CONSOLIDATED INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 28 FEBRUARY 2014

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DIRECTORS' REPORT

Half-year ended 28 February 2014

The Directors present their report together with the consolidated financial report for the half-year ended 28 February 2014 and the independent auditor's review report thereon.

Directors

The Directors of the Bank of Queensland Limited ("the Bank") at any time during or since the end of the half-year are:

Name	Period of Directorship
Roger Davis	Director since August 2008 / Chairman since May 2013
Stuart Grimshaw	Managing Director since November 2011
Steve Crane	Director since December 2008
Carmel Gray	Director since April 2006
Michelle Tredenick	Director since February 2011
David Willis	Director since February 2010
Richard Haire	Director since April 2012
Neil Berkett	Director since July 2013
Margaret Seale	Director since January 2014
Bruce Carter	Director since February 2014

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 period in the nature of the activities of the Consolidated Entity.

Review of Operations and Financial Results

Financial Performance

Profitability

The Bank has delivered a strong financial result for the half-year ended 28 February 2014 recording a net profit after tax of $134.7m, a $34.2m or 34% improvement compared to the February 2013 half year. This result reflects a 23% reduction in impairment charges to $46.1m and a 9% increase in net interest income compared to the February 2013 prior comparative period.

Income

Total operating income increased by 8% to $447.1m. This was driven by growth in net interest income of $28.7m or 9% to $362.2m which reflected improved margin management evidenced by the statutory net interest margin ("NIM") increasing 5 basis points ("bps") over the half to 1.77%. This has been achieved through disciplined management of funding, targeting an improved mix of retail deposits, benefits associated with the improved credit ratings upgrade and further reduction in expensive Government Guaranteed debt.

Review of Operations and Financial Results (continued)

Income (continued)

Other operating income, excluding insurance income, increased by 4% to $64.2m compared to the prior corresponding period with insurance income up 6% to $20.7m over the same period due to an improved underwriting result.

Expenses

Operating expenses decreased by 3% on the prior comparative period to $203.9m and reflects the impact of efficiency and effectiveness initiatives (eg: shared services, back office consolidation) undertaken in prior periods. This has enabled the Bank to pursue investment in frontline capabilities, business process transformation and renewing the branch network.

The Bank's statutory cost to income ratio of 45.6% is a significant improvement on the February 2013 half of 50.5% which included the impact of restructuring costs.

Asset quality and provisioning

Loan impairment expense of $46.1m improved $13.4m or 23% on the February 2013 period. This reflects the continued improvement in the asset quality of the portfolio, robust credit management and the revised risk appetite framework.

Impaired assets reduced by $83.2m or 22% over the half to $298.4m from a reduction in new impaired assets and increased realisations. This was mainly across the commercial portfolio which reduced 32% through the realisation of a number of large exposures.

Arrears performance continues to demonstrate a reducing profile. The commercial portfolio has trended favourably in the first half of the year due to early recognition and improving collections procedures. Retail arrears increased slightly due to first half seasonality though this increase has been less pronounced than previous years. The Bank's collective provision has reduced slightly ($3.5m) over the half in line with the improving nature of the portfolio and the tighter risk appetite framework.

Asset growth

Lending was stable over the half which characterised the Bank's focus on quality origination. The Bank's lending growth was impacted by the 22% reduction in impaired assets for the half and reducing concentration in the line of credit product by a further $365m, consistent with the Bank's revised risk appetite.

The Bank maintains a concentration to the Queensland housing market where mortgage growth and market values continue to be lower than levels witnessed nationally. Customers have also continued to take advantage of the current low interest rate environment to deleverage and realise asset sales in a market where clearance rates are improving.

Funding

Retail deposits have decreased marginally in the half as the Bank has taken advantage of opportunities to enhance the composition of deposits and diversify its funding sources. The Deposits to Lending ratio remained steady at 68% but significant value was achieved through focus on deposit quality with reduced reliance on the high cost, most price sensitive segments of the retail deposit market. Continued improvement in wholesale credit markets and recent credit rating upgrades allowed the Bank to utilise term issuance and the associated buy-back of expensive Government Guaranteed debt to optimise the cost of funds. The funding mix also places the Bank in a good position to satisfy the Basel III liquidity requirements that come into effect on 1 January 2015.

