2013 ANNUAL REPORT

Bank of Queensland Limited ABN 32 009 656 740. AFSL No. 244616.

LOVE YOUR BANK

Over the last two years BOQ has built the foundations to return to profitable and sustainable growth. In May 2013 we shared our brand position for the future, launching our new brand with the tagline "It's possible to love a bank".

Our new brand builds on our reputation for superior customer service. As a smaller bank we're more flexible and responsive to our customers.

We've grown from humble beginnings in 1874 as the first permanent building society in Queensland to today where we have around 270 branches across every state and territory in Australia.

We're proud to continue challenging financial industry norms and we're working hard every day to prove that it's possible to love a bank.

BOQ BOQ Finance St Andrew's AUSTRALIA Virgin money

2013 ANNUAL REPORT

CASH EARNINGS after tax ^ $250.9M

STATUTORY PROFIT after tax ^ $185.8M

FULL YEAR dividend ^ 58¢ PER SHARE

Year End Performance

$ million	**Aug-13**	Aug-12
Cash earnings after tax	250.9	30.6
Statutory net profit after tax	185.8	(17.1)
Profit before loan impairment expense and tax	477.4	443.5
Full year dividend	58¢ per share	52¢ per share

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CHAIRMAN & MD'S REVIEW

Dear Shareholder,

Over the course of the 2013 financial year we continued to strengthen our business, deliver on strategic priorities and increase shareholder returns.

While challenges remain, particularly around the external market and economic volatility, much of the work required to transform ourselves into a fit, focused and different organisation is underway or nearing completion.

This work is driving stronger financial returns. Our cash earnings after tax for the full year to 31 August 2013 was $250.9 million, up from $30.6 million in FY12, although a direct comparison is difficult due to the significant bad debt provisions that impacted last year's result. The after-tax statutory net profit was $185.8 million compared to a loss of $17.1 million in FY12.

We increased cash net interest margin to 1.69% and reduced our cost to income ratio to 44.3%.

Loan impairment expense to gross loans and advances reduced to 32 basis points compared to 116 basis points in FY12.

The Bank's capital position also remained strong with common equity tier 1 and total capital adequacy ratio remaining at market-leading levels of 8.63% and 12.24% respectively.

Our strong financial performance and ongoing confidence in BOQ's future prospects allowed us to increase the final dividend to 30 cents per share fully franked, taking the full year dividend to 58 cents per share up from 52 cents last year.

In a low credit growth environment, we are taking a disciplined approach to pricing and credit, not buying market share. This will allow us to build sustainable long-term growth. During 2013, our management team delivered on six of the seven key management targets for the year.

Our focused strategy, financial strength and strong business performance was validated by the decision of ratings agency Standard & Poor's in September 2013 to upgrade our long-term credit rating to 'A-'.

This is the highest credit rating the Bank has ever held and should not only increase the range of funding opportunities available to us but, over time, help lower our cost of funding.

Vision and strategy

Last year we communicated our vision and strategy, focusing on four key areas of performance that we believe are critical for the Bank as we position ourselves for growth.

These are multi-channel optimisation, making it easier for our customers to do business with us in the manner they prefer; risk/return balance; operational excellence; and talent, capability and culture.

Multi-channel distribution

Although our owner-manager and corporate branch network has always been, and will continue to be, an essential part of our distribution network, it is important we give our customers more choice in how they want to interact with us.

We did this initially through a mortgage broker program in Western Australia, which has now been extended to New South Wales and Victoria, and by improving our digital and online banking offerings. We also acquired Virgin Money Australia, giving us access to an incredibly powerful brand, digital expertise and a further platform to offer banking products to different customers.

Risk/Return balance

Underlying improvement in the credit quality of our portfolio was evidenced by improvement across all key metrics. Impairment expense was down 71% to $114.6 million and total impaired assets fell 27% to $381.6 million.

To achieve the right balance of return for risks taken, we are diversifying our balance sheet by pursuing higher margin and higher return on equity segments in business banking and agribusiness.

We also introduced a new balanced scorecard for owner-managed branches that balances lending, deposits, cross-sales and compliance components and closely aligns the interests of Owner-Managers, BOQ and shareholders. Significant work is underway to make sure we have the best possible branch mix and locations.

Operational excellence

Operational improvements mean we are now a far fitter organisation. During 2013, we continued to consolidate back-office operations and remove administrative tasks from branches. This allowed us to drive our cash cost to income ratio to 44.3%, down from 45.7% last year. The savings from these activities were reinvested into our business to help improve our products, processes and systems.

There is still more work to do in this area as the recent announcement regarding legacy product issues showed. As we improve the way we operate by introducing new products and initiatives such as simplified lending processes, these types of issues will be minimised. Our new Clear Path lending product is a good example of this improvement.

Talent, capability and culture

In a relatively generic financial services market, our organisation's talent, capability and culture continue to differentiate us from competitors and reinforce our challenger model.

Indeed, we believe our ongoing focus on customer service together with the fact that we are one of the few remaining independent banking options in the local market, will increasingly provide us with additional opportunities to successfully compete in attractive market segments.

The true essence of this positioning strategy is captured by our new branding position, "It's possible to love a bank". Our ability to deliver this brand position clearly depends on the ability of our people to build long-lasting customer relationships and to go the extra mile for them wherever possible.

Because of our size, culture and operating model, we believe we are the best positioned of all the Australian banks to consistently achieve this goal and, significantly in this regard, we were recently voted Australia's best SME business bank for the fifth consecutive year in customer research conducted by banking advisory group East & Partners.

Renewal is important for every organisation and we continue to invest in employee development and recruitment to bring new skill sets and experience into the organisation.

This has consistently occurred across the Bank's management ranks during 2013 and also at Board level with Neil Summerson and John Reynolds both retiring during the year whilst Neil Berkett joined the Board from Virgin Media in the United Kingdom. We would particularly like to acknowledge Neil Summerson's many years of service as a Director and Chairman and wish him the best for the future.

Finally, we would like to recognise the efforts of the Executive Team and all employees – this year's achievements were made possible by their efforts. We would also like to thank shareholders for their ongoing support.

Roger Davis
Chairman

Stuart Grimshaw
Managing Director and
Chief Executive Officer

CORPORATE GOVERNANCE

Overview

Directors and Management of Bank of Queensland Limited (the "Bank" or "BOQ") and its subsidiaries (the "Group") are committed to excellence in corporate governance. In striving to achieve its objectives, the Group endeavours to be a bank that looks after its staff, values and services its 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 Group 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 Prudential Standard CPS 510 "Governance".

In addition, the Board has adopted a fit and proper policy as required by CPS 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 ('SAI') and St Andrew's Life Insurance Pty Ltd ('SALI') (together, the "St Andrew's Group") 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 Nomination & Governance Committee is responsible for reviewing the Group's corporate governance framework and policies and makes recommendations to the Board in relation to governance improvements. 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 Group's key policies, Board and Committee charters and a checklist detailing its compliance with the Principles appear on the Bank's website.

The Group is required to disclose in this report the extent to which it has followed the best practice recommendations in the Principles throughout the 2012/2013 financial year. The Group has followed those recommendations throughout the year. A summary of the Group'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

BOQ Board and Management

The BOQ Board Charter sets out the key governance principles adopted by the BOQ Board in governing the Group. 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 Group, such as:
  - overseeing regulatory compliance; and
  - ensuring the Group observes appropriate ethical standards.
- the overall strategy and direction of the Group, including approving, monitoring and reviewing strategic, financial and operational plans;
- the appointment of the CEO and Managing Director, including the delegation of powers to the CEO and Managing Director within authorised discretionary levels;
- the appointment of Directors to subsidiary companies of the Group; and
- 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 Group'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 CEO and Managing Director;
- ensuring that areas of significant business risk within the Group are identified and effectively managed;
- monitoring the effectiveness of Group risk management practices;
- setting targets for and assessing the performance of the CEO and Managing Director; and
- establishing Board committees.

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

- responsibility for day to day management of the Group 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 Group 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
  - risk management;
- reporting to the Board on the performance of the Group and its management; and
- performing duties that are delegated by the Board.

The Board undertakes an annual performance review of the CEO and 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 CEO and Managing Director.

An induction program exists for all staff.

The powers of the Board are also governed by the Bank's constitution. Shareholder approval was obtained at the 2012 Annual General Meeting for the adoption of a new constitution. A copy of the constitution is available on the Bank's website.

Principle 1: Lay solid foundations for management and oversight (continued)

The Board has established the following Committees:

- Audit Committee
- Risk Committee
- Human Resources and Remuneration Committee
- Nomination & Governance Committee
- Information Technology 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.

St Andrew's Group Board

During the year, the membership of the boards of SAI and SALI changed, and now comprise the following persons:

Mr Jeff Dowling (independent, non-executive Chairman);

Mr Neil Summerson (independent, non-executive director);

Mr Stuart Grimshaw (non-executive director);

Ms Michele Dolin (independent, non-executive director);

Mr Jon Sutton (non-executive director); and

Mr David Willis (independent, non-executive director).

The boards of these entities comply with CPS 510 and 520. With the exception of Mr Willis, each of the St Andrew's Group board members are also members of the St Andrew's Group Audit & Risk Committee and the Chair of the Committee is Ms Dolin. The BOQ Group Human Resources and Remuneration Committee continues to act for the St Andrew's Group, and Mr Willis is the Chair of that Committee. The following specific policies have been adopted by the St Andrew's Group board, and appear on the BOQ website – SAI Board Charter, SALI Board Charter, SAI & SALI Policy on Independence of Directors, SAI & SALI Board Performance & Renewal Policy, SAI & SALI Audit & Risk Committee Charter. Where not replaced by a specific policy, other BOQ Group policies apply.

Principle 2: Structure the Board to add value

Board Structure

The Board currently has eight Directors (including the Chairman), seven of whom are non-executive Directors (Mr John Reynolds retired from the Board on 13 December 2012, Mr Neil Summerson retired from the Board on 30 July 2013, and Mr Neil Berkett was appointed to the Board on 30 July 2013). The CEO and 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 has robust succession planning in place and plans ahead 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. During the year the Nomination Committee merged with the Corporate Governance Committee, and the merged Nomination & Governance Committee monitors the skills and experience of existing Directors and the balance between this experience and any new skills which may be required and which may lead to consideration of appointments of new Directors. The Nomination & Governance Committee considers Board and Committee succession planning, the process for evaluating the performance of the Board, its Committees and subsidiary Boards, the Chairman and individual Directors, and has oversight of the process of selecting the CEO.

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

The Charter of the Nomination & Governance Committee, which details its duties, objectives, responsibilities and membership requirements, appears on the Bank's website.

When appointing a new Director, the Board has regard to the Board Performance Review & Renewal Policy and 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 CPS 520 and also applies 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 though 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 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 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 and Committee 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, the performance of Board Committees and the 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 and the Committees on which the Director serves;
- 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 CANDO behaviours – Collaborative, Accountable, No problems, Do what we say & Openness; 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 and Board Committee performance.

During the 2012/13 financial year, the Board engaged an independent external facilitator to undertake a review of Board and Committee performance.

The rationale for the review was to allow the Chairman and the Board to obtain an objective view of the operation of the Board. As part of this process, the facilitator sought and obtained input from each Director 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 the Chairman's practices across a range of criteria including the effectiveness of the Board, the performance and leadership of the Chairman, and the quality of meetings (including issues such as the effectiveness of agendas and papers, the working relationship between the Board and management and the performance of Board members). A comprehensive report, detailing the findings of the review and recommending areas for discussion and improvement, was presented to the Board in December 2012 and discussed in more detail at the February 2013 Board meeting. The Chairman and the Board continue to discuss and explore ways to improve Board and Committee performance.

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

Principle 3:
Promote ethical and responsible decision-making

Code of Conduct

The Group'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 Group and its shareholders and drive its relationships with employees, customers and the community. The Code details the Group'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 Group actively promotes ethical and responsible decision-making within the Group. The Code of Conduct is available on the Bank's website.

Securities Trading Policy

The Group'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 Group's Securities Trading Policy meets the requirements of the ASX Listing Rules.

Principle 3:
Promote ethical and responsible decision-making (continued)

Diversity

In order to attract and retain a diverse workforce, the Group 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 Group has established a Diversity Policy to reflect the Group's ongoing commitment to diversity. A copy of the policy is available on the 'Corporate Governance' page on the Bank's website. The Group's annual report to the Workplace Gender Equality Agency (WGEA) was submitted in May 2013 and is available on the WGEA website www.search.wgea.gov.au/ or by contacting humanresources@boq.com.au.

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

- All employees are 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 Group's culture is free from discrimination, harassment and bullying; and
- Employment decisions are transparent, equitable and procedurally fair.

The Group recognises that gender diversity is an important component to achieve its goals, and fully supports the ASX recommendations on diversity. The Group's current objectives and targets for gender 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; and
- encouraging women to participate in the Bank's My Mentor Program, to support the development of women in professional and management roles.

The Group's gender diversity achievements include:

- 25% of the Board are female;
- There are 22% of women in senior management roles (17.9% in 2010/11, 14% in 2011/12);
- 62 women participated in the My Mentor Program during 2013. To date, 10% of participants who have completed the program have been subsequently promoted; and
- 67% of participants in the Group's management training are women (62% in 2012).

Women currently constitute 57% of the Group's total workforce (57% in 2011/12). During the year, the Group employed 163 staff on a part-time basis (equating to 10% of the total workforce) (162 in 2011/12 or 9.9% of the workforce), 91% of which were women (92% in 2011/12), and 97 staff on a casual basis (76% of which were women) (50 in 2011/12, 86% of which were women).

In the current reporting period, the Group continued the restructuring of the Executive team, and the number of women in senior management increased in the 2012/13 financial year, as compared to the prior year. Although the number of women in senior roles improved in comparison to the prior year, 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 Group's stated gender diversity targets.

During the 2012/13 financial year, the Group built upon the work undertaken in the 2011/12 financial year to build a more flexible and diverse workplace. The following steps were taken towards achieving this objective:

- The enhancement of the Group's recruitment processes to actively source a more diverse pool of candidates;
- The completion of Unconscious Bias and Harassment, Discrimination & Bullying training with Group Executives and their senior leadership teams, along with further refining of the Group's policies and processes for dealing with harassment and discrimination complaints;
- The completion of a gender pay equity review; and
- The adoption of measures and targets to increase management engagement and awareness of diversity in the Group's talent management and succession planning processes.

The Group has three key goals – to be 'Fit, Focused and Different'. To demonstrate its commitment to its diversity objectives, the Group has embedded its diversity targets into its stated goals in the key performance indicators for all Group Executives.

The Group's Human Resources and Remuneration Committee annually assesses the Group's progress against diversity targets and objectives, including the representation of women at levels within the organisation. In addition, during the course of the year, the Human Resources and Remuneration Committee undertook a gender pay analysis across all Group employees.

The Group 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 an equal balance of gender wherever possible. Further, all managers and employees are responsible for behaving in a way that does not discriminate against other employees, prospective employees, agents, contractors, customers and suppliers, and are expected to promote the spirit of diversity and equal opportunity to the full.

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 CPS 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 CPS 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.

The Bank's Group Assurance function reports to the Audit Committee in relation to the effectiveness of internal controls which may have a significant impact on the annual financial report.

Principle 5: Make timely and balanced disclosure

During the year, the Board approved significant changes to the Group's Market Disclosure Policy. This document provides a framework to assist the Group 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 Group 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 Group will also provide relevant information to media organisations, to ensure the broadest possible communication with investors and the general market.

The Policy requires Group employees to notify a Designated Disclosure Officer when they become aware of information which may require release to the 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 Group to the ASX are accessible via the Bank's website. A copy of the Market Disclosure Policy is available on the Bank's website.

Principle 6: Respect rights of shareholders

The Group's Investor Relations Policy was merged with the Market Disclosure Policy during the course of the year. The revised Market Disclosure Policy is designed to promote effective communication with shareholders, provide them with ready access to balanced, understandable information about the Group and simplify their participation at general meetings.

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 overseen by the Board and the Risk Committee. The role of the Board in this respect is outlined in its Charter which states that it is responsible for, inter alia:

- Setting the risk appetite for the Group;
- Monitoring the effectiveness of risk management of the Group, including reviewing and approving risk management policies, operational risk policies and procedures and systems of internal controls within the Group, to ensure that they take account of changing risk profiles of Group entities; and
- Ensuring that areas of significant business risk are identified and effectively managed.

The Risk Committee is a sub-committee of the Board of Directors and assists the Board to discharge its responsibilities. 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 and for the management of the Group's compliance obligations.

Principle 7: Recognise and Manage Risk (continued)

Other responsibilities of the Risk Committee include the following:

- 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.

A copy of the Risk Committee's Charter is available on the 'Corporate Governance' page of the Bank's website. 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.

BOQ's Risk Management Framework

BOQ has an integrated risk management framework in place to identify, assess, manage and report risks on a consistent and reliable basis.

The risk management framework requires each business to manage the outcome of its risk-taking activities and allows it to benefit from the resulting risk-adjusted returns. Accountability for risk management is structured by a "Three Lines of Defence" model as follows:

- First Line – Business Management. Management within each of BOQ's business areas are responsible for managing the risks for their business. This includes agreeing with the Chief Executive Officer and Chief Risk Officer the level of risk they wish to take, determining and implementing an approach to the management of these risks, and using risk management outcomes and considerations as part of their day-to-day business making processes.
- Second Line – Group Risk. Group Risk Management provides risk management expertise and oversight for Business Management risk-taking activities. Group Risk develop specialist policies and procedures for risk management and ensure they are embedded and in use as part of the day-to-day management of the business. Group Risk also establishes and maintains aligned and integrated risk management frameworks and monitors compliance with the frameworks, policies and procedures.
- Third Line – Group Assurance. Group Assurance, BOQ's internal audit function, provides independent assurance to key stakeholders regarding the adequacy and effectiveness of the Group's system of internal controls, risk management procedures and governance processes. It is responsible for reviewing risk management frameworks and Business Unit practices for risk management and internal controls. To maintain independence and to prevent any conflict of interest, the Head of Group Assurance reports directly to the Chairman of the Audit Committee. The Group Assurance strategic plan is approved and monitored by the Audit Committee.

Management is responsible for implementing the policies and controls established by the Board. To enable management to effectively do this a number of committees have been established, including an Asset and Liability Committee, an Executive Committee, an Executive Credit Committee and an Operational Risk Committee. Operating under their respective charters, each committee has a role in the effective management and oversight of risk management in BOQ. The Executive Committee is also charged with ensuring that the Group has appropriately trained and skilled staff to identify measure and monitor risk throughout the business.

The Board has received a report from management as to the effectiveness of the Group'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.

Key Business Risks

BOQ is a diversified financial services organisation that offers a range of financial products and services to a number of different customer segments across a large geographic area (but predominantly Australia and New Zealand). The following categories of risk have been identified as the material business risks of BOQ under its risk management framework:

- 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. The policies adopted to manage Compliance Risk include a Conflicts of Interest Policy, Whistleblowing Policy and Breach & Incident Management Process. The Group also undertakes a range of compliance training of employees to manage Compliance Risk, including in relation to Consumer Credit Insurance, Consumer Protection, Code of Banking Practice, National Consumer Credit Protection and Anti-money Laundering & Counter Terrorism Financing.
- Credit Risk, being the risk that a debtor or transactional counterparties will default and/or fail to be their contractual obligations, and includes the risk of loss of value of assets due to deterioration in credit quality. This risk primarily arises from BOQ's lending activities and the holding of various financial instruments for investment or liquidity purposes. BOQ has a set of well documented credit risk policies to manage these risks within the limits set by the Board. They include the Treasury Credit Policy & Credit Risk Management Systems, the Delegated Approval Authority Policy, and specific credit policies for each customer segment and their respective lending products.
- Insurance Risk, which is the risk that BOQ incorrectly assesses its risk of exposure to financial loss and inability to meet its liabilities due to inadequate or inappropriate insurance product design, claims management or reinsurance management.
- Liquidity and Funding Risk, which is the risk that BOQ, 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. BOQ's Liquidity Policy and Liquidity Contingency Plan are used to manage this risk.
- Market Risk, which includes Traded Market Risk (the risk that the value of an investment will decrease due to moves in market factors such as foreign exchange rates, interest rates, equity prices, commodity price and credit spreads) and Non Traded Market Risk (the risks arising from the various structural dimensions of the balance sheet including Interest Rate Risk in the Banking Book (IRRBB), Liquidity, Funding, Securitisation and Capital Risk). BOQ has adopted a number of Treasury Risk Policies to manage Market Risk.

- Operational Risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk management covers a wide variety of risks including legal risk, franchise risk, environmental sustainability, Enterprise Continuity Management (comprising business continuity management, crisis management and disaster recovery, and technology/system risk) and human resources risk management. The Group has implemented a number of systems and policies to address Operational risks including a Code of Conduct, Outsourcing Policy, Product Approval Policy, Workplace Health & Safety Policy, Workplace Rehabilitation Policy and Harassment, Discrimination & Bullying Policy.
- Reputation Risk, being the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation, public trust or standing, and is considered to be a risk derived from business activities and is considered in conjunction with the underlying risks resulting from those activities.
- Residual Value Risk, being the risk of loss on the sale of leased equipment or assets that have been returned at the end of their contractual lease term. This risk arises in the operation of the BOQ Finance asset finance business on certain operating lease contracts. BOQ has a sophisticated residual value management process in place to determine the level of residual value risk it takes on individual lease contracts and portfolios of similar asset classes to manage this risk.
- Strategic Risk, being the potential for financial loss associated with the vulnerability of business earnings to changes in the strategic environment.

Principle 8 : Remuneration

The Human Resources and 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 Human Resources and 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 Committee, and number of meetings of the 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 CPS 510 (see the Directors' Report). The remuneration of the Board, the Managing Director and senior management is overseen by the Human Resources and Remuneration Committee. Non-executive Directors' remuneration is distinguished from the remuneration of the CEO & 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 Group'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 any employee shares, securities or options received as part of their performance-based remuneration, whether directly or indirectly. Any employee who attempts to hedge any shares, securities or options renders those instruments liable to forfeiture.

