
Options granted to Managing Director at 1 November 2005 (continued)	500,000 ⁽¹⁾	<p>The performance hurdle is based on diluted cash EPS growth and requires the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the relevant performance period (financial years 2006 – 2008).</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Percentage range by which cash EPS growth exceeds Comparison banks</th> <th style="text-align: right;">Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td style="text-align: right;">25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td style="text-align: right;">50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td style="text-align: right;">75%</td> </tr> <tr> <td>20% or more</td> <td style="text-align: right;">100%</td> </tr> </tbody> </table> <p>Should any options remain unvested as at November 2009, the EPS test will be applied across financial years 2006, 2007, 2008 and 2009. Should any options remain unvested as at November 2010, the EPS test will be applied across financial years 2006, 2007, 2008, 2009 and 2010.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												
Options granted to Managing Director at 1 November 2006 (continued)	500,000	<p>The performance hurdle is based on diluted cash EPS growth and requires the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the relevant performance period (financial years 2007 – 2009).</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Percentage range by which cash EPS growth exceeds Comparison banks</th> <th style="text-align: right;">Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td style="text-align: right;">25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td style="text-align: right;">50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td style="text-align: right;">75%</td> </tr> <tr> <td>20% or more</td> <td style="text-align: right;">100%</td> </tr> </tbody> </table> <p>Should any options remain unvested as at November 2010, the EPS test will be applied across financial years 2007, 2008, 2009 and 2010. Should any options remain unvested as at November 2011, the EPS test will be applied across financial years 2007, 2008, 2009, 2010 and 2011.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												

(1) These options vested in the 2009 financial year.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments (continued)

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options										
Options granted to key management at 20 November 2006 - SMOP 6	3,370,000	<p>The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdles are based on diluted cash EPS growth and require the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the financial years 2007, 2008 and 2009 ("performance period"), as described above.</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table> <p>Should any SMOP 6 options remain unvested as at November 2010, the EPS test will be applied across financial years 2007, 2008, 2009 and 2010. Should any SMOP 6 options remain unvested as at November 2011, the EPS test will be applied across financial years 2007, 2008, 2009, 2010 and 2011.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	5 years
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												
Options granted to key management at 1 November 2007 - SMOP 7	3,999,000	<p>The ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles. The performance hurdles are based on diluted cash EPS growth and require the Bank's diluted cash EPS to outperform the average diluted cash EPS growth of the Comparison Banks over the financial years 2008, 2009 and 2010 ("performance period"), as described above.</p> <p>To reach the EPS performance hurdle the Consolidated Entity must achieve the following for the performance period:</p> <table border="1"> <thead> <tr> <th>Percentage range by which cash EPS growth exceeds Comparison banks</th> <th>Percentage of options to vest</th> </tr> </thead> <tbody> <tr> <td>5% and up to but not exceeding 10%</td> <td>25%</td> </tr> <tr> <td>10% and up to but not exceeding 15%</td> <td>50%</td> </tr> <tr> <td>15% and up to but not exceeding 20%</td> <td>75%</td> </tr> <tr> <td>20% or more</td> <td>100%</td> </tr> </tbody> </table> <p>Should any SMOP 7 options remain unvested as at November 2011, the EPS test will be applied across financial years 2008, 2009, 2010 and 2011. Should any SMOP 7 options remain unvested as at November 2012, the EPS test will be applied across financial years 2008, 2009, 2010, 2011 and 2012.</p>	Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest	5% and up to but not exceeding 10%	25%	10% and up to but not exceeding 15%	50%	15% and up to but not exceeding 20%	75%	20% or more	100%	
Percentage range by which cash EPS growth exceeds Comparison banks	Percentage of options to vest												
5% and up to but not exceeding 10%	25%												
10% and up to but not exceeding 15%	50%												
15% and up to but not exceeding 20%	75%												
20% or more	100%												

Long-Term Incentives - Award Rights

The Award Rights Plan was approved by shareholders on 11 December 2008. It is an equity based program under which Award Rights are granted as long-term incentives. The two types of award rights currently granted to executives under the plan are PARs and DARs. No amount is payable by employees for the grant or exercise of these award rights.

PARs

PARs have a vesting framework based on Total Shareholder Return (TSR) of the Bank as measured against a Peer Group over a 3 year period. That Peer Group consists of the S&P / ASX 200 from time to time excluding selected entities in resources, real estate investment trusts, telecommunications (offshore headquartered), energy and utilities and such other inclusions and exclusions as the Board considers appropriate. TSR is a measure of the entire return a shareholder would obtain from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period.

One half of an employee's PARs will vest if the Bank's TSR performance over the three year period is in the top 50% of the Peer Group. All of the PARs vest if the Bank's TSR performance is in the top 25%. For TSR performance between those targets, a relative proportion of the PARs between one half and 100% would vest.

Vested PARs are generally exercisable within 5 years after they are granted (approximately 2 years after vesting).

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments (continued)

DARs

DARs currently on issue vest proportionately over 3 years in the ratio 20% (end Year 1), 30% (end Year 2) and 50% (end Year 3). There are no market performance hurdles or vesting conditions for DARs but the holder must remain an employee of the Bank.

