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Bank of Queensland Limited
ABN 32 009 656 740

Profit announcement for the year ended 31 August 2012

Results have been subject to an independent audit by the external auditors

Released 18 October 2012

Contents

Rule 4.3A

Appendix 4E

Preliminary final report

For the year ended 31 August 2012

1. Company details and reporting period

Name of entity:	**Bank of Queensland Limited**
ABN:	32 009 656 740
Reporting Period	31 August 2012
Previous corresponding period	31 August 2011

2. Results for announcement to the market

				$m
Revenues from ordinary activities	Up	1%	to	804.3
Loss from ordinary activities after tax attributable to members	Down	111%	to	17.1
Net loss for the period attributable to members	Down	111%	to	17.1

Dividends	Amount per security	Franked amount per security
Interim ordinary dividend – paid	26c	26c
Final ordinary dividend - payable	26c	26c
Semi-annual dividend - Perpetual Equity Preference Shares (PEPS) – paid	234c	234c
Semi-annual dividend - Perpetual Equity Preference Shares (PEPS) - payable	217c	217c
<u>Previous corresponding period</u>		
Interim ordinary dividend	26c	26c
Final ordinary dividend	28c	28c
Semi-annual dividend on - Perpetual Equity Preference Shares (PEPS)	246c	246c
Semi-annual dividend on - Perpetual Equity Preference Shares (PEPS)	250c	250c

Record date for determining entitlements to the ordinary dividend	21 November 2012

3. Statements of comprehensive income with notes to the statements

Refer to page 53 of the 2012 Profit Announcement and accompanying notes.

4. Balance Sheets with notes to the statements

Refer to page 54 of the 2012 Profit Announcement and accompanying notes.

5. Statements of cash flows with notes to the statements

Refer to page 55 of the 2012 Profit Announcement and accompanying notes.

6. Dividends

Refer to page 77 of the 2012 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 ten trading day period commencing on the second trading day after the Record Date. Shares issued are fully paid and rank equally with existing fully paid ordinary shares.

There is no foreign sourced dividend.

The last date for election to participate in the Dividend Reinvestment Plan is 21 November 2012.

The date of payment for the final ordinary dividend is 8 December 2012.

8. Statements of changes in equity

Refer to page 56 of the 2012 Profit Announcement and accompanying notes.

9. Net tangible assets per share

- 31 August 2012 - $6.94
- 31 August 2011 - $7.95

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

- Series 2004-1 REDS Trust was closed on 28 December 2011.
- Series 2012-1E EHP REDS Trust was opened on 24 May 2012.
- Series 2008-1E EHP REDS Trust was closed on 13 July 2012.

11. Associates and joint venture entities

Refer to page 130 of the 2012 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 21 of the 2012 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

Sign here: …………………………… ……………………
Company Secretary Date

Print name: Melissa Grundy

FINANCIAL SUMMARY

	Year Ended				
	2012	2011	2010	2009	2008
	$m	$m	$m	$m	$m
Shareholders' Equity:					
Issued capital	2,660.1	2,153.3	2,057.6	1,903.1	1,439.4
Reserves and retained profits	239.1	420.3	347.2	208.3	251.5
Total Equity	2,899.2	2,573.6	2,404.8	2,111.4	1,690.9
Financial Position:					
Total assets under management	41,758.0	39,900.8	38,811.3	34,545.8	30,912.5
Total loans under management(1)	34,339.8	33,356.2	32,003.1	28,866.3	26,291.8
Total assets on balance sheet	41,758.0	39,900.8	38,597.8	34,012.0	29,883.2
Retail deposits	22,270.0	20,317.9	18,083.3	16,248.9	13,984.5
Wholesale deposits	8,901.9	9,308.7	10,005.2	7,948.3	6,052.0
Financial Performance:(2)					
Statutory net profit/(loss)	(17.1)	158.7	181.9	141.1	138.7
Add: Significant items(3)	47.7	17.9	15.1	46.3	16.7
Normalised cash profit after tax(3)	30.6	176.6	197.0	187.4	155.4
Normalised underlying profit before tax(4)	443.5	447.4	379.0	315.0	250.8
Less: Impairment on loans and advances	(401.0)	(200.5)	(104.2)	(66.0)	(27.0)
Normalised cash profit before tax	42.5	246.9	274.8	249.0	223.8
Tax expense (5)	(11.9)	(70.3)	(77.8)	(61.6)	(68.4)
Normalised cash profit after tax(3)	30.6	176.6	197.0	187.4	155.4
Shareholder Performance:					
Market capitalisation at balance date	2,331.4	1,686.0	2,120.3	2,327.7	2,377.4
Share price at balance date	$7.55	$7.48	$9.83	$11.65	$15.86
Statutory Ratios:					
Net interest margin	1.65%	1.63%	1.60%	1.56%	1.67%
Capital adequacy ratio	12.6%	11.4%	11.7%	11.5%	11.0%
Cost to income ratio	52.5%	47.0%	49.0%	58.8%	59.9%
Dividend payout ratio to ordinary shareholders(6)	n/a	77%	62%	71%	79%
Net tangible assets per share	$6.94	$7.95	$7.47	$6.62	$6.01
Fully franked ordinary dividend per share	$0.52	$0.54	$0.52	$0.52	$0.73
Diluted earnings / (loss) per share	(10.2c)	60.3c	77.0c	74.4c	89.6c
Return on average ordinary equity	(0.7%)	7.2%	8.9%	9.0%	11.6%
Normalised Ratios (cash basis): (4)					
Net interest margin (7)	1.67%	1.65%	1.60%	1.56%	1.67%
Cost to income ratio	45.7%	44.5%	45.8%	49.9%	56.1%
Dividend payout ratio to ordinary shareholders(6)	n/a	69%	57%	53%	71%
Diluted earnings per share	7.9c	66.7c	83.4c	98.4c	99.9c
Return on average ordinary equity	1.3%	8.0%	9.6%	11.8%	13.0%

(1) Before Collective Provision for impairment.

(2) Presentation of financial performance has been changed from prior year so as to provide clear reconciliation between IFRS and non-IFRS measures.

(3) Normalised cash profit after tax exclude significant items (tax effected):

Amortisation of customer contracts	(10.5)	(6.2)
Hedge ineffectiveness	(3.3)	1.0
Government guarantee break fee	(2.2)	(4.3)
Integration / Due diligence costs	(1.0)	(4.1)
Amortisation of fair value adjustments	(3.9)	(3.5)
Asset Impairment (software)	(6.6)	-
Flood impact	-	(0.8)
Legacy issues	(14.9)	-
Restructuring costs	(5.3)	-
Total	(47.7)	(17.9)

(4) Normalised underlying profit before tax is profit before impairment on loans and advances, significant items and tax. These significant items are detailed above.

(5) Excludes tax impact on significant items.

(6) The current year dividend will be paid out of retained profits.

(7) Excluding amortisation of fair value adjustments (acquisition).

Financial Performance

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

These non-statutory measures have not been subject to review or audit.

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.

The Corporate Governance Committee is responsible for reviewing the Bank's corporate governance framework and policies. 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, and where necessary, has refined its code, policies and charters.

The Bank's key policies, Board and Committee charters and a checklist detailing its compliance with the Principles appear on the Company's website at the following address: www.boq.com.au/aboutus_corporate_governance.htm

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 2011/2012 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: Lay solid foundations for management and oversight

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 and approving the Bank's strategic plan at least annually, approving budgets and reviewing and approving 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 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.

An induction program exists for all staff.

The powers of the Board are also governed by the Bank's constitution. The Bank intends to seek shareholder approval for the adoption of a new constitution at the 2012 annual general meeting. A copy of the current and proposed new constitution are available on the Bank's website at the following address: www.boq.com.au/aboutus_corporate_governance.htm

The Board has established the following Committees:

• Audit Committee	• Risk Committee	• Remuneration Committee
• Nomination Committee	• Budget Committee	• Information & Technology Committee
• Corporate Governance Committee	• Due Diligence Committee	• Investment Committee

A separate Charter has been prepared for each Committee and is reviewed at least annually.

The composition of the Board Committees is reviewed annually. Details of the current membership of the Board Committees are contained in the Directors' Report.

Principle 2: Structure the Board to add value

Board Structure

The Board currently has nine Directors (including the Chairman) eight of whom are non-executive Directors (Mr William Kelty retired from the Board on 31 July 2012). The Managing Director, appointed on 1 November 2011, is an executive Director.

Skills & Experience

The Board considers that individually and collectively, the Directors have an appropriate mix of skills, qualifications and experience to enable them to appropriately discharge their duties effectively.

The Board proactively plans ahead a number of years to ensure that membership contains a diverse range of skills and experience that are relevant to the business undertaken by the Bank, both now and into the future. As part of this process, a board skills matrix is used which addresses factors such as age, gender, location of residence, professional network, and professional experience and qualifications, in order to promote a diverse range of views.

The Board seeks to ensure that its members have a diverse range of skills and experience that reflect the breadth of operation of the Bank's business and its future strategy. Accordingly, the Board has been structured to include suitably qualified men and women with experience in financial markets, insurance, banking, funds and wealth management, strategy, superannuation, information technology and agribusiness. Several members also hold directorships on other ASX-listed entities.

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.

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

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.

Nomination

The Board seeks to ensure that it has an appropriate mix of skills and diversity in its membership. 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.

The Charter of the Nomination Committee, which details its duties, objectives, responsibilities and membership requirements, appears on the Bank's website at the following address:
www.boq.com.au/aboutus_corporate_governance.htm

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.

Fit & Proper

All new and existing Directors are subject to assessment of their fitness and propriety to hold office, both at the time of initial appointment and then annually, under the Bank's fit and proper policy. This policy was 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.

Independence

The Board assesses Director independence prior to initial appointment and then on at least an annual basis, or, if it feels it is warranted, depending upon disclosures made by individual Directors.

It is the responsibility of the Board to determine the independence of Directors in accordance with the Policy and the Board has assessed that all of the current non-executive Directors are "independent".

In reaching its decision regarding individual director independence, the Board reserves the right (except in the case of the Audit Committee membership) to consider a director to be independent even through they may not meet one or more of the specific thresholds or tests set out in the document, having regard to the underlying policy of the independence requirement and the qualitative nature of the director's circumstances.

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. The Bank has established both quantitative and qualitative guidelines to determine the materiality, which include the value of a contractual relationship being the greater of $500,000 or 5% of the other company's consolidated gross revenues and the strategic importance of the relationship. 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.

Board and Director Performance

The Bank conducts its business in a complex and constantly changing regulatory and business environment. It is important that the Board review its own performance and that of its Committees from time to time, with the objective of achieving and maintaining a high level of performance in such an environment.

Under the Board Performance Review and Renewal Policy, the performance of the Board as a whole, each Director and the Chairman is assessed annually. While the Board believes in the value of a review, it does not consider that a full-scale review is necessarily required every year, and in the years in which this does not occur, a review is conducted internally and progress against any recommendations arising from the most recent externally facilitated review are considered, together with any new issues which may have arisen.

The Chairman meets at least once a year with each individual Director to discuss board performance and the individual Director’s performance, and at least once a year on a formal basis with the Managing Director to discuss management’s view of the Board’s performance, level of interaction with and support of management. Informal meetings on such matters are held between the Chairman and the Managing Director throughout the year.

The evaluation of director performance will have regard to factors including the following:

- The expectation that each Director will actively seek a full appreciation of the business of the Bank (or subsidiary, as applicable) including key business drivers, the risks facing the Bank (or subsidiary) and applicable risk management policies, the regulatory environment in which the company operates and banking, finance and insurance sector issues (as applicable to the company);
- Actively participate in open, honest discussion and bring an independent mind to bear on matters before the Board;
- The expectation that Directors and the Board as a whole will perform their duties:
  - in the interests of shareholders and other stakeholders;
  - in a manner consistent with the Bank’s core values of passion, achievement, courage, integrity and teamwork; and
  - in accordance with the duties and obligations imposed by applicable laws.
- Attendance at briefings, seminars and ongoing training programs.

In addition, the Chairman is available to the Board and to senior executives at any time to discuss Board performance.
During the 2011/12 financial year, the Board engaged an independent external facilitator to undertake a review of the Chair, the Board as a whole, and all Committees and their respective Chairs. A review of individual directors was undertaken internally.

The rationale for the review was to allow the Chairman and the Board to obtain an objective view of the operations of the Board and its Committees. As part of this process, the facilitator sought and obtained input from each Director and certain members of senior management through the completion of interviews and an online questionnaire.

Based on the information provided and material reviewed, the external facilitator rated the Board’s and Committee’s practices across a range of criteria including, the effectiveness of the Board and Committees, the performance and leadership of the Chair and the Committee Chairs, and the quality of meetings (including issues such as, the effectiveness of agendas and papers, the working relationship between the Committee and management and the performance of Committee members). A comprehensive report, detailing the findings of the review and recommending areas for discussion and improvement, was presented to the Board. The Board and management have worked actively to respond to the issues identified.

The Board considers that the benefits gained from the review include the improvement of Board processes and effectiveness.

Principle 3: Promote ethical and responsible decision-making

Code of Conduct

The Bank's Code of Conduct sets out the principles which all Directors, officers, employees, agents, owner-managers and their staff 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. The Code details the Bank's expectations regarding ethical standards, professionalism, respect for the law, conflicts of interest, confidentiality, environment and good corporate citizenship. 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. The Bank's Securities Trading Policy meets the requirements of the ASX Listing Rules.

Diversity

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, and where diversity (gender, age, ethnicity, cultural background, impairment or disability, sexual preference, religion) is embraced, and to maintaining a workforce that reflects the diversity of the Australian population.

The Bank has established a group-wide Diversity Policy to reflect the Bank's ongoing commitment to diversity. A copy of the policy is available on the 'Corporate Governance' page on the Bank's website.

In line with this commitment, the Bank's policy is to value the differences that a diverse workforce brings and to provide a workplace where:

- Everyone is valued and respected for their skills, experiences and perspectives;
- Structures, policies and procedures are in place to assist employees to balance their work, family and other responsibilities effectively;
- Decision-making processes in recruitment take account of diversity;
- Employees have access to opportunities based on merit;
- The culture is free from discrimination, harassment and bullying; and
- Employment decisions are transparent, equitable and procedurally fair.

The Bank recognises that gender diversity is an important component to achieve its goals, and fully supports the ASX recommendations on diversity. 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. Senior Management roles are defined as Levels 1-4 of the Bank's occupational categories, being Managing Director, Group Executive, General Manager or Head of Division;
- 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; and
- ensuring gender is not a factor in remuneration.

In the current reporting period, the Bank commenced a restructure under which a number of the Group Executive team changed. The number of women in senior management did not increase in the 2011/12 financial year, but the Board, Managing Director and Group Executives, have a continued focus on gender diversity and are aware that further work must be done to drive the changes necessary to achieve a more diverse workplace and the Bank's stated diversity targets.

Women currently constitute 57% of the Bank's total workforce (57.7% in 2010/11). During the year, the Bank employed 162 staff on a part-time basis (equating to 9.9% of the total workforce), 92% of which were women, and 50 staff on a casual basis (86% of which were women).

The Bank's diversity objectives and targets are:

- there are two women on the Board;
- there are 14% of women in senior management roles (17.9% in 2010/11);
- 62% of participants in the Bank's management training are women;
- 30% of participants in the Bank's leadership development program, which was established in 2009 and is run over a 12 month period, are women (47% in 2010/11); and
- The Bank did not conduct an intern program in the 2011/12 year (33% in 2010/11).

As a result of the current performance, diversity is a key focus of Management.

During the 2011/12 financial year, the Bank established many of the necessary platforms on which it can build a more flexible and diverse workplace. The Board and Executive team received diversity training and unconscious bias training commenced for senior management. External consultants have been engaged to work with the Executive team and develop strategies to move the program forward.

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.

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 support this position, the Diversity Policy stipulates that selection process for board and senior management appointments is to involve the creation of a short-list identifying potential candidates for the appointment which must include at least one female candidate wherever possible.

Furthermore, the Bank has taken the following steps to enhance diversity:

- commenced a pilot program for the development of women in the organisation;
- enhanced its recruitment and remuneration management processes;
- improved its policies and processes for dealing with harassment and discrimination complaints;
- enhanced its family friendly terms and conditions of employment;
- established a structure for considering flexible work arrangements (including the ability for employees to purchase up to an additional two weeks annual leave per year) and refined the processes for dealing with these requests;
- taken steps to ensure parental leave arrangements are attractive and supportive of parents needs; and
- reviewed job advertising to ensure that it is aimed at attracting a wide pool of candidates.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

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 Audit Committee assists the Directors in discharging the Board's responsibilities of oversight and governance in relation to financial and audit matters. The Committee operates under a Charter approved by the Board, and is responsible for reviewing and making recommendations to the Board on the following issues:

- External financial reporting, APRA and ASIC reporting requirements;
- Adequacy of the external audit and the independence of the external auditor;
- The internal audit procedures, scope of the internal audit work program, and management's responsiveness to findings from the internal audit process;
- Actuarial engagements and independence; and
- The results of the Credit Risk review process.

The Audit Committee will refer to the Risk Committee any matters that have come to the Committee's attention that are relevant for the Risk Committee for noting and consideration, or which should be dealt with by that Committee.

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 and has at least three members. The Committee's charter requires that at least one member must have professional accounting or financial management expertise. 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.

The Bank has established an Auditor Independence Policy, which is available on the website and requires the External Auditor to comply with the requirements of the *Corporations Act 2001*, *APRA Prudential Standard APS 510 'Governance'* and *Accounting and Ethical Standards Board APES 110 – Code of Ethics for Professional Accountants, section 290 'Independence'*. The policy requires that the lead partner and review partner of the External Auditor is rotated so that neither role is performed by the same partner for more than 5 years, or more than five years out of seven successive years.

The Bank has an External Auditor Evaluation Policy, and under this policy, the Audit Committee provides feedback to the Board annually in relation to the performance, capability and service provided by the External Auditor.

The External Auditor contributes to the safeguarding of the integrity of the Bank's financial reporting. Accordingly, the Bank considers that the External Auditor must demonstrate the following attributes:

- Be an internationally recognised and respected accountancy firm which has access to expert accounting standards research and sufficient resources and technical expertise to carry out the engagement;
- Have partners and staff that possess professional standing and appropriate skills, knowledge and experience;
- An ability to provide high audit quality control processes and efficient audit services;
- Independence; and
- An ability to satisfy the terms of the Fit & Proper Policy.

The procedure adopted for the selection and appointment of the External Auditor may vary from time to time. The selection process may involve firms tendering by invitation or by the Bank holding an open tender.

Key aspects of the External Auditor selection and appointment process are as follows:

- The Audit Committee will annually review the External Auditor's performance and independence and periodically benchmarks the cost and scope of the external audit engagement;
- The Audit Committee, in consultation with management, will approve the scope of the audit, the terms of the annual engagement letter and audit fees;
- The Board is responsible for appointing the External Auditor, subject to shareholder approval; and
- Upon engagement, the External Auditor will have unfettered access to management, staff, records and company facilities, and is permitted reasonable, agreed time to conduct the audit.

The officers who perform a Chief Executive Officer 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.

Principle 5: Make 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 Committee recommends to the Board the parameters of the Bank's risk management strategy, monitors the Bank's risk profile with regard to risk appetite, determines the appropriate level and quality of capital by annual review and approval of the Bank's ICAAP Policy to be implemented by management, and oversees risks inherent in the Bank's operations. Such oversight will include (but is not limited to) the following categories of risk and matters as applicable to the business operations and risk management framework:

- Market risk, which includes the risk of loss due to changes in the general level of market prices, positions in interest rates, equity prices, foreign exchange rates and commodities, or other factors specific to the Bank;
- Liquidity risk, which is the risk that the Bank, although balance sheet solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms;
- Balance Sheet risk, which refers to the variability in value of interest rate products held by the Bank as a result of changes in interest rates (liquidity, capital positioning, securitisation, asset and liability composition all influence Balance Sheet risk);
- Credit risk, being the risk that borrowers and transactional counterparties will default on their obligations, and includes the risk of loss of value of assets due to deterioration in credit quality;
- Operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events;
- Compliance risk, being the risk to earnings of capital arising from violations of or non-conformance with laws, rules, regulations, prescribed practices or ethical standards. It also includes overseeing the establishment and maintenance of risk-based controls to mitigate the risks associated with money laundering and terrorism financing; and
- Other responsibilities, including the following:
    - Reviewing and monitoring the performance of other risk categories and types, such as "insurance risk" (the risk of exposure to financial loss and inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, claims management or reinsurance management);
    - Review of any changes anticipated for the economic and business environment, including consideration of emerging trends and other factors relevant to the Bank's risk profile;
    - Oversight of APRA statutory reporting requirements pertaining to risk matters, and deal promptly with APRA reviews;
    - Oversight of adequacy of internal risk monitoring and reporting requirements; and
    - Regular liaison with the Chairperson of the Audit Committee on relevant audit matters that should come to the attention of the Risk Committee.

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 Remuneration Committee is comprised solely of non-executive directors and has been in place for the whole of the financial year. 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 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).

Further information in relation to remuneration is contained in the Remuneration Report.

The Bank's Securities' Trading Policy provides that all employees are strictly prohibited from entering into hedging arrangements (the use of financial products to protect against or limit the risk associated with equity instruments such as shares, securities or options) in relation to the unvested employee shares, securities or options received as part of their performance-based remuneration, whether directly or indirectly. Any employee who attempts to hedge unvested shares, securities or options renders those instruments liable to forfeiture. Key management personnel are prohibited from hedging any shares or securities of Bank of Queensland Limited or its subsidiaries.

Website

The following documents appear in the Corporate Governance section of the Bank's website, at the following address:
www.boq.com.au/aboutus_corporate_governance.htm

• Constitution (existing and proposed)	• Board Charter
• Policy on Independence of Directors	• Board Performance Review and Renewal Policy
• Corporate Governance Committee Charter	• Audit Committee Charter
• Risk Committee Charter	• Remuneration Committee Charter
• Nomination Committee Charter	• Information Technology Charter
• Diversity Policy	• Market Disclosure Policy
• Securities Trading Policy	• Investor Relations Policy
• BOQ Group Fit and Proper Policy	• Code of Conduct
• AML / CTF Statement	• Award Rights Plan
• Senior Management Option Plan - SMOP	

BANK OF QUEENSLAND LIMITED
and its Controlled Entities

A.B.N. 32 009 656 740

STATUTORY FINANCIAL REPORT

YEAR ENDED 31 AUGUST 2012

CONTENTS

DIRECTORS' REPORT
Year ended 31 August 2012

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 2012 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	64	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 Australian Made Campaign Limited, Australian Property Growth Limited and Australian Property Growth Fund. He is a former Chairman of the Brisbane Water Board and the Uniting Healthcare Group. He is currently Chairman of IDEC Pty Ltd, Heuraka Pty Ltd and the Glendower Group of Companies. 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.
Stuart Grimshaw PMD, MBA, BCA Managing Director & Chief Executive Officer Executive Non-Independent Director (Appointed 1 November 2011)	51	Stuart Grimshaw joined BOQ in November 2011 as Managing Director and Chief Executive Officer. Prior to joining BOQ Stuart was a Non-Executive Director of Suncorp Group Ltd and Chief Executive Officer of Caledonia Investments Pty Ltd, an investment house which manages approximately $2 billion of funds under management. Before joining Caledonia, Stuart spent seven years leading a variety of functions at Commonwealth Bank of Australia, including Chief Financial Officer and Group Executive, Wealth Management, and a decade at National Australia Bank Limited in a variety of roles, culminating in the position of Chief Executive Officer – Great Britain.
Steve Crane B Com, SF Fin, FAICD, Non-Executive Independent Director	60	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 Chair of the Budget Committee and a member of the Risk Committee.