Ratings Upgrade

Recent reporting periods have seen significant progress in strengthening the balance sheet, creating a sustainable funding profile and improving capital generation. This progress has been recognised with ratings agency Standard & Poor's upgrading the Bank's long-term credit rating from "BBB+" to "A-" and the recent Moody's upgrade of the Bank's long-term credit rating from "Baa1" to "A3".

Capital Management

The Bank currently maintains a Total Capital ratio of 12.4% and industry leading levels of Common Equity Tier 1 capital of 8.8%. The increase of 0.2% in Common Equity Tier 1 capital reflected the Bank's improved earnings and lower risk weighted asset growth. The increased capital generation supports the increase in the interim dividend to 32 cents determined for the half.

Review of Operations and Financial Results (continued)

Subsequent events

Other than as disclosed below, no matters or circumstances have arisen since the end of the financial half year and up until the date of this report which significantly affects the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent years.

Dividends have been determined after 28 February 2014, refer to Note 6.

On 11 April 2014, the Bank announced to the Australian Stock Exchange the acquisition of Investec Bank (Australia) Limited's Professional Finance and Asset Finance & Leasing businesses and a high net worth customer deposit book for purchase consideration of $440m.

To fund the acquisition, the Bank has announced a $400m fully underwritten Accelerated Renounceable Entitlement Offer.

At the date of this report the transaction is not yet complete as there are a number of matters such as regulatory and third party approvals which are yet to be finalised. Subject to these matters, completion is expected before the end of the Bank's financial year.

The financial effect of these transactions has not been brought to account in the financial statements for the period ended 28 February 2014.

Shareholder returns

Statutory diluted earnings per share increased to 41.0c for the period ended 28 February 2014, compared to the period ended 28 February 2013 of 30.4c. The increase is largely a result of decreased loan impairment charges and improved underlying performance compared to the prior corresponding period. The Bank has determined an interim dividend of 32 cents per share fully franked. This is an increase of 14% on the 2013 interim dividend of 28 cents.

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 28 February 2014.

Rounding of amounts

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

Dated this eleventh day of April 2014.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

Stuart Grimshaw
Managing Director

KPMG

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 review for the half-year ended 28 February 2014, there have been:

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

KPMG

Martin McGrath
Partner

Brisbane
11 April 2014

Consolidated Income Statement

For the half-year ended 28 February 2014

	Note	28 February 2014 $m	28 February 2013 $m
Interest income		1,040.5	1,169.7
Less: Interest expense		678.3	836.2
Net interest income		362.2	333.5
Other operating income		64.2	61.9
Net banking operating income		426.4	395.4
Premiums from insurance contracts		35.3	35.7
Investment revenue		2.6	3.0
Claims and policyholder liability expense from insurance contracts		(17.2)	(19.1)
Net insurance operating income		20.7	19.6
Total operating income		447.1	415.0
Less: Expenses		203.9	209.5
Less: Impairment on loans and advances	8	46.1	59.5
Profit before income tax		197.1	146.0
Less: Income tax expense	5	62.4	45.5
Profit for the period		134.7	100.5
Profit attributable to:			
Equity holders of the parent		134.7	100.5
Basic earnings per share – Ordinary Shares (cents)		42.1	31.7
Diluted earnings per share – Ordinary Shares (cents)		41.0	30.4

The consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the half-year ended 28 February 2014

	28 February 2014 $m	28 February 2013 $m
Profit for the period	134.7	100.5
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Net gains / (losses) taken to equity	(3.7)	18.0
Net gains transferred to profit and loss	(0.4)	(0.5)
Foreign currency translation differences on foreign operations	1.1	0.5
Net loss on hedge of net investment in foreign operation	(1.2)	(0.5)
Change in fair value of assets available for sale	(1.2)	1.7
Other comprehensive income/(expense) for the period, net of income tax	(5.4)	19.2
Total comprehensive income for the period	129.3	119.7
Total comprehensive income attributable to:		
Equity holders of the parent	129.3	119.7