Vested DARs are generally exercisable within 5 years after they are granted (approximately 2 to 4 years after vesting).

The following factors and assumptions were used in determining the fair value of options or rights on grant date:

Option or right Type	Grant date	Expiry date	Fair value per option or right	Exercise price ⁽¹⁾	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
Executives - Options								
SMOP 4	20 December 2004	20 December 2009	\$1.17	\$10.57	\$10.65	17.5%	5.45%	4.0%
SMOP 5	17 October 2005	17 October 2010	\$2.16	\$13.23	\$13.06	20.1%	5.85%	3.7%
SMOP 6	20 November 2006	20 November 2011	\$2.13	\$16.26	\$14.90	15.0%	6.00%	4.5%
SMOP 7	1 November 2007	1 November 2012	\$2.57	\$19.11	\$19.44	14.0%	6.50%	4.3%
Managing Director - Options								
MD Scheme 2 – Tranche 2	24 December 2004	24 December 2009	\$1.17	\$10.71	\$10.65	17.5%	5.45%	4.0%
MD Scheme 2 – Tranche 3	1 November 2005	20 December 2010	\$2.16	\$13.37	\$13.06	20.1%	5.85%	3.7%
MD Scheme 2 – Tranche 4	1 November 2006	20 November 2011	\$2.13	\$16.40	\$16.37	15.0%	6.00%	4.5%
Executives Director - Rights								
PARs	11 December 2008 ⁽²⁾	29 June 2014	\$5.76	Nil	\$10.25	26.7%	4.49%	5.2%
Executives - Rights								
PARs	29 June 2009	29 June 2014	\$4.59	Nil	\$8.89	35.1%	4.2%	7.2%
DARs	29 June 2009	29 June 2014	\$7.59	Nil	\$8.89	35.1%	4.2%	7.2%

(1) The exercise price is calculated as the volume weighted average price of shares traded over the ten business days immediately after the date of the announcement of the Bank's most recent annual results and requires Board approval. The exercise price was adjusted due to the entitlements offer as required under the plan rules.

(2) The grant date is deemed to be the date the Award Rights were approved at the Annual General Meeting, the rights were issued on 29 June 2009.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

32. Employee benefits (continued)

(c) Share based payments (continued)

The number and weighted average exercise price of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2009	2009 '000	2008	2008 '000
Outstanding at the beginning of the year	\$16.25	9,987	\$13.55	10,263
Forfeited during the year	\$17.20	(1,057)	\$17.14	(950)
Exercised during the year	\$10.32	(31)	\$11.26	(3,325)
Granted during the year	-	-	\$19.25	3,999
Outstanding at the end of the year	\$16.16	8,899	\$16.25	9,987
Exercisable at the end of the year		3,701		506

The options outstanding at 31 August 2009 have an exercise price in the range of \$10.00 to \$19.50 and a weighted average contractual life of 2.2 years (2008: 3.2 years).

During the year 31,000 options were exercised (2008: 3,324,736). The weighted average share price at the date of exercise was \$12.80 (2008: \$17.79).

The number of award rights is as follows:

	Number of rights
	2009 '000
Granted during the year	698
Forfeited during the year	(14)
Exercised during the year	-
Granted during the year	-
Outstanding at the end of the year	684

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

33. Key management personnel disclosures

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Bank and the Consolidated Entity, including directors and other executives. Key management personnel include the five most highly remunerated S300A directors and executives for the Bank and Consolidated Entity.

(a) Key management personnel compensation

Key management personnel compensation included in 'administrative expenses' and 'employee expenses' (refer note 5) is as follows:

	Consolidated and Bank	
	2009 \$	2008 \$
Short-term employee benefits	6,838,960	7,439,963
Post-employment benefits	369,051	514,314
Long term employee benefits	63,646	73,576
Termination benefits	1,574,873	732,827
Share based employment benefits	3,137,535	1,548,366
	11,984,065	10,309,046

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in the note, no director has entered into a material contract with the Bank since the end of the previous financial year and there were no material contracts involving directors' interest existing at year end.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

33. Key management personnel disclosures (continued)

(b) Equity Instruments - holdings and movements

The movement during the reporting period in the number of options and rights over ordinary shares in Bank of Queensland Limited held, directly, indirectly or beneficially, by key management personnel, including their personally related entities, is as follows:

Managing Director, Senior Management Option Plans ("SMOP") and Award rights

All options issued under the Managing Director option plan, SMOP and Award rights refer to options and rights over ordinary shares of Bank of Queensland Limited, which are exercisable on a one-for-one basis.