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
Roger Davis B.Econ. (Hons), Master of Philosophy Non-Executive Independent Director	60	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 Insurance Ltd, Argo Investments Limited, Ardent Leisure Management Ltd and Ardent Leisure Ltd, Aristocrat Leisure Ltd, Territory Insurance Office and Trust Ltd. He was formerly Chair of Charter Hall Office REIT 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 Chair of the Risk Committee and a member of both the Audit and Corporate Governance Committees.
Carmel Gray B Bus Non-Executive Independent Director	63	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 a Non-Executive Chair of Bridge Point Communications Pty Ltd. Ms Gray is Chair of the Corporate Governance Committee and Audit Committee (ceasing Audit Committee chair 31 October 2012) and a member of each of the Risk and Nomination Committees.
John Reynolds B Sc (Hons), Dip Ed, FAICD, FAIM Non-Executive Independent Director	69	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 and Queensland Cotton Corporation Pty Ltd. 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 Chair of the Investment Committee and a member of each of the Information & Technology, Nomination, Audit and Remuneration Committees.

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
Michelle Tredenick B Sc, FAICD Non-Executive Independent Director	51	Michelle Tredenick was appointed a Director of the Bank in February 2011. She has more than 30 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 Chair of Comparehealth Pty Ltd, IAG and NRMA Superannuation Pty Ltd. Ms Tredenick is Chair of the Information & Technology Committee and a member of each of the Remuneration, Risk and the Investment Committees.
David Willis B Com, ACA, ICA Non-Executive Independent Director	56	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, CBH (A Grain Cooperative in Western Australia), Interflour Holdings (a Singapore based flour Milling company), Converga (a privately owned IT business) and Couriers Please, both located in Sydney. 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 and a member of both the Corporate Governance and Budget Committees.
Richard Haire FAICD, FAIM Non-Executive Independent Director (Appointed 18 April 2012)	53	Richard Haire was appointed a Director of the Bank on 18 April 2012. Mr Haire has more than 28 years' experience in the international cotton and agribusiness industry, including 26 years in agricultural commodity trading and banking. He is a Director of the Australian Institute of Company Directors (Qld Div) and Cotton Research and Development Corporation and formerly a Director of Open Country Dairy (NZ) and New Zealand Farming Systems Uruguay. Mr Haire is a member of each of the Audit, Information & Technology, Risk and Investment Committees.

Bill Kelty retired as a director on 31/7/12

Company Secretary
Melissa Grundy, Company Secretary
BCom, GradDipAppFin (Sec Inst), GradDipACG, CPA, F Fin, FCSA, ASAIM, GAICD

Ms Grundy was appointed Company Secretary on 4 June 2012. Prior to joining the Bank, she held various roles within the Compliance division of ASX Limited, with the most recent being State Manager (Qld) and Manager, Listings (Brisbane).

Ms Stacey Hester LLB (Hons), LLM, was appointed to the position of Company Secretary on 26 August 2009 and resigned as Company Secretary on 4 June 2012. Ms Hester continues to hold various roles within the Bank including Head of Group Legal.

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]		Information Technology Committee		Due Diligence Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Neil Summerson	11	12	6 [2]	7	6	7	-	-	5 [2]	8	5	5	1	1	1 [2]	1	6 [2]	6	4	4
Stuart Grimshaw [3]	11	11	5	6	5	6	-	1	7	8	-	-	1	1	1	1	4	5	4	4
Steve Crane	11	12	6	7	-	-	1	1	-	-	-	-	1	1	-	-	-	-	-	-
Roger Davis	11	12	7	7	-	-	-	-	-	-	4	4	-	-	-	-	4	4	4	4
Carmel Gray	11	12	6	7	6	7	-	-	-	-	1	1	-	-	1	1	-	-	4	4
Bill Kelty [4]	10	11	-	-	6	6	1	1	-	-	-	-	-	-	-	-	-	-	-	-
John Reynolds	11	12	4	5	6	7	-	-	8	8	5	5	-	-	1	1	2	2	2	3
Michelle Tredenick	12	12	-	2	-	-	-	-	8	8	-	-	-	-	-	-	6	6	-	-
David Willis	11	12	-	-	-	-	-	1	8	8	-	-	1	1	-	-	-	-	-	-
Richard Haire [5]	4	4	2	2	1	1	-	-	-	-	-	-	-	-	-	-	4	4	1	1
Total number of meetings held	12		7		7		1		8		5		1		1		6		4	

A - Number of meetings attended

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

(1) The 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) Stuart Grimshaw was appointed Chief Executive Officer and Managing Director on 1 November 2011. Stuart Grimshaw attends these Committee meetings but is not a formal Committee member

(4) Bill Kelty retired as a Non-Executive Director on 31 July 2012

(5) Richard Haire was appointed as a Non-Executive Director on 18 April 2012

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

A loss after tax was incurred for the year ended 31 August 2012 of $17.1 million compared with the August 2011 profit after tax of $158.7 million. A decrease of $175.8 million (111%) from the prior year. The reduction in profit after tax was largely attributable to significant loan related impairment charges.

Profit before impairment charges and tax decreased 10% to $381.7 million from $422.3 million in the prior year. Profit for the year was lower than the prior year due to other operating income being $20.6 million lower than the prior year and a number of significant operating expense items discussed in detail below.

Income

Total income increased by 1% during the year to $804.3 million from $796.4 million in the prior year. The major driver of the subdued income growth, was the reduction in other operating income. This was offset by growth in net interest income of $28.1 million (5%).

Net interest income for the year ended 31 August 2012 increased by 5% to $651.5 million from the prior year result of $623.4 million. This result was driven by balance sheet growth and margin improvement over the prior corresponding year.

Other operating income, excluding insurance income, decreased by 16% to $111.5 million compared to the prior year of $132.1 million. The reduction was primarily due to a reduction in net income from financial instruments and derivatives at fair value.

Insurance income increased 1% to $41.3 million from the prior comparative year of $40.9 million.

Expenses

The Bank's costs increased by 13% for the year ended 31 August 2012 to $422.6 million, from the prior year result of $374.1 million. This increase is primarily due to an increase in software amortisation and impairment expense of $10.5 million in the first half results, and non lending losses and restructuring costs booked in the second half result.

Efficiency

The Bank's cost to income ratio has increased from the 2011 comparative year of 47.0% to 52.5% in the current year. This is primarily a result of the impact of reduced income and increased expenses as noted above.

Asset quality and provisioning

<u>Impairment on loans and advances</u>
Loan impairment expenses were $401.0 million for the year ended 31 August 2012. This expense consisted of $227.8 million of specific provision impairment expense and $173.2 million of expense relating to the collective provision.

The impairment expense of $401.0 million for the year ended 31 August 2012 has increased by $200.5 million or 100% on the prior year expense of $200.5 million.

The Bank underwent a review of its commercial loans portfolio and provisioning approach increasing specific provisions at the half year. The additional specific impairment expense that has arisen has been primarily due to the continued decline in commercial property prices in Queensland.

Collective provisions increased significantly providing greater coverage for potential impairment expenses. The increased provision provides further coverage for the potential impact that the decline in property prices may have on loss given default ratios in the collective provisioning model.

Operating and finance review (continued)

Impaired assets
Impaired assets increased in gross terms to $525.3 million as at 31 August 2012 from $444.3 million at 31 August 2011. Impaired assets as a percentage of non-securitised loans have increased to 2.02% at 31 August 2012 from 1.71% at 31 August 2011. Specific provisions totalling $220.3 million represents 42% of impaired assets.

As noted above, the increase in impaired assets is a result of a thorough independent review of the Bank's commercial loan portfolio and the continued decline in commercial property prices in Queensland in the first half. Retail impaired assets have increased significantly as a result of a thorough review of significantly past due accounts.

Asset growth

The lending approval growth translated into a loans under management balance (before collective provision) of $34.3 billion, an increase of $0.9 billion from 31 August 2011 which represents growth of 3% for the year.

Housing loans grew $1.2 billion. This was offset by a reduction in commercial assets as a result of the realisation of impaired assets.

No loans under management are off balance sheet.

Retail deposit growth

Retail deposits have increased for the year ended 31 August 2012 and have reached $22.3 billion, an increase of $2.0 billion from 31 August 2011, which represents an increase of 10% on the prior year.

The Bank has continued to focus on retail deposits growth in an effort to improve the funding mix of the balance sheet.

Capital management

The Board has set Tier 1 capital target range to be between 8.5% and 10% of risk weighted assets and the total capital range to be between 11.5% and 13% of risk weighted assets. The total capital adequacy ratio at 31 August 2012 was 12.6% and Tier 1 capital was 9.5%.

Perpetual Equity Preference Shares ("PEPS"), issued as hybrid capital instruments, comprise 7.0% of total Tier 1 capital.

Net Tier 1 capital of 9.5% is represented by 8.5% of Core Tier 1 capital and 1.0% of hybrid capital instruments, including preference shares.

Capital levels at 31 August 2012 are above the target range set by the Board after the Bank conducted a fully underwritten entitlements offer and institutional placement of approximately $450 million completed in 2012.

Branch network expansion

The Bank opened 11 branches and closed 2 branches during the year to bring total branches to 268 as at 31 August 2012.

Of these 268 branches, 117 are located outside Queensland. No corporate branches were converted to an owner managed branch during the year.

Shareholder returns

Statutory diluted loss per share for the period was 10.2c for the year 31 August 2012, compared to the year ended 31 August 2011 result of earnings per share of 60.3c.

The Bank has declared a final dividend of 26 cents per share fully franked which is a decrease of 7% from the prior year of 28 cents.

Operating and finance review (continued)

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 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%	02/12/2011
• Interim 2012 *Declared and paid during the year*				
- Interim – preference shares (PEPS)	234	4.6	100%	16/04/2012
- Interim – ordinary	26	79.0	100%	25/05/2012
• Final 2012 *Declared after the end of the year*				
- Final – preference shares (PEPS)	217	4.3	100%	15/10/2012
- Final – ordinary	26	80.3	100%	08/12/2012

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 2012, is $124.9 million credit calculated at the 30% tax rate (2011: $127.3 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.

Operating and finance review (continued)

State of affairs

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

Director and Management changes

During the year, there have been significant changes to the Executive Team. The appointment of Stuart Grimshaw as CEO in November was followed by the appointment of a number of new Executives to the Bank. Executives appointed within the year were:

- Peter Deans (Chief Risk Officer) – 26 March 2012
- Brendan White (Group Executive, Business Banking, Agribusiness & Financial Markets) – 2 April 2012
- Matthew Baxby (Group Executive, Retail and Online Banking) – 17 May 2012
- Jon Sutton (Chief Operating Officer) – 2 July 2012
- Anthony Rose (Chief Financial Officer) – 1 August 2012

Capital Raising

During the year the Bank completed a capital raising of $450 million of ordinary shares, comprising of:

- Institutional Placement of $150 million to institutional investors;
- Accelerated pro-rata non-renounceable entitlement offer of $300 million comprising:
    - an Institutional Entitlement Offer of $138 million; and
    - a Retail Entitlement Offer of $162 million.

The capital raising resulted in the issue of 74.4 million new ordinary shares at $6.05 per share.

Acquisitions

Series 2012-1E EHP REDS Trust was opened on 24 May 2012.

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

Disposals

Series 2004-1 REDS Trust was closed on 28 December 2011.
Series 2008-1 E EHP REDS Trust was closed on 13 July 2012.

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

Events subsequent to balance date

Dividends have been declared after 31 August 2012, 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 2012.

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

The BOQ Board including the Remuneration sub committee seeks to ensure executive pay is aligned with the long term creation of value for shareholders.

The year to 31 August 2012 has seen a period of change in both the make up of the Executive Team and the Remuneration Policies and Practices. Following the appointment of a new CEO in November 2011, the Board has supported the CEO's recommendations for significant change to the executives of the Consolidated Entity. In doing so the Board has sought to ensure quality executives are attracted through competitive remuneration whilst also ensuring the creation of value for shareholders over the long term.

During this period the Board has set the frameworks in place to ensure remuneration practices reflect the current economic and market environment, both appropriately rewarding staff and ensuring a strong alignment with shareholder value over time. Some of the initiatives implemented during this period include:

- implementing a freeze on fixed remuneration in FY 2013 for all employees earning over $100,000 (this freeze extended to Non-Executive Director fees);
- reducing the short-term incentive bonus pool available for distribution to executives taking into account both the financial performance of the Consolidated Entity and the return to shareholders over the 2012 Financial Year;
- introducing a deferral element to the short-term incentive award such that once any STI payment exceeds $100,000, 50% of the total amount awarded is deferred for a period of 2 years (50% vesting at the end of year 1 and 50% at the end of year 2);
- providing the discretion for the Board to claw-back bonuses where certain events occur during the deferral period;
- reviewing the remuneration policy to better align and support the governance and risk framework;
- enhancing the link between individual KPI setting and performance measurement for payment of short-term incentives reducing the impact of STI for the CRO and CFO and weighting towards personal performance rather than the performance of the consolidated entities; and
- ensuring long-term incentives reward employees consistent with shareholder rewards through the use of total shareholder return (TSR).

The Board has sought to address suggestions received concerning the readability of the remuneration report and has taken steps to improve both the structure and communication of the link between executive pay and performance in this year's report. A table outlining the actual take home pay received by current executives during FY 2012 has been included to enable shareholders to clearly identify each component of remuneration received by an executive. In addition further details in respect of the STI and LTI, including the performance hurdles have been included.

We acknowledge that this is a detailed report however we have sought to provide both the information required by our regulators as well as additional information we believe our shareholders require.

Remuneration Report - Audited (continued)

Contents

2012 Remuneration Report

This remuneration report is prepared for consideration by shareholders at the 2012 Annual General Meeting of the Consolidated Entity. It outlines the overall remuneration strategy, framework and practices adopted by the Consolidated Entity for the period 1 September 2011 to 31 August 2012 and has been prepared in accordance with Section 300A of the *Corporations Act 2001* and its regulations.

1. Key Management Personnel

Key management personnel ("KMP") include those directors and executives that have authority and responsibility for planning, directing and controlling the activities of the Bank and Consolidated Entity.

The KMP for the financial year ended 31 August 2012 are as follows:

(i) Directors:

Neil Summerson	Chairman (Non-executive)
Stuart Grimshaw	Managing Director and Chief Executive Officer (appointed 1 November 2011)
Steve Crane	Director (Non-executive)
Roger Davis	Director (Non-executive)
Carmel Gray	Director (Non-executive)
John Reynolds	Director (Non-executive)
Michelle Tredenick	Director (Non-executive)
David Willis	Director (Non-executive)
Richard Haire	Director (Non-executive) (appointed 18 April 2012)

Bill Kelty retired as Director (Non-executive) on 31 July 2012.

(ii) Executives:

Current

Jon Sutton	Chief Operating Officer (appointed 2 July 2012)
Anthony Rose	Chief Financial Officer (appointed 1 August 2012)
Peter Deans	Chief Risk Officer (appointed 26 March 2012)
Brendan White	Group Executive, Business Banking, Agribusiness & Financial Markets (appointed 2 April 2012)
Matthew Baxby	Group Executive, Retail and Online Banking (appointed 17 May 2012)
Chris Nilon	Group Executive, IT and Operations
Renato Mazza	Group Executive, Insurance

Former

Darryl Newton	Chief Risk Officer (until 26 March 2012)
Ram Kangatharan	Chief Operating Officer (until 30 March 2012)
David Tonuri	Group Executive, Strategy and Customers (until 11 May 2012)
Ewan Cameron	Chief Financial Officer (until 20 July 2012)
Keith Rodwell	Group Executive, National Finance (until 24 August 2012)

Remuneration Report - Audited (continued)

2. Remuneration Governance

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. In the 2012 financial year the Remuneration Committee met 8 times.

Under the Consolidated Entity's Remuneration Committee Charter, the Committee undertakes to do the following:

- Conduct annual reviews of the Consolidated Entity's Remuneration Policy to ensure compliance with the Consolidated Entity's objectives and relevant standards;
- Review and provide recommendations to the Board on remuneration, recruitment, retention and termination policies and procedures for senior executives;
- Review and provide annual recommendations to the Board on the individual remuneration arrangements of the Managing Director ("MD"), KMP and risk and governance personnel ("Responsible Persons");
- Review and provide annual recommendations to the Board on the remuneration principles for employees in Group Risk, Credit, Finance and Legal functions on a group basis;
- Review and provide recommendations to the Board on the remuneration of any employees specified by APRA as KMP or Responsible Persons; and
- Consider and approve Non-Executive Director ("NED") remuneration, including ensuring that the structure of NED remuneration is clearly distinguished from senior executives.

The Remuneration Committee has undertaken significant work to ensure that the remuneration policy adequately supports the Consolidated Entity's overall risk management framework. This has resulted in the inclusion of minimum risk gateways to be satisfied in order for STI payments to be made, the introduction of STI deferral across all KMP and Responsible Persons, and the inclusion of Board discretion to enable claw-back of STI and LTI.

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 provide expert advice concerning remuneration packages, structuring and consistency with comparable roles in the market. Other external advisors assist with administration of the Consolidated Entity'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 Consolidated Entity's management.

The Board is satisfied that remuneration recommendations made during the year are free from undue influence by members of key management personnel to whom 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 2012 financial year:

Remuneration consultant	Services provided	Fees
Egan Associates	Remuneration benchmarking to assist with the determination of fixed pay for the incoming MD and KMPs, provision of advice on the terms and conditions of both cash and equity based incentive plans and general advice relating to market trends	$15,981 (exclusive of GST)
	Total	$15,981 (exclusive of GST)

Remuneration Report - Audited (continued)

3. Remuneration Policy

The remuneration arrangements for Consolidated Entity employees are designed to be competitive in each of the markets in which the Consolidated Entity competes for talent and vary accordingly from business to business, function to function and among individuals. Fundamental to all arrangements is that they contribute to the achievement of short and long-term objectives, enhance shareholder value, avoid unnecessary or excessive risk-taking and discourage behaviours that are contrary to the Consolidated Entity's stated values. With advice from Management, the Remuneration Committee monitors and reshapes 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 Board's objective is to ensure remuneration packages properly reflect employees' duties, responsibilities and levels of performance, as well as ensuring that remuneration attracts and motivates people of the highest calibre. The Consolidated Entity's executive reward structure is therefore designed to:

- Incentivise executives to pursue the short and long-term growth and success of the Consolidated Entity within an appropriate risk control framework;
- Demonstrate a clear relationship between executive performance and remuneration;
- Provide sufficient rewards to ensure the Consolidated Entity attracts and retains suitably qualified and experienced executives for key roles; and
- Ensure that an element of these rewards is deferred to assist in ensuring appropriate risk based decision making and behaviour.

Key developments in the remuneration strategy made during the 2012 financial year

During the 2012 financial year, the Board further developed a number of key remuneration matters including:

- A review of the interaction of the remuneration policy with the Consolidated Entity's governance and risk framework to ensure that remuneration practice is aligned, and supports, the governance and risk framework;

- Enhancing the setting of key performance indicators ("KPI") for the short and long-term incentive plans to create a tighter link between pay and performance. The Board will continue to link shareholder returns to employee reward through the available bonus pool for the STI and the use of total shareholder return as a key performance measure in the LTI;

- Implementation of a two year deferral policy for KMP, Responsible Persons and Senior Management, which sees that once any STI payment exceeds $100,000, 50% of the total amount awarded is deferred for a period of 2 years; and

- Taking steps to ensure that the Consolidated Entity's financial performance has a reduced impact on the STI for the Chief Financial Officer ("CFO"), Chief Risk Officer ("CRO") and other key risk personnel. In particular, the Board determined that the CRO and key risk personnel should be rewarded based on their individual performance against specified objectives, rather than the financial performance of the Consolidated Entity. This will help to establish independence in decision making and is aligned with good prudential practice. The STI opportunity for the CFO and CRO is also lower as a proportion of fixed remuneration than the other KMP, as outlined in Section 5.3.

Remuneration Report - Audited (continued)

4. Managing Director Remuneration Framework

The remuneration structure in place for the Managing Director is consistent with the Consolidated Entity's remuneration policy and includes the following components:

Fixed remuneration	Base salary and benefits including superannuation
Short-term incentives	Annual award of short-term performance incentives subject to: • Achievement against targets established annually; • Achievement of specified, quantifiable results, including the Consolidated Entity's performance against budget for net profit after tax and cost to income ratio; and • Individual performance criteria including risk KPIs. The STI is received in the form of cash and Deferred Award Rights ("DARs"), with 50% of the award made in DARs that have a 2 year vesting period (50% vesting year 1 and 50% year 2). Refer to Table 1 in Section 5 for detail on the 2012 STI Plan.
Long-term incentives	Annual grant of long-term incentives in the form of Award Rights made up of Performance Award Rights ("PARs"). The rights vest according to the vesting schedule for the Award Rights Plan. Refer to Tables 2 and 3 in Section 5 for detail on the 2012 Award Rights Plan.
Other	Stuart Grimshaw received an allocation of PARs on commencing with BOQ. These have a three year vesting period with performance hurdles which will be tested upon the announcement of BOQ's annual result for 2014. Refer to Table 7, Table 8 and Section 9.1 for further details on the MD's PARs.

Further detail in respect of the Managing Director's contractual arrangements can be found in Section 9.1.

5. Executive Remuneration Framework

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 Consolidated Entity and compliance gateways.

5.1 Current remuneration framework

Total remuneration for the KMP consists of the following three components:

- fixed remuneration;
- at-risk cash remuneration; and
- at-risk equity remuneration.

5.2 Fixed remuneration

Executives are offered a competitive fixed component of pay and rewards that reflect the core performance requirements and expectations of their roles.

The level of fixed remuneration is approved by the Board and reviewed annually, with reference to market data provided by remuneration consultants, to ensure that it has regard to organisations within the financial services sector and those organisations serving similar customers.

Executives' fixed remuneration is set out in Table 10 of this report. Management has recommended and the Board has approved that there will be no increase to fixed remuneration for all KMP in FY 2013.

5.3 At-risk cash remuneration

KMP, Responsible Persons and Senior Management participate in the 2012 STI Plan under which the participants receive payments in accordance with specified quantifiable results and within appropriate risk management parameters. Linking these payments to individual and corporate performance within the risk management parameters assist to ensure that participants continue to create a prudent performance focused work culture within the Consolidated Entity.

Business objectives and STI Plan design features are reviewed annually by the Remuneration Committee prior to the commencement of the plan year.

Remuneration Report - Audited (continued)

5.3 At-risk cash remuneration (continued)

The target award for each participant is stated as a percentage of the executive's total fixed remuneration. For the 2012 STI Plan, the STI opportunity ranges are as follows:

MD	0 – 160%
CRO & CFO	0 – 100%
COO,GE Business Banking, Agribusiness & Financial Markets and GE Retail and Online Banking	0 – 140%
Other KMP	0 – 120%

The Board introduced deferral during the 2012 financial year, for any STI payment exceeding $100,000, 50% of the total amount awarded is deferred for a period of 2 years (50% vesting at the end of year 1 and 50% at the end of year 2). The MD already had deferral in place as outlined in Section 4 of this report. The decision to release deferrals will be at the complete discretion of the Board,and it may request advice from the CRO.

Table 1 provides an overview of the 2012 STI plan.

Table 1 ***2012 STI Plan***

2012 STI Plan	The 2012 STI Plan is an incentive plan under which participants receive payments in cash having regard for quantifiable results achieved within appropriate risk management parameters.
Participants	KMP, Responsible Persons and Senior Management, being those individuals who have the ability to influence achievement of the Board's objectives. KMP will have a higher STI opportunity and proportion of STI tied to the financial performance of the Consolidated Entity than other participants that are less senior within the Consolidated Entity.
Link between performance and award	The performance hurdles for the KMP include: • The Consolidated Entity's performance against target net profit after tax ("NPAT"); • The Consolidated Entity's cost to income ratio; • Individual performance criteria; and • Adherence with the Consolidated Entity's risk framework. **NPAT** The Board has set a financial gateway for receiving a STI payment, being the achievement of a minimum of 90% of the target NPAT. Where this gateway is not met, payment is at the complete discretion of the Board which may have regard for a number of factors including Total Shareholder Return over the period. The NPAT hurdle is considered an appropriate hurdle within the STI given it is a direct measurement of financial performance of the group. **Cost to Income Ratio** Participants will receive a percentage of the STI payment if the Consolidated Entity achieves its budgeted cost to income ratio, increasing on a sliding scale as the ratio improves and decreasing as performance deteriorates. The cost to income ratio is included as a hurdle within the STI to assist in driving cost management and discipline and align participants with the financial growth of the Consolidated Entity. **Individual performance criteria** Personal performance measures are agreed annually and will generally be role specific. Individual performance criteria consider multiple factors including individual behaviours, the business results and/or strategic accomplishments of the business or function, and people management. The Board selected these measures to reflect the Consolidated Entity's short-term and long-term strategy. The key performance indicators ("KPIs") for each participant are reviewed and moderated by the Remuneration Committee. **Risk framework** The Board has structured the remuneration strategy to support the Consolidated Entity's overall risk framework. The STI includes specific risk KPI's that are designed to ensure specified quantifiable results are achieved within appropriate risk management parameters. The risk framework includes individual risk KPI's, group KPI's and are subject to Board oversight. Failure to meet the risk KPI's will result in modification, suspension or withdrawal of STI and will impact the participant's deferred amount, providing a mechanism for claw-back, where appropriate.

