

Financial report

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Financial summary

	Year Ended				
	2011 \$m	2010* \$m	2009 \$m	2008 \$m	2007 \$m
Shareholders' Equity:					
Issued capital	2,153.3	2,057.6	1,903.1	1,439.4	615.7
Reserves and retained profits	420.3	347.2	208.3	251.5	238.6
Total Equity	2,573.6	2,404.8	2,111.4	1,690.9	854.3
Financial Position:					
Total assets under management	39,900.8	38,811.3	34,545.8	30,912.5	21,653.3
Total loans under management ⁽¹⁾	33,356.2	32,003.1	28,866.3	26,291.8	19,224.5
Total assets on balance sheet	39,900.8	38,597.8	34,012.0	29,883.2	20,037.3
Retail deposits	20,317.9	18,083.3	16,248.9	13,984.5	9,160.9
Wholesale deposits	9,308.7	10,005.2	7,948.3	6,052.0	3,559.4
Financial Performance:					
Statutory net profit	158.7	181.9	141.1	138.7	129.8
Underlying cash profit ^{(2) (3) (4)}	447.4	379.1	315.0	250.8	171.2
Normalised profit for the year after tax ⁽³⁾	170.4	190.4	177.6	148.6	104.1
Add: Non-cash items (tax effected) ⁽⁴⁾	6.2	6.6	9.8	6.8	2.0
Normalised cash net profit after tax	176.6	197.0	187.4	155.4	106.1
Shareholder Performance:					
Market capitalisation at balance date	1,686.0	2,120.3	2,327.7	2,377.4	2,101.0
Share price at balance date	\$7.48	\$9.83	\$11.65	\$15.86	\$18.56
Statutory Ratios:					
Net interest margin	1.63%	1.60%	1.56%	1.67%	1.81%
Capital adequacy ratio	11.4%	11.7%	11.5%	11.0%	11.5%
Net tangible assets per share	\$7.95	\$7.47	\$6.62	\$6.01	\$6.41
Fully franked ordinary dividend per share	\$0.54	\$0.52	\$0.52	\$0.73	\$0.69
Diluted earnings per share	63.1c	77.0c	74.4c	89.6c	112.7c
Normalised Ratios (cash basis): ^{(3) (4)}					
Net interest margin ⁽⁵⁾	1.65%	1.60%	1.56%	1.67%	1.81%
Cost to income ratio	44.5%	45.8%	49.9%	56.1%	62.6%
Dividend payout ratio to ordinary shareholders	69%	57%	53%	71%	74%
Diluted earnings per share	69.8c	83.4c	98.4c	99.9c	93.0c
Return on average ordinary equity	8.0%	9.6%	11.8%	13.0%	15.4%

(1) Before Collective Provision for impairment.

(2) Underlying cash profit is profit before impairment on loans and advances and income tax expense excluding non-cash and non-recurring items as detailed below in footnotes (3) and (4).

(3) Excluding significant and non-recurring items (tax effected).

Hedge ineffectiveness	1.0	0.9
Government guarantee break fee	(4.3)	-
Integration / Due diligence costs	(4.1)	(4.4)
Discount on acquisition of St Andrew's	-	7.4
Discount on acquisition of BOQ Finance	-	2.7
Amortisation of fair value adjustments	(3.5)	(0.7)
ATM transition costs	-	(3.1)
Impairment of IT software assets	-	(9.6)
Tax review items	-	(1.7)
Flood impact	(0.8)	-
Total	(11.7)	(8.5)

(4) Non-cash item relates to amortisation of acquired intangibles.

(5) Excluding amortisation of fair value adjustments.

* Refer to Note 2 (f) for restatement figures.

Corporate governance

Overview

Directors and Management of the Bank are committed to excellence in corporate governance.

In striving to achieve its objectives, the Bank endeavours to be a bank that looks after its staff, values and services customers, rewards its shareholders and partners with the community.

Corporate governance is not just about compliance, but about our values and our behaviour. We believe in excellence in corporate governance because it is in the best interests of the Bank and all of its stakeholders.

The Board has over many years developed and implemented policies and practices which at the time of publishing this statement are consistent with the applicable ASX Corporate Governance Principles and Recommendations, Second Edition with 2010 Amendments ('Principles') updated by the ASX Corporate Governance Council in 2010, and the corporate governance standards set out in Australian Prudential Standard (APS) 510 "Corporate Governance".

In addition, the Board has adopted a fit and proper policy as required by APS 520 "Fit and Proper", which sets out the requirements for regulated authorised deposit-taking institutions to assess the competencies and fitness for office of persons appointed as directors, senior managers and auditors. The Bank's subsidiaries St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd are subject to APRA's prudential supervision as insurance companies and subject to similar Corporate Governance and Fit and Proper standards as those applicable to authorised deposit-taking institutions. The Bank's group policies comply with all of these standards.

As part of its process of continual improvement, the Bank has carried out a full review of all of its corporate governance policies during the year. You can read these policies in full on its website (www.boq.com.au). The maintenance of corporate governance policies is overseen by the Board's Corporate Governance Committee under its Charter.

The Bank is required to disclose in this report the extent to which it has followed the best practice recommendations in the Principles throughout the 2011 financial year. The Bank has followed those recommendations throughout the year. A summary of the Bank's corporate governance policies and practices, organised in order of the Principles, is set out below.

Principle 1: Board and Management

The Board Charter sets out the key governance principles adopted by the Board in governing the Bank. There is a functional difference between the Board's role and responsibilities and that of management which is recognised in the Board Charter.

The responsibilities of the Board include:

- the overall corporate governance of the Bank including:
 - overseeing regulatory compliance;
 - ensuring the Bank observes appropriate ethical standards; and
 - achievement of the Bank's values.
- the overall strategy and direction of the Bank, including approving, monitoring and reviewing strategic, financial and operational plans;
- the appointment of the Managing Director, including the delegation of powers to the Managing Director within authorised discretionary levels;
- succession planning, including Board and Committee composition.

In order to fulfil these responsibilities, the Board reserves to itself certain powers including:

- reviewing the Bank's strategic plan at least annually, approving budgets and reviewing financial results;
- determining dividend policy;
- dealing with matters outside discretions conferred on the Managing Director;
- ensuring that areas of significant business risk are identified and effectively managed;
- monitoring the effectiveness of risk management practices;
- setting targets for and assessing the performance of the Managing Director; and
- establishing Board committees.

Certain powers are delegated to the CEO (also Managing Director) and senior management including:

- responsibility for day to day management of the Bank within the overall strategies and frameworks approved by the Board including the following:
 - developing strategy for approval by the Board;
 - financial and capital management and reporting;
 - operations;
 - information technology;
 - marketing the current business of the Bank and acquiring new business;
 - customer relationship service;
 - developing and maintaining key external relationships, including with investors, media, analysts and industry participants;
 - human resources, people development, performance and the creation of a safe and enjoyable workplace; and
 - credit;
- reporting to the Board on the performance of the Bank and its management; and
- performing duties that are delegated by the Board.

The Chairman is available to the Board and to senior executives at any time to discuss Board performance. A performance evaluation for the Board, its committees and directors took place in the reporting period in accordance with the process contained in the Board Performance Review Policy. The process included an externally facilitated evaluation.

The Board undertakes an annual performance review of the Managing Director. Management has a program for annual performance reviews for all levels of management. The review program includes the annual setting of key performance indicators at the start of the financial year and a formal evaluation against those indicators at the conclusion of the financial year. Reviews have been carried out in accordance with the program for all levels of management, including the Managing Director.

Prior to commencement, all new directors sign formal letters of appointment. The Bank provides an induction program for new Board members.

Corporate governance

Principle 2: Board Structure

The Board currently has eight Directors (including the Chairman) all of whom are non-executive Directors. The Managing Director, who retired on 31 August 2011, was an executive Director. The Managing Director's replacement commences on 1 November 2011. He will also be an executive Director. The skills and experience of the Directors and their length of service, membership of Board committees and record of attendance at meetings, are set out in the Directors' Report.

The Nomination Committee monitors the skills and experience of existing Directors and the balance between experience and new skills, which may lead to consideration of appointments of new Directors. The names and qualifications of those appointed to the Nomination Committee, and number of meetings of the Nomination Committee, during the financial year are set out in the Directors' Report. When appointing a new Director, the Board considers the need to balance the skills, tenure, experience, diversity and perspectives of its directors as a whole, and endeavours to achieve an appropriate mix of these factors to enable the Board to facilitate achievement of the Group's strategic goals. Potential candidates for board positions are sourced using the Board's contacts and market intelligence, as well as through the services of specialist external advisers. When considering whether to support an incumbent Director's nomination for election or re-election, the Board considers that Director's performance to date, and the skills, experience and diversity that the Director brings to the Board.

All new and existing Directors are subject to assessment of their fitness and propriety to hold that office under the Bank's fit and proper policy established under APS 520 and the equivalent standards GPS 520 and LPS 520 that apply to the Bank's APRA-regulated insurance subsidiaries. This involves an assessment of the Director's qualifications and experience against documented criteria for the competencies required for the office. The assessment includes checks on the Director's propriety such as police checks and bankruptcy checks.

Every Director and Committee of the Board has the right to seek independent professional advice in connection with carrying out their duties at the expense of the Bank. Prior written approval of the Chairman is required.

The Board has assessed that all of the current non-executive Directors are "independent". Mr David Graham, who retired from the Board on 8 October 2010, was assessed not to be independent during the year, as he is Executive Chairman of DDH Graham Limited which has a commercial relationship with the Bank.

The basis of the Board's assessment is its independence policy which takes into account whether Directors have relationships with the Bank, its shareholders or advisers which are likely to materially interfere with the exercise of the Director's unfettered and independent judgment, having regard to all the circumstances. A copy of the policy is available on the 'Corporate Governance' page on the Bank's website.

The Board Charter requires that all Directors bring an independent mind to bear on all matters coming before the Board for consideration.

The Bank does not consider that the length of service on the Board of any of the independent Directors is currently a factor affecting the Director's ability to act independently and in the best interests of the Bank. The Board generally judges independence against the ability, integrity and willingness of the Director to act, and places less emphasis on length of service as a matter which impairs independence.

Principle 3: Ethical and Responsible Decision-Making

Code of Conduct

The Bank's Code of Conduct sets out the principles which all Directors, employees, owner-managers and contractors are expected to uphold in order to promote the interests of the Bank and its shareholders and drive its relationships with employees, customers and the community. Through annual training and enforcement of the Code, the Bank actively promotes ethical and responsible decision-making within the Bank.

Securities Trading Policy

The Bank's Securities Trading Policy provides a framework to assist Directors, employees, owner-managers, agents and contractors of the Bank to understand their legal obligations with respect to insider trading.

Diversity

As part of its annual corporate governance review, the Board has considered the diversity related recommendations in the June 2010 revision of the Principles. The Bank's Board and senior management have established a group-wide diversity policy to reflect both the Bank's ongoing commitment to diversity and the new ASX recommendations. A copy of the policy is available on the 'Corporate Governance' page on the Bank's website.

In order to attract and retain a diverse workforce, the Bank is committed to providing an environment in which all employees are treated fairly and equitably. The Bank recognises that gender diversity is an important component to achieve this goal, and fully supports the ASX recommendations on diversity. The Board will also continue to consider diversity in a broader context.

The Bank's current objectives and targets for diversity include:

- increasing the representation of women on its Board;
- continuing to grow the number of women in senior roles, with a target of 25% of women in senior management roles by 2015;
- encouraging the participation of women in leadership programs;
- encouraging women to participate in the Bank's Intern Program, to support the development of women in professional and management roles;
- ensuring gender is not a factor in remuneration;
- maintaining a workforce that reflects the diversity of the Australian population.

During the financial year, the Bank has made the following progress against these objectives and targets:

- the Bank has increased the diversity on the Board;
- there are now 18% (2010 16%) of women in senior management roles;
- 47% of participants in the Bank's leadership program are women;
- 33% of participants in the Bank's intern program are women.

The Bank's Remuneration Committee annually assess the Bank's progress against diversity targets and objectives, including the representation of women at levels within the organisation.

Gender Balance

The Board and senior management of the Bank have a continued focus on gender diversity, particularly in senior management and leadership roles. Women constitute 57.7% of the Bank's workforce, with 17.9% in senior management roles.

The Bank is committed to facilitating the inclusion of women in all ranks within the organisation, and removing barriers that may restrict career progression. To achieve these aims, the Bank promotes part-time work, flexible work arrangements and paid maternity and paternity leave. In 2009, the Bank implemented a leadership training program which is run over a 12 month period. To date, the program has had a female participation rate of 47%, including current enrolments in the program.

Principle 4: Financial Reporting

The officers who perform a Chief Executive function and a Chief Financial Officer function state in writing to the Board that the Bank's financial reports present a true and fair view, in all material respects, of the Bank's financial condition and operational results in accordance with the relevant accounting standards.

The Audit Committee is comprised in accordance with the recommendations in the Principles and the requirements of APS 510, GPS 510 and LPS 510. The Committee operates under the Audit Committee Charter approved by the Board. The Committee is charged with making recommendations to the Board on the adequacy of external audit and the independence of the external auditor, and internal audit procedures.

The Audit Committee comprises non-executive members of the Board with the majority of members being independent directors. The Audit Committee is chaired by an independent director, who is not the Chairman of the Board. The names and qualifications of those appointed to the Audit Committee, and number of meetings of the Audit Committee during the financial year are set out in the Directors' Report.

Principle 5: Timely and Balanced Disclosure

The Bank's Market Disclosure Policy provides a framework to assist the Bank in achieving its aims of keeping the market informed of material information and enhancing its communication with the market, thereby ensuring its compliance with legal requirements.

The Bank is committed to creating and maintaining an informed market in its securities and enhancing corporate governance by encouraging a culture of transparency in relation to its corporate activities. The Bank will also provide relevant information to media organisations, to ensure the broadest possible communication with investors and the general market.

The Managing Director and the Company Secretary are responsible for communications with the ASX. Continuous disclosure is a permanent item on the agenda for Board meetings. All announcements made by the Bank to the ASX are accessible via the Bank's website.

Principle 6: Respect Rights of Shareholders

The Bank's Investor Relations Policy is designed to promote effective communication with shareholders, provide them with ready access to balanced, understandable information about the Bank and simplify their participation at general meetings. This policy is in addition to and designed to enhance the Bank's Market Disclosure Policy.

All information released to the market and the media is available via the Bank's website. Speeches and presentations for significant conferences and meetings will also be posted on the website, and webcast or teleconferenced where possible. Shareholders can access the last three years' press releases and market announcements, and financial data, on the website. Feedback from shareholders is also welcomed through the Bank's branch network or through the 'contact us' page on the Bank's website.

Principle 7: Recognise and Manage Risk

The Board believes that risk management is a critical part of the Bank's operations and a comprehensive risk management program has been developed. Management of risk is a key function of the Risk Committee under its Charter, a copy of which is available on the 'Corporate Governance' page of the Bank's website.

The Risk Committee is a sub-committee of the Board of Directors and assists the Board to discharge its responsibilities to oversee the risk profile and recommend the risk management framework of the Bank to the Board. The Risk Committee is responsible for performing its duties in accordance with its Charter and making recommendations to the Board on the effective discharge of its responsibilities for the key risk areas below and for the management of the Bank's compliance obligations.

The Bank has separate risk management functions in Market Risk, Liquidity Risk, Balance Sheet Risk, Credit Risk, Operational Risk, and Compliance Risk which are reported to the Risk Committee through the Managing Director and the Chief Risk Officer. Employees are trained on important risk management techniques.

The names and qualifications of those appointed to the Risk Committee, and number of meetings of the Risk Committee during the financial year are set out in the Directors' Report.

The Board has received a report from management as to the effectiveness of the Bank's management of its material business risks, that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remuneration

The Remuneration Committee is charged with assisting the Board to discharge its responsibilities regarding the public reporting of remuneration information, remuneration policies, director fees and entitlements and other matters. A copy of the Remuneration Charter is available on the 'Corporate Governance' page of the Bank's website. The names and qualifications of those appointed to the Remuneration Committee, and number of meetings of the Remuneration Committee during the financial year are set out in the Directors' Report.

The Board has approved a remuneration policy which is in accordance with the new APRA requirements set out in APS 510 (see the Directors' Report). The remuneration of the Board, the Managing Director and senior management is overseen by the Remuneration Committee. Non-executive Directors remuneration is distinguished from the remuneration of the Managing Director and senior managers.

Directors' retirement benefits were frozen in 2003 and the practice discontinued. Directors are entitled on retirement to their accrued benefit as at 31 August 2003 (increased annually in line with CPI increases).

Appendix 4e preliminary final report Rule 4.3A

For the year ended 31 August 2011

1. Company details and reporting period

Name of entity:	Bank of Queensland Limited
ABN:	32 009 656 740
Reporting Period:	31 August 2011
Previous corresponding period:	31 August 2010

2. Results for announcement to the market

				\$m
Revenues from ordinary activities	Up	12%	to	796.4
Profit from ordinary activities after tax attributable to members	Down	14%	to	158.7
Net profit for the period attributable to members	Down	14%	to	158.7
Dividends		Amount per security		Franked amount per security
Final ordinary dividend		28c		28c
Semi-annual dividend on:				
- Perpetual Equity Preference Shares (PEPS)		250c		250c
Previous corresponding period				
Final ordinary dividend		26c		26c
Semi-annual dividend on:				
- Reset preference shares (RePS)		257c		257c
- Perpetual Equity Preference Shares (PEPS)		239c		239c
Record date for determining entitlements to the ordinary dividend				15 November 2011

3. Statements of comprehensive income with notes to the statements

Refer to page 52 of the 2011 Profit Announcement and accompanying notes.

4. Balance Sheets with notes to the statements

Refer to page 53 of the 2011 Profit Announcement and accompanying notes.

5. Statements of cash flows with notes to the statements

Refer to page 54 of the 2011 Profit Announcement and accompanying notes.

6. Dividends

Refer to page 72 of the 2011 Profit Announcement and accompanying notes.

7. Dividend reinvestment plan

The Bank of Queensland Dividend Reinvestment Plan provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares. Shares are issued under the Plan at a discount of 2.5% on the arithmetic average of the daily volume weighted average share prices of the Bank's shares sold on the Australian Securities Exchange during the pricing period. Shares issued are fully paid and rank equally with existing fully paid ordinary shares.

8. Statements of changes in equity

Refer to page 55 of the 2011 Profit Announcement and accompanying notes.

9. Net tangible assets per share

- 31 August 2011 - \$7.95
- 31 August 2010 - \$7.47

10. Entities over which control has been gained or lost during the period

- Series 2007-1 EHP REDS Trust was closed on 11 July 2011.

11. Associates and joint venture entities

Refer to page 122 of the 2011 Profit Announcement and accompanying notes.

12. Other significant information

Not applicable

13. Accounting standards used for foreign entities

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

14. Commentary on the results for the year

Refer to page 34 of the 2011 Profit Announcement.

15. Status of audit

The attached Statutory Financial Report has been audited.

16. Dispute or qualifications if not yet audited

Not applicable

17. Dispute or qualifications if audited

Not applicable



Stacey Hester

Company Secretary

13 October 2011

Directors' report

For the year ended 31 August 2011

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 2011 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	63	Neil Summerson is a Chartered Accountant with more than 40 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 Natural Resources USA Corporation, Australian Made Campaign Limited, Australian Property Growth Limited and Property Funds Australia 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 Nomination Committee and a member of the Budget and Audit Committees.
David Liddy ⁽¹⁾ MBA, FAICD, SF Fin Managing Director & Chief Executive Officer Executive Non- Independent Director (Retired 31 August 2011)	61	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, is Deputy Chairman of the Australian Bankers' Association Council and Chairman of the Queensland Museum Foundation. He is also a member of the Federal Treasurer's Financial Sector Advisory Council and the Queensland Government's Smart State 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, FAICD Non-Executive Independent Director	59	Steve Crane was appointed a Director of the Bank at the Annual General Meeting on 11 December 2008. He has over 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 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 the Advisory Council of RBS Group (Australia) and a Director of Transfield Services, APA Pipeline Limited, Taronga Conservation Society Australia, and Chairman of nib holdings limited and Global Valve Technology Limited. Mr Crane is a member of the Bank's Risk Committee and Corporate Governance Committee and Chair of the Budget Committee.
Roger Davis B.Econ. (Hons), Master of Philosophy Non-Executive Independent Director	59	Roger Davis was appointed a Director of the Bank on 20 August 2008. He has 32 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 Chartis Australia Ltd, Charter Hall 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 and the Nomination Committee.
Carmel Gray B Bus Non-Executive Independent Director	62	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. She is Chair of Bridge Point Communications Pty Ltd's Board of Directors. Ms Gray is a member of the Bank's Risk and Budget Committees and the Chair of the Audit Committee.
Bill Kelty, AC B Econ Non-Executive Independent Director	63	Bill Kelty has over 34 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, Chairman of the Ministerial Regional Commission 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 to 2000 and a member of the Reserve Bank Board from 1988 to 1996. He is Chair of the Bank's Corporate Governance Committee and a member of the Audit Committee.
John Reynolds B Sc (Hons), Dip Ed, FAICD, FAIM Non-Executive Independent Director	68	John Reynolds was appointed a Director of the Bank in April 2003. He has had extensive CEO-level experience at top 100 media and resource companies in Australia and overseas. He was formerly Chairman of Arrow Energy Limited. He is a Director of Mater Health Services Brisbane Limited, Chair of Mater Education Limited and an advisor to various private companies and professional organisations. Mr Reynolds is Chairman of the Bank's Risk Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee. He is Chair of the St Andrew's Remuneration Committee.

(1) David Liddy retired as a director on 31 August 2011.

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
Michelle Tredenick B Sc Non-Executive Independent Director	50	Michelle Tredenick was appointed a Director of the Bank in February 2011. She has more than 25 years' experience in the banking, insurance and wealth management industries across Australia and New Zealand. Michelle has held senior executive roles and been a member of the Executive Committee for National Australia Bank, MLC and Suncorp as well as serving as an Executive Director for NAB and MLC companies. During her career, she has held various roles as chief information officer, head of strategy as well as line responsibility for corporate superannuation, insurance and wealth management businesses. Michelle is a member of the Australia Post E-Services Advisory Committee and she is Chair of Comparehealth Pty Ltd. She is a member of the Bank's Remuneration Committee and the St Andrew's Remuneration Committee.
David Willis B Com, ACA, ICA Non-Executive Independent Director	55	David Willis has over 33 years' experience in financial services in the Asia Pacific, the UK and the US. He is a qualified Accountant in Australia and New Zealand and has had some 17 years' experience working with Australian and foreign banks. David is a Director of New Zealand Post and Kiwi Bank, a Director of CBH (A Grain Cooperative in Western Australia) and Interflour Holdings, a Singapore based flour Milling company. He is also a director of Parcel Direct Group based in Sydney and a director of Convergia Pty Ltd. David chairs a Sydney based Charity "The Horizons Program". He was appointed a Director of the Bank in February 2010 and is Chair of the Remuneration Committee, a member of the Corporate Governance Committee and a member of the St Andrew's Remuneration Committee.

David Graham resigned as a director on 8 October 2010.

Company Secretary

Ms Stacey Hester LLB (Hons), LLM, was 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		Audit Committee		Corporate Governance Committee		Remuneration Committee		Nomination Committee		Budget Committee		Investment Committee ⁽¹⁾	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Neil Summerson	16	16	6 ⁽²⁾	-	8	8	1 ⁽²⁾	-	7	7	4	4	1	1	-	-
David Liddy ⁽³⁾	16	16	6	6	7	8	1	1	5	11	1	4	1	1	1	1
Steve Crane	12	16	6	6	-	-	1	1	-	-	-	-	1	1	1	1
Roger Davis	13	16	3	6	-	-	-	-	-	-	4	4	-	-	-	-
Carmel Gray	16	16	6	6	8	8	-	-	-	-	-	-	1	1	1	1
Bill Kelly	15	16	-	-	7	7	1	1	-	-	-	-	-	-	-	-
John Reynolds	16	16	6	6	8	8	-	-	11	11	4	4	-	-	-	-
Michelle Tredenick ⁽⁴⁾	10	10	-	-	-	-	-	-	4	4	-	-	-	-	1	1
David Willis	16	16	-	-	-	-	1	1	11	11	-	-	-	-	-	-
David Graham ⁽⁵⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total number of meetings held	16		6		8		1		11		4		1		1	

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

The Information Technology Committee was established in 2011 and committee work was commenced, however no formal Committee meetings were held during the financial year.

- (1) The composition of the Investment Committee is not fixed. Composition and meetings held are set by the Board on an as required basis.
- (2) Neil Summerson attends these Committee meetings but is not a formal Committee member.
- (3) David Liddy attends Committee meetings but is not a formal Committee member. David Liddy retired on 31 August 2011.
- (4) Michelle Tredenick appointed 22 February 2011.
- (5) David Graham resigned on 8 October 2010.