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 28 February 2014

	Note	28 February 2014 $m	31 August 2013 $m
Assets			
Cash and liquid assets		803.3	873.2
Due from other financial institutions		102.2	118.5
Financial assets available for sale	7	2,008.5	1,066.8
Financial assets held for trading	7	3,434.0	4,334.6
Derivative assets	7	210.2	260.4
Loans and advances at amortised cost		35,013.4	34,989.3
Other assets		94.6	129.1
Property, plant and equipment		44.8	37.8
Deferred tax assets		95.2	104.5
Intangible assets		602.2	592.7
Investments in joint ventures accounted using the equity method		21.1	21.4
Total assets		42,429.5	42,528.3
Liabilities			
Due to other financial institutions		194.6	201.1
Deposits		31,968.0	31,698.7
Derivative liabilities	7	115.8	137.4
Accounts payable and other liabilities		334.3	362.0
Current tax liabilities		39.9	23.0
Provisions		74.3	78.9
Insurance policy liabilities		66.8	72.5
Borrowings including subordinated notes	9	6,755.0	7,136.9
Total liabilities		39,548.7	39,710.5
Net assets		2,880.8	2,817.8
Equity			
Issued capital		2,593.0	2,562.6
Reserves		105.0	111.1
Retained profits		182.8	144.1
Total equity		2,880.8	2,817.8

The consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 28 February 2014

	Ordinary shares	Employee benefits reserve	Equity reserve for credit losses	Other reserves	Retained profits	Total equity
Half-year ended 28 February 2014	$m	$m	$m	$m	$m	$m
Balance at beginning of the period	2,562.6	31.4	70.2	9.5	144.1	2,817.8
Total comprehensive income for the period						
Profit	-	-	-	-	134.7	134.7
Other comprehensive income, net of income tax						
Cash flow hedges:						
- Net losses taken to equity	-	-	-	(3.7)	-	(3.7)
- Net gains transferred to profit and loss	-	-	-	(0.4)	-	(0.4)
Net loss on hedge of net investment in foreign operation	-	-	-	(1.2)	-	(1.2)
Foreign currency translation differences on foreign operations	-	-	-	1.1	-	1.1
Change in fair value of assets available for sale	-	-	-	(1.2)	-	(1.2)
Total other comprehensive income	-	-	-	(5.4)	-	(5.4)
Total comprehensive income for the period	-	-	-	(5.4)	134.7	129.3
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividend reinvestment plan	33.8	-	-	-	-	33.8
Dividends to shareholders	-	-	-	-	(96.0)	(96.0)
Equity settled transactions	-	(0.7)	-	-	-	(0.7)
Treasury Shares [(1)]	(3.4)	-	-	-	-	(3.4)
Total contributions by and distributions to owners	30.4	(0.7)	-	-	(96.0)	(66.3)
Balance at the end of the period	2,593.0	30.7	70.2	4.1	182.8	2,880.8

(1) Treasury shares represent the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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

Consolidated Statement of Changes in Equity (continued)

For the half-year ended 28 February 2014

	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	Equity reserve for credit losses	Other reserves	Retained profits	Total equity
Half-year ended 28 February 2013	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the period	2,464.4	195.7	33.3	70.2	2.7	132.9	2,899.2
Total comprehensive income for the period							
Profit	-	-	-	-	-	100.5	100.5
Other comprehensive income, net of income tax							
Cash flow hedges:							
- Net gains taken to equity	-	-	-	-	18.0	-	18.0
- Net gains transferred to profit and loss	-	-	-	-	(0.5)	-	(0.5)
Net loss on hedge of net investment in foreign operation	-	-	-	-	(0.5)	-	(0.5)
Foreign currency translation differences on foreign operations	-	-	-	-	0.5	-	0.5
Change in fair value of assets available for sale	-	-	-	-	1.7	-	1.7
Total other comprehensive income	-	-	-	-	19.2	-	19.2
Total comprehensive income for the period	-	-	-	-	19.2	100.5	119.7
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Conversion to Convertible Preference Shares	-	(180.1)	-	-	-	-	(180.1)
Dividend reinvestment plan	27.7	-	-	-	-	-	27.7
Dividends to shareholders	-	-	-	-	-	(80.2)	(80.2)
Dividends to PEPs	-	-	-	-	-	(5.6)	(5.6)
Equity settled transactions	-	-	(1.1)	-	-	-	(1.1)
Treasury Shares (1)	4.4	-	-	-	-	-	4.4
Total contributions by and distributions to owners	32.1	(180.1)	(1.1)	-	-	(85.8)	(234.9)
Balance at the end of the period	2,496.5	15.6	32.2	70.2	21.9	147.6	2,784.0