Remuneration Report - Audited (continued)

5.3 At-risk cash remuneration (continued)

Performance period	Performance will be assessed over the financial year. Payments under the STI will generally be made in October, following assessment of performance over the relevant performance period.
Deferral	Once any STI payment exceeds $100,000, 50% of the total amount awarded is deferred for a period of 2 years (50% vesting at the end of year 1 and 50% at the end of year 2). The deferred amount, plus interest at the term deposit rate, will be paid at the end of the deferral period subject to the individual remaining in employment and the Board determining that no “claw-back” events have occurred. These deferred amounts accumulate over the years and provide the Board with a pool of unpaid funds to “claw-back”. The Government’s proposed legislation, requiring disclosure of any arrangements to claw-back remuneration where material misstatement in the financial statements has occurred, has not yet been passed. However, the Board currently has the discretion to adjust STI through the reduction or forfeiture of deferred STI and considers that deferral in the form of cash is most appropriate having regard to the proposed claw-back provisions. The mechanisms in place to claw-back remuneration will be reviewed by the Board once the reforms have been finalised and the current policy tested. As mentioned above, the MD will receive his deferred STI in the form of DARs with a 2 year vesting period. The Board determined that the MD should receive a portion of STI in equity to further align the MD with the shareholder.
Forfeiture	The STI award, including any outstanding deferred portion, will be forfeited where the participant (other than the MD) ceases employment with the Consolidated Entity for reasons other than death, retirement or genuine redundancy. The deferred portion of an STI award may also be forfeited where the Board determines that the risk conditions have not been met. Advice may be sought from the CRO in making this determination. Upon termination other than for serious misconduct, unvested PARs held by the MD will continue to be held and vest according to the vesting schedule. This is intended to ensure the MD is focussed on the long-term performance of the Consolidated Entity beyond the term of his direct tenure. Upon cessation of employment unvested DARs held by the MD will lapse except where he is terminated on notice or terminated after fundamental change. Under these circumstances the DARs will continue to be held and vest according to their vesting schedule.

5.4 At-risk equity remuneration

The Board reviews and adjusts the structure and quantum of the long-term incentives on an annual basis to ensure their effectiveness, and recognise the potential impact of participants on the Consolidated Entity’s future performance. The granting of equity assists to align the interests of the Executive with those of the shareholder.

Executives, including the Managing Director, participate in the 2012 Awards Rights Plan under which the participants receive rights to acquire shares at zero cost subject to achievement of performance and service conditions. No amount is payable by employees for the grant or exercise of these award rights. The Awards Rights Plan was approved by shareholders on 11 December 2008 and further ratified at the AGM on 8 December 2011.

There are two types of award rights that can be granted to executives under the plan, Performance Award Rights ("PARs") and Deferred Award Rights ("DARs"). Eligibility, quantum and mix of DARs and PARs varies based upon a participant’s accountabilities, contribution, potential and seniority.

Grants of PARs to executives align their interests with those of the Consolidated Entity and its shareholders. This includes encouraging behaviour that supports the risk management framework and the long-term financial soundness of the Consolidated Entity that in turn supports long-term performance. PARs have performance hurdles which will allow the Board to ensure that incentives are aligned with the Consolidated Entity’s future strategies and the interests of shareholders.

Table 2 provides an overview of the 2012 PARs Plan.

DARs are awarded to a broader group of 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 and potential as determined under the normal performance review and development process undertaken for all employees.

Remuneration Report - Audited (continued)
5.4 At-risk equity remuneration (continued)

DARs are linked with continued employment and adherence to risk management principles with the intent of focussing employees on the Consolidated Entity's performance.

Following the appointment of the CEO and in anticipation of a review of senior executives, no DARs were issued as part of the 2010 / 2011 remuneration review. In FY 2012, all KMP participating in the LTI plan received PARs, subject to the Total Shareholder Return hurdle outlined in Table 2. No DARs were issued to KMP's as part of the LTI in FY 2012.

The MD did receive an allocation of DAR as part of the deferral arrangement in place in connection with the STI plan (refer Section 4 of this report for further details).

Table 3 provides an overview of the 2012 DARs Plan.

The maximum LTI award for each KMP participant is stated as a percentage of the executive's total fixed remuneration. For the 2012 LTI Plan the Board worked to a maximum face value of 15% of fixed remuneration for DARs and 100% of fixed remuneration for PARs.

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.

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

Further details of the nature and amount of the major elements of remuneration paid to each Director and KMP are detailed in Section 8.

Table 2 Performance Award Rights

2012 PARs Plan	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 Consolidated Entity should be performance-based, at risk and should involve equity interests in the Consolidated Entity. This approach reflects national and international best practice in executive remuneration and corporate governance.
Participants	MD, Group Executives and other identified key senior managers.
Link between performance and award	PARs vest based on the Consolidated Entity's Total Shareholder Return (TSR) performance measured against a Peer Group over a 3 year period. 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. The Board has the discretion to adjust PAR holdings to compensate for the impact of the 2012 capital raising. At this time that discretion has not been exercised and accordingly individuals who hold PARs had their value diluted. The TSR calculation is undertaken by an independent qualified valuer. An independent qualified valuer was engaged to measure the TSR performance over the year for shareholders who participated in the entitlement offer. The TSR achieved for the calendar year was 15.4%, this placed the Bank's TSR in the 70th percentile of the Peer Group.

Remuneration Report - Audited (continued)

5.4 ***At-risk equity remuneration (continued)***

Vesting schedule	One half of an employee's PARs vest if the Consolidated Entity'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 Consolidated Entity'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. None of the PARs vest if the Consolidated Entity's TSR performance is in the bottom 50% of the Peer Group. Vested PARs are generally exercisable within 5 years after they are granted (approximately 2 years after vesting). PARs which lapse, do not vest, or are not exercised within 5 years after grant, will expire.
Performance period	The performance period is 3 years.
Forfeiture	If an employee ceases employment for serious misconduct involving fraud or dishonesty, their PARs (whether exercisable or not) will lapse. If an employee resigns or is terminated for other reasons, vested PARs may generally be exercised within 90 days of the employee ceasing employment. PARs 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 will lapse on cessation of employment for all KMP other than the MD and CRO. Upon termination, unvested PARs held by the MD and CRO will remain on-foot and vest according to the vesting schedule and subject to the performance hurdles. This ensures that these key executives remain aligned to and have regard for the financial performance of the Consolidated Entity post-employment.

Table 3 ***Deferred Award Rights***

DARs Plan	Grants of DARs are generally awarded to a broader group of employees and are designed to promote employee retention and productivity. There were no DARs granted to KMP as part of the LTI arrangements during FY 2012 (DARs were awarded to the MD as part of the contracted deferral mechanism of STI award and certain KMPs as part of sign on arrangements).
Participants	Broader employee group which can include the MD and KMP.
Link between performance and award	DARs are linked with continued employment and adherence to risk management principles with the intent on focussing employees on the Consolidated Entity's performance and potential. There are no market performance hurdles or vesting conditions for DARs other than the holder remaining an employee of the Consolidated Entity and meeting agreed risk guidelines.
Vesting schedule	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. The DARs granted to the MD and recently appointed KMPs vest 50% at the end of Year 1 and 50% at the end of Year 2. Any variation made to vesting is only with the approval of the Board. Vested DARs are generally exercisable within 5 years after they are granted (approximately 2 to 4 years after vesting). DARs which lapse, do not vest or are not exercised within 5 years after grant will expire.
Forfeiture	If an employee ceases employment for serious misconduct involving fraud or dishonesty, their DARs (whether exercisable or not) will lapse. If an employee resigns or is terminated for other reasons, vested DARs may generally be exercised within 90 days of the employee ceasing employment. 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 DARs will lapse on cessation of employment.

Remuneration Report - Audited (continued)

5.4 *At-risk equity remuneration (continued)*

Restricted Shares

The Consolidated Entity has 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 shareholder's long term interest over the non-disposal period.

Such shares are typically held by a trustee and are subject to disposal restrictions. 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. Ram Kangatharan's restricted shares were not forfeited on termination in agreement with his contract terms, they were in place as a retention tool for the period prior to Stuart Grimshaw joining the Consolidated Entity.

5.5 Historical Equity Plans

The following section provides an overview of the Consolidated Entity's historical equity grants. The Consolidated Entity has not made any grants in FY 2012 under the previous option plan, however a brief explanation has been included in the report due to the small number of prior year grants that remain on-foot.

Senior Manager Option Plan

The Senior Manager Option Plan (SMOP) has been replaced by the Award Rights Plan, but options previously granted under the SMOP remain on issue. Each option conveys the right to acquire one ordinary fully paid share on exercise, after payment to the Consolidated Entity of an exercise price. The ability to exercise options under this plan is conditional upon the Consolidated Entity achieving specific performance hurdles detailed later in Section 10 of this report.

Exercisable options under the SMOP will lapse upon the earliest of:

- their expiry date (5 years from the date of grant);
- 6 months after the option holder ceases employment for a Qualifying Reason (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 Consolidated Entity's ordinary shares are acquired by way of takeover or scheme of arrangement, the Consolidated Entity 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 Consolidated Entity.

If an option holder ceases employment because of a Qualifying Reason, a proportion of unvested options will become exercisable, 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 Consolidated Entity 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 Consolidated Entity. 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 ordinary shares in the Consolidated Entity to which voting rights are attached. Options may lapse in the event of cessation of employment depending on the circumstances of such cessation.

6. Non-Executive Director Remuneration Framework

Non-executive directors' fees are set based upon the need to attract and retain individuals of appropriate calibre. Fees are reviewed annually by the Remuneration Committee with regard to advice provided 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. The Chairman is not present at any discussions relating to the determination of his own remuneration.

In order to maintain independence and impartiality, non-executive directors do not receive any performance related remuneration.

Remuneration Report - Audited (continued)

6. Non-Executive Director Remuneration Framework (continued)

Fee Pool

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 current approved aggregate fee pool allows flexibility to deal with future changes in membership and composition of the Board and for CPI based increases in future financial years where necessary.

There was no increase for the 2012 financial year and the Board has determined that there will be no increase in directors' fees for the 2013 financial year.

Directors' Annual Fees

Directors' fees are generally reviewed every three years and may be increased only by CPI annually during the interim period. The current non-executive directors' fees comprise:

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	45,000	17,500
Risk Committee	45,000	17,500
Corporate Governance Committee	15,000	10,000
Remuneration Committee	25,000	10,000
Nomination Committee	-	6,000
Budget Committee	2,250	1,500(3)
Investment Committee	2,250	1,500(3)
Due Diligence Committee	2,250	1,500(3)
Information Technology Committee	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) Per deliberative meeting.

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.

7. Link between financial performance and variable remuneration

The purpose of this section is to provide detailed information on the remuneration outcomes for the 2012 year.

7.1 Short-term incentive

The short-term incentive referred to in the remuneration tables in Section 8 represents the short-term incentive component of "at-risk" remuneration in the year. These bonuses were determined on the basis of the Consolidated Entity's performance, the individual's business unit performance, the individual executive's performance and Total Shareholder Return over the financial year ended 31 August 2012 and are therefore deemed to be attributable to that financial year, although payment will not occur until October 2012 and beyond for the deferred portion of STI.

Remuneration Report - Audited (continued)

7.1 Short-term incentive (continued)

As outlined in Table 1, the STI include the following performance measures:

- net profit after tax;
- cost to income ratio;
- specified individual KPI's set by the Board for each role; and
- risk KPIs.

In considering the Consolidated Entity's performance for the FY2012 STI plan, the Board had regard to the following:

	2012	2011	2010	2009	2008
Statutory net profit/(loss) after tax	$(17.1m)	$158.7m	$181.9m	$141.1m	$138.7m
Normalised cash net profit/(loss) after tax	$30.6m	$176.6m	$197.0m	$187.4m	$155.4m
Normalised cash diluted earnings / (loss) per share	7.9c	66.7c	83.4c	98.4c	99.9c
Normalised cash cost to income ratio	45.7%	44.5%	45.8%	49.9%	56.1%
Share price	$7.55	$7.48	$9.83	$11.65	$15.86
Dividends paid	$151.7m	$125.7m	$120.8m	$120.2m	$103.9m

The Board assessed the performance of the MD and each KMP against the individual STI measures and risk KPI's that had been agreed for each role.

The Board reviewed the Consolidated Entity's performance, the individual's business unit performance, the individual executive's performance against KPI's (particularly the KMP's recently employed) and Total Shareholder Return. Based on this the STI awards for the MD was paid at 55% of opportunity. The KMP were paid at between 27% and 50% of STI opportunity with the exception of the CRO who was awarded 75% of his STI opportunity based on his achievements since he arrived at BOQ. All STI awards are pro rata based on length of service.

7.2 Long-term Incentive

Performance Considerations

The LTI seeks to reward executives for potential and sustained performance over the period. The award is made in equity to provide additional alignment between participants and shareholders.

The LTI plan uses a TSR performance measure to determine vesting. TSR and the peer group used in the TSR calculation are determined by an independent qualified valuer. This aligns the remuneration received by the MD and KMP under the LTI with the creation of shareholder value relative to the Peer Group over the performance period. In FY 2012, no PARs granted in prior financial years vested. This reflected the TSR performance of the Consolidated Entity during this period relative to the ASX 200 Peer Group.

8. Remuneration disclosures

The MD and KMP receive a mix of remuneration, with a portion paid during the year, and a portion received over the following three years, 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 Board has included in the remuneration disclosures a table that provides a summary of the remuneration that the current MD and KMP actually received in relation to the 2012 financial year.

8.1 Take-Home Pay Summary

The table below sets out:

- fixed remuneration (base remuneration, fringe benefits and employer superannuation contributions);
- variable cash remuneration (split between the portion of the 2012 STI paid in October 2012 and excluding the portion of the STI deferred until FY 2013 and FY 2014);
- Other benefits and termination benefits; and
- the value of previous years' long term incentive awards that vested during the 2012 financial year.

This is a non-statutory disclosure. The statutory disclosures for the year ended 31 August 2012 are disclosed in Tables 5 to 9 and differ to these non-statutory disclosures.

Remuneration Report - Audited (continued)

8.1 Take-Home Pay Summary (continued)

Table 4 Non-statutory disclosures - Remuneration received by the MD, current and former KMP in relation to the FY 2012

	Fixed remuneration (1)	STI upfront (2)	Other Benefits (1)	Termination benefits (1)	Total cash payments	STI deferred (3)	LTI vested (4)	Restricted Shares (5)	Total
Current									
Stuart Grimshaw	1,053,952	484,000 (6)	81,427	-	1,619,379	-	-	-	1,619,379
Jon Sutton	114,165	-	7,471	-	121,636	-	-	-	121,636
Anthony Rose	76,231	-	-	-	76,231	-	-	-	76,231
Peter Deans	249,721	97,000	20,881	-	367,602	-	-	-	367,602
Brendan White	250,522	179,000 (7)	-	-	429,522	-	-	-	429,522
Matthew Baxby	153,361	51,500	-	-	204,861	-	-	-	204,861
Chris Nilon	365,347	67,500	-	-	432,847	-	36,885	-	469,732
Renato Mazza	366,241	60,000	-	-	426,241	-	10,815	-	437,056
Former									
Ram Kangatharan (8)	558,909	291,667	201,341	787,500	1,839,417	-	213,889	792,720	2,846,026
Ewan Cameron	465,401	-	5,731	489,617	960,749	-	10,815	-	971,564
Darryl Newton	286,590	-	21,703	410,345	718,638	-	9,226	-	727,864
David Tonuri	257,925	-	11,127	329,689	598,741	-	-	-	598,741
Keith Rodwell	515,491	-	60,626	393,750	969,867	-	14,425	-	984,292

Additional information – Non Statutory Remuneration Methodology

(1) Fixed remuneration, other benefits and termination benefits are determined on the same basis as in Table 5 and Table 6.

(2) Includes the portion of STI Cash award that will be paid in October 2012. For the current executives this figure represents 50% of the 2012 STI upfront and the remaining 50% will be deferred over a 2 year period.

(3) STI Deferred for FY2012 will be reported in the year in which it is paid. As this is the first year in which STI is deferred, no STI deferred amounts were paid.

(4) Includes rights vested in current financial year multiplied by share price at vesting date.

(5) Includes restricted shares vested in current financial year multiplied by share price at vesting date.

(6) This represents 50% of the 2012 STI upfront and the remaining 50% is awarded in DARs that vest equally over a 2 year vesting period - 50% vesting year 1 and 50% year 2 (year ended 31 August 2013 and 31 August 2014).

(7) This represents 100% of the 2012 STI upfront. This is a contractual obligation only for the first year of employment, subsequent amounts will revert to normal deferral arrangements.

(8) STI paid as part of appointment as Acting CEO for period 1 September 2011 to 31 October 2011. This was a contractual commitment.

Remuneration Report – Audited (continued)

8.2 Statutory disclosures

The following tables include details of the nature and amount of each major element of the remuneration of each Director and KMP of the Consolidated Entity, calculated in accordance with accounting standards.

The amounts shown in Table 5 to Table 9 below may differ from those shown above in Table 4.

Table 5 Director's Remuneration Details of the nature and amount of each major element of the remuneration of each Director of the Consolidated Entity are as outlined in the table below.

2012 Financial Year		Short-term					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
		Salary and fees	STI at risk	Non- Monetary benefits [2]	Other cash benefits [3]	Total				Options and rights[6]	Shares and units			
Executive Director		$	$	$	$	$	$	$	$	$	$	$	%	%
Stuart Grimshaw Managing Director (appointed 1 November 2011)	2012	1,040,972	484,000 [1]	80,907	520	1,606,399	12,980	1,426	-	193,237	-	**1,814,042**	37%	11%
Non-Executive Directors														
Neil Summerson	2012	355,000	-	-	-	355,000	15,939	-	-	-	-	**370,939**	-	-
	2011	355,000	-	-	-	355,000	15,199	-	-	-	-	**370,199**	-	-
Steve Crane	2012	165,417	-	-	-	165,417	14,888	-	-	-	-	**180,305**	-	-
	2011	164,000	-	-	-	164,000	14,760	-	-	-	-	**178,760**	-	-
Roger Davis	2012	175,458	-	-	-	175,458	15,791	-	-	-	-	**191,249**	-	-
	2011	160,167	-	-	-	160,167	14,415	-	-	-	-	**174,582**	-	-
Carmel Gray	2012	207,750	-	-	-	207,750	15,939	-	-	-	-	**223,689**	-	-
	2011	199,000	-	-	-	199,000	15,199	-	-	-	-	**214,199**	-	-
John Reynolds	2012	218,208	-	-	-	218,208	15,939	-	-	-	-	**234,147**	-	-
	2011	214,333	-	-	-	214,333	15,199	-	-	-	-	**229,532**	-	-
Michelle Tredenick	2012	166,651	-	-	-	166,651	14,981	-	-	-	-	**181,632**	-	-
	2011	76,813	-	-	-	76,813	6,913	-	-	-	-	**83,726**	-	-
David Willis	2012	170,619	-	-	-	170,619	15,300	-	-	-	-	**185,919**	-	-
	2011	161,916	-	-	-	161,916	14,550	-	-	-	-	**176,466**	-	-
Richard Haire (appointed 18 April 2012)	2012	55,895	-	-	-	55,895	5,031	-	-	-	-	**60,926**	-	-
Former Director														
David Graham	2012	-	-	-	-	-	-	-	-	-	-	**-**	-	-
(resigned 8 October 2010)	2011	16,339	-	-	-	16,339	1,471	-	-	-	-	**17,810**	-	-
Bill Kelty	2012	137,500	-	-	-	137,500	12,375	-	44,621	-	-	**194,496**	-	-
(retired 31 July 2012)	2011	150,000	-	-	-	150,000	13,500	-	-	-	-	**163,500**	-	-
Former Executive Directors														
David Liddy	2012	-	-	-	-	-	-	-	-	-	**-**	**-**	-	-
Managing Director (retired 31 August 2011)	2011	1,547,414	425,000	8,279	237,695	2,218,388	14,987	-	566,667	168,069	**-**	**2,968,111**	20%	6%

(1) STI at risk reflects 50% of the amount paid or accrued in respect of the year ended 31 August 2012, the remaining 50% is awarded in DARs that vest equally over a 2 year vesting period - 50% vesting year 1 and 50% year 2 (year ended 31 August 2013 and 31 August 2014. 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 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.

Remuneration Report – Audited (continued)

Table 6 Key Management Personnel Remuneration

Details of the nature and amount of each major element of the remuneration of each KMP of the Consolidated Entity are as outlined in the table below.

		Short-term					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
		Salary and fees	STI at risk [1]	STI at risk deferred [2]	Other cash benefit [3]	Total				Options and rights[6]	Shares and units			
		$	$	$	$	$	$	$	$	$	$	$	%	%
Executives														
Jon Sutton	2012	111,704	-	-	7,471	119,175	2,461	158	-	78,577	132,798	**333,169**	-	24%
(appointed 2 July 2012)														
Anthony Rose	2012	74,401	-	-	-	74,401	1,830	108	-	25,436	117,647	**219,422**	-	12%
(appointed 1 August 2012)														
Peter Deans	2012	243,026	97,000	97,000	20,881	457,907	6,695	356	-	31,104	-	**496,062**	39%	6%
(appointed 26 March 2012)														
Brendan White	2012	244,371	179,000 [7]	-	-	423,371	6,151	340	-	185,530	213,680	**829,072**	22%	22%
(appointed 2 April 2012)														
Matthew Baxby	2012	149,024	51,500	51,500	-	252,024	4,337	207	-	87,543	126,947	**471,058**	22%	19%
(appointed 17 May 2012)														
Chris Nilon	2012	349,526	67,500	67,500	-	484,526	15,821	11,636	-	85,342	-	**597,325**	37%	14%
	2011	288,296	120,000	-	-	408,296	15,229	36,759	-	86,237	-	**546,521**	38%	16%
Renato Mazza	2012	350,418	60,000	60,000	-	470,418	15,823	5,112	-	148,563	-	**639,916**	42%	23%
	2011	350,785	200,000	-	-	550,785	15,295	6,078	-	97,490	-	**669,648**	44%	15%
Bradley Edwards [9]	2011	256,441	100,000	-	-	356,441	23,439	8,510	-	14,570	-	**402,960**	28%	4%
Former Executives														
Keith Rodwell	2012	499,912	-	-	60,626	560,538	15,579	45,789	393,750	(115,141)	-	**900,515**	(13%)	(13%)
(resigned 24 August 2012)	2011	503,835	225,000	-	193,500 [8]	922,335	21,790	-	-	136,337	-	**1,080,462**	33%	13%
Ram Kangatharan [10]	2012	549,238	291,667	-	201,341	1,042,246	9,671	-	787,500	(196,344)	976,493	**2,619,566**	4%	(8%)
(resigned 30 March 2012)	2011	731,898	375,000	-	-	1,106,898	15,229	5,234	-	32,888	757,382	**1,917,631**	61%	2%
Ewan Cameron	2012	450,716	-	-	5,731	456,447	14,685	-	489,617	(110,173)	-	**850,576**	(13%)	(13%)
(resigned 20 July 2012)	2011	482,855	185,000	-	-	667,855	15,229	931	-	126,070	-	**810,085**	38%	16%
Darryl Newton	2012	275,952	-	-	21,703	297,655	10,638	-	410,345	(93,697)	-	**624,941**	(15%)	(15%)
(resigned 26 March 2012)	2011	408,143	120,000	-	-	528,143	15,229	592	-	107,262	-	**651,226**	35%	17%
David Tonuri	2012	246,683	-	-	11,127	257,810	11,242	-	329,689	(40,417)	-	**558,324**	(7%)	(7%)
(resigned 11 May 2012)	2011	197,457	100,000	-	-	297,457	9,056	274	-	40,417	-	**347,204**	40%	12%
Jim Stabback (resigned 25 February 2011)	2011	202,678	-	-	-	202,678	19,741	-	-	(92,046)	-	**130,373**	(71%)	(71%)

(1) STI at risk reflects 50% of the amounts paid or accrued in respect of the year ended 31 August 2012. Refer to "Executive remuneration framework" for a discussion of the Bank's short-term incentive arrangement.
(2) STI at risk deferred reflects 50% of the amounts to be paid equally in respect of 31 August 2012 in year ended 31 August 2013 and 31 August 2014 for the compulsory two year deferral. Refer to "Executive remuneration framework" for a discussion of the Bank's short-term incentive arrangement.
(3) This includes accrued annual leave paid out on retirement and other cash benefits.
(4) This includes superannuation and salary sacrificed benefits.
(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 represents 100% of the 2012 STI at risk. This is a contractual obligation only for the first year of employment, subsequent amounts will revert to normal deferral arrangements.
(8) Retention bonuses paid in accordance with the acquisition agreement.
(9) No longer considered a KMP from 1 September 2011.
(10) STI paid as part of appointment as CEO for period 1 September 2011 to 31 October 2011.