Website

The following documents appear in the Corporate Governance section of the Bank's website;

- Constitution
- Board Charter
- Policy on Independence of Directors
- Information Technology Committee Charter
- Nomination & Governance Committee Charter
- Audit Committee Charter
- Risk Committee Charter
- Human Resources & Remuneration Committee Charter
- Diversity Policy
- Market Disclosure Policy
- Securities Trading Policy
- St Andrew's Group charters and policies
- BOQ Group Fit and Proper Policy
- Code of Conduct
- AML / CTF Statement
- Award Rights Plan

DIRECTORS' REPORT

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 2013 and the independent 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
Roger Davis B.Econ. (Hons), Master of Philosophy Chairman Non-Executive Independent Director	61	Roger Davis was appointed Chairman on 28 May 2013 and has been a Director since 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 AIG Australia Ltd, Argo Investments Limited, Ardent Leisure Management Ltd and Ardent Leisure Ltd, Aristocrat Leisure Ltd and The Trust Company. Mr Davis 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 US. 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 Nomination & Governance Committee and a member of both the Audit and Risk Committees. He attends all other Board Committee meetings.
Stuart Grimshaw PMD, MBA, BCA Managing Director and Chief Executive Officer Executive Non-Independent Director	52	Stuart Grimshaw joined BOQ in November 2011 as Managing Director and Chief Executive Officer. Prior to joining BOQ Mr Grimshaw was a Non-Executive Director of Suncorp Group Ltd and Chief Executive Officer of Caledonia Investments Pty Ltd; an investment house. Before joining Caledonia, Mr Grimshaw 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	61	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, Mr Crane became Chief Executive and remained in this role until his retirement in June 2003. He is now a member of the CIMB Advisory Council 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 Risk Committee and a member of both the Nomination & Governance and Human Resources & Remuneration Committees.
Carmel Gray B Bus Non-Executive Independent Director	64	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 a member of each of the Audit, Information Technology and Nomination & Governance Committees.

Name, qualifications and independence status	Age	Experience, special responsibilities and other Directorships
Michelle Tredenick B Sc, FAICD Non-Executive Independent Director	52	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. Ms Tredenick has 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. She is Chair of IAG and NRMA Superannuation Pty Ltd and Chair of Comparehealth Pty Ltd. She is also a Member of the Review Panel and Policy Council for the Banking and Finance Oath Board. Ms Tredenick is Chair of the Information & Technology Committee and a member of both the Risk and Human Resources & Remuneration Committees.
David Willis B Com, ACA, ICA Non-Executive Independent Director	57	David Willis is a qualified Accountant and has over 33 years' experience in financial services with major, regional and foreign owned Banks. He has worked in Asia, the UK and USA. He has been a non executive director for the past five years and is currently a member of the boards of New Zealand Post, Kiwi Bank, CBH (a grain cooperative in Western Australia) and Interflour Holdings, a Singapore based flour milling company. Mr Willis also chairs a Sydney based charity 'The Horizons Program'. He was appointed a Director of the Bank in February 2010 and is Chair of the Human Resources & Remuneration Committee. He is also a member of the Risk Committee.
Richard Haire B.Ec, FAICD, FAIM Non-Executive Independent Director	54	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 Chair of the Audit Committee and a member of both the Risk and Information Technology Committees.
Neil Berkett B Com and Admin Non-Executive Independent Director	57	Neil Berkett was appointed a Director of the Bank on 30 July 2013. His career spans a range of sectors and geographies in both the consumer and enterprise space with an emphasis on managing significant change. For six years finishing in mid-2013 he was the Chief Executive Officer of Virgin Media, a NASDAC listed company where he oversaw the successful turnaround, differentiation and growth of the UK cable company. Mr Berkett then led the sale of the company to Liberty Global in June 2013. His previous career included senior roles at Lloyds TSB, Prudential, St George Bank in Australia, Citibank and Eastwest Airlines. He is the non-executive chairman of the Guardian Media Group, is a non-executive director with the Sage Group plc and a Trustee for the NSPCC. Mr Berkett is a member of both the Audit and Information Technology Committees.
John Reynolds Retired as a Director on 13 December 2012.		
Neil Summerson Retired as Chairman on 28 May 2013 and as Director on 30 July 2013.		

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).

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		Nomination & Governance Committee		Human Resources & 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	9	11	4 [2]	4	7	8	1 [2]	1	6 [2]	7	-	-	-	-	2	3	1 [2]	5	4	4
Stuart Grimshaw[3]	11	12	6	7	8	9	2	2	8	9	1	1	-	-	3	3	7	8	3	4
Steve Crane	10	12	6	7	-	-	2	2	1	1	1	1	-	-	-	-	-	-	-	-
Roger Davis	11	12	7	7	9	9	1	2	2 [4]	2	1	1	-	-	-	-	3 [4]	3	4	4
Carmel Gray	11	12	6	6	4	4	2	2	2	2	1	1	-	-	-	-	5	5	4	4
John Reynolds[5]	2	2	-	-	2	2	-	-	4	4	-	-	-	-	3	3	2	2	-	-
Michelle Tredenick	11	12	6	7	-	-	-	-	8	9	-	-	-	-	3	3	8	8	-	-
David Willis	12	12	1	1	-	-	1	1	9	9	-	-	-	-	-	-	-	-	-	-
Richard Haire	11	12	7	7	9	9	-	-	-	-	-	-	-	-	3	3	7	8	4	4
Neil Berkett [6]	2	2	-	-	1	1	-	-	-	-	-	-	-	-	-	-	1	1	-	-
Total number of meetings held	12		7		9		2		9		1		-		3		8		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 retired as Chairman on 28 May 2013 and as a Non-Executive Director on 30 July 2013. Neil attended these Committee meetings but is not a formal Committee member.

(3) Stuart Grimshaw attends these Committee meetings but is not a formal Committee member.

(4) Roger Davis become Chairman 29 May 2013 and attended these Committee meetings but is not a formal Committee member.

(5) John Reynolds retired as a Non-Executive Director on 13 December 2012.

(6) Neil Berkett was appointed as a Non-Executive Director on 30 July 2013.

OPERATING AND PERFORMANCE REVIEW

Overview of BOQ

The Bank has grown from being the first permanent building society in Queensland in 1874 to the current day with a network of around 270 branches spanning every state and territory in Australia. Over the last two years the Bank has built the foundations for sustainable growth and in May 2013, the Bank launched its new brand position "It's Possible to Love a Bank" which supports its strategic direction, customer proposition and internal cultural transformation.

The new brand positioning builds on a long established reputation for superior customer service. As a regional bank, flexibility and responsiveness to customer needs are paramount and the focus on this area will complement the progress being made under the Bank's four strategic pillars and contribute to future growth.

Principal activities

The principal activity of the Bank 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.

Business strategies and prospects for the future

The Bank continues to focus and deliver under the four strategic pillars of multi-channel optimisation, risk/return balance, operational excellence along with a focus on talent, capability and culture.

In terms of multi-channel optimisation, the Bank is continuing to expand its source of originations through entry into the mortgage broker market as well as improvements to mobile banking, call centre, online and social media. A mortgage broker program in WA was expanded to NSW in August 2013.

In the Retail network, a new balanced scorecard has been introduced for Owner Managed branches. The new scorecard balances lending, deposits, cross sales and compliance components and is aimed at providing greater alignment between the interests of Owner Managers and the Bank. It is intended that the new scorecard will form the basis of a new standardised franchise agreement to be rolled out in the 2014 year. There is also significant work underway to optimise branch mix and locations.

The recent acquisition of Virgin Money (Australia) Pty Limited will extend the Bank's reach into currently untapped, complementary market segments, providing access to opportunities that come with an iconic brand with proven capability in online customer acquisition, customer advocacy and product distribution.

To achieve the right balance of return for risk taken, the Bank continues to diversify the balance sheet by pursuing higher margin and return on equity segments in Business Banking and Agribusiness. In Business Banking, a tiered approach to origination through the Bank's distribution channels has been embedded to reflect deal complexity and seven agribusiness centres have opened across Australia in Financial Year 2013. A new behavioural scorecard for assessing mortgage origination was introduced reflecting the Bank's new risk appetite framework. Business mix changes reflecting a core focus on credit quality were evident across the retail portfolio, with the relative over concentration of poorer performing line of credit mortgages being substantially reduced.

The pursuit of operational excellence has seen continued back office consolidation and a focus on removing administrative tasks from branches. The Bank continues to improve processes and systems, particularly to reduce the turnaround time on compliant retail and business lending applications. A new Customer Relationship Management system has been successfully piloted in the Retail network and regulatory approval is currently being sought for full rollout and implementation of the system. FY2014 will see work commence to digitise retail and commercial lending origination. In the new year, the Bank is looking to further simplify the product suite to reinvigorate the customer offering and a simple low cost mortgage offering 'Clear Path' was launched in September 2013.

The Bank's focus on talent, capability and culture has seen a number of selected external recruits brought in below the executive team to complement existing talent while a review of talent across the Group has been completed. Retention of staff was improved with voluntary turnover of 19% in FY13 and Women in Management (levels 1 to 4) increased from 12% in November 2012 to 22% at August 2013.

A major brand refresh was launched in May 2013 with the line "It's Possible to Love a Bank" and this has resulted in an increase in national unprompted awareness of the BOQ brand. The Bank has also launched a reward and recognition program titled "Love Your Work". This is further re-focussing employees on the right behaviours and particularly collaboration, accountability and openness. This is further reflected in the external Net Promoter Score where the Bank continues to demonstrate strong satisfaction.

Through the continued focus on its four strategic pillars, the Bank aims to deliver sustainable growth across Retail and Business Banking whilst maintaining credit and pricing discipline and managing expense growth below inflation.

Credit Rating

The Bank has taken significant measures to strengthen the balance sheet with a renewed focus on asset quality of the commercial and retail portfolios, non-performing asset realisations, improved arrears performance, strengthening of capital levels and increasing the retail versus wholesale funding mix.

On 4 September 2013, Standard & Poor's Ratings Services upgraded its long-term credit rating on the Bank to A- from BBB+ and affirmed the short-term credit rating at A2. Outlook is stable for both long and short-term ratings.

On 4 June 2013, Moody's Investors Service affirmed a long-term credit rating on the Bank at Baa1 and a short-term credit rating at P-2. The outlook remains stable for both the long and short-term ratings.

On 20 December 2012, Fitch Ratings affirmed the Bank's long-term credit rating at BBB+ and the short term rating at F2. The outlook remains stable for the long and short-term ratings.

Outlook

The global business environment remains uncertain but financial conditions remain supportive of economic growth. Domestically, there is still an expectation of weak demand as the Australian economy transitions away from the resources boom. However, the downside risks to the Australian economy are, to a degree, balanced by the declining Australian dollar and increasing net exports.

The demand for housing finance has continued to strengthen in NSW and WA, consistent with rising dwelling prices and lower interest rates. Queensland however, continues to lag the other states, although early signs of improvement have emerged. Average house prices in most state capitals increased over the six months to June 2013 and auction clearance rates continue to remain at high levels. This is expected to continue nationally with market confidence increasing with the federal election completed and available supply starting to reduce. The Bank is well positioned as it builds its multi-channel distribution strategy to leverage this growth.

Whilst funding markets have improved, both in access and pricing, and the Bank's recent credit rating upgrade to A- is welcomed, retail product pricing remains competitive. The transition to the Basel III capital and liquidity rules will continue to be closely monitored with any potential margin impacts expected to be offset by repricing initiatives.

Challenges

Domestic Economy

The Bank's earnings are linked to economic activity in the Australian economy and in particular the demand for credit in the economy. Ongoing global uncertainty continues to impact economic growth locally and any future downturns will adversely impact the Bank's results.

Australian Property Markets

The Bank has substantial exposure to the Australian property market through its secured lending portfolio and recent years have demonstrated the fluctuating nature of property prices. Large decreases in property valuations may increase losses on the Bank's loan portfolio and also decrease asset growth from new lending. This could adversely impact the Bank's earnings.

Competition

The Bank operates in a competitive market environment. Potential new entrants to the market could heighten competition and reduce margins or increase costs of participation.

Credit Ratings

The Bank's credit rating impacts the Bank's cost of capital and wholesale funding mix. Potential downgrades to credit ratings may limit access to funding markets, increase funding costs and limit the ability of the Bank to fund potential asset growth.

Natural Disasters

Natural disasters such as floods and earthquakes could have economic implications which may adversely impact the Bank's earnings.

Financial Performance

Highlights

	2013	2012	Aug 13 vs Aug 12
Net Profit After Tax - Statutory $'m	**185.8**	(17.1)	n/a
Net Profit After Tax - Cash $'m	**250.9**	30.6	720%
Return on Equity - Statutory %	**7.0**	(0.7)	770bps
Return on Equity - Cash %	**9.4**	1.3	810bps
Dividend (cents)	**58.0**	52.0	12%
Basic Earnings per Share - Statutory (cents)	**58.4**	(10.2)	673%
Basic Earnings per Share - Cash (cents)	**79.2**	7.9	903%
Market Capitalisation $'m	**3,070.2**	2,331.4	32%
Common Equity Tier 1 %	**8.63**	8.58	5bps

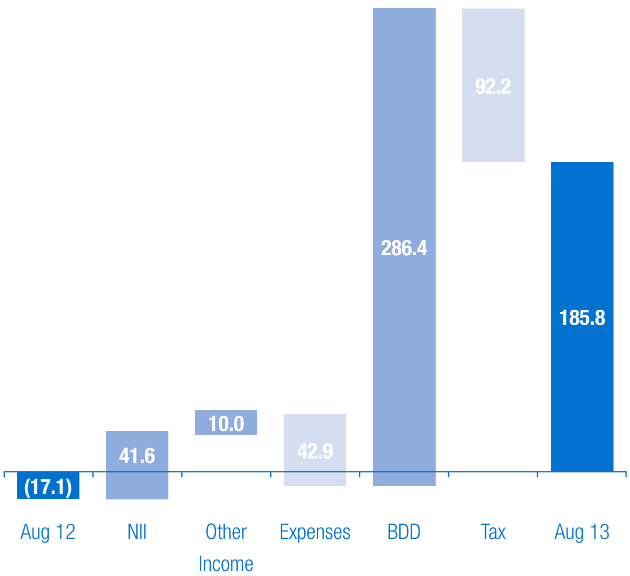
Statutory Profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards. The Cash Earnings provided is used by Management to present a clear view of the Bank's underlying operating results. It excludes a number of items that result in volatility and/or one-off distortions of the Bank's performance, and allows for a more consistent comparison of the Bank's performance across accounting periods.

The table below provides a reconciliation of Statutory Profit to Cash Earnings:

$ million	Aug-13	Aug-12	Aug 13 vs Aug 12
Cash Earnings / (Loss) after Tax	**250.9**	30.6	720%
Amortisation of customer contracts (acquisition)	**(9.1)**	(10.5)	14%
Amortisation of fair value adjustments (acquisition)	**(1.0)**	(3.9)	74%
Hedge ineffectiveness	**2.4**	(3.3)	173%
Government guarantee break fee	**(5.2)**	(2.2)	(136%)
Integration / due diligence costs	**(3.7)**	(1.0)	(270%)
Asset impairment	**-**	(6.6)	n/a
Legacy items	**(37.5)**	(14.9)	152%
Restructuring costs	**(11.0)**	(5.3)	(108%)
Statutory Net Profit / (Loss) after Tax	**185.8**	(17.1)	n/a

The Bank has delivered a sound financial result with a strong increase in statutory profit after tax to $185.8m compared with an after tax loss of $17.1m in 2012. The turnaround from the prior year result reflects improvement in loan impairment charges, margin growth and prudent expense management. The statutory return on average tangible equity increased to 8.9%.

2013 statutory earnings movement ($'m)



The largest contributor to the improved profitability was a 71% reduction in the loan impairment expense, driven by improved credit management practices and a tighter risk appetite framework that has delivered a significant improvement in the credit quality of the balance sheet. In line with the revised risk appetite, an enhanced behavioural scorecard model for housing loans was introduced in the first half, and a focus maintained on target segments such as SME and Agribusiness.

There has been sustained improvement in key credit metrics over the course of 2013. Impaired assets reduced by 27% from both a reduction in new impaired assets and improved realisations. Only one account greater than $5m shifted into impaired status over the course of the second half. Accounts now shifting into impaired status are of a smaller size and generally better secured. Arrears performance is also demonstrating a reducing profile as retail arrears are assisted by historically low interest rates. Commercial arrears, whilst still dealing with challenging trading conditions, are showing the benefits of early identification and improved workout practices.

Overall lending growth of 2%, or 0.6x system, in the portfolio reflects the Bank's renewed focus on quality origination and optimising margin performance. Portfolio growth was impacted by impaired asset runoff and the planned exit of exposures outside the Bank's revised risk appetite, particularly in reducing the Bank's over concentration in the poorer performing Line of Credit product. The Bank's regional exposure to Queensland, which has lagged the national average mortgage growth over the year, also contributed to lower mortgage growth against system.

Focus on expansion of the Business Banking division has shown positive results, with commercial lending growth of 7.5% over the year. This excludes the run-off in legacy portfolios which have been actively managed in line with the Bank's revised risk appetite, delivering a significant improvement in the credit quality of the balance sheet. In a low credit growth environment where many competitors are discounting heavily to achieve growth in their mortgage portfolios, the Bank has pursued profitable growth by focusing on higher margin, higher return commercial lending to high quality Business & Agribusiness customers.

The Bank's lending growth over the year was more than fully funded by retail deposit growth, with the deposit to loan ratio increasing 4% to 68%, and a continued reduction in reliance on wholesale funding. The Bank took the opportunity to repurchase $1.2bn in Government Guaranteed debt during the year, providing a more manageable refinancing profile. The Bank's recent credit rating upgrade to A- (Standard & Poor's) will provide the Bank with further opportunity to improve funding diversification over time.

Net Interest Margin ("NIM") on a statutory basis increased four basis points from the prior year, benefiting from asset mix and re-pricing, and a focus on managing deposit spreads. The Bank was disciplined in ensuring appropriate risk adjusted return hurdles are being met on new lending whilst reducing its reliance on the higher cost deposit segments of the market.

Operating Expenses continue to be prudently managed. On a statutory basis, full year growth of 10% reflects the product review costs of $46m (pre-tax). On a cash basis, expense growth was less than inflation at 2% and within management targets. Back office support activities have been consolidated, minimising duplication across the Group, while there has been continued investment in improving frontline capabilities.

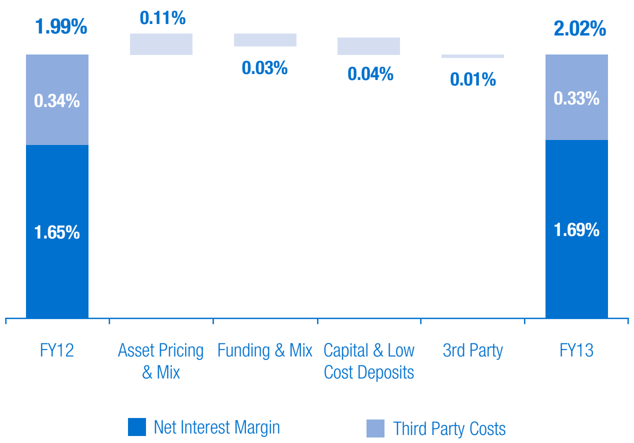
The Bank has continued to further strengthen its balance sheet and its Common Equity Tier 1 Ratio of 8.63% is amongst the highest in its peer group.

The Board has declared a final dividend of 30 cents per share fully franked, an increase of 2 cents per share on the first half and 4 cents per share on the previous corresponding period. The full year dividend of 58 cents per share represents a 12% increase on 2012.

Income

Total operating income increased by 6% over the year to $855.9m compared with $804.3m in the prior year. The main driver of this increase was net interest income growth of $41.6m (6%) reflecting improved margin management through a disciplined approach to product pricing and improving the composition of retail deposits.

Net Interest Margin



The statutory NIM increased by four basis points over the year to 1.69 percent. This movement was attributable to a number of factors:

- Asset pricing – the Bank benefited from the asset pricing conducted in FY13 as well as receiving the full benefit of the prior year repricing of the fixed rate mortgage and leasing portfolios.
- Funding costs – An increase in retail funding costs over the prior year reflected higher competition for deposits, though this was mitigated by reduced costs of hedging as volatility in financial markets reduced.
- Capital & replicating portfolio – the investment return on the capital and low-cost deposit replicating portfolio has reduced, in line with the lower interest rate environment.

The Bank's Convertible Preference Shares ("CPS") issue had a negative impact to NIM (2bps). The instrument is classified as debt, replacing the Perpetual Preference Shares ("PEPS") which were classified as equity for accounting purposes and hence excluded from NIM. The increased size and cost of the CPS compared to the PEPS represented just under half of the impact, and the accounting treatment reclassification effect the balance.

Other Income, excluding insurance income, increased by 10% to $122.5m due to an increase in net income from financial instruments and derivatives at fair value, as well as increased commission income.

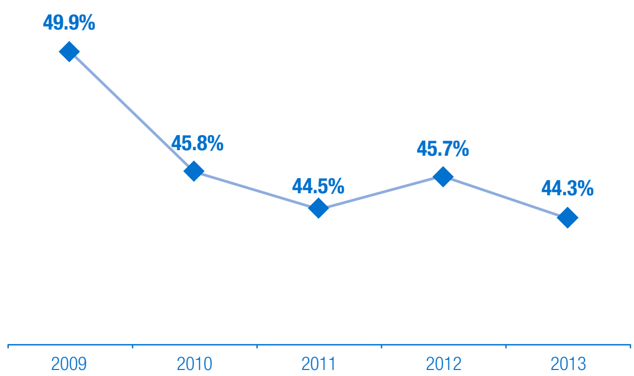
Insurance income decreased 2% to $40.3 million from the prior comparative year of $41.3 million. This was a result of lower premium volumes driven by a slowing in housing credit growth.