Directors' report

For the year ended 31 August 2011

Principal activities

The principal activity of the Consolidated Entity is the provision of financial services and insurance 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 2011 decreased by 13% to \$158.7 million compared with the 2010 result of \$181.9 million. A key driver in the reduction in profit after tax is the increase in impairment charges from \$104.2m in the prior financial year to \$200.5m in the current period. Profit before tax and impairment rose from \$362.3m in the prior financial year to \$422.3m in the current period, an increase of 17%.

Cash profit, profit after tax excluding non-recurring and non-cash items, decreased by 10% from \$197.0m to \$176.6m. Again, this reduction was primarily driven by the increase in impairment expense.

Income

Total income increased by 12% during the current year to \$796.4 million compared to prior financial year income of \$710.6 million. This increase includes the full year contribution of the vendor finance and insurance businesses acquired last financial year. These businesses were acquired on 30 June 2010 and 1 July 2010 respectively.

Net interest income for the year ended 31 August 2011 increased by 11% to \$623.4 million from the prior period result of \$560.7 million. This was a result of the full year contribution of the vendor finance business acquired, organic balance sheet growth and an improvement in margins.

Other operating income excluding Insurance income decreased by 7% to \$132.1 million for the 2011 year from \$142.5 million in the prior year. In the prior year, other operating income included \$7.6m profit on acquisition of St Andrew's insurance business and \$2.7m profit on acquisition of BOQ Finance leasing business. Excluding these non-recurring items, other operating income remained steady. Customer fees and charges were impacted negatively by reductions in exception fees charged by the Bank since July 2010.

Insurance income contributed \$40.9m to total income during the year and in the prior year contributed \$7.4m for 2 months since acquisition in July 2010.

Expenses

The Group's costs increased by 7% to \$374.1 million in the current financial year from the previous year's expenses of \$348.3 million. The current year expense includes the full year contribution of the vendor finance and insurance businesses acquired last financial year.

Excluding non-cash and non-recurring items, the Group's expenses increased 12% to \$358.7 million in the current financial year from the previous year's expenses of \$320.8 million. Again the major contributor of the increase was the full year contribution of the vendor finance and insurance businesses acquired last financial year. Excluding the impact of these acquisitions, expenses remained at levels consistent with the prior year reflecting strong cost management.

Efficiency

The Group's cost to income ratio has improved from the 2010 result of 49.0% to 47.0% in the current year.

Excluding non-cash and non-recurring items, the Group's cash cost to income ratio has improved from 45.8% in the 2010 year to 44.5% in the current year. This reflects the Group's continued focus on cost management.

Asset quality and provisioning

Impairment on loans and advances

Expenses relating to impairment on loans and advances were \$200.5 million for the year ended 31 August 2011. This expense consisted of \$173.5 million of specific provision impairment expense and \$27.0 million of expense relating to the collective provision.

The impairment expense of \$200.5 million for the 2011 financial year has increased by \$96.3 million or 92% on the prior period expense of \$104.2 million. This increase is a result of the poor economic conditions that have been experienced and their impact in particular on commercial property valuations and an increase in collective provision coverage.

Impaired assets

Impaired assets increased in gross terms to \$444.3 million at 31 August 2011 from \$147.6 million for the prior year. Impaired assets as a percentage of non-securitised loans have increased to 1.71% from 0.61% in the prior year. Specific provisions of \$173.7m have been raised in respect of impaired assets (39%).

Lending approvals and asset growth

Lending approvals for the year were \$11.8 billion, a decrease of \$0.7 billion over the comparative 2010 approval result of \$12.5 billion. This decrease of 6% is due to lower system growth as the Australian economy continues to slow.

The lending approval growth translated into loans under management balance of \$33.4 billion, an increase of \$1.4 billion from 31 August 2010 which represents growth of 4%.

The loans under management balance of \$33.4 billion are on balance sheet. The previous year included \$0.3m off balance sheet lending which related to a REDS EHP leasing trust which was not consolidated for accounting purposes as the residual risk had been sold by the Bank. This off balance sheet trust was reacquired during the current financial year.

Retail deposit growth

Retail deposits have grown strongly during the 2011 financial year and have reached \$20.3 billion, an increase of \$2.2 billion or 12% from \$18.1 billion as at 31 August 2010.

The Bank has continued to focus on retail deposit growth in a highly competitive market to reduce reliance on wholesale funding.

Capital management

The Board has set Tier 1 capital target range to be between 8% and 9% of risk weighted assets and the total capital range to be between 11% and 12% of risk weighted assets. The total capital adequacy ratio at 31 August 2011 was 11.4% and Tier 1 capital was 8.4%. Perpetual Equity Preference Shares ("PEPS"), issued as hybrid capital instruments, comprise 11% of total Tier 1 capital.

Total Tier 1 capital of 8.4% is represented by 7.4% of Core Tier 1 capital and 1.0% of hybrid capital instruments, including preference shares.

The Bank continued with an active capital management program. The Bank has made no further issues of ordinary capital other than under the dividend reinvestment plan or the Bank's Senior Management Award Rights Plan. The Bank issued \$280 million of subordinated notes, replacing \$231 million of maturities, increasing the Bank's Tier 2 and total capital.

Branch network expansion

The Bank opened 4 branches during the financial year to bring total branches to 259 as at 31 August 2011.

Of these 259 branches, 106 are located outside Queensland. The Bank has converted 2 corporate branches to owner managed branches during the financial year.

Shareholder returns

Diluted earnings per share decreased 18% from 77.0c in the 2010 year to 63.1c in the current year.

Excluding the impact of non-cash and non-recurring items the Bank's diluted earnings per share would be 69.8c. The 2010 result also adjusted for non-cash and non-recurring items was 83.4c.

On this basis, the current year's diluted earnings per share decreased by 16%.

The Bank has declared a final dividend of 28 cents per share fully franked. This is an increase from the 2010 final dividend of 26 cents. Total dividends for the year are 54 cents, an increase of 2 cents per share on the prior financial year. This represents a payout ratio of 69% an increase from 57% in the prior year on a cash normalised basis.

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 2010				
Declared after the end of the year				
- Final – preference shares (RePS)	257	1.2	100%	15/10/2010
- Final – preference shares (PEPS)	239	4.8	100%	15/10/2010
- Final – ordinary	26	57.1	100%	02/12/2010
Interim 2011				
Declared and paid during the year				
- Interim – preference shares (PEPS)	246	4.9	100%	15/04/2011
- Interim – ordinary	26	57.7	100%	25/05/2011
Final 2011				
Declared after the end of the year				
- Final – preference shares (PEPS)	250	5.0	100%	17/10/2011
- Final – ordinary	28	63.1	100%	01/12/2011

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 2011, is \$127.3 million credit calculated at the 30% tax rate (2010: \$70.6 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.

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

Financial year 2010 balances impacted by the prior year acquisitions of the CIT Group and the St Andrew's Group have been restated for the finalisation of the acquisition entries. Refer to note 2 (f) for a summary of the restatements required.

Refer to Note 33 of the financial report for further information.

Disposals

Series 2007-1 EHP REDS Trust was closed on 11 July 2011.

Refer to Note 33 of the financial report for further information.

Events subsequent to balance date

Dividends have been declared after 31 August 2011, refer to Note 7.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 31 August 2011.

Directors' report

For the year ended 31 August 2011

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 2011 Annual General Meeting of the Bank.

The report sets out:

- Key Management Personnel;
- Remuneration Policy;
- Take-Home Pay Summary;
- Non-Executive Directors Remuneration Framework;
- Executive Remuneration Framework and Structure;
- Managing Director Remuneration Framework;
- Incoming Managing Directors Remuneration Framework;
- Remuneration Actions in 2011 Financial Year;
- 2011 Remuneration Outcomes;
- Use of External Advisors and Remuneration Consultants;
- Remuneration disclosures for key management personnel; and
- Options and rights terms.

Key Management Personnel

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 for the financial year ended 31 August 2011 including the directors and executives of the Bank and Consolidated Entity are as follows:

(i) Directors:

Neil Summerson	Chairman (Non-executive)
David Liddy	Managing Director and Chief Executive Officer (retired 31 August 2011)
Steve Crane	Director (Non-executive)
Roger Davis	Director (Non-executive)
Carmel Gray	Director (Non-executive)
Bill Kelty	Director (Non-executive)
John Reynolds	Director (Non-executive)
Michelle Tredenick	Director (Non-executive) (appointed 22 February 2011)
David Willis	Director (Non-executive)

David Graham resigned as a Director on 8 October 2010.

Stuart Grimshaw has been appointed Managing Director (MD) and Chief Executive Officer and will take office on 1 November 2011.

(ii) Executives:

Ram Kangatharan	Chief Operating Officer (Acting Chief Executive Officer for the period 1 September 2011 to 31 October 2011)
Ewan Cameron	Chief Financial Officer
Darryl Newton	Chief Risk Officer
David Tonuri	Group Executive Strategy and Customers (appointed 24 January 2011)
Chris Nilon	Group Executive IT and Operations (appointed 31 January 2011)
Keith Rodwell	Group Executive, National Finance
Renato Mazza	Group Executive, Insurance
Bradley Edwards	Group General Counsel
Jim Stabback resigned as Group Executive IT and Operations on 25 February 2011.	

Remuneration Policy

Our remuneration arrangements throughout the Bank are designed to be competitive in each of the markets in which we compete for talent and vary accordingly from business to business, function to function and among individuals. However, fundamental to all arrangements is that they contribute to the achievement of the Bank's short-term and long-term strategic and operational objectives, enhance shareholder value, avoid unnecessary or excessive risk-taking and discourage behaviours that are contrary to the Bank's stated values.

The Bank regularly monitors and reshapes its remuneration programs to support these underlying objectives, respond to proposed and enacted legislation and regulatory initiatives and adjust to changes in the business cycle.

The Remuneration Committee 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 regularly, usually bi-monthly and obtains advice from external independent remuneration specialists to assist in its deliberations. The Board's objective is to ensure remuneration packages properly reflect employees' duties and responsibilities and levels of performance as well as ensuring that remuneration attracts and motivates people of the highest calibre.

Through its security trading policy the Bank has guidelines restricting Directors & Executives dealing in Bank securities. This policy includes margin lending and hedging of risk associated with directors' and executives' ownership of Bank securities. All employees are prohibited from entering into hedging arrangements in relation to their unvested employee shares, securities or options.

Take-Home Pay Summary

MD & Executive Key Management Personnel

The MD & Executive Key Management Personnel receive a mix of remuneration, with a portion paid during the year, and a portion received up to three years later, depending on service and performance. This can make it difficult for shareholders to get a clear picture of the actual amount of remuneration an executive received in the financial year in review.

To assist shareholders, the following table provides a summary of the remuneration of the MD & Executive Key Management Personnel actually received in relation to the 2011 financial year. The table sets out base remuneration, employer superannuation, 2011 short term incentive and the value of previous years' long term incentive awards that vested during the 2011 financial year.

The information provided below is different to the information provided in the statutory remuneration table on pages 42 to 45, which has been prepared in accordance with the Corporations Act and accounting standards and shows the accounting expense incurred for the 2011 financial year of each component of remuneration.

Remuneration in relation to the 2011 financial year

	Base Remuneration & Superannuation	STI cash bonus	Other	Total cash payments	2011 Award rights vested	Total
David Liddy	1,785,109	425,000	566,667 ⁽¹⁾	2,776,776	920,879 ⁽²⁾	3,697,655
Ram Kangatharan	747,127	375,000	-	1,122,127	173,974	1,296,101
Ewan Cameron	498,084	185,000	-	683,084	-	683,084
Darryl Newton	423,372	120,000	-	543,372	-	543,372
David Tonuri	206,513	100,000	-	306,513	-	306,513
Chris Nilon	303,525	120,000	-	423,525	47,116	470,641
Keith Rodwell	525,625	225,000	193,500 ⁽³⁾	944,125	-	944,125
Renato Mazza	366,080	200,000	-	566,080	-	566,080
Bradley Edwards	256,441	100,000	-	356,441	56,402	412,843

(1) This amount represents base salary from retirement on 31 August 2011 to the expiry date of David Liddy's contract of 31 December 2011. It was paid to ensure the acting CEO and the incoming CEO had access to the retired MD Mr Liddy to support a smooth transition.

(2) 50% of 175,072 Performance Award Rights granted to the Managing Director and approved at the Bank's Annual General Meeting on 11 December 2008 vested during the financial year. The remaining 50% lapsed.

(3) Retention bonuses determined in accordance with the acquisition agreement.

Non-Executive Directors Remuneration Framework

Directors' fees and payments are reviewed annually by the Remuneration Committee. 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 are also based upon information provided by independent remuneration specialists about market rates. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Directors' Annual Fees

	Chairman \$	Members / Directors \$
Fixed component of remuneration for directors ⁽¹⁾	-	135,000
Chairman ^{(1) (2)}	355,000	-
Additional remuneration is paid to non-executive directors for committee work:		
Audit Committee ⁽³⁾	35,000	17,500
Risk Committee ⁽³⁾	35,000	17,500
Corporate Governance Committee	15,000	10,000
Remuneration Committee - to 30 June 2011 ⁽¹⁾	15,000	10,000
Remuneration Committee - from 1 July 2011 ^{(1) (4)}	25,000	12,500
Nomination Committee	-	6,000
Budget Committee	2,250	1,500 ⁽⁵⁾
Investment Committee	2,250	1,500 ⁽⁵⁾
Due Diligence Committee	2,250	1,500 ⁽⁵⁾
Information Technology Committee ⁽⁶⁾	20,000	10,000

(1) Committee members receive one fee for serving on both the Bank and the subsidiary committees.

(2) The Chairman receives no additional remuneration for involvement with committees.

(3) From 1 July 2010, the Chairs of the Audit and Risk committees have been paid an additional \$10,000 per annum to act as Chairs of the subsidiary committee.

(4) From 1 July 2011, the subsidiary remuneration committee Chairman will receive \$5,000 per annum in addition to his member fees. Prior to 1 July, the subsidiary remuneration committee Chairman received only member fees for serving on both committees.

(5) Per deliberative meeting.

(6) The Information Technology Committee was established in 2011 and committee work was commenced, however no formal Committee meetings were held during the financial year.

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 \$2,200,000 (inclusive of superannuation) and was approved by shareholders on 9 December 2010.

The increase in the aggregate fee pool limit approved by shareholders in 2010 followed an independent review after four years without increase. The review had regard for increased Director responsibilities and in relation to the St Andrew's (APRA regulated) and CIT subsidiaries acquired in FY10, increased time commitment and complexity of committee work, the need to attract appropriate directors with different skills, experience and abilities reflecting the size, complexity and geographic spread of the Bank's operations and fees paid by comparable companies.

Directors' report

For the year ended 31 August 2011

Remuneration Report - Audited (continued)

Non-Executive Directors Remuneration Framework (continued)

Directors' fees are generally reviewed every three years and are only increased by CPI annually during the interim period. The current approved aggregate fee pool allows flexibility to deal with future changes in membership and composition of the Board and for CPI based increases for 2012 and 2013.

Non-executive directors do not participate in the Bank's executive remuneration or incentive plans.

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 is increased annually by an amount equivalent to the increase in the Consumer Price Index.

Executive Remuneration Framework and Structure

The Bank's executive reward structure is designed to:

- Incentivise executives to pursue the short and 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 executives for key roles.

Executive staff compensation is based on a total remuneration based approach comprising an appropriate mix of fixed pay (salary and benefits) and variable pay in the form of cash and equity-based incentives. This equity portion is delivered over time and subject to continued tenure of the participant, the performance of the Bank and compliance gateways.

Total remuneration has three components:

Fixed Component

Executives are offered a competitive fixed component of pay and rewards that reflects the core performance requirements and expectations of their roles. This amount is market tested annually by remuneration specialists to ensure that it has regard to organisations within the financial services sector and those organisations serving similar customers.

Short Term Incentives

Payments in cash are provided to executives and 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 participants 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 participant is usually stated as a percentage of the executive's total fixed remuneration. For the retired Managing Director ("MD") (David Liddy, retired 31 August 2011) the target STI payment was 120% of total fixed remuneration. For the Executive the maximum STI payment was 100% of total fixed remuneration. Business objectives and Short-term Incentive Plan design features are reviewed annually by the Remuneration Committee prior to the commencement of the plan year.

For the Executives, the performance criteria include the Bank's performance against normalised profit after tax, and the Bank's normalised cash cost to income ratio as well as individual performance criteria. These include achievement of financial and non-financial targets for a person, team or division, individual performance criteria and risk management and compliance benchmarks. Individual performance criteria consider multiple

factors including individual behaviours, the business results and/or strategic accomplishments of the business or function they run and people management. The Board selected these measures to reflect both short term and long term shareholder benefit.

Long Term Incentives - Award Rights

The Award Rights Plan was approved by shareholders on 11 December 2008. They are a right to acquire shares at zero cost subject to achievement of performance and service conditions. These Award Rights are granted as long-term incentives. There are two types of award rights currently granted to executives under the plan. Performance Award Rights ("PARs") and Deferred Award Rights ("DARs"). No amount is payable by employees for the grant or exercise of these award rights. Eligibility, quantum and mix of DARs and PARs varies based upon a participant's accountabilities, contribution, potential and seniority.

There are no voting rights attached to PARs and DARs awards. Upon exercise of Award Rights, participants receive BoQ ordinary shares to which voting rights are attached.

PARs

Grants of PARs are made to Group Executives and other identified key senior managers due to the pivotal role they play in achieving the longer-term business goals of the Consolidated Entity. The Board believes that part of the rewards for their services to the Bank should be performance-based, 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.

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

Generally, PAR awards vest based on the Bank's Total Shareholder Return (TSR) performance measured against a Peer Group over a 3 year period. The PARs for the MD vest over a 2 year period, as set out in the "Managing Director Remuneration Framework" section of this report. The Peer Group consists of the S&P / ASX 200 companies excluding selected entities in the resources, real estate investment trust, offshore headquartered telecommunications, energy and utilities sectors, and incorporating such other inclusions and exclusions as the Board considers appropriate. No changes have been made to this group since implementation of the scheme in 2008 other than to reflect companies moving in or out of the ASX 200 or being delisted. TSR is a measure of the entire return a shareholder would derive 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. The Board has selected performance against TSR because it reflects the returns made to shareholders relative to other comparable securities and provides a meaningful incentive for executives to outperform peers.

One half of an employee's PARs vest if the Bank's TSR performance over the three year holding 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 pro-rata 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). None of the PARs vest if the Bank's TSR performance is in the bottom 50%.

DARs

DARs are awarded to a broader group of BOQ employees and are designed to promote employee retention and productivity. The number of DARs awarded to an individual employee depends 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 linked with continued employment and adherence to risk management principles with the intent on focussing employees on company performance. The granting of equity assists to align the interests of the Executive with those of the shareholder.

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) or proportionately over 3 years in the ratio of 50% (end Year 1), 30% (end Year 2) and 20% (end Year 3), depending on the year of grant. Any variation made to vesting is only with the approval of the Board. There are no market performance hurdles or vesting conditions for DARs but the holder must remain an employee of the Bank and the Board must approve the vesting of DARs.

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

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 later in this report.

Other PARs and DARs terms

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

If an employee ceases employment 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 for reasons including a transfer of employment to an Owner Managed Branch, retirement, redundancy, death, total and permanent disablement. Otherwise, unvested PARs and DARs will lapse on cessation of employment.

Long Term Incentive – Options

The Senior Manager Option Plan (SMOP) has been replaced by the Award Rights Plan (as above), 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 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 conveys the right to acquire one ordinary fully paid share on exercise, after payment to the Bank of an exercise 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 for 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.

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 are awarded and/or the exercise price to take into account changes to the capital structure of the Bank.

This occurs 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.

There are no voting rights attached to options. Upon exercise of an option and payment of the exercise price, SMOP participants receive BoQ ordinary shares to which voting rights are attached. Award rights or options may lapse in the event of cessation of employment depending on the circumstances of such cessation.

Long Term Incentive – Restricted Shares

The Bank has in the past used shares with restrictions on disposal as a non-cash, share based component of both short term and long term incentive awards. Such awards are designed to deliver immediate benefits through dividends but also provide an incentive to act in the interest of longer term shareholder value over the non-disposal period.

Such shares are typically held by a trustee and are subject to disposal restrictions. In the case of the retired MD, David Liddy, certain conditions related to his retirement ended the restriction period (see the Managing Director Remuneration Framework section of this report). The terms that may apply on cessation of employment vary depending on the nature of the incentive the restricted shares are designed to deliver. For example, if employment retention is an aim, shares may be forfeited on early cessation of employment.

Executive Contracts

Members of the Executive team are employed on permanent employment contracts. Executive contracts specify payment of termination benefits on early termination by the Bank, other than for gross misconduct, up to a maximum of twelve months fixed remuneration (including Superannuation).

Managing Director Remuneration Framework

The Managing Director, Mr David Liddy who retired on the 31 August 2011, 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 (MD) until 31 August 2009 under a new employment agreement. On 20 August 2008, the Bank extended the term of David Liddy's appointment as MD until 31 December 2011 under new employment arrangements.

The remuneration structure in place for the MD is consistent with the Bank's remuneration policy and includes:

- base salary and benefits including superannuation (fixed remuneration);
- short-term performance incentives that are subject to achievement against targets established annually 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. This short term incentive is in the form of a mix of cash and restricted shares, with an award in excess of two thirds of the maximum are made in restricted shares; and
- The grant of long-term incentives in the form of performance options and / or award rights.

Remuneration for the MD is designed to:

- Incentivise the MD 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 his 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.

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 for the MD. 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 achievement of performance hurdles which are detailed later in this report.

Restricted shares are generally acquired by the Bank on market and may not be disposed of until the earlier of retirement (in accordance with his contract) and 31 December 2011. Restrictions on these shares held by David Liddy (the retired MD) terminated on his retirement on 31 August 2011.

Directors' report

For the year ended 31 August 2011

Remuneration Report - Audited (continued)

Managing Director Remuneration Framework (continued)

During the financial year, Mr Liddy's (the retired MD) existing contract may have been 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 Board made the decision to pay out the unearned base salary for the balance of Mr Liddy's (the retired MD) contract. It was decided this was appropriate to ensure the acting CEO and the incoming CEO had access to Mr Liddy (the retired MD) to support a smooth transition.

Managing Director's options and rights

The retired MD Mr Liddy, was 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 granted to retired MD 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 retired 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 retired 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 2011 was \$7.48 (2010: \$9.83).

Incoming Managing Directors Remuneration (previously released on 23 August 2011)

On the 23 of August 2011 the Board announced the appointment of Stuart Grimshaw as the incoming Managing Director and Chief Executive Officer.

Mr Grimshaw will join the Bank on 1 November 2011, succeeding David Liddy, who has been the Bank's MD & CEO since April 2001.

The key terms and conditions of the Employment Agreement are summarised below. They have been formulated in line with the ASX Corporate Governance Guidelines and with regard to external advice on Australian and international benchmarks.

The remuneration package is made up of three key components: Fixed Remuneration, Short Term Incentive and Long Term Incentive.

The package has been designed to promote alignment of reward with shareholders' interests and provide an appropriate focus on both the short term and long term performance of the Bank.

The position

The appointment to the position of Managing Director and Chief Executive

Officer will be ongoing with reviews of performance and remuneration annually.

Fixed Remuneration

The position will have a base annual remuneration of \$1.25 million, including the minimum statutory contribution to superannuation (Total Remuneration – TR). This remuneration will be reviewed by the Board annually.

Short Term Incentive (STI)

The STI will provide a reward for annual performance. This scheme has a range of 0 - 160% of TR and will be based on the executive's achievement of performance objectives set annually by the Board.

To ensure appropriate focus on shareholders' interests and appropriate risk management, consideration of an STI award will be subject to performance gateways. These thresholds are currently a NPAT target and risk objectives set by the Board.

The Bank is committed to ensuring that short term rewards do not encourage short term focus at the expense of an appropriate longer term organisational performance. To reflect this, 50% of an STI award will be paid as Deferred Award Rights (DARs). These award rights will vest over two years (50% each year) and will provide incentive to ensure short term performance leads to sustainable performance for the Bank.

The deferral will also provide meaningful financial encouragement for the executive to continue in his role. If the executive resigns before the vesting dates, the DARs will lapse.

Long Term Incentive

To further reinforce the importance of an appropriate focus on the long term performance of the Bank, a long term incentive will be provided.

This involves the granting of Performance Award Rights (PARs) which vest after three years. These award rights are subject to a vesting condition based on a comparison of the Bank's TSR over three years against a Peer Group. If the Bank's TSR is better than 50% of the Peer Group then half of the allocated PARs will vest. This vesting percentage will increase on a straight line basis until the performance of the Bank's TSR is above the 75th percentile. At this point 100% of the PARs will vest.