Remuneration Report – Audited (continued)

8.3 Equity held by the MD and KMP

The movement during the 2012 financial year in the number of options and rights over ordinary shares held by each Executive Director and KMP, as part of their remuneration, are as follows:

Table 7 Movement in options and rights held by the MD and KMP during FY 2012

KMP	Type	Grant Date	Share Price at Grant Date $	Movements during the 2012 FY								
				Balance at 1 September 2011	Granted [1]	Exercised	Lapsed	Balance at 31 August 2012 [1]	Vested and Exercisable	Non-Vested	Vested during the year (%) [2]	Forfeited during the year (%)
Current												
Stuart Grimshaw	2011 PARs	13/10/2011	8.10	-	121,619	-	-	121,619	-	121,619	-	-
Jon Sutton [3]	2012 DARs	26/02/2012	7.48	-	62,687	-	-	62,687	-	62,687	-	-
	2012 PARs	26/02/2012	7.48	-	74,627	-	-	74,627	-	74,627	-	-
	Restricted shares	26/02/2012	7.48	-	104,478	-	-	104,478	-	104,478	-	-
Anthony Rose [3]	2012 DARs	29/02/2012	7.34	-	30,030	-	-	30,030	-	30,030	-	-
	2012 PARs	29/02/2012	7.34	-	75,075	-	-	75,075	-	75,075	-	-
	Restricted shares	29/02/2012	7.34	-	30,030	-	-	30,030	-	30,030	-	-
Peter Deans [3]	2012 PARs	10/05/2012	6.89	-	69,061	-	-	69,061	-	69,061	-	-
Brendan White [3]	2012 DARs	10/02/2012	7.33	-	75,574	-	-	75,574	-	75,574	-	-
	2012 PARs	10/02/2012	7.33	-	67,476	-	-	67,476	-	67,476	-	-
	Restricted shares	10/02/2012	7.33	-	40,486	-	-	40,486	-	40,486	-	-
Matthew Baxby [3]	2012 DARs	01/02/2012	7.44	-	36,982	-	-	36,982	-	36,982	-	-
	2012 PARs	01/02/2012	7.44	-	73,964	-	-	73,964	-	73,964	-	-
	Restricted shares	01/02/2012	7.44	-	29,586	-	-	29,586	-	29,586	-	-
Chris Nilon	Options	20/11/2006	14.90	20,000	-	-	20,000	-	-	-	-	100
	Options	01/11/2007	19.44	50,000	-	-	-	50,000	-	50,000	-	-
	2008 DARs	29/06/2009	8.89	1,710	-	1,710	-	-	1,710	-	50	-
	2008 PARs	29/06/2009	8.89	5,700	-	-	5,700	-	-	-	-	100
	2009 DARs	24/12/2009	11.30	2,905	-	1,743	-	1,162	1,743	1,162	30	-
	2009 PARs	24/12/2009	11.30	4,490	-	-	-	4,490	-	4,490	-	-
	2010 DARs	29/11/2010	11.45	3,416	-	683	-	2,733	683	2,733	20	-
	2010 May DARs	28/05/2010	11.19	2,126	-	797	-	1,329	797	1,329	30	-
	2010 PARs	29/11/2010	11.45	5,693	-	-	-	5,693	-	5,693	-	-
	2011 PARs	16/12/2011	7.71	-	21,283	-	-	21,283	-	21,283	-	-
Renato Mazza	2010 DARs	29/11/2010	11.45	7,116	-	1,423	-	5,693	1,423	5,693	20	-
	2010 PARs	29/11/2010	11.45	33,207	-	-	-	33,207	-	33,207	-	-
	2011 PARs	16/12/2011	7.71	-	22,195	-	-	22,195	-	22,195	-	-

[1] This represents the maximum number of award rights that may vest to each executive.

[2] Percentage of initial rights granted.

[3] The Grant date reflects the date of signing the employment contract not the date the rights / restricted shares were issued. There was no entitlement to these rights and restricted shares until commencement of employment.

Remuneration Report – Audited (continued)
8.3 Equity held by the MD and KMP (continued)

The movement during the 2012 financial year in the number of options and rights over ordinary shares held by each Executive Director and KMP, as part of their remuneration, are as follows:

Table 7 Movement in options and rights held by the MD and KMP during FY 2012

KMP	Type	Grant Date	Share Price at Grant Date $	Movements during the 2012 FY								
				Balance at 1 September 2011	Granted	Exercised	Lapsed	Balance at 31 August 2012	Vested and Exercisable	Non-Vested	Vested during the year (%) [(1)]	Forfeited during the year (%)
Former												
Ram Kangatharan	Options	01/11/2007	19.44	350,000	-	-	350,000	-	-	-	-	100
	2008 DARs	29/06/2009	8.89	4,275	-	4,275	-	-	4,275	-	50	-
	2008 PARs	29/06/2009	8.89	45,600	-	-	45,600	-	-	-	-	100
	2009 DARs	24/12/2009	11.30	13,740	-	13,740	-	-	13,740	-	50	-
	2009 PARs	24/12/2009	11.30	38,700	-	-	38,700	-	-	-	-	100
	2010 DARs	29/11/2010	11.45	10,721	-	10,721	-	-	10,721	-	100	-
	2010 PARs	29/11/2010	11.45	71,157	-	-	71,157	-	-	-	-	100
	Restricted shares	15/06/2010	11.30	108,000	-	108,000	-	-	108,000	-	100	-
	Restricted shares	23/08/2011	7.21	100,000	-	-	-	100,000	-	100,000	-	-
Ewan Cameron	2010 DARs	29/11/2010	11.45	7,116	-	1,423	5,693	-	1,423	-	20	80
	2010 PARs	29/11/2010	11.45	47,438	-	-	47,438	-	-	-	-	100
	2011 PARs	16/12/2011	7.71	-	30,405	-	30,405	-	-	-	-	100
Darryl Newton	2010 DARs	29/11/2010	11.45	6,072	-	1,214	4,858	-	1,214	-	20	80
	2010 PARs	29/11/2010	11.45	40,323	-	-	40,323	-	-	-	-	100
	2011 PARs	16/12/2011	7.71	-	25,844	-	25,844	-	-	-	-	100
David Tonuri	2010 PARs	25/01/2011	10.12	18,975	-	-	18,975	-	-	-	-	100
	2011 PARs	16/12/2011	7.71	-	21,283	-	21,283	-	-	-	-	100
Keith Rodwell	2010 DARs	29/11/2010	11.45	9,488	-	1,898	7,590	-	1,898	-	20	80
	2010 PARs	29/11/2010	11.45	47,438	-	-	47,438	-	-	-	-	100
	2011 PARs	16/12/2011	7.71	-	31,925	-	31,925	-	-	-	-	100

[(1)] Percentage of initial rights granted.

Remuneration Report – Audited (continued)

8.3 Equity held by the MD and KMP (continued)

The table below shows the total value of any options and rights that were granted, exercised or lapsed to the MD and KMP.

Table 8 Value of rights and options held by the MD and KMP during FY 2012

KMP	Grant	Grant Date	Fair value per option or right at grant date $	Value at grant date $ (1)	Exercise Date	Exercise price $	Value at Exercise Date (2) $	Expiry / Lapsing Date	Value at Expiry / Lapsing Date (2) $
Current									
Stuart Grimshaw	2011 PARs	13/10/2011	5.36	651,878	-	-	-	13/10/2016	-
Jon Sutton [3]	2012 DARs	26/02/2012	6.60	413,734	-	-	-	05/05/2017	-
	2012 PARs	26/02/2012	5.18	386,568	-	-	-	16/12/2017	-
	Restricted shares	26/02/2012	6.70	700,000	-	-	-	09/01/2014	-
Anthony Rose [3]	2012 DARs	29/02/2012	6.60	198,198	-	-	-	05/05/2017	-
	2012 PARs	29/02/2012	5.18	388,888	-	-	-	16/12/2017	-
	Restricted shares	29/02/2012	6.66	200,000	-	-	-	21/09/2012	-
Peter Deans [3]	2012 PARs	10/05/2012	3.70	255,526	-	-	-	16/12/2017	-
Brendan White [3]	2012 DARs	10/02/2012	6.60	498,788	-	-	-	05/05/2017	-
	2012 PARs	10/02/2012	5.18	349,526	-	-	-	16/12/2017	-
	Restricted shares	10/02/2012	7.41	300,000	-	-	-	31/10/2012	-
Matthew Baxby [3]	2012 DARs	01/02/2012	6.60	244,081	-	-	-	05/05/2017	-
	2012 PARs	01/02/2012	5.18	383,134	-	-	-	16/12/2017	-
	Restricted shares	01/02/2012	6.76	200,000	-	-	-	31/10/2012	-
Chris Nilon	Options	20/11/2006	2.13	42,600	-	16.26	-	20/11/2011	-
	Options	01/11/2007	2.57	128,500	-	19.11	-	01/11/2012	-
	2008 DARs	29/06/2009	7.59	12,979	28/03/2012	7.65	13,082	29/06/2014	-
	2008 PARs	29/06/2009	4.59	26,163	-	-	-	13/10/2011	46,170
	2009 DARs	24/12/2009	10.40	30,212	28/03/2012	7.65	13,334	23/12/2014	-
	2009 PARs	24/12/2009	6.93	31,116	-	-	-	23/12/2014	-
	2010 DARs	29/11/2010	11.17	38,157	28/03/2012	7.65	5,225	29/11/2015	-
	2010 May DARs	28/05/2010	10.11	21,494	25/02/2012	7.34	5,850	28/05/2015	-
	2010 PARs	29/11/2010	7.81	44,462	-	-	-	29/11/2015	-
	2011 PARs	16/12/2011	5.18	110,246	-	-	-	16/12/2016	-
Renato Mazza	2010 DARs	29/11/2010	11.17	79,486	18/01/2012	7.32	10,416	29/11/2015	-
	2010 PARs	29/11/2010	7.81	259,347	-	-	-	29/11/2015	-
	2011 PARs	16/12/2011	5.18	114,970	-	-	-	16/12/2016	-

(1) Represents options and rights held at 1 September 2012 and granted during the 2012 financial year.

(2) Closing share price on exercise, expiry date and balance date multiplied by the number of rights exercised or lapsed during the year.

(3) The Grant date reflects the date of signing the employment contract not the date the rights / restricted shares were issued. There was no entitlement to these rights and restricted shares until commencement of employment.

Remuneration Report – Audited (continued)
8.3 Equity held by the MD and KMP (continued)

The table below shows the total value of any options and rights that were granted, exercised or lapsed to the MD and KMP during the 2012 financial year.

Table 8 Value of rights and options held by the MD and KMP during FY 2012

KMP	Grant	Grant Date	Fair value per option or right at grant date $	Value at grant date $ [1]	Exercise Date	Exercise price $	Value at Exercise Date [2] $	Expiry / Lapsing Date	Value at Expiry / Lapsing Date [2] $
Former									
Ram Kangatharan	Options	01/11/2007	2.57	899,500	-	19.11	-	30/03/2012	-
	2008 DARs	29/06/2009	7.59	32,447	17/01/2012	7.44	31,806	29/06/2014	-
	2008 PARs	29/06/2009	4.59	209,304	-	-	-	13/10/2011	369,390
	2009 DARs	24/12/2009	10.40	142,896	17/01/2012	7.44	61,335	24/12/2014	-
	2009 DARs	24/12/2009			02/04/2012	7.16	39,351	24/12/2014	-
	2009 PARs	24/12/2009	6.93	268,191	-	-	-	30/03/2012	281,736
	2010 DARs	29/11/2010	11.17	119,754	17/01/2012	7.44	15,951	-	-
	2010 DARs	29/11/2010			30/03/2012	7.28	62,441	-	-
	2010 PARs	29/11/2010	7.81	555,736	-	-	-	30/03/2012	518,023
	Restricted shares	15/06/2010	10.31	1,113,480	02/03/2012	7.34	792,720	02/03/2012	-
	Restricted shares	23/08/2011	7.21	721,000	-	-	-	01/11/2012	-
Ewan Cameron	2010 DARs	29/11/2010	11.17	79,486	22/12/2011	7.55	10,744	20/07/2012	40,534
	2010 PARs	29/11/2010	7.81	370,491	-	-	-	20/07/2012	337,759
	2011 PARs	16/12/2011	5.18	157,498	-	-	-	20/07/2012	216,484
Darryl Newton	2010 DARs	29/11/2010	11.17	67,824	28/03/2012	7.65	9,287	19/04/2012	34,880
	2010 PARs	29/11/2010	7.81	314,923	-	-	-	19/04/2012	289,519
	2011 PARs	16/12/2011	5.18	133,872	-	-	-	19/04/2012	185,560
David Tonuri	2010 DARs	25/01/2011	7.81	148,195	-	-	-	19/04/2012	136,240
	2011 PARs	16/12/2011	5.18	110,246	-	-	-	19/04/2012	152,812
Keith Rodwell	2010 DARs	29/11/2010	11.17	105,981	28/03/2012	7.65	14,520	24/08/2012	57,304
	2010 PARs	29/11/2010	7.81	370,491	-	-	-	24/08/2012	358,157
	2011 PARs	16/12/2011	5.18	165,372	-	-	-	24/08/2012	241,034

(1) Represents options and rights held at 1 September 2012 and granted during the 2012 financial year.
(2) Closing share price on exercise, expiry date and balance date, respectively, multiplied by the number of rights exercised, lapsed during the year or value at balance date.

Remuneration Report – Audited (continued)

8.3 Equity held by the MD and KMP (continued)

The table below shows the allocation of the FY 2012 LTI Grant, estimating the remuneration amounts which the MD and KMP may receive under the grant in future years.

Table 9 Allocation of the FY 2012 LTI Grant

KMP	Maximum remuneration amounts received under the 2012 grant of rights and restricted shares					
	2012 (‘$000’)	2013 (‘$000’)	2014 (‘$000’)	2015 (‘$000’)	2016 (‘$000’)	Total (‘$000’)
Current						
Stuart Grimshaw	193.2	217.7	217.7	23.3	-	651.9
Jon Sutton [(1)]	211.3	916.7	240.2	117.6	14.5	1,500.3
Anthony Rose [(1)]	143.1	348.6	159.1	121.3	15.0	787.1
Peter Deans [(1)]	31.1	71.9	71.8	71.8	8.9	255.5
Brendan White [(1)]	399.2	459.2	178.9	98.8	12.2	1,148.3
Matthew Baxby [(1)]	214.4	332.8	153.9	112.2	13.8	827.1
Chris Nilon	27.7	38.9	38.9	4.8	-	110.3
Renato Mazza	28.9	40.5	40.5	5.0	-	114.9

[(1)] There was no entitlement to these rights and restricted shares until commencement of employment.

Remuneration Report – Audited (continued)

9. 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 Consolidated Entity, other than for gross misconduct. The termination provisions in the new Executive contracts do not provide for termination payments that exceed twelve months fixed remuneration (including superannuation).

9.1 Managing Director

As previously disclosed to the market, Mr Grimshaw joined the Consolidated Entity on 1 November 2011, succeeding David Liddy, who had been the Consolidated Entity's MD & CEO since April 2001. The appointment to the position of Managing Director and Chief Executive Officer is ongoing with reviews of performance and remuneration annually.

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

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 Consolidated Entity.

Fixed Remuneration

The position has 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 provides a reward for annual performance. This scheme has a range of 0 - 160% of TR and is based on the executive's achievement of performance objectives set annually by the Board. Pro rata principles apply to all STI payments.

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

Long Term Incentive

To further reinforce the importance of an appropriate focus on the long term performance of the Consolidated Entity, a long term incentive is 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 Consolidated Entity's TSR over three years against a Peer Group. If the Consolidated Entity's TSR is better than 50% of the Peer Group, then half of the allocated PARs vest. This vesting percentage increases on a straight line basis until the performance of the Consolidated Entity's TSR is above the 75th percentile. At this point 100% of the PARs vest.

To ensure that a long term focus remains beyond the employment of the MD, if the 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 MD received an initial allocation of PARs based on an allocation of $1 million at the volume weighted average price of shares after announcement of the FY11 financial results. These PARs vest over three years and are designed to encourage a long term strategic focus.

Termination

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

On a fundamental change, the MD 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 the Consolidated Entity (by payment of notice) or for a fundamental change, the DARs continue after termination and vesting is subject to their terms. For PARs if employment ceases for any reason other than summary dismissal PARs will continue after termination and vesting is subject to their terms.

Remuneration Report – Audited (continued)

9.1 Managing Director (continued)

Fundamental Change is the 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 the Consolidated Entity or in a new holding entity or the executive's positions are redundant.

9.2 Other Executives

All other KMP are employed under rolling contracts with the key terms as outlined in Table 10.

Table 10 KMP Notice Periods

KMP	Term of agreement	Fixed Annual Remuneration $	Notice period by executive	Notice period by the Consolidated Entity	Termination payment
Stuart Grimshaw	Open	1,250,000	6 months	6 months	12 months base pay (including notice period)
Jon Sutton	Open	700,000	3 months	3 months	9 months base pay (including notice period)
Anthony Rose	Open	625,000	3 months	3 months	9 months base pay (including notice period)
Peter Deans	Open	600,000	3 months	3 months	6 months base pay (including notice period)
Brendan White	Open	600,000	3 months	3 months	9 months base pay (including notice period)
Matthew Baxby	Open	525,000	3 months	3 months	9 months base pay (including notice period)
Chris Nilon	Open	365,000	3 months	3 months	12 months base pay (including notice period)
Renato Mazza	Open	365,000	3 months	3 months	9 months base pay (including notice period)

The Executive contracts for the new KMP allow for a notice period of no longer than 6 months. No termination payments made under the arrangements with existing KMP (including the MD) will exceed 12 months base salary.

Changes have been made to the Awards Rights Plan such that unvested rights held by the MD and CRO will not accelerate upon termination. Instead, the rights will remain on-foot and will vest over the performance period according to the vesting schedule. Rather than the rights being subject to accelerated vesting or forfeiting on termination, the Board considered it important to ensure continued alignment of these key executives with the Consolidated Entity's financial performance after their departure from the Consolidated Entity.

Unvested rights held by all other KMP may, at Board discretion, vest on a pro rata basis at termination where the individual is a good leaver (i.e. has departed for reasons including a transfer of employment to an Owner-Managed Branch, retirement, redundancy, death or total and permanent disablement). Otherwise the awards will lapse upon termination of employment.

Payments made to former executives

The following executives departed the Consolidated Entity and received termination payments in the 2012 financial year.

- Ram Kangatharan
- Ewan Cameron
- Darryl Newton
- David Tonuri
- Keith Rodwell

All former executives received contractually obligated payments only.

The termination payments received consisted of payments in lieu of notice, annual and long service leave accruals and termination payments of either 6 or 9 months base salary, depending on the individual's Executive contract.

Remuneration Report – Audited (continued)
9.2 Other Executives (continued)

Ram Kangatharan agreed to stay with the organisation in the role of Acting CEO after the retirement of David Liddy, prior to Stuart Grimshaw starting with the Consolidated Entity. The Board made Mr Kangatharan an employment offer to ensure there was continuity of leadership and steerage of the organisation in this period. Mr Kangatharan was a CEO candidate and had other employment options, accordingly it was seen as important to ensure he remained with BOQ.

In addition to the termination payment, Mr Kangatharan received the following additional amounts as part of historical contractual agreements.

- All unvested DARs held by Mr Kangatharan vested upon cessation of his employment. This is in line with Mr Kangatharan's Executive contract which provided for full vesting of the unvested DARs should his employment be terminated prior to 1 November 2012.
- Mr Kangatharan retained the restricted shares allocated to him under the Executive contract dated 8 November 2011. The restriction on these restricted shares remains unchanged (i.e. there is no accelerated removal of the restriction) with the shares not released until 1 November 2012.
- Mr Kangatharan was paid an STI as part of appointment as Acting CEO for period 1 September 2011 to 31 October 2011.
- Based on the Consolidated Entity and executive's performance over the 2012 financial year, no STI payment will be paid to Mr Kangatharan for the period November 2011 to August 2012.

Further details of the payments made to departed executives are included in Table 6.

10. Senior Managers' options and rights

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

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

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

Options originally issued:	3,999,000;
Options lapsed during the year:	650,000;
Options exercised during the year	Nil;
Options on issue at balance date:	1,391,000;
Exercise date: (1)	1 November 2011;
Expiry date:	1 November 2012;
Options exercisable at balance date:	1,391,000;
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 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 2012 was $7.55 (2011: $7.48).

Remuneration Report – Audited (continued)
10. Senior Managers' options and rights (continued)

Options and Rights Terms (continued)

Type	Grant Date	Expiry Date	Granted	Lapsed during the year	Exercised during the year	Balance at 31 August 2012	Vested [1]	Vesting Date	Vesting Percentage [2]	Fair value per right at grant date [3] $
DARs										
2008 DARs	29 June 2009	29 June 2014	269,072	1,502	101,025	14,876	2,518	17 December 2009 16 December 2010 15 December 2011	20% 30% 50%	7.59
2009 DARs	24 December 2009	23 December 2014	403,294	8,832	113,412	68,526	11,608	16 December 2010 15 December 2011 20 December 2012	50% 30% 20%	10.40
2010 DARs	28 May 2010	28 May 2015	41,809	2,425	8,797	20,346	2,181	2 May 2011 7 May 2012 6 May 2013	20% 30% 50%	10.11
2010 DARs	29 November 2010	29 November 2015	400,892	59,472	87,175	240,013	18,043	15 December 2011 20 December 2012 19 December 2013	20% 30% 50%	11.17
2011 DARs	16 December 2011	16 December 2016	466,128	29,940	1,631	434,557	1,498	20 December 2012 19 December 2013 19 December 2014	20% 30% 50%	6.60
2012 DARs	February 2012	5 May 2017	233,723	-	-	233,723	-	3 May 2013 2 May 2014	50% 50%	6.60
PARs [4]										
2008 PARs	29 June 2009	29 June 2014	429,292	149,910	-	-	-	n/a	100%	4.59
2009 PARs	24 December 2009	23 December 2014	192,810	61,180	-	89,060	-	18 October 2012	100%	6.93
2010 PARs	29 November 2010	29 November 2015	561,909	258,633	-	271,303	-	Date of release of financial results in October 2013	100%	7.81
2010 PARs	25 January 2011	25 January 2016	18,975	18,975	-	-	-	n/a	100%	7.81
2011 PARs	13 October 2011	13 October 2016	121,619	-	-	121,619	-	Date of release of financial results in October 2014	100%	5.36
2011 PARs	16 December 2011	16 December 2016	359,632	123,018	-	236,614	-	Date of release of financial results in October 2014	100%	5.18
2012 PARs	February 2012	16 December 2017	311,057	-	-	311,057	-	Date of release of financial results in October 2015	100%	5.18
2012 PARs	10 May 2012	16 December 2017	69,061	-	-	69,061	-	Date of release of financial results in October 2015	100%	3.70

(1) The number of rights vested during the year under the Award Rights Plan at the discretion of the directors, as permitted under the terms of the plan.
(2) PARs vest based on the Consolidated Entity's TSR performance measured against a Peer Group over a 3 year period.
(3) Valued using the Monte Carlo simulation approach.
(4) The ability to exercise the PARs is conditional on the Bank achieving certain market performance hurdles. Refer to "Executives Remuneration Framework" for further details.