Expenses

Operating expenses on a statutory basis increased by 10% to $465.5m (2012: $422.6m) which included $46m of product review costs ($34.5m customer refunds and $11.5m of costs) which were incurred in the second half. The Bank's statutory cost to income ratio for the current financial year is 54.4%.

Total operating expenses on a cash basis increased by 1.6% to $379.4m for the full year. On a cash basis, the Bank's cost to income ratio improved from 45.7% to 44.3%.

Cost to Income (Cash)



The Bank's Efficiency and Effectiveness Program delivered good results with the successful implementation of a number of initiatives (eg: shared services, back office consolidation) in the last 12 months that not only reduced costs, but improved operational effectiveness.

Employee expenses marginally increased in the second half due to higher staff numbers as the business further invests in operational capability. Included in the second half result was $3m of restructuring costs, which have historically been treated as normalised items and excluded from Cash Earnings.

A full end to end review of loan origination and processing across the Bank to streamline the response time is underway which will drive further efficiencies and improve the customer experience.

The Bank remains committed to achieving measured expense growth whilst continuing to invest in core system platforms and frontline capabilities.

Asset quality and provisioning

2013 witnessed significant improvement in the credit quality of the Bank's lending portfolio evidenced by gains across key metrics. The following table summarises the Bank's key credit indicators with comparison against the 2012 financial year.

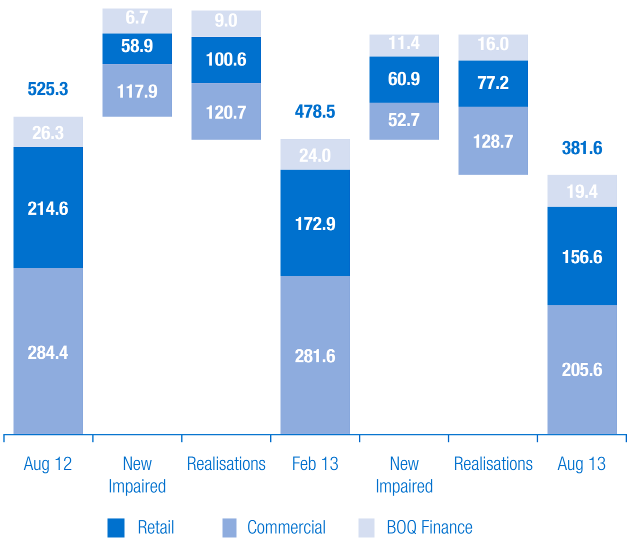
		Year End Performance		
		Aug-13	Aug-12	Aug 13 vs Aug 12
Loan impairment expense	($m)	**114.6**	401.0	71%
Bad and Doubtful Debts / Gross Loans & Advances	bps	**32**	116	84bps
Impaired Assets	($m)	**381.6**	525.3	27%
30+ Arrears	($m)	**523.0**	600.7	13%
90+ Arrears	($m)	**270.8**	346.6	22%
Collective Provision & General Reserve Credit Loss / RWA [1]	bps	**110**	139	(29bps)

(1) The General Reserve for Credit Loss is grossed up for tax effect.

Loan impairment expense improved significantly over the year to $114.6m, a 71% reduction on the prior year which saw a significant review of the Retail and Commercial portfolios. The full year result reflects the improved credit management practices implemented and a tighter risk appetite framework. The full year loan impairment expense to gross loans and advances ratio reduced to 32bps (2012: 116bps) and was within the disclosed 2013 management target of 28-34 bps.

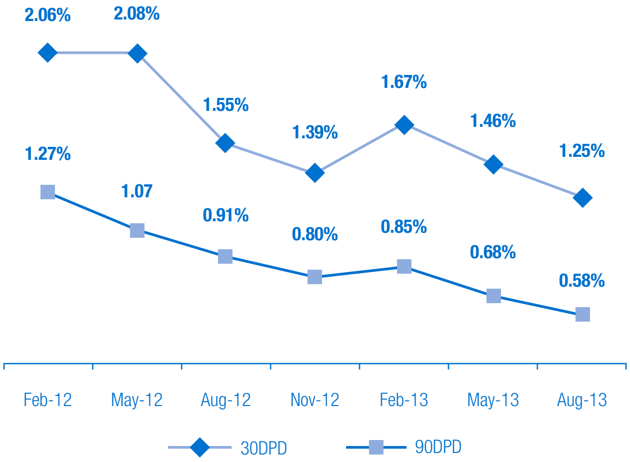
Impaired assets reduced by $143m (27%) over the year with both a reduction in new impaired assets and improved realisation performance. Significant realisations have been achieved in the large impaired exposures and solid momentum is continuing in the realisation profile of those remaining.

Impaired Assets ($m)



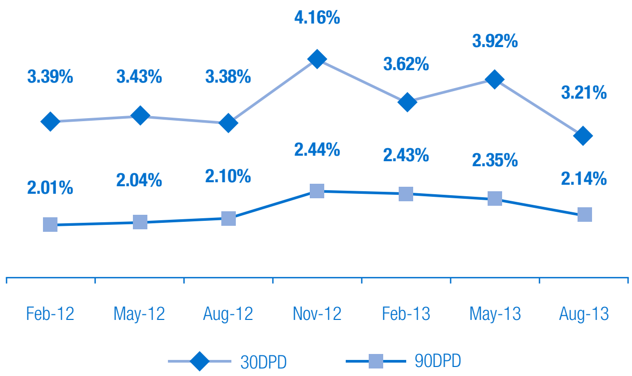
Retail arrears performance has continued to trend favourably this financial year with a 30bps and 33bps decrease on the respective 30+ and 90+ arrears positions. This reflects the implementation of improved collection and recovery procedures and has also been assisted by historically low interest rates. In January 2013, APRA sought to standardise industry practices on arrears reporting around hardship accounts. As a consequence, hardship variation accounts are now included in arrears reporting and the impact of this change on the Bank's retail arrears position at 31 August 2013 was 13bps and 5bps on respective 30+ and 90+ arrears positions.

Retail Arrears



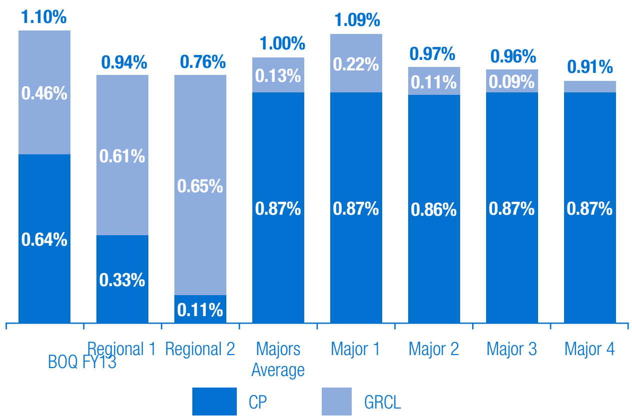
Commercial 30+ arrears have improved by 17bps over the year while 90+ have remained relatively static. Trading conditions for small business remains challenging, however early intervention of deteriorating loans has provided improved success in the ability to pursue early workout / exit strategies.

Commercial Arrears



There has been a reduction in the collective provision of $55m (29%) over the year driven predominantly by a migration of lower rated accounts (identified in the Asset Quality Review) to impaired status in the first half. The improving retail arrears position combined with the external refinancing of a number of poorly rated commercial accounts has also contributed to the lower collective provision. The Bank's collective provisioning (including general reserve for credit loss) levels remain at a premium compared to peers.

Collective Provision & General Reserve for Credit Losses / Risk Weighted Assets vs Peers



Note: RWAs of Majors and Regional bank's are not comparable due to the major banks' advanced regulatory accreditation.

Tax Expense

Corporate tax expense for the full year increased to $90m, representing a 32.6% tax rate. The effective tax rate is above the Australian company tax rate of 30%, primarily as a result of the non-deductibility of CPS interest and intangibles amortisation.

Divisional Performance

The Bank operates two segments, banking and insurance.

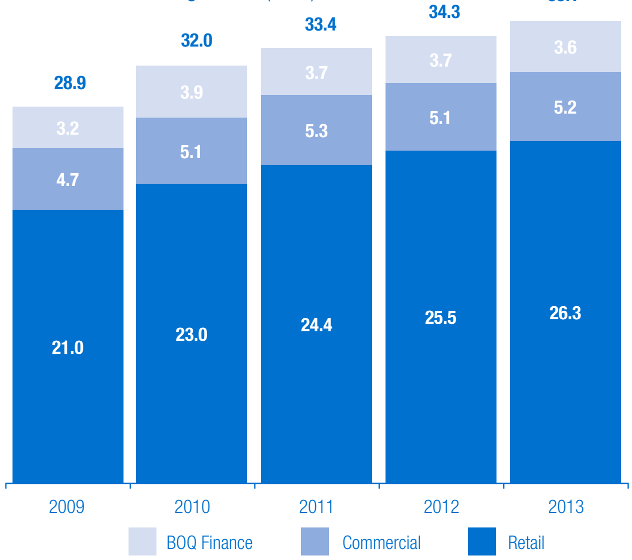
St Andrews Insurance experienced a slight reduction in segmental profit after tax to $19.2m. Gross Written Premium (net of refunds) reduced by 4% which reflects a lower volume of new policy sales driven by a slowing in housing credit growth.

The slight decrease in the underwriting result of 1% over the full year reflected higher acquisition costs offset by lower claims. Other insurance income reduced with lower yields on the cash based Investment portfolio which is consistent with the 100 basis point decline in the Reserve Bank cash rate over the year.

Review of Assets and Liabilities

Loans under management of $35.1bn (net of specific provisions) represented growth of 2.3% over the year. The Bank continued to fund asset growth from customer deposits with retail deposits now representing 62% of total funding (2012: 59%).

Loans Under Management ($bn)



Housing Lending

Housing lending increased by 3% to $26.3bn over the year. Growth continues to be prudently managed within a tighter risk framework and the new credit decisioning behavioural scorecard for mortgage originations.

The Bank continued to actively reduce over concentration to its Line of Credit product reducing its exposure by $700m (16%) over 2013 to $4.2bn at year end. This has reduced the Line of Credit from 22% of the portfolio two years ago to 16% as at August 2013. Excluding the Line of Credit reduction, the growth rate in Housing would have been 5.6% and 1.1x System.

The Bank continues to pursue geographic diversification of the portfolio. The mortgage broker offering in WA has now been extended to NSW with a view to national rollout on a measured basis. The Bank's brand refresh was launched nationally in May 2013 which has raised national brand awareness by 7%. A new simplified housing loan product was launched in September 2013. These initiatives are expected to support greater market penetration through the Bank's broadening channel presence.

Commercial Lending

Commercial lending increased to $5.2bn over the year. The portfolio continues to manage run-off in legacy portfolios deemed to be outside the Bank's amended risk appetite with realisation of impaired assets totalling $0.3bn during the year. Excluding this, Commercial lending growth was 7.5%, which was 3.6x system, This reflects investment in a renewed relationship banking team and execution of the targeted customer acquisition strategy.

The Bank continues to invest in developing its Agribusiness capability with seven new Agribusiness centres having been opened. Business banking continues to focus on cross-sell opportunities into financial markets, leasing and transactional banking.

BOQ Finance

BOQ Finance asset levels were $3.6bn, which is a positive result considering the contraction that is occurring across the industry. The business maintains leading capability in general equipment, debtor, vendor and dealer finance. A focus on selling in the retail and business banking channels of BOQ is expected to deliver above system growth going forward.

Funding

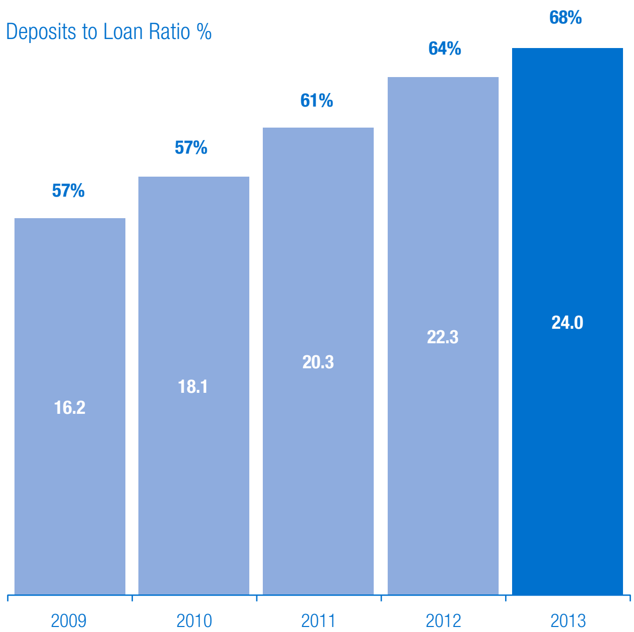
Significant progress was made over the last twelve months in strengthening the balance sheet, creating a sustainable funding profile and improving capital generation. This progress was reflected in ratings agency Standard & Poor's upgrading BOQ's long-term credit rating from "BBB+" to "A-". This is the first time the Bank has held an "A" category rating in its history.

The Bank has continued to actively manage its wholesale maturity profile over the year. With the Bank successfully completing the repurchase of $1.2bn of Government Guaranteed liabilities, there are no significant refinancing towers in the Bank's wholesale liquidity profile until March 2015.

In the year, retail deposits increased by $1.7bn for an annual increase of 8% and more than fully funding loan growth for the year. The Deposits to Lending ratio has increased by 4% and at 68% remains comfortably within an operating range of 65-70%, appropriate for the Bank's balance sheet mix. The recent rating upgrade will provide further opportunity to improve the diversification and stability of the Bank's liability base.

Retail Deposits ($bn)

Deposits to Loan Ratio %



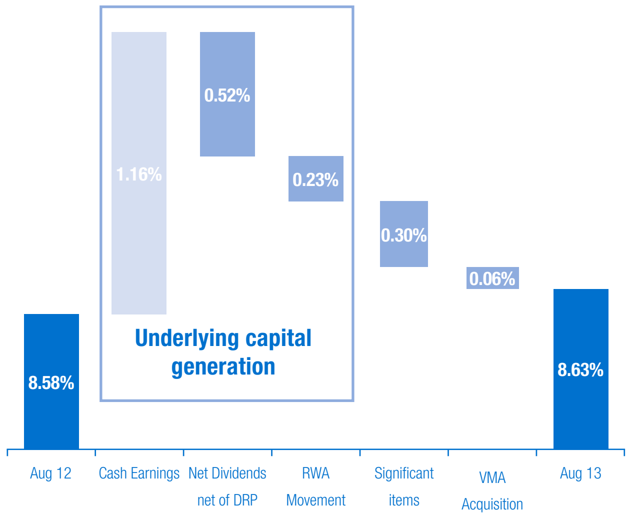
Capital

The Bank continued to strengthen its Capital levels over the course of the year. Common Equity Tier 1 increased to 8.63% from 8.58% in August 2012. The Bank's cash earnings generated enough organic capital to support dividends and risk weighted asset growth. Although risk weighted asset growth was subdued due to slow credit growth and the impact of securitisation, the chart below demonstrates that the Bank's earnings are capable of supporting much higher levels of asset growth.

In December 2012, the Bank successfully raised approximately $300 million of CPS including an exchange of approximately $180 million PEPS that were reinvested into CPS. The CPS qualify as Additional Tier 1 capital under the Basel III capital adequacy framework, which took effect 1 January 2013.

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

Common Equity Tier 1 Ratio - Full Year 2013



(1) Other includes $3m of restructuring which has been taken to statutory profit in the second half, a decrease in the available for sale reserve of $9m due to the sale of bonds and a decrease in the cash flow hedge reserve of $9m due to upward sloping yield curve.

Basel III Capital Changes

Effective 1 January 2013 the Basel III framework came into effect. The key impacts on the Bank's August 2013 capital position are as follows:

- Changes to instruments qualifying as what is now referred to as "Additional Tier 1 Equity". These changes effectively precluded Innovative Tier 1 instruments from qualifying as Common Equity Tier 1. Further conditions were implemented in determining qualification as Additional Tier 1 instruments and these included introduction of "Non-Viability" clauses. Transitional relief is available for instruments issued prior to the announcement of the proposed changes to regulations. The Bank was granted transitional relief in respect of the existing Perpetual Equity Preference shares ("PEPS"). These instruments were largely exchanged for Convertible Preference shares ("CPS"), qualifying as Additional Tier 1 capital and the residual PEPS were redeemed on 15 April 2013;
- Changes to instruments qualifying as Tier 2 Capital. These changes included introduction of "Non-Viability" clauses. Transitional relief on existing instruments has been approved by Australian Prudential Regulation Authority ("APRA") and this relief effectively provides a cap for existing issues that amortises the eligible amount over a 10 year period. Currently the Bank has a $17m excess of Tier 2 issues relative to the cap, hence existing issues should remain effective under the transitional relief;
- Regulatory deductions previously were deducted 50% from Tier 1 capital and 50% from Tier 2 capital and are now deducted 100% from Common Equity Tier 1. The major impact on the Bank is that the deduction for investment in non-consolidated subsidiaries (i.e. subsidiaries outside the Banking regulated group, including its investment in St Andrews Insurance) is now fully deducted from Common Equity Tier 1;
- Dividends no longer need be deducted from Common Equity Tier 1 until declared. Previously they were deducted on an accrual basis net of expected dividend reinvestment;
- Asset Revaluation Reserves previously were included as Tier 2 capital though limited to 45% of those reserves. Under the new regulations, they are Common Equity Tier 1 capital to their full extent. The Bank has some credit in its Available for Sale reserve relating to Banking Book assets that qualify now as Common Equity Tier 1 though the amounts represent less than 6bps of capital; and
- Changes to the General Reserve for Credit Losses ("GRCL") allow for qualifying collective provisions to be grossed up for tax whereas previously they were treated net of tax. The deferred tax asset relating to these provisions must now be deducted from Common Equity Tier 1.

Liquidity

The Bank continues to maintain a strong liquidity position holding $5.3bn of high quality liquid assets at August 2013. This is a substantial premium over the Bank's short term funding and provides a material buffer in the event of market dislocation.

The Bank also maintains significant secondary holdings through its on balance sheet securitisation structure of more than $2.3bn currently established for immediate access in a crisis scenario. Significant further liquidity would be available with the majority of the Bank's retail lending assets eligible to be placed as collateral into the structure.

Shareholder returns

Statutory diluted earnings per share have increased to 57.2 cents per share for the year 31 August 2013, compared to the prior year loss per share of 10.2 cents.

The increase in diluted earnings per share is largely a result of decreased loan impairment charges and improved underlying performance for the year compared to the prior year.

Dividends

The Board announced an increase in the final dividend to 30 cents per share. This takes the full year dividend to 58 cents per share and represents an increase of 12% on the prior year.

All the dividends paid or declared by the Bank since the end of the previous financial year were fully 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 2013, is $106.2 million credit calculated at the 30% tax rate (2012: $124.9 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.

Director and Management changes

Neil Summerson retired as Chairman on 28 May 2013 and as a Director on 30 July 2013 and John Reynolds retired from the Board on 13 December 2012. Roger Davis was appointed Chairman at 28 May 2013 and Neil Berkett also joined the Board on 30 July 2013.

During the year, Karyn Munsie (Corporate Affairs, Investor and Government Relations), Julie Bale (Chief Information Officer) and Brian Bissaker (CEO, Virgin Money Australia) were appointed to the Executive Team.

Acquisitions

The Bank completed the acquisition of Virgin Money (Australia) Pty Ltd on 30 April 2013.

Series 2012-1E REDS Trust was opened on 15 November 2012.

Series 2013-1 EHP REDS Trust was opened on 17 May 2013.

Series 2013-1 REDS Trust was opened on 26 July 2013.

Refer to Note 31 of the financial report for further information.

Disposals

Series 2005-1 REDS Trust was closed on 12 February 2013.

Refer to Note 31 of the financial report for further information.

Events subsequent to balance date

Dividends have been declared after 31 August 2013, refer to Note 7. The financial effect of this transaction has not been brought to account in the financial statements for the year ended 31 August 2013.

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.

REMUNERATION REPORT

Introductory Message

In 2013 the Chairs of the Board and the Human Resources and Remuneration Committee met with a number of BOQs shareholders and their representatives. Following feedback concerning the value of further commentary to the Remuneration Report this introduction seeks to provide further context for 2013 remuneration.

In 2011/12 the Board agreed that with the flow on effects of the Global Financial Crisis, natural disasters particularly in Queensland and an outlook for slower economic growth, a different senior management team was required for a different economic environment and in order to maximise the performance of BOQ for shareholders.

In the period since then the Board has recruited a Managing Director ("MD") (Stuart Grimshaw) in 2011 and through him a substantially new executive team. The majority of this recruitment has come from major financial institutions including the big four bank's with additional remuneration cost implications. Whilst we have recognised BOQ is smaller than a number of these institutions, the philosophy underpinning our strategy is that we compete directly with these entities for customers and executive talent. Further that the value to be added for shareholders by recruiting the best executives we could attract is well in excess of the associated cost increase and that we will manage total Bank costs.

The broad approach adopted in executing this strategy has been:

- non-payment of bonuses to departing executives (exceptions to this have been contractual obligations in one case for the previous 2012 year and in the 2013 year departure of a senior executive where his role was made redundant);
- no up-front cash payments for new recruits. Payment of compensation for any short or long term incentives forgone at previous employers have been made by way of equity for varying periods and with varying hurdles based on a discounting of the benefits forgone. In the case of two senior executives we deferred the issuance of equity until their potential had been confirmed;
- structuring of the new executives packages with approximately one third fixed and two thirds at risk with the at risk portions of Short Term Incentives ("STI") and Long Term Incentives ("LTI") being approximately one third of the total package each;
- capping the STI awards, including a Net Profit After Tax ("NPAT") gateway hurdle, incorporating performance levels and providing 50% two year deferrals which for Key Management Personnel ("KMP") is into restricted stock (restricted share plan subject to shareholder approval);
- express involvement of the Chief Risk Officer providing feedback concerning risk behaviours during the year;
- capping the LTI scheme which has Total Shareholder Return ("TSR") vesting hurdles;
- providing for claw back on deferred STI and unvested LTI with complete Board discretion; and
- Board discretion for KMP also extends to the final determination of STI and LTI awards for all Responsible Persons (as defined by CPS510 *Governance for ADIs*) where consideration is given to a number of factors not specifically covered in an individual executives Key Performance Indicators ("KPIs"), for example TSR.