To ensure that this long term focus remains beyond the employment of the incoming MD, if the incoming MD leaves for a reason other than summary dismissal, the vesting of PARs will not be accelerated and they will vest in accordance with their terms if the vesting condition is satisfied over the three year period.

The incoming MD will receive an initial allocation of PARs based on an allocation of \$1 million and the volume weighted average price of shares after announcement of the FY11 financial results.

Termination

Termination may be instigated by either party on 6 months notice.

On a fundamental change, the executive can terminate and receive payment of 12 months TR plus partial STI if awarded by the Board.

There is no accelerated vesting of DARs and PARs. For termination by BOQ or for a fundamental change, the DARs and PARs continue after termination and vesting is subject to their terms.

Fundamental Change is: removal of the executive as a director by shareholders, the executive being required to report to someone other than the Board, the executive not being the most senior executive in BOQ or in a new holding entity or the executive's positions are redundant.

Remuneration Actions in 2011 Financial Year

In the 2011 financial year we have further developed a number of key remuneration matters for the 2012 year.

The Bank's accomplishments include the following:

- The Bank has examined the design and administration of the incentive plans for their effectiveness and compliance with applicable regulations and guidance on effective corporate governance to ensure that the Bank's principles and practices are consistent with recommended approaches, the Bank's risk appetite and standards of good governance.

- Incentive plans in place at recently acquired businesses incorporate the Bank's key principles in the areas of governance and risk management, performance alignment, accountability and effectiveness.
- The Bank has introduced forfeiture clauses for all incentive plans, which result in forfeiture of incentive awards in the event that failures occur in credit and risk management, compliance or controls.
- The Bank has introduced threshold levels of performance below which no incentives will be paid without specific Board approval.
- The Bank has enhanced the alignment of the performance management process with the accomplishment of business plans and objectives and ensured performance criteria are appropriately selected and weighted to the individual's accountability and sphere of influence and are calibrated to encourage the achievement of stretch performance targets. Financial and individual performance thresholds are in place for payments with over riding Board discretion.
- The Bank has ensured that the remuneration of risk and control roles is appropriately weighted between fixed and variable pay and that the performance criteria in their incentive plans are weighted to individual accomplishments and qualitative measurements rather than the performance of the businesses they oversee.
- The Bank has designed a two / three year deferral policy for Key Management Personnel, Responsible Persons and Senior Management for the 2012 financial year. By 2013, this will see 50% of an individual's STI payment deferred to DARs which will have the same conditions as existing DARs. For Responsible Persons, a minimum threshold amount will be established for this deferral.
- The Board has reviewed the incentive structures in place across the Bank in order to ensure that they are consistent with the Bank's risk management and control processes and aligned closely with performance at both Bank and individual level.

2011 Remuneration Outcomes

The purpose of this section is to provide detailed information on the remuneration outcomes for the 2011 year.

Short Term incentive

The short-term incentive referred to in the remuneration table represents the short-term incentive component of "at risk" remuneration in the year for the benefit of the executives. These bonuses were determined on the basis of the Bank's performance, the individuals business units performance and the individual executive's performance over the financial year ended 31 August 2011 and are therefore deemed to be attributable to that financial year, although payment will not occur until November 2011. The STI awards for the MD and Banking Executive Team were paid at between 20% and 37% of STI opportunity. STI Award for the COO was 50%. The Group Executives of the Insurance and Vendor Finance businesses recently acquired received STI payments of 55% and 43% of STI potential respectively. These payments were the subject of the performance hurdles set when these executives commenced employment with the Bank following the acquisitions of St Andrews Insurance and CIT respectively and related to matters relevant to the acquisition as well as business performance.

Long Term Incentive

The MD's two year PARs were tested in the 2010 year and 50% vested based on the relative TSR performance of the Bank. The executives 2008 PARs will be tested post the 2011 Annual profit announcement as per the plan rules.

Performance Considerations

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

	2011	2010	2009	2008	2007
Normalised cash net profit after tax	\$176.6m	\$197.0m	\$187.4m	\$155.4m	\$106.1m
Normalised cash diluted earnings per share	69.8c	83.4c	98.4c	99.9c	93.0c
Normalised cash cost to income ratio	44.5%	45.8%	49.9%	56.1%	62.6%
Share price	\$7.48	\$9.83	\$11.65	\$15.86	\$18.56
Dividends paid	\$125.7m	\$120.8m	\$120.2m	\$103.9m	\$74.5m

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 may exclude one-off, non-recurring amounts and amortisation of acquired intangibles.

Currently, the average performance-linked component of remuneration comprises approximately 30% (2010: 44%) of total payments made to the Managing Director and executives.

Use of External Advisors and Remuneration Consultants

Where necessary, the Board seeks advice from independent experts and advisors including remuneration consultants. Remuneration consultants are used to ensure that remuneration packages are appropriately structured and are consistent with comparable roles in the market. Other external advisors assist with administration of the Company's performance remuneration plans and

ensuring that the appropriate legal parameters are understood and employment contracts are appropriately executed.

Remuneration consultants are engaged by and report directly to the Remuneration Committee. When remuneration consultants are engaged, the Committee ensures that the appropriate level of independence exists from the Company's management that is required depending upon the particular assignment.

The Board is satisfied that remuneration recommendations made during the year are free from undue influence by members of key management personnel to who the recommendations relate. Where the consultant's engagement requires a recommendation, the recommendation is provided to, and discussed directly with the Chairman of the Remuneration Committee to ensure management cannot unduly influence the outcome.

The following table sets out the details of the consultants fees during the 2011 financial year:

Remuneration consultant	Services provided	Fees
Egan Associates	Remuneration benchmarking to assist with the determination of fixed pay for KMPs, advice in relation to both cash and equity based incentive plans and the provision of a review function in relation to the terms and conditions agreed between the company and the incoming MD.	\$31,663 (exclusive of GST)
Deloitte	Regulatory risk related review of remuneration policy and arrangements, market benchmarking data covering the CEO role, market practice information regarding executive post-retirement arrangements and remuneration committee calendar.	\$41,423 (exclusive of GST)
	Total	\$73,086 (exclusive of GST)

Directors' report

For the year ended 31 August 2011

Remuneration Report – Audited (continued)

Remuneration disclosures for key management personnel

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 2011.

		Short-term				
2011 Financial Year		Salary and fees \$	STI Cash Bonus ⁽¹⁾ \$	Non-Monetary benefits ⁽²⁾ \$	Other ⁽³⁾ \$	Total \$
Non-Executive Directors						
Neil Summerson	2011	355,000	-	-	-	355,000
	2010	267,500	-	-	-	267,500
Steve Crane	2011	164,000	-	-	-	164,000
	2010	130,583	-	-	-	130,583
Roger Davis	2011	160,167	-	-	-	160,167
	2010	133,333	-	-	-	133,333
Carmel Gray	2011	199,000	-	-	-	199,000
	2010	161,500	-	-	-	161,500
Bill Kelty	2011	150,000	-	-	-	150,000
	2010	130,292	-	-	-	130,292
John Reynolds	2011	214,333	-	-	-	214,333
	2010	173,833	-	-	-	173,833
Michelle Tredenick (appointed 22 February 2011)	2011	76,813	-	-	-	76,813
David Willis	2011	161,916	-	-	-	161,916
	2010	62,083	-	-	-	62,083
Former Director						
David Graham (resigned 8 October 2010)	2011	16,339	-	-	-	16,339
	2010	129,333	-	-	-	129,333
Former Executive Directors						
David Liddy Managing Director (retired 31 August 2011)	2011	1,547,414	425,000	8,279	237,695	2,218,388
	2010	1,194,366	1,000,000	8,279	-	2,202,645

(1) STI cash reflects amount paid or accrued in respect of the year ended 31 August 2011. 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 accrued annual leave paid out on retirement.

(4) 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.

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

(6) 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.

(7) This amount represents base salary from retirement on 31 August 2011 to the expiry date of David Liddy's contract of 31 December 2011. It was paid to ensure the acting CEO and the incoming CEO had access to the retired Mr Liddy to support a smooth transition.

Post-employment ⁽⁴⁾	Other long-term ⁽⁵⁾	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 ⁽⁶⁾ \$	Shares and units \$	\$	%	%
15,199	-	-	-	-	370,199	-	-
14,584	-	-	-	-	282,084	-	-
14,760	-	-	-	-	178,760	-	-
11,753	-	-	-	-	142,336	-	-
14,415	-	-	-	-	174,582	-	-
12,000	-	-	-	-	145,333	-	-
15,199	-	-	-	-	214,199	-	-
14,106	-	-	-	-	175,606	-	-
13,500	-	-	-	-	163,500	-	-
11,726	-	-	-	-	142,018	-	-
15,199	-	-	-	-	229,532	-	-
14,584	-	-	-	-	188,417	-	-
6,913					83,726		
14,550	-	-	-	-	176,466	-	-
5,588	-	-	-	-	67,671	-	-
1,471	-	-	-	-	17,810	-	-
11,640	-	-	-	-	140,973	-	-
14,987	-	566,667⁽⁷⁾	168,069	-	2,968,111	20%	6%
50,141	70,849	-	746,791	350,000	3,420,426	61%	22%

Directors' report

For the year ended 31 August 2011

Remuneration Report – Audited (continued)

Remuneration disclosures for key management personnel (continued)

		Short-term			
		Salary and fees \$	STI Cash Bonus ⁽¹⁾ \$	Other ⁽²⁾ \$	Total \$
Executives					
Ram Kangatharan ⁽⁶⁾	2011	731,898	375,000	-	1,106,898
	2010	609,149	750,000	-	1,359,149
Ewan Cameron (commenced 5 July 2010)	2011	482,855	185,000	-	667,855
	2010	72,442	-	-	72,442
Darryl Newton	2011	408,143	120,000	-	528,143
	2010	61,235	-	-	61,235
David Tonuri (appointed 24 January 2011)	2011	197,457	100,000	-	297,457
Chris Nilon (commenced 31 January 2011)	2011	288,296	120,000	-	408,296
Keith Rodwell (commenced 30 June 2010)	2011	503,835	225,000	193,500	922,335
	2010	71,667	150,000	-	221,667
Renato Mazza (commenced 1 July 2010)	2011	350,785	200,000	-	550,785
	2010	58,300	50,000	-	108,300
Bradley Edwards	2011	256,441	100,000	-	356,441
	2010	255,464	250,000	-	505,464
Thomas Nguyen	2011	321,195	120,000	225,000	666,195
Former Executives					
Daniel Musson (resigned on 19 March 2010)	2011	-	-	-	-
	2010	210,820	-	-	210,820
Bruce Auty (resigned on 18 December 2009)	2011	-	-	-	-
	2010	102,630	-	-	102,630
David Marshall (resigned on 13 August 2010)	2011	-	-	-	-
	2010	393,810	-	-	393,810
Jim Stabback (resigned on 25 February 2011)	2011	202,678	-	-	202,678
	2010	385,268	250,000	-	635,268

The following factors and assumptions were used in determining the fair value of options, rights and restricted shares 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%
PARs	23 December 2009	23 December 2014	\$6.93	Nil	\$11.22	36.3%	4.8	4.6%
DARs	23 December 2009	23 December 2014	\$10.40	Nil	\$11.22	36.3%	4.8	4.6%
DARs	28 May 2010	28 May 2015	\$10.11	Nil	\$11.19	36.9%	4.6	4.6%
Restricted shares	15 June 2010	1 March 2012	\$10.31	Nil	\$10.31	-	-	-
PARs	29 November 2010	29 November 2015	\$7.81	Nil	\$11.45	37.1%	5.1	4.2%
DARs	29 November 2010	29 November 2015	\$11.17	Nil	\$11.45	37.1%	5.1	4.2%
PARs	25 January 2011	25 January 2016	\$7.81	Nil	\$10.12	37.1%	5.1	4.2%
Restricted shares	23 August 2011	1 November 2012	\$7.21	Nil	\$7.21	-	-	-

(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.

Post-employment ⁽³⁾	Other long-term ⁽⁴⁾	Termination benefits	Share based payments		Total	S300A (1)(e)(i) Proportion of remuneration performance related	Value of options and rights as proportion of remuneration
\$	\$	\$	Options and rights ⁽⁵⁾ \$	Shares and units \$	\$	%	%
15,229	5,234	-	32,888	757,382	1,917,631	61%	2%
25,047	3,938	-	567,021	-	1,955,155	67%	29%
15,229	931	-	126,070	-	810,085	38%	16%
2,271	95	-	-	-	74,808	-	-
15,229	592	-	107,262	-	651,226	35%	17%
2,271	81	-	-	-	63,587	-	-
9,056	274	-	40,417	-	347,204	40%	12%
15,229	36,759	-	86,237	-	546,521	38%	16%
21,790	-	-	136,337	-	1,080,462	33%	13%
6,450	-	-	-	-	228,117	66%	-
15,295	6,078	-	97,490	-	669,648	44%	15%
1,267	1,062	-	-	-	110,629	45%	-
23,439	8,510	-	14,570	-	402,960	28%	4%
24,655	4,998	-	123,682	-	658,799	57%	19%
19,353	-	-	36,243	-	721,791	22%	5%
-	-	-	-	-	-	-	-
12,935	-	490,672	209,251	-	923,678	23%	23%
-	-	-	-	-	-	-	-
12,197	-	377,671	115,041	-	607,539	19%	19%
-	-	-	-	-	-	-	-
38,948	-	170,524	3,460	-	606,742	1%	1%
19,741	-	-	(92,046)	-	130,373	(71%)	(71%)
38,104	955	-	178,179	-	852,506	50%	21%

- (1) STI cash reflects amount paid or accrued in respect of the year ended 31 August 2011. Refer to "Executive remuneration framework" for a discussion of the Bank's short-term incentive arrangement.
- (2) This includes retention bonuses paid in accordance with the acquisition agreement.
- (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.
- (6) Ram Kangatharan was appointed as Acting Chief Executive Officer for the period 1 September 2011 to 31 October 2011.

Directors' report

For the year ended 31 August 2011

Remuneration Report – Audited (continued)

Options and Rights Terms

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 at 31 August 2011 are detailed below:

Options or rights granted

		Number	Date	% vested during year	Number vested during year	Value exercised during year \$
Executives						
Ram Kangatharan ⁽²⁾	Options	350,000	1 November 2007	-	-	-
	Restricted shares ⁽³⁾	108,000	15 June 2010	-	-	-
	Restricted shares ⁽³⁾	100,000	23 August 2011	-	-	-
	2008 DARs	8,550	29 June 2009	30%	2,565	45,614
	2008 PARs	45,600	29 June 2009	-	-	-
	2009 DARs	27,480	23 December 2009	50%	13,740	146,606
	2009 PARs	38,700	23 December 2009	-	-	-
	2010 DARs	10,721	29 November 2010	-	-	-
Ewan Cameron	2010 PARs	71,157	29 November 2010	-	-	-
	2010 DARs	7,116	29 November 2010	-	-	-
Darryl Newton	2010 PARs	47,438	29 November 2010	-	-	-
	2010 DARs	6,072	29 November 2010	-	-	-
David Tonuri	2010 PARs	40,323	29 November 2010	-	-	-
	2010 DARs	18,975	25 January 2011	-	-	-
Keith Rodwell	2010 PARs	9,488	29 November 2010	-	-	-
	2010 DARs	47,438	29 November 2010	-	-	-
Renato Mazza	2010 PARs	7,116	29 November 2010	-	-	-
	2010 DARs	33,207	29 November 2010	-	-	-
Bradley Edwards	2008 DARs	3,420	29 June 2009	30%	1,026	10,773
	2008 PARs	5,700	29 June 2009	-	-	-
	2009 DARs	8,520	23 December 2009	50%	4,260	44,730
	2009 PARs	7,740	23 December 2009	-	-	-
	2010 DARs	4,744	29 November 2010	-	-	-
	2010 PARs	11,860	29 November 2010	-	-	-
Thomas Nguyen	2010 DARs	3,795	29 November 2010	-	-	-
	2010 PARs	9,867	29 November 2010	-	-	-
Chris Nilon	Options ⁽⁶⁾	15,000	17 October 2005	-	-	-
	Options ⁽¹⁰⁾	20,000	20 November 2006	-	-	-
	Options ⁽¹¹⁾	50,000	1 November 2007	-	-	-
	2008 DARs	3,420	29 June 2009	30%	1,026	10,178
	2008 PARs	5,700	29 June 2009	-	-	-
	2009 DARs	5,810	23 December 2009	50%	2,905	28,818
	2009 PARs	4,490	23 December 2009	-	-	-
	2010 DARs	3,416	29 November 2010	-	-	-
	2010 DARs May	2,657	28 May 2010	20%	531	4,928
	2010 PARs	5,693	29 November 2010	-	-	-
Former Executives						
Jim Stabback	2008 DARs	7,410	29 June 2009	30%	2,223	34,382
	2008 PARs	22,800	29 June 2009	-	-	-
	2009 DARs	13,940	23 December 2009	50%	6,970	64,682
	2009 PARs	15,480	23 December 2009	-	-	-
	2010 DARs	6,167	29 November 2010	-	-	-
	2010 PARs	18,975	29 November 2010	-	-	-
Former Executive Director						
David Liddy ⁽⁹⁾ Managing Director	Options	500,000 ⁽⁶⁾	1 November 2005	-	-	-
	Options	500,000 ⁽¹⁰⁾	1 November 2006	-	-	-
	2008 PARs	175,072	11 December 2008	50%	87,536	868,356

(1) The % forfeited in the year represents the reduction in number of options or rights available due to cessation of employment.

(2) Ram Kangatharan was appointed the Acting Chief Executive Officer for the period 1 September 2011 to 31 October 2011.

(3) The restricted shares were valued at the share price at the time of grant. The shares will vest on 1 March 2012 and 1 November 2012 respectively based on meeting certain service conditions.

(4) Remaining DARs will vest 50% in financial year 2012.

(5) Remaining DARs will vest 30% in financial year 2012 and 20% in financial year 2013.

(6) The DARs will vest 20% in financial year 2012, 30% in financial year 2013 and 50% in financial year 2014.

Value lapsed 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	Value of Options / rights at grant date \$
-	-	31 August 2012 ⁽¹¹⁾	2.57	19.11	1 November 2012	899,500
-	-	31 August 2012	10.31	Nil	1 March 2012	1,113,480
-	-	31 August 2013	7.21	Nil	1 November 2012	721,000
-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	64,895
-	-	31 August 2012	4.59	Nil	29 June 2014	209,304
-	-	31 August 2013 ⁽⁵⁾	10.40	Nil	23 December 2014	285,792
-	-	31 August 2013	6.93	Nil	23 December 2014	268,191
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	119,754
-	-	31 August 2014	7.81	Nil	29 November 2015	555,736
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	79,486
-	-	31 August 2014	7.81	Nil	29 November 2015	370,491
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	67,824
-	-	31 August 2014	7.81	Nil	29 November 2015	314,923
-	-	31 August 2014	7.81	Nil	25 January 2016	148,195
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	105,981
-	-	31 August 2014	7.81	Nil	29 November 2015	370,491
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	79,486
-	-	31 August 2014	7.81	Nil	29 November 2015	259,347
-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	25,958
-	-	31 August 2012	4.59	Nil	29 June 2014	26,163
-	-	31 August 2013 ⁽⁵⁾	10.40	Nil	23 December 2014	88,608
-	-	31 August 2013	6.93	Nil	23 December 2014	53,638
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	52,990
-	-	31 August 2014	7.81	Nil	29 November 2015	92,627
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	42,390
-	-	31 August 2014	7.81	Nil	29 November 2015	77,061
-	-	31 August 2009	2.16	13.23	17 October 2010	32,400
-	-	31 August 2010	2.13	16.26	20 November 2011	42,600
-	-	31 August 2012	2.57	19.11	1 November 2012	128,500
-	-	31 August 2012 ⁽⁴⁾	7.59	Nil	29 June 2014	25,958
-	-	31 August 2012	4.59	Nil	29 June 2014	26,163
-	-	31 August 2013 ⁽⁵⁾	10.40	Nil	23 December 2014	60,424
-	-	31 August 2013	6.93	Nil	23 December 2014	31,116
-	-	31 August 2014 ⁽⁶⁾	11.17	Nil	29 November 2015	38,157
-	-	31 August 2013 ⁽⁷⁾	10.11	Nil	28 May 2015	26,862
-	-	31 August 2014	7.81	Nil	29 November 2015	44,462
-	50%	31 August 2012	7.59	Nil	29 June 2014	56,242
-	100%	31 August 2012	4.59	Nil	29 June 2014	104,652
-	50%	31 August 2013	10.40	Nil	23 December 2014	144,976
-	100%	31 August 2013	6.93	Nil	23 December 2014	107,276
-	100%	31 August 2014	11.17	Nil	29 November 2015	68,885
-	100%	31 August 2014	7.81	Nil	29 November 2015	148,195
-	-	31 August 2009	2.16	13.23	20 December 2010	1,080,000
-	-	31 August 2010	2.13	16.26	20 December 2011	1,065,000
945,389	-	31 August 2011	5.76	Nil	29 June 2014	1,008,415

(7) The DARs will vest 30% in financial year 2012 and 50% in financial year 2013.

(8) The options vested in financial year 2009.

(9) David Liddy retired on 31 August 2011.

(10) The options vested in financial year 2010.

(11) The exercise date of the options was amended during year from 2011 financial year to 2012 financial year as permitted by the terms of the issue.

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

Directors' report

For the year ended 31 August 2011

Remuneration Report – Audited (continued)

Options and Rights Terms (continued)

Senior Managers' options and rights

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

Options originally issued:	3,805,000;
Options lapsed during the year:	1,778,740;
Options exercised during the year:	Nil;
Options on issue at balance date:	Nil;
Exercise date:	17 October 2008;
Expiry date:	17 October 2010;
Options exercisable at balance date:	Nil;
Issue price:	\$Nil; and
Exercise price:	\$13.23.

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

Options originally issued:	3,370,000;
Options lapsed during the year:	130,000;
Options exercised during the year:	Nil;
Options on issue at balance date:	1,351,934;
Exercise date:	20 November 2009;
Expiry date:	20 November 2011;
Options exercisable at balance date:	1,351,934;
Issue price:	\$Nil; and
Exercise price:	\$16.26.

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

Options originally issued:	3,999,000
Options lapsed during the year:	145,894;
Options exercised during the year:	Nil;
Options on issue at balance date:	2,041,000;
Exercise date: ⁽¹⁾	1 November 2011
Expiry date:	1 November 2012
Options exercisable at balance date:	Nil;
Issue Price:	\$Nil; and
Exercise Price:	\$19.11.

(1) The exercise date was amended during the year from 1 November 2010 to 1 November 2011.

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 2011 was \$7.48 (2010: \$9.83).

4. PARs issued on 29 June 2009:

PARs originally granted:	429,292;
PARs lapsed during the year:	113,756;
PARs exercised during the year:	87,536;
PARs on issue at balance date:	149,910;
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 2011 was \$7.48 (2010: \$9.83).

During the year 87,536 PARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

5. DARs issued on 29 June 2009:

DARs originally granted:	269,072;
DARs lapsed during the year:	9,554;
DARs exercised during the year:	86,277;
DARs on issue at balance date:	117,403;
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 2011 was \$7.48 (2010: \$9.83).

During the year 69,496 DARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

6. PARs issued on 23 December 2009:

PARs originally granted:	192,810;
PARs lapsed during the year:	15,480;
PARs exercised during the year:	Nil;
PARs on issue at balance date:	150,240;
Vesting date:	Date of release of financial results in October 2012;
Expiry date:	23 December 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 \$6.93 as at date of grant. The market value of shares at 31 August 2011 was \$7.48 (2010: \$9.83).

During the year no 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 23 December 2009:

DARs originally granted:	403,294;
DARs lapsed during the year:	14,099;
DARs exercised during the year:	155,331;
DARs on issue at balance date:	190,770;
Vesting date:	16 December 2010 (50%), 15 December 2011 (30%), 20 December 2012 (20%);
Expiry date:	23 December 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 \$10.40 as at date of grant. The market value of shares at 31 August 2011 was \$7.48 (2010: \$9.83).

During the year 180,836 DARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

8. DARs issued on 28 May 2010:

DARs originally granted:	41,809;
DARs lapsed during the year:	1,772;
DARs exercised during the year:	7,583;
DARs on issue at balance date:	31,568;
Vesting date:	2 May 2011 (20%), 7 May 2012 (30%), 6 May 2013 (50%);
Expiry date:	28 May 2015;
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 \$10.11 as at date of grant. The market value of shares at 31 August 2011 was \$7.48 (2010: \$9.83).

During the year 7,831 DARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

9. DARs issued on 29 November 2010:

DARs originally granted:	400,892;
DARs lapsed during the year:	13,880;
DARs exercised during the year:	352;
DARs on issue at balance date:	386,660;
Vesting date:	15 December 2011 (20%), 20 December 2012 (30%), 19 December 2013 (50%);
Expiry date:	29 November 2015;
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 \$11.17 as at date of grant. The market value of shares at 31 August 2011 was \$7.48.