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

Consolidated Statement of Cash Flows

For the half-year ended 28 February 2014

	28 February 2014 $m	28 February 2013 $m
Cash flows from operating activities		
Interest received	1,057.2	1,179.9
Fees and other income received	92.7	83.9
Dividends received	1.1	1.1
Interest paid	(702.4)	(858.8)
Cash paid to suppliers and employees	(196.1)	(191.6)
Operating income tax paid	(33.8)	(25.1)
	218.7	189.4
(Increase) / decrease in operating assets:		
Loans and advances at amortised cost	(70.2)	(595.4)
Other financial assets	(5.3)	32.2
Increase / (decrease) in operating liabilities:		
Deposits	284.9	462.8
Securitisation liabilities	(413.0)	(254.5)
Net cash from operating activities	15.1	(165.5)
Cash flows from investing activities		
Payments for property, plant and equipment	(15.9)	(6.3)
Payments for intangible assets	(22.4)	(12.9)
Cash distribution received from equity accounted investments	0.4	1.4
Capital contribution for equity accounted investments	(0.1)	(0.5)
Proceeds from sale of property, plant and equipment	1.2	2.9
Net cash from investing activities	(36.8)	(15.4)
Cash flows from financing activities		
Proceeds from borrowings and foreign exchange instruments	434.4	854.0
Net proceeds from issue of Convertible Preference Shares	-	112.2
Repayment of borrowings	(412.2)	(754.1)
Payments for treasury shares	(8.3)	-
Dividends paid	(62.1)	(58.1)
Net cash from financing activities	(48.2)	154.0
Net decrease in cash and cash equivalents	(69.9)	(26.9)
Cash and cash equivalents at beginning of year	873.2	670.5
Cash and cash equivalents at end of half-year	803.3	643.6

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Condensed notes to the Consolidated Financial Statements

For the half-year ended 28 February 2014

Condensed Notes to the Consolidated Financial Statements

For the half-year ended 28 February 2014

1. Reporting entity

Bank of Queensland Limited ("the Bank") is a company domiciled in Australia. The consolidated interim financial report of the Bank as at and for the half-year ended 28 February 2014 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.

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 31 August 2013 is available upon request from the Bank's registered office at Level 17, 259 Queen Street, Brisbane QLD 4000 or at www.boq.com.au.

2. Basis of preparation

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001. The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 31 August 2013.

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

These consolidated interim financial statements are presented in Australian dollars which is the Consolidated Entity's functional currency.

The consolidated interim financial report was approved by the Board of Directors on 11 April 2014.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 31 August 2013.

The following changes in accounting policies are also expected to be reflected in the Consolidated Entity's financial statements as at and for the year ending 31 August 2014.

Changes in accounting policies

The Consolidated Entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2013.

AASB 10 *Consolidated Financial Statements (refer (a))*

AASB 11 *Joint Arrangements (refer (b))*

AASB 13 *Fair Value Measurement (refer (c))*

AASB 119 *Employee Benefits (amended in 2011) (refer (d))*

AASB 134 *Interim Financial Reporting (refer (e)).*

The nature and effect of the changes are further explained below.

(a) Consolidated Financial Statements

AASB 10 requires the Consolidated Entity to reassess control over investees. AASB 10 introduces a new control model that is applicable to all investees, by focusing on whether the Consolidated Entity has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of AASB 10, the Consolidated Entity reassessed the control of its investees at 1 September 2013

Condensed Notes to the Consolidated Financial Statements

For the half-year ended 28 February 2014

3. Significant accounting policies (continued)

(a) Consolidated Financial Statements (continued)

and there has been no impact on the Consolidated Entity's financial position.