In 2013 the Human Resources and Remuneration Committee determined that following more than 12 months service and a general view of strong performance we should undertake a full review of the MDs remuneration arrangements. Formal advice was taken from the Board Remuneration advisor and this was further checked with two other independent experts. The Board subsequently agreed to the following changes for 2014:

- an increase in the MDs fixed pay from $1.25m per annum to $1.35m per annum from the 1 September 2014 financial year;
- an increase in the MDs target STI from 67% of fixed pay to 90% in line with independent advice with the added definition of "target" being broadly defined as the approved business plan including both financial and non-financial measures which must include a level of stretch;
- A reduction in the MDs maximum STI awardable from 160% to 150% of fixed remuneration;
- Deferral of 50% of the MDs STI into restricted equity vesting over a 2 year period. This applies to all KMP once the full STI award is greater than $100,000. (The issuance of restricted shares will require appropriate shareholder approvals);
- Confirmation of the LTI award cap at 100% of fixed pay for Performance Award Rights; and
- Retention of clawback on deferred STI and unvested LTI with complete Board discretion.

As part of its role the Human Resources and Remuneration Committee has also reviewed remuneration for:

- significant movement in individual remuneration below the senior executive level;
- total remuneration cost to BOQ;
- moderation of performance rankings and payments;
- spread of performance rankings and payments; and
- remuneration equity by gender.

Specifically with regard to the 2013 remuneration review:

Fixed remuneration increases have been restricted to those cases where it was felt material misalignment existed following independent advice. In the KMP group three individuals including the MD will receive fixed pay increases.

2013 has been a challenging year for the Board to determine appropriate levels of STI for its senior executives specifically and for the Bank generally. Whilst each KMP has financial and personal performance indicators and these are scored, weighted and aligned to the relevant STI performance level, the Board has complete discretion and overlay on formulaic results. In determining this overlay we are conscious that realignment of the Bank for the new environment may take several years to demonstrate differentiated value for shareholders. Having said this the profit result has been strong in comparison with a poor 2012 and with the 2013 budget. Further, whilst the Cost to Income ratio is very close to budget there has been meaningful improvement as compared to the 2012 year. In 2013 considerable KMP time has been taken in strengthening the Bank's processes and systems. This work together with a strengthening of the Balance Sheet and a return to improved levels of profitability has seen the Bank's credit rating go from negative watch to an upgrade from BBB+ to single A- and acts as a good indicator of the general health of the business. Finally the committee considered both the total return derived by shareholders in the 2013 financial year (TSR) and the increase in market value of the Bank. In the current financial year the TSR equated to 34.3% compared to 16.7% for the 2012 year. Additionally the market capitalisation increased from $2.3bn to $3.1bn during the 2013 year. Consideration of these factors resulted in the Human Resources and Remuneration Committee moderating awards calculated by the STI formula.

LTI has been awarded within the scheme's caps and based on potential and retention. We have noted that the majority of the executive team have been with the Bank for less than two years and in general feel this is a strong executive group capable of generating solid returns for shareholders. Accordingly we have awarded PARs at 100% and DARs up to 15% of fixed remuneration.

The pages which follow as part of the Board's Remuneration Report reflect the above context for remuneration and meet our disclosure obligations as required by the Corporations Act. In an attempt to make the report more readable we have shortened it this year in the hope that shareholders will find the information more understandable. In future years we will continue to take feedback from shareholders and their representatives.

DAVID WILLIS

CHAIRMAN OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

2013 REMUNERATION REPORT - AUDITED

This Remuneration report is prepared for consideration by shareholders at the 2013 Annual General Meeting of the Bank. It outlines the overall remuneration strategy, framework and practices adopted by the Consolidated Entity for the period 1 September 2012 to 31 August 2013 and has been prepared in accordance with Section 300A of the Corporations Act 2001 and its regulations.

Contents

1. 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 the Consolidated Entity.

The KMP for the financial year ended 31 August 2013 are as follows:

(i) Directors

Current	
Roger Davis	Chairman (Non-executive)
Stuart Grimshaw	Managing Director and Chief Executive Officer
Steve Crane	Director (Non-executive)
Carmel Gray	Director (Non-executive)
Michelle Tredenick	Director (Non-executive)
David Willis	Director (Non-executive)
Richard Haire	Director (Non-executive)
Neil Berkett	Director (Non-executive) (appointed 30 July 2013)
Former	
Neil Summerson	Retired as Chairman (Non-executive) on 28 May 2013 and as a Director on 30 July 2013
John Reynolds	Retired as Director (Non-executive) on 13 December 2012

(ii) Executives

Current	
Jon Sutton	Chief Operating Officer
Anthony Rose	Chief Financial Officer
Peter Deans	Chief Risk Officer
Brendan White	Group Executive, Business Banking, Agribusiness & Financial Markets
Matthew Baxby	Group Executive, Retail and Online Banking
Karyn Munsie	Group Executive, Corporate Affairs, Investor Relations & Government Relations (appointed 19 November 2012)
Julie Bale	Chief Information Officer (appointed 17 December 2012)
Brian Bissaker	Chief Executive Officer, Virgin Money (appointed 30 April 2013)
Former	
Chris Nilon	Group Executive, IT & Operations (until 20 December 2012)
Renato Mazza	Group Executive, Insurance (until 27 February 2013)

2. Remuneration Governance

The Human Resources & Remuneration Committee makes recommendations to the Board on remuneration policies and Directors' and executives' remuneration (which includes the Company Secretary). This Committee considers remuneration issues regularly and obtains advice from external independent remuneration specialists to assist in its deliberations.

Under the Consolidated Entity's Human Resources & 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 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 Australia Prudential Regulation Authority ("APRA") as KMP or Responsible Persons;
- Review and provide recommendations to the Board on the remuneration for all remaining groups of employees not otherwise specified; and
- Consider and approve Non-Executive Director ("NED") remuneration, including ensuring that the structure of NED remuneration is clearly distinguished from senior executives.

The Human Resources & Remuneration Committee has undertaken to ensure that the Remuneration Policy continues to adequately support the Consolidated Entity's overall risk management framework. This has resulted in a review of the STI policy being conducted during FY 2013, as well as the introduction of STI deferral into restricted shares for all KMP from the FY 2013 award (subject to shareholder approval). The Human Resources & Remuneration Committee meets at least six times per year and in the 2013 financial year nine meetings were held.

2.1 Use of External Advisors and Remuneration Consultants

Where necessary, the Board seeks advice from independent experts and advisors including remuneration consultants. Remuneration consultants are engaged by and report directly to the Human Resources & Remuneration Committee which ensures, upon engagement, that the appropriate level of independence exists from the Consolidated Entity's management. Where the consultant's engagement requires a recommendation, the recommendation is provided to, and discussed directly with the Chairman of the Human Resources & Remuneration Committee to ensure management cannot unduly influence the outcome.

During the year, the Board paid an amount of $60,060 to Egan Associates in respect of remuneration advice covering a number of remuneration related issues including benchmarking and determination of pay for the MD and KMPs. Egan Associates provided no advice directly to management. The Board is satisfied that remuneration advice made during the year are free from undue influence by members of KMP to whom the advice relate.

3. Remuneration Policy

The remuneration arrangements for the Consolidated Entity employees are designed to be competitive in each of the markets in which it competes for talent and to 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. The Human Resources & 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.

4. Executive Remuneration Framework

The remuneration structure in place for the KMP (including the MD) is consistent with the Consolidated Entity's Remuneration Policy and is based on a total remuneration approach comprising an appropriate mix of fixed (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.

4.1 Current remuneration framework

Total remuneration for the KMP (including the MD) consists of the following three components:

- fixed remuneration;
- short term incentives - at-risk remuneration consisting of cash and equity; and
- long term incentives - at-risk equity remuneration.

4.2 Fixed remuneration

The KMP (including the MD) 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 at least annually, with reference to market data provided by remuneration consultants, to ensure that it has regard to remuneration within the financial services sector and those organisations serving similar customers. There was no increase to fixed remuneration for all KMP in FY 2013.

KMP's fixed remuneration is set out in Table 10 of this report.

2013 REMUNERATION REPORT (CONTINUED)

4.3 Short term incentive - At-risk cash remuneration

KMP, Responsible Persons and Senior Management participate in the 2013 STI Plan under which the participants receive payments in accordance with specified quantifiable results and within appropriate risk management parameters. The short term incentive links individual performance with that of the Consolidated Entity. It is designed to ensure that the participants have a performance focussed work environment whilst exercising an appropriate level of risk.

Business objectives and the STI Plan design features are reviewed annually by the Human Resources and Remuneration Committee prior to the commencement of the plan year. Adjustments to the STI Plan have been made in FY 2013 to ensure the inclusion of consistent KPIs from the Executive team down throughout the Consolidated Entity, as well as improved alignment between the business objectives going forward, and individual KPIs of the MD and Executive team.

The Board has also reviewed the newly implemented deferral mechanism and determined that (subject to appropriate shareholder approvals) deferral for the KMP (including the MD) will be into shares subject to restrictions on disposal from the FY 2013 STI award. The restricted shares will deliver the participants dividends, but also provide an additional incentive to act in the shareholder's long-term interest over the deferral period. The decision to release deferrals will be at the complete discretion of the Board and it may request advice from the CRO.

The target award for each participant is stated as a percentage of total fixed remuneration. For the 2013 STI Plan, the STI opportunity ranges are as follows:

MD	0 – 150%
COO,GE Business Banking, Agribusiness & Financial Markets, GE Retail and Online Banking, GE Virgin Money	0 – 140%
CRO & CFO	0 – 100%
Other KMP	0 – 100%

Table 1 provides an overview of the 2013 STI plan.

Table 1	***2013 STI Plan***
2013 STI Plan	The 2013 STI Plan is an incentive plan under which participants have the opportunity to receive amounts in cash and equity, having regard for quantifiable results achieved within appropriate risk management parameters.
Participants	KMP (including the MD), 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 less senior participants.
Link between performance and award	The performance hurdles for the KMP include: • The Consolidated Entity's performance against target NPAT; • The Consolidated Entity's cost to income ratio; • Individual performance criteria; and • Adherence with the Consolidated Entity's risk framework and expected behaviours. **Net Profit After Tax** The NPAT hurdle is included as it is a direct and transparent measure of the financial performance of the Consolidated Entity. As the level of NPAT increases, the quantum of STI payable in respect of the NPAT component increases. NPAT also acts as a gateway for the other performance measures in the STI. Achievement of a threshold of 90% of target NPAT will enable payment under the other measures based on performance against each specific measure. If performance does not meet the NPAT threshold, no payment will be made in respect of the NPAT hurdle and payments under the other measures will be at the sole discretion of the Board. In exercising this discretion the Board will have regard for a range of factors including performance against the specific measures and TSR over the period. **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 measure within the STI to assist in driving cost management and discipline and align participants with the financial growth of the Consolidated Entity. This measure directly aligns with the operational excellence component of the Consolidated Entity's strategy.

2013 REMUNERATION REPORT (CONTINUED)

4.3 At-risk cash remuneration (continued)

Table 1	*2013 STI Plan*
Link between performance and award (continued)	**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. These measures are selected to reflect the Consolidated Entity's short-term and long-term strategy. The KPIs for each participant are reviewed and moderated, where necessary by the Human Resources and Remuneration Committee. **Risk framework and expected behaviours** Participants are expected to demonstrate behaviours that reflect values and objectives of the Consolidated Entity as approved by the Board, including adherence with the Consolidated Entity's overall risk framework. The STI continues to include specific risk KPI's designed to ensure specified quantifiable results are achieved within appropriate risk management parameters. The risk framework includes individual risk KPI's and 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.
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 KMP (including the MD), the deferral is into restricted shares (subject to shareholder approval) for a period of 2 years (50% vesting at the end of year 1 and 50% at the end of year 2). Restricted shares are ordinary BOQ shares held by a trustee on behalf of participants and subject to disposal restrictions and eligible for receipt of dividends. The Board determined that delivery in equity would further align the KMP with shareholders. The restricted shares will be released to the individual at the end of the deferral period subject to continued employment and the Board determining that no "claw-back" events have occurred. The KMP are entitled to receive dividends on the restricted shares and have shareholder voting rights. The Board retains discretion to determine what constitutes a "claw-back" event but such events can include breaches of risk KPI's and instances where there has been a material misstatement in the financial statements.
Forfeiture	The STI award, including any outstanding deferred portion, is to 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 Board retains discretion over the restricted share clawbacks. The MD's restricted shares will lapse on termination of employment other than in instances where he is terminated after a Fundamental Change in his role or is terminated on notice. Under these circumstances, the restricted shares will be held and vest according to their vesting schedule. The deferred portion of a MD / KMP STI award may also be forfeited where the Board determines that risk conditions have not been met during the deferral period. Advice may be sought from the CRO in making this determination.

4.3.1 Performance against STI awarded

The STI awarded in FY 2013 was determined on the basis of the Consolidated Entity's performance, the individual executive's performance and TSR over the financial year ended 31 August 2013, and are therefore deemed to be attributable to that financial year, although payment will not occur until October 2013 and beyond for the deferred portion of STI. In considering the Consolidated Entity's performance for the FY2013 STI plan, the Board had regard to the following:

	2013	2012	2011	2010	2009
Statutory net profit/(loss) after tax	**$185.8m**	$(17.1m)	$158.7m	$181.9m	$141.1m
Cash net profit after tax	**$250.9m**	$30.6m	$176.6m	$197.0m	$187.4m
Cash diluted earnings per share	**76.0c**	7.9c	66.7c	83.4c	98.4c
Cash profit before bad debts	**$477.4m**	$443.5m	$447.4m	$379.0m	$315.0m
Cash cost to income ratio	**44.3%**	45.7%	44.5%	45.8%	49.9%
Share price	**$9.60**	$7.55	$7.48	$9.83	$11.65
Dividends paid	**$179.9m**	$151.7m	$125.7m	$120.8m	$120.2m

The Board reviewed the Consolidated Entity's performance, and the performance of the MD and each KMP against individual KPIs (gateway, financial and non-financial) agreed for each role. The Board discussed all of these inputs with a balance between actions and shareholder returns. During the year, the Consolidated Entity improved its cash profit before bad debt by 8%, cost to income ratio reduced by 1.4%, earnings per share increased by 862%, bad and doubtful debt reduced by 71% and its statutory net profit after tax improved by 1187% The share price increased from $7.55 at the beginning of the year to $9.60 at the end of the year. During the 12 months to 31 August 2013, the cash earnings return to shareholders was 9.4%.

Based on this the STI award for the MD was paid at 75% of opportunity. The KMP were paid at between 45% and 75% of STI opportunity. All STI awards are pro rata based on length of service during the 12 month period.

2013 REMUNERATION REPORT (CONTINUED)

4.4 At-risk equity remuneration

The Board reviews 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 MD, participate in the 2013 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 2013 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.

Table 3 provides an overview of the 2013 DARs Plan.

The maximum LTI award for each KMP participant is stated as a percentage of the executive's total fixed remuneration. For the 2013 LTI Plan the Board worked to a maximum face value of 15% of fixed remuneration for DARs and 100% of fixed remuneration for PARs.

In FY 2013, all KMP participating in the LTI plan received PARs, subject to the TSR hurdle outlined in Table 2, and a smaller number of DARs. The MD received only PARs under the 2013 Awards Rights Plan.

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.

The 2008 PARs tested in October 2011 did not vest at all, the 2009 PARs which were tested in October 2012 vested at 50%.

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 (PARs)***
2013 PARs Plan	Grants of PARs are made to KMP (including the MD) and other identified key senior executives 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.
Participants	MD, KMP and other identified key senior managers.
Link between performance and award	PARs vest based on the Consolidated Entity's 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 trusts, 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 reward for executives where they outperform peers.
Vesting schedule	One half of an employee's PARs vest if the Consolidated Entity's TSR performance over the 3 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.
Performance period	The performance period is 3 years.

2013 REMUNERATION REPORT (CONTINUED)

4.4 At-risk equity remuneration (continued)

Table 2	***Performance Award Rights***
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 at the Boards option 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 ("OMB"), 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 with Board approval. 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***
2013 DARs Plan	Grants of DARs are generally awarded to a broader group of employees and are designed to promote employee retention and productivity. A small number of DARs were granted to KMP (other than the MD) as part of the LTI arrangements during FY 2013.
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. The vesting conditions for DARs include continued employment with the Consolidated Entity and meeting risk parameters.
Vesting schedule	DARs granted during FY2013 vest proportionately over 3 years in the ratio of 20% (end Year 1), 30% (end Year 2) and 50% (end Year 3).
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 OMB, retirement, redundancy, death, total and permanent disablement. Otherwise, unvested DARs will lapse on cessation of employment.

2013 REMUNERATION REPORT (CONTINUED)

4.4.1 Vesting of LTI in FY2013

PARs or DARs that were granted under the LTI in prior years vested during the current financial year in line with the relevant award rights plans.

4.5 Historical Equity Plans

The Consolidated Entity has a legacy Senior Manager Option Plan ("SMOP"). No grants were made under the SMOP in FY 2013, however a brief explanation has been included in the report due to options under the SMOP remaining on issue during part of FY2013.

Each option under the SMOP 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 the SMOP was conditional upon the Consolidated Entity achieving specific performance hurdles relating to diluted EPS growth of the Consolidated Entity.

On 1 November 2012, all outstanding options under the SMOP lapsed such that there are no longer any outstanding options under the SMOP as at 31 August 2013.

5. Non-Executive Director Remuneration Framework

NEDs fees are set based upon the need to attract and retain individuals of appropriate calibre. Fees are reviewed annually by the Human Resources and Remuneration Committee having 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, NEDs do not receive any performance related remuneration.

Fee Pool

NED 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.

There was no increase in directors' fees for the 2013 financial year and the prior financial year as the Board wanted to see an improved performance for shareholders before requesting an increase.

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 NEDs fees comprise:

Directors' Annual Fees	Chairman $	Members/ Directors $
Fixed component of remuneration for Directors (1)	-	135,000
Chairperson (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 (3)	15,000	10,000
Human Resources and Remuneration Committee	25,000	10,000
Nomination Committee (3)	-	6,000
Budget Committee	2,250	1,500(4)
Investment Committee	2,250	1,500(4)
Due Diligence Committee	2,250	1,500(4)
Information Technology Committee	20,000	10,000

(1) Committee members received one fee for serving on both the Bank and the subsidiary committees. During the financial year the St Andrew's committee was established and separate fees were received for serving on the Bank and St Andrew's committees.
(2) The Chairman receives no additional remuneration for involvement with committees.
(3) During the financial year the Corporate Governance Committee and Nomination Committee merged into one committee - Nomination and Governance Committee.
(4) Per deliberative meeting.

Equity Participation

NEDs do not receive shares, award rights or share options.

Retirement Benefits

NEDs are no longer provided with retirement benefits apart from statutory superannuation. The accumulated value of NED retirement benefits was frozen effective from 31 August 2003. The balance of the accrued benefits was increased annually by an amount equivalent to the increase in CPI. The balance of the accrued benefits is nil at 31 August as the final benefit was paid this financial year.

6. Remuneration disclosures

The MD and KMP receive a mix of cash, deferred equity and long term incentives which is tested over the following three years, depending on service and performance. To assist shareholders in understanding the actual amount of remuneration an executive received in the financial year in review, the Board has again included in the remuneration disclosures a table that provides a summary of the remuneration that the MD and KMP actually received in relation to the 2013 financial year.

6.1 Non-Statutory remuneration disclosure

The tables below sets out:

- fixed remuneration (base remuneration, fringe benefits and employer superannuation contributions);
- variable cash remuneration (split between the portion of the 2013 STI paid in October 2013 and excluding the portion of the STI deferred until FY 2014 and FY 2015);
- Other benefits and termination benefits; and
- the value of previous years' long term incentive awards that vested during the 2013 financial year.

These are non-statutory disclosures. The statutory disclosures for the year ended 31 August 2013 are provided in Tables 6 to 9 and differ to these non-statutory disclosures.

2013 REMUNERATION REPORT (CONTINUED)

6. Remuneration disclosures (continued)

Table 4 Non-statutory disclosures - STI disclosure for the MD, current and former KMP in relation to the FY 2013

	STI at Target	Maximum STI Potential [1]	STI Paid [2]		STI Deferred Portion [3]	
	$	%	%	$	%	$
Current						
Stuart Grimshaw	1,125,000	150%	50%	703,125	50%	703,125
Jon Sutton	525,000	140%	50%	367,500	50%	367,500
Anthony Rose	331,250	100%	50%	213,750	50%	213,750
Peter Deans	318,000	100%	50%	210,950	50%	210,950
Brendan White	450,000	140%	50%	287,350	50%	287,350
Matthew Baxby	393,750	140%	50%	247,950	50%	247,950
Karyn Munsie	233,200	100%	50%	128,900	50%	128,900
Julie Bale	185,500	100%	50%	79,200	50%	79,200
Brian Bissaker	412,500	140%	50%	60,950	50%	60,950

Additional information – Non Statutory Remuneration Methodology

(1) The maximum STI is represented as a percentage of fixed remuneration. The minimum STI potential is zero.
(2) Represents 50% of the annual STI award payable as cash in recognition of performance for the year ended 31 August 2013.
(3) This represents 50% of the STI award that is deferred until 1 October 2014 (50%) and 1 October 2015 (50%). The deferred awards are subject to Board review at the time of payment and are deferred into restricted shares subject to vesting conditions.