During the year 2,724 DARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

10. PARs issued on 29 November 2010:

PARs originally granted:	561,909;
PARs lapsed during the year:	31,973;
PARs exercised during the year:	Nil;
PARs on issue at balance date:	529,936;
Vesting date:	31 October 2013;
Expiry date:	29 November 2015;
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 "Executive Remuneration Framework" for further details.

Using the Monte Carlo simulation approach, each PAR had a value of \$7.81 as at date of grant. The market value of shares at 31 August 2011 was \$7.48.

During the year no PARs vested under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.

11. PARs issued on 25 January 2011:

PARs originally granted:	18,975;
PARs lapsed during the year:	Nil;
PARs exercised during the year:	Nil;
PARs on issue at balance date:	18,975;
Vesting date:	31 October 2013;
Expiry date:	25 January 2016;
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 "Executive Remuneration Framework" for further details.

Using the Monte Carlo simulation approach, each PAR had a value of \$7.81 as at date of grant. The market value of shares at 31 August 2011 was \$7.48.

During the year no PARs 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' report

For the year ended 31 August 2011

Remuneration Report – Audited (continued)

Directors' interests

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

Director	Ordinary Shares
Neil Summerson	27,655
Steve Crane	12,224
Roger Davis	3,732
Carmel Gray	5,899
Bill Kelty	1,286
John Reynolds	1,000
Michelle Tredenick (Appointed 22 February 2011)	1,000
David Willis	1,077

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	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Audit services – KPMG Australia				
- Audit and review of the financial reports	923.4	794.2	547.1	582.0
- Other regulatory and audit services	464.1	181.5	304.1	116.0
	1,387.5	975.7	851.2	698.0
Audit related services – KPMG Australia				
- Other assurance services ⁽¹⁾	84.2	264.4	-	-
	84.2	264.4	-	-
Other services – KPMG Australia				
- Tax advisory services	347.4	220.2	341.4	220.2
- Other	5.4	7.0	5.4	7.0
	352.8	227.2	346.8	227.2
Other services – KPMG Australia				
- Due diligence services	-	688.7	-	-
	-	688.7	-	-

(1) Other assurance services comprise accounting opinions, and audit related services provided in relation to mortgage securitisation trusts which are consolidated under Australian Accounting 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 \$32,448 (2010: \$54,993)

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 51 and forms part of the directors' report for the year ended 31 August 2011.

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 million dollars, unless otherwise stated.

Dated at Brisbane this thirteenth day of October 2011.

Signed in accordance with a resolution of the directors:



Neil Summerson
Chairman



John Reynolds
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 2011 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 blue ink, appearing to read 'John Teer'.

KPMG

A handwritten signature in blue ink, appearing to read 'John Teer'.

John Teer

Partner

Brisbane

13 October 2011.

Statements of comprehensive income

For the year ended 31 August 2011

	Note	Consolidated		Bank	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m
Interest income	4	2,676.6	2,236.8	2,638.6	2,210.0
Less: Interest expense	4	2,053.2	1,676.1	2,184.2	1,780.0
Net interest income		623.4	560.7	454.4	430.0
Other operating income	4	132.1	142.5	232.5	221.8
Net banking operating income		755.5	703.2	686.9	651.8
Premiums from insurance contracts		68.6	10.7	-	-
Investment revenue		8.5	1.2	-	-
Claims and policyholder liability expense from insurance contracts		(36.2)	(4.5)	-	-
Net insurance operating income	4	40.9	7.4	-	-
Total operating income	4	796.4	710.6	686.9	651.8
Less: Expenses	5	374.1	348.3	322.5	331.5
Profit before impairment on loans and advances and tax		422.3	362.3	364.4	320.3
Less: Impairment on loans and advances	13	200.5	104.2	166.7	57.6
Profit before income tax		221.8	258.1	197.7	262.7
Less: Income tax expense	6	63.1	76.2	55.3	75.8
Profit for the year		158.7	181.9	142.4	186.9
Other comprehensive income, net of income tax					
Cash flow hedges:					
Net gains taken to equity		29.7	56.2	24.8	51.7
Net losses transferred to profit and loss		6.0	7.5	6.0	7.5
Foreign currency translation differences on foreign operations		0.6	(0.8)	-	-
Net gain / (losses) on hedge of net investment in foreign operation		(0.2)	0.8	-	-
Change in fair value of assets available for sale		2.1	7.0	(0.7)	6.1
Other comprehensive income for the year, net of income tax		38.2	70.7	30.1	65.3
Total comprehensive income for the year		196.9	252.6	172.5	252.2
Profit attributable to:					
Equity holders of the parent		158.7	181.9	142.4	186.9
Total comprehensive income attributable to:					
Equity holders of the parent		196.9	252.6	172.5	252.2
Basic earnings per share	8	67.1	81.7c		
Ordinary shares					
Diluted earnings per share	8	63.1	77.0c		
Ordinary shares					

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

Balance sheets

As at 31 August 2011

	Note	Consolidated		Bank	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m
Assets					
Cash and liquid assets	9	433.2	471.1	269.6	276.1
Due from other financial institutions	10	131.9	115.8	25.9	24.7
Other financial assets	11	5,147.0	5,348.0	5,215.7	5,439.4
Derivative financial instruments	26	126.8	148.1	126.8	148.1
Loans and advances at amortised cost	12	33,276.1	31,736.5	29,745.7	28,195.2
Shares in controlled entities	33	-	-	933.1	933.1
Property, plant and equipment	14	31.0	25.5	25.3	21.6
Deferred tax assets	15	41.7	5.5	42.6	5.1
Other assets	16	104.4	124.4	251.9	252.1
Intangible assets	17	580.0	593.3	70.6	74.6
Investments accounted for using the equity method	39	28.7	29.6	-	-
Total assets		39,900.8	38,597.8	36,707.2	35,370.0
Liabilities					
Due to other financial institutions	18	169.2	138.2	169.2	138.2
Deposits	19	29,626.6	28,088.5	29,875.2	28,362.9
Derivative financial instruments	26	264.1	189.1	197.5	114.5
Accounts payable and other liabilities		429.1	411.7	387.1	360.8
Current tax liabilities		79.4	76.4	79.8	76.0
Provisions	20	30.2	31.1	21.5	23.7
Insurance policy liabilities	37	77.6	85.7	-	-
Borrowings including subordinated notes	21	6,651.0	7,172.3	1,123.8	1,392.3
Amounts due to controlled entities		-	-	2,340.2	2,536.7
Total liabilities		37,327.2	36,193.0	34,194.3	33,005.1
Net assets		2,573.6	2,404.8	2,512.9	2,364.9
Equity					
Issued capital		2,153.3	2,057.6	2,162.8	2,063.4
Reserves		115.4	86.6	81.8	61.7
Retained profits		304.9	260.6	268.3	239.8
Total Equity		2,573.6	2,404.8	2,512.9	2,364.9

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

Statements of cash flows

For the year ended 31 August 2011

	Note	Consolidated		Bank	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m
Cash flows from operating activities					
Interest received		2,694.2	2,229.5	2,445.5	2,034.4
Fees and other income received		168.8	134.3	156.2	162.2
Dividends received		1.6	0.9	1.6	0.9
Interest paid		(1,908.4)	(1,668.5)	(2,041.7)	(1,772.9)
Cash paid to suppliers and employees		(312.9)	(274.2)	(290.9)	(244.4)
Operating income tax paid		(110.1)	(41.3)	(109.3)	(40.5)
		533.2	380.7	161.4	139.7
(Increase) / decrease in operating assets:					
Loans and advances at amortised cost		(1,745.5)	(3,293.2)	(1,710.0)	(2,706.8)
Other financial assets		197.5	(852.6)	290.8	(1,082.2)
Increase / (decrease) in operating liabilities:					
Deposits		1,550.7	3,836.1	1,527.5	3,895.6
Securitisation liabilities	21	(274.4)	267.8	-	-
Net cash from operating activities	27	261.5	338.8	269.7	246.3
Cash flows from investing activities					
Payments for property, plant and equipment		(13.4)	(3.7)	(12.4)	(3.7)
Payments for intangible assets – software		(19.4)	(15.3)	(11.9)	(15.3)
Cash distribution received from equity accounted investments		1.8	1.5	-	-
Payments for acquisition of CIT Group (Australia) Limited and CIT Group (New Zealand) Limited	33(b)	-	(236.7)	-	(252.3)
Payments for acquisition of St Andrew's Life Insurance Pty Ltd and St Andrew's Insurance (Australia) Pty Ltd	33(b)	-	(17.5)	-	-
Proceeds from sale of property, plant and equipment		5.7	0.5	-	0.5
Net cash from investing activities		(25.3)	(271.2)	(24.3)	(270.8)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		-	114.0	-	114.0
Cost of capital issues		-	(4.3)	-	(4.4)
Proceeds from issue of convertible notes		-	150.0	-	150.0
Proceeds from borrowings and foreign exchange instruments	21	2,377.5	2,600.6	2,355.4	2,595.8
Repayments of borrowings	21	(2,572.1)	(2,735.8)	(2,569.8)	(2,735.8)
Payments for treasury shares		(6.2)	(6.7)	(6.2)	(1.2)
Dividends paid		(73.3)	(68.1)	(73.3)	(68.1)
Dividends received		-	-	42.0	-
Net cash from financing activities		(274.1)	49.7	(251.9)	50.3
Net increase / (decrease) in cash and cash equivalents		(37.9)	117.3	(6.5)	25.8
Cash and liquid assets at beginning of year		471.1	353.8	276.1	250.3
Cash and liquid assets at end of year	9	433.2	471.1	269.6	276.1

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

Statements of changes in equity

For the year ended 31 August 2011

Consolidated	Ordinary shares \$m	Perpetual Equity Preference shares \$m	Employee benefits reserve \$m	General reserve for credit losses \$m	Cashflow hedge reserve \$m	Translation reserve \$m	Available for sale reserve \$m	Retained profits \$m	Total equity \$m
Year ended 31 August 2011									
Balance at beginning of the year	1,861.9	195.7	32.9	77.0	(27.7)	-	4.4	260.6	2,404.8
Total comprehensive income for the year									
Profit	-	-	-	-	-	-	-	158.7	158.7
Other comprehensive income, net of income tax									
Cash flow hedges:									
Net gains taken to equity	-	-	-	-	29.7	-	-	-	29.7
Net losses transferred to profit and loss	-	-	-	-	6.0	-	-	-	6.0
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	(0.2)	-	-	(0.2)
Foreign currency translation differences on foreign operations	-	-	-	-	-	0.6	-	-	0.6
Change in fair value of assets available for sale	-	-	-	-	-	-	2.1	-	2.1
Transfers	-	-	-	(10.0)	-	-	-	10.0	-
Total other comprehensive income	-	-	-	(10.0)	35.7	0.4	2.1	10.0	38.2
Total comprehensive income for the year	-	-	-	(10.0)	35.7	0.4	2.1	168.7	196.9
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividend reinvestment plan	51.3	-	-	-	-	-	-	-	51.3
Conversion of RePS to ordinary shares	47.2	-	-	-	-	-	-	-	47.2
Dividends to shareholders	-	-	-	-	-	-	-	(114.8)	(114.8)
Dividends to PEPs	-	-	-	-	-	-	-	(9.6)	(9.6)
Equity settled transactions	-	-	0.6	-	-	-	-	-	0.6
Treasury Shares ⁽¹⁾	(2.8)	-	-	-	-	-	-	-	(2.8)
Total contributions by and distributions to owners	95.7	-	0.6	-	-	-	-	(124.4)	(28.1)
Balance at the end of the year	1,957.6	195.7	33.5	67.0	8.0	0.4	6.5	304.9	2,573.6

(1) 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 statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 31 August 2011

Consolidated	Ordinary shares \$m	Perpetual Equity Preference shares \$m	Employee benefits reserve \$m	General reserve for credit losses \$m	Cashflow hedge reserve \$m	Translation reserve \$m	Available for sale reserve \$m	Retained profits \$m	Total equity \$m
Year ended 31 August 2010									
Balance at beginning of the year	1,707.4	195.7	28.2	83.2	(91.4)	-	(2.6)	190.9	2,111.4
Total comprehensive income for the year									
Profit	-	-	-	-	-	-	-	181.9	181.9
Other comprehensive income, net of income tax									
Cash flow hedges:									
Net gains taken to equity	-	-	-	-	56.2	-	-	-	56.2
Net losses transferred to profit and loss	-	-	-	-	7.5	-	-	-	7.5
Net gains on hedge of net investment in foreign operation	-	-	-	-	-	0.8	-	-	0.8
Foreign currency translation differences on foreign operations	-	-	-	-	-	(0.8)	-	-	(0.8)
Change in fair value of assets available for sale	-	-	-	-	-	-	7.0	-	7.0
Transfers	-	-	-	(6.2)	-	-	-	6.2	-
Total other comprehensive income	-	-	-	(6.2)	63.7	-	7.0	6.2	70.7
Total comprehensive income for the year	-	-	-	(6.2)	63.7	-	7.0	188.1	252.6
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Dividend reinvestment plan	50.3	-	-	-	-	-	-	-	50.3
Exercise of options	3.2	-	-	-	-	-	-	-	3.2
Dividends to shareholders	-	-	-	-	-	-	-	(110.5)	(110.5)
Dividends to PEPs	-	-	-	-	-	-	-	(7.9)	(7.9)
Equity settled transactions	-	-	4.7	-	-	-	-	-	4.7
Treasury Shares ⁽¹⁾	(6.7)	-	-	-	-	-	-	-	(6.7)
Retail placement and entitlements offer ⁽²⁾	107.7	-	-	-	-	-	-	-	107.7
Total contributions by and distributions to owners	154.5	-	4.7	-	-	-	-	(118.4)	40.8
Balance at the end of the year	1,861.9	195.7	32.9	77.0	(27.7)	-	4.4	260.6	2,404.8

(1) 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.

(2) The retail placement and entitlements offer was announced on the 19 August 2009 and settled on the 18 September 2009. The entitlement offer was a 1-for-9 accelerated pro rata non-renounceable entitlement offer. The issue price of \$10.00 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 \$4.3m before tax.

The statements of changes in equity should be read in conjunction with the accompanying notes.

Bank	Ordinary shares \$m	Perpetual Equity Preference shares \$m	Employee benefits reserve \$m	General reserve for credit losses \$m	Cashflow hedge reserve \$m	Available for sale reserve \$m	Retained profits \$m	Total equity \$m
Year ended 31 August 2011								
Balance at beginning of the year	1,867.7	195.7	32.9	61.6	(37.3)	4.5	239.8	2,364.9
Total comprehensive income for the year								
Profit	-	-	-	-	-	-	142.4	142.4
Other comprehensive income, net of income tax								
Cash flow hedges:								
Net gains taken to equity	-	-	-	-	24.8	-	-	24.8
Net losses transferred to profit and loss	-	-	-	-	6.0	-	-	6.0
Change in fair value of assets available for sale	-	-	-	-	-	(0.7)	-	(0.7)
Transfers	-	-	-	(10.6)	-	-	10.6	-
Total other comprehensive income	-	-	-	(10.6)	30.8	(0.7)	10.6	30.1
Total comprehensive income for the year	-	-	-	(10.6)	30.8	(0.7)	153.0	172.5
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividend reinvestment plan	51.3	-	-	-	-	-	-	51.3
Conversion of RePS to ordinary shares	47.2	-	-	-	-	-	-	47.2
Treasury Shares	0.9	-	-	-	-	-	-	0.9
Dividends to shareholders	-	-	-	-	-	-	(114.8)	(114.8)
Dividends to PEPs	-	-	-	-	-	-	(9.7)	(9.7)
Equity settled transactions	-	-	0.6	-	-	-	-	0.6
Total contributions by and distributions to owners	99.4	-	0.6	-	-	-	(124.5)	(24.5)
Balance at the end of the year	1,967.1	195.7	33.5	51.0	(6.5)	3.8	268.3	2,512.9

The statements of changes in equity should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 31 August 2011

Bank	Ordinary shares \$m	Perpetual Equity Preference shares \$m	Employee benefits reserve \$m	General reserve for credit losses \$m	Cashflow hedge reserve \$m	Available for sale reserve \$m	Retained profits \$m	Total equity \$m
Year ended 31 August 2010								
Balance at beginning of the year	1,707.7	195.7	28.2	65.6	(96.5)	(1.6)	167.2	2,066.3
Total comprehensive income for the year								
Profit	-	-	-	-	-	-	186.9	186.9
Other comprehensive income, net of income tax								
Cash flow hedges:								
Net gains taken to equity	-	-	-	-	51.7	-	-	51.7
Net losses transferred to profit and loss	-	-	-	-	7.5	-	-	7.5
Change in fair value of assets available for sale	-	-	-	-	-	6.1	-	6.1
Transfers	-	-	-	(4.0)	-	-	4.0	-
Total other comprehensive income	-	-	-	(4.0)	59.2	6.1	4.0	65.3
Total comprehensive income for the year	-	-	-	(4.0)	59.2	6.1	190.9	252.2
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividend reinvestment plan	50.3	-	-	-	-	-	-	50.3
Exercise of options	3.2	-	-	-	-	-	-	3.2
Treasury Shares	(1.2)	-	-	-	-	-	-	(1.2)
Dividends to shareholders	-	-	-	-	-	-	(110.4)	(110.4)
Institutional placement and entitlement offer	107.7	-	-	-	-	-	-	107.7
Dividends to PEPs	-	-	-	-	-	-	(7.9)	(7.9)
Equity settled transactions	-	-	4.7	-	-	-	-	4.7
Total contributions by and distributions to owners	160.0	-	4.7	-	-	-	(118.3)	46.4
Balance at the end of the year	1,867.7	195.7	32.9	61.6	(37.3)	4.5	239.8	2,364.9

The statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

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Notes to and forming part of the financial statements

For the year ended 31 August 2011

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 2011 comprises the Bank and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interest in equity accounted investments. The Bank primarily is involved in retail banking and insurance products.

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 13 October 2011.

(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;
- financial instruments classified as available-for-sale; and
- insurance policy liabilities.

(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 and in accordance with that Class Order, amounts in this financial report and directors' report have been rounded off to the nearest million 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 amounts 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 26;
- Contingent liabilities – Note 29;
- Insurance policy liabilities – Note 37; and
- Controlled entities – Note 33 (b).

(f) Restatement of acquisition accounting adjustments

The prior period statements of comprehensive income and balance sheets were stated using provisional entries for the acquisition of the CIT Group (Australia) Limited and CIT Group (New Zealand) Limited now renamed to BOQ Finance (Aust) Limited and BOQ Finance (NZ) Limited ("BOQ Finance") and the acquisition of St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd ("St Andrew's") 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 (refer Note 33(b)).

A summary of these restatements are provided in the table below.

Statement of Comprehensive Income	31 August 2010			Reported \$m
	Restated \$m	BOQ Finance Increase / (Decrease)	St Andrew's Increase / (Decrease)	
Interest income	2,236.8	(0.8)	-	2,237.6
Other operating income	142.5	2.7	(2.2)	142.0
Expenses	348.3	0.2	0.2	347.9
Income tax expense	76.2	(0.3)	(2.7)	79.2
Profit for the year	181.9	2.0	0.3	179.6
Balance Sheet				
Assets				
Loans and advances	31,736.5	11.3	-	31,725.2
Other assets	124.4	-	(4.7)	129.1
Intangible assets	593.3	(11.7)	30.6	574.4
Deferred tax assets	5.5	2.4	(1.0)	4.1
Liabilities				
Current tax liabilities	76.4	-	0.4	76.0
Insurance policy liabilities	85.7	-	24.2	61.5
Retained profits	260.6	2.0	0.3	258.3

3. Significant accounting policies

The following standards have been adopted from 1 September 2010 and did not have any material effect on the financial position or performance of the Consolidated Entity:

- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions*. The amendments resolved diversity in practice regarding the attribution of cash-settled and share-based payments between different entities within a group.
- Interpretation 19 *Extinguishing financial liabilities with equity instruments* clarified the accounting treatment when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

The following standards and amendments have been identified as those which may impact the Bank and were available for early adoption at 31 August 2011 but have not been applied in these financial statements.

- AASB 124 *Related Party Disclosures* (revised December 2009) is effective for the Consolidated Entity's 31 August 2012 financial statements and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and is not expected to have a significant impact on the financial statements.
- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Consolidated Entity's 31 August 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 31 August 2012 or earlier. The Consolidated Entity has not determined the potential effect of the standard.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements. AASB 1053 is available for early adoption and is mandatory for the Consolidated Entity's 31 August 2014 financial statements. The Consolidated Entity will be classified as a Tier 1 entity and therefore adoption of the standard will have no significant impact.
- AASB 13 *Fair Value Measurement* provides a definition of the term fair value and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. AASB 13 is available for early adoption and is mandatory for the Consolidated Entity's 31 August 2014 financial statements. The Consolidated Entity has not determined the potential effect of the standard.
- AASB 119 *Employee Benefits* has been amended for changes to accounting and disclosures on defined benefit superannuation plans, and the definitions of short-term and other long-term employee benefits. The changes will effect the measurement of the obligations and the timing of recognition of termination benefits. AASB 119 is available for early adoption and is mandatory for the Consolidated Entity's 31 August 2014 financial statements. The Consolidated Entity has not determined the potential effect of the standard.

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.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

3. Significant accounting policies (continued)

(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 retain the risks and rewards of the RMBS Trusts and as a result do not meet the de-recognition criteria of AASB 139 *Financial Instruments: Recognition and Measurement*.

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 borrowings 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 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.

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.

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 original sale of these assets meets the de-recognition criteria set out in AASB 139.

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

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group 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. 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. Non-monetary items in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss.

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) Derivatives, financial instruments and hedging.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Bank disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(c) Derivatives, financial instruments and hedging

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. 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 profit and loss. 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.

(i) 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 other comprehensive income. The ineffective portion of any gain or loss is recognised immediately in the profit and loss. If a hedge of a forecast 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 other comprehensive income are reclassified into the profit and loss in the same period or periods in which the asset acquired or liability assumed affects the profit and loss (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 other comprehensive income 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 profit and loss.

(ii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any foreign currency gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. To the extent the hedge is ineffective, a portion is recognised immediately in profit or loss within other income or other expenses.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income.

The Bank has not designated any hedges as fair value hedges.

Financial instruments

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

(i) Financial assets at fair value through the profit and loss

Financial assets that are held as part of the Bank's Trading Book (refer Note 11) are designated at fair value through the profit and loss. 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 profit and loss when incurred. Financial instruments at fair value through the profit and loss are measured at fair value, and changes therein are recognised in the profit and loss.

(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, other than impairment losses, being recognised in other comprehensive income 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 income.

(d) Cash and Liquid assets

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

(e) Receivables due from other financial institutions

Receivables due from other financial institutions 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.

(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 accumulated 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.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

3. Significant accounting policies (continued) (i) Impairment

(h) Property, plant and equipment (continued)

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 profit and loss 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
• 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 profit and loss 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 profit and loss. Refer Note 3 (j).

Consideration transferred included the fair values of the assets transferred, liabilities incurred by the Consolidated Entity to the previous owners of the acquired, and equity interests issued by the Consolidated Entity.

Amortisation

Amortisation is charged to profit and loss 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
Computer software	5–12
Customer related intangibles and brands	3–10

Financial assets

Financial assets other than loans and advances at amortised cost

The Consolidated Entity assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets, not carried at fair value through profit and loss, is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flow of that asset that can be estimated reliably. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

Loans and advances and other assets at amortised cost

If there is evidence of impairment for any of the Consolidated Entity's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

The Bank uses two methods for calculating impairment of loans and advances:

(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.

(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 profit and loss.

Non-financial assets

Non-financial assets other than deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For goodwill, and intangible assets with an indefinite life, the recoverable amount is estimated each year at the same time.

The Bank conducts an annual internal review of non-financial asset values to assess for any indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognised in respect of Cash Generating Units are allocated first to reduce the carrying amount of goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). This grouping is subject to an operating segment ceiling test. Non-financial assets, other than goodwill, that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. An impairment loss in respect of goodwill is not reversed.

Calculation of recoverable amount

The recoverable amount of a non-financial asset or cash-generating unit 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.

(k) Financial liabilities

Financial liabilities including current accounts, deposits, subordinated and convertible 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.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

(l) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for employee benefits for 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.

(iii) Superannuation plan

The Bank contributes to a number of defined contribution superannuation plans which comply with the Superannuation Contributions Act Legislation. Contributions are charged to profit and loss 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) Shares

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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 profit and loss as accrued.

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.

(o) Revenue

Interest income and expense

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

The effective interest rate is the rate that exactly discounts the 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 and other intermediaries.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

3. Significant accounting policies (continued)

(o) Revenue (continued)

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 profit and loss immediately.