During the reporting period, the following options and rights over ordinary shares were granted to executives under the SMOP and Award Rights:

		Held at 1 September 2008	Granted as remuneration	Exercised	Other changes ⁽¹⁾	Held at 31 August 2009	Vested during the year	Vested and exercisable at 31 August 2009
Managing Director option plan:								
David Liddy	- Options	1,000,000	-	-	-	1,000,000	500,000	500,000
	- Rights	-	175,072	-	-	175,072	-	-
SMOP:								
Executives								
Ram Kangatharan	- Options	350,000	-	-	-	350,000	-	-
	- Rights	-	54,150	-	-	54,150	-	-
David Marshall	- Options	200,000	-	-	-	200,000	-	-
	- Rights	-	37,050	-	-	37,050	-	-
Daniel Musson	- Options	200,000	-	-	-	200,000	-	-
	- Rights	-	34,770	-	-	34,770	-	-
Jim Stabback	- Rights	-	30,210	-	-	30,210	-	-
Bruce Auty	- Options	350,000	-	-	-	350,000	150,000	150,000
	- Rights	-	19,380	-	-	19,380	-	-
Former Executives								
Robert Hines	- Options	750,000	-	-	(120,392)	629,608	429,608	629,608
Len Stone	- Options	380,000	-	-	(52,701)	327,299	327,299	327,299

(1) Other changes represent options and rights that forfeited during the year.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

33. Key management personnel disclosures (continued)

(b) Equity Instruments - holdings and movements (continued)

	Held at 1 September 2007	Granted as remuneration	Exercised ⁽¹⁾	Other changes ⁽²⁾	Held at 31 August 2008	Vested during the year	Vested and exercisable at 31 August 2008
Managing Director option plan:							
David Liddy	1,500,000	-	(500,000)	-	1,000,000	500,000	-
SMOP:							
Executives							
Ram Kangatharan	-	350,000	-	-	350,000	-	-
David Marshall	-	200,000	-	-	200,000	-	-
Daniel Musson	-	200,000	-	-	200,000	-	-
Bruce Auty	350,000	100,000	(100,000)	-	350,000	100,000	-
Robert Hines	575,000	175,000	-	-	750,000	200,000	200,000
Len Stone	400,000	130,000	(150,000)	-	380,000	150,000	-
Former Executives							
Donna Quinn	475,000	-	(350,000)	(125,000)	-	350,000	-
Iain Blacklaw	100,000	150,000	-	(250,000)	-	-	-

(1) Options exercised had an exercise price of \$10.71 and \$13.37.

(2) Other changes represent options that forfeited during the year.

Movement in shares

The number of shares held directly, indirectly or beneficially by each key management person is as follows:

	Held at 1 September 2008	Purchases / (Sales)	Received on exercise of options	Held at 31 August 2009
Ordinary shares				
Directors of Bank of Queensland Limited				
Neil Summerson	18,528	4,022	-	22,550
Anthony Howarth	37,819	4,043	-	41,862
David Liddy	1,616,565	(700,319)	-	916,246
Steve Crane	-	11,000	-	11,000
Roger Davis	2,909	207	-	3,116
Peter Fox	11,801,257	(10,025,758)	-	1,775,499
David Graham	6,000	2,618	-	8,618
Carmel Gray	4,000	1,309	-	5,309
Bill Kelty	1,088	77	-	1,165
John Reynolds	1,000	-	-	1,000
Former Director				
Antony Love ⁽¹⁾	11,990	-	-	-
Executive				
Bruce Auty	100,000	(98,691)	-	1,309
Former Executives				
Robert Hines	197,999	-	-	-
Len Stone	12,500	-	-	-

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

33. Key management personnel disclosures (continued)

(b) Equity Instruments - holdings and movements (continued)

Convertible Preference shares	Held at 1 September 2008	Purchases / (Sales)	Held at 31 August 2009
Directors of Bank of Queensland Limited			
Former Director			
Antony Love ⁽¹⁾	500	-	-

(1) Antony Love retired as a Director on 11 December 2008.

Ordinary shares	Held at 1 September 2007	Purchases / (Sales)	Received on exercise of options	Held at 31 August 2008
Directors of Bank of Queensland Limited				
Neil Summerson	17,731	797	-	18,528
Anthony Howarth	-	37,819	-	37,819
David Liddy	1,412,387	(295,822)	500,000	1,616,565
Roger Davis	-	2,909	-	2,909
Peter Fox	11,294,704	506,553	-	11,801,257
David Graham	6,000	-	-	6,000
Carmel Gray	1,000	3,000	-	4,000
Bill Kilty	1,040	48	-	1,088
Antony Love	11,990	-	-	11,990
John Reynolds	1,000	-	-	1,000
Former Director				
Neil Roberts ⁽¹⁾	21,464	-	-	-
Executives				
Bruce Auty	200,000	(200,000)	100,000	100,000
Robert Hines	347,999	(150,000)	-	197,999
Len Stone	250,000	(387,500)	150,000	12,500
Former Executive				
Donna Quinn	167,725	-	-	-

(1) Neil Roberts retired as Chairman and as a Director on 20 August 2008.