Table 5 Non-statutory disclosures - Cash Remuneration received by the MD, current and former KMP in relation to the FY 2013

				Previous Years' Awards that Vested during 2013 [3]		Awards rights Forfeited / Lapsed during 2013 [4]
	Base plus superannuation $ [1]	2013 STI Performance $ [2]	Total Cash Payments in relation to the 2013 year $	Deferred Cash Awards $	Deferred Equity Awards $	LTI Awards $
Current						
Stuart Grimshaw	1,293,464	703,125	1,996,589	-	-	-
Jon Sutton	708,017	367,500	1,075,517	-	971,098	-
Anthony Rose	616,211	213,750	829,961	-	367,868	-
Peter Deans	609,028	210,950	819,978	48,500	-	-
Brendan White	600,098	287,350	887,448	-	685,887	-
Matthew Baxby	529,234	247,950	777,184	25,750	396,968	-
Karyn Munsie	361,780	128,900	490,680	-	-	-
Julie Bale	249,387	79,200	328,587	-	-	-
Brian Bissaker	190,298	60,950	251,248	-	-	-
Former						
Renato Mazza	183,811	-	183,811	30,000	42,620	(776,613)
Chris Nilon	116,245	-	116,245	-	51,151	(908,995)

(1) Base Remuneration and Superannuation make up an Executive's fixed remuneration.
(2) This is the 50% of the 2013 STI for performance during the 12 months to 31 August 2013 (payable October 2013). The remaining 50% is deferred into restricted shares, 50% released at 12 months and 50% released at 24 months subject to approval of the Board.
(3) The value of all deferred cash (to be paid in October 2013) and / or equity awards (closing share price on vesting date) that vested during 2013 financial year. This includes the value of the award that vested, plus any interest and / or dividends accrued during the vesting period. This excludes deferred equity awards granted in previous years which have not vested in FY13.
(4) The value of any deferred cash and / or equity awards (closing share price on forfeited / lapsed date)that were forfeited / lapsed during the 2013 financial year.

2013 REMUNERATION REPORT (CONTINUED)

6.2 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 6 to Table 9 below may differ from those shown above in Table 4 and Table 5.

Table 6 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.

		Salary and fees $	STI at risk $	Short-term Non-Monetary benefits (1) $	Other cash benefits (2) $	Total $
Executive Director						
Stuart Grimshaw Managing Director	**2013**	**1,276,857**	**703,125**	**79,807**	**-**	**2,059,789**
	2012	1,040,972	484,000	80,907	520	1,606,399
Non-Executive Directors						
Steve Crane	**2013**	**161,379**	**-**	**-**	**-**	**161,379**
	2012	165,417	-	-	-	165,417
Roger Davis	**2013**	**250,429**	**-**	**-**	**-**	**250,429**
	2012	175,458	-	-	-	175,458
Carmel Gray	**2013**	**194,410**	**-**	**-**	**-**	**194,410**
	2012	207,750	-	-	-	207,750
Michelle Tredenick	**2013**	**187,000**	**-**	**-**	**-**	**187,000**
	2012	166,651	-	-	-	166,651
David Willis	**2013**	**172,717**	**-**	**-**	**-**	**172,717**
	2012	170,619	-	-	-	170,619
Richard Haire	**2013**	**214,875**	**-**	**-**	**-**	**214,875**
	2012	55,895	-	-	-	55,895
Neil Berkett (appointed 30 July 2013)	**2013**	**14,719**	**-**	**-**	**-**	**14,719**
Former Directors						
John Reynolds (retired 13 Dec 2012)	**2013**	**64,792**	**-**	**-**	**-**	**64,792**
	2012	218,208	-	-	-	218,208
Bill Kelty (retired 31 July 2012)	2012	137,500	-	-	-	137,500
Neil Summerson (retired 30 July 2013)	**2013**	**288,668**	**-**	**-**	**-**	**288,668**
	2012	355,000	-	-	-	355,000

(1) 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.

(2) This includes accrued annual leave paid out on retirement.

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

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

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

Post-employment [3]	Other long-term [4]	Termination benefits	Share based payments		Total	S300A (1)(e)(i) Proportion of remuneration performance related	S300A (1)(e)(vi) Value of options and rights as proportion of remuneration
			Rights[5]	Shares and units			
$	$	$	$	$	$	%	%
16,607	**3,389**	**-**	**526,996**	**292,969**	**2,899,750**	**53%**	**18%**
12,980	1,426	-	193,237	-	1,814,042	37%	11%
14,447	**-**	**-**	**-**	**-**	**175,826**	**-**	**-**
14,888	-	-	-	-	180,305	-	-
19,198	**-**	**-**	**-**	**-**	**269,627**	**-**	**-**
15,791	-	-	-	-	191,249	-	-
16,698	**-**	**-**	**-**	**-**	**211,108**	**-**	**-**
15,939	-	-	-	-	223,689	-	-
16,539	**-**	**-**	**-**	**-**	**203,539**	**-**	**-**
14,981	-	-	-	-	181,632	-	-
15,542	**-**	**-**	**-**	**-**	**188,259**	**-**	**-**
15,300	-	-	-	-	185,919	-	-
16,806	**-**	**-**	**-**	**-**	**231,681**	**-**	**-**
5,031	-	-	-	-	60,926	-	-
1,131	**-**	**-**	**-**	**-**	**15,850**	**-**	**-**
6,863	**-**	**1,415**	**-**	**-**	**73,070**	**-**	**-**
15,939	-	-	-	-	234,147	-	-
12,375	-	44,621	-	-	194,496	-	-
14,119	**-**	**178,045**	**-**	**-**	**480,832**	**-**	**-**
15,939	-	-	-	-	370,939	-	-

2013 REMUNERATION REPORT (CONTINUED)

Table 7 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.

		Salary and fees $	STI at risk [1] $	Short-term STI at risk deferred [2] $	Other cash benefits [3] $	Total $
Executives						
Jon Sutton [8]	**2013**	**691,410**	**367,500**	**-**	**49,808**	**1,108,718**
	2012	111,704	-	-	7,471	119,175
Anthony Rose [8]	**2013**	**599,604**	**213,750**	**-**	**-**	**813,354**
	2012	74,401	-	-	-	74,401
Peter Deans [8]	**2013**	**592,421**	**210,950**	**-**	**49,808**	**853,179**
	2012	243,026	97,000	97,000	20,881	457,907
Brendan White [8]	**2013**	**583,491**	**287,350**	**-**	**-**	**870,841**
	2012	244,371	179,000 [7]	-	-	423,371
Matthew Baxby [8]	**2013**	**512,627**	**247,950**	**-**	**-**	**760,577**
	2012	149,024	51,500	51,500	-	252,024
Karyn Munsie (appointed 19 November 2012)	**2013**	**349,022**	**128,900**	**-**	**-**	**477,922**
Julie Bale (appointed 17 December 2012)	**2013**	**238,396**	**79,200**	**-**	**-**	**317,596**
Brian Bissaker (appointed 30 April 2013)	**2013**	**184,860**	**60,950**	**-**	**-**	**245,810**
Former Executives						
Renato Mazza (until 27 February 2013)	**2013**	**175,355**	**-**	**-**	**-**	**175,355**
	2012	350,418	60,000	60,000	-	470,418
Chris Nilon (until 20 December 2012)	**2013**	**110,881**	**-**	**-**	**-**	**110,881**
	2012	349,526	67,500	67,500	-	484,526

(1) STI at risk reflects 50% of the amounts paid or accrued in respect of the year ended 31 August 2013. 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) The prior year figures variability are dependent on the executives start date and relate to part years.

Post-employment [4]	Other long-term [5]	Termination benefits	Share based payments		Total	S300A (1)(e)(i) Proportion of remuneration performance related	S300A (1)(e)(vi) Value of options and rights as proportion of remuneration
			Options and rights [6]	Shares and units			
$	$	$	$	$	$	%	%
16,607	**1,536**	**-**	**435,793**	**673,207**	**2,235,861**	**25%**	**19%**
2,461	158	-	78,577	132,798	333,169	-	24%
16,607	**1,350**	**-**	**301,402**	**171,416**	**1,304,129**	**26%**	**23%**
1,830	108	-	25,436	117,647	219,422	-	12%
16,607	**1,423**	**-**	**106,442**	**87,896**	**1,065,547**	**31%**	**10%**
6,695	356	-	31,104	-	496,062	39%	6%
16,607	**1,415**	**-**	**407,970**	**206,050**	**1,502,883**	**29%**	**27%**
6,151	340	-	185,530	213,680	829,072	22%	22%
16,607	**1,186**	**-**	**289,289**	**176,367**	**1,244,025**	**31%**	**23%**
4,337	207	-	87,543	126,947	471,058	22%	19%
12,758	**509**	**-**	**-**	**45,199**	**536,388**	**32%**	**-**
10,991	**361**	**-**	**14,496**	**25,740**	**369,184**	**28%**	**4%**
5,438	**277**	**-**	**5,155**	**11,972**	**268,652**	**27%**	**2%**
8,456	**-**	**259,066**	**(175,863)**	**-**	**267,014**	**-**	**(66%)**
15,823	5,112	-	148,563	-	639,916	42%	23%
5,364	**-**	**317,452**	**(47,525)**	**-**	**386,172**	**-**	**(12%)**
15,821	11,636	-	85,342	-	597,325	37%	14%

REMUNERATION REPORT – AUDITED (CONTINUED)

6.3 Equity held by the MD and KMP

The movement during the 2013 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 8 Movement in options and rights held by the MD and KMP during FY 2013

				Movements during the 2013 Financial Year								
KMP	Type	Grant Date	Share Price at Grant Date $	Balance at 1 September 2012	Granted [1]	Exercised	Lapsed	Balance at 31 August 2013 [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	-	-
	2012 DARs	18/12/2012	7.26	-	64,620	-	-	64,620	-	64,620	-	-
	2013 PARs	01/03/2013	9.13	-	166,933	-	-	166,933	-	166,933	-	-
Jon Sutton	2012 DARs	26/02/2012	7.48	62,687	-	31,344	-	31,343	-	31,343	50%	-
	2012 PARs	26/02/2012	7.48	74,627	-	-	-	74,627	-	74,627	-	-
	Restricted shares	26/02/2012	7.48	104,478	-	74,627	-	29,851	-	29,851	71%	-
	2012 DARs	18/12/2012	7.26	-	7,009	-	-	7,009	-	7,009	-	-
	2012 PARs	18/12/2012	7.26	-	56,075	-	-	56,075	-	56,075	-	-
Anthony Rose	2012 DARs	29/02/2012	7.34	30,030	-	-	-	30,030	15,015	15,015	50%	-
	2012 PARs	29/02/2012	7.34	75,075	-	-	-	75,075	-	75,075	-	-
	Restricted shares	29/02/2012	7.34	30,030	-	30,030	-	-	-	-	100%	-
	2012 DARs	18/12/2012	7.26	-	6,258	-	-	6,258	-	6,258	-	-
	2012 PARs	18/12/2012	7.26	-	50,067	-	-	50,067	-	50,067	-	-
Peter Deans	2012 PARs	10/05/2012	6.89	69,061	-	-	-	69,061	-	69,061	-	-
	2012 DARs	18/12/2012	7.26	-	6,173	-	-	6,173	-	6,173	-	-
	2012 PARs	18/12/2012	7.26	-	48,064	-	-	48,064	-	48,064	-	-
Brendan White	2012 DARs	10/02/2012	7.33	75,574	-	37,787	-	37,787	-	37,787	50%	-
	2012 PARs	10/02/2012	7.33	67,476	-	-	-	67,476	-	67,476	-	-
	Restricted shares	10/02/2012	7.33	40,486	-	40,486	-	-	-	-	100%	-
	2012 DARs	18/12/2012	7.26	-	6,258	-	-	6,258	-	6,258	-	-
	2012 PARs	18/12/2012	7.26	-	50,067	-	-	50,067	-	50,067	-	-
Matthew Baxby	2012 DARs	01/02/2012	7.44	36,982	-	-	-	36,982	18,491	18,491	-	-
	2012 PARs	01/02/2012	7.44	73,964	-	-	-	73,964	-	73,964	-	-
	Restricted shares	01/02/2012	7.44	29,586	-	29,586	-	-	-	-	100%	-
	2012 DARs	18/12/2012	7.26	-	5,257	-	-	5,257	-	5,257	-	-
	2012 PARs	18/12/2012	7.26	-	42,056	-	-	42,056	-	42,056	-	-
Julie Bale	2013 DARs	18/12/2012	7.26	-	8,010	-	-	8,010	-	8,010	-	-
Brian Bissaker	2013 PARs	14/05/2013	9.68	-	31,748	-	-	31,748	-	31,748	-	-

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

(2) Percentage of initial rights granted.

2013 REMUNERATION REPORT (CONTINUED)

6.3 Equity held by the MD and KMP (continued)

Table 8 Movement in options and rights held by the MD and KMP during FY 2013

				Movements during the 2013 Financial Year								
KMP	Type	Grant Date	Share Price at Grant Date $	Balance at 1 September 2012	Granted	Exercised	Lapsed	Balance at 31 August 2013	Vested and Exercisable	Non-Vested	Vested during the year (%) (1)	Forfeited during the year (%)
Former												
Chris Nilon	Options	01/11/2007	19.44	50,000	-	-	50,000	-	-	-	-	100%
	2009 DARs	24/12/2009	11.30	1,162	-	1,162	-	-	-	-	20%	-
	2009 PARs	24/12/2009	11.30	4,490	-	2,425	2,065	-	-	-	54%	46%
	2010 DARs	29/11/2010	11.45	2,733	-	2,176	557	-	-	-	64%	16%
	2010 May DARs	28/05/2010	11.19	1,329	-	1,159	170	-	-	-	44%	6%
	2010 PARs	29/11/2010	11.45	5,693	-	-	5,693	-	-	-	-	100%
	2011 PARs	16/12/2011	7.71	21,283	-	-	21,283	-	-	-	-	100%
	2012 DARs	18/12/2012	7.26	-	3,655	-	3,655	-	-	-	-	100%
	2012 PARs	18/12/2012	7.26	-	22,063	-	22,063	-	-	-	-	100%
Renato Mazza	2010 DARs	29/11/2010	11.45	5,693	-	4,746	947	-	-	-	67%	13%
	2010 PARs	29/11/2010	11.45	33,207	-	-	33,207	-	-	-	-	100%
	2011 PARs	16/12/2011	7.71	22,195	-	-	22,195	-	-	-	-	100%
	2012 DARs	18/12/2012	7.26	-	3,655	356	3,299	-	-	-	10%	90%
	2012 PARs	18/12/2012	7.26	-	21,929	-	21,929	-	-	-	-	100%

(1) Percentage of initial rights granted.

2013 REMUNERATION REPORT (CONTINUED)

6.3 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 9 Value of rights and options held by the MD and KMP during FY 2013

KMP	Grant	Grant Date	Fair value per right at grant date $	Value at grant date $ (1)	Exercise Date	Exercise price $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date	Value at Expiry / Lapsing Date (2) $
Current									
Stuart Grimshaw	2011 PARs	13/10/2011	5.36	651,878	-	-	-	13/10/2016	-
	2012 DARs	18/12/2012	6.55	423,261	-	-	-	18/12/2017	-
	2012 PARs	01/03/2013	2.73	455,727	-	-	-	18/12/2017	-
Jon Sutton	2012 DARs	26/02/2012	6.60	413,734	01/05/2013	9.93	311,246	05/05/2017	-
	2012 PARs	26/02/2012	5.18	386,568	-	-	-	16/12/2017	-
	Restricted shares	26/02/2012	6.70	700,000	05/01/2013	7.61	227,166	09/01/2014	-
					07/07/2013	8.88	397,611	09/01/2014	-
	2012 DARs	18/12/2012	6.20	43,456	-	-	-	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	97,571	-	-	-	18/12/2017	-
Anthony Rose	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	31/10/2012	7.58	227,627	21/09/2012	-
	2012 DARs	18/12/2012	6.20	38,800	-	-	-	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	87,117	-	-	-	18/12/2017	-
Peter Deans	2012 PARs	10/05/2012	3.70	255,526	-	-	-	16/12/2017	-
	2012 DARs	18/12/2012	6.20	38,273	-	-	-	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	83,631	-	-	-	18/12/2017	-
Brendan White	2012 DARs	10/02/2012	6.60	498,788	01/05/2013	9.93	375,225	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	7.58	306,884	31/10/2012	-
	2012 DARs	18/12/2012	6.20	38,800	-	-	-	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	87,117	-	-	-	18/12/2017	-
Matthew Baxby	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	7.58	224,262	31/10/2012	-
	2012 DARs	18/12/2012	6.20	32,593	-	-	-	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	73,177	-	-	-	18/12/2017	-
Julie Bale	2012 DARs	18/12/2012	6.20	49,662	-	-	-	18/12/2017	-
Brian Bissaker	2013 PARs	14/05/2013	2.39	75,878	-	-	-	18/12/2018	-

(1) Represents rights held at 1 September 2012 or granted during the 2013 financial year.

(2) Closing share price on exercise of rights, rights have a nil exercise price.

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

(4) The fair value was based on a valuation period from 18 October 2012 to grant date. The Bank's total shareholder return over this period was below the peer group, decreasing the vesting probability and reducing the fair value calculation.

2013 REMUNERATION REPORT (CONTINUED)

6.3 Equity held by the MD and KMP (continued)

Table 9 Value of rights and options held by the MD and KMP during FY 2013

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									
Chris Nilon	Options	01/11/2007	2.57	128,500	-	19.11	-	01/11/2012	373,000
	2009 DARs	24/12/2009	10.40	30,212	14/01/2013	7.75	9,006	11/03/2013	-
	2009 PARs	24/12/2009	6.93	31,116	14/11/2012	7.35	17,824	11/03/2013	19,948
	2010 DARs	29/11/2010	11.17	38,157	14/01/2013	7.75	16,864	11/03/2013	5,381
	2010 May DARs	28/05/2010	10.11	21,494	14/01/2013	7.75	8,982	11/03/2013	1,642
	2010 PARs	29/11/2010	7.81	44,462	-	-	-	11/03/2013	54,994
	2011 PARs	16/12/2011	5.18	110,246	-	-	-	11/03/2013	205,594
	2012 DARs	18/12/2012	6.20	22,661	-	-	-	11/03/2013	35,307
	2012 PARs	18/12/2012	1.74	38,390	-	-	-	11/03/2013	213,129
Renato Mazza	2010 DARs	29/11/2010	11.17	79,486	21/03/2013	9.46	44,897	18/05/2013	9,015
	2010 PARs	29/11/2010	7.81	259,347	-	-	-	18/05/2013	316,131
	2011 PARs	16/12/2011	5.18	114,970	-	-	-	18/05/2013	211,296
	2012 DARs	18/12/2012	6.20	22,661	21/03/2013	9.46	3,368	18/05/2013	31,406
	2012 PARs	18/12/2012	1.74	38,156	-	-	-	18/05/2013	208,764

(1) Represents options and rights held at 1 September 2012 or granted during the 2013 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.

2013 REMUNERATION REPORT (CONTINUED)

7. Executive Contracts

The remuneration and terms of the MD and other KMP are formalised in their employment agreements. Each of these employment agreements provide for the payment of fixed and performance-based remuneration, superannuation and other benefits such as statutory leave entitlements.

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)
Karyn Munsie	Open	440,000	3 months	3 months	9 months base pay (including notice period)
Julie Bale	Open	350,000	3 months	3 months	9 months base pay (including notice period)
Brian Bissaker	Open	550,000	3 months	3 months	9 months base pay (including notice period)

As part of the contractual sign-on arrangements, Stuart Grimshaw received an allocation of PARS based on an allocation of $1 million at the volume weighted average of shares after announcement of the FY11 financial results. These PARS vest over three years subject to satisfaction of the relevant performance hurdle.

Details of restricted shares that were provided to KMP that joined the Consolidated Entity as part of their sign-on arrangements are included in Table 8.

During the year, Chris Nilon and Renato Mazza departed the Consolidated Entity and received payments based on their contractual and statutory entitlements. Neither executive received a termination benefits in excess of 12 months base salary. Details of the payments made to the executives are included in Table 7.

2013 REMUNERATION REPORT (CONTINUED)

8. Senior Managers' options and rights

Type	Grant Date	Expiry Date	Granted	Lapsed during the year	Exercised during the year	Balance at 31 August 2013	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	5,609	6,928	2,339	6,215	17 December 2009	20%	7.59
								16 December 2010	30%	
								15 December 2011	50%	
2009 DARs	24 December 2009	23 December 2014	403,294	4,210	57,626	6,690	6,696	16 December 2010	50%	10.40
								15 December 2011	30%	
								20 December 2012	20%	
2010 DARs	28 May 2010	28 May 2015	41,809	3,080	14,946	2,320	2,320	2 May 2011	20%	10.11
								7 May 2012	30%	
								6 May 2013	50%	
2010 DARs	29 November 2010	29 November 2015	400,892	22,105	99,383	118,525	12,281	15 December 2011	20%	11.17
								20 December 2012	30%	
								19 December 2013	50%	
2011 DARs	16 December 2011	16 December 2016	466,128	71,285	96,766	266,506	13,383	20 December 2012	20%	6.60
								19 December 2013	30%	
								19 December 2014	50%	
2012 DARs	February 2012	5 May 2017	233,723	-	83,356	150,367	33,506	3 May 2013	50%	6.60
								2 May 2014	50%	
2012 DARs	18 December 2012	18 December 2017	436,595	29,277	3,204	404,114	-	19 December 2013	20%	6.20
								19 December 2014	30%	
								19 December 2015	50%	
2012 DARs	18 December 2012	18 December 2017	64,620	-	-	64,620	-	19 December 2013	50%	6.55
								19 December 2014	50%	
PARs [4]										
2008 PARs	29 June 2009	29 June 2014	429,292					n/a	100%	4.59
2009 PARs	24 December 2009	23 December 2014	192,810	47,706	41,354	-	-	18 October 2012	100%	6.93
2010 PARs	29 November 2010	29 November 2015	561,909	122,155	-	149,148	-	Date of release of financial results in October 2013	100%	7.81
2010 PARs	25 January 2011	25 January 2016	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	108,270	-	128,344	-	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
2012 PARs	18 December 2012	18 December 2017	564,571	74,671	-	489,900	-	Date of release of financial results in October 2015	100%	1.74
2013 PARs	1 March 2013	18 December 2017	166,933	-	-	166,933	-	Date of release of financial results in October 2015	100%	2.73
2013 PARs	14 May 2013	18 December 2018	37,789	-	-	37,789	-	Date of release of financial results in October 2016	100%	2.39

(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.