Dividend income

Dividends are recognised when control of a right to receive consideration is established.

(p) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss except to the extent that it relates to business combination, or items recognised directly in equity, or other comprehensive income.

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. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is provided using the Balance Sheet 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 reviewed at each reporting date and 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.

Taxation of Financial Arrangements ("TOFA")

The TOFA regime seeks to align the accounting and tax treatment of financial arrangements. Compliance with the TOFA legislation is mandatory for the BOQ Tax Consolidated Group from 1 September 2010.

The BOQ Tax Consolidated Group has made all necessary elections to enter into this tax regime, including an election to bring pre-existing arrangements into TOFA. The deferred tax in relation to the transitional adjustment that this created is to be amortised equally over four years from 1 September 2010.

(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 Taxation 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.

(s) Business combinations**Acquisitions on or after 1 July 2009**

The Consolidated Entity has adopted revised AASB 3 Business Combinations (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008) for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Contingent Liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Transactions Costs

Transaction costs that the Group incurs in connection with a business combination, such as a finders fee, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

(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.

(v) Life insurance business**Principles for life insurance**

The life insurance operations of the Bank are conducted within separate funds as required by the Life Insurance Act 1995 and is reported in aggregate with the Shareholders' Fund in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows of the Bank. The life insurance operations of the Bank comprise the selling and administration of life insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Any products sold that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Bank, and the financial risks are substantially borne by the Bank.

Monies held in the statutory fund is subject to distribution and transfer restrictions and other requirements of the Life Insurance Act 1995.

Under AASB 1038 the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policyowners. Therefore, the Bank's financial statements comprise the total of all statutory funds and the Shareholders' Fund.

Insurance contract liability accounting policy

Profits of the insurance contract business are brought to account on a Margin on Services ("MoS") basis in accordance with guidance provided by LPS 1.04: Valuation of Policy Liabilities as determined by Australian Prudential Regulation Authority ("APRA"). Under MoS, profit is recognised as fees are received and services are provided to policyholders. When fees are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of policies to be charged to the Statement of Comprehensive Income over the period that the policy will generate profits. Costs may only be deferred to the extent that a policy is expected to be profitable.

Profit arising from life insurance is based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Under MoS, insurance contract liabilities may be valued using an accumulation approach where this does not result in a material difference to the projection approach. The accumulation approach is deemed appropriate by the directors and the appointed actuary. Under this approach, premiums received are deferred and earned in accordance with the underlying incidence of risk. Costs of acquiring insurance contracts, both direct and indirect, are deferred to the extent that related product groups are expected to be profitable. Where a related product group is not expected to be profitable, the insurance contract liability is increased by the excess of the present value of future expenses over future revenues.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

3. Significant accounting policies (continued)

(v) Life insurance business (continued)

Revenue recognition

Premiums in respect of life insurance contracts are recognised as revenue in the Statement of Comprehensive Income from the date of attachment of risk. Premiums with no due date are recognised as revenue on a received basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in the intergroup balance in the Statement of Financial Position.

Investment income is recognised on an accruals basis. Realised and unrealised gains and losses are included in the Statement of Comprehensive Income as investment income.

Claims expense – insurance contracts

Claims incurred all relate to the provision of services, including the bearing of risks, and are treated as expenses.

Claims are recognised when the liability to the policyholder under the policy contract has been established. Claims recognition is based upon:

- cost estimates for losses reported to the close of the financial year; and
- estimated incurred, but not reported losses, based upon past experience.

Deferred acquisition costs

Life insurance contracts

The fixed and variable costs of acquiring new life insurance business are deferred to the extent that such costs are deemed recoverable from future premiums or policy charges. These costs include commission, policy issue and underwriting costs, certain advertising costs and other sales costs. Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges. The actual acquisition costs incurred are recorded in the Statement of Comprehensive Income of the Bank. The value and future recovery of these costs are assessed in determining policy liabilities. This has the effect that acquisition costs are deferred within the policy liability balance and amortised over the period that they will be recovered from premiums or policy charges.

Critical accounting judgements and estimates:

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where critical accounting judgements and estimates are applied are noted below.

Policy liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. The key factors that affect the estimation of these liabilities and related assets are:

- The cost of providing benefits and administering these insurance contracts;
- Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits; and
- Discontinuance experience, which affects the Bank's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in Note 37.

(w) Segment reporting

The Bank determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Bank's chief operating decision maker.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are regularly reviewed by the Bank's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. Operating income

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Interest income				
Loans and advances	2,383.1	2,010.5	2,034.0	1,733.3
Securities at fair value	293.5	226.3	604.6	476.7
Total interest income	2,676.6	2,236.8	2,638.6	2,210.0
Interest expense				
Retail deposits	977.7	716.4	977.2	716.4
Wholesale deposits and borrowings	1,075.5	959.7	1,207.0	1,063.6
Total interest expense	2,053.2	1,676.1	2,184.2	1,780.0
Net interest income	623.4	560.7	454.4	430.0
Income from operating activities				
Other customer fees and charges	108.5	116.5	108.1	116.6
Share of fee revenue paid to Owner Managed Branches	(15.2)	(16.6)	(15.2)	(16.6)
Securitisation income ⁽¹⁾	0.6	1.6	48.0	55.5
Net income from financial instruments and derivatives at fair value	13.6	10.8	13.7	11.1
Commission – insurance and financial planning	5.0	8.2	8.0	7.6
Management fee – controlled entities	-	-	26.1	27.3
Foreign exchange income – customer based	7.0	5.6	7.0	6.4
Profit on sale of property, plant and equipment	5.5	0.8	0.1	0.1
Other income	7.1	5.3	36.7	13.8
	132.1	132.2	232.5	221.8
Individually significant item				
Profit on acquisition of BOQ Finance (refer Note 33 (b)) ⁽²⁾	-	2.7	-	-
Profit on acquisition of St Andrew's (refer Note 33 (b)) ⁽²⁾	-	7.6	-	-
	-	10.3	-	-
Other operating income	132.1	142.5	232.5	221.8
Net Insurance operating income	40.9	7.4	-	-
Total operating income	796.4	710.6	686.9	651.8

(1) At a consolidated level represents securitisation income from certain leasing trusts which are not consolidated.

(2) The prior year has been restated. Refer to Note 2 (f).

Notes to and forming part of the financial statements

For the year ended 31 August 2011

5. Expenses

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Operating expenses				
Advertising	14.7	13.5	14.1	13.4
Commissions to Owner Managed Branches	5.1	7.6	6.1	7.6
Communications and postage	17.1	14.7	16.1	14.5
Printing and stationery	4.9	4.2	4.4	4.1
Non-lending losses	2.1	7.6	2.1	7.6
Processing costs	22.9	24.6	22.9	24.6
Impairment ⁽¹⁾	4.9	13.8	3.5	13.8
Other operating expenses	18.6	13.7	14.9	12.3
	90.3	99.7	84.1	97.9
Administrative expenses				
Professional fees	12.5	14.1	10.4	14.2
Directors' fees	1.5	1.3	1.0	1.3
Other	6.7	4.6	8.2	5.1
	20.7	20.0	19.6	20.6
Computer costs				
Data processing	47.2	43.8	44.5	41.7
Amortisation – computer software (intangible)	18.4	21.8	17.1	21.8
Depreciation – IT equipment	1.4	1.5	1.0	1.4
	67.0	67.1	62.6	64.9
Occupancy expenses				
Lease rental	18.9	17.4	16.6	16.7
Depreciation of plant, furniture, equipment and leasehold improvements	6.3	4.7	5.2	4.7
Other	1.9	1.3	1.8	1.3
	27.1	23.4	23.6	22.7
Employee expenses				
Salaries and wages	122.5	98.2	101.0	94.4
Superannuation contributions	12.1	8.7	10.5	8.3
Amounts set aside to provision for employee entitlements	3.8	1.7	2.7	1.3
Payroll tax	7.1	5.5	6.0	5.2
Equity settled transactions	3.9	5.5	3.9	5.5
Other	5.5	5.5	4.4	5.3
	154.9	125.1	128.5	120.0
Other				
Amortisation – acquired intangibles	8.4	8.5	0.6	0.9
Integration costs ⁽²⁾	5.7	-	3.5	-
Restructuring expenses ⁽³⁾	-	4.5	-	4.5
Expenses	374.1	348.3	322.5	331.5

(1) The current year impairment primarily relates to property related equity investments. The prior year relates to impairment of software.

(2) The current year includes non-recurring integration costs associated with the acquisition of St Andrew's and BOQ Finance.

(3) The prior year includes ATM transition costs.

6. Income tax expense

	Consolidated		Bank	
	2011 \$m	2010 ⁽¹⁾ \$m	2011 \$m	2010 \$m
Current tax expense				
Current year	115.1	96.4	107.7	98.6
Adjustments for prior years	(0.1)	(3.8)	(4.3)	(9.3)
	115.0	92.6	103.4	89.3
Deferred tax expense				
Origination and reversal of temporary differences	(51.9)	(16.4)	(48.1)	(13.5)
	(51.9)	(16.4)	(48.1)	(13.5)
Total income tax expense	63.1	76.2	55.3	75.8
Attributable to:				
Continuing Operations	63.1	76.2	55.3	75.8
Deferred tax recognised in equity				
Equity raising costs	-	(1.3)	-	(1.3)
Cash flow hedge reserve	12.7	21.1	10.7	19.2
Other	1.0	2.9	(0.2)	2.6
	13.7	22.7	10.5	20.5
Numerical reconciliations between tax expense and pre-tax profit				
Profit before tax – continuing operations	221.8	258.1	197.7	262.7
Profit before tax	221.8	258.1	197.7	262.7
Income tax using the domestic corporate tax rate of 30% (2010: 30%)	66.5	77.4	59.3	78.8
Increase in income tax expense due to:				
Non-deductible expenses	0.8	1.7	0.3	1.0
Decrease in income tax expense due to:				
Research and development expenses	(0.6)	-	(0.6)	-
Tax exempt revenues	-	(0.5)	-	-
Investment allowance	-	(0.7)	-	-
Other	(1.8)	(2.8)	(1.7)	-
	64.9	75.1	57.3	79.8
Under / (Over) provided in prior years	(1.8)	1.1	(2.0)	(4.0)
Income tax expense on pre-tax net profit	63.1	76.2	55.3	75.8

(1) The prior year has been restated. Refer to Note 2 (f).

Notes to and forming part of the financial statements

For the year ended 31 August 2011

7. Dividends

	Bank					
	2011			2010		
	Cents per share	\$m	Percentage franked %	Cents per share	\$m	Percentage franked %
Ordinary shares						
Final 2010 dividend paid 2 December 2010 (2010: 1 December 2009)	26	57.1	100%	26	54.9	100%
Interim 2011 dividend paid 25 May 2011 (2010: 18 May 2010)	26	57.7	100%	26	55.6	100%
		114.8			110.5	
Preference shares recognised as liabilities						
RePS half-yearly dividend paid 15 October 2010 (2010: 15 October 2009)	257	1.2	100%	257	1.2	100%
RePS half-yearly dividend (2010: 15 April 2010)	-	-	-	255	1.2	100%
		1.2			2.4	
Preference shares not recognised as liabilities						
Half-yearly PEPS dividend paid on 15 October 2010 (2010: 15 October 2009)	239	4.8	100%	180	3.6	100%
Half-yearly PEPS dividend paid on 15 April 2011 (2010: 15 April 2010)	246	4.9	100%	216	4.3	100%
		9.7			7.9	

Since the end of the financial year, the directors have declared the following dividends:

	Cents per share	\$m	Percentage franked %	Date of payment
- PEPs half-yearly dividend (BOQPC)	250	5.0	100%	17/10/2011
- Final – ordinary shares (BOQ)	28	63.1	100%	02/12/2011

Dividend franking account	Bank	
	2011 \$m	2010 \$m
30% franking credits available to shareholders of the Bank for subsequent financial years	127.3	70.6

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 2011, is \$127.3 million credit calculated at the 30% tax rate (2010: \$70.6 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.

8. Earnings per share

	Consolidated	
	2011 cents	2010 cents
Basic earnings per share	67.1c	81.7c
Diluted earnings per share	63.1c	77.0c
	2011 \$m	2010 \$m
Earnings reconciliation		
Net profit	158.7	181.9
Less other equity instrument dividends	(9.7)	(7.9)
Basic earnings	149.0	174.0
Effect of distributions on convertible preference shares	19.2	10.3
Diluted earnings	168.2	184.3

	Consolidated	
	2011 Number	2010 Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	221,859,789	213,031,780
Number for diluted earnings per share		
Ordinary shares	221,859,789	213,031,780
Effect of options and award rights ⁽¹⁾	770,019	522,775
Effects of converting preference shares	22,836,809	25,716,766
Effects of convertible notes ⁽²⁾	21,206,409	-
	266,673,026	239,271,321

(1) During the year nil (2010: 302,000) 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 nil (2010: 522,775).

(2) In the prior year the convertible notes issued on 30 June 2010 were not dilutive. Refer to note 21 for Convertible Notes terms and conditions.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

9. Cash and liquid assets

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Notes, coin and cash at bank	240.1	353.6	76.5	158.6
Remittances in transit	193.1	117.5	193.1	117.5
	433.2	471.1	269.6	276.1

10. Due from other financial institutions

Term deposits	131.9	115.8	25.9	24.7
	131.9	115.8	25.9	24.7

11. Other financial assets

At fair value through profit and loss

Floating rates notes and bonds	1,119.9	1,344.4	1,119.9	1,344.0
Negotiable certificates of deposit	1,361.2	1,858.9	1,361.2	1,858.9
Deposits at call	110.3	135.1	110.3	135.1
Bank accepted bills	88.9	322.0	88.9	322.0
Promissory notes	1,507.2	859.9	1,507.2	859.9
	4,187.5	4,520.3	4,187.5	4,519.9

Investment securities available for sale

Debt instruments	949.0	813.5	1,015.3	903.0
Unlisted equity instruments	10.5	14.2	12.9	16.5
	959.5	827.7	1,028.2	919.5
Total other financial assets	5,147.0	5,348.0	5,215.7	5,439.4

12. Loans and advances at amortised cost

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Residential property loans – secured by mortgages	16,818.3	15,151.7	16,818.3	15,151.7
Securitised residential property loans – secured by mortgages	7,358.7	7,518.6	7,358.7	7,518.6
Personal loans	272.9	321.1	272.9	321.1
Overdrafts	521.0	501.3	521.0	502.1
Commercial loans	4,986.0	4,774.1	4,986.0	4,774.1
Leasing finance	4,108.0	4,172.1	-	0.1
Gross loans and advances at amortised cost	34,064.9	32,438.9	29,956.9	28,267.7
Less:				
Unearned lease finance income	(535.0)	(588.8)	-	-
Collective provision for impairment	(80.1)	(53.1)	(56.8)	(21.5)
Specific provisions for impairment	(173.7)	(60.5)	(154.4)	(51.0)
Total loans and advances at amortised cost	33,276.1	31,736.5	29,745.7	28,195.2

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	610.5	510.9	-	0.1
Between one and five years	3,403.5	3,539.9	-	-
More than five years	94.0	121.3	-	-
	4,108.0	4,172.1	-	0.1
Unearned finance income	(535.0)	(588.8)	-	-
Net investment in finance leases	3,573.0	3,583.3	-	0.1
The net investment in finance leases comprise:				
Less than one year	558.6	459.1	-	0.1
Between one and five years	2,944.1	3,033.3	-	-
More than five years	70.3	90.9	-	-
	3,573.0	3,583.3	-	0.1

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 hire purchase, chattel mortgages, 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*. As at 31 August 2011, off balance sheet securitised leases under management were nil (2010: \$213.5m).

Notes to and forming part of the financial statements

For the year ended 31 August 2011

13. Provisions for impairment

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Specific provision:				
Balance at the beginning of the year	60.5	29.4	51.0	25.6
Add: Expensed during the year	173.5	82.5	131.4	53.9
Acquired during the year ⁽¹⁾	-	0.6	-	-
Less: Amounts written off against specific provision	(60.3)	(52.0)	(28.0)	(28.5)
Balance at the end of the year	173.7	60.5	154.4	51.0
Collective provision:				
Balance at the beginning of the year	53.1	21.7	21.5	17.8
Add: Expensed during the year	27.0	21.7	35.3	3.7
Acquired during the year ⁽¹⁾	-	9.7	-	-
Balance at the end of the year	80.1	53.1	56.8	21.5
Total provisions for impairment	253.8	113.6	211.2	72.5

(1) Provisions acquired in the prior year relate to the acquisition of BOQ Finance (Aust) Limited and BOQ Finance (NZ) Limited.

14. Property, plant and equipment

2011 Consolidated	Leasehold improvements \$m	Plant, furniture and equipment \$m	IT equipment \$m	Capital works in progress \$m	Total \$m
Cost					
Balance at the beginning of the financial year	24.0	25.7	29.7	1.0	80.4
Additions	6.4	4.1	2.4	0.5	13.4
Disposals	(0.4)	(1.0)	(0.2)	-	(1.6)
Transfers between categories	0.7	0.1	-	(0.8)	-
Balance at the end of the financial year	30.7	28.9	31.9	0.7	92.2
Depreciation					
Balance at the beginning of the financial year	11.1	16.7	27.1	-	54.9
Depreciation charge for the year	4.5	1.8	1.4	-	7.7
Disposals	(0.3)	(0.9)	(0.2)	-	(1.4)
Balance at the end of the financial year	15.3	17.6	28.3	-	61.2
Carrying amounts					
Carrying amount at the beginning of the financial year	12.9	9.0	2.6	1.0	25.5
Carrying amount at the end of the financial year	15.4	11.3	3.6	0.7	31.0
Bank					
Cost					
Balance at the beginning of the financial year	21.0	25.0	29.4	1.0	76.4
Additions	5.3	3.8	0.5	0.5	10.1
Disposals	(0.4)	(1.0)	(0.2)	-	(1.6)
Transfers between categories	0.7	0.1	-	(0.8)	-
Balance at the end of the financial year	26.6	27.9	29.7	0.7	84.9
Depreciation					
Balance at the beginning of the financial year	11.1	16.7	27.0	-	54.8
Depreciation charge for the year	3.5	1.7	1.0	-	6.2
Disposals	(0.3)	(0.9)	(0.2)	-	(1.4)
Balance at the end of the financial year	14.3	17.5	27.8	-	59.6
Carrying amounts					
Carrying amount at the beginning of the financial year	9.9	8.3	2.4	1.0	21.6
Carrying amount at the end of the financial year	12.3	10.4	1.9	0.7	25.3

Notes to and forming part of the financial statements

For the year ended 31 August 2011

14. Property, plant and equipment (continued)

2010 Consolidated	Leasehold improvements \$m	Plant, furniture and equipment \$m	IT equipment \$m	Capital works in progress \$m	Total \$m
Cost					
Balance at the beginning of the financial year	20.4	24.7	29.1	0.1	74.3
Additions	1.6	0.7	0.4	1.0	3.7
Acquired during the year as part of business combinations	3.0	0.7	0.3	-	4.0
Disposals	(1.1)	(0.4)	(0.1)	-	(1.6)
Transfers between categories	0.1	-	-	(0.1)	-
Balance at the end of the financial year	24.0	25.7	29.7	1.0	80.4
Depreciation					
Balance at the beginning of the financial year	8.8	15.3	25.7	-	49.8
Depreciation charge for the year	3.1	1.6	1.5	-	6.2
Disposals	(0.8)	(0.2)	(0.1)	-	(1.1)
Balance at the end of the financial year	11.1	16.7	27.1	-	54.9
Carrying amounts					
Carrying amount at the beginning of the financial year	11.6	9.4	3.4	0.1	24.5
Carrying amount at the end of the financial year	12.9	9.0	2.6	1.0	25.5

Bank

Cost					
Balance at the beginning of the financial year	20.4	24.7	29.1	0.1	74.3
Additions	1.6	0.7	0.4	1.0	3.7
Disposals	(1.1)	(0.4)	(0.1)	-	(1.6)
Transfers between categories	0.1	-	-	(0.1)	-
Balance at the end of the financial year	21.0	25.0	29.4	1.0	76.4
Depreciation					
Balance at the beginning of the financial year	8.8	15.3	25.7	-	49.8
Depreciation charge for the year	3.1	1.6	1.4	-	6.1
Disposals	(0.8)	(0.2)	(0.1)	-	(1.1)
Balance at the end of the financial year	11.1	16.7	27.0	-	54.8
Carrying amounts					
Carrying amount at the beginning of the financial year	11.6	9.4	3.4	0.1	24.5
Carrying amount at the end of the financial year	9.9	8.3	2.4	1.0	21.6

15. Deferred tax assets and liabilities

Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Consolidated	2011 \$m	2010 ⁽¹⁾ \$m	2011 \$m	2010 ⁽¹⁾ \$m	2011 \$m	2010 ⁽¹⁾ \$m
Accruals	4.7	3.6	-	-	4.7	3.6
Capitalised expenditure	-	-	(30.0)	(33.9)	(30.0)	(33.9)
Intangibles	-	-	(2.8)	(4.0)	(2.8)	(4.0)
Leasing	-	1.0	(2.5)	-	(2.5)	1.0
Property, plant, equipment and software	-	-	(8.8)	(11.1)	(8.8)	(11.1)
Provision for impairment	75.9	34.0	-	-	75.9	34.0
Provisions other	10.2	10.2	-	-	10.2	10.2
Receivables	-	-	(0.6)	(1.1)	(0.6)	(1.1)
Unrealised trading gains	-	-	-	(2.7)	-	(2.7)
Unrealised trading losses	-	0.3	-	-	-	0.3
Other	7.6	7.5	(6.4)	(4.9)	1.2	2.6
Equity reserves	-	8.0	(5.6)	(1.4)	(5.6)	6.6
Tax assets / (liabilities)	98.4	64.6	(56.7)	(59.1)	41.7	5.5
Bank						
Accruals	0.8	0.1	-	-	0.8	0.1
Capitalised expenditure	-	-	(26.8)	(30.0)	(26.8)	(30.0)
Intangibles	-	-	-	(0.1)	-	(0.1)
Property, plant, equipment and software	-	-	(8.9)	(11.1)	(8.9)	(11.1)
Provision for impairment	63.4	21.8	-	-	63.4	21.8
Provisions other	9.0	9.9	-	-	9.0	9.9
Receivables	-	-	(0.6)	(1.1)	(0.6)	(1.1)
Unrealised trading gains	-	-	-	(2.7)	-	(2.7)
Unrealised trading losses	-	0.3	-	-	-	0.3
Other	6.6	7.6	(2.4)	(0.1)	4.2	7.5
Equity reserves	1.5	11.9	-	(1.4)	1.5	10.5
Tax assets / (liabilities)	81.3	51.6	(38.7)	(46.5)	42.6	5.1

(1) The prior year has been restated. Refer to Note 2 (f).

16. Other assets

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Accrued interest	39.9	57.6	38.4	56.6
Other debtors and prepayments	58.8	62.6	213.5	195.5
Operating lease assets	5.7	4.2	-	-
	104.4	124.4	251.9	252.1

Notes to and forming part of the financial statements

For the year ended 31 August 2011

17. Intangible assets

2011	Consolidated				
	Goodwill \$m	Customer related intangibles and brands \$m	Computer software \$m	Other \$m	Total \$m
Cost					
Balance at the beginning of the financial year	444.4	107.4	170.9	5.3	728.0
Other additions	-	-	19.4	2.0	21.4
Disposals	-	-	-	-	-
Balance at the end of the financial year	444.4	107.4	190.3	7.3	749.4
Amortisation and impairment losses					
Balance at the beginning of the financial year	-	31.3	103.2	0.2	134.7
Amortisation for the year	-	15.0	18.4	1.3	34.7
Disposals	-	-	-	-	-
Balance at the end of the financial year	-	46.3	121.6	1.5	169.4
Carrying amounts					
Carrying amount at the beginning of the financial year	444.4	76.1	67.7	5.1	593.3
Carrying amount at the end of the financial year	444.4	61.1	68.7	5.8	580.0

2010	Consolidated				
	Goodwill \$m	Customer related intangibles and brands \$m	Computer software \$m	Other \$m	Total \$m
Cost					
Balance at the beginning of the financial year	444.4	78.6	194.6	-	717.6
Acquisitions through business combinations ⁽¹⁾	-	28.8	1.6	5.3	35.7
Other additions	-	-	15.3	-	15.3
Disposals ⁽²⁾	-	-	(40.6)	-	(40.6)
Balance at the end of the financial year	444.4	107.4	170.9	5.3	728.0
Amortisation and impairment losses					
Balance at the beginning of the financial year	-	22.0	107.8	-	129.8
Amortisation for the year	-	9.3	21.9	0.2	31.4
Disposals ⁽²⁾	-	-	(26.5)	-	(26.5)
Balance at the end of the financial year	-	31.3	103.2	0.2	134.7
Carrying amounts					
Carrying amount at the beginning of the financial year	444.4	56.6	86.8	-	587.8
Carrying amount at the end of the financial year	444.4	76.1	67.7	5.1	593.3

(1) Accounted as per Note 33 (b)

(2) Refer to Note 5 for further details on impairment.