Convertible Preference shares	Held at 1 September 2007	Purchases / (Sales)	Held at 31 August 2008
Directors of Bank of Queensland Limited			
Antony Love	-	500	500

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

33. Key management personnel disclosures (continued)

(c) Loans to key management personnel disclosures

Details of loans outstanding at the reporting date to key management personnel, where the individual's aggregate loan balance exceeded \$100,000 at any time in the reporting period, are as follows:

	2009				2008			
	Balance at 1 September 2008 \$	Interest paid and payable during the year \$	Balance at 31 August 2009 \$	Highest balance during the year \$	Balance at 1 September 2007 \$	Interest paid and payable during the year \$	Balance at 31 August 2008 \$	Highest balance during the year \$
Directors:								
Neil Summerson	416,335	26,717	421,910	444,325	79,742	7,544	416,335	432,373
Anthony Howarth	332,148	3,803	-	332,505	-	-	332,148	332,148
David Liddy	-	89,558	-	3,010,069	-	-	-	-
David Graham	4,109,430	134,528	4,109,261	4,872,672	4,147,107	284,586	4,109,430	4,245,144
Bill Kelty	325,782	17,166	325,782	653,533	325,782	23,498	325,782	325,792
Former Director:								
Antony Love	217,750	6,191	-	219,705	278,800	23,989	217,750	497,800
Executive:								
Daniel Musson	1,815,807	50,644	1,843,198	2,479,049	400,000	41,378	1,815,807	1,832,596
Former Executives:								
Robert Hines	3,880,380	168,897	-	4,877,972	3,132,176	290,992	3,880,380	4,765,279
Len Stone	521,068	27,995	-	524,204	1,085,203	52,070	521,068	1,060,870

All loans with key management personnel are conducted on an arm's length basis in the normal course of business and on terms and conditions as available to all employees of the Bank.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the economic entity to all key management personnel and their related parties, and the number of individuals in each group are as follows:

	Balance at 1 September 2008 \$	Balance at 31 August 2009 \$	Interest paid and payable \$	Number in group at 31 August 2009 #
Directors:	5,401,445	4,856,953	277,963	6
Executives:	6,217,255	1,843,198	247,536	4
	Balance at 1 September 2007 \$	Balance at 31 August 2008 \$	Interest paid and payable \$	Number in group at 31 August 2008 #
Directors:	4,831,431	5,401,445	339,617	5
Executives:	6,197,870	6,217,255	434,298	3

33. Key management personnel disclosures (continued)

(d) Other financial instrument transactions with key management personnel and personally-related entities

A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Financial instrument transactions with key management personnel and personally-related entities during the financial year arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities. The terms and conditions of the transactions with management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis. Included in these prior year transactions are certain loans made to the Linfox Group. At 31 August 2009 these facilities totalled nil (2008: \$28.2m). DDH Preferred Income Fund (a fund managed by DDH Graham Limited) is a noteholder in the Series 2007-1 REDS Trust holding an investment of 10,000 units at \$90.85 totalling \$908,533 (2008: 10,000 units at \$100.00 totalling \$1,000,000). A guarantee of \$500,000 provided to DDH Graham Limited for regulatory purposes by Bank of Queensland at the request of its directors, including David Graham and supported by them.

Other non financial instrument transactions with key management personnel

Antony Love is a director of McGees Property which from time to time renders services to the Bank and its controlled entities in the ordinary course of business. Fees paid to the firm by the Bank and its controlled entities during the period September 2008 to 11 December 2008 amounted to \$18,809 (2008: \$58,031) ⁽¹⁾.

Peter Fox and Bill Kelty are directors of Linfox Proprietary Limited of which Linfox Armaguard Pty Ltd is a subsidiary. The Bank has paid \$2,404,762 (2008: \$1,956,987) to Linfox Armaguard Pty Ltd in the ordinary course of business for cash delivery services. The directors in question have no involvement in the contract negotiation nor the provision of these services.

The Bank of Queensland has entered into a rolling contract with a 2 year termination clause with DDH Graham Limited, of which David Graham is the Executive Chairman. Under this contract, DDH Graham Limited provides funding to the Bank through introduced customer money market deposit accounts, and in turn the Bank pays DDH Graham Limited a commission based on the value of deposited funds held with the Bank. Commission is paid on a monthly basis for the duration of the contract. Commission amounts for these services were billed based on normal market rates and were due and payable under normal payment terms. Commission payments paid to the firm by the Bank during the financial year amounted to \$4,539,186 (2008: \$4,349,973).

Liabilities recognised at reporting date arising from the above transactions were:

- Accounts payable and other liabilities - \$633,569 (2008: \$455,427)

Other transactions with directors, executives and their personally-related entities are conducted on an arm's length basis and are deemed trivial or domestic in nature.

(1) Antony Love retired as a Director on 11 December 2008.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

33. Key management personnel disclosures (continued)

(d) Other financial instrument transactions with key management personnel and personally-related entities (continued)

The following are transactions undertaken between the Consolidated Entity and key management personnel as at 31 August 2009:

	Balance as at		Total Loan Repayments \$	For the period ⁽¹⁾		
	01/09/08 \$	31/08/09 \$		Total Loan Redraws / Further Advances \$	Total Loan / Overdraft interest \$	Total Fees on Loans / Overdraft \$
Term Products (Loans / Advances)	(11,618,700)	(6,700,151)	7,671,091	(7,769,658)	(508,754)	(17,702)

	Balance as at		Total Loan Repayments \$	For the period ⁽¹⁾		
	01/09/07 \$	31/08/08 \$		Total Loan Redraws / Further Advances \$	Total Loan / Overdraft interest \$	Total Fees on Loans / Overdraft \$
Term Products (Loans / Advances)	(11,029,301)	(11,618,700)	10,444,002	(11,197,156)	(773,915)	(16,398)