Indemnification of officers

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

Insurance of officers

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

Directors' interests

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

Director	Ordinary Shares
Neil Summerson	45,599
Stuart Grimshaw [(1)]	10,825
Steve Crane	25,678
Roger Davis	4,896
Carmel Gray	10,946
John Reynolds	5,217
Michelle Tredenick	2,433
David Willis	1,414
Richard Haire [(2)]	4,000

[(1)] Stuart Grimshaw was appointed as Chief Executive Officer and Managing Director on 1 November 2011.
[(2)] Richard Haire was appointed as a Non-Executive Director on 18 April 2012.

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	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Audit services – KPMG Australia				
- Audit and review of the financial reports	1,127.1	923.4	818.3	547.1
- Other regulatory and audit services	532.6	464.1	346.1	304.1
	1,659.7	1,387.5	1,164.4	851.2
Audit related services – KPMG Australia				
- Other assurance services [1]	123.9	84.2	-	-
	123.9	84.2	-	-
Other services – KPMG Australia				
- Tax advisory services	222.5	347.4	218.2	341.4
- Other	75.6	5.4	75.6	5.4
- Due diligence services	103.2	-	103.2	-
	401.3	352.8	397.0	346.8

[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 nil for 2012 (2011: $32,448).

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 52 and forms part of the directors' report for the year ended 31 August 2012.

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 eighteenth day of October 2012.

Signed in accordance with a resolution of the directors:

__________________	__________________
Neil Summerson	Stuart Grimshaw
Chairman	Managing Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 August 2012 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.

KPMG

Martin McGrath
Partner
Brisbane
18 October 2012.

STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 31 August 2012

		Consolidated		Bank	
	Note	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Interest income	4	2,596.2	2,676.6	2,549.2	2,638.6
Less: Interest expense	4	1,944.7	2,053.2	2,086.7	2,184.2
Net interest income		651.5	623.4	462.5	454.4
Other operating income	4	111.5	132.1	235.7	232.5
Net banking operating income		763.0	755.5	698.2	686.9
Premiums from insurance contracts		76.0	68.6	-	-
Investment revenue		7.4	8.5	-	-
Claims and policyholder liability expense from insurance contracts		(42.1)	(36.2)	-	-
Net insurance operating income	4	41.3	40.9	-	-
Total operating income	4	804.3	796.4	698.2	686.9
Less: Expenses	5	422.6	374.1	369.7	322.5
Profit before impairment on loans and advances and tax		381.7	422.3	328.5	364.4
Less: Impairment on loans and advances	13	401.0	200.5	359.9	166.7
Profit/(Loss) before income tax		(19.3)	221.8	(31.4)	197.7
Less: Income tax expense/(benefit)	6	(2.2)	63.1	(27.6)	55.3
Profit/(Loss) for the year		(17.1)	158.7	(3.8)	142.4
Other comprehensive income, net of income tax					
Cash flow hedges:					
Net gains / (losses) taken to equity		(18.8)	29.7	8.1	24.8
Net losses transferred to profit and loss		0.2	6.0	0.2	6.0
Foreign currency translation differences on foreign operations		(0.6)	0.6	-	-
Net gain / (losses) on hedge of net investment in foreign operation		0.8	(0.2)	-	-
Change in fair value of assets available for sale		6.2	2.1	8.9	(0.7)
Other comprehensive income / (expense) for the year, net of income tax		(12.2)	38.2	17.2	30.1
Total comprehensive income / (expense) for the year		(29.3)	196.9	13.4	172.5
Profit/(Loss) attributable to:					
Equity holders of the parent		(17.1)	158.7	(3.8)	142.4
Total comprehensive income / (expense) attributable to:					
Equity holders of the parent		(29.3)	196.9	13.4	172.5
Basic earnings per share Ordinary shares	8	(10.2c)	63.6c		
Diluted earnings per share Ordinary shares	8	(10.2c)	60.3c		

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

BALANCE SHEETS
As at 31 August 2012

	Note	Consolidated		Bank	
		2012 $m	2011 $m	**2012 $m**	2011 $m
Assets					
Cash and liquid assets	9	670.5	433.2	227.7	269.6
Due from other financial institutions	10	119.7	131.9	23.5	25.9
Other financial assets	11	5,689.4	5,147.0	5,776.9	5,215.7
Derivative financial instruments	26	276.1	126.8	276.1	126.8
Loans and advances at amortised cost	12	34,147.2	33,276.1	30,654.6	29,745.7
Current tax assets		0.7	-	1.5	-
Shares in controlled entities	33	-	-	933.1	933.1
Property, plant and equipment	14	31.0	31.0	26.1	25.3
Deferred tax assets	15	125.7	41.7	104.9	42.6
Other assets	16	120.9	104.4	277.9	251.9
Intangible assets	17	554.6	580.0	59.3	70.6
Investments accounted for using the equity method	39	22.2	28.7	-	-
Total assets		41,758.0	39,900.8	38,361.6	36,707.2
Liabilities					
Due to other financial institutions	18	177.8	169.2	177.8	169.2
Deposits	19	31,171.9	29,626.6	31,288.7	29,875.2
Derivative financial instruments	26	253.0	264.1	130.3	197.5
Accounts payable and other liabilities		450.4	429.1	404.8	387.1
Current tax liabilities		-	79.4	-	79.8
Provisions	20	44.1	30.2	33.5	21.5
Insurance policy liabilities	37	73.5	77.6	-	-
Borrowings including subordinated notes	21	6,688.1	6,651.0	895.3	1,123.8
Amounts due to controlled entities		-	-	2,553.6	2,340.2
Total liabilities		38,858.8	37,327.2	35,484.0	34,194.3
Net assets		2,899.2	2,573.6	2,877.6	2,512.9
Equity					
Issued capital		2,660.1	2,153.3	2,666.0	2,162.8
Reserves		106.2	115.4	105.1	81.8
Retained profits		132.9	304.9	106.5	268.3
Total Equity		2,899.2	2,573.6	2,877.6	2,512.9

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

STATEMENTS OF CASH FLOWS
For the year ended 31 August 2012

	Note	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Cash flows from operating activities					
Interest received		2,567.0	2,694.2	2,317.7	2,445.5
Fees and other income received		181.6	168.8	130.1	156.2
Dividends received		0.8	1.6	0.8	1.6
Interest paid		(2,085.5)	(1,908.4)	(2,231.4)	(2,041.7)
Cash paid to suppliers and employees		(382.9)	(312.9)	(338.4)	(290.9)
Operating income tax paid		(153.4)	(110.1)	(151.7)	(109.3)
		127.6	533.2	(272.9)	161.4
(Increase) / decrease in operating assets:					
Loans and advances at amortised cost		(1,279.2)	(1,745.5)	(1,115.7)	(1,710.0)
Other financial assets		(517.2)	197.5	(551.8)	290.8
Increase / (decrease) in operating liabilities:					
Deposits		1,541.5	1,550.7	1,462.9	1,527.5
Securitisation liabilities	21	283.3	(274.4)	-	-
Net cash from operating activities	27	156.0	261.5	(477.5)	269.7
Cash flows from investing activities					
Payments for property, plant and equipment		(10.4)	(13.4)	(9.7)	(12.4)
Payments for intangible assets – software		(21.7)	(19.4)	(18.2)	(11.9)
Cash distribution received from equity accounted investments		6.7	1.8	-	-
Proceeds from sale of property, plant and equipment		3.9	5.7	0.9	-
Net cash from investing activities		(21.5)	(25.3)	(27.0)	(24.3)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		450.3	-	450.3	-
Cost of capital issues		(10.4)	-	(10.4)	-
Proceeds from borrowings and foreign exchange instruments	21	984.4	2,377.5	983.5	2,355.4
Proceeds from other financing activities		-	-	612.5	-
Repayment of other financing activities		-	-	(278.3)	-
Repayments of borrowings	21	(1,228.9)	(2,572.1)	(1,226.6)	(2,569.8)
Payments for treasury shares		(3.8)	(6.2)	(3.8)	(6.2)
Dividends paid		(88.8)	(73.3)	(88.8)	(73.3)
Dividends received		-	-	24.2	42.0
Net cash from financing activities		102.8	(274.1)	462.6	(251.9)
Net increase / (decrease) in cash and cash equivalents		237.3	(37.9)	(41.9)	(6.5)
Cash and liquid assets at beginning of year		433.2	471.1	269.6	276.1
Cash and liquid assets at end of year	9	670.5	433.2	227.7	269.6

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 2012

Consolidated	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	General reserve for credit losses	Cashflow hedge reserve	Translation reserve	Available for sale reserve	Retained profits	Total equity
Year ended 31 August 2012	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	1,957.6	195.7	33.5	67.0	8.0	0.4	6.5	304.9	2,573.6
Total comprehensive income for the year									
Loss	-	-	-	-	-	-	-	(17.1)	(17.1)
Other comprehensive income, net of income tax									
Cash flow hedges:									
Net losses taken to equity	-	-	-	-	(18.8)	-	-	-	(18.8)
Net losses transferred to profit and loss	-	-	-	-	0.2	-	-	-	0.2
Net gain on hedge of net investment in foreign operation	-	-	-	-	-	0.8	-	-	0.8
Foreign currency translation differences on foreign operations	-	-	-	-	-	(0.6)	-	-	(0.6)
Change in fair value of assets available for sale	-	-	-	-	-	-	6.2	-	6.2
Transfers	-	-	-	3.2	-	-	-	(3.2)	-
Total other comprehensive income	-	-	-	3.2	(18.6)	0.2	6.2	(3.2)	(12.2)
Total comprehensive income for the year	-	-	-	3.2	(18.6)	0.2	6.2	(20.3)	(29.3)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Institutional placement and entitlement offer (1)	288.5	-	-	-	-	-	-	-	288.5
Retail entitlement offer (1)	161.8	-	-	-	-	-	-	-	161.8
Costs of capital issue	(7.4)	-	-	-	-	-	-	-	(7.4)
Dividend reinvestment plan	63.0	-	-	-	-	-	-	-	63.0
Dividends to shareholders	-	-	-	-	-	-	-	(142.1)	(142.1)
Dividends to PEPs	-	-	-	-	-	-	-	(9.6)	(9.6)
Equity settled transactions	-	-	(0.2)	-	-	-	-	-	(0.2)
Treasury Shares (2)	0.9	-	-	-	-	-	-	-	0.9
Total contributions by and distributions to owners	506.8	-	(0.2)	-	-	-	-	(151.7)	354.9
Balance at the end of the year	2,464.4	195.7	33.3	70.2	(10.6)	0.6	12.7	132.9	2,899.2

(1) In April / May, the Bank completed a capital raising by way of Institutional Placement, Institutional Entitlement and Retail Entitlement offers of fully paid ordinary shares at an issue price of $6.05 per share.
(2) 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 (continued)
For the year ended 31 August 2012

Consolidated	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	General reserve for credit losses	Cashflow hedge reserve	Translation reserve	Available for sale reserve	Retained profits	Total equity
Year ended 31 August 2011	$m	$m	$m	$m	$m	$m	$m	$m	$m
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 gains 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 (continued)
For the year ended 31 August 2012

Bank	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	General reserve for credit losses	Cashflow hedge reserve	Available for sale reserve	Retained profits	Total equity
Year ended 31 August 2012	$m	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	1,967.1	195.7	33.5	51.0	(6.5)	3.8	268.3	2,512.9
Total comprehensive income for the year								
Loss	-	-	-	-	-	-	(3.8)	(3.8)
Other comprehensive income, net of income tax								
Cash flow hedges:								
Net gains taken to equity	-	-	-	-	8.1	-	-	8.1
Net losses transferred to profit and loss	-	-	-	-	0.2	-	-	0.2
Change in fair value of assets available for sale	-	-	-	-	-	8.9	-	8.9
Transfers	-	-	-	6.3	-	-	(6.3)	-
Total other comprehensive income	-	-	-	6.3	8.3	8.9	(6.3)	17.2
Total comprehensive income for the year	-	-	-	6.3	8.3	8.9	(10.1)	13.4
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Institutional placement and entitlement offer [(1)]	288.5	-	-	-	-	-	-	288.5
Retail entitlement offer [(1)]	161.8	-	-	-	-	-	-	161.8
Costs of capital issue	(7.4)	-	-	-	-	-	-	(7.4)
Dividend reinvestment plan	63.0	-	-	-	-	-	-	63.0
Treasury Shares	(2.7)	-	-	-	-	-	-	(2.7)
Dividends to shareholders	-	-	-	-	-	-	(142.1)	(142.1)
Dividends to PEPs	-	-	-	-	-	-	(9.6)	(9.6)
Equity settled transactions	-	-	(0.2)	-	-	-	-	(0.2)
Total contributions by and distributions to owners	503.2	-	(0.2)	-	-	-	(151.7)	351.3
Balance at the end of the year	2,470.3	195.7	33.3	57.3	1.8	12.7	106.5	2,877.6

[(1)] In April / May, the Bank completed a capital raising by way of Institutional Placement, Institutional Entitlement and Retail Entitlement offers of fully paid ordinary shares at an issue price of $6.05 per share.

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

STATEMENTS OF CHANGES IN EQUITY (continued)
For the year ended 31 August 2012

Bank	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	General reserve for credit losses	Cashflow hedge reserve	Available for sale reserve	Retained profits	Total equity
Year ended 31 August 2011	$m	$m	$m	$m	$m	$m	$m	$m
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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 AUGUST 2012

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
Year ended 31 August 2012

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 2012 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, leasing finance 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 Bank is a for-profit entity.

The consolidated financial report was authorised for issue by the directors on 18 October 2012.

(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:

2. Basis of preparation (continued)

(e) Use of estimates and judgements (continued)

- Provisions for impairment – Note 13 (refer Note 3 (j));
- Intangible assets - Note 17;
- Provisions - Note 20 (refer Note 3 (m));
- Financial instruments - Note 26;
- Contingent liabilities – Note 29; and
- Insurance policy liabilities – Note 37.

3. Significant accounting policies

The following standards and amendments have been identified as those which may impact the Bank and were available for early adoption at 31 August 2012 but have not been applied in these financial statements.

- *AASB 9 Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Consolidated Entity's 31 August 2016 financial statements. The potential effects on adoption of the amendments are yet to be determined.
- *AASB 10 Consolidated Financial Statements*, when it becomes mandatory for the Consolidated Entity's 31 August 2014 financial statements, will supersede AASB 127 Consolidated and Separate Financial Statements and Interpretation 112 Consolidation – Special Purposes Entities. It introduces a new single control model to assess whether to consolidate an investee. The Consolidated Entity has not determined the potential effect of the standard.
- *AASB 119 Employee Benefits* is amended for changes in accounting and disclosures of defined benefit superannuation plans; definitions of short-term and other long-term employee benefits affecting the measurement of the obligations; and the timing for recognition of termination benefits. The amendments become mandatory for the Consolidated Entity's 31 August 2014 financial statements with specific transitional requirements. The potential effects on adoption of the amendments are yet to be determined.
- *AASB 11 Joint Arrangements,* when it becomes mandatory for the Consolidated Entity's 31 August 2014 financial statements, introduces a principles based approach to accounting for joint arrangements. If the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and the parties will account for their share of revenue, expenses, assets and liabilities. Otherwise the joint arrangement is considered a joint venture and the parties must use the equity method to account for their interest. 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.

(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.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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 and REDS EHP 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 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.

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 and REDS EHP Trusts is transferred back to the Bank by way of interest rate and basis 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 Trusts and is based on the interest income under the mortgages, the fees payable by the Trusts and the interest income or expense not separately recognised under the interest rate and basis swaps transactions between the Bank and the Trusts.

All transactions between the Bank and the 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 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

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

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 date of the transaction. 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 profit or loss in the Statement of Comprehensive Income. 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 profit or loss in the Statement of Comprehensive Income. 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 profit or loss in the Statement of Comprehensive Income in the same period or periods in which the asset acquired or liability assumed affects the Statement of Comprehensive Income (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 if the hedged forecast transaction is still 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 profit or loss in the Statement of Comprehensive Income.

(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 the Statement of Comprehensive Income within other income or other expenses.

3. Significant accounting policies (continued)

(c) Derivatives, financial instruments and hedging (continued)

(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 the Statement of Comprehensive Income 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 profit or loss in the Statement of Comprehensive Income when incurred. Financial instruments at fair value through the profit and loss are measured at fair value, and changes therein are recognised in profit or loss in the Statement of Comprehensive Income.

(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 plus any directly attributable transaction costs, with any changes in fair value other than impairment losses (refer Note 3 (j)), 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.

3. Significant accounting policies (continued)

(h) Property, plant and equipment

Recognition and initial measurement
Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and 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.

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

Depreciation
Depreciation is charged to the profit or loss in the Statement of Comprehensive Income 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 the Statement of Comprehensive Income as an expense as incurred.

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

Goodwill
Goodwill is the excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets of the acquired subsidiary. Any goodwill is tested annually for impairment, with any impairment taken directly to the profit or loss in the Statement of Comprehensive Income. 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 entity, and equity interests issued by the Consolidated Entity.

Amortisation
Except for goodwill, amortisation is charged to profit or loss in the Statement of Comprehensive Income 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

3. Significant accounting policies (continued)

(j) Impairment

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 in the Statement of Comprehensive Income - is reclassified from equity and recognised in profit or loss in the Statement of Comprehensive Income as a reclassification adjustment. Impairment losses recognised in profit or loss in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the profit or loss in the Statement of Comprehensive Income.

For available for sale debt securities, if any increase in the fair value can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is 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 or loss in the Statement of Comprehensive Income.

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.

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 ("CGU"). An impairment loss is recognised in profit or loss in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognised in respect of CGUs 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. 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 CGU 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.

3. Significant accounting policies (continued)

(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 or loss in the Statement of Comprehensive Income as they are made.

(iv) Share based payments
The Bank operates the following equity-settled compensation plans:

- Senior Management Option Plan ("SMOP"); and
- Award Rights Plan.

The above plans allow Consolidated Entity 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.

3. Significant accounting policies (continued)

(n) Shares (continued)

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 financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the Statement of Comprehensive Income 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.

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

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

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

Fair value gains and losses from financial assets held at fair value are recognised in the Statement of Comprehensive Income 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 profit or loss in the Statement of Comprehensive Income 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 / receivable 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 / receivable 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.

3. Significant accounting policies (continued)

(p) Income tax (continued)

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 2003.

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")

TOFA began to apply to the BOQ Tax Consolidated group on 1 July 2010. The regime aims to align the tax and accounting treatment of financial arrangements.

The Tax Consolidated group made a transitional election to bring pre-existing arrangements into TOFA. The deferred tax in relation to the transitional adjustment that this created is being amortised equally over the 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 Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

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

3. Significant accounting policies (continued)

(r) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit/(loss) 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.

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'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

<u>Principles for life insurance</u>

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.

3. Significant accounting policies (continued)

(v) Life Insurance Business (continued)

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 are 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 profit or loss in 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.

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.

3. Significant accounting policies (continued)

(v) Life Insurance Business (continued)

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 profit or loss in the Statement of Comprehensive Income. 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's insurance subsidiary 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 is provided internally 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 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Interest income				
Loans and advances	2,345.1	2,383.1	1,998.4	2,034.0
Securities at fair value	251.1	293.5	550.8	604.6
Total interest income	2,596.2	2,676.6	2,549.2	2,638.6
Interest expense				
Retail deposits	1,025.8	977.7	1,025.8	977.2
Wholesale deposits and borrowings	918.9	1,075.5	1,060.9	1,207.0
Total interest expense	1,944.7	2,053.2	2,086.7	2,184.2
Net interest income	651.5	623.4	462.5	454.4
Income from operating activities				
Other customer fees and charges	106.1	108.5	105.6	108.1
Share of fee revenue paid to Owner Managed Branches	(14.8)	(15.2)	(14.8)	(15.2)
Securitisation income	-	0.6	53.8	48.0
Net income from financial instruments and derivatives at fair value	0.3	13.6	1.0	13.7
Commission – insurance and financial planning	6.2	5.0	10.0	8.0
Management fee – controlled entities	-	-	25.4	26.1
Foreign exchange income – customer based	7.4	7.0	7.3	7.0
Net profit / (loss) on sale of property, plant and equipment	1.8	5.5	(0.5)	0.1
Other income	4.5	7.1	47.9	36.7
	111.5	132.1	235.7	232.5
Other operating income	111.5	132.1	235.7	232.5
Net Insurance operating income	41.3	40.9	-	-
Total operating income	804.3	796.4	698.2	686.9

5. Expenses

	Consolidated		Bank	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Operating expenses				
Advertising	14.0	14.7	13.3	14.1
Commissions to Owner Managed Branches	5.6	5.1	6.7	6.1
Communications and postage	18.7	17.1	17.7	16.1
Printing and stationery	5.7	4.9	5.3	4.4
Non-lending losses	14.7	2.1	12.9	2.1
Processing costs	24.2	22.9	24.2	22.9
Impairment (1)	-	4.9	-	3.5
Other operating expenses	19.9	18.6	16.2	14.9
	102.8	90.3	96.3	84.1
Administrative expenses				
Professional fees	18.7	12.5	15.9	10.4
Directors' fees	1.7	1.5	1.2	1.0
Other	7.4	6.7	8.7	8.2
	27.8	20.7	25.8	19.6
Computer costs				
Data processing	53.1	47.2	50.2	44.5
Amortisation and impairment – computer software (intangible)	31.9	18.4	29.6	17.1
Depreciation – IT equipment	1.3	1.4	0.7	1.0
	86.3	67.0	80.5	62.6
Occupancy expenses				
Lease rental	20.4	18.9	18.8	16.6
Depreciation of plant, furniture, equipment and leasehold improvements	8.2	6.3	7.0	5.2
Other	2.5	1.9	2.4	1.8
	31.1	27.1	28.2	23.6
Employee expenses				
Salaries and wages	134.0	122.5	111.1	101.0
Superannuation contributions	12.5	12.1	10.7	10.5
Amounts set aside to provision for employee entitlements	1.4	3.8	1.0	2.7
Payroll tax	7.9	7.1	6.6	6.0
Equity settled transactions	4.7	3.9	3.8	3.9
Other	5.4	5.5	4.4	4.4
	165.9	154.9	137.6	128.5
Other				
Amortisation – acquired intangibles	8.7	8.4	1.3	0.6
Integration costs (2)	-	5.7	-	3.5
Expenses	422.6	374.1	369.7	322.5

(1) The prior year relates to property related equity investments.
(2) The prior year includes integration costs associated with the acquisition of St Andrews and BOQ Finance.

6. **Income tax expense**	Consolidated **2012 $m**	Consolidated 2011 $m	Bank **2012 $m**	Bank 2011 $m
Current tax expense				
Current year	67.2	115.1	39.4	107.7
Adjustments for prior years	3.3	(0.1)	(3.6)	(4.3)
	70.5	115.0	35.8	103.4
Deferred tax expense				
Origination and reversal of temporary differences	(72.7)	(51.9)	(63.4)	(48.1)
	(72.7)	(51.9)	(63.4)	(48.1)
Total income tax expense / (benefit)	(2.2)	63.1	(27.6)	55.3
Attributable to:				
Continuing Operations	(2.2)	63.1	(27.6)	55.3
Deferred tax recognised in equity				
Equity raising costs	(3.2)	-	(3.2)	-
Cash flow hedge reserve	3.5	12.7	3.5	10.7
Other	(8.9)	1.0	3.9	(0.2)
	(8.6)	13.7	4.2	10.5
Numerical reconciliations between tax expense and pre-tax profit/(loss)				
Profit/(loss) before tax – continuing operations	(19.3)	221.8	(31.4)	197.7
Profit/(loss) before tax	(19.3)	221.8	(31.4)	197.7
Income tax using the domestic corporate tax rate of 30% (2011: 30%)	(5.8)	66.5	(9.4)	59.3
Increase in income tax expense due to:				
Non-deductible expenses	4.3	0.8	0.3	0.3
Decrease in income tax expense due to:				
Research and development expenses	-	(0.6)	-	(0.6)
Other [1]	(4.3)	(1.8)	(18.7)	(1.7)
	(5.8)	64.9	(27.8)	57.3
Under / (Over) provided in prior years	3.6	(1.8)	0.2	(2.0)
Income tax expense on pre-tax net profit/(loss)	(2.2)	63.1	(27.6)	55.3

[1] In the Bank, this includes the impact of dividends received from subsidiary Group members which are eliminated at a Group level and other non-assessable income.