Bank

Goodwill \$m	Customer contracts \$m	Computer software \$m	Other \$m	Total \$m
8.1	5.0	169.3	-	182.4
-	-	11.7	2.0	13.7
-	-	-	-	-
8.1	5.0	181.0	2.0	196.1
-	4.7	103.1	-	107.8
-	0.3	17.1	0.3	17.7
-	-	-	-	-
-	5.0	120.2	0.3	125.5
8.1	0.3	66.2	-	74.6
8.1	-	60.8	1.7	70.6

Bank

Goodwill \$m	Customer contracts \$m	Computer software \$m	Total \$m
8.1	5.0	194.6	207.7
-	-	-	-
-	-	15.3	15.3
-	-	(40.6)	(40.6)
8.1	5.0	169.3	182.4
-	3.8	107.8	111.6
-	0.9	21.8	22.7
-	-	(26.5)	(26.5)
-	4.7	103.1	107.8
8.1	1.2	86.8	96.1
8.1	0.3	66.2	74.6

Notes to and forming part of the financial statements

For the year ended 31 August 2011

17. Intangible assets (continued)

Impairment testing of the cash generating unit containing goodwill

The aggregate carrying amounts of goodwill are:

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$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	399.4	-	-
	444.4	444.4	8.1	8.1

The cash generating unit ("CGU") to which all goodwill has been allocated is the retail banking segment.

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 retail banking segments 3 year projections (2010: 3 years);
- a medium term growth rate of 10% (2010: 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% (2010: 2.5%) and a terminal price earnings multiple of 10.7 (2010: 11.4) times earnings; and
- a pre tax discount rate of 16.9% (2010: 16.0%).

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. Underperformance by the Consolidated Entity of its forecast growth rate by approximately 17% (2010: 38%) would result in the carrying value for the CGU exceeding its recoverable amount.

18. Due to other financial institutions

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Amounts payable – at call	169.2	138.2	169.2	138.2

19. Deposits

Deposits at call	8,615.2	9,397.7	8,863.8	9,672.1
Term deposits	13,269.5	10,907.5	13,269.5	10,907.5
Certificates of deposit	7,741.9	7,783.3	7,741.9	7,783.3
Total	29,626.6	28,088.5	29,875.2	28,362.9

Concentration of deposits:

Retail deposits	20,317.9	18,083.3	20,566.5	17,415.3
Wholesale deposits	9,308.7	10,005.2	9,308.7	10,947.6
Total	29,626.6	28,088.5	29,875.2	28,362.9

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

20. Provisions

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Employee benefits	15.8	13.9	13.2	11.5
Directors' retiring allowance	0.2	0.2	0.2	0.2
Leases	0.4	0.4	0.1	0.4
Restructuring	0.8	4.5	0.8	4.5
Other	13.0	12.1	7.2	7.1
Total	30.2	31.1	21.5	23.7

Movements in provisions

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

	Consolidated			Bank		
	Leases \$m	Restructuring \$m	Other \$m	Leases \$m	Restructuring \$m	Other \$m
2011						
Carrying amount at beginning of year	0.4	4.5	12.1	0.4	4.5	7.1
Additional provision recognised	0.3	-	1.9	-	-	1.1
Payments made	(0.3)	(3.7)	(1.0)	(0.3)	(3.7)	(1.0)
Carrying amount at end of year	0.4	0.8	13.0	0.1	0.8	7.2
2010						
Carrying amount at beginning of year	0.5	1.1	8.4	0.5	1.1	1.3
Additional / (release) provision recognised	(0.2)	4.5	4.9	(0.2)	4.5	7.3
Payments made	(0.2)	(1.1)	(7.5)	(0.2)	(1.1)	(1.5)
Acquired during the year ⁽¹⁾	0.3	-	6.3	0.3	-	-
Carrying amount at end of year	0.4	4.5	12.1	0.4	4.5	7.1

(1) Provisions acquired during the prior year relate to the acquisition of BOQ Finance (Aust) Limited and BOQ Finance (NZ) Limited on 30 June 2010 and St Andrew's Life Insurance Pty Ltd on 1 July 2010.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

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 ⁽²⁾ \$m	Preference shares ⁽³⁾ \$m	Syndicated Loan \$m	Total \$m
Year ended 31 August 2011							
Balance at beginning of year	5,776.1	81.7	472.6	494.4	47.2	300.3	7,172.3
Proceeds from issues	972.8	10.9	1,885.9	279.9	-	198.2	3,347.7
Repayments	(1,247.3)	(62.9)	(1,964.5)	(233.1)	(47.2)	(264.4)	(3,819.4)
Deferred establishment costs	(2.4)	-	-	-	-	-	(2.4)
Amortisation of deferred costs	5.7	-	-	-	-	-	5.7
Foreign exchange translation	20.7	(9.1)	(15.6)	-	-	(48.9)	(52.9)
Balance at end of the year	5,525.6	20.6	378.4	541.2	-	185.2	6,651.0

Year ended 31 August 2010

Balance at beginning of year	5,613.8	493.0	164.4	345.7	47.2	318.7	6,982.8
Acquired during the year ⁽⁴⁾	-	-	-	3.9	-	-	3.9
Proceeds from issues	2,149.4	81.7	2,568.9	147.7	-	-	4,947.7
Repayments	(1,881.6)	(476.2)	(2,256.7)	(2.9)	-	-	(4,617.4)
Deferred establishment costs	(7.8)	-	-	-	-	-	(7.8)
Amortisation of deferred costs	5.9	-	-	-	-	-	5.9
Foreign exchange translation	(103.6)	(16.8)	(4.0)	-	-	(18.4)	(142.8)
Balance at end of the year	5,776.1	81.7	472.6	494.4	47.2	300.3	7,172.3

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	Syndicated Loan \$m	Total \$m
Year ended 31 August 2011						
Balance at beginning of year	81.7	472.6	490.5	47.2	300.3	1,392.3
Proceeds from issues	10.9	1,885.9	279.9	-	198.2	2,374.9
Repayments	(62.9)	(1,964.5)	(230.8)	(47.2)	(264.4)	(2,569.8)
Foreign exchange translation	(9.1)	(15.6)	-	-	(48.9)	(73.6)
Balance at end of the year	20.6	378.4	539.6	-	185.2	1,123.8

(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.

(2) The Convertible Notes issued were in three tranches of \$60 million ("Tranche 1"), \$45 million ("Tranche 2") and \$45 million ("Tranche 3"), and are cumulative, convertible, subordinated notes due June 2020, and pay, subject to a solvency condition, a monthly coupon equal to the 30 day bank bill rate plus 400 basis points. The Convertible Notes are unlisted. The Convertible Notes for Tranche 1 (after extension), Tranche 2 (after extension) and Tranche 3 convert into a variable number of BOQ ordinary shares on 10 November 2012, 10 August 2012 and 10 June 2012 respectively, or each monthly interest payment date thereafter, at the holders' option, or earlier following the occurrence of certain events. The Convertible Notes will be redeemable for Tranche 1 and Tranche 2 at the option of the holder and also BOQ. Conditions for an Early Conversion Event for Tranche 3 had been met on 10 August 2011. The holder of the Convertible Notes has not served a conversion notice, with respect to Tranche 3, to convert this financial instrument.

(3) The bank converted the RePs into fully paid ordinary shares on 15 October 2010.

(4) Borrowings acquired in the prior year relate to the acquisition of BOQ Finance (Aust) Limited.

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	Syndicated Loan \$m	Total \$m
Year ended 31 August 2010						
Balance at beginning of year	493.0	164.4	345.7	47.2	318.7	1,369.0
Proceeds from issues	81.7	2,568.9	147.7	-	-	2,798.3
Repayments	(476.2)	(2,256.7)	(2.9)	-	-	(2,735.8)
Foreign exchange translation	(16.8)	(4.0)	-	-	(18.4)	(39.2)
Balance at end of the year	81.7	472.6	490.5	47.2	300.3	1,392.3

22. Capital and Reserves

(a) Ordinary shares

	Consolidated		Bank	
	2011 Number	2010 Number	2011 Number	2010 Number
Movements during the year				
Balance at the beginning of the year – fully paid	215,685,428	199,789,947	215,685,428	199,789,947
Dividend reinvestment plan	5,324,724	4,512,945	5,324,724	4,512,945
Exercise of options	-	302,000	-	302,000
Conversion of REPs to ordinary shares	4,359,696	-	4,359,696	-
Institutional placement and entitlements offer	-	11,080,536	-	11,080,536
Balance at the end of the year – fully paid	225,369,848	215,685,428	225,369,848	215,685,428
Treasury shares (included in ordinary shares above)				
Balance at the beginning of the year	583,080	25,412	108,000	-
Net acquisitions and disposals during the year	323,231	557,668	-	108,000
Balance at the end of the year	906,311	583,080	108,000	108,000

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 PEPS shareholders and creditors and are fully entitled to any proceeds of liquidation.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

22. Capital and Reserves (continued)

(b) Perpetual Equity Preference Shares ("PEPS")

	Consolidated		Bank	
	2011 Number	2010 Number	2011 Number	2010 Number
Balance at beginning of the year – fully paid	2,000,000	2,000,000	2,000,000	2,000,000
Balance at end of the year – fully paid	2,000,000	2,000,000	2,000,000	2,000,000

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. The Consolidated Entity 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. The Consolidated Entity 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 and rank ahead of ordinary shareholders for return of capital on liquidation.

(c) Nature and purpose of reserves

Employee benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 31 for further details of these plans.

General reserve for credit losses

Refer to significant accounting policies Note 3 (t).

Available-for-sale reserve

Changes in the fair value of investments, such as bonds and floating rate notes classified as available-for-sale financial assets, are recognised in other comprehensive income as described in Note 3(c) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Cash flow hedge reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 3(c). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Translation reserve

As described in Note 3(b) and (c), the translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the movement in fair value of derivatives that hedge the Bank's net investment in a foreign subsidiary.

23. Segment reporting

Segment information

For management purposes, the bank is organised into two operating segments based on products and services:

Banking Retail banking, commercial, personal, small business loans, equipment and debtor finance, savings and transaction accounts and treasury

Insurance Life insurance and income protection insurance

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed within the individual operating segments and thus disclosed this way.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2011 or 2010.

(a) Information about reportable segments

The following table presents income and profit and certain asset and liability information regarding the bank's operating segments.

	Banking		Insurance		Total	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Income						
External	758.1	703.6	40.3	7.4	798.4	711.0
Inter-segment	5.9	0.8	-	-	5.9	0.8
Total operating income	764.0	704.4	40.3	7.4	804.3	711.8
Segment profit before income tax	195.0	253.5	26.1	4.6	221.1	258.1
Income tax expense	55.3	74.9	8.2	1.3	63.5	76.2
Segment profit after income tax	139.7	178.6	17.9	3.3	157.6	181.9
Results						
Interest income	2,679.2	2,237.4	-	-	2,679.2	2,237.4
Interest expense	2,053.2	1,676.2	2.6	0.4	2,055.8	1,676.6
Depreciation and amortisation	25.5	28.0	0.5	-	26.0	28.0
Impairment losses	200.5	104.2	-	-	200.5	104.2
Assets	39,705.1	38,386.7	198.7	213.8	39,903.8	38,600.5
Liabilities	37,165.8	36,031.7	161.8	163.8	37,327.6	36,195.5

(b) Reconciliations

	Revenue		Profit before tax	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Segment total	804.3	711.8	221.1	258.1
Elimination of inter-segment revenue	(5.9)	(0.8)	-	-
Less other consolidation eliminations	(2.0)	(0.4)	0.7	-
Consolidated total	796.4	710.6	221.8	258.1

	Assets		Liabilities	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Segment total	39,903.8	38,600.5	37,327.6	36,195.5
Less elimination of inter-company bank accounts	(2.5)	(2.5)	(2.5)	(2.5)
Less other inter-company eliminations	(0.5)	(0.2)	2.1	-
Consolidated total	39,900.8	38,597.8	37,327.2	36,193.0

(c) Geographical segments

The Consolidated Entity's business segments operate 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.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

24. Risk management

The Bank adopts a "managed risk" approach to its banking and insurance activities. As such, the articulation of a risk aware culture is prevalent throughout the Bank's credit, liquidity, market, operational, insurance 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 Chief Risk Officer.

The Chief Risk Officer 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.

Monitoring

The Bank's enterprise risk management framework incorporates active management and monitoring of a range of risks including (but not limited to):

1. Market
2. Credit
3. Operational
4. Liquidity
5. Insurance

(a) Market risk

Market risk is the risk that movements in market rates and prices will result in profits or losses to the Bank. The objective of market risk management is to manage and control market risk.

(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 increase 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 positive shock.

Consolidated and Bank	2011 %	2010 %	2011 \$m	2010 \$m
Exposure at the end of the year	0.67	2.06	5.3	14.6
Average monthly exposure during the year	2.26	1.56	17.9	11.1
High month exposure during the year	3.47	3.06	27.5	21.7
Low month exposure during the year	0.17	0.31	1.3	2.2

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, whilst not addressing the likelihood of those outcomes.

As an overlay, the individual market risks of interest rate and credit sensitivities are monitored and measured against limits delegated by ALCO.

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

Trading VaR	2011 \$m	2010 \$m
Average	0.33	0.32
Maximum	0.98	0.89
Minimum	0.05	0.07

(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.

The Bank's investment in its New Zealand subsidiary is hedged by forward foreign exchange contracts which mitigate the currency risk arising from the subsidiary's net assets.

(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 General Manager Credit;
- 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, and lines of credit. 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.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

24. Risk management (continued)

(b) Credit risk (continued)

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	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Cash and liquid assets	433.2	471.1	269.6	276.1
Due from other financial institutions	131.9	115.8	25.9	24.7
Other financial assets (including accrued interest)	5,186.9	5,405.6	5,254.1	5,496.0
Derivative financial instruments	126.8	148.1	126.8	148.1
Financial assets other than loans and advances	5,878.8	6,140.6	5,676.4	5,944.9
Gross loans and advances at amortised cost	34,064.9	32,438.9	29,956.9	28,267.7
Total financial assets	39,943.7	38,579.5	35,633.3	34,212.6
Customer commitments ⁽¹⁾	1,166.2	1,253.3	757.4	812.6
Total potential exposure to credit risk	41,109.9	39,832.8	36,390.7	35,025.2

(1) Refer to Note 30(b) for full details of customer commitments.

Distribution of financial assets by credit quality

Neither past due or impaired

Gross loans and advances at amortised cost	31,892.0	30,622.1	27,952.2	26,691.8
Financial assets other than loans and advances	5,878.8	6,140.6	5,676.4	5,944.9

Past due but not impaired

Gross loans and advances at amortised cost	1,728.6	1,669.2	1,588.8	1,453.5
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Impaired

Gross loans and advances at amortised cost	444.3	147.6	415.9	122.4
	39,943.7	38,579.5	35,633.3	34,212.6

There is no item included in impaired assets which exceeds 5.0% of shareholders' equity (2010: 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	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Held against past due but not impaired assets	2,118.4	2,060.0	1,918.7	1,852.1
Held against impaired assets	336.1	104.3	321.7	87.5

Credit quality

The credit quality of 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 an analysis of the credit quality of financial assets:

	Consolidated							
	2011 \$m				2010 \$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	20,210.5	2,008.3	22,218.8	5,868.3	19,123.6	1,975.1	21,098.7	6,119.1
Satisfactory	3,548.5	5,753.3	9,301.8	-	3,289.0	5,929.4	9,218.4	2.1
Weak	603.7	1,332.4	1,936.1	10.5	440.0	1,041.7	1,481.7	19.4
Unrated ⁽¹⁾	608.2	-	608.2	-	640.1	-	640.1	-
	24,970.9	9,094.0	34,064.9	5,878.8	23,492.7	8,946.2	32,438.9	6,140.6
	Bank							
	2011 \$m				2010 \$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	20,210.5	1,773.9	21,984.4	5,603.4	19,123.6	1,718.7	20,842.3	5,860.7
Satisfactory	3,548.5	2,662.2	6,210.7	-	3,289.0	2,803.3	6,092.3	2.1
Weak	603.7	550.0	1,153.7	73.0	440.0	252.2	692.2	82.1
Unrated ⁽¹⁾	608.1	-	608.1	-	640.9	-	640.9	-
	24,970.8	4,986.1	29,956.9	5,676.4	23,493.5	4,774.2	28,267.7	5,944.9

(1) Those items that remain unrated for retail gross loans and advances represent mainly personal loans and advances, which although 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 loans that would otherwise be past due or impaired whose terms have been re-negotiated is considered immaterial.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

24. Risk management (continued)

(b) Credit risk (continued)

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.

		Consolidated		Bank	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m
Less than 30 days	- Retail	676.5	825.9	676.5	825.9
	- Commercial	207.3	245.8	124.1	138.2
31 to 90 days	- Retail	253.9	139.2	253.9	139.2
	- Commercial	108.0	130.9	68.6	70.3
More than 90 days	- Retail	318.3	185.7	318.3	185.7
	- Commercial	164.6	141.7	147.4	94.2
		1,728.6	1,669.2	1,588.8	1,453.5

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:

		Consolidated		Bank	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m
Geographical concentration of credit risk for loans and advances at amortised cost (before provisions and unearned income):					
Queensland		20,631.4	20,109.7	19,096.2	18,592.7
New South Wales		4,415.8	4,057.9	3,614.4	3,247.4
Victoria		5,191.5	4,449.3	4,247.3	3,468.4
Northern Territory		120.2	101.3	113.9	93.1
Australian Capital Territory		423.6	417.7	211.5	188.7
Western Australia		2,760.1	2,840.5	2,393.1	2,466.2
South Australia		208.9	209.2	90.1	77.7
Tasmania		193.7	136.4	190.4	133.5
International (New Zealand)		119.7	116.9	-	-
		34,064.9	32,438.9	29,956.9	28,267.7

(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 2011	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	Policy Holder \$m	Total contractual cash flows \$m
Financial liabilities								
Due to other financial institutions	169.2	169.2	-	-	-	-	-	169.2
Deposits	29,626.6	10,302.5	11,578.6	6,476.1	3,665.0	-	-	32,022.2
Derivative financial instruments ⁽¹⁾	41.2	-	41.6	0.6	-	-	-	42.2
Accounts payable and other liabilities	429.1	-	429.1	-	-	-	-	429.1
Securitisation liabilities ⁽²⁾	5,525.6	-	826.7	2,018.5	2,781.1	715.6	-	6,341.9
Borrowings including subordinated notes	1,125.4	-	296.8	233.3	745.3	-	-	1,275.4
Insurance policy liabilities	77.6	-	-	-	-	-	77.6	77.6
Total	36,994.7	10,471.7	13,172.8	8,728.5	7,191.4	715.6	77.6	40,357.6

**Derivative financial instruments
(hedging relationship)**

Contractual amounts payable	-	-	519.6	550.3	947.8	34.8	-	2,052.5
Contractual amounts receivable	-	-	(475.6)	(506.6)	(889.4)	(30.6)	-	(1,902.2)
	112.0	-	44.0	43.7	58.4	4.2	-	150.3

Off balance sheet positions

Guarantees, indemnities and letters of credit	-	133.2	-	-	-	-	-	133.2
Customer funding commitments	-	1,166.2	-	-	-	-	-	1,166.2
	-	1,299.4	-	-	-	-	-	1,299.4

**Consolidated
2010**

Financial liabilities								
Due to other financial institutions	138.2	138.2	-	-	-	-	-	138.2
Deposits	28,088.5	9,715.0	9,961.9	5,919.0	4,571.1	-	-	30,167.0
Derivative financial instruments ⁽¹⁾	0.7	(0.1)	1.3	2.0	0.1	-	-	3.3
Accounts payable and other liabilities	411.7	-	411.7	-	-	-	-	411.7
Securitisation liabilities ⁽²⁾	5,776.1	-	495.9	1,916.9	2,852.3	1,600.8	-	6,865.9
Borrowings including subordinated notes	1,349.0	-	383.5	736.5	313.4	-	-	1,433.4
Preference shares	47.2	-	48.4	-	-	-	-	48.4
Insurance policy liabilities	85.7	-	-	-	-	-	85.7	85.7
Total	35,897.1	9,853.1	11,302.7	8,574.4	7,736.9	1,600.8	85.7	39,153.6

(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

For the year ended 31 August 2011

24. Risk management (continued)

(c) Liquidity risk (continued)

Consolidated 2010	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	Policy Holder \$m	Total contractual cash flows \$m
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	74.9	497.5	889.7	394.0	14.3	-	1,870.4
Contractual amounts receivable	-	(74.0)	(537.2)	(874.1)	(391.7)	(11.0)	-	(1,888.0)
	45.9	0.9	(39.7)	15.6	2.3	3.3	-	(17.6)

Off balance sheet positions

Guarantees, indemnities and letters of credit	-	149.0	-	-	-	-	-	149.0
Customer funding commitments	-	1,253.3	-	-	-	-	-	1,253.3
	-	1,402.3	-	-	-	-	-	1,402.3

Bank 2011	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	169.2	169.2	-	-	-	-	169.2
Deposits	29,875.2	10,551.1	11,578.6	6,476.1	3,665.0	-	32,270.8
Derivative financial instruments ⁽¹⁾	41.2	-	41.6	0.6	-	-	42.2
Accounts payable and other liabilities	387.1	-	387.1	-	-	-	387.1
Borrowings including subordinated notes	1,123.8	-	296.3	231.8	743.5	-	1,271.6
Amounts due to controlled entities	2,340.2	2,340.2	-	-	-	-	2,340.2
Total	33,936.7	13,060.5	12,303.6	6,708.5	4,408.5	-	36,481.1

Derivative financial instruments (hedging relationship)

Contractual amounts payable	-	-	487.9	472.3	695.9	34.8	1,690.9
Contractual amounts receivable	-	-	(451.8)	(445.7)	(679.7)	(30.6)	(1,607.8)
	45.5	-	36.1	26.6	16.2	4.2	83.1

Off balance sheet positions

Guarantees, indemnities and letters of credit	-	133.2	-	-	-	-	133.2
Customer funding commitments	-	757.4	-	-	-	-	757.4
	-	890.6	-	-	-	-	890.6

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

Bank 2010	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	138.2	138.2	-	-	-	-	138.2
Deposits	28,362.9	9,989.4	9,961.9	5,919.0	4,571.1	-	30,441.4
Derivative financial instruments ⁽¹⁾	0.7	(0.1)	1.3	2.0	0.1	-	3.3
Accounts payable and other liabilities	360.8	-	360.8	-	-	-	360.8
Borrowings including subordinated notes	1,345.1	-	383.0	735.0	311.6	-	1,429.6
Preference shares	47.2	-	48.4	-	-	-	48.4
Amounts due to controlled entities	2,536.7	2,536.7	-	-	-	-	2,536.7
Total	32,791.6	12,664.2	10,755.4	6,656.0	4,882.8	-	34,958.4
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	74.9	497.5	889.7	394.0	14.3	1,870.4
Contractual amounts receivable	-	(74.0)	(537.2)	(874.1)	(391.7)	(11.0)	(1,888.0)
	(28.7)	0.9	(39.7)	15.6	2.3	3.3	(17.6)
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	149.0	-	-	-	-	149.0
Customer funding commitments	-	812.6	-	-	-	-	812.6
	-	961.6	-	-	-	-	961.6

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

(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 failures could lead to reputational damage, financial loss or regulatory consequences.

Group Risk are responsible for ensuring an appropriate framework exists to define, assess and manage operational risk and that resources are available to support it.

Bank of Queensland has developed an Operational Risk Management Framework ("ORMF") which is designed to articulate, assess and manage operational risks throughout the Bank and its subsidiaries. The key objectives of the framework are as follows:

- risk identification, analysis and acceptance;
- execution and monitoring of risk management practices; and
- reporting and escalation of risk information on a regular and/or exception basis

The ORMF consists of the following mandatory elements:

- bankwide policies which require a consistent approach and minimum standards on specific operational risk matters;
- Enterprise and Business Unit specific Risk profiling; and
- Risk Self Assessments through the completion of various controls attestation questionnaires

These provide the basis for the business unit and Bank wide risk profiles. The Bank wide risk profile is reported to the Board and Risk Committee on a regular basis.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

24. Risk management (continued)

(e) Insurance risk

(i) Risk management objectives and policies for risk mitigation

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements, all of which are approved by the Appointed Actuary and the Board. Controls are also maintained over claims management practices to assure the correct and timely payment of insurance claims.