(b) Joint arrangements

AASB 11 requires the Consolidated Entity to review arrangements with third parties to identify if its interests are joint arrangements. Joint arrangements are identified as either joint operations or joint ventures depending on the Consolidated Entity's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Consolidated Entity considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Consolidated Entity has re-evaluated its involvement in its joint arrangements and has reclassified the investments from jointly controlled entities to joint ventures. Notwithstanding the reclassification, the investment continues to be accounted for using the equity method; accordingly, there has been no impact on the recognised assets, liabilities and comprehensive income of the Consolidated Entity.

(c) Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the exit price. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures.* Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Consolidated Entity has included additional disclosures in this regard (See Note 7).

In accordance with the transitional provisions of AASB 13, the Consolidated Entity has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Consolidated Entity's assets and liabilities.

(d) Employee benefits

As the Consolidated Entity does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are now classified as long-term and short-term employee benefits. This amended the measurement of these obligations, as they are now measured on a discounted basis. The impact of this change was immaterial.

(e) Segment information

The amendment to AASB 134 clarifies that the Consolidated Entity needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Consolidated Entity's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. As a result of this amendment, the Consolidated Entity has included additional disclosure of segment liabilities (see Note 12).

4. Use of estimates and judgements

The preparation of the consolidated interim 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.

In preparing the consolidated interim financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 August 2013, with the exception of the changes outlined in 3 (a) to (e) above.

5. Income tax expense

The Consolidated Entity's consolidated effective tax expense rate for the six months ended 28 February 2014 was 31.7% and for the six months ended 28 February 2013 was 31.2%. This is above the corporate tax rate of 30% primarily due to the non-deductibility of interest on the convertible preference shares issued in 2013.

6. Dividends

	Half-year ended			
	28 February 2014		28 February 2013	
	Cents per share	$m	Cents per share	$m
Ordinary shares				
Final dividend (fully franked) paid 4 December 2013 (2012: 10 December 2012)	30	96.0	26	80.2
Preference shares not recognised as liabilities				
Half-yearly PEPS dividend paid on 15 October 2012	-	-	217	4.3
Pro-rated PEPS dividend paid on 24 December 2012	-	-	69	1.3
Total	-	-		5.6
Preference shares recognised as liabilities				
Final CPS dividend (fully franked) paid on 15 October 2013 (2012: Nil)	286	8.6	-	-
Dividends not recognised in the balance sheet				
In addition to the above dividends, since half-year end the Directors have proposed the following:				
Interim dividend (fully franked) expected to be paid on 23 May 2014 (2013: 27 May 2013) out of retained profits at 28 February 2014, but not recognised as a liability in the balance sheet	32	103.2	28	87.6
Half-yearly PEPS dividend (fully franked) paid on 15 April 2013 but not recognised as a liability in the balance sheet	-	-	179	0.4
Interim CPS dividend (fully franked) expected to be paid 15 April 2014 (2013: 15 April 2013) of which $6.1m has been recognised as a liability in the balance sheet	269	8.1	177	5.3
		111.3		93.3

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 or transferred under the Plan at a discount. On 10 April 2014, the Board resolved that each share issued or transferred under the Plan will be issued or transferred under the Plan at a discount of 1.5% on the arithmetic average, rounded to four decimal places, of the daily volume weighted average price of:

- all shares sold in the ordinary course of trading on the Australian Securities Exchange automated trading system; and
- where shares are sold on trading platforms of Australian licensed financial markets operated by persons other than ASX, all shares sold in the ordinary course of trading on such of those trading platforms determined by the Board from time to time,

during the 10 trading day period commencing on the second trading day after the record date in respect of the relevant dividend. Shares issued or transferred under the Plan will be fully-paid. If, after this calculation there is a residual balance, that balance will be carried forward (without interest) and added to the next dividend for the purpose of calculating the number of shares secured under the DRP at that time.

The last date for election to participate in the Dividend Reinvestment Plan for 2014 interim dividend is 30 April 2014.