7. Dividends	Bank 2012 Cents per share	2012 $m	2012 Percentage franked %	Bank 2011 Cents per share	2011 $m	2011 Percentage franked %
Ordinary shares						
Final 2011 dividend paid 2 December 2011 (2011: 2 December 2010)	28	63.1	100%	26	57.1	100%
Interim 2012 dividend paid 25 May 2012 (2011: 25 May 2011)	26	79.0	100%	26	57.7	100%
		142.1			114.8	
Preference shares recognised as liabilities						
RePS half-yearly dividend paid (2011: 15 October 2010)	-	-		257	1.2	100%
		-			1.2	
Preference shares not recognised as liabilities						
Half-yearly PEPS dividend paid on 17 October 2011 (2011: 15 October 2010)	250	5.0	100%	239	4.8	100%
Half-yearly PEPS dividend paid on 16 April 2012 (2011: 15 April 2011)	234	4.6	100%	246	4.9	100%
		9.6			9.7	

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)	217	4.3	100%	15 October 2012
- Final – ordinary shares (BOQ)	26	80.3	100%	8 December 2012

Dividend franking account	Bank **2012** **$m**	Bank 2011 $m
30% franking credits available to shareholders of the Bank for subsequent financial years	124.9	127.3

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(a) 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;
(b) franking debits that will arise from the payment of dividends subsequent to year-end;
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the year end; and
(d) 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 2012, is $124.9 million credit calculated at the 30% tax rate (2011: $127.3 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	
	2012	2011
	cents	cents [1]
Basic earnings per share	(10.2c)	63.6c
Diluted earnings per share	(10.2c)	60.3c

	2012	2011
	$m	$m
Earnings reconciliation		
Net profit/(loss)	(17.1)	158.7
Less other equity instrument dividends	(9.6)	(9.7)
Basic earnings	(26.7)	149.0
Effect of distributions on convertible preference shares	-	19.2
Diluted earnings	(26.7)	168.2

	Consolidated	
	2012	2011
Weighted average number of shares used as the denominator	**Number**	Number [1]
Number for basic earnings per share		
Ordinary shares	263,815,724	234,035,934
Number for diluted earnings per share		
Ordinary shares	263,815,724	234,035,934
Effect of award rights	1,343,916	770,019
Effects of converting preference shares	-	22,836,809
Effects of convertible notes [2]	-	21,206,409
	265,159,640	278,849,171

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

(2) Refer to note 21 for Convertible Notes terms and conditions.

	Consolidated		Bank	
9. Cash and liquid assets	**2012**	2011	**2012**	2011
	$m	$m	**$m**	$m
Notes, coin and cash at bank	522.5	240.1	79.7	76.5
Remittances in transit	148.0	193.1	148.0	193.1
	670.5	433.2	227.7	269.6

10. Due from other financial institutions

Term deposits	119.7	131.9	23.5	25.9
	119.7	131.9	23.5	25.9

11. Other financial assets

At fair value through profit and loss				
Floating rates notes and bonds	894.3	1,119.9	894.3	1,119.9
Negotiable certificates of deposit	2,650.6	1,361.2	2,650.6	1,361.2
Deposits at call	289.1	110.3	289.1	110.3
Bank accepted bills	445.2	88.9	445.2	88.9
Promissory notes	345.3	1,507.2	345.3	1,507.2
	4,624.5	4,187.5	4,624.5	4,187.5
Investment securities available for sale				
Debt instruments	1,055.0	949.0	1,142.5	1,015.3
Unlisted equity instruments	9.9	10.5	9.9	12.9
	1,064.9	959.5	1,152.4	1,028.2
Total other financial assets	5,689.4	5,147.0	5,776.9	5,215.7

12. Loans and advances at amortised cost

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Residential property loans – secured by mortgages	17,324.9	16,818.3	17,324.9	16,818.3
Securitised residential property loans – secured by mortgages	8,115.2	7,358.7	8,115.2	7,358.7
Personal loans	224.3	272.9	224.3	272.9
Overdrafts	473.9	521.0	473.9	521.0
Commercial loans	4,935.9	4,986.0	4,886.4	4,986.0
Leasing finance	3,930.0	4,108.0	-	-
Gross loans and advances at amortised cost	35,004.2	34,064.9	31,024.7	29,956.9
Less:				
Unearned lease finance income	(444.1)	(535.0)	-	-
Collective provision for impairment	(192.6)	(80.1)	(165.8)	(56.8)
Specific provisions for impairment	(220.3)	(173.7)	(204.3)	(154.4)
Total loans and advances at amortised cost	34,147.2	33,276.1	30,654.6	29,745.7

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:

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Gross investment in finance lease receivables:				
Less than one year	609.6	610.5	-	-
Between one and five years	3,245.7	3,403.5	-	-
More than five years	74.7	94.0	-	-
	3,930.0	4,108.0	-	-
Unearned finance income	(444.1)	(535.0)	-	-
Net investment in finance leases	3,485.9	3,573.0	-	-
The net investment in finance leases comprise:				
Less than one year	575.1	558.6	-	-
Between one and five years	2,853.7	2,944.1	-	-
More than five years	57.1	70.3	-	-
	3,485.9	3,573.0	-	-

12. Loans and advances at amortised cost (continued)

Transfer of financial assets

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

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

The Trusts fund their purchase of the assets by issuing floating-rate debt securities. The securities are issued by the Trusts. 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 securitisation programs. The Bank does however provide the securitisation 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 assets 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.

The Bank receives the residual income distributed by the Trusts after all payments due to investors and associated costs of the program have been met and as a result the Bank is considered to retain the risks and rewards of the Trusts.

The following table sets out the transferred financial assets and associated liabilities from conducting the securitisation program.

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Transferred financial assets				
Loans and advances at amortised cost	-	-	5,100.8	5,379.9
	-	-	5,100.8	5,379.9
Associated financial liabilities				
Amounts due to controlled entities	-	-	(5,259.6)	(5,476.8)
	-	-	(5,259.6)	(5,476.8)
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	-	-	5,100.8	5,379.9
Fair value of associated liabilities	-	-	(5,259.6)	(5,476.8)
	-	-	(158.8)	(96.9)

13. Provisions for impairment	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Specific provision:				
Balance at the beginning of the year	173.7	60.5	154.4	51.0
Add: Expensed during the year	227.8	173.5	190.2	131.4
Less: Amounts written off against specific provision	(193.2)	(60.3)	(152.9)	(28.0)
Transfers from collective provision	34.8	-	34.8	-
Unwind of discount	(22.8)	-	(22.2)	-
Balance at the end of the year	220.3	173.7	204.3	154.4
Collective provision:				
Balance at the beginning of the year	80.1	53.1	56.8	21.5
Add: Expensed during the year	173.2	27.0	169.7	35.3
Impairment losses written off	(25.9)	-	(25.9)	-
Transfers to specific provision	(34.8)	-	(34.8)	-
Balance at the end of the year	192.6	80.1	165.8	56.8
Total provisions for impairment	412.9	253.8	370.1	211.2

14. Property, plant and equipment

2012 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	30.7	28.9	31.9	0.7	92.2
Additions	5.5	3.5	1.1	0.3	10.4
Disposals	(0.9)	(0.7)	(0.1)	-	(1.7)
Transfers between categories	0.2	0.4	0.1	(0.7)	-
Balance at the end of the financial year	35.5	32.1	33.0	0.3	100.9
Depreciation					
Balance at the beginning of the financial year	15.3	17.6	28.3	-	61.2
Depreciation charge for the year	5.7	2.5	1.3	-	9.5
Disposals	(0.4)	(0.3)	(0.1)	-	(0.8)
Balance at the end of the financial year	20.6	19.8	29.5	-	69.9
Carrying amounts					
Carrying amount at the beginning of the financial year	15.4	11.3	3.6	0.7	31.0
Carrying amount at the end of the financial year	14.9	12.3	3.5	0.3	31.0
Bank					
Cost					
Balance at the beginning of the financial year	26.6	27.9	29.7	0.7	84.9
Additions	5.6	3.4	0.4	0.3	9.7
Disposals	(1.0)	(0.7)	(0.1)	-	(1.8)
Transfers between categories	0.2	0.5	-	(0.7)	-
Balance at the end of the financial year	31.4	31.1	30.0	0.3	92.8
Depreciation					
Balance at the beginning of the financial year	14.3	17.5	27.8	-	59.6
Depreciation charge for the year	4.6	2.4	0.7	-	7.7
Disposals	(0.4)	(0.2)	-	-	(0.6)
Balance at the end of the financial year	18.5	19.7	28.5	-	66.7
Carrying amounts					
Carrying amount at the beginning of the financial year	12.3	10.4	1.9	0.7	25.3
Carrying amount at the end of the financial year	12.9	11.4	1.5	0.3	26.1

14. Property, plant and equipment (continued)

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

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Consolidated	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Accruals	6.4	4.7	-	-	6.4	4.7
Capitalised expenditure	-	-	(17.6)	(30.0)	(17.6)	(30.0)
Intangibles	-	-	(1.7)	(2.8)	(1.7)	(2.8)
Leasing	-	-	(1.2)	(2.5)	(1.2)	(2.5)
Property, plant, equipment and software	-	-	(4.9)	(8.8)	(4.9)	(8.8)
Provision for impairment	125.2	75.9	-	-	125.2	75.9
Provisions other	13.7	10.2	-	-	13.7	10.2
Receivables	-	-	(0.2)	(0.6)	(0.2)	(0.6)
Other	8.1	7.6	(2.7)	(6.4)	5.4	1.2
Equity reserves	0.6	-	-	(5.6)	0.6	(5.6)
Tax assets / (liabilities)	154.0	98.4	(28.3)	(56.7)	125.7	41.7
Bank						
Accruals	3.0	0.8	-	-	3.0	0.8
Capitalised expenditure	-	-	(19.1)	(26.8)	(19.1)	(26.8)
Property, plant, equipment and software	-	-	(5.0)	(8.9)	(5.0)	(8.9)
Provision for impairment	111.0	63.4	-	-	111.0	63.4
Provisions other	12.2	9.0	-	-	12.2	9.0
Receivables	-	-	(0.2)	(0.6)	(0.2)	(0.6)
Other	7.8	6.6	-	(2.4)	7.8	4.2
Equity reserves	-	1.5	(4.8)	-	(4.8)	1.5
Tax assets / (liabilities)	134.0	81.3	(29.1)	(38.7)	104.9	42.6

16. Other assets

	Consolidated		Bank	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Accrued interest	67.8	39.9	66.2	38.4
Other debtors and prepayments	45.6	58.8	211.7	213.5
Operating lease assets	7.5	5.7	-	-
	120.9	104.4	277.9	251.9

17. Intangible assets

	Consolidated					Bank				
	Goodwill	**Customer related intangibles and brands**	**Computer software**	**Other**	**Total**	**Goodwill**	**Customer contracts**	**Computer software**	**Other**	**Total**
2012	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Cost										
Balance at the beginning of the financial year	444.4	107.4	190.3	7.3	749.4	8.1	5.0	181.0	2.0	196.1
Other additions	-	-	21.6	0.1	21.7	-	-	18.1	0.1	18.2
Impairment	-	-	(8.1)	-	(8.1)	-	-	(8.1)	-	(8.1)
Balance at the end of the financial year	444.4	107.4	203.8	7.4	763.0	8.1	5.0	191.0	2.1	206.2
Amortisation and impairment losses										
Balance at the beginning of the financial year	-	46.3	121.6	1.5	169.4	-	5.0	120.2	0.3	125.5
Amortisation for the year	-	14.4	24.6	2.0	41.0	-	-	22.3	1.1	23.4
Impairment	-	-	(2.0)	-	(2.0)	-	-	(2.0)	-	(2.0)
Balance at the end of the financial year	-	60.7	144.2	3.5	208.4	-	5.0	140.5	1.4	146.9
Carrying amounts										
Carrying amount at the beginning of the financial year	444.4	61.1	68.7	5.8	580.0	8.1	-	60.8	1.7	70.6
Carrying amount at the end of the financial year	444.4	46.7	59.6	3.9	554.6	8.1	-	50.5	0.7	59.3

17. Intangible assets (continued)

2011	Consolidated Goodwill $m	Consolidated Customer related intangibles and brands $m	Consolidated Computer software $m	Consolidated Other $m	Consolidated Total $m	Bank Goodwill $m	Bank Customer contracts $m	Bank Computer software $m	Bank Other $m	Bank Total $m
Cost										
Balance at the beginning of the financial year	444.4	107.4	170.9	5.3	728.0	8.1	5.0	169.3	-	182.4
Other additions	-	-	19.4	2.0	21.4	-	-	11.7	2.0	13.7
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at the end of the financial year	444.4	107.4	190.3	7.3	749.4	8.1	5.0	181.0	2.0	196.1
Amortisation and impairment losses										
Balance at the beginning of the financial year	-	31.3	103.2	0.2	134.7	-	4.7	103.1	-	107.8
Amortisation for the year	-	15.0	18.4	1.3	34.7	-	0.3	17.1	0.3	17.7
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at the end of the financial year	-	46.3	121.6	1.5	169.4	-	5.0	120.2	0.3	125.5
Carrying amounts										
Carrying amount at the beginning of the financial year	444.4	76.1	67.7	5.1	593.3	8.1	0.3	66.2	-	74.6
Carrying amount at the end of the financial year	444.4	61.1	68.7	5.8	580.0	8.1	-	60.8	1.7	70.6

17. Intangible assets (continued)

Impairment testing of the cash generating units containing goodwill

The aggregate carrying amounts of goodwill are:	Consolidated		Bank	
	2012 $m	2011 $m	**2012 $m**	2011 $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

Goodwill on acquisition of Home Building Society Ltd and Pioneer Permanent Building Society Limited has been allocated to the Banking cash generating unit ("CGU") and all other goodwill allocated to the BOQ Finance CGU.

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 for both CGU's.

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 (2011: 3 years);
- a medium term growth rate of 9% (2011: 10%) for the 7 years subsequent to these projections;
- a terminal value at year 10 based on a long term growth rate of 3.0% (2011: 2.5%) and a terminal price earnings multiple of 22.9 (2011: 10.7) times earnings; and
- a pre tax discount rate of 13.8 % (2011: 16.9%).

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. Management has identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount for the Banking CGU. The table below shows the amount that these two assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

	2012 %	2011 %
Pre tax discount rate	8	12
Forecast profit growth rate	8	17

	Consolidated		Bank	
18. Due to other financial institutions	**2012**	2011	**2012**	2011
	$m	$m	**$m**	$m
Amounts payable – at call	177.8	169.2	177.8	169.2

19. Deposits

Deposits at call	8,134.9	8,615.2	8,216.6	8,863.8
Term deposits	16,753.6	13,269.5	16,788.7	13,269.5
Certificates of deposit	6,283.4	7,741.9	6,283.4	7,741.9
Total	31,171.9	29,626.6	31,288.7	29,875.2
Concentration of deposits:				
Retail deposits	22,270.0	20,317.9	22,351.6	20,566.5
Wholesale deposits	8,901.9	9,308.7	8,937.1	9,308.7
Total	31,171.9	29,626.6	31,288.7	29,875.2

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

20. Provisions

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Employee benefits [1]	16.1	15.8	13.3	13.2
Directors' retiring allowance [2]	0.2	0.2	0.2	0.2
Leases	0.8	0.4	0.4	0.1
Restructuring	-	0.8	-	0.8
Other [3]	27.0	13.0	19.6	7.2
Total	44.1	30.2	33.5	21.5

[1] Employee benefits provisions consist of annual leave and long service leave entitlements for employees.
[2] The directors' retiring allowance has been frozen as at 31 August 2003 and will only be increased in line with CPI movements.
[3] Other provisions include provision for non-lending losses and, in the Consolidated Entity, insurance claims reserves.

Movements in provisions

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

2012	Consolidated			Bank		
	Leases $m	Restructuring $m	Other $m	Leases $m	Restructuring $m	Other $m
Carrying amount at beginning of year	0.4	0.8	13.0	0.1	0.8	7.2
Additional provision recognised	0.5	0.3	15.8	0.4	0.3	14.2
Payments made	(0.1)	(1.1)	(1.8)	(0.1)	(1.1)	(1.8)
Carrying amount at end of year	0.8	-	27.0	0.4	-	19.6

2011	Consolidated			Bank		
	Leases $m	Restructuring $m	Other $m	Leases $m	Restructuring $m	Other $m
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

21. Borrowings including subordinated notes

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

	Securitisation liabilities [1]	EMTN Program	ECP Program	Borrowings including subordinated notes [2]	Syndicated Loan	Total
	$m	$m	$m	$m	$m	$m
Year ended 31 August 2012						
Balance at beginning of year	5,525.6	20.6	378.4	541.2	185.2	6,651.0
Proceeds from issues	1,950.4	22.0	911.6	50.8	-	2,934.8
Repayments	(1,667.1)	(10.0)	(1,127.0)	(91.9)	-	(2,896.0)
Deferred establishment costs	(4.0)	-	-	-	-	(4.0)
Amortisation of deferred costs	5.1	-	-	-	-	5.1
Foreign exchange translation	(17.4)	0.4	6.6	-	7.6	(2.8)
Balance at end of the year	5,792.6	33.0	169.6	500.1	192.8	6,688.1

	Securitisation liabilities [1]	EMTN Program	ECP Program	Borrowings including subordinated notes[2]	Preference shares [3]	Syndicated Loan	Total
	$m	$m	$m	$m	$m	$m	$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

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

	EMTN Program	ECP Program	Borrowings including subordinated notes	Syndicated Loan	Total
	$m	$m	$m	$m	$m
Year ended 31 August 2012					
Balance at beginning of year	20.6	378.4	539.6	185.2	1,123.8
Proceeds from issues	22.0	911.6	49.9	-	983.5
Repayments	(10.0)	(1,127.0)	(89.6)	-	(1,226.6)
Foreign exchange translation	0.4	6.6	-	7.6	14.6
Balance at end of the year	33.0	169.6	499.9	192.8	895.3

(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. Tranche 2 and Tranche 3 were redeemed during the current financial year. The Convertible Notes for Tranche 1 (after extension) convert into a variable number of BOQ ordinary shares on 10 November 2012, 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 at the option of the holder and also BOQ.

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

21. Borrowings including subordinated notes (continued)

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

	EMTN Program	ECP Program	Borrowings including subordinated notes	Preference shares[(1)]	Syndicated Loan	Total
	$m	$m	$m	$m	$m	$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) The bank converted the RePs into fully paid ordinary shares on 15 October 2010.

22. Capital and Reserves

	Consolidated		Bank	
	2012	2011	**2012**	2011
	Number	Number	**Number**	Number
(a) Ordinary shares				
Movements during the year				
Balance at the beginning of the year – fully paid	225,369,848	215,685,428	225,369,848	215,685,428
Dividend reinvestment plan	8,991,342	5,324,724	8,991,342	5,324,724
Conversion of REPs to ordinary shares	-	4,359,696	-	4,359,696
Institutional placement and entitlement offer (1)	47,690,067	-	47,690,067	-
Retail entitlement offer (1)	26,746,268	-	26,746,268	-
Balance at the end of the year – fully paid	308,797,525	225,369,848	308,797,525	225,369,848
Treasury shares (included in ordinary shares above)				
Balance at the beginning of the year	906,311	583,080	108,000	108,000
Net acquisitions and disposals during the year	(39,018)	323,231	196,580	-
Balance at the end of the year	867,293	906,311	304,580	108,000

(1) In April / May, the Bank completed a capital raising by way of Institutional Placement, Institutional Entitlement and Retail Entitlement offers of full paid ordinary shares at an issue price of $6.05 per share.

22. Capital and Reserves (continued)

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.

	Consolidated		Bank	
	2012	2011	**2012**	2011
	Number	Number	**Number**	Number
(b) Perpetual Equity Preference Shares ("PEPS")				
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 17 December 2007) 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 three operating segments based on products and services:

Banking — Retail banking, commercial, personal, small business loans, savings and transaction accounts and treasury.

Insurance — Life insurance and income protection insurance.

BOQ Finance — Equipment finance, vendor finance and debtor finance.

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 2012 or 2011.

(a) Information about reportable segments
The following table presents income and profit/(loss) and certain asset and liability information regarding the bank's operating segments.

	Banking		Insurance		BOQ Finance		Segment Total	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Income								
External	609.0	604.9	40.9	40.3	156.2	153.2	806.1	798.4
Inter-segment	6.6	5.9	-	-	-	-	6.6	5.9
Total operating income	615.6	610.8	40.9	40.3	156.2	153.2	812.7	804.3
Segment profit/(loss) before income tax	(111.0)	129.0	26.4	26.1	67.4	69.1	(17.2)	224.2
Income tax expense	(28.1)	34.9	6.3	8.2	20.2	20.7	(1.6)	63.8
Segment profit/(loss) after income tax	(82.9)	94.1	20.1	17.9	47.2	48.4	(15.6)	160.4
Results								
Interest income	2,258.8	2,336.5	1.4	-	338.4	342.7	2,598.6	2,679.2
Interest expense	1,750.1	1,850.0	2.4	2.6	194.6	203.2	1,947.1	2,055.8
Depreciation and amortisation	37.5	22.9	0.7	0.5	3.2	2.6	41.4	26.0
Impairment losses	365.6	165.3	-	-	35.4	35.2	401.0	200.5
Assets	38,015.3	36,122.6	210.7	198.7	3,571.8	3,590.9	41,797.8	39,912.2
Liabilities	35,452.0	33,878.7	166.0	161.8	3,280.2	3,307.0	38,898.2	37,347.5

(b) Reconciliations

	2012 $m	2011 $m	**2012 $m**	2011 $m
	Revenue		Profit/(loss) before tax	
Segment total	812.7	804.3	(17.2)	224.2
Elimination of inter-segment revenue	(6.6)	(5.9)	-	-
Less other consolidation eliminations	(1.8)	(2.0)	(2.1)	(2.4)
Consolidated total	804.3	796.4	(19.3)	221.8
	Assets		Liabilities	
Segment total	41,797.8	39,912.2	38,898.2	37,347.5
Less elimination of inter-company bank accounts	(43.3)	(20.1)	(43.3)	(20.1)
Less other inter-company eliminations	3.5	8.7	3.9	(0.2)
Consolidated total	41,758.0	39,900.8	38,858.8	37,327.2

(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.

24. Risk management

The Consolidated Entity adopts a “managed risk” approach to its banking and insurance activities. As such, the articulation of a risk aware culture is prevalent throughout the Consolidated Entity’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 Consolidated Entity’s corporate objectives through the operationalisation and progressive development of the Bank’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 Consolidated Entity’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 Consolidated Entity 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 Group. Policies are set in line with the governing strategy and risk guidelines set by the Board.

Monitoring

The Consolidated Entity’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	**2012**	2011	**2012**	2011
	%	%	**$m**	$m
Exposure at the end of the year	0.61	0.67	4.9	5.3
Average monthly exposure during the year	0.91	2.26	7.3	17.9
High month exposure during the year	1.88	3.47	15.3	27.5
Low month exposure during the year	0.06	0.17	0.5	1.3

24. Risk management (continued)

(a) Market risk (continued)

Traded market risk

Market risks attributable to trading activities are primarily measured using Value-at-risk ("VaR) based on historical simulation methodology. BOQ estimates VaR as the potential loss in earnings from adverse market movements and is calculated over a 1-day time horizon to a 99% confidence level using 1 year of historical data. VaR takes account of all material market variables that may cause a change in the value of the trading portfolio. Although an important tool for the measurement of market risk, the assumptions underlying the model have some limitations:

- VaR typically understates the losses that may occur beyond the 99% confidence level;
- The reliance of historical data may prove insufficient to predict the severity of possible outcomes;
- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. For certain illiquid assets or in certain market situations this might not be possible.