(ii) Strategy for managing insurance risk

Portfolio of risks

The Bank issues term life insurance contracts and disability insurance contracts. The performance of the Bank and its continuing ability to write business depends on its ability to pre-empt and control risks. The Bank has a risk strategy which has been approved by the Board. It summarises the Bank's approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy objectives whilst not adversely affecting the Bank's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Bank's risk management strategy. Capital requirements take account of all of the various regulatory reporting requirements to which the Bank is subject.

Solvency margin requirements established by the Australian Prudential Regulation Authority (APRA) are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, not just at year end. These solvency requirements also take into account specific risks faced by the Bank.

(iii) Methods to monitor and assess insurance risk exposures

Statutory capital adequacy requirements

Insurance operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held.

(iv) Methods to limit or transfer insurance risk exposures

Reinsurance

All insurance treaties are examined by the Appointed Actuary to assess their impact on the Bank's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels. The methodology used produces financial projections based on a number of possible scenarios providing a detailed analysis of the potential exposures.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Bank's Underwriting Policy. Such procedures include limits to delegated authorities and signing powers.

Claims management

Strict claims management procedures ensure timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques

Assets are allocated to different classes of business using a risk based approach. The Bank has a mix of short and long term business and invests accordingly. Market risk is managed through investing in cash and deposits, commercial bills, income securities, equities and unit trusts. No more than 35% of shareholder funds and funds backing insurance policy liabilities can be invested with any one counterparty subject to counterparty credit ratings.

(v) Concentration of insurance risk

Insurance risks associated with human life events

The Bank aims to maintain a stable age profile and mix of the sexes within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, and exposure to the significant external events. Despite the inevitable growth in policyholders at the age of retirement, the age profile and mix of sexes within the population of policyholders is sufficiently spread so that the risk concentration in relation to any particular age group is minimal.

25. 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 Tier 1 capital target range to be between 8% and 9% of risk weighted assets and the total capital range to be between 11% and 12% of risk weighted assets. The total capital adequacy ratio at 31 August 2011 was 11.4% and Tier 1 capital was 8.4%. Perpetual Equity Preference Shares ("PEPS"), issued as hybrid capital instruments, comprise 11% of total Tier 1 capital.

Total Tier 1 capital of 8.4% is represented by 7.4% of Core Tier 1 capital and 1.0% of hybrid capital instruments, including preference shares.

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

	Consolidated	
	2011 \$m	2010 \$m
Qualifying capital		
Tier 1		
Fundamental Tier 1		
Ordinary Share Capital	1,957.9	1,861.9
Reserves	33.5	32.9
Retained profits ⁽¹⁾	288.4	239.5
	2,279.8	2,134.3
Residual Tier 1		
Non Innovative (PEPS)	195.7	195.7
Innovative (RePS)	-	47.2
	195.7	242.9
Tier 1 Deductions		
Deferred Expenditure	(105.1)	(100.5)
Goodwill and other identifiable intangibles	(557.9)	(574.4)
Other deductions	(94.3)	(45.3)
	(757.3)	(720.2)
Net Tier 1 Capital	1,718.2	1,657.0
Tier 2		
Upper Tier 2		
General Reserve for Credit Losses	123.1	114.2
Other	4.2	3.2
	127.3	117.4
Lower Tier 2		
Term subordinated debt	539.6	490.5
	539.6	490.5
Tier 2 Deductions	(40.8)	(41.9)
	(40.8)	(41.9)
Net Tier 2 Capital	626.1	566.0
Capital Base	2,344.3	2,223.0
Risk Weighted Assets	20,524.6	19,001.4
Capital Adequacy Ratio	11.4%	11.7%

(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

For the year ended 31 August 2011

26. 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 24 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 2011. 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					
	2011			2010		
	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 at fair value through income statement						
Interest Rate Swaps	11,000.0	9.0	(40.9)	6,400.0	2.0	-
Forward Rate Agreements	-	-	-	2,000.0	-	(0.2)
Foreign Exchange Forwards	51.9	0.4	(0.3)	40.4	0.3	(0.5)
Futures	12,624.8	6.5	-	2,631.7	2.9	-
	23,676.7	15.9	(41.2)	11,072.1	5.2	(0.7)
Derivatives held as cash flow hedges						
Interest Rate Swaps	28,249.0	108.8	(132.3)	24,514.7	137.8	(92.4)
Cross Currency Swaps	677.3	0.1	(88.0)	999.0	1.3	(89.4)
Foreign Exchange Forwards	241.8	1.9	(2.6)	498.5	3.4	(6.6)
	29,168.1	110.8	(222.9)	26,012.2	142.5	(188.4)
Derivatives designated as net investment hedges						
Foreign Exchange Forwards	23.7	0.1	-	20.9	0.4	-
	52,868.5	126.8	(264.1)	37,105.2	148.1	(189.1)

	Bank					
	2011			2010		
	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 at fair value through income statement						
Interest Rate Swaps	11,000.0	9.0	(40.9)	6,400.0	2.0	-
Forward Rate Agreements	-	-	-	2,000.0	-	(0.2)
Foreign Exchange Forwards	75.5	0.5	(0.3)	61.3	0.7	(0.5)
Futures	12,624.8	6.5	-	2,631.7	2.9	-
	23,700.3	16.0	(41.2)	11,093.0	5.6	(0.7)
Derivatives held as cash flow hedges						
Interest Rate Swaps	28,249.0	108.8	(132.3)	24,514.7	137.8	(92.5)
Cross Currency Swaps	289.5	0.1	(21.4)	455.1	1.3	(14.7)
Foreign Exchange Forwards	241.8	1.9	(2.6)	498.5	3.4	(6.6)
	28,780.3	110.8	(156.3)	25,468.3	142.5	(113.8)
	52,480.6	126.8	(197.5)	36,561.3	148.1	(114.5)

(b) Other financial instruments

The fair value estimates for specific instruments are based on the following methodologies and assumptions:

Cash and liquid assets, due from and to other financial institutions and other financial assets

The fair value approximates their carrying value as they are short term in nature or are receivable or payable on demand.

Loans and advances

Loans and advances are net of specific and collective provisions for doubtful debts and unearned income. The fair values of loans and advances that reprice within six months of year end are assumed to equate to the carrying value. The net fair values of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on the current interest rates at 31 August of similar types of loans and advances, if the loans and advances were performing at balance date. The differences between estimated fair values of loans and advances and carrying value reflect changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Deposits

The fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is the carrying value. The fair value of other term deposits is calculated using discounted cash flow models based on the deposit type and its related maturity.

Borrowings including subordinated notes and other debt issues

The fair values are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments.

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

		Consolidated Entity			
		Carrying value		Net fair value	
	Note	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Assets carried at fair value					
Available for Sale financial assets	11	959.5	827.7	959.5	827.7
Financial assets designated at fair value through profit and loss	11	4,187.5	4,520.3	4,187.5	4,520.3
Derivative assets	26	126.8	148.1	126.8	148.1
		5,273.8	5,496.1	5,273.8	5,496.1
Assets carried at amortised cost					
Cash and liquid assets	9	433.2	471.1	433.2	471.1
Due from other financial institutions	10	131.9	115.8	131.9	115.8
Loans and advances at amortised cost	12	33,726.1	31,736.5	33,772.8	31,739.9
		34,291.2	32,323.4	34,337.9	32,326.8
Liabilities carried at fair value					
Derivative liabilities	26	(264.1)	(189.1)	(264.1)	(189.1)
Insurance policy liabilities	37	(77.6)	(85.7)	(77.6)	(85.7)
		(341.7)	(274.8)	(341.7)	(274.8)
Liabilities carried at amortised cost					
Balances due to other financial institutions	18	(169.2)	(138.2)	(169.2)	(138.2)
Deposits	19	(29,626.6)	(28,088.5)	(29,698.3)	(28,167.7)
Borrowings including subordinated notes	21	(6,651.0)	(7,172.3)	(6,713.6)	(7,198.4)
Accounts payable and other liabilities		(429.1)	(411.7)	(429.1)	(411.7)
		(36,875.9)	(35,810.7)	(37,010.2)	(35,916.0)

Notes to and forming part of the financial statements

For the year ended 31 August 2011

26. Financial Instruments (continued)

(b) Other financial instruments (continued)

		Bank			
		Carrying value		Net fair value	
	Note	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Assets carried at fair value					
Available for Sale financial assets	11	1,028.2	919.5	1,028.2	919.5
Financial assets designated at fair value through profit and loss	11	4,187.5	4,519.9	4,187.5	4,519.9
Derivative assets	26	126.8	148.1	126.8	148.1
		5,342.5	5,587.5	5,342.5	5,587.5
Assets carried at amortised cost					
Cash and liquid assets	9	269.6	276.1	269.6	276.1
Due from other financial institutions	10	25.9	24.7	25.9	24.7
Loans and advances at amortised cost	12	29,745.7	28,195.2	29,771.0	28,204.1
		30,041.2	28,496.0	30,066.5	28,504.9
Liabilities carried at fair value					
Derivative liabilities	26	(197.5)	(114.5)	(197.5)	(114.5)
Liabilities carried at amortised cost					
Balances due to other financial institutions	18	(169.2)	(138.2)	(169.2)	(138.2)
Deposits	19	(29,875.2)	(28,362.9)	(29,946.9)	(28,442.1)
Borrowings including subordinated notes	21	(1,123.8)	(1,392.3)	(1,186.4)	(1,418.4)
Accounts payable and other liabilities		(387.1)	(360.8)	(387.1)	(360.8)
		(31,555.3)	(30,254.2)	(31,689.6)	(30,359.5)

The estimated net fair values disclosed do not include the assets and liabilities that are not considered financial instruments.

Interest rates used for determining fair values

The interest rates used to discount estimated cash flows, when applicable, are based on the Banks yield curve at the reporting date plus an adequate credit spread, and were as follows;

	2011	2010
Derivatives, deposits and borrowings including subordinated notes	4.86% - 5.24%	4.6%-5.34%
Leases	8.24%-14.52%	8.19%-15.32%
Loans and advances at amortised cost	6.5% - 8.7%	6.89%-8.65%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no material movements in Level 3 during the year.

2011				
Consolidated Entity	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Instruments carried at fair value				
Available for Sale financial assets	312.1	636.9	10.5	959.5
Financial assets designated at fair value through profit and loss	62.0	4,125.5	-	4,187.5
Derivative assets	-	126.8	-	126.8
	374.1	4,889.2	10.5	5,273.8
Derivative liabilities	-	(264.1)	-	(264.1)
	374.1	4,625.1	10.5	5,009.7

2010				
Consolidated Entity				
Instruments carried at fair value				
Available for Sale financial assets	372.6	440.9	14.2	827.7
Financial assets designated at fair value through profit and loss	32.6	4,487.7	-	4,520.3
Derivative assets	-	148.1	-	148.1
	405.2	5,076.7	14.2	5,496.1
Derivative liabilities	-	(189.1)	-	(189.1)
	405.2	4,887.6	14.2	5,307.0

2011				
Bank				
Instruments carried at fair value				
Available for Sale financial assets	312.1	703.2	12.9	1,028.2
Financial assets designated at fair value through profit and loss	62.0	4,125.5	-	4,187.5
Derivative assets	-	126.8	-	126.8
	374.1	4,955.5	12.9	5,342.5
Derivative liabilities	-	(197.5)	-	(197.5)
	374.1	4,758.0	12.9	5,145.0

2010				
Bank				
Instruments carried at fair value				
Available for Sale financial assets	372.6	530.4	16.5	919.5
Financial assets designated at fair value through profit and loss	32.2	4,487.7	-	4,519.9
Derivative assets	-	148.1	-	148.1
	404.8	5,166.2	16.5	5,587.5
Derivative liabilities	-	(114.5)	-	(114.5)
	404.8	5,051.7	16.5	5,473.0

Notes to and forming part of the financial statements

For the year ended 31 August 2011

27. Notes to the statements of cash flows

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

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Profit from ordinary activities after income tax	158.7	181.9	142.4	186.9
Add / (less) items classified as investing / financing activities or non-cash items				
Depreciation	11.5	6.9	6.1	6.1
Amortisation	6.7	8.5	0.6	1.0
Dividends received from subsidiaries	-	-	(32.0)	-
Software amortisation	18.4	21.8	17.1	21.8
Loss on sale / asset writedowns	0.2	14.2	0.2	14.2
Share based payments	4.0	4.7	4.0	4.7
Profit on sale of property, plant and equipment	(5.5)	(0.8)	(0.1)	(0.1)
Increase / (decrease) in due from other financial institutions	(16.1)	50.9	(1.2)	49.9
(Increase) / decrease in other financial assets	208.6	(905.6)	227.3	(883.9)
Increase in loans and advances at amortised cost	(1,679.7)	(3,247.9)	(1,689.3)	(2,529.9)
(Increase) / decrease in derivatives	125.0	(95.2)	129.3	(60.9)
Increase in provision for impairment	139.2	62.6	138.8	29.1
Increase in deferred tax asset	(38.9)	(0.2)	(39.0)	(0.1)
(Increase) / decrease in other assets	(2.3)	(6.5)	22.1	(25.2)
Decrease in amounts due from controlled entities	-	-	(188.5)	(586.0)
Increase / (decrease) in due to other financial institutions	31.0	(54.5)	31.0	(54.5)
Increase in deposits	1,541.0	3,891.3	1,515.0	3,949.4
Increase in accounts payable and other liabilities	19.7	115.0	3.1	92.8
Increase / (decrease) in current tax liabilities	2.6	23.0	(15.0)	21.1
Increase / (decrease) in provisions	1.1	1.1	(2.2)	9.9
Increase / (decrease) in deferred tax liabilities	(10.6)	3.1	-	-
Increase / (decrease) in insurance policy liabilities	18.0	(3.3)	-	-
Increase / (decrease) in borrowings including subordinated notes	(271.1)	267.8	-	-
Net cash from operating activities	261.5	338.8	269.7	246.3

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.

28. Auditors' remuneration

	Consolidated		Bank	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Audit services – KPMG Australia				
- Audit and review of the financial reports	923.4	794.2	547.1	582.0
- Other regulatory and audit services	464.1	181.5	304.1	116.0
	1,387.5	975.7	851.2	698.0
Audit related services – KPMG Australia				
- Other assurance services ⁽¹⁾	84.2	264.4	-	-
	84.2	264.4	-	-
Other services – KPMG Australia				
- Tax advisory services	347.4	220.2	341.4	220.2
- Other	5.4	7.0	5.4	7.0
	352.8	227.2	346.8	227.2
Other services – KPMG Australia				
- Due diligence services	-	688.7	-	-
	-	688.7	-	-

(1) Other assurance services comprise accounting opinions, and audit related services provided in relation to mortgage securitisation trusts which are consolidated under Australian Accounting 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 \$32,448 (2010: \$54,993).

29. Contingent liabilities

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Guarantees	127.7	140.4	127.7	140.4
Letters of credit	5.5	8.6	5.5	8.6

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.

Legal proceedings

On 22 December 2010, the Australian Securities and Investment Commission (ASIC) lodged legal proceedings against parties including Bank of Queensland, arising out of the collapse of Storm Financial. The Bank's intention is to defend this action vigorously. The proceedings are regulatory in nature and no damages have been claimed. At this stage no estimate can be made.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

30. Commitments

	Consolidated		Bank	
	2011 \$m	2010 \$m	2011 \$m	2010 \$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	36.7	37.6	35.1	35.5
Between 1 year and 5 years	82.0	99.0	74.9	92.4
Later than 5 years	5.4	8.8	5.4	6.9
	124.1	145.4	115.4	134.8

(b) Customer funding commitments

Loans to customers approved but not drawn at year end	857.4	923.3	492.8	524.7
Amounts undrawn against lines of credit	308.8	330.0	264.6	287.9
	1,166.2	1,253.3	757.4	812.6

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.

31. Employee benefits

(a) Superannuation commitments

The Consolidated Entity contributes to defined contribution superannuation plans which comply 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) 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.

The ability to exercise the options under both plans 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 relevant performance period. Performance periods are noted in the relevant vesting conditions description.

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%

Other terms and conditions of options granted under the above plans are as follows, with all options 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 17 October 2005 - SMOP 5	3,805,000	Performance period - 2006, 2007 and 2008. These options vested in the 2009 financial year.	5 years
Options granted to Managing Director at 1 November 2005	500,000	Performance period - 2006, 2007 and 2008. These options vested in the 2009 financial year.	5 years
Options granted to Managing Director at 1 November 2006	500,000	Performance period - 2007, 2008 and 2009. These options vested in the 2010 financial year.	5 years
Options granted to key management at 20 November 2006 - SMOP 6	3,370,000	Performance period - 2007, 2008 and 2009. These options vested in the 2010 financial year.	5 years
Options granted to key management at 1 November 2007 - SMOP 7	3,999,000	Performance period - 2008, 2009 and 2010. SMOP 7 remain unvested as at November 2010, and as such the EPS test will be applied across financial years 2008, 2009, 2010 and 2011 in accordance with the plan rules.	5 years

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 2 to 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 50% and 100% would vest.

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

DARs

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).

Notes to and forming part of the financial statements

For the year ended 31 August 2011

31. Employee benefits (continued)

(b) Share based payments (continued)

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 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%
Restricted Shares ⁽²⁾	15 June 2010	1 March 2012	\$10.31	-	\$10.31	-	-	-
Restricted Shares ⁽²⁾	23 August 2011	1 November 2012	\$7.21	-	\$7.21	-	-	-
Managing Director - Options								
MD Scheme 2 – Tranche 2	24 December 2004	24 December 2009	\$1.17	\$10.57	\$10.65	17.5%	5.45%	4.0%
MD Scheme 2 – Tranche 3	1 November 2005	20 December 2010	\$2.16	\$13.23	\$13.06	20.1%	5.85%	3.7%
MD Scheme 2 – Tranche 4	1 November 2006	20 November 2011	\$2.13	\$16.26	\$16.37	15.0%	6.00%	4.5%
Executive Director - Rights								
PARs	11 December 2008 ⁽³⁾	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 ⁽⁴⁾	29 June 2014	\$7.59	Nil	\$8.89	35.1%	4.2%	7.2%
PARs	23 December 2009	23 December 2014	\$6.93	Nil	\$11.22	36.3%	4.8%	4.6%
DARs	23 December 2009 ⁽⁵⁾	23 December 2014	\$10.40	Nil	\$11.22	36.3%	4.8%	4.6%
DARs	28 May 2010 ⁽⁶⁾	28 May 2015	\$10.11	Nil	\$11.19	36.9%	4.6%	4.6%
DARs	29 November 2010 ⁽⁷⁾	29 November 2015	\$11.17	Nil	\$11.45	37.1%	5.1%	4.2%
PARs	29 November 2010	29 November 2015	\$7.81	Nil	\$11.45	37.1%	5.1%	4.2%
PARs	25 January 2011	25 January 2016	\$7.81	Nil	\$10.12	37.1%	5.1%	4.2%

(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 restricted shares were valued at the share price at the time of grant. The shares will vest on 1 March 2012 and 1 November 2012 respectively based on meeting certain service conditions.

(3) 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.

(4) Remaining DARs will vest 50% in financial year 2012.

(5) Remaining DARs will vest 30% in financial year 2012 and 20% in financial year 2013.

(6) Remaining DARs will vest 30% in financial year 2012 and 20% in financial year 2013.

(7) The DARs will vest 20% in financial year 2012, 30% in financial year 2013 and 50% in financial year 2014.

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

	Weighted average exercise price 2011	Number of options 2011 '000	Weighted average exercise price 2010	Number of options 2010 '000
Outstanding at the beginning of the year	16.16	6,447	\$16.16	8,899
Forfeited during the year	13.72	(2,555)	\$16.38	(2,150)
Exercised during the year	-	-	\$10.57	(302)
Outstanding at the end of the year	17.75	3,892	\$16.16	6,447
Exercisable at the end of the year		1,852		4,332

The options outstanding at 31 August 2011 have an exercise price in the range of \$16.26 to \$19.11 and a weighted average contractual life of 0.8 years (2010: 1.2 years).

During the year no options were exercised (2010: 302,000). The weighted average share price at the date of exercise for 2010 was \$11.61.

The number of award rights and restricted shares is as follows:

	Number of rights	
	2011 '000	2010 '000
Balance at beginning of the year	1,239	684
Granted during the year ⁽¹⁾	982	746
Forfeited during the year	(201)	(135)
Exercised during the year	(337)	(56)
Outstanding at the end of the year	1,683	1,239

The weighted average share price at the date of exercise was \$9.89 (2010: \$11.64).

(1) Included restricted shares in the 2010 financial year. These remain in the closing balance as at 31 August 2011.

32. 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.

(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	
	2011 \$	2010 \$
Short-term employee benefits	8,756,844	6,705,085
Post-employment benefits	276,430	298,992
Long term employee benefits	58,378	76,979
Termination benefits	566,667	1,085,615
Share based employment benefits	1,474,676	2,169,743
	11,132,995	10,336,414

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

For the year ended 31 August 2011

32. 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 2010	Granted as remuneration	Exercised	Forfeited	Held at 31 August 2011	Vested during the year	Vested and exercisable at 31 August 2011
Executives								
Ram Kangatharan ⁽¹⁾	- Options	350,000	-	-	-	350,000	-	-
	- Restricted shares	108,000	100,000	-	-	208,000	-	-
	- Rights	120,330	81,878	18,015	-	184,193	16,305	-
Ewan Cameron	- Rights	-	54,554	-	-	54,554	-	-
Darryl Newton	- Rights	-	46,395	-	-	46,395	-	-
David Tonuri	- Rights	-	18,975	-	-	18,975	-	-
Renato Mazza	- Rights	-	40,323	-	-	40,323	-	-
Keith Rodwell	- Rights	-	56,926	-	-	56,926	-	-
Chris Nilon ⁽²⁾	- Options	85,000	-	-	15,000	70,000	-	20,000
	- Rights ⁽³⁾	31,186	-	-	-	31,186	531	5,146
Bradley Edwards ⁽⁴⁾	- Options	260,000	-	-	110,000	150,000	-	75,000
	- Rights	24,696	16,604	5,286	-	36,014	52,868	-
Former Executives								
Jim Stabback	- Rights	59,630	25,142	10,675	74,097	-	9,193	-
Former Managing Director								
David Liddy	- Options	1,000,000	-	-	500,000	500,000	-	500,000
(retired 31 August 2011)	- Rights	175,072	-	87,536	87,536	-	87,536	-

(1) Ram Kangatharan was appointed Acting Chief Executive Officer for the period 1 September 2011 to 31 October 2011

(2) Chris Nilon became a member of the key management personnel on 31 January 2011.

(3) This includes rights which have been exercised but held in trust.

(4) Bradley Edwards became a member of the key management personnel in this financial year.

		Held at 1 September 2009	Granted as remuneration	Exercised	Forfeited	Held at 31 August 2010	Vested during the year	Vested and exercisable at 31 August 2010
Executives								
Ram Kangatharan	- Options	350,000	-	-	-	350,000	-	-
	- Restricted shares	-	108,000	-	-	108,000	-	-
	- Rights	54,150	66,180	-	-	120,330	1,710	1,710
Former Executives								
Jim Stabback	- Rights	30,210	29,420	-	-	59,630	1,482	1,482
Bruce Auty	- Options	350,000	-	-	29,106	320,894	170,894	320,894
	- Rights	19,380	4,644	7,900	16,124	-	7,900	-
David Marshall	- Options	200,000	-	-	200,000	-	-	-
	- Rights	37,050	32,510	-	68,192	1,368	1,368	1,368
Managing Director								
David Liddy	- Options	1,000,000	-	-	-	1,000,000	500,000	1,000,000
	- Rights	175,072	-	-	-	175,072	-	-

Movement in shares

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

	Held at 1 September 2010	Purchases / (Sales)	Received on exercise of award rights	Held at 31 August 2011
Ordinary shares				
Directors of Bank of Queensland Limited				
Neil Summerson	26,241	1,414	-	27,655
Steve Crane	12,224	-	-	12,224
Roger Davis	3,541	191	-	3,732
Carmel Gray	5,899	-	-	5,899
Bill Kelty	1,220	66	-	1,286
John Reynolds	1,000	-	-	1,000
Michelle Tredenick ⁽¹⁾	-	1,000	-	1,000
David Willis	1,022	55	-	1,077
Former Director				
David Graham ⁽²⁾	9,576	-	-	-
David Liddy ⁽³⁾	1,058,325	33,192	87,536	1,179,053
Executive				
Bradley Edwards	1,370	196	5,286	6,852

(1) Michelle Tredenick appointed as a Director on 22 February 2011.

(2) David Graham resigned as a Director on 8 October 2010.