	Balance as at		Total Deposits \$	For the period ⁽¹⁾		
	01/09/08 \$	31/08/09 \$		Total Withdrawals \$	Total Account Fees \$	Total Deposit Interest \$
Transaction Products (Deposits)	2,224,558	4,647,223	24,147,893	(19,752,323)	(3,666)	253,766

	Balance as at		Total Deposits \$	For the period ⁽¹⁾		
	01/09/07 \$	31/08/08 \$		Total Withdrawals \$	Total Account Fees \$	Total Deposit Interest \$
Transaction Products (Deposits)	984,396	2,224,558	16,937,627	(15,792,400)	(4,622)	99,557

(1) Amounts are included only for the period that the director / executive are classified as a member of the key management personnel.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

34. Controlled entities

	Parent entity's interest		Amount of Investment (at cost)	
	2009	2008	2009 \$m	2008 \$m
(a) Particulars in relation to controlled entities				
Controlled entities:				
B.Q.L. Management Pty Ltd	100%	100%	-	-
B.Q.L. Nominees Pty Ltd	100%	100%	5.0	5.0
B.Q.L. Properties Limited	100%	100%	-	-
Queensland Electronic Switching Pty Ltd	100%	100%	0.1	0.1
BOQ Equipment Finance Limited	100%	100%	15.4	15.4
Electronic Financial Solutions Pty Ltd	100%	100%	-	-
Series 2003-2 REDS Trust	100%	100%	-	-
Series 2004-1 REDS Trust	100%	100%	-	-
Series 2005-1 REDS Trust	100%	100%	-	-
Series 2005-2 REDS Trust	100%	100%	-	-
REDS Warehouse Trust No.1	100%	100%	-	-
REDS Warehouse Trust No.2	100%	100%	-	-
Series 2006-1E REDS Trust	100%	100%	-	-
Series 2007-1E REDS Trust	100%	100%	-	-
Series 2007-2 REDS Trust	100%	100%	-	-
Series 2008-1 REDS Trust	100%	100%	-	-
Series 2008-2 REDS Trust	100%	100%	-	-
Series 2008-1E EHP REDS Trust	100%	100%	-	-
Series 2009-1 REDS Trust	100%	-	-	-
REDS Warehouse Trust No.3	100%	100%	-	-
Pioneer Permanent Building Society Limited	100%	100%	60.1	60.1
Home Building Society Ltd	100%	100%	600.2	600.2
Home Financial Planning Pty Ltd	100%	100%	-	-
Horizon Portfolio Services Pty Ltd	-	100%	-	-
Home Direct WA Pty Ltd	-	100%	-	-
Home Credit Management Ltd	100%	100%	-	-
Statewest Financial Services Ltd	100%	100%	-	-
Statewest Conveyancing Pty Ltd	-	100%	-	-
Statewest Financial Planning Pty Ltd	100%	100%	-	-
BOQ Share Plans Nominee Pty Ltd	100%	100%	-	-
Bank of Queensland Limited Employee Share Plans Trust	100%	-	0.2	-
			681.0	680.8

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

34. Controlled entities (continued)

(b) Acquisition of controlled entities

The following controlled entities were acquired during the prior year:

Acquisition of entities

On 18 December 2007, the Bank acquired all the shares of Home Building Society Ltd ("Home") for \$600.2 million in a combination of cash and ordinary shares in the Bank. Home operates as an authorised deposit taking institution providing various financial services, and includes property development activity via equity accounted investments, and in the period from 18 December 2007 to 31 August 2008 contributed profit of \$12.3 million. If the acquisition had occurred on 1 September 2007, management estimates that consolidated total operating income would have been \$597.9 million and consolidated profit would have been \$133.6 million for the year ended 31 August 2008.

The acquisition had the following effect on the consolidated entity's assets and liabilities:

	Recognised values on acquisition \$m	Pre-acquisition carrying amounts \$m
Cash	37.2	37.2
Loans and advances	2,634.9	2,668.2
Investments accounted for using the equity method	39.2	27.7
Other financial assets	365.6	365.6
Derivative financial instruments	6.0	6.0
Property, plant and equipment	7.0	7.0
Other assets	2.8	2.8
Deferred tax assets	11.9	1.6
Intangible assets	0.5	170.2
Deposits	(2,503.5)	(2,503.5)
Borrowings including subordinated notes	(411.0)	(411.0)
Deferred tax liabilities	(10.7)	(12.4)
Accounts payable and other liabilities	(40.2)	(40.2)
Provisions	(5.5)	(4.7)
Net identifiable assets and liabilities	134.2	314.5
Goodwill and other identifiable intangibles on acquisition	466.0	
Total Consideration	600.2	
Consideration paid, satisfied in Bank ordinary shares ⁽¹⁾	496.9	
Consideration paid, satisfied in cash ⁽²⁾	103.3	
Cash acquired	(37.1)	
Net cash outflow	66.2	

(1) Shares were issued at \$18.00, based on the closing price on the day of acquisition.

(2) Includes cash of \$91.6 million, option payments of \$7.4 million and incidental costs of \$4.3 million.

At 31 August 2008, the acquisition accounting balances were provisional due to ongoing work finalising valuations and tax related matters which impacted acquisition accounting entries. Finalisation of provisional accounting resulted in restatement of comparatives, refer Note 2 (f).