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	**2012 $m**	2011 $m
Average	0.61	0.33
Maximum	1.56	0.98
Minimum	0.08	0.05

(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 assessed by a committee consisting of Group Executives and senior risk managers chaired by the Chief Risk Officer;
- 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.

24. Risk management (continued)

(b) Credit risk (continued)

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

Maximum exposure to credit risk

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

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

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Cash and liquid assets	670.5	433.2	227.7	269.6
Due from other financial institutions	119.7	131.9	23.5	25.9
Other financial assets (including accrued interest)	5,757.2	5,186.9	5,843.1	5,254.1
Derivative financial instruments	276.1	126.8	276.1	126.8
Financial assets other than loans and advances	6,823.5	5,878.8	6,370.4	5,676.4
Gross loans and advances at amortised cost	35,004.2	34,064.9	31,024.7	29,956.9
Total financial assets	41,827.7	39,943.7	37,395.1	35,633.3
Customer commitments (1)	1,349.8	1,166.2	839.6	757.4
Total potential exposure to credit risk	43,177.5	41,109.9	38,234.7	36,390.7

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

Distribution of financial assets by credit quality

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Neither past due or impaired				
Gross loans and advances at amortised cost	32,993.3	31,892.0	29,143.3	27,952.2
Financial assets other than loans and advances	6,823.5	5,878.8	6,370.4	5,676.4
Past due but not impaired				
Gross loans and advances at amortised cost	1,485.6	1,728.6	1,380.9	1,588.8
Impaired				
Gross loans and advances at amortised cost	525.3	444.3	500.5	415.9
	41,827.7	39,943.7	37,395.1	35,633.3

There is no item included in impaired assets which exceeds 5.0% of shareholders' equity (2011: 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. To mitigate credit risk, the Bank can take possession of the security held against the loans and advances as a result of customer default. To ensure reduced exposure to losses, the collateral held by the Bank as mortgagee in possession is realised promptly.

24. Risk management (continued)

(b) Credit risk (continued)

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 is below. It is not practicable to determine the fair value on performing loans.

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Held against past due but not impaired assets	1,874.4	2,118.4	1,710.6	1,918.7
Held against impaired assets	349.3	336.1	337.4	321.7

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							
	2012				2011			
	$m				$m			
	Gross loans and advances				Gross loans and advances			
	Retail	**Commercial**	**Total loans and advances**	**Financial assets other than loans and advances**	Retail	Commercial	Total loans and advances	Financial assets other than loans and advances
High Grade	21,384.4	1,896.8	23,281.2	6,813.6	20,210.5	2,008.3	22,218.8	5,868.3
Satisfactory	3,616.1	5,469.0	9,085.1	-	3,548.5	5,753.3	9,301.8	-
Weak	590.1	1,500.1	2,090.2	9.9	603.7	1,332.4	1,936.1	10.5
Unrated [1]	547.7	-	547.7	-	608.2	-	608.2	-
	26,138.3	8,865.9	35,004.2	6,823.5	24,970.9	9,094.0	34,064.9	5,878.8

	Bank							
	2012				2011			
	$m				$m			
	Gross loans and advances				Gross loans and advances			
	Retail	**Commercial**	**Total loans and advances**	**Financial assets other than loans and advances**	Retail	Commercial	Total loans and advances	Financial assets other than loans and advances
High Grade	21,384.4	1,651.6	23,036.0	6,273.1	20,210.5	1,773.9	21,984.4	5,603.4
Satisfactory	3,616.1	2,481.7	6,097.8	59.5	3,548.5	2,662.2	6,210.7	-
Weak	590.1	753.1	1,343.2	37.8	603.7	550.0	1,153.7	73.0
Unrated [1]	547.7	-	547.7	-	608.1	-	608.1	-
	26,138.3	4,886.4	31,024.7	6,370.4	24,970.8	4,986.1	29,956.9	5,676.4

[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.

24. Risk management (continued)

(b) Credit risk (continued)

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.

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	
		2012	2011	**2012**	2011
		$m	$m	**$m**	$m
Less than 30 days	- Retail	651.7	676.5	651.7	676.5
	- Commercial	231.2	207.3	157.9	124.1
31 to 90 days	- Retail	162.8	253.9	162.8	253.9
	- Commercial	93.3	108.0	68.1	68.6
More than 90 days	- Retail	231.8	318.3	231.8	318.3
	- Commercial	114.8	164.6	108.6	147.4
		1,485.6	1,728.6	1,380.9	1,588.8

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	
Geographical concentration of credit risk for loans and advances at amortised cost (before provisions and unearned income):	**2012** **$m**	2011 $m	**2012** **$m**	2011 $m
Queensland	20,893.2	20,631.4	19,348.4	19,096.2
New South Wales	4,631.1	4,415.8	3,864.0	3,614.4
Victoria	5,477.1	5,191.5	4,653.9	4,247.3
Northern Territory	182.9	120.2	176.1	113.9
Australian Capital Territory	413.5	423.6	222.0	211.5
Western Australia	2,807.4	2,760.1	2,437.2	2,393.1
South Australia	205.4	208.9	102.5	90.1
Tasmania	223.8	193.7	220.6	190.4
International (New Zealand)	169.8	119.7	-	-
	35,004.2	34,064.9	31,024.7	29,956.9

24. Risk management (continued)

(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 and liquidity scenario analysis.

Consolidated 2012	Carrying amount	At Call	3 mths or less	3 to 12 mths	1 to 5 years	Over 5 years	Policy Holder	Total contractual cash flows
	$m	$m	$m	$m	$m	$m	$m	$m
Financial liabilities								
Due to other financial institutions	177.8	177.8	-	-	-	-	-	177.8
Deposits	31,171.9	10,879.2	16,682.0	4,586.2	2,197.8	-	-	34,345.2
Derivative financial instruments [1]	1.2	-	2.0	0.3	(0.7)	-	-	1.6
Accounts payable and other liabilities	450.4	-	450.4	-	-	-	-	450.4
Securitisation liabilities [2]	5,792.6	-	1,939.4	1,601.2	2,293.8	746.8	-	6,581.2
Borrowings including subordinated notes	895.5	-	227.9	225.9	547.7	-	-	1,001.5
Insurance policy liabilities	73.5	-	-	-	-	-	73.5	73.5
Total	38,562.9	11,057.0	19,301.7	6,413.6	5,038.6	746.8	73.5	42,631.2
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	-	408.3	415.1	1,063.7	27.4	-	1,914.5
Contractual amounts receivable	-	-	(506.8)	(409.0)	(990.4)	(19.9)	-	(1,926.1)
	(19.9)	-	(98.5)	6.1	73.3	7.5	-	(11.6)
Off balance sheet positions								
Guarantees, indemnities and letters of credit	-	130.8	-	-	-	-	-	130.8
Customer funding commitments	-	1,341.8	-	-	-	-	-	1,341.8
	-	1,472.6	-	-	-	-	-	1,472.6

Consolidated 2011	Carrying amount	At Call	3 mths or less	3 to 12 mths	1 to 5 years	Over 5 years	Policy Holder	Total contractual cash flows
	$m	$m	$m	$m	$m	$m	$m	$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

[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.

24. Risk management (continued)

(c) Liquidity risk (continued)

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**
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

Bank 2012	**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	177.8	177.8	-	-	-	-	177.8
Deposits	31,288.7	10,996.0	16,682.0	4,586.2	2,197.8	-	34,462.0
Derivative financial instruments (1)	1.3	-	2.1	0.3	(0.7)	-	1.7
Accounts payable and other liabilities	404.8	-	404.8	-	-	-	404.8
Borrowings including subordinated notes	895.3	-	227.9	225.8	547.7	-	1,001.4
Amounts due to controlled entities	2,553.6	2,553.6	-	-	-	-	2,553.6
Total	35,321.5	13,727.4	17,316.8	4,812.3	2,744.8	-	38,601.3
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	373.0	282.2	693.2	27.4	1,375.8
Contractual amounts receivable	-	-	(482.3)	(303.6)	(707.6)	(19.9)	(1,513.4)
	(142.7)	-	(109.3)	(21.4)	(14.4)	7.5	(137.6)
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	130.8	-	-	-	-	130.8
Customer funding commitments	-	839.6	-	-	-	-	839.6
	-	970.4	-	-	-	-	970.4

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

24. Risk management (continued)

(c) Liquidity risk (continued)

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.

24. Risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk failures could lead to reputational damage, financial loss, legal disputes and/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.

The Bank 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:

- Bank-wide 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 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.

(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 through a Board approved governance structure. 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's insurance subsidiary issues term life insurance contracts and disability insurance contracts. The performance of the Bank's insurance subsidiary and its continuing ability to write business depends on its ability to pre-empt and control risks. The Bank's insurance subsidiary has a risk strategy which has been approved by the Board. It summarises the 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 Consolidated Entity'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 Consolidated Entity's risk management strategy. Capital requirements take account of all of the various regulatory reporting requirements to which the Consolidated Entity 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's insurance subsidiary.

24. Risk management (continued)
(e) Insurance (continued)

(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 insurance subsidiary'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 insurance subsidiary'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's insurance subsidiary has a mix of short and long term business and invests accordingly. Market risk is managed through investing in cash and deposits, bank issued commercial bills, cash management trusts and managed income funds. 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's insurance subsidiary 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.

25. Capital management (continued)

The Board has set Tier 1 capital target range to be between 8.5% and 10% of risk weighted assets and the total capital range to be between 11.5% and 13% of risk weighted assets. The total capital adequacy ratio at 31 August 2012 was 12.6% and Tier 1 capital was 9.5%. Perpetual Equity Preference Shares ("PEPS"), issued as hybrid capital instruments, comprise 7.0% of total Tier 1 capital.

Net Tier 1 capital of 9.5% is represented by 8.5% 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	
Qualifying capital	**2012 $m**	2011 $m
Tier 1		
Fundamental Tier 1		
Ordinary Share Capital	2,464.6	1,957.9
Reserves	33.3	33.5
Retained profits [1]	116.8	288.4
	2,614.7	2,279.8
Residual Tier 1		
Non Innovative (PEPS)	195.7	195.7
	195.7	195.7
Tier 1 Deductions		
Deferred Expenditure	(106.8)	(105.1)
Goodwill and other identifiable intangibles	(541.1)	(557.9)
Other deductions	(164.4)	(94.3)
	(812.3)	(757.3)
Net Tier 1 Capital	1,998.1	1,718.2
Tier 2		
Upper Tier 2		
General Reserve for Credit Losses	184.2	123.1
Other	8.5	4.2
	192.7	127.3
Lower Tier 2		
Term subordinated debt	499.9	539.6
	499.9	539.6
Tier 2 Deductions	(31.5)	(40.8)
	(31.5)	(40.8)
Net Tier 2 Capital	661.1	626.1
Capital Base	2,659.2	2,344.3
Risk Weighted Assets	21,098.1	20,524.6
Capital Adequacy Ratio	12.6%	11.4%

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

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's and Bank's risk management framework.

The following table summarises the notional and fair value of the Consolidated Entity's and Bank's commitments to derivative financial instruments at 31 August 2012. 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, fair value is estimated using net present value techniques.

	Consolidated					
	2012			2011		
	Notional Amount	**Fair Value Asset / (Liability)**		Notional Amount	Fair Value Asset / (Liability)	
		Asset	**Liability**		Asset	Liability
	$m	**$m**	**$m**	$m	$m	$m
Derivatives at fair value through income statement						
Interest Rate Swaps	18,100.0	0.1	(0.9)	11,000.0	9.0	(40.9)
Foreign Exchange Forwards	68.9	0.7	(0.3)	51.9	0.4	(0.3)
Futures	6,085.7	3.6	-	12,624.8	6.5	-
	24,254.6	4.4	(1.2)	23,676.7	15.9	(41.2)
Derivatives held as cash flow hedges						
Interest Rate Swaps	29,014.0	268.3	(118.3)	28,249.0	108.8	(132.3)
Cross Currency Swaps	832.1	0.9	(133.3)	677.3	0.1	(88.0)
Foreign Exchange Forwards	129.8	2.5	(0.2)	241.8	1.9	(2.6)
	29,975.9	271.7	(251.8)	29,168.1	110.8	(222.9)
Derivatives designated as net investment hedges						
Foreign Exchange Forwards	12.9	-	-	23.7	0.1	-
	54,243.4	276.1	(253.0)	52,868.5	126.8	(264.1)

	Bank					
	2012			2011		
	Notional Amount	**Fair Value Asset / (Liability)**		Notional Amount	Fair Value Asset / (Liability)	
		Asset	**Liability**		Asset	Liability
	$m	**$m**	**$m**	$m	$m	$m
Derivatives at fair value through income statement						
Interest Rate Swaps	18,100.0	0.1	(0.9)	11,000.0	9.0	(40.9)
Foreign Exchange Forwards	81.8	0.7	(0.4)	75.5	0.5	(0.3)
Futures	6,085.7	3.6	-	12,624.8	6.5	-
	24,267.5	4.4	(1.3)	23,700.3	16.0	(41.2)
Derivatives held as cash flow hedges						
Interest Rate Swaps	29,014.0	268.3	(118.3)	28,249.0	108.8	(132.3)
Cross Currency Swaps	307.0	0.9	(10.5)	289.5	0.1	(21.4)
Foreign Exchange Forwards	129.8	2.5	(0.2)	241.8	1.9	(2.6)
	29,450.8	271.7	(129.0)	28,780.3	110.8	(156.3)
	53,718.3	276.1	(130.3)	52,480.6	126.8	(197.5)

26. Financial Instruments (continued)

(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, accounts payable and other liabilities

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 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

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		**Fair value**	
	Note	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Assets carried at fair value					
Available for Sale financial assets	11	1,064.9	959.5	1,064.9	959.5
Financial assets designated at fair value through profit and loss	11	4,624.5	4,187.5	4,624.5	4,187.5
Derivative assets	26	276.1	126.8	276.1	126.8
		5,965.5	5,273.8	5,965.5	5,273.8
Assets carried at amortised cost					
Cash and liquid assets	9	670.5	433.2	670.5	433.2
Due from other financial institutions	10	119.7	131.9	119.7	131.9
Loans and advances at amortised cost	12	34,147.2	33,726.1	34,290.6	33,772.8
		34,937.4	34,291.2	35,080.8	34,337.9
Liabilities carried at fair value					
Derivative liabilities	26	(253.0)	(264.1)	(253.0)	(264.1)
Insurance policy liabilities	37	(73.5)	(77.6)	(73.5)	(77.6)
		(326.5)	(341.7)	(326.5)	(341.7)
Liabilities carried at amortised cost					
Balances due to other financial institutions	18	(177.8)	(169.2)	(177.8)	(169.2)
Deposits	19	(31,171.9)	(29,626.6)	(31,240.9)	(29,698.3)
Borrowings including subordinated notes	21	(6,688.1)	(6,651.0)	(6,738.6)	(6,713.6)
Accounts payable and other liabilities		(450.4)	(429.1)	(450.4)	(429.1)
		(38,488.2)	(36,875.9)	(38,607.7)	(37,010.2)

26. Financial Instruments (continued)

(b) Other financial instruments (continued)

	Note	Bank			
		Carrying value		**Fair value**	
		2012 $m	2011 $m	**2012 $m**	2011 $m
Assets carried at fair value					
Available for Sale financial assets	11	1,152.4	1,028.2	1,152.4	1,028.2
Financial assets designated at fair value through profit and loss	11	4,624.5	4,187.5	4,624.5	4,187.5
Derivative assets	26	276.1	126.8	276.1	126.8
		6,053.0	5,342.5	6,053.0	5,342.5
Assets carried at amortised cost					
Cash and liquid assets	9	227.7	269.6	227.7	269.6
Due from other financial institutions	10	23.5	25.9	23.5	25.9
Loans and advances at amortised cost	12	30,654.6	29,745.7	30,710.8	29,771.0
		30,905.8	30,041.2	30,962.0	30,066.5
Liabilities carried at fair value					
Derivative liabilities	26	(130.3)	(197.5)	(130.3)	(197.5)
Liabilities carried at amortised cost					
Balances due to other financial institutions	18	(177.8)	(169.2)	(177.8)	(169.2)
Deposits	19	(31,288.7)	(29,875.2)	(31,357.7)	(29,946.9)
Borrowings including subordinated notes	21	(895.3)	(1,123.8)	(945.8)	(1,186.4)
Accounts payable and other liabilities		(404.8)	(387.1)	(404.8)	(387.1)
Amounts due to controlled entities		(2,553.6)	(2,340.2)	(2,553.6)	(2,340.2)
		(35,320.2)	(33,895.5)	(35,439.7)	(34,029.8)

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

Interest rates used for determining fair values

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

	2012	2011
Derivatives, deposits and borrowings including subordinated notes	3.56% - 3.95%	4.86% - 5.24%
Leases	6.79% - 20.3%	8.24%-14.52%
Loans and advances at amortised cost	5.55% - 7.3%	6.5% - 8.7%

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.

26. Financial Instruments (continued)

(b) Other financial instruments (continued)

Consolidated Entity	**2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
	$m	**$m**	**$m**	**$m**
Instruments carried at fair value				
Available for Sale financial assets	454.1	600.9	9.9	1,064.9
Financial assets designated at fair value through profit and loss	-	4,624.5	-	4,624.5
Derivative assets	-	276.1	-	276.1
	454.1	5,501.5	9.9	5,965.5
Derivative liabilities	-	(253.0)	-	(253.0)
	454.1	5,248.5	9.9	5,712.5

Consolidated Entity	2011			
	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$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

Bank	**2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
	$m	**$m**	**$m**	**$m**
Instruments carried at fair value				
Available for Sale financial assets	454.1	688.4	9.9	1,152.4
Financial assets designated at fair value through profit and loss	-	4,624.5	-	4,624.5
Derivative assets	-	276.1	-	276.1
	454.1	5,589.0	9.9	6,053.0
Derivative liabilities	-	(130.3)	-	(130.3)
	454.1	5,458.7	9.9	5,922.7

Bank	2011			
	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m
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

27. Notes to the statements of cash flows

Reconciliation of profit / (loss) for the year to net cash provided by operating activities.

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Profit/(loss) from ordinary activities after income tax	(17.1)	158.7	(3.8)	142.4
Add / (less) items classified as investing / financing activities or non-cash items				
Depreciation	14.8	11.5	7.7	6.1
Amortisation	4.0	6.7	1.3	0.6
Dividends received from subsidiaries	-	-	(44.2)	(32.0)
Software amortisation	24.6	18.4	22.3	17.1
Asset writedowns	7.3	0.2	7.2	0.2
Share based payments	4.4	4.0	4.4	4.0
Profit / (loss) on sale of property, plant and equipment	(1.8)	(5.5)	0.5	(0.1)
Increase / (decrease) in due from other financial institutions	12.2	(16.1)	2.4	(1.2)
(Increase) / decrease in other financial assets	(529.4)	208.6	(544.2)	227.3
Increase in loans and advances at amortised cost	(1,030.2)	(1,679.7)	(1,067.6)	(1,689.3)
(Increase) / decrease in derivatives	(155.4)	125.0	(185.1)	129.3
Increase in provision for impairment	159.1	139.2	158.7	138.8
Increase in deferred tax asset	(67.1)	(38.9)	(55.3)	(39.0)
(Increase) / decrease in other assets	(7.9)	(2.3)	(54.6)	22.1
Decrease in amounts due from controlled entities	-	-	(121.3)	(188.5)
Increase in due to other financial institutions	8.6	31.0	8.6	31.0
Increase in deposits	1,530.1	1,541.0	1,398.4	1,515.0
Increase in accounts payable and other liabilities	19.2	19.7	42.8	3.1
Increase / (decrease) in current tax liabilities	(80.5)	2.6	(81.7)	(15.0)
Increase / (decrease) in provisions	14.1	1.1	12.1	(2.2)
Increase / (decrease) in deferred tax liabilities	(13.2)	(10.6)	13.9	-
Increase / (decrease) in insurance policy liabilities	(5.7)	18.0	-	-
Increase / (decrease) in borrowings including subordinated notes	265.9	(271.1)	-	-
Net cash from operating activities	156.0	261.5	(477.5)	269.7

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 2012 $000	Consolidated 2011 $000	Bank 2012 $000	Bank 2011 $000
Audit services – KPMG Australia				
- Audit and review of the financial reports	1,127.1	923.4	818.3	547.1
- Other regulatory and audit services	532.6	464.1	346.1	304.1
	1,659.7	1,387.5	1,164.4	851.2
Audit related services – KPMG Australia				
- Other assurance services [1]	123.9	84.2	-	-
	123.9	84.2	-	-
Other services – KPMG Australia				
- Tax advisory services	222.5	347.4	218.2	341.4
- Other	75.6	5.4	75.6	5.4
- Due diligence services	103.2	-	103.2	-
	401.3	352.8	397.0	346.8

[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 nil (2011: $32,448).

29. Contingent liabilities	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Guarantees	123.4	127.7	123.4	127.7
Letters of credit	7.4	5.5	7.4	5.5

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 the Bank, arising out of the collapse of Storm Financial. Trial of this matter commenced on 24 September 2012 and the Bank intends to defend the action vigorously. The proceedings are regulatory in nature and no estimate of damages can be made at this point given the current status of proceedings.

The trials of proceedings involving the Bank by a number of former Owner Managers in NSW commenced in the Supreme Court of New South Wales on 17 September 2012. The Bank intends to vigorously defend these proceedings.

30.Commitments

	Consolidated		Bank	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$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	41.6	36.7	40.0	35.1
Between 1 year and 5 years	70.6	82.0	65.2	74.9
Later than 5 years	2.5	5.4	2.5	5.4
	114.7	124.1	107.7	115.4
(b) Customer funding commitments				
Loans to customers approved but not drawn at year end	1,008.7	857.4	588.2	492.8
Amounts undrawn against lines of credit	333.1	308.8	251.4	264.6
	1,341.8	1,166.2	839.6	757.4

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.

31. Employee benefits (continued)
(b) Share based payments

The Consolidated Entity has one remaining option plan. The Senior Management Option Plan ("SMOP"), which was established in 2001.

The ability to exercise the options under the plan 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 20 November 2006 - SMOP 6	3,370,000 (1)	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 2012, and as such the EPS test will be applied across financial years 2008, 2009, 2010, 2011 and 2012 in accordance with the plan rules.	5 years

(1) SMOP 6 options lapsed in this financial year

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).

Restricted Shares

The Consolidated Entity has used shares with restrictions on disposal as a non-cash, share based component of both short term and long term incentive awards.