7. Financial Instruments

Carrying amounts versus fair values

The fair values of financial assets and financial liabilities, together with the carrying amounts in the consolidated balance sheet, are as follows:

	28 February 2014	
	Carrying amount $m	Fair Value $m
Assets carried at fair value		
Financial assets available for sale	2,008.5	2,008.5
Financial assets held for trading	3,434.0	3,434.0
Derivative assets	210.2	210.2
	5,652.7	5,652.7
Assets carried at amortised cost		
Cash and liquid assets	803.3	803.3
Due from other financial institutions	102.2	102.2
Loans and advances at amortised cost	35,013.4	35,084.7
	35,918.9	35,990.2
Liabilities carried at fair value		
Derivative liabilities	115.8	115.8
Insurance policy liabilities	66.8	66.8
	182.6	182.6
Liabilities carried at amortised cost		
Due to other financial institutions	194.6	194.6
Deposits	31,968.0	32,031.0
Borrowings including subordinated notes	6,755.0	6,780.7
Accounts payable and other liabilities	334.3	334.3
	39,251.9	39,340.6

7. Financial Instruments (continued)

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 half year.

	28 February 2014			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Financial assets available for sale	503.3	1,495.6	9.6	2,008.5
Financial assets held for trading	-	3,434.0	-	3,434.0
Derivative assets	-	210.2	-	210.2
	503.3	5,139.8	9.6	5,652.7
Derivative liabilities	-	(115.8)	-	(115.8)
	503.3	5,024.0	9.6	5,536.9

Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on the entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no material movements in level 3 instruments during the half year.

8. Provisions for impairment

	Consolidated	
	28 February 2014 $m	31 August 2013 $m (1)
Specific provision:		
Balance at the beginning of the period	174.8	213.9
Add: Expensed during the period	47.8	63.6
Less: Amounts written off against specific provision	(68.0)	(99.1)
Transfers from collective provision	1.8	4.3
Unwind of discount	(5.6)	(7.9)
Balance at the end of the period	150.8	174.8
Collective provision:		
Balance at the beginning of the period	137.5	150.3
Less: Released during the period	(1.7)	(8.5)
Transfers to specific provision	(1.8)	(4.3)
Balance at the end of the period	134.0	137.5
Total provisions for impairment	284.8	312.3

(1) Six months to 31 August 2013.

9. 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	Convertible Preference Shares (2)	Syndicated Loan	Total
	$m	$m	$m	$m	$m	$m	$m
Half-year ended 28 February 2014							
Balance at the beginning of the period	5,824.1	96.3	430.4	270.2	292.8	223.1	7,136.9
Proceeds from issues	471.1	19.1	387.6	-	-	-	877.8
Repayments	(882.6)	(39.1)	(373.1)	-	-	-	(1,294.8)
Deferred establishment costs	(1.5)	-	-	-	-	-	(1.5)
Amortisation of deferred costs	4.2	-	-	-	0.9	0.4	5.5
Foreign exchange translation	28.3	(0.9)	4.1	-	-	(0.4)	31.1
Balance at the end of the period	5,443.6	75.4	449.0	270.2	293.7	223.1	6,755.0

	Securitisation liabilities (1)	EMTN Program	ECP Program	Borrowings including subordinated notes	Convertible Preference Shares (2)	Syndicated Loan	Total
	$m	$m	$m	$m	$m	$m	$m
Half-year ended 28 February 2013							
Balance at the beginning of the period	5,792.6	33.0	169.6	500.1	-	192.8	6,688.1
Proceeds from issues	1,584.3	16.0	828.8	-	300.0	-	2,729.1
Repayments	(1,835.1)	-	(693.9)	(60.2)(3)	-	-	(2,589.2)
Deferred establishment costs	(3.7)	-	-	-	(7.7)	-	(11.4)
Amortisation of deferred costs	2.6	-	-	-	0.1	0.4	3.1
Foreign exchange translation	20.7	0.1	9.4	-	-	0.7	30.9
Balance at the end of the period	5,561.4	49.1	313.9	439.9	292.4	193.9	6,850.6