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

35. Related parties information

Controlled entities

Details of interests in controlled entities are set out in Note 34.

During the year there have been transactions between the Bank and all of its controlled entities. The Bank conducted normal banking business with its operating controlled entities. Amounts owing to or from controlled entities do not attract interest, except in respect of BOQ Equipment Finance Limited where interest is charged on normal terms and conditions.

The Bank receives management fees from B.Q.L. Management Pty Ltd and BOQ Equipment Finance Limited. In the prior year, the Bank paid management fees and received management fees from Home Building Society Ltd.

The Bank has a related party with equity accounted investees, refer to Note 39.

36. Average balances and margin analysis

	Consolidated 2009			Consolidated 2008		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
Interest earning assets						
Gross loans and advances at amortised cost *	26,830.5	1,835.2	6.84	22,031.0	1,811.8	8.22
Investments and other securities *	4,107.5	196.0	4.77	3,171.3	231.3	7.29
Total interest earning assets	30,938.0	2,031.2	6.57	25,202.3	2,043.1	8.11
Non-interest earning assets						
Property, plant and equipment	25.5			23.9		
Other assets	1,044.0			715.4		
Provision for impairment	(40.8)			(20.5)		
Total non-interest earning assets	1,028.7			718.8		
Total assets	31,938.2			25,921.1		
Interest bearing liabilities						
Retail deposits *	15,512.6	722.6	4.66	12,354.1	731.7	5.92
Wholesale deposits and borrowings *	14,218.1	827.5	5.82	11,831.1	890.3	7.52
Total interest bearing liabilities	29,730.7	1,550.1	5.21	24,185.2	1,622.0	6.71
Non-interest bearing liabilities	497.5			300.1		
Total liabilities	30,228.2			24,485.3		
Shareholders' funds	1,738.5			1,435.8		
Total liabilities and shareholders' funds	31,966.7			25,921.1		
Interest margin and interest spread						
Interest earning assets	30,938.0	2,031.2	6.57	25,202.3	2,043.1	8.11
Interest bearing liabilities	29,730.7	1,550.1	5.21	24,185.2	1,622.0	6.71
Net interest spread ⁽¹⁾			1.35			1.40
Net interest margin - on average interest earning assets	30,938.0	481.1	1.56	25,202.3	421.1	1.67

* Calculated on average monthly balances

(1) Interest spread is calculated after taking into account third party and OMB commissions.

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

37. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, certain wholly-owned subsidiaries are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' reports.

It is a condition of the Class Order that the Bank and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Bank guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Bank will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Bank is wound up.

The subsidiaries to the Deed are:

- B.Q.L. Properties Limited;
- BOQ Equipment Finance Limited;
- B.Q.L. Management Pty Ltd;
- Queensland Electronic Switching Pty Ltd;
- B.Q.L. Nominees Pty Ltd;
- Electronic Financial Solutions Pty Ltd;
- BOQ Share Plans Nominee Pty Ltd;
- Pioneer Permanent Building Society Limited;
- Home Building Society Ltd;
- Home Credit Management Ltd; and
- StateWest Financial Services Limited.

A consolidated Income Statement and consolidated Balance Sheet, comprising the Bank and its controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 August 2009 is set out as follows:

Summarised income statement and retained profits

	Consolidated	
	2009 \$m	2008 \$m
Profit before tax	188.6	182.6
Less: Income tax expense	52.2	47.9
Profit for the year	136.4	134.7
Retained profits at beginning of year	192.8	152.0
Dividends to shareholders	(116.1)	(98.1)
Equity settled transactions and transfers	(24.8)	4.2
Retained profits at end of year	188.3	192.8
Attributable to:		
Equity holders of the parent	136.4	134.7
Profit for the year	136.4	134.7

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

37. Deed of cross guarantee (continued)

BALANCE SHEET As at 31 August 2009	Consolidated	
	2009 \$m	2008 \$m
Assets		
Cash and liquid assets	250.6	242.9
Due from other financial institutions	74.6	133.0
Other financial assets	4,535.1	2,931.1
Derivative financial instruments	58.7	74.9
Loans and advances at amortised cost	28,310.9	21,161.3
Shares in controlled entities	-	660.3
Property, plant and equipment	24.5	18.3
Deferred tax assets	13.6	-
Other assets	251.5	179.1
Intangible assets	587.8	100.9
Total assets	34,107.3	25,501.8
Liabilities		
Due to other financial institutions	192.7	135.6
Deposits	24,402.8	17,786.1
Derivative financial instruments	205.0	109.0
Accounts payable and other liabilities	254.7	230.3
Current tax liabilities	24.2	0.3
Provisions	20.8	12.7
Deferred tax liabilities	-	15.4
Borrowings including subordinated notes	1,358.1	818.5
Amounts due to controlled entities	5,544.9	4,708.6
Total liabilities	32,003.2	23,816.5
Net assets	2,104.1	1,685.3
Equity		
Issued capital	1,903.1	1,439.4
Reserves	12.7	53.1
Retained profits	188.3	192.8
Total equity	2,104.1	1,685.3

Notes to and Forming Part of the Financial Statements

Year ended 31 August 2009

38. Events subsequent to balance date

Dividends have been declared after 31 August 2009, refer to Note 7.