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 6 [2]	20 November 2006	20 November 2011	$2.13	$16.26	$14.90	15.0%	6.00%	4.5%
SMOP 7[2]	1 November 2007	1 November 2012	$2.57	$19.11	$19.44	14.0%	6.50%	4.3%
Restricted Shares [3]	15 June 2010	1 March 2012	$10.31	-	$10.31	-	-	-
Restricted Shares [3]	23 August 2011	1 November 2012	$7.21	-	$7.21	-	-	-
Restricted Shares [3]	1 February 2012	31 October 2012	$6.76	-	$6.76	-	-	-
Restricted Shares [3]	10 February 2012	31 October 2012	$7.41	-	$7.41	-	-	-
Restricted Shares [3]	26 February 2012	9 January 2014	$6.70	-	$6.70	-	-	-
Restricted Shares [3]	29 February 2012	21 September 2012	$6.66	-	$6.66	-	-	-
Executive Director - Rights								
PARs	13 October 2011	13 October 2016	$5.36	Nil	$8.10	36.6%	3.9%	6.1%
Executives - Rights								
PARs [4]	29 June 2009	29 June 2014	$4.59	Nil	$8.89	35.1%	4.2%	7.2%
DARs [4]	29 June 2009	29 June 2014	$7.59	Nil	$8.89	35.1%	4.2%	7.2%
PARs [4]	23 December 2009	23 December 2014	$6.93	Nil	$11.22	36.3%	4.8%	4.6%
DARs [4]	23 December 2009 [5]	23 December 2014	$10.40	Nil	$11.22	36.3%	4.8%	4.6%
DARs [4]	28 May 2010 [6]	28 May 2015	$10.11	Nil	$11.19	36.9%	4.6%	4.6%
DARs [4]	29 November 2010 [7]	29 November 2015	$11.17	Nil	$11.45	37.1%	5.1%	4.2%
PARs [4]	29 November 2010	29 November 2015	$7.81	Nil	$11.45	37.1%	5.1%	4.2%
PARs [4]	25 January 2011	25 January 2016	$7.81	Nil	$10.12	37.1%	5.1%	4.2%
PARs [4]	16 December 2011	16 December 2016	$5.18	Nil	$7.71	36.7%	3.1%	7.0%
DARs [4]	16 December 2011 [8]	16 December 2016	$6.60	Nil	$7.71	36.7%	3.1%	7.0%
PARs [4]	1 February 2012	16 December 2017	$5.18	Nil	$7.44	37.1%	2.0%	8.5%
DARs [4]	1 February 2012 [9]	5 May 2017	$6.60	Nil	$7.44	37.1%	2.0%	8.5%
PARs [4]	10 February 2012	16 December 2017	$5.18	Nil	$7.33	37.1%	2.0%	8.5%
DARs [4]	10 February 2012 [9]	5 May 2017	$6.60	Nil	$7.33	37.1%	2.0%	8.5%
PARs [4]	26 February 2012	16 December 2017	$5.18	Nil	$7.48	37.1%	2.0%	8.5%
DARs [4]	26 February 2012 [9]	5 May 2017	$6.60	Nil	$7.48	37.1%	2.0%	8.5%
PARs [4]	29 February 2012	16 December 2017	$5.18	Nil	$7.34	37.1%	2.0%	8.5%
DARs [4]	29 February 2012 [9]	5 May 2017	$6.60	Nil	$7.34	37.1%	2.0%	8.5%
PARs [4]	10 May 2012 [9]	16 December 2017	$3.70	Nil	$6.89	37.1%	2.0%	8.5%

(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) Valued using the Monto Carlo simulation approach.

(3) The restricted shares were valued based on the volume weighted average price of ordinary shares in BOQ sold on ASX during a 10 trading day period. The shares will vest on the expiry date respectively based on meeting certain service conditions.

(4) Value using the trinomial pricing metholodgy.

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

(6) Remaining DARs will vest 50% in financial year 2013.

(7) Remaining DARs will vest 30% in financial year 2013 and 50% in financial year 2014.

(8) The DARs will vest 20% in financial year 2013, 30% in financial year 2014 and 50% in financial year 2015.

(9) The DARs will vest 50% in financial year 2013 and 50% in financial year 2014.

31. Employee benefits (continued)

(b) Share based payments (continued)

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

	Weighted average exercise price 2012 $	**Number of options 2012 ’000**	Weighted average exercise price 2011 $	Number of options 2011 ’000
Outstanding at the beginning of the year	17.75	3,892	16.16	6,447
Forfeited / expired during the year	17.00	2,501	13.72	(2,555)
Outstanding at the end of the year	19.11	1,391	17.75	3,892
Exercisable at the end of the year		1,391		1,852

The options outstanding at 31 August 2012 have an exercise price of $19.11 and a weighted average contractual life of 0.2 years (2011: 0.8 years).

During the year no options were exercised (2011: nil).

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

	Number of rights 2012 ‘000	Number of rights 2011 ’000
Balance at beginning of the year	1,683	1,239
Granted during the year [(1)]	1,866	982
Forfeited / expired during the year	(714)	(201)
Exercised during the year	(420)	(337)
Outstanding at the end of the year	2,415	1,683

The weighted average share price at the date of exercise was $7.46 (2011: $9.89).

[(1)] Included restricted shares in the 2011 and 2012 financial year. These remain in the closing balance as at 31 August 2012.

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	
	2012 $	2011 $
Short-term employee benefits	8,155,415	8,756,844
Post-employment benefits	254,096	276,430
Long term employee benefits	65,132	58,378
Termination benefits	2,455,522	566,667
Share based employment benefits	1,847,125	1,474,676
	12,777,290	11,132,995

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.

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 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 2011	Granted as remuneration	Exercised / vested	Forfeited	Held at 31 August 2012	Vested during the year	Vested and exercisable at 31 August 2012
Managing Director								
Stuart Grimshaw[(1)]	- Rights	-	121,619	-	-	121,619	-	-
Executives								
Anthony Rose[(2)]	- Rights	-	105,105	-	-	105,105	-	-
	- Restricted shares	-	30,030	-	-	30,030	-	-
Peter Deans[(3)]	- Rights	-	69,061	-	-	69,061	-	-
Brendan White[(4)]	- Rights	-	143,050	-	-	143,050	-	-
	- Restricted shares	-	40,486	-	-	40,486	-	-
Matthew Baxby[(5)]	- Rights	-	110,946	-	-	110,946	-	-
	- Restricted shares	-	29,586	-	-	29,586	-	-
Jon Sutton[(6)]	- Rights	-	137,314	-	-	137,314	-	-
	- Restricted shares	-	104,478	-	-	104,478	-	-
Renato Mazza	- Rights	40,323	22,195	1,423	-	61,095	1,423	-
Chris Nilon	- Options	70,000	-	-	20,000	50,000	-	-
	- Rights [(7)]	31,186	21,283	10,079	5,700	36,690	4,933	-
Former Executives								
Keith Rodwell	- Rights	56,926	31,925	1,898	86,953	-	1,898	-
Ram Kangatharan	- Options	350,000	-	-	350,000	-	-	-
	- Restricted shares	208,000	-	108,000	-	100,000	108,000	-
	- Rights	184,193	-	28,736	155,457	-	28,736	-
Ewan Cameron	- Rights	54,554	30,405	1,423	83,536	-	1,423	-
Darryl Newton	- Rights	46,395	25,844	1,214	71,025	-	1,214	-
David Tonuri	- Rights	18,975	21,283	-	40,258	-	-	-

No option or right held by key management personnel are vested but not exercisable at 31 August 2012.

[(1)] Stuart Grimshaw was appointed Chief Executive Officer and Managing Director on 1 November 2011.
[(2)] Anthony Rose became a member of the key management personnel on 1 August 2012.
[(3)] Peter Deans became a member of the key management personnel on 26 March 2012.
[(4)] Brendan White became a member of the key management personnel on 2 April 2012.
[(5)] Matthew Baxby became a member of the key management personnel on 17 May 2012.
[(6)] Jon Sutton became a member of the key management personnel on 2 July 2012.
[(7)] This includes rights which have been exercised but held in trust.

32. Key management personnel disclosures (continued)

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

		Held at 1 September 2010	Granted as remuneration	Exercised / vested	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	-

No option or right held by key management personnel are vested but not exercisable at 31 August 2012.

(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) No longer considered a KMP from 1 September 2011.

32. Key management personnel disclosures (continued)

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

Movement in shares

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

Ordinary shares	Held at 1 September 2011	Purchases / (Sales)	Received on exercise of award rights / restricted shares	Held at 31 August 2012
Directors of Bank of Queensland Limited				
Neil Summerson	27,655	17,944	-	45,599
Stuart Grimshaw [(1)]	-	10,825	-	10,825
Steve Crane	12,224	13,454	-	25,678
Roger Davis	3,732	1,164	-	4,896
Carmel Gray	5,899	5,047	-	10,946
John Reynolds	1,000	4,217	-	5,217
Michelle Tredenick	1,000	1,433	-	2,433
David Willis	1,077	337	-	1,414
Richard Haire [(2)]	-	4,000	-	4,000
Former Director				
Bill Kelty [(3)]	1,286	401	-	-
Executive				
Chris Nilon	11,053	9,544	4,933	25,530
Renato Mazza	-	(1,423)	1,423	-
Former Executive				
Ram Kangatharan	18,015	-	136,736	-
Ewan Cameron	-	(1,423)	1,423	-
Darryl Newton	-	-	1,214	-
Keith Rodwell	-	411	1,898	-

(1) Stuart Grimshaw appointed as Chief Executive Officer and Managing Director on 1 November 2011.
(2) Richard Haire was appointed as a Non-Executive Director on 18 April 2012.
(3) Bill Kelty retired as Director on 31 July 2012.

32. Key management personnel disclosures (continued)

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

Ordinary shares	Held at 1 September 2010	Purchases / (Sales)	Received on exercise of award rights	Held at 31 August 2011
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				
Ram Kangatharan	1,710	-	16,305	18,015
Bradley Edwards **(4)**	1,370	196	5,286	6,852
Chris Nilon	11,053	-	-	11,053

(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.
(4) No longer considered a KMP from 1 September 2011.

32. Key management personnel disclosures (continued)

(c) Loans to key management personnel disclosures

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

	2012				2011			
	Balance at 1 September 2011	Interest paid and payable during the year	Balance at 31 August 2012	Highest balance during the year	Balance at 1 September 2010	Interest paid and payable during the year	Balance at 31 August 2011	Highest balance during the year
	$	$	$	$	$	$	$	$
Directors:								
Neil Summerson	864,785	52,191	801,767	864,820	439,608	29,758	864,785	892,410
Former Director:								
David Graham	-	-	-	-	4,242,163	28,429	-	4,467,277
Bill Kelty [1]	325,782	18,863	-	344,645	325,782	23,161	325,782	325,782
Executives:								
Renato Mazza	300,250	18,394	315,837	346,428	-	17,439	300,250	356,172
Former Executives:								
Keith Rodwell	2,210,556	128,940	-	2,229,559	-	80,749	2,210,556	4,072,765
Ram Kangatharan	3,204,675	139,332	-	4,302,916	2,285,412	187,031	3,204,675	4,676,438
Ewan Cameron	1,967,705	122,999	-	1,979,599	-	126,595	1,967,705	2,000,000
Darryl Newton	1,819,938	71,667	-	1,824,810	-	75,191	1,819,938	1,856,030
David Tonuri	1,335,957	21,209	-	2,074,436	-	45,068	1,335,957	1,699,039

[1] Bill Kelty retired on 31 July 2012.

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 2011 [1]	Balance at 31 August 2012	Interest paid and payable	Number in group at 31 August 2012
	$	$	$	#
Directors:	1,190,567	801,767	71,054	1
Executives:	10,839,080	315,837	502,541	1

	Balance at 1 September 2010 [2]	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

[1] Balance as at 1 September 2011 will not equal 31 August 2011 closing balance due to changes in key management personnel during the year.
[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.

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.

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 was 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 in the prior year.

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.

32. Key management personnel disclosures (continued)

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

The following are transactions undertaken between the Consolidated Entity and key management personnel as at 31 August 2012:

	Balance as at		For the period [1]			
	01/09/11[2]	31/08/12	Total Loan Repayments	Total Loan Redraws / Further Advances	Total Loan / Overdraft interest	Total Fees on Loans / Overdraft
	$	$	$	$	$	$
Term Products (Loans / Advances)	(12,029,647)	(1,117,604)	6,299,765	(6,221,511)	(573,594)	(2,757)

	Balance as at		For the period [1]			
	01/09/10 [3]	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]			
	01/09/11[2]	31/08/12	Total Deposits	Total Withdrawals	Total Account Fees	Total Deposit Interest
	$	$	$	$	$	$
Transaction Products (Deposits)	2,025,212	669,014	3,881,150	(3,777,483)	(456)	37,752

	Balance as at		For the period [1]			
	01/09/10 [3]	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

[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 2011 will not equal 31 August 2011 closing balance due to changes in key management personnel during the year.
[3] 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)	
	2012	2011	**2012 $m**	2011 $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%	-	-
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 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%	-	-
Series 2008-1E EHP REDS Trust	-	100%	-	-
Series 2012-1E EHP REDS Trust	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

33. Controlled entities (continued)

(b) Acquisition / disposal of controlled entities

Control
Series 2012-1E EHP REDS Trust opened on 24 May 2012

Disposal of entities
Series 2004-1 REDS Trust was closed on 28 December 2011.
Series 2008-1E EHP REDS Trust was closed on 13 July 2012.

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 relationship with equity accounted investees, refer to Note 39.

35. Average balances and margin analysis

	Consolidated 2012			Consolidated 2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	$m	$m	%	$m	$m	%
Interest earning assets						
Gross loans and advances at amortised cost *	34,060.9	2,345.1	6.89	32,677.5	2,383.1	7.29
Investments and other securities *	5,348.9	251.1	4.69	5,496.8	293.5	5.34
Total interest earning assets	39,409.8	2,596.2	6.59	38,174.3	2,676.6	7.01
Non-interest earning assets						
Property, plant and equipment	31.8			27.5		
Other assets	1,125.4			961.2		
Provision for impairment	(367.8)			(187.8)		
Total non-interest earning assets	789.4			800.9		
Total assets	40,199.2			38,975.2		
Interest bearing liabilities						
Retail deposits *	20,923.5	1,025.8	4.90	18,891.2	977.7	5.18
Wholesale deposits and borrowings *	15,850.0	918.9	5.80	16,849.2	1,075.5	6.38
Total interest bearing liabilities	36,773.5	1,944.7	5.29	35,740.4	2,053.2	5.74
Non-interest bearing liabilities	741.6			742.9		
Total liabilities	37,515.1			36,483.3		
Shareholders' funds	2,684.1			2,491.9		
Total liabilities and shareholders' funds	40,199.2			38,975.2		
Interest margin and interest spread						
Interest earning assets	39,409.8	2,596.2	6.59	38,174.3	2,676.6	7.01
Interest bearing liabilities	36,773.5	1,944.7	5.29	35,740.4	2,053.2	5.74
Net interest spread [1]			1.30			1.27
Net interest margin - on average interest earning assets	39,409.8	651.5	1.65	38,174.3	623.4	1.63

* 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 2012 is set out as follows:

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME AND RETAINED PROFITS

	Consolidated	
	2012 $m	2011 $m
Profit/(loss) before tax	(33.0)	227.4
Less: Income tax (expense) / benefit	4.7	(54.9)
Profit/(loss) for the year	(28.3)	172.5
Retained profits at beginning of year	321.1	248.1
Dividends to shareholders	(151.7)	(124.5)
Addition to Deed of Cross Guarantee	-	7.2
Equity settled transactions and transfers	(2.9)	17.8
Retained profits at end of year	138.2	321.1
Attributable to:		
Equity holders of the parent	(28.3)	172.5
Profit/(loss) for the year	(28.3)	172.5

36. Deed of cross guarantee (continued)

BALANCE SHEET
As at 31 August

	Consolidated	
	2012 **$m**	2011 $m
Assets		
Cash and liquid assets	258.8	294.2
Due from other financial institutions	4.4	25.9
Other financial assets	5,777.0	5,217.3
Derivative financial instruments	276.1	126.8
Loans and advances at amortised cost	34,147.2	33,276.1
Shares in controlled entities	49.8	49.8
Property, plant and equipment	31.0	31.0
Current tax asset	0.7	-
Deferred tax assets	118.1	51.0
Other assets	258.7	253.1
Intangible assets	541.3	558.2
Investments in accounted for using the equity method	22.2	28.7
Total assets	41,485.3	39,912.1
Liabilities		
Due to other financial institutions	177.8	169.2
Deposits	31,188.0	29,830.5
Derivative financial instruments	130.3	197.5
Accounts payable and other liabilities	434.3	415.0
Current tax liabilities	-	79.4
Provisions	40.9	25.9
Borrowings including subordinated notes	886.8	1,115.6
Amounts due to controlled entities	5,710.3	5,503.7
Total liabilities	38,568.4	37,336.8
Net assets	2,916.9	2,575.3
Equity		
Issued capital	2,660.1	2,153.3
Reserves	118.6	100.9
Retained profits	138.2	321.1
Total equity	2,916.9	2,575.3

37. Insurance business

The effective date of the actuarial report on life insurance policy liabilities and solvency requirements, is 31 August 2012. 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 (2011: Accumulation)	N/A
Direct marketed risk	Accumulation (2011: Accumulation)	N/A
3rd Party Risk	Accumulation (2011: 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 2012, 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.

37. Insurance business (continued)

	2012	2011
	$m	$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	65.5	70.4
Decrease in life insurance contract policy liabilities (i)	(2.9)	(4.9)
Gross life insurance contract liabilities at the end of the financial year	62.6	65.5
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	(2.4)	(2.1)
Decrease in life reinsurance assets (ii)	(0.4)	(0.3)
Closing balance at the end of the financial year	(2.8)	(2.4)
Net life policy liabilities at the end of the financial year	59.8	63.1
(i) plus (ii) = decrease in net life insurance contract liabilities reflected in the statement of comprehensive income	(3.3)	(5.2)
Components of net life insurance contract liabilities		
Future policy benefits	77.8	69.1
Future charges for acquisition costs	(18.0)	(6.0)
Total net life insurance contract policy liabilities	59.8	63.1
Components of general insurance liabilities		
Unearned Premium Liability	13.1	13.9
Outstanding Claims Liability	0.6	0.6
	13.7	14.5
Total Insurance Policy Liabilities	73.5	77.6

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.

37. Insurance business (continued)

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.

	2012	2011
	$m	$m
Life Insurance solvency requirement *	77.5	74.1
Total assets less assets arising from reinsurance contracts	89.2	84.0
Assets in excess of solvency requirement	11.7	9.9

* 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	63.2	62.5
Investment income	5.6	5.2
Net life insurance premium revenue	68.8	67.7
Expenses		
Net claims and other liability expense from insurance contracts	36.3	37.5
Other expenses	7.2	5.9
	43.5	43.4
Profit/(loss) before income tax	25.3	24.3
Income tax expense	(7.6)	(7.3)
Profit/(loss) after income tax	17.7	17.0
Statement of Sources of Profit(Loss) for Statutory Funds		
Operating profit/(loss) after income tax arose from:		
Components of profit/(loss) related to movement in life insurance liabilities:		
Planned margins of revenues over expenses released	16.2	15.8
Difference between actual and assumed experience	(0.5)	(0.6)
Summarised balance sheet		
Assets		
Investment assets	98.4	89.8
Other assets	1.8	4.5
	100.2	94.3
Liabilities		
Life insurance liabilities	46.2	45.5
Liabilities other than life insurance liabilities	14.5	15.4
	60.7	60.9
Retained earnings		
Directly attributable to shareholders	39.5	33.4
	39.5	33.4

The life insurance business has no life investment contracts

38. Events subsequent to balance date

Dividends have been declared after 31 August 2012, 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 2012.

39. Investments accounted for using the equity method

The Consolidated Entity's share of profit in its equity accounted investees for the year was nil (2011: $2.3m).

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

	Percentage Ownership Interest	
	2012	2011
	(%)	(%)
Ocean Springs Pty Ltd (Brighton)	9.31	9.31
Dalyellup Beach Pty Ltd (Dalyellup)	17.08	17.08
Wanneroo North Pty Ltd (The Grove)	21.42	21.42
East Busselton Estate Pty Ltd (Provence)	25.00	25.00
Coastview Nominees Pty Ltd (Margaret River)	5.81	5.81
Satterley Austin Cove Pty Ltd (Austin Cove)	-	4.18
Provence 2 Pty Ltd (Provence 2)	25.00	25.00
Crestview Asset Pty Ltd (Beacham Road)	-	7.36

The above companies are proprietary companies incorporated in Australia. There are no material capital commitments or contingent liabilities relating to the joint ventures. During the year the Bank's investments in Austin Cove Pty Ltd and Crestview Asset Pty Ltd was sold on 23 December 2011 which produced a profit of $109k for the Bank.

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:

	2012	2011
	$m	$m
Balance Sheet		
Current assets	106.5	105.7
Non-current assets	113.4	178.9
Total assets	219.9	284.6
Current liabilities	44.0	85.9
Non-current liabilities	18.9	17.3
Total liabilities	62.9	103.2
Net assets	157.0	181.4
Profit and Loss		
Revenues	65.4	53.0
Expenses	(23.7)	(45.7)
Profit	41.7	7.3

Directors' declaration

1 In the opinion of the directors of Bank of Queensland Limited ("the Bank"):

(a) the consolidated financial statements and notes and the remuneration report included within the directors' report set out on pages 17 to 51, 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 2012 and of their performance, for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(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 33 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 2012.

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:

Dated at Brisbane this eighteenth day of October 2012

____________________________	____________________________
Neil Summerson Chairman	Stuart Grimshaw Managing Director

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 2012, and statements of comprehensive income, statements of changes in equity and statements of changes in cash flows 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 Bank and its controlled entities 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 give 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 2012 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 Bank and the Consolidated Entity also complies with International Financial Reporting Standards as disclosed in note 2 (a).

Report on the remuneration report

We have audited the Remuneration Report included on pages 25 to 49 of the directors' report for the year ended 31 August 2012. 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 2012, complies with Section 300A of the Corporations Act 2001.

Auditor's opinion on the additional remuneration disclosures in the directors' remuneration report

In our opinion, the additional remuneration disclosures set out in Table 4 of the Remuneration Report of Bank of Queensland Limited for the year ended 31 August 2012 are presented, in all material respects, in accordance with the basis of preparation set out in the footnotes to Table 4.

KPMG

Martin McGrath
Partner
Brisbane
18 October 2012

SHAREHOLDING DETAILS
As at 28 September 2012, the following shareholding details applied:

1. Twenty largest ordinary shareholders

Shareholder	No. of ordinary shares	%
NATIONAL NOMINEES LIMITED	43,211,676	13.99%
J P MORGAN NOMINEES AUSTRALIA LIMITED	31,459,553	10.19%
BNP PARIBAS NOMS PTY LTD	29,070,268	9.41%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	24,253,681	7.85%
BNP PARIBAS NOMS PTY LTD	9,517,227	3.08%
CITICORP NOMINEES PTY LIMITED	7,139,578	2.31%
MILTON CORPORATION LIMITED	6,550,276	2.12%
JP MORGAN NOMINEES AUSTRALIA LIMITED	4,080,727	1.32%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,981,442	0.97%
AMP LIFE LIMITED	2,397,722	0.78%
BNP PARIBAS NOMS PTY LTD	2,061,500	0.67%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	2,038,108	0.66%
CITICORP NOMINEES PTY LIMITED	2,025,484	0.66%
QIC LIMITED	1,816,381	0.59%
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,344,347	0.44%
INVIA CUSTODIAN PTY LIMITED	1,005,036	0.33%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	769,490	0.25%
BOQ SHARE PLANS NOMINEE PTY LTD	735,327	0.24%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	726,961	0.24%
AVANTEOS INVESTMENTS LIMITED	671,556	0.22%
Total	**173,856,340**	**56.32%**

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.

2. Twenty largest PEPS shareholders

Shareholder	**No. of PEPS shares**	**%**
J P MORGAN NOMINEES AUSTRALIA LIMITED	162,185	8.11%
MILTON CORPORATION LIMITED	50,000	2.50%
DOMER MINING CO PTY LTD	32,200	1.61%
NATIONAL NOMINEES LIMITED	31,291	1.56%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	26,682	1.33%
NAVIGATOR AUSTRALIA LTD	25,288	1.26%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	18,194	0.91%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	15,819	0.79%
M F CUSTODIANS LTD	15,641	0.78%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	15,201	0.76%
NULIS NOMINEES (AUSTRALIA) LIMITED	13,824	0.69%
CITICORP NOMINEES PTY LIMITED	12,493	0.62%
BCITF (QLD)	10,000	0.50%
CORLETTE HOLDINGS PTY LTD	10,000	0.50%
F & B INVESTMENTS PTY LIMITED	10,000	0.50%
EASTCOTE PTY LTD	10,000	0.50%
PRESBYTERIAN CHURCH OF VICTORIA TRUSTS	10,000	0.50%
P ILHAN INVESTMENTS PTY LTD	9,866	0.49%
BAPTIST INVESTMENT AND FINANCE LTD	8,546	0.43%
MR DAVID FELDMAN & MRS LAIMA FELDMAN	8,500	0.43%
	495,730	**24.77%**

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

	Ordinary shares		PEPS	
Category	**2012**	2011	**2012**	2011
1 - 1,000	55,474	58,886	4,065	4,052
1,001 - 5,000	21,665	20,299	208	186
5,001 – 10,000	3,408	2,622	17	16
10,001 – 100,000	1,696	1,200	11	14
100,001 – and over	66	57	1	1
Total	82,309	83,064	4,302	4,269

The number of ordinary shareholders holding less than a marketable parcel is 3,517
The number of perpetual equity preference shareholders holding less than a marketable parcel is 1

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

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 2012 there were options over 1,391,000 (2011: 3,892,934) 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.