(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) 3,000,000 Convertible Preference Shares (CPS) were issued on 24 December 2012. CPS are fully-paid, perpetual, convertible, unguaranteed and unsecured preference shares with preferred, discretionary, non-cumulative dividends. CPS will mandatorily convert into ordinary shares on 15 April 2020. The Bank is entitled to convert, redeem or transfer some or all of the CPS on the optional conversion / redemption date of 15 April 2018 subject to the prior written approval from the Australian Prudential Regulation Authority ("APRA"). The Bank is also entitled to convert, redeem or transfer some or all of the CPS on the occurrence of a regulatory event or tax event and in addition, conversion of the CPS into ordinary shares must occur immediately following the occurrence of a capital trigger event or a non-viability trigger event. CPS rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with CPS, but behind all other securities or instruments ranking ahead of CPS, and behind all depositors and other creditors.

(3) Convertible Notes were issued 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 1 was redeemed during the prior financial period.

10. Issued capital

	Consolidated	
	28 February 2014 Number	28 February 2013 Number
(a) Ordinary shares		
Movements during the period		
Balance at the beginning of the period	319,810,294	308,797,525
Dividend reinvestment plan	2,756,588	4,081,695
Balance at the end of the period	322,566,882	312,879,220
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	162,371	867,293
Movements during the period	302,606	(443,618)
Balance at the end of the period	464,977	423,675

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 preference shareholders, depositors and creditors and are fully entitled to any residual proceeds of liquidation.

	Consolidated	
	28 February 2014 Number	28 February 2013 Number
(b) Perpetual Equity Preference Shares ("PEPS")		
Balance at the beginning of period	-	2,000,000
Conversion to Convertible Preference Shares	-	(1,801,339)
Balance at the end of the period	-	198,661

Terms and conditions

On 15 April 2013, the Bank redeemed the 198,661 remaining PEPS on issue in accordance with the PEPS terms of issue. The remaining PEPS were redeemed at the redemption price of $100 per PEPS plus the final PEPS dividend paid on 15 April 2013.

11. Capital management

The Consolidated Entity's capital management strategy aims to ensure that the Consolidated Entity maintains adequate capital to act as a buffer against risks associated with its activities whilst maximising returns to shareholders. The Consolidated Entity'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 Consolidated Entity has a capital management plan, consistent with their overall business plans, for managing capital levels on an ongoing basis. This plan sets out:

(i) the strategy for maintaining adequate capital over time including the capital target, how the target level is to be met and the means available for sourcing additional capital when required; and

(ii) the actions and procedures for monitoring compliance with minimum regulatory capital adequacy requirements, including trigger ratios to alert management to, and avert, potential breaches of these requirements.

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

The Board has set the Common Equity Tier 1 capital target range to be between 8.0% and 9.0% of risk weighted assets and the total capital range to be between 11.5% and 12.5% of risk weighted assets. The Net Tier 1 capital ratio at 28 February 2014 was 10.2% and the total capital adequacy ratio was 12.4%. Net Tier 1 capital of 10.2% is represented by 8.8% of Common Equity Tier 1 capital and 1.4% of additional Tier 1 capital.

11. Capital management (continued)

	Consolidated	
Qualifying capital	28 February 2014 $m	31 August 2013 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	2,593.0	2,562.6
Reserves	36.0	41.7
Retained profits, including current year profits	186.9	149.6
Total Common Equity Tier 1 Capital	2,815.9	2,753.9
Regulatory adjustments		
Goodwill and intangibles	(598.3)	(586.8)
Deferred Expenditure	(121.2)	(124.5)
Other deductions	(176.2)	(182.0)
Total regulatory adjustments	(895.7)	(893.3)
Net Common Equity Tier 1 Capital	1,920.2	1,860.6
Additional Tier 1 Capital	300.0	300.0
Net Tier 1 Capital	2,220.2	2,160.6
Tier 2 Capital		
Tier 2 Capital	270.0	270.0
General Reserve for Credit Losses	204.4	207.7
Net Tier 2 Capital	474.4	477.7
Capital Base	2,694.6	2,638.3
Risk Weighted Assets	21,717.3	21,551.7
Capital Adequacy Ratio	12.4%	12.2%

12. Operating segments

The Bank has determined and presented the following two segments based on information provided to the Chief Operating Decision Maker.