The financial effect of the above transactions have not been brought to account in the financial statements for the year ended 31 August 2009.

On 18 September 2009 the retail entitlement offer settled at an issue price of \$10.00 and 11,080,536 ordinary shares were issued.

39. Investments accounted for using the equity method

The Consolidated Entity's share of profit in its equity accounted investees for the year was \$0.7m (2008: \$1.3m).

The principal activity of the joint venture entities is land subdivision, development and sale. Details of material interest in joint ventures are as follows:

	Percentage Ownership Interest	
	2009 (%)	2008 (%)
Ocean Springs Pty Ltd (Brighton)	9.31	9.31
Dalyellup Beach Pty Ltd (Dalyellup)	17.08	17.08
Wanneroo North Pty Ltd (The Grove)	21.42	21.42
East Busselton Estate Pty Ltd (Provence)	25.00	25.00
Coastview Nominees Pty Ltd (Margaret River)	5.81	5.81
Satterley Austin Cove Pty Ltd (Austin Cove)	4.18	4.18
Provence 2 Pty Ltd (Provence 2)	25.00	25.00
Crestview Asset Pty Ltd (Beacham Road)	7.36	7.36

The above companies are proprietary companies incorporated in Australia. An impairment loss of \$5.4m was recognised in the income statement this financial year relating to the investment in joint ventures. There are no material capital commitments relating to the joint ventures.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the consolidated entity and fair value adjustments on acquisition is contained in the table below:

	2009 \$m	2008 \$m
Balance Sheet		
Current assets	127.6	131.6
Non-current assets	180.4	188.0
Total assets	308.0	319.6
Current liabilities	81.5	46.9
Non-current liabilities	6.1	54.5
Total liabilities	87.6	101.4
Net assets	220.4	218.2
Profit and Loss		
Revenues	55.1	94.7
Expenses	37.7	38.6
Profit	17.4	56.1

Directors' Declaration

- 1 In the opinion of the directors of Bank of Queensland Limited ("the Bank"):
 - (a) the financial statements and notes, including the remuneration disclosures that are contained in the Remuneration report of the Directors' report, set out on pages 24 to 113, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Bank and Consolidated Entity as at 31 August 2009 and of their performance, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (a);
 - (c) the remuneration disclosures that are contained in the Remuneration report of the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and
 - (d) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Bank and the Controlled Entities identified in Note 37 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Bank and those Controlled Entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 August 2009.

Signed in accordance with a resolution of the directors:



Neil Summerson
Chairman



David Liddy
Managing Director

Dated at Brisbane this fifteenth day of October 2009

Independent Audit Report

to members of Bank of Queensland Limited



Report on the financial report

We have audited the accompanying financial report of Bank of Queensland Limited (the "Bank"), which comprises the Balance Sheets as at 31 August 2009, and the Income Statements, Statements of Recognised Income and Expense and Statements of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 39 and the directors' declaration of the Consolidated Entity comprising the Bank and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Bank are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Consolidated Entity and the Bank, comprising the financial statements and notes, comply with International Financial Reporting Standards.

The directors of the Bank are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Bank's and the Consolidated Entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- (a) The financial report of Bank of Queensland Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Bank's and the Consolidated Entity's financial position as at 31 August 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) The financial report of the Consolidated Entity and Bank also comply with International Financial Reporting Standards as disclosed in note 2 (a).

KPMG, an Australian partnership, is part of the KPMG International network.

KPMG International is a Swiss cooperative.

Independent Audit Report

to members of Bank of Queensland Limited



Report on the remuneration report

We have audited the remuneration report included in pages 28 to 44 of the directors' report for the year ended 31 August 2009. The directors of the Bank are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Bank of Queensland Limited for the year ended 31 August 2009, complies with Section 300A of the Corporations Act 2001.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'John Teer'.

John Teer

Partner

Brisbane, 15 October 2009

KPMG, an Australian partnership, is part of the KPMG International network.

KPMG International is a Swiss cooperative.

Shareholding Details

As at 24 September 2009, the following shareholding details applied:

1. Twenty largest ordinary shareholders

Shareholder	No. of ordinary shares	%
HSBC Custody Nominees (Australia) Limited	29,872,611	14.17
National Nominees Limited	19,490,787	9.24
J P Morgan Nominees Australia Limited	14,056,169	6.67
Milton Corporation Limited	4,432,296	2.10
UBS Nominees Pty Ltd	4,127,964	1.96
Citicorp Nominees Pty Limited	3,900,648	1.85
ANZ Nominees Limited	3,380,507	1.60
HSBC Custody Nominees (Australia) Limited – GSCO ECA	2,634,877	1.25
UBS Nominees Pty Ltd	2,049,749	0.97
RBC Dexia Investor Services Australia Nominees Pty Limited	2,037,181	0.97
Linfox Share Investment No.2 Pty Ltd	1,971,666	0.94
Queensland Investment Corporation	1,934,761	0.92
AMP Life Limited	1,582,540	0.75
Citicorp Nominees Pty Limited	1,504,060	0.71
Cogent Nominees Pty Limited	1,358,403	0.64
Washington H Soul Pattinson and Company Limited	1,310,907	0.62
Invia Custodian Pty Limited	1,094,171	0.52
HSBC Custody Nominees (Australia) Limited – A/c 2	957,326	0.45
Choiseul Investments Limited	916,900	0.43
Mr David Paul Liddy ⁽¹⁾	766,016	0.36
Total	99,379,539	47.12

(1) Including shares held beneficially, Mr David Paul Liddy holds 1,018,052 as at 24 September 2009.