DIRECTORS' REPORT (CONTINUED)

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
Stuart Grimshaw	3,506
Steve Crane	25,678
Roger Davis	15,235
Carmel Gray	10,946
Michelle Tredenick	2,433
David Willis	1,512
Richard Haire	4,000
Neil Berkett [1]	10,600

(1) Neil Berkett was appointed as a Non-Executive Directive on 30 July 2013.

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	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Audit services – KPMG Australia				
- Audit and review of the financial reports	**919.8**	1,127.1	**595.9**	818.3
- Other regulatory and audit services	**342.2**	532.6	**182.2**	346.1
	1,262.0	1,659.7	**778.1**	1,164.4
Audit related services – KPMG Australia				
- Other assurance services [1]	**230.2**	123.9	**-**	-
	230.2	123.9	**-**	-
Non-audit services – KPMG Australia				
- Taxation services	**225.1**	222.5	**225.1**	218.2
- Compliance services	**249.2**	-	**249.2**	-
- Other	**88.7**	75.6	**72.6**	75.6
- Due diligence services	**64.5**	103.2	**64.5**	103.2
	627.5	401.3	**611.4**	397.0

(1) Other assurance services comprise audit related services provided in relation to mortgage securitisation trusts which are consolidated under Australian Accounting Standards.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 41 and forms part of the Directors' report for the year ended 31 August 2013.

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 ninth day of October 2013.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

Stuart Grimshaw
Managing Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

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 audit for the financial year ended 31 August 2013 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

KPMG

Martin McGrath
Partner

Brisbane 9 October 2013

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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INCOME STATEMENTS

Year ended 31 August 2013

		Consolidated		Bank	
	Note	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Interest income	4	**2,297.4**	2,596.2	**2,236.6**	2,549.2
Less: Interest expense	4	**1,604.3**	1,944.7	**1,711.1**	2,086.7
Net interest income		**693.1**	651.5	**525.5**	462.5
Other operating income	4	**122.5**	111.5	**218.8**	235.7
Net banking operating income		**815.6**	763.0	**744.3**	698.2
Premiums from insurance contracts		**70.2**	76.0	**-**	-
Investment revenue		**5.8**	7.4	**-**	-
Claims and policyholder liability expense from insurance contracts		**(35.7)**	(42.1)	**-**	-
Net insurance operating income	4	**40.3**	41.3	**-**	-
Total operating income	4	**855.9**	804.3	**744.3**	698.2
Less: Expenses	5	**465.5**	422.6	**418.9**	369.7
Less: Impairment on loans and advances	13	**114.6**	401.0	**87.2**	359.9
Profit/(Loss) before income tax		**275.8**	(19.3)	**238.2**	(31.4)
Less: Income tax expense/(benefit)	6	**90.0**	(2.2)	**68.5**	(27.6)
Profit/(Loss) for the year		**185.8**	(17.1)	**169.7**	(3.8)
Profit / (Loss) attributable to:					
Equity holders of the parent		**185.8**	(17.1)	**169.7**	(3.8)
Basic earnings per share - Ordinary shares (cents)	8	**58.4**	(10.2c)		
Diluted earnings per share - Ordinary shares (cents)	8	**57.2**	(10.2c)		

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

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Profit / (Loss) for the year	**185.8**	(17.1)	**169.7**	(3.8)
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	**11.9**	(18.8)	**(3.1)**	8.1
Net (gains) / losses transferred to profit and loss	**(0.9)**	0.2	**(0.9)**	0.2
Foreign currency translation differences on foreign operations	**1.6**	(0.6)	**-**	-
Net (losses) / gain on hedge of net investment in foreign operation	**(1.6)**	0.8	**-**	-
Change in fair value of assets available for sale	**(4.2)**	6.2	**(3.9)**	8.9
Other comprehensive income / (expense) for the year, net of income tax	**6.8**	(12.2)	**(7.9)**	17.2
Total comprehensive income / (expense) for the year	**192.6**	(29.3)	**161.8**	13.4
Total comprehensive income / (expense) attributable to:				
Equity holders of the parent	**192.6**	(29.3)	**161.8**	13.4

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

BALANCE SHEETS

Year ended 31 August 2013

	Note	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Assets					
Cash and liquid assets	9	**873.2**	670.5	**242.2**	227.7
Due from other financial institutions	10	**118.5**	119.7	**23.8**	23.5
Other financial assets	11	**5,401.4**	5,689.4	**5,603.0**	5,776.9
Derivative financial instruments	26	**260.4**	276.1	**234.0**	276.1
Loans and advances at amortised cost	12	**34,989.3**	34,147.2	**31,491.2**	30,654.6
Current tax assets		**-**	0.7	**-**	1.5
Other assets	14	**129.1**	113.4	**276.7**	277.9
Shares in controlled entities	31	**-**	-	**975.7**	933.1
Property, plant and equipment	15	**37.8**	38.5	**26.4**	26.1
Deferred tax assets	16	**104.5**	125.7	**95.5**	104.9
Intangible assets	17	**592.7**	554.6	**71.5**	59.3
Investments accounted for using the equity method	37	**21.4**	22.2	**-**	-
Total assets		**42,528.3**	41,758.0	**39,040.0**	38,361.6
Liabilities					
Due to other financial institutions	18	**201.1**	177.8	**201.1**	177.8
Deposits	19	**31,698.7**	31,171.9	**31,785.5**	31,288.7
Derivative financial instruments	26	**137.4**	253.0	**109.5**	130.3
Accounts payable and other liabilities		**362.0**	450.4	**320.7**	404.8
Current tax liabilities		**23.0**	-	**23.1**	-
Provisions	20	**78.9**	44.1	**68.7**	33.5
Insurance policy liabilities	35	**72.5**	73.5	**-**	-
Borrowings including subordinated notes	21	**7,136.9**	6,688.1	**1,312.8**	895.3
Amounts due to controlled entities		**-**	-	**2,457.5**	2,553.6
Total liabilities		**39,710.5**	38,858.8	**36,278.9**	35,484.0
Net assets		**2,817.8**	2,899.2	**2,761.1**	2,877.6
Equity					
Issued capital		**2,562.6**	2,660.1	**2,564.2**	2,666.0
Reserves		**111.1**	106.2	**95.3**	105.1
Retained profits		**144.1**	132.9	**101.6**	106.5
Total Equity		**2,817.8**	2,899.2	**2,761.1**	2,877.6

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

STATEMENTS OF CASH FLOWS

Year ended 31 August 2013

For the year ended 31 August 2013	Note	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Cash flows from operating activities					
Interest received		**2,303.3**	2,567.0	**2,058.8**	2,317.7
Fees and other income received		**170.0**	181.6	**212.3**	130.1
Dividends received		**1.1**	0.8	**1.1**	0.8
Interest paid		**(1,604.4)**	(2,085.5)	**(1,701.1)**	(2,231.4)
Cash paid to suppliers and employees		**(393.0)**	(382.9)	**(367.3)**	(338.4)
Operating income tax paid		**(48.3)**	(153.4)	**(45.8)**	(151.7)
		428.7	127.6	**158.0**	(272.9)
(Increase) / decrease in operating assets:					
Loans and advances at amortised cost		**(966.9)**	(1,279.2)	**(1,037.1)**	(1,115.7)
Other financial assets		**280.2**	(517.2)	**150.6**	(551.8)
Increase / (decrease) in operating liabilities:					
Deposits		**543.8**	1,541.5	**509.6**	1,462.9
Securitisation liabilities	21	**(65.2)**	283.3	**-**	-
Net cash from operating activities	27	**220.6**	156.0	**(218.9)**	(477.5)
Cash flows from investing activities					
Acquisition of Virgin Money (Australia) Pty Limited	31	**(5.9)**	-	**(5.9)**	-
Payments for property, plant and equipment		**(17.0)**	(10.4)	**(8.3)**	(9.7)
Payments for intangible assets		**(31.1)**	(21.7)	**(30.7)**	(18.2)
Cash distribution received from equity accounted investments		**2.4**	6.7	**-**	-
Capital contribution for equity accounted investments		**(0.5)**	-	**-**	-
Proceeds from sale of property, plant and equipment		**5.3**	3.9	**0.5**	0.9
Net cash from investing activities		**(46.8)**	(21.5)	**(44.4)**	(27.0)
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		**1,631.2**	984.4	**1,631.0**	983.5
Net proceeds from issue of Convertible Preference Shares ("CPS")	21	**111.8**	-	**111.8**	-
Redemption of PEPS		**(19.9)**	-	**(19.9)**	-
Proceeds from other financing activities		**-**	-	**766.8**	612.5
Repayment of other financing activities		**-**	-	**(541.2)**	(278.3)
Repayments of borrowings	21	**(1,582.3)**	(1,228.9)	**(1,582.1)**	(1,226.6)
Payments for treasury shares		**-**	(3.8)	**-**	(3.8)
Dividends paid		**(111.9)**	(88.8)	**(111.9)**	(88.8)
Dividends received		**-**	-	**23.3**	24.2
Net cash from financing activities		**28.9**	102.8	**277.8**	462.6
Net increase / (decrease) in cash and cash equivalents		**202.7**	237.3	**14.5**	(41.9)
Cash and liquid assets at beginning of year		**670.5**	433.2	**227.7**	269.6
Cash and liquid assets at end of year	9	**873.2**	670.5	**242.2**	227.7

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

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 August 2013

Consolidated	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	Equity reserve for credit losses	Cashflow hedge reserve	Translation reserve	Available for sale reserve	Retained profits	Total equity
Year ended 31 August 2013	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	2,464.4	195.7	33.3	70.2	(10.6)	0.6	12.7	132.9	2,899.2
Total comprehensive income for the year									
Profit	-	-	-	-	-	-	-	185.8	185.8
Other comprehensive income, net of income tax									
Cash flow hedges:									
Net gains taken to equity	-	-	-	-	11.9	-	-	-	11.9
Net gains transferred to profit and loss	-	-	-	-	(0.9)	-	-	-	(0.9)
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	(1.6)	-	-	(1.6)
Foreign currency translation differences on foreign operations	-	-	-	-	-	1.6	-	-	1.6
Change in fair value of assets available for sale	-	-	-	-	-	-	(4.2)	-	(4.2)
Total other comprehensive income	-	-	-	-	11.0	-	(4.2)	-	6.8
Total comprehensive income for the year	-	-	-	-	11.0	-	(4.2)	185.8	192.6
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Exchange to CPS [(1)]	(4.3)	(175.8)	-	-	-	-	-	-	(180.1)
Redemption of Perpetual Preference Shares ("PEPs") [(1)]	-	(19.9)	-	-	-	-	-	-	(19.9)
Dividend reinvestment plan	62.7	-	-	-	-	-	-	-	62.7
Dividends to shareholders	-	-	-	-	-	-	-	(168.7)	(168.7)
Dividends to PEPs	-	-	-	-	-	-	-	(5.9)	(5.9)
Equity settled transactions	-	-	(1.9)	-	-	-	-	-	(1.9)
Treasury Shares [(2)]	7.0	-	-	-	-	-	-	-	7.0
Acquisition of Virgin Money (Australia) Pty Limited [(3)]	32.8	-	-	-	-	-	-	-	32.8
Total contributions by and distributions to owners	98.2	(195.7)	(1.9)	-	-	-	-	(174.6)	(274.0)
Balance at the end of the year	2,562.6	-	31.4	70.2	0.4	0.6	8.5	144.1	2,817.8

(1) On 24 December 2012, 1,801,339 PEPS shares were reinvested into CPS and the remaining 198,661 PEPS shares were redeemed on 15 April 2013.

(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.

(3) On 30 April 2013, the Bank acquired 100% of Virgin Money (Australia) Pty Limited for consideration of $42.6 million. $30.6 million of new shares were issued in two tranches (Tranche 1 - 1,585,353 and Tranche 2 - 1,617,762) as part of the acquisition consideration. Refer to Note 31(b) for further details.

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

STATEMENTS OF CHANGES OF EQUITY (CONTINUED)

Year ended 31 August 2013

Consolidated	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	Equity 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 / (expense)	-	-	-	3.2	(18.6)	0.2	6.2	(3.2)	(12.2)
Total comprehensive income / (expense) 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	2.7	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 statement of changes in equity should be read in conjunction with the accompanying notes.

Bank	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	Equity reserve for credit losses	Cashflow hedge reserve	Available for sale reserve	Retained profits	Total equity
Year ended 31 August 2013	$m	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	2,470.3	195.7	33.3	57.3	1.8	12.7	106.5	2,877.6
Total comprehensive income for the year								
Profit	-	-	-	-	-	-	169.7	169.7
Other comprehensive income, net of income tax								-
Cash flow hedges:								-
Net losses taken to equity	-	-	-	-	(3.1)	-	-	(3.1)
Net gains transferred to profit and loss	-	-	-	-	(0.9)	-	-	(0.9)
Change in fair value of assets available for sale	-	-	-	-	-	(3.9)	-	(3.9)
Total other comprehensive expense	-	-	-	-	(4.0)	(3.9)	-	(7.9)
Total comprehensive income / (expense) for the year	-	-	-	-	(4.0)	(3.9)	169.7	161.8
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Exchange to CPS (1)	(4.3)	(175.8)	-	-	-	-	-	(180.1)
Redemption of PEPs (1)	-	(19.9)	-	-	-	-	-	(19.9)
Dividend reinvestment plan	62.7	-	-	-	-	-	-	62.7
Dividends to shareholders	-	-	-	-	-	-	(168.7)	(168.7)
Dividends to PEPs	-	-	-	-	-	-	(5.9)	(5.9)
Equity settled transactions	-	-	(1.9)	-	-	-	-	(1.9)
Treasury Shares (2)	2.7	-	-	-	-	-	-	2.7
Acquisition of Virgin Money (Australia) Pty Limited (3)	32.8	-	-	-	-	-	-	32.8
Total contributions by and distributions to owners	93.9	(195.7)	(1.9)	-	-	-	(174.6)	(278.3)
Balance at the end of the year	2,564.2	-	31.4	57.3	(2.2)	8.8	101.6	2,761.1

(1) On 24 December 2012, 1,801,339 PEPS shares were reinvested into CPS and the remaining 198,661 PEPS shares were redeeemed on 15 April 2013.

(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.

(3) On 30 April 2013, the Bank acquired 100% of Virgin Money (Australia) Pty Limited for consideration of $42.6 million. $30.6 million of new shares were issued in two tranches (Tranche 1 - 1,585,353 and Tranche 2 - 1,617,762) as part of the acquisition consideration. Refer to Note 31(b) for further details.

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

STATEMENTS OF CHANGES OF EQUITY (CONTINUED)

Bank	Ordinary shares	Perpetual Equity Preference shares	Employee benefits reserve	Equity 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 losses 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 / (expense)	-	-	-	6.3	8.3	8.9	(6.3)	17.2
Total comprehensive income / (expense) 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
Dividends to shareholders	-	-	-	-	-	-	(142.1)	(142.1)
Dividends to PEPs	-	-	-	-	-	-	(9.6)	(9.6)
Equity settled transactions	-	-	(0.2)	-	-	-	-	(0.2)
Treasury Shares (2)	(2.7)	-	-	-	-	-	-	(2.7)
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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2013

NOTES TO THE FINANCIAL STATEMENTS

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 2013 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 9 October 2013.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Rounding

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this financial report and Directors' report have been rounded off to the nearest million dollars, unless otherwise stated.

(e) Use of estimates and judgements

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

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

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

- Provisions for impairment – Note 13 (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 35.

3. SIGNIFICANT ACCOUNTING POLICIES

The following, are the amendments to standards and interpretations applicable for the first time to the current year, and the impact of these on the Bank.

- AASB 2013-2 *Amendments to AASB 1038 – Regulatory Capital* aligns *AASB 1038 Life Insurance Contracts* as a result of changes made by the Australia Prudential Regulation Authority ("APRA") to life insurance Prudential Standards, particularly *LPS 110 Capital Adequacy*, applicable from 1 January 2013. The amendment aligns terminology by changing 'solvency' to 'capital'. Refer to Note 35 of the Financial Statements.
- *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income* requires that items presented in other comprehensive income are grouped by whether they might be reclassified subsequently to profit or loss and those that will not. Refer to the Statement of Comprehensive Income in the Financial Statements.

All other amendments to standards applicable for the 2013 year end do not impact the Bank.

The following standards and amendments have been identified as those which may impact the Bank and the majority were available for early adoption at 31 August 2013 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 performed a preliminary review of the Consolidated Entity's structures and it is not expected to have any material impacts.
- *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 performed a preliminary review of the Consolidated Entity's structures and it is not expected to have any material impacts.
- *AASB 12 Disclosure of Interests in Other entities* includes all disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The amendments become mandatory for the Consolidated Entity's 31 August 2014 financial statements. The Consolidated Entity has performed a preliminary review of the Consolidated Entity's structures and it is not expected to have any material impacts.
- *AASB 13 Fair Value Measurement* establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 also expands the disclosure requirements for assets and liabilities carried at fair value. The amendments become mandatory for the Consolidated Entity's 31 August 2014 financial statements. Initial adoption is not expected to result in any material impact to the Consolidated Entity.
- *AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* requires disclosure of information that will enable users to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments become mandatory for the Consolidated Entity's 31 August 2014 financial statements. This is only an impact to disclosure and it is not expected to be material.

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Securitisation

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

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

Consolidated Entity

The Consolidated Entity receives the residual income distributed by the RMBS 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 reporting date are translated into Australian dollars at the foreign exchange rate ruling at that date. Non-monetary items in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss.

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

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the 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 Income Statement. However, when derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship as 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 reporting 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 reporting 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 and accumulated in reserves in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss in the Income Statement. 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 Income Statement in the same period or periods in which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the Consolidated Entity revokes designation of the hedge relationship but 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 Income Statement.

(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 Income Statement within other income or other expenses.

(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 Income Statement 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 Income Statement 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 Income Statement.

(ii) Available-for-sale

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

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

(g) Leases

Finance Leases

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

The Consolidated Entity does not have finance leases as lessee.

Operating Leases

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

(h) Property, plant and equipment

Recognition and initial measurement

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

Subsequent Costs

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

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

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

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

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

(i) Intangible assets

Initial recognition and measurement

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

Subsequent expenditure

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

Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets of the acquired subsidiary. Any goodwill is tested annually for impairment, with any impairment taken directly to the profit or loss in the Income Statement. Refer to 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 Income Statement on a straight-line basis over the estimated useful life of the intangible asset unless the life of the intangible asset is indefinite. Where applicable, intangible assets are amortised from the date they are available for use. The amortisation period and method are reviewed on an annual basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets (continued)

Amortisation (continued)

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

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

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 in the Income Statement.

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 in the Income Statement.

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 Income Statement.

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 Income Statement 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.

(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 Industry (Supervision) Act 1993. Contributions are charged to profit or loss in the Income Statement as they are made.

(iv) Share based payments

The Bank operates the following equity-settled compensation plans:

- Senior Management Option Plan ("SMOP") - there are no longer any outstanding options under the SMOP as at 31 August 2013.
- 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.

Preference Shares

Preference share capital is classified as equity if it is non-redeemable. 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. Dividends thereon are recognised as interest expense in the Income Statement 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 or 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.

Non-interest income (continued)

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

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

Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss in the Income Statement except to the extent that it relates to business combinations, 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 reporting date, and any adjustment to tax payable / receivable in respect of previous years.

Deferred tax is provided for 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 reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax Consolidation

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

(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) Equity reserve for credit losses

The Bank is required by the 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 an equity reserve for credit losses. The equity reserve for credit losses and the eligible component of the collective provision for impairment are aggregated for the purpose of satisfying the APRA requirement for a general reserve for credit losses.

(u) Investments in joint arrangements

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

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

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

(v) Life insurance business

Principles for life insurance

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

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

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 policy owners. Therefore, the Consolidated Entity's financial statements comprise the total of all statutory funds and the Shareholders' Fund.

Insurance contract liability

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 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 Income Statement 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 Income Statement 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 Balance Sheet.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Life insurance business (continued)

Claims expense – insurance contracts

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

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

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

Deferred acquisition costs - Life insurance contracts

The fixed and variable costs of acquiring new life insurance business are deferred to the extent that such costs are deemed recoverable from future premiums or policy charges. These costs include commission, policy issue and underwriting costs, certain advertising costs and other sales costs. Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges. The actual acquisition costs incurred are recorded in profit or loss in the Income Statement. 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 Consolidated Entity'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 35.