Banking	Retail banking, commercial, personal, small business loans, equipment and debtor finance, savings and transaction accounts, and treasury.
Insurance	Life insurance and income protection insurance.

	6 Months to 28 February 2014			
	Banking $m	Insurance $m	Consolidation Adjustments $m	Total Segments $m
Revenue from outside the group	426.4	20.7	-	447.1
Inter-segment revenue	1.4	(1.6)	0.2	-
Total segment revenue	427.8	19.1	0.2	447.1
Expenses	199.7	4.2	-	203.9
Impairment on loans and advances	46.1	-	-	46.1
Segment profit before tax	182.0	14.9	0.2	197.1
Tax	58.0	4.4	-	62.4
Segment profit after tax	124.0	10.5	0.2	134.7

	6 Months to 28 February 2013			
	Banking $m	Insurance $m	Consolidation Adjustments $m	Total Segments $m
Revenue from outside the group	395.8	19.2	-	415.0
Inter-segment revenue	1.9	(1.3)	(0.6)	-
Total segment revenue	397.7	17.9	(0.6)	415.0
Expenses	203.2	6.3	-	209.5
Impairment on loans and advances	59.5	-	-	59.5
Segment profit before tax	135.0	11.6	(0.6)	146.0
Tax	42.0	3.5	-	45.5
Segment profit after tax	93.0	8.1	(0.6)	100.5

The Consolidated Entity’s business segments operate principally in Australia.

13. Related parties

Arrangements for related parties are consistent with those disclosed in the 31 August 2013 Annual Report.

14. Contingent liabilities

There have been no material changes in contingent liabilities since 31 August 2013.

On 22 December 2010, the Australian Securities and Investment Commission (ASIC) lodged legal proceedings against parties including Bank of Queensland, arising out of the collapse of Storm Financial. One proceeding has been heard and the Bank is awaiting judgment. The proceedings are regulatory in nature. At this stage no estimate of any potential liability can be made.

On 6 December 2012 a class action was commenced against the Bank, also arising out of the collapse of Storm Financial. The Bank is defending this action vigorously. At this stage no estimate of any potential liability can be made.

On 13 February 2014 judgment was given in favour of the Bank for the proceedings involving the Bank by a number of former Owner-Managers in NSW.

15. Events subsequent to balance date

Other than as disclosed below, no matters or circumstances have arisen since the end of the financial half year and up until the date of this report which significantly affects the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent years.

Dividends have been determined after 28 February 2014, refer to Note 6.

On 11 April 2014, the Bank announced to the Australian Stock Exchange the acquisition of Investec Bank (Australia) Limited's Professional Finance and Asset Finance & Leasing businesses and a high net worth customer deposit book for purchase consideration of $440m.

To fund the acquisition, the Bank has announced a $400m fully underwritten Accelerated Renounceable Entitlement Offer.

At the date of this report the transaction is not yet complete as there are a number of matters such as regulatory and third party approvals which are yet to be finalised. Subject to these matters, completion is expected before the end of the Bank's financial year.

The financial effect of these transactions has not been brought to account in the financial statements for the period ended 28 February 2014.

Directors' Declaration

In the opinion of the Directors of Bank of Queensland Limited ("the Bank"):

(a) the consolidated financial statements and accompanying notes, set out on pages 7 to 25 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Consolidated Entity as at 28 February 2014 and of its performance, for the half-year ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting 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.

Dated this eleventh day of April 2014.

Signed in accordance with a resolution of the Directors:

Roger Davis Chairman	Stuart Grimshaw Managing Director

KPMG

Independent auditor's review report to the members of Bank of Queensland Limited

Report on the financial report

We have reviewed the accompanying Consolidated Interim Financial Report ("the Interim Financial Report") of Bank of Queensland Limited, which comprises the consolidated balance sheet as at 28 February 2014, consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the half-year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Bank and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Bank are responsible for the preparation of the Interim 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 Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 28 February 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Bank of Queensland Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Bank of Queensland Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 28 February 2014 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

KPMG

Martin McGrath

Partner
Brisbane

11 April 2014