Voting rights

On a show of hands every person present who is a holder of ordinary shares or a duly appointed representative of a holder of ordinary shares has one vote, and on a poll each member present in person or by proxy or attorney has one vote for each share that person holds.

Shareholding Details

2. Twenty largest RePS shareholders

Shareholder	No. of RePS shares	%
ANZ Nominees Limited	26,630	5.64
Milton Corporation Limited	15,598	3.31
Taverner No 11 Pty Ltd	8,250	1.75
National Nominees Limited	8,050	1.71
Argo Investments Limited	7,500	1.59
Citicorp Nominees Pty Limited	5,775	1.22
The Synod of the Diocese of Adelaide of the Anglican Church of Australia Inc	5,380	1.14
Questor Financial Services Limited	5,125	1.09
Choiseul Investments Limited	5,000	1.06
M F Custodians Ltd	4,702	1.00
Cogent Nominees Pty Limited	4,201	0.89
Mr Kevin Joseph Troy & Mrs Dawn Troy	3,495	0.74
Laidlaw Family Investments Pty Ltd	3,000	0.64
Mrs Eily Dawn Campbell	3,000	0.64
Baker Custodian Corporation	3,000	0.64
Miss Joan Sorrell Norris	3,000	0.64
The Trustees of the Diocese of Tasmania	2,962	0.63
Mr Alan Muir Greenfield	2,800	0.59
HSBC Custody Nominees (Australia) Limited	2,515	0.53
Uniting Church in Australia Property Trust (WA)	2,500	0.53
Total	122,483	25.98

Voting rights

The RePS do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

Shareholding Details

3. Twenty largest PEPS shareholders

Shareholder	No. of PEPS shares	%
J P Morgan Nominees Australia Limited	194,460	9.72
RBC Dexia Investor Services Australia Nominees Pty Limited	77,554	3.88
Milton Corporation Limited	50,000	2.50
Domer Mining Co Pty Ltd	32,200	1.61
Cogent Nominees Pty Limited	19,000	0.95
Count Financial Limited	18,000	0.90
RBC Dexia Investor Services Australia Nominees Pty Limited	16,922	0.85
HSBC Custody Nominees (Australia) Limited	15,068	0.75
Australian Executor Trustees Limited	14,176	0.71
National Nominees Limited	13,429	0.67
Citicorp Nominees Pty Limited	13,000	0.65
FJP Pty Ltd	10,663	0.53
Eastcote Pty Ltd	10,000	0.50
The Baptist Union of Queensland	10,000	0.50
Presbyterian Church of Victoria Trusts	10,000	0.50
Corlette Holdings Pty Ltd	10,000	0.50
F & B Investments Pty Limited	10,000	0.50
Blann Investments Pty Limited	9,144	0.46
Equity Trustees Limited	9,100	0.46
Baptist Investments and Finance Ltd	8,546	0.43
Total	551,262	27.57

Voting rights

The PEPS do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

Shareholding Details

4. Distribution of equity security holders

Category	Ordinary shares		RePs		SIRPS		PEPS	
	2009	2008	2009	2008	2009	2008	2009	2008
1 - 1,000	60,821	64,545	1,089	1,170	-	70	4,027	4,169
1,001 - 5,000	19,937	16,845	52	50	-	12	158	142
5,001 - 10,000	2,340	1,752	6	5	-	4	24	20
10,001 - 100,000	1,094	878	2	2	-	8	11	11
100,001 - and over	68	52	-	-	-	2	1	1
Total	84,260	84,072	1,149	1,227	-	96	4,221	4,343

The number of ordinary shareholders holding less than a marketable parcel is 2,493.

The number of reset preference shareholders holding less than a marketable parcel is 1.

The number of perpetual equity preference shareholders holding less than a marketable parcel is nil.

5. Partly paid shares

There are no partly paid shares.

6. The names of substantial shareholders in the Bank and the number of shares in which each has an interest as disclosed in substantial shareholder notices given to the Bank are:

Substantial shareholders	No. of ordinary shares in which interest is held (at date of notification)	Date of notification
BRED Banque Et Populaire	26,359,271	2 September 2009

7. Stock exchange listing

The shares of Bank of Queensland Limited ("BoQ"), RePS ("BOQPA"), and PEPS ("BOQPC") are quoted on the Australian Securities Exchange.

8. Options

At 31 August 2009 there were options over 8,899,281 (2008: 9,987,338) unissued ordinary shares. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

9. On market buy-back

There is no current on market buy-back.

10. Other information

Bank of Queensland Limited is a publicly listed company limited by shares and is incorporated and domiciled in Australia.

Growth. Evolution. Achievement.