(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		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Interest income				
Loans and advances	**2,084.3**	2,345.1	**1,765.0**	1,998.4
Securities at fair value	**213.1**	251.1	**471.6**	550.8
Total interest income	**2,297.4**	2,596.2	**2,236.6**	2,549.2
Interest expense				
Retail deposits	**897.9**	1,025.8	**897.9**	1,025.8
Wholesale deposits and borrowings	**706.4**	918.9	**813.2**	1,060.9
Total interest expense	**1,604.3**	1,944.7	**1,711.1**	2,086.7
Net interest income	**693.1**	651.5	**525.5**	462.5
Income from operating activities				
Other customer fees and charges	**102.1**	106.1	**101.9**	105.6
Share of fee revenue paid to Owner Managed Branches	**(14.2)**	(14.8)	**(14.2)**	(14.8)
Securitisation income	**-**	-	**55.7**	53.8
Net income from financial instruments and derivatives at fair value	**5.4**	0.3	**3.7**	1.0
Commission	**12.1**	6.2	**11.4**	10.0
Management fee – controlled entities	**-**	-	**24.9**	25.4
Foreign exchange income – customer based	**7.5**	7.4	**7.5**	7.3
Net profit / (loss) on sale of property, plant and equipment	**3.2**	1.8	**0.1**	(0.5)
Other income	**6.4**	4.5	**27.8**	47.9
	122.5	111.5	**218.8**	235.7
Other operating income	**122.5**	111.5	**218.8**	235.7
Net Insurance operating income	**40.3**	41.3	**-**	-
Total operating income	**855.9**	804.3	**744.3**	698.2

5. EXPENSES

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Operating expenses				
Advertising	**12.4**	14.0	**11.8**	13.3
Commissions to Owner Managed Branches	**8.7**	5.6	**9.2**	6.7
Communications and postage	**22.5**	18.7	**21.3**	17.7
Printing and stationery	**4.0**	5.7	**3.8**	5.3
Non-lending losses	**47.5**	14.7	**47.5**	12.9
Processing costs	**25.0**	24.2	**25.0**	24.2
Other operating expenses	**15.0**	19.9	**12.2**	16.2
	135.1	102.8	**130.8**	96.3
Administrative expenses				
Professional fees	**20.4**	18.7	**17.9**	15.9
Directors fees	**1.6**	1.7	**1.1**	1.2
Other	**8.3**	7.4	**9.3**	8.7
	30.3	27.8	**28.3**	25.8
IT expenses				
Data processing	**61.1**	53.1	**58.2**	50.2
Amortisation and impairment – computer software (intangible)	**18.6**	31.9	**16.5**	29.6
Depreciation – IT equipment	**1.5**	1.3	**0.8**	0.7
	81.2	86.3	**75.5**	80.5
Occupancy expenses				
Lease rental	**21.9**	20.4	**19.9**	18.8
Depreciation - plant, furniture, equipment and leasehold improvements	**7.7**	8.2	**6.5**	7.0
Other	**2.5**	2.5	**2.4**	2.4
	32.1	31.1	**28.8**	28.2
Employee expenses				
Salaries and wages	**144.5**	134.0	**123.7**	111.1
Superannuation contributions	**11.9**	12.5	**10.5**	10.7
Amounts set aside to provision for employee entitlements	**1.7**	1.4	**1.8**	1.0
Payroll tax	**8.4**	7.9	**7.1**	6.6
Equity settled transactions	**5.2**	4.7	**4.6**	3.8
Other	**7.0**	5.4	**6.4**	4.4
	178.7	165.9	**154.1**	137.6
Other				
Amortisation – acquired intangibles	**8.1**	8.7	**1.4**	1.3
Expenses	**465.5**	422.6	**418.9**	369.7

6. INCOME TAX EXPENSE / (BENEFIT)

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Current tax expense				
Current year	**75.3**	67.2	**58.0**	39.4
Adjustments for prior years	**(3.2)**	3.3	**(1.8)**	(3.6)
	72.1	70.5	**56.2**	35.8
Deferred tax expense				
Origination and reversal of temporary differences	**17.9**	(72.7)	**12.3**	(63.4)
	17.9	(72.7)	**12.3**	(63.4)
Total income tax expense / (benefit)	**90.0**	(2.2)	**68.5**	(27.6)
Attributable to:				
Continuing operations	**90.0**	(2.2)	**68.5**	(27.6)
Deferred tax recognised in equity				
Equity raising costs	**-**	(3.2)	**-**	(3.2)
Cash flow hedge reserve	**5.1**	(8.1)	**(1.3)**	3.5
Other	**(1.8)**	2.7	**(1.7)**	3.9
	3.3	(8.6)	**(3.0)**	4.2
Numerical reconciliations between tax expense and pre-tax profit / (loss)				
Profit / (loss) before tax – continuing operations	**275.8**	(19.3)	**238.2**	(31.4)
Profit / (loss) before tax	**275.8**	(19.3)	**238.2**	(31.4)
Income tax using the domestic corporate tax rate of 30% (2012: 30%)	**82.7**	(5.8)	**71.5**	(9.4)
Increase in income tax expense due to:				
Non-deductible expenses	**8.3**	4.3	**4.8**	0.3
Decrease in income tax expense due to:				
Other (1)	**(0.4)**	(4.3)	**(7.3)**	(18.7)
	90.6	(5.8)	**69.0**	(27.8)
Under / (Over) provided in prior years	**(0.6)**	3.6	**(0.5)**	0.2
Income tax expense on pre-tax net profit / (loss)	**90.0**	(2.2)	**68.5**	(27.6)

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

7. DIVIDENDS

	Bank					
	2013			2012		
	Cents per share	**$m**	**Percentage franked %**	Cents per share	$m	Percentage franked %
Ordinary shares						
Final 2012 dividend paid 8 December 2012 (2011: 2 December 2011)	**26**	**80.2**	**100%**	28	63.1	100%
Interim 2013 dividend paid 27 May 2013 (2012: 25 May 2012)	**28**	**88.5**	**100%**	26	79.0	100%
		168.7			142.1	
Preference shares						
Half-yearly PEPS dividend paid on 15 October 2012 (2012: 17 October 2011)	**217**	**4.3**	**100%**	250	5.0	100%
Prorated PEPS dividend paid on 24 December 2012 (2012: nil)	**69**	**1.3**	**100%**	-	-	-
Half-yearly PEPS dividend paid on 15 April 2013 (2012: 16 April 2012)	**179**	**0.3**	**100%**	234	4.7	100%
Half-yearly CPS dividend paid on 15 April 2013 (2012: nil)	**177**	**5.3**	**100%**	-	-	-
		11.2			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
- CPS half-yearly dividend	286	8.6	100%	15 October 2013
- Final – ordinary shares	30	95.9	100%	4 December 2013

	Bank	
	2013 $m	2012 $m
30% franking credits available to shareholders of the Bank for subsequent financial years	**106.2**	124.9

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 2013, is $106.2 million credit calculated at the 30% tax rate (2012: $124.9 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.

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. On 17 April 2013, the Board resolved to change the discount to 1.5% 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. All shares issued in comparative periods were at discount of 2.5%. Shares issued are fully paid and rank equally with existing fully paid ordinary shares. The last date for election to participate in the Dividend Reinvestment Plan for 2013 final dividend is 13 November 2013.

8. EARNINGS PER SHARE

	Consolidated	
	2013 cents	2012 cents
Basic earnings per share - Ordinary shares (cents)	**58.4**	(10.2c)
Diluted earnings per share - Ordinary shares (cents)	**57.2**	(10.2c)

	2013 $m	2012 $m
Earnings reconciliation		
Net profit / (loss)	**185.8**	(17.1)
Less other equity instrument dividends (1)	**(2.7)**	(9.6)
Basic earnings	**183.1**	(26.7)
Effect of PEPS (1)	**2.7**	-
Effect of distributions on CPS	**11.8**	-
Effect of convertible notes	**0.6**	-
Diluted earnings	**198.2**	(26.7)

	Consolidated	
Weighted average number of shares used as the denominator	**2013 Number**	2012 Number
Number for basic earnings per share		
Ordinary shares	**313,535,179**	263,815,724
Number for diluted earnings per share		
Ordinary shares	**313,535,179**	263,815,724
Effect of award rights	**2,414,842**	1,343,916
Effect of PEPS	**7,360,404**	-
Effect of CPS	**21,988,604**	-
Effect of convertible notes	**1,277,927**	-
	346,576,956	265,159,640

(1) PEPS distribution on an accrual basis.

9. CASH AND LIQUID ASSETS

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Notes, coin and cash at bank	**712.8**	522.5	**81.8**	79.7
Remittances in transit	**160.4**	148.0	**160.4**	148.0
	873.2	670.5	**242.2**	227.7

10. DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Term deposits	**118.5**	119.7	**23.8**	23.5
	118.5	119.7	**23.8**	23.5

11. OTHER FINANCIAL ASSETS

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
At fair value through profit and loss				
Floating rate notes and bonds	**931.8**	894.3	**931.8**	894.3
Negotiable certificates of deposit	**2,812.3**	2,650.6	**2,812.3**	2,650.6
Deposits at call	**176.0**	289.1	**176.0**	289.1
Bank accepted bills	**377.6**	445.2	**377.6**	445.2
Promissory notes	**36.9**	345.3	**36.9**	345.3
	4,334.6	4,624.5	**4,334.6**	4,624.5
Investment securities available for sale				
Debt instruments	**1,057.0**	1,055.0	**1,258.6**	1,142.5
Unlisted equity instruments	**9.8**	9.9	**9.8**	9.9
	1,066.8	1,064.9	**1,268.4**	1,152.4
Total other financial assets	**5,401.4**	5,689.4	**5,603.0**	5,776.9

12. LOANS AND ADVANCES AT AMORTISED COST

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Residential property loans – secured by mortgages	**18,577.0**	17,324.9	**18,577.0**	17,324.9
Securitised residential property loans – secured by mortgages	**7,571.9**	8,115.2	**7,571.9**	8,115.2
Total residential property loans – secured by mortgages	**26,148.9**	25,440.1	**26,148.9**	25,440.1
Personal loans	**180.7**	224.3	**180.7**	224.3
Overdrafts	**387.3**	473.9	**387.3**	473.9
Commercial loans	**5,079.4**	4,935.9	**5,049.3**	4,886.4
Leasing finance	**3,909.6**	3,930.0	**-**	-
Gross loans and advances at amortised cost	**35,705.9**	35,004.2	**31,766.2**	31,024.7
Less:				
Unearned lease finance income	**(404.3)**	(444.1)	**-**	-
Collective provision for impairment	**(137.5)**	(192.6)	**(112.3)**	(165.8)
Specific provisions for impairment	**(174.8)**	(220.3)	**(162.7)**	(204.3)
Total loans and advances at amortised cost	**34,989.3**	34,147.2	**31,491.2**	30,654.6

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	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Gross investment in finance lease receivables:				
Less than one year	**1,572.6**	1,520.2	**-**	-
Between one and five years	**2,312.1**	2,386.4	**-**	-
More than five years	**24.9**	23.4	**-**	-
	3,909.6	3,930.0	**-**	-
Unearned lease finance income	**(404.3)**	(444.1)	**-**	-
Net investment in finance leases	**3,505.3**	3,485.9	**-**	-
The net investment in finance leases comprise:				
Less than one year	**1,370.0**	1,300.7	**-**	-
Between one and five years	**2,112.6**	2,163.7	**-**	-
More than five years	**22.7**	21.5	**-**	-
	3,505.3	3,485.9	**-**	-

12. LOANS AND ADVANCES AT AMORTISED COST (CONTINUED)

Transfer of financial assets

The Bank conducts a loan securitisation program whereby mortgage loans are transferred to the REDS Trusts.

A subsidiary of the Bank also securitises Hire Purchase, Chattel Mortgages and Finance Leases which are transferred to 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 transferred assets are equitably assigned to the securitisation trusts. The investors in the securities issued by the Trusts have full recourse to the assets transferred to the Trusts.

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 that did not qualify for derecognition and associated liabilities from conducting the securitisation program.

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Transferred financial assets				
Loans and advances at amortised cost	**4,564.5**	5,100.8	**4,564.5**	5,100.8
Lease receivables	**899.1**	513.7	**-**	-
	5,463.6	5,614.5	**4,564.5**	5,100.8
Associated financial liabilities				
Securitisation liabilities - external investors	**5,836.0**	5,801.3	**-**	-
Amounts due to controlled entities	**-**	-	**(4,865.8)**	(5,259.6)
	5,836.0	5,801.3	**(4,865.8)**	(5,259.6)
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**5,463.6**	5,614.5	**4,564.5**	5,100.8
Fair value of associated liabilities	**(5,836.0)**	(5,801.3)	**(4,865.8)**	(5,259.6)
	(372.4)	(186.8)	**(301.3)**	(158.8)

13. PROVISIONS FOR IMPAIRMENT

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Specific provision:				
Balance at the beginning of the year	**220.3**	173.7	**204.3**	154.4
Add: Expensed during the year	**151.6**	227.8	**122.6**	190.2
Less: Bad debts written off net of recoveries	**(195.1)**	(193.2)	**(162.8)**	(152.9)
Transfers from collective provision	**14.5**	34.8	**14.5**	34.8
Unwind of discount	**(16.5)**	(22.8)	**(15.9)**	(22.2)
Balance at the end of the year	**174.8**	220.3	**162.7**	204.3
Collective provision:				
Balance at the beginning of the year	**192.6**	80.1	**165.8**	56.8
Add: Expensed / (released) during the year	**(37.0)**	173.2	**(35.4)**	169.7
Impairment losses written off	**(3.6)**	(25.9)	**(3.6)**	(25.9)
Transfers to specific provision	**(14.5)**	(34.8)	**(14.5)**	(34.8)
Balance at the end of the year	**137.5**	192.6	**112.3**	165.8
Total provisions for impairment	**312.3**	412.9	**275.0**	370.1

14. OTHER ASSETS

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Accrued interest	**61.1**	67.8	**59.6**	66.2
Other debtors and prepayments	**68.0**	45.6	**217.1**	211.7
	129.1	113.4	**276.7**	277.9

15. PROPERTY, PLANT AND EQUIPMENT

2013	Leasehold improvements	Plant, furniture and equipment	IT equipment	Capital works in progress	Assets under Operating Lease	Total
Consolidated	$m	$m	$m	$m	$m	$m
Cost						
Balance at the beginning of the financial year	35.5	32.1	33.0	0.3	17.3	118.2
Additions	3.4	1.1	1.6	2.2	8.0	16.3
Disposals	(1.2)	(0.9)	(0.2)	-	(5.0)	(7.3)
Transfers between categories	0.1	0.1	-	(0.2)	-	-
Balance at the end of the financial year	37.8	32.4	34.4	2.3	20.3	127.2
Depreciation						
Balance at the beginning of the financial year	20.6	19.8	29.5	-	9.8	79.7
Depreciation charge for the year	5.3	2.4	1.5	-	6.9	16.1
Disposals	(0.8)	(0.6)	(0.2)	-	(4.8)	(6.4)
Balance at the end of the financial year	25.1	21.6	30.8	-	11.9	89.4
Carrying amounts						
Carrying amount at the beginning of the financial year	14.9	12.3	3.5	0.3	7.5	38.5
Carrying amount at the end of the financial year	**12.7**	**10.8**	**3.6**	**2.3**	**8.4**	**37.8**
Bank						
Cost						
Balance at the beginning of the financial year	31.4	31.1	30.0	0.3	-	92.8
Additions	3.4	1.1	1.6	2.2	-	8.3
Disposals	(1.2)	(0.9)	(0.2)	-	-	(2.3)
Transfers between categories	0.1	0.1	-	(0.2)	-	-
Balance at the end of the financial year	33.7	31.4	31.4	2.3	-	98.8
Depreciation						
Balance at the beginning of the financial year	18.5	19.7	28.5	-	-	66.7
Depreciation charge for the year	4.3	2.2	0.8	-	-	7.3
Disposals	(0.8)	(0.6)	(0.2)	-	-	(1.6)
Balance at the end of the financial year	22.0	21.3	29.1	-	-	72.4
Carrying amounts						
Carrying amount at the beginning of the financial year	12.9	11.4	1.5	0.3	-	26.1
Carrying amount at the end of the financial year	**11.7**	**10.1**	**2.3**	**2.3**	**-**	**26.4**

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2012	Leasehold improvements	Plant, furniture and equipment	IT equipment	Capital works in progress	Assets under Operating Lease	Total
Consolidated	$m	$m	$m	$m	$m	$m
Cost						
Balance at the beginning of the financial year	30.7	28.9	31.9	0.7	12.9	105.1
Additions	5.5	3.5	1.1	0.3	7.4	17.8
Disposals	(0.9)	(0.7)	(0.1)	-	(3.0)	(4.7)
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	17.3	118.2
Depreciation						
Balance at the beginning of the financial year	15.3	17.6	28.3	-	7.3	68.5
Depreciation charge for the year	5.7	2.5	1.3	-	5.2	14.7
Disposals	(0.4)	(0.3)	(0.1)	-	(2.7)	(3.5)
Balance at the end of the financial year	20.6	19.8	29.5	-	9.8	79.7
Carrying amounts						
Carrying amount at the beginning of the financial year	15.4	11.3	3.6	0.7	5.7	36.7
Carrying amount at the end of the financial year	**14.9**	**12.3**	**3.5**	**0.3**	**7.5**	**38.5**

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**

16. 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	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Accruals	**5.0**	6.4	**-**	-	**5.0**	6.4
Capitalised expenditure	**-**	-	**(11.4)**	(17.6)	**(11.4)**	(17.6)
Intangibles	**-**	-	**(0.7)**	(1.7)	**(0.7)**	(1.7)
Leasing	**-**	-	**(0.4)**	(1.2)	**(0.4)**	(1.2)
Property, plant, equipment and software	**-**	-	**(2.7)**	(4.9)	**(2.7)**	(4.9)
Provision for impairment	**104.1**	125.2	**-**	-	**104.1**	125.2
Other provisions	**10.3**	13.7	**-**	-	**10.3**	13.7
Receivables	**-**	-	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Other	**7.0**	8.1	**(2.8)**	(2.7)	**4.2**	5.4
Equity reserves	**-**	0.6	**(3.6)**	-	**(3.6)**	0.6
Tax assets / (liabilities)	**126.4**	154.0	**(21.9)**	(28.3)	**104.5**	125.7
Bank						
Accruals	**3.1**	3.0	**-**	-	**3.1**	3.0
Capitalised expenditure	**-**	-	**(9.6)**	(19.1)	**(9.6)**	(19.1)
Property, plant, equipment and software	**-**	-	**(2.8)**	(5.0)	**(2.8)**	(5.0)
Provision for impairment	**91.3**	111.0	**-**	-	**91.3**	111.0
Other provisions	**9.6**	12.2	**-**	-	**9.6**	12.2
Receivables	**-**	-	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Other	**6.9**	7.8	**-**	-	**6.9**	7.8
Equity reserves	**-**	-	**(2.7)**	(4.8)	**(2.7)**	(4.8)
Tax assets / (liabilities)	**110.9**	134.0	**(15.4)**	(29.1)	**95.5**	104.9

17. INTANGIBLE ASSETS

2013	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	203.8	7.4	763.0	8.1	5.0	191.0	2.1	206.2
Additions	43.6	-	29.0	2.1	74.7	-	-	28.6	2.1	30.7
Disposals	-	-	(2.0)	-	(2.0)	-	-	(0.6)	-	(0.6)
Balance at the end of the financial year	488.0	107.4	230.8	9.5	835.7	8.1	5.0	219.0	4.2	236.3
Amortisation and impairment losses										
Balance at the beginning of the financial year	-	60.7	144.2	3.5	208.4	-	5.0	140.5	1.4	146.9
Amortisation for the year	-	14.6	18.6	1.4	34.6	-	-	16.5	1.4	17.9
Balance at the end of the financial year	-	75.3	162.8	4.9	243.0	-	5.0	157.0	2.8	164.8
Carrying amounts										
Carrying amount at the beginning of the financial year	444.4	46.7	59.6	3.9	554.6	8.1	-	50.5	0.7	59.3
Carrying amount at the end of the financial year	**488.0**	**32.1**	**68.0**	**4.6**	**592.7**	**8.1**	**-**	**62.0**	**1.4**	**71.5**

17. INTANGIBLE ASSETS (CONTINUED)

2012	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	190.3	7.3	749.4	8.1	5.0	181.0	2.0	196.1
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)

Impairment testing of the cash generating units containing goodwill

	Consolidated		Bank	
The aggregate carrying amounts of goodwill are:	**2013 $m**	2012 $m	**2013 $m**	2012 $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	**-**	-
Virgin Money (Australia) Pty Ltd	**43.6**	-	**-**	-
	488.0	444.4	**8.1**	8.1

Goodwill on acquisition of all of the above entities has been allocated to the Banking cash generating unit ("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.

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 banking segment's 3 year projections (2012: 3 years);
- a medium term growth rate of 9% (2012: 9%) for the 7 years subsequent to these projections;
- a terminal value at year 10 based on a long term growth rate of 3% (2012: 3%) and a terminal price earnings multiple of 13.6 (2012: 15.1) times earnings; and
- a pre tax discount rate of 14.8% (2012: 13.8%).

The values assigned to the key assumptions represent management's assessments of future trends in 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 amounts these two assumptions are required to move to individually in order for the estimated recoverable amount to be equal to the carrying amount.