(3) David Liddy retired as Managing Director on 31 August 2011.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

32. Key management personnel disclosures (continued)

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

Ordinary shares	Held at 1 September 2009	Purchases / (Sales)	Received on exercise of award rights	Held at 31 August 2010
Directors of Bank of Queensland Limited				
Neil Summerson	22,550	3,691	-	26,241
Steve Crane	11,000	1,224	-	12,224
Roger Davis	3,116	425	-	3,541
Carmel Gray	5,309	590	-	5,899
Bill Kelly	1,165	55	-	1,220
John Reynolds	1,000	-	-	1,000
David Willis	-	1,022	-	1,022
Former Director				
Peter Fox	1,775,499	-	-	-
Anthony Howarth	41,862	6,852	-	-
David Graham ⁽¹⁾	8,618	958	-	9,576
David Liddy ⁽²⁾	916,246	142,079	-	1,058,325
Former Executives				
Bruce Auty	1,309	-	-	-
Daniel Musson	-	-	27,332	-

(1) David Graham resigned as a Director on 8 October 2010.

(2) David Liddy retired as Managing Director on 31 August 2011.

(c) Loans to key management personnel disclosures

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

	2011				2010			
	Balance at 1 September 2010 \$	Interest paid and payable during the year \$	Balance at 31 August 2011 \$	Highest balance during the year \$	Balance at 1 September 2009 \$	Interest paid and payable during the year \$	Balance at 31 August 2010 \$	Highest balance during the year \$
Directors:								
Neil Summerson	439,608	29,758	864,785	892,410	421,910	30,391	439,608	514,744
Bill Kelty	325,782	23,161	325,782	325,782	325,782	21,306	325,782	325,782
Former Director:								
David Graham ⁽¹⁾	4,242,163	28,429	-	4,467,277	4,109,261	244,183	4,242,163	4,530,135
Executives:								
Ram Kangatharan	2,285,412	187,031	3,204,675	4,676,438	-	90,235	2,285,412	2,311,433
Ewan Cameron	-	126,595	1,967,705	2,000,000	-	-	-	-
Darryl Newton	-	75,191	1,819,938	1,856,030	-	-	-	-
Renato Mazza	-	17,439	300,250	356,172	-	-	-	-
Keith Rodwell	-	80,749	2,210,556	4,072,765	-	-	-	-
David Tonuri	-	45,068	1,335,957	1,699,039	-	-	-	-
Bradley Edwards	5,463	3,591	545,007	554,021	-	-	-	-
Former Executives:								
Daniel Musson	-	-	-	-	1,843,198	24,611	-	1,020,812
David Marshall	-	-	-	-	-	34,492	-	1,105,938

(1) David Graham resigned as a Director on 8 October 2010.

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 2010 ⁽¹⁾ \$	Balance at 31 August 2011 \$	Interest paid and payable \$	Number in group at 31 August 2011 #
Directors:	5,007,553	1,190,567	81,348	2
Executives:	2,290,875	11,384,087	535,664	7

	Balance at 1 September 2009 \$	Balance at 31 August 2010 \$	Interest paid and payable \$	Number in group at 31 August 2010 #
Directors:	4,856,953	5,007,553	295,880	3
Executives:	1,843,198	2,285,412	149,338	1

(1) Balance as at 1 September 2010 will not equal 31 August 2010 closing balance due to changes in key management personnel during the year.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

32. 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. DDH Preferred Income Fund (a fund managed by DDH Graham Limited) was a noteholder in the Series 2007-1 EHP REDS Trust however the Trust wound up in the 2011 year therefore, the Fund no longer holds any investment (2010: 10,000 units at \$53.48 totalling \$534,828).

Other non financial instrument transactions with key management personnel

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 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. David Graham resigned 8 October 2010, however, commission payments paid to the firm by the Bank up to his resignation date amounted to \$509,470 (2010: \$4,642,237).

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.

The following are transactions undertaken between the Consolidated Entity and key management personnel as at 31 August 2011:

	Balance as at			For the period ⁽¹⁾		
	01/09/10 \$	31/08/11 \$	Total Loan Repayments \$	Total Loan Redraws / Further Advances \$	Total Loan / Overdraft interest \$	Total Fees on Loans / Overdraft \$
Term Products (Loans / Advances)	(7,298,428)	(12,574,655)	8,282,805	(16,869,606)	(617,012)	(16,799)

	Balance as at			For the period ⁽¹⁾		
	01/09/09 \$	31/08/10 \$	Total Loan Repayments \$	Total Loan Redraws / Further Advances \$	Total Loan / Overdraft interest \$	Total Fees on Loans / Overdraft \$
Term Products (Loans / Advances)	(6,700,151)	(7,292,965)	3,551,207	(6,306,028)	(445,218)	(6,813)

	Balance as at			For the period ⁽¹⁾		
	01/09/10 ⁽²⁾ \$	31/08/11 \$	Total Deposits \$	Total Withdrawals \$	Total Account Fees \$	Total Deposit Interest \$
Transaction Products (Deposits)	3,839,121	2,259,376	13,220,360	(14,900,560)	(1,769)	176,096

	Balance as at			For the period ⁽¹⁾		
	01/09/09 \$	31/08/10 \$	Total Deposits \$	Total Withdrawals \$	Total Account Fees \$	Total Deposit Interest \$
Transaction Products (Deposits)	4,647,223	3,877,229	28,406,040	(29,046,605)	(2,879)	185,408

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

(2) Balance as at 1 September 2010 will not equal 31 August 2010 closing balance due to changes in key management personnel during the year.

33. Controlled entities

(a) Particulars in relation to controlled entities

	Parent entity's interest		Amount of Investment (at cost)	
	2011	2010	2011 \$m	2010 \$m
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
St Andrew's Australia Services Pty Ltd (formerly Electronic Financial Solutions Pty Ltd)	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%	100%	-	-
REDS Warehouse Trust No.3	100%	100%	-	-
Series 2010-1 REDS Trust	100%	100%	-	-
Series 2010-2 REDS Trust	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%	-	-
Home Credit Management Ltd	100%	100%	-	-
Statewest Financial Services Ltd	100%	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%	100%	-	-
St Andrew's Life Insurance Pty Ltd	100%	100%	-	-
St Andrew's Insurance (Australia) Pty Ltd	100%	100%	-	-
BOQ Finance (Aust) Limited (formerly CIT Group (Australia) Ltd)	100%	100%	230.2	230.2
BOQ Credit Pty Limited (formerly CIT Credit Pty Limited)	100%	100%	-	-
BOQ Funding Pty Limited (formerly CIT Funding Pty Limited)	100%	100%	-	-
BOQ Finance (NZ) Limited (formerly CIT Group (New Zealand) Limited)	100%	100%	22.1	22.1
Equipment Rental Billing Services Pty Ltd	100%	100%	-	-
Hunter Leasing Ltd	100%	100%	-	-
Newcourt Financial (Australia) Pty Limited	100%	100%	-	-
			933.1	933.1

Notes to and forming part of the financial statements

For the year ended 31 August 2011

33. Controlled entities (continued)

(b) Acquisition of controlled entities

The following controlled entities were acquired during the prior year:

Acquisition of entities

On 30 June 2010, the Bank acquired all the shares of CIT Group (Australia) Limited and CIT Group (New Zealand) Limited now renamed to BOQ Finance (Aust) Limited and BOQ Finance (NZ) Limited for \$252.3 million cash. CIT Group (Australia) Limited and CIT Group (New Zealand) Limited engage in finance activities in particular in the provision of short and medium term finance and leasing of equipment and other assets.

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

	Recognised values on acquisition \$m	Pre-acquisition carrying amounts \$m
Cash	15.6	15.6
Loans and advances at amortised cost	463.9	453.3
Property, plant and equipment	4.0	4.0
Current tax assets	2.2	2.2
Deferred tax assets	3.2	6.8
Other assets	9.2	9.2
Intangible assets	3.7	0.1
Deferred tax liabilities	(1.0)	(6.7)
Borrowings including subordinated notes	(6.9)	(6.9)
Amounts due to controlling entities	(227.2)	(227.2)
Accounts payable and other liabilities	(10.1)	(10.1)
Provisions	(1.6)	(1.6)
Net identifiable assets and liabilities	255.0	238.7
Discount on acquisition	(2.7)	
Consideration paid, satisfied in cash	252.3	
Cash acquired	(15.6)	
Net cash outflow	236.7	

At 31 August 2010, the acquisition accounting balances were provisional due to ongoing work obtaining valuations and tax related matters which will impact the acquisition accounting entries. Finalisation of provisional accounting resulted in restatement of comparatives, refer Note 2 (f).

On 1 July 2010, the Bank acquired all the shares of St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd for \$49.8 million cash. St Andrew's Insurance principal activity is the provision of personal lines insurance products to the consumer credit market and St Andrew's Life insurance principal activities is the manufacture and distribution of life insurance products.

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

	Recognised values on acquisition \$m	Pre-acquisition carrying amounts \$m
Cash	32.3	32.3
Due from other financial institutions	92.1	92.1
Other assets	4.6	9.5
Intangible assets	32.1	-
Deferred tax liabilities	(4.1)	-
Insurance policy liabilities	(90.1)	(64.8)
Accounts payable and other liabilities	(2.0)	(2.0)
Provisions	(7.5)	(7.5)
Net identifiable assets and liabilities	57.4	59.6
Discount on acquisition	(7.6)	
Consideration paid, satisfied in cash	49.8	
Cash acquired	(32.3)	
Net cash outflow	17.5	

At 31 August 2010, the acquisition accounting balances were provisional due to ongoing work, obtaining valuations and tax related matters which will impact the acquisition accounting entries. Finalisation of provisional accounting resulted in restatement of comparatives, refer Note 2 (f).

34. Related parties information

Controlled entities

Details of interests in controlled entities are set out in Note 33.

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, St Andrew's Australia Services Pty Ltd, BOQ Finance (Aust) Ltd and BOQ Finance (NZ) Ltd 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.

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

Notes to and forming part of the financial statements

For the year ended 31 August 2011

35. Average balances and margin analysis

	Consolidated 2011			Consolidated 2010		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
Interest earning assets						
Gross loans and advances at amortised cost *	32,677.5	2,383.1	7.29	30,076.3	2,010.5	6.68
Investments and other securities *	5,496.8	293.5	5.34	5,032.1	226.3	4.50
Total interest earning assets	38,174.3	2,676.6	7.01	35,108.4	2,236.8	6.37
Non-interest earning assets						
Property, plant and equipment	27.5			26.7		
Other assets	961.2			831.4		
Provision for impairment	(187.8)			(81.9)		
Total non-interest earning assets	800.9			776.2		
Total assets	38,975.2			35,884.6		
Interest bearing liabilities						
Retail deposits *	18,891.2	977.7	5.18	16,764.7	716.4	4.27
Wholesale deposits and borrowings *	16,849.2	1,075.5	6.38	16,264.7	959.7	5.90
Total interest bearing liabilities	35,740.4	2,053.2	5.74	33,029.4	1,676.1	5.07
Non-interest bearing liabilities	742.9			544.5		
Total liabilities	36,483.3			33,573.9		
Shareholders' funds	2,491.9			2,310.7		
Total liabilities and shareholders' funds	38,975.2			35,884.6		
Interest margin and interest spread						
Interest earning assets	38,174.3	2,676.6	7.01	35,108.4	2,236.8	6.37
Interest bearing liabilities	35,740.4	2,053.2	5.74	33,029.4	1,676.1	5.07
Net interest spread ⁽¹⁾			1.27			1.30
Net interest margin - on average interest earning assets	38,174.3	623.4	1.63	35,108.4	561.5	1.60

* Calculated on average monthly balances

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

36. 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;
- St Andrew's Australia Services Pty Ltd;
- B.Q.L. Nominees Pty Ltd;
- Queensland Electronic Switching Pty Ltd;
- BOQ Share Plans Nominee Pty Ltd;
- Pioneer Permanent Building Society Limited;
- Home Building Society Ltd;
- Home Credit Management Ltd;
- StateWest Financial Services Limited;
- BOQ Finance (Aust) Limited;
- BOQ Credit Pty Limited;
- BOQ Funding Pty Limited;
- Equipment Rental Billing Services Pty Ltd;
- Hunter Leasing Ltd; and
- Newcourt Financial (Australia) Pty Limited.

A consolidated Statement of Comprehensive Income 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 2011 is set out as follows:

Summarised statement of comprehensive income and retained profits

	Consolidated	
	2011 \$m	2010 \$m
Profit before tax	227.4	258.0
Less: Income tax expense	(54.9)	(76.0)
Profit for the year	172.5	182.0
Retained profits at beginning of year	248.1	188.3
Dividends to shareholders	(124.5)	(118.4)
Addition to Deed of Cross Guarantee	7.2	-
Equity settled transactions and transfers	17.8	(3.8)
Retained profits at end of year	321.1	248.1
Attributable to:		
Equity holders of the parent	172.5	182.0
Profit for the year	172.5	182.0

Notes to and forming part of the financial statements

For the year ended 31 August 2011

36. Deed of cross guarantee (continued)

Balance sheet As at 31 August	Consolidated	
	2011 \$m	2010 \$m
Assets		
Cash and liquid assets	294.2	291.0
Due from other financial institutions	25.9	24.7
Other financial assets	5,217.3	5,439.4
Derivative financial instruments	126.8	50.3
Loans and advances at amortised cost	33,276.1	31,283.8
Shares in controlled entities	49.8	302.2
Property, plant and equipment	31.0	21.6
Deferred tax assets	51.0	10.6
Other assets	253.1	247.4
Intangible assets	558.2	559.2
Investments in accounted for using the equity method	28.7	29.6
Total assets	39,912.1	38,259.8
Liabilities		
Due to other financial institutions	169.2	138.2
Deposits	29,830.5	28,329.1
Derivative financial instruments	197.5	16.6
Accounts payable and other liabilities	415.0	378.2
Current tax liabilities	79.4	75.9
Provisions	25.9	24.4
Borrowings including subordinated notes	1,115.6	1,379.3
Amounts due to controlled entities	5,503.7	5,533.7
Total liabilities	37,336.8	35,875.4
Net assets	2,575.3	2,384.4
Equity		
Issued capital	2,153.3	2,057.3
Reserves	100.9	79.0
Retained profits	321.1	248.1
Total equity	2,575.3	2,384.4

37. Insurance business

The effective date of the actuarial report on life insurance policy liabilities and solvency requirements, is 31 August 2011. The actuarial report was prepared by Mr Wayne Kenafacke, Fellow of the Institute of Actuaries of Australia. This report indicates that Mr Kenafacke is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities have been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of applicable accounting standards. Specifically, policy liabilities for life insurance contracts are determined in accordance with AASB 1038 Life Insurance Contracts.

In addition, life insurance contract liabilities have been calculated in accordance with relevant actuarial guidance being Prudential Standard LPS: 1.04 Valuation of Policy Liabilities determined by APRA. The Prudential Standard requires policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received.

The methods used for the major product groups in order to achieve the systematic release of planned margins were as follows:

Product group	Method (Projection or other)	Profit Carriers
Consumer credit insurance	Accumulation (2010: Accumulation)	N/A
Direct marketed risk	Accumulation (2010: Accumulation)	N/A
3 rd Party Risk	Accumulation (2010: Accumulation)	N/A

Policy liabilities have been calculated as the provision for unearned premium reserve and a deferred acquisition cost component. Outstanding claims liabilities and Incurred But Not Reported liabilities (IBNR) are included in claims liabilities.

Premium earning pattern

For Consumer Credit Insurance products, the Unearned Premium Reserve (UPR) is based on a premium earning pattern that is similar to the pattern of expected future claim payments. The future claim payments are based on an assessment of the future sum insured (e.g. outstanding loan balances for mortgage and loan protection) and future mortality costs. Past experience is used to set these assumptions. This earning is also used to set commission earning patterns.

Mortality and morbidity

Mortality and morbidity assumptions used in determining IBNR, pending and continuing claims provisions have been based on the experience of similar products issued in the Company and recent experience. The disputed claims provision is based on individual claim estimates.

Processes used to determine actuarial assumptions

Sensitivity analysis

As a result of using an accumulation approach in the determination of policy liabilities, changes of assumptions will not affect the policy liabilities in the current period, unless a product enters loss recognition. As at 31 August 2011, no Related Product Groups were in loss recognition.

Changes in the underlying variables and assumptions will give rise to a difference in the emergence of profit margins in the future.

Variable	Impact of movement in underlying variable
Mortality rates	For insurance contracts, providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of disability related claims depends on both the incidence of policyholders becoming disabled and the duration which they remain so. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders equity.

Notes to and forming part of the financial statements

For the year ended 31 August 2011

37. Insurance business (continued)

	2011 \$m	2010 \$m
Reconciliation of movements in insurance policy liabilities		
Life Insurance contract policy liabilities		
Gross life insurance contract liabilities at the beginning of the financial year	70.4	71.3
Increase/(Decrease) in life insurance contract policy liabilities ⁽ⁱ⁾	(4.9)	(1.0)
Gross life insurance contract liabilities at the end of the financial year	65.5	70.3
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	(2.1)	(2.1)
Increase/(Decrease) in life reinsurance assets ⁽ⁱⁱ⁾	(0.3)	-
Closing balance at the end of the financial year	(2.4)	(2.1)
Net life policy liabilities at the end of the financial year	63.1	68.2
(i) plus (ii) = increase/(decrease) in net life insurance contract liabilities reflected in the statement of comprehensive income	(5.2)	(1.0)
Components of net life insurance contract liabilities		
Future policy benefits	69.1	68.9
Future charges for acquisition costs	(6.0)	(0.7)
Total net life insurance contract policy liabilities	63.1	68.2
Components of general insurance liabilities		
Unearned Premium Liability	13.9	16.9
Outstanding Claims Liability	0.6	0.6
	14.5	17.5
Total Insurance Policy Liabilities	77.6	85.7

Note: Future policy benefits include the unearned premium components of the liability. The accumulation method has been used to calculate policy liabilities and components relating to expenses and profits are not separately calculated.

Life insurance solvency requirements

The solvency requirement of each statutory fund is the amount required to be held in accordance with LPS 2.04: Solvency Standard. These are amounts required to meet the prudential standards prescribed by the Life Insurance Act 1995 to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life company.

The methodology and bases for determining solvency requirements are in accordance with the requirements of LPS 2.04: Solvency Standard.

	2011 \$m	2010 \$m
Life Insurance solvency requirement *	74.1	71.9
Total assets less assets arising from reinsurance contracts	84.0	86.1
Assets in excess of solvency requirement	9.9	14.2

* The minimum level of assets required to be held by the life insurance business as prescribed in LPS 2.04: Solvency Standard

Disaggregated information life insurance (before consolidation adjustments)

Summarised statement of comprehensive income

Revenue

Life insurance premium revenue	62.5	8.8
Investment income	5.2	0.8
Net life insurance premium revenue	67.7	9.6

Expenses

Net claims and other liability expense from insurance contracts	37.5	(3.7)
Other expenses	5.9	(1.2)
	43.4	(4.9)
Profit before income tax	24.3	4.7
Income tax expense	(7.3)	(1.4)
Profit after income tax	17.0	3.3

Statement of Sources of Profit for Statutory Funds

Operating profit after income tax arose from:

Components of profit related to movement in life insurance liabilities:

Planned margins of revenues over expenses released	15.8	2.7
Difference between actual and assumed experience	(0.6)	(74.4)

Summarised balance sheet

Assets

Investment assets	89.8	72.5
Other assets	4.5	26.0
	94.3	98.5

Liabilities

Life insurance liabilities	45.5	44.0
Liabilities other than life insurance liabilities	15.4	14.0
	60.9	58.0

Retained earnings

Directly attributable to shareholders	33.4	40.5
	33.4	40.5

The life insurance business has no life investment contracts

Notes to and forming part of the financial statements

For the year ended 31 August 2011

38. Events subsequent to balance date

Dividends have been declared after 31 August 2011, 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 2011.

39. Investments accounted for using the equity method

The Consolidated Entity's share of profit in its equity accounted investees for the year was \$2.3m (2010: nil).

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	
	2011 (%)	2010 (%)
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
Satterlley 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. 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:

	2011 \$m	2010 \$m
Balance Sheet		
Current assets	105.7	112.1
Non-current assets	178.9	174.5
Total assets	284.6	286.6
Current liabilities	85.9	80.6
Non-current liabilities	17.3	16.1
Total liabilities	103.2	96.7
Net assets	181.4	189.9
Profit and Loss		
Revenues	53.0	61.8
Expenses	(45.7)	(33.4)
Profit	7.3	28.4

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 32 to 50, 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 2011 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) 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 36 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 2011.
- 4 The directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Neil Summerson
Chairman



John Reynolds
Director

Dated at Brisbane this thirteenth day of October 2011

Independent auditor's report

To the 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 2011, and Statements of Comprehensive Income, Statement of Cash Flows and Statements of Changes in Equity for the year ended on that date, notes 1 to 39 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Bank and 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. 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 comply with International Financial Reporting Standards.

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 of the financial report that gives a true and fair view 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, a true and fair 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 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards 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).

Report on the remuneration report

We have audited the Remuneration Report included in pages 32 to 50 of the directors' report for the year ended 31 August 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

John Teer
Partner

Brisbane, 13 October 2011

Shareholding details

As at 28 September 2011, the following shareholding details applied:

1. Twenty largest ordinary shareholders

Shareholder	No. of ordinary shares	%
National Nominees Limited	36,239,082	16.08%
HSBC Custody Nominees (Australia) Limited	34,674,740	15.39%
JP Morgan Nominees Australia Limited	12,917,467	5.73%
Milton Corporation Limited	5,850,276	2.60%
Citicorp Nominees Pty Limited	3,962,113	1.76%
Cogent Nominees Pty Limited	2,992,650	1.33%
Cogent Nominees Pty Limited	2,612,000	1.16%
Queensland Investment Corporation	1,585,322	0.70%
RBC Dexia Investor Services Australia Nominees Pty Limited	1,569,853	0.70%
JP Morgan Nominees Australia Limited	1,411,950	0.63%
Washington H Soul Pattinson and Company Limited	1,310,907	0.58%
AMP Life Limited	1,251,085	0.56%
Invia Custodian Pty Limited	955,256	0.42%
Invia Custodian Pty Limited	905,363	0.40%
Cogent Nominees Pty Limited	874,704	0.39%
Australian Reward Investment Alliance	716,952	0.32%
BOQ Share Plans Nominee Pty Ltd	677,428	0.30%
Argo Investments Limited	579,447	0.26%
Warbont Nominees Pty Ltd	566,213	0.25%
UBS Wealth Management Australia Nominees Pty Ltd	452,505	0.20%
Total	112,105,313	49.76%

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

As at 28 September 2011, the following shareholding details applied:

2. Twenty largest PEPS shareholders

Shareholder	No. of PEPS shares	%
JP Morgan Nominees Australia Limited	194,280	9.71%
Milton Corporation Limited	50,000	2.50%
Domer Mining Co Pty Ltd	32,200	1.61%
Navigator Australia Ltd	26,787	1.34%
RBC Dexia Investor Services Australia Nominees Pty Limited	26,418	1.32%
Perpetual Trustee Company Limited	25,542	1.28%
UBS Wealth Management Australia Nominees Pty Ltd	19,059	0.95%
Cogent Nominees Pty Limited	16,127	0.81%
P Ilhan Investments Pty Ltd	15,600	0.78%
Nulis Nominees (Australia) Limited	12,307	0.62%
RBC Dexia Investor Services Australia Nominees Pty Limited	11,805	0.59%
Australian Executor Trustees Limited	11,781	0.59%
Citicorp Nominees Pty Limited	11,507	0.58%
National Nominees Limited	11,115	0.56%
Count Financial Limited	10,067	0.50%
Corlette Holdings Pty Ltd	10,000	0.50%
F & B Investments Pty Limited	10,000	0.50%
Presbyterian Church of Victoria Trusts	10,000	0.50%
The Baptist Union of Queensland	10,000	0.50%
Eastcote Pty Ltd	10,000	0.50%
Baptist Investments and Finance Ltd	524,595	26.24%

Voting rights

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

3. Distribution of equity security holders

Category	Ordinary shares		RePs		PEPS	
	2011	2010	2011	2010	2011	2010
1 – 1,000	58,886	60,569	-	956	4,052	4,016
1,001 – 5,000	20,299	19,787	-	42	186	172
5,001 – 10,000	2,622	2,392	-	4	16	20
10,001 – 100,000	1,200	1,066	-	5	14	11
100,001 – and over	57	59	-	-	1	1
Total	83,064	83,873	-	1,007	4,269	4,220

The number of ordinary shareholders holding less than a marketable parcel is 3,707.

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

4. Partly Paid Shares

There are no partly paid shares.

5. 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 Populaire	27,315,821	18 December 2009
National Australia Bank and its associated entities	13,191,375	5 September 2011

6. Stock exchange listing

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

7. Options

At 31 August 2011 there were options over 3,892,934 (2010: 6,447,568) 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.

8. On market buy-back

There is no current on market buy-back.

9. Other information

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

Notes

Bank of Queensland Limited

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