	2013 %	2012 %
Pre tax discount rate	**19**	8
Medium term growth rate	**4**	8

18. DUE TO OTHER FINANCIAL INSTITUTIONS

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Amounts payable – at call	**201.1**	177.8	**201.1**	177.8

19. DEPOSITS

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Deposits at call	**10,252.1**	8,134.9	**10,306.3**	8,216.6
Term deposits	**16,857.9**	16,753.6	**16,890.5**	16,788.7
Certificates of deposit	**4,588.7**	6,283.4	**4,588.7**	6,283.4
Total	**31,698.7**	31,171.9	**31,785.5**	31,288.7
Concentration of deposits:				
Retail deposits	**23,968.0**	22,270.0	**24,022.2**	22,351.6
Wholesale deposits	**7,730.7**	8,901.9	**7,763.3**	8,937.1
Total	**31,698.7**	31,171.9	**31,785.5**	31,288.7

20. PROVISIONS

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Employee benefits (1)	**15.4**	16.1	**13.1**	13.3
Directors' retiring allowance (2)	**-**	0.2	**-**	0.2
Leases	**0.8**	0.8	**0.4**	0.4
Product Review (3)	**44.6**	-	**44.6**	-
Other (4)	**18.1**	27.0	**10.6**	19.6
Total	**78.9**	44.1	**68.7**	33.5

(1) Employee benefits provisions consist of annual leave and long service leave entitlements for employees.
(2) The Directors' retiring allowance was frozen as at 31 August 2003 and the final benefit was paid this financial year.
(3) Product review provision for customer refunds and review costs.
(4) 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:

	Consolidated			Bank		
2013	Leases $m	Product Review $m	Other $m	Leases $m	Product Review $m	Other $m
Carrying amount at beginning of year	0.8	-	27.0	0.4	-	19.6
Additional provision recognised	0.2	46.0	5.3	0.2	46.0	3.7
Amounts utilised during the year	(0.2)	(1.4)	(14.2)	(0.2)	(1.4)	(12.7)
Carrying amount at end of year	**0.8**	**44.6**	**18.1**	**0.4**	**44.6**	**10.6**

	Consolidated			Bank		
2012	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
Amounts utilised during the year	(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

21. BORROWINGS INCLUDING SUBORDINATED NOTES

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

	Securitisation liabilities [1] $m	EMTN Program $m	ECP Program $m	Borrowings including subordinated notes [2] $m	Convertible Preference Shares [3] $m	Syndicated Loan $m	Total $m
Year ended 31 August 2013							
Balance at beginning of year	5,792.6	33.0	169.6	500.1	-	192.8	6,688.1
Proceeds from issues	3,395.8	63.8	1,535.6	-	119.9	-	5,115.1
Exchange to CPS	-	-	-	-	180.1	-	180.1
Repayments	(3,461.0)	(11.0)	(1,341.4)	(229.9)	-	-	(5,043.3)
Deferred establishment costs	(8.6)	-	-	-	(8.1)	-	(16.7)
Amortisation of deferred costs	5.5	-	-	-	0.9	0.8	7.2
Foreign exchange translation	99.8	10.5	66.6	-	-	29.5	206.4
Balance at end of the year	**5,824.1**	**96.3**	**430.4**	**270.2**	**292.8**	**223.1**	**7,136.9**

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

(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) Includes Convertible Notes which 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 2 and Tranche 3 were redeemed during the 2012 financial year and Tranche 1 in the current financial year.

(3) 3,000,000 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 prior written approval from 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 PEPS and 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.

21. BORROWINGS INCLUDING SUBORDINATED NOTES (CONTINUED)

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

	EMTN Program $m	ECP Program $m	Borrowings including subordinated notes (2) $m	Convertible Preference Shares (3) $m	Syndicated Loan $m	Total $m
Year ended 31 August 2013						
Balance at beginning of year	33.0	169.6	499.9	-	192.8	895.3
Proceeds from issues	63.8	1,535.6	-	119.9	-	1,719.3
Exchange to CPS	-	-	-	180.1	-	180.1
Repayments	(11.0)	(1,341.4)	(229.7)	-	-	(1,582.1)
Deferred establishment costs	-	-	-	(8.1)	-	(8.1)
Amortisation of deferred costs	-	-	-	0.9	0.8	1.7
Foreign exchange translation	10.5	66.6	-	-	29.5	106.6
Balance at end of the year	**96.3**	**430.4**	**270.2**	**292.8**	**223.1**	**1,312.8**

	EMTN Program $m	ECP Program $m	Borrowings including subordinated notes (2) $m	Syndicated Loan $m	Total $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

22. CAPITAL AND RESERVES

(a) Ordinary shares

	Consolidated		Bank	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Movements during the year				
Balance at the beginning of the year – fully paid	**308,797,525**	225,369,848	**308,797,525**	225,369,848
Dividend reinvestment plan	**7,809,654**	8,991,342	**7,809,654**	8,991,342
Institutional placement and entitlement offer (1)	**-**	47,690,067	**-**	47,690,067
Retail entitlement offer (1)	**-**	26,746,268	**-**	26,746,268
Virgin Money (Australia) Pty Limited acquisition (2)	**3,203,115**	-	**3,203,115**	-
Balance at the end of the year – fully paid	**319,810,294**	308,797,525	**319,810,294**	308,797,525
Treasury shares (included in ordinary shares above)				
Balance at the beginning of the year	**867,293**	906,311	**304,580**	108,000
Net acquisitions and disposals during the year	**(704,922)**	(39,018)	**(274,729)**	196,580
Balance at the end of the year	**162,371**	867,293	**29,851**	304,580

(1) In the prior year, 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.

(2) On 30 April 2013, the Bank acquired 100% of Virgin Money (Australia) Pty Limited for consideration of $42.6 million. $30.6 million of new shares were issued in two tranches (Tranche 1 - 1,585,353 and Tranche 2 1,617,762) as part of the acquisition consideration. Fair value of the ordinary shares issued was based on the listed share price of BOQ at 30 April 2013 of $10.24 per share.

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 and creditors and are fully entitled to any residual proceeds of liquidation.

22. CAPITAL AND RESERVES (CONTINUED)

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

	Consolidated		Bank	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Balance at beginning of the year – fully paid	**2,000,000**	2,000,000	**2,000,000**	2,000,000
Exchange to CPS	**(1,801,339)**	-	**(1,801,339)**	-
Redemption of PEPs	**(198,661)**	-	**(198,661)**	-
Balance at end of the year – fully paid	**-**	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 Bank is entitled to redeem, buy-back or cancel the preference shares on a call date (5 years from issue date) and each subsequent dividend payment date, subject to the prior written approval from the APRA. The Bank 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 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.

The Bank redeemed all remaining PEPS on issue on 15 April 2013 in accordance with the PEPS terms of issue. The Bank paid a pro-rata dividend on 24 December 2012. The remaining 198,661 PEPS were redeemed at the redemption price of $100 per PEPS and the final PEPS dividend paid on 15 April 2013.

(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 38 for further details of these plans.

Equity 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

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.

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.

23. SEGMENT REPORTING (CONTINUED)

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 2013 or 2012.

(a) Financial 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		Segment Total	
	2013 $m	2012 (1) $m	**2013 $m**	2012 (1) $m	**2013 $m**	2012 (1) $m
Income						
External	**816.3**	763.4	**39.6**	40.9	**855.9**	804.3
Inter-segment	**5.7**	6.6	**-**	-	**5.7**	6.6
Total operating income	**822.0**	770.0	**39.6**	40.9	**861.6**	810.9
Segment profit / (loss) before income tax	**249.6**	(43.6)	**27.0**	26.4	**276.6**	(17.2)
Income tax expense / (benefit)	**82.2**	(7.9)	**7.8**	6.3	**90.0**	(1.6)
Segment profit / (loss) after income tax	**167.4**	(35.7)	**19.2**	20.1	**186.6**	(15.6)
Results						
Interest income	**2,297.5**	2,598.6	**-**	-	**2,297.5**	2,598.6
Interest expense	**1,602.5**	1,944.7	**1.9**	2.4	**1,604.4**	1,947.1
Depreciation and amortisation	**27.4**	40.7	**0.4**	0.7	**27.8**	41.4
Impairment losses	**114.6**	401.0	**-**	-	**114.6**	401.0
Assets	**42,415.5**	41,633.5	**145.4**	159.7	**42,560.9**	41,793.2
Liabilities	**39,621.5**	38,764.6	**118.5**	126.5	**39,740.0**	38,891.1

Information provided to the Chief Operating Decision Maker no longer includes the BOQ Finance segment separately from Banking and Insurance. Therefore, the BOQ Finance segment has been removed and included within the Banking segment.

(b) Reconciliations

	2013 $m	2012 (1) $m	**2013 $m**	2012 (1) $m
	Revenue		Profit/(loss) before tax	
Segment total	**861.6**	810.9	**276.6**	(17.2)
Elimination of inter-segment revenue	**(5.7)**	(6.6)	**-**	-
Less other consolidation eliminations	**-**	-	**(0.8)**	(2.1)
Consolidated total	**855.9**	804.3	**275.8**	(19.3)
	Assets		Liabilities	
Segment total	**42,560.9**	41,793.2	**39,740.0**	38,891.1
Elimination of inter-segment bank accounts	**(33.9)**	(36.2)	**(33.9)**	(36.2)
Less other consolidation eliminations	**1.3**	1.0	**4.4**	3.9
Consolidated total	**42,528.3**	41,758.0	**39,710.5**	38,858.8

(1) The prior year has been restated so that the amounts are comparable to the current year.

(c) Geographical segments

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

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 in the Banking Book

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	**2013 %**	2012 %	**2013 $m**	2012 $m
Exposure at the end of the year	**0.90**	0.61	**6.2**	4.9
Average monthly exposure during the year	**0.78**	0.91	**5.4**	7.3
High month exposure during the year	**1.41**	1.88	**9.7**	15.3
Low month exposure during the year	**0.16**	0.06	**1.1**	0.5

24. RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(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.

(iii) Traded market risk

Market risks attributable to trading activities are primarily measured using a parametric Value-at-Risk ("VaR") based on historical data. 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 2 years 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 on historical data may prove insufficient to predict the severity of possible outcomes; and
- 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, FX, credit and equity sensitivities are monitored and measured against limits delegated by the ALCO.

The portfolio (interest rate, FX, credit and equity) VaR for the Bank's trading portfolio for the year was as follows:

Trading VaR	**2013 $m**	2012 $m
Average	**0.80**	1.59
Maximum	**1.67**	2.61
Minimum	**0.35**	0.96

(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 used for these purposes 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 the 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	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Cash and liquid assets	**873.2**	670.5	**242.2**	227.7
Due from other financial institutions	**118.5**	119.7	**23.8**	23.5
Other financial assets (including accrued interest)	**5,462.5**	5,757.2	**5,662.6**	5,843.1
Derivative financial instruments	**260.4**	276.1	**234.0**	276.1
Financial assets other than loans and advances	**6,714.6**	6,823.5	**6,162.6**	6,370.4
Gross loans and advances at amortised cost	**35,705.9**	35,004.2	**31,766.2**	31,024.7
Total financial assets	**42,420.5**	41,827.7	**37,928.8**	37,395.1
Customer commitments (1)	**1,470.3**	1,341.8	**921.7**	839.6
Total potential exposure to credit risk	**43,890.8**	43,169.5	**38,850.5**	38,234.7

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

Distribution of financial assets by credit quality

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Neither past due or impaired				
Gross loans and advances at amortised cost	**33,958.4**	32,993.3	**30,134.1**	29,143.3
Financial assets other than loans and advances	**6,714.6**	6,823.5	**6,162.6**	6,370.4
Past due but not impaired				
Gross loans and advances at amortised cost	**1,365.9**	1,485.6	**1,269.7**	1,380.9
Impaired				
Gross loans and advances at amortised cost	**381.6**	525.3	**362.4**	500.5
	42,420.5	41,827.7	**37,928.8**	37,395.1

There is no individual exposure included in impaired assets which exceeds 5.0% of shareholders' equity (2012: 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 outlined below. It is not practicable to determine the fair value of collateral held against performing loans.

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Held against past due but not impaired assets	**1,679.0**	1,777.9	**1,608.1**	1,710.6
Held against impaired assets	**260.4**	349.3	**252.1**	337.4

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							
	2013 $m				2012 $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	**22,172.9**	**2,231.4**	**24,404.3**	**6,704.8**	21,384.4	1,896.8	23,281.2	6,813.6
Satisfactory	**3,618.4**	**5,173.0**	**8,791.4**	**-**	3,616.1	5,469.0	9,085.1	-
Weak	**457.4**	**1,553.4**	**2,010.8**	**9.8**	590.1	1,500.1	2,090.2	9.9
Unrated (1)	**468.3**	**31.1**	**499.4**	**-**	547.7	-	547.7	-
	26,717.0	**8,988.9**	**35,705.9**	**6,714.6**	26,138.3	8,865.9	35,004.2	6,823.5

	Bank							
	2013 $m				2012 $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	**22,172.9**	**1,525.3**	**23,698.2**	**5,932.1**	21,384.4	1,651.6	23,036.0	6,273.1
Satisfactory	**3,618.3**	**2,783.7**	**6,391.7**	**142.3**	3,616.1	2,481.7	6,097.8	59.5
Weak	**457.4**	**709.2**	**1,208.0**	**88.2**	590.1	753.1	1,343.2	37.8
Unrated (1)	**468.3**	**31.1**	**468.3**	**-**	547.7	-	547.7	-
	26,716.9	**5,049.3**	**31,766.2**	**6,162.6**	26,138.3	4,886.4	31,024.7	6,370.4

(1) Those items that remain unrated for gross loans and advances represent mainly 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)

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	
		2013 $m	2012 $m	**2013 $m**	2012 $m
Less than 30 days	- Retail	**611.4**	651.7	**611.4**	651.7
	- Commercial	**231.5**	233.2	**159.8**	157.9
31 to 90 days	- Retail	**176.2**	162.8	**176.2**	162.8
	- Commercial	**76.0**	91.3	**56.5**	68.1
More than 90 days	- Retail	**152.2**	231.8	**152.2**	231.8
	- Commercial	**118.6**	114.8	**113.6**	108.6
		1,365.9	1,485.6	**1,269.7**	1,380.9

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 the reporting date is shown below:

	Consolidated		Bank	
Geographical concentration of credit risk for loans and advances at amortised cost (before provisions and unearned income):	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Queensland	**20,580.5**	20,893.2	**19,169.4**	19,348.4
New South Wales	**5,387.8**	4,631.1	**4,517.2**	3,864.0
Victoria	**5,659.0**	5,477.1	**4,849.3**	4,653.9
Northern Territory	**237.2**	182.9	**231.7**	176.1
Australian Capital Territory	**347.2**	413.5	**227.0**	222.0
Western Australia	**2,885.1**	2,807.4	**2,458.7**	2,437.2
South Australia	**213.8**	205.4	**120.3**	102.5
Tasmania	**196.9**	223.8	**192.6**	220.6
International (New Zealand)	**198.4**	169.8	**-**	-
	35,705.9	35,004.2	**31,766.2**	31,024.7

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, matching maturity profiles of financial assets and liabilities and liquidity scenario analysis.

Consolidated 2013	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	Policyholder $m	Total contractual cash flows $m
Financial liabilities								
Due to other financial institutions	201.1	201.1	-	-	-	-	-	201.1
Deposits	31,698.7	13,156.5	13,627.5	6,601.0	1,657.9	-	-	35,042.9
Derivative financial instruments (1)	3.4	-	1.4	1.2	1.1	-	-	3.7
Accounts payable and other liabilities	362.0	-	362.0	-	-	-	-	362.0
Securitisation liabilities (2)	5,824.1	-	868.4	1,087.7	3,379.9	1,227.7	-	6,563.7
Borrowings including subordinated notes	1,312.8	-	313.7	474.5	672.6	-	-	1,460.8
Insurance policy liabilities	72.5	-	-	-	-	-	72.5	72.5
Total	39,474.6	13,357.6	15,173.0	8,164.4	5,711.5	1,227.7	72.5	43,706.7
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	-	485.7	772.4	620.0	224.0	-	2,102.1
Contractual amounts receivable	-	-	(533.7)	(802.1)	(582.0)	(225.6)	-	(2,143.4)
	(103.3)	-	(48.0)	(29.7)	38.0	(1.6)	-	(41.3)
Off balance sheet positions								
Guarantees, indemnities and letters of credit	-	235.7	-	-	-	-	-	235.7
Customer funding commitments	-	1,234.6	-	-	-	-	-	1,234.6
	-	1,470.3	-	-	-	-	-	1,470.3

Consolidated 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	Policyholder $m	Total contractual cash flows $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

(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 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	Policyholder $m	Total contractual cash flows $m
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	-	1,211.0	-	-	-	-	-	1,211.0
	-	1,341.8	-	-	-	-	-	1,341.8

Bank 2013	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	201.1	201.1	-	-	-	-	201.1
Deposits	31,785.5	13,243.3	13,627.5	6,601.0	1,657.9	-	35,129.7
Derivative financial instruments (1)	3.4	-	1.4	1.2	1.1	-	3.7
Accounts payable and other liabilities	320.7	-	320.7	-	-	-	320.7
Borrowings including subordinated notes	1,312.8	-	313.7	474.5	672.6	-	1,460.8
Amounts due to controlled entities	2,457.5	2,457.5	-	-	-	-	2,457.5
Total	36,081.0	15,901.9	14,263.3	7,076.7	2,331.6	-	39,573.5
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	457.3	699.8	420.3	18.2	1,595.6
Contractual amounts receivable	-	-	(507.8)	(738.5)	(418.5)	(11.4)	(1,676.2)
	(101.6)	-	(50.5)	(38.7)	1.8	6.8	(80.6)
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	235.7	-	-	-	-	235.7
Customer funding commitments	-	686.0	-	-	-	-	686.0
	-	921.7	-	-	-	-	921.7

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

24. RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

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	-	708.8	-	-	-	-	708.8
	-	839.6	-	-	-	-	839.6

(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 consumer credit insurance, term life insurance, group life insurance, accidental death insurance and motor vehicle gap 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 management strategy which has been approved by its 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.

Prudential capital requirements

Prudential capital requirements established by the APRA are in place to safeguard policyholders' interests, which are primarily the ability to meet future claim payments to policyholders. These require the Company's Capital Base to exceed the Prudential Capital Requirement throughout the year, not just at year end. The level of capital requirements also take into account specific risks faced by the Bank's insurance subsidiary.

(iii) Methods to limit or transfer insurance risk exposures

Reinsurance

The insurance subsidiary uses reinsurance arrangements to pass on or cede to reinsurers, risks that are outside of the subsidiary's risk appetite.

24. RISK MANAGEMENT (CONTINUED)

(e) Insurance (continued)

(iii) Methods to limit or transfer insurance risk exposures (continued)

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 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 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 Consolidated Entity 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.

For capital adequacy purposes, a bank's capital base is the sum of Tier 1 Capital and Tier 2 Capital, net of specified deductions;

- Under APRA's previous prudential standards, Tier 1 Capital is comprised of Fundamental Tier 1 Capital and Residual Tier 1 Capital.
- Effective 1 January 2013, Tier 1 Capital will be comprised of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

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 2013 was 12.2% and the Net Tier 1 Capital was 10.0%.

Net Tier 1 Capital of 10.0% is represented by 8.6% of Net Common Equity Tier 1 Capital and 1.4% of Additional Tier 1 Capital.

From 1 January 2013 Basel III became effective. The key features of Basel III are:

- a new definition of regulatory capital under which common equity is the predominant form of Tier 1 Capital;
- a stricter approach to regulatory adjustments under which most deductions from capital are to be from Common Equity Tier 1 Capital; and
- an increase in the minimum amounts of capital that ADIs must hold. Common Equity Tier 1 Capital must be at least 4.5% of total risk weighted assets and the Tier 1 Capital ratio at least 6%.

	Consolidated [(1)]	
Qualifying capital	**2013 $m**	2012 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	**2,562.6**	2,464.6
Reserves	**41.7**	33.3
Retained profits, including current year profits	**149.6**	116.8
Total Common Equity Tier 1 Capital	**2,753.9**	2,614.7
Regulatory adjustments		
Deferred expenditure	**(124.5)**	(106.8)
Goodwill and intangibles	**(586.8)**	(541.1)
Other deductions	**(182.0)**	(164.4)
Total Regulatory adjustments	**(893.3)**	(812.3)
Net Common Equity Tier 1 Capital	**1,860.6**	n/a
Additional Tier 1 Capital	**300.0**	195.7
Net Tier 1 Capital	**2,160.6**	1,998.1
Tier 2 Capital		
Tier 2 Capital	**270.0**	499.9
General Reserve for Credit Losses	**207.7**	184.2
Other	**n/a**	8.5
Tier 2 regulatory adjustments	**n/a**	(31.5)
Net Tier 2 Capital	**477.7**	661.1
Capital Base	**2,638.3**	2,659.2
Risk Weighted Assets	**21,551.7**	21,098.1
Capital Adequacy Ratio	**12.2%**	12.6%

(1) Basel III came into effect from 1 January 2013. The standard amendments have resulted in changes to terminology and the calculation of capital. The above table reflects the terminology used under the new framework from August 2013. The August 2012 comparative balances have been compared with the most appropriate line under the new framework.

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 (a) 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 reporting date. 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					
	2013			2012		
	Notional Amount	**Fair Value Asset / (Liability)**		Notional Amount	Fair Value Asset / (Liability)	
	$m	**Asset $m**	**Liability $m**	$m	Asset $m	Liability $m
Derivatives at fair value through income statement						
Interest Rate Swaps	**18,519.9**	**18.8**	**(2.5)**	18,100.0	0.1	(0.9)
Foreign Exchange Forwards	**72.4**	**1.5**	**(0.9)**	68.9	0.7	(0.3)
Futures	**8,300.0**	**5.8**	**-**	6,085.7	3.6	-
	26,892.3	**26.1**	**(3.4)**	24,254.6	4.4	(1.2)
Derivatives held as cash flow hedges						
Interest Rate Swaps	**22,857.4**	**143.6**	**(94.6)**	29,014.0	268.3	(118.3)
Cross Currency Swaps	**914.5**	**57.4**	**(38.5)**	832.1	0.9	(133.3)
Foreign Exchange Forwards	**455.6**	**33.1**	**(0.9)**	129.8	2.5	(0.2)
	24,227.5	**234.1**	**(134.0)**	29,975.9	271.7	(251.8)
Derivatives designated as net investment hedges						
Foreign Exchange Forwards	**15.5**	**0.2**	**-**	12.9	-	-
	51,135.3	**260.4**	**(137.4)**	54,243.4	276.1	(253.0)

	Bank					
	2013			2012		
	Notional Amount	**Fair Value Asset / (Liability)**		Notional Amount	Fair Value Asset / (Liability)	
	$m	**Asset $m**	**Liability $m**	$m	Asset $m	Liability $m
Derivatives at fair value through income statement						
Interest Rate Swaps	**18,519.9**	**18.8**	**(2.5)**	18,100.0	0.1	(0.9)
Foreign Exchange Forwards	**87.9**	**1.7**	**(0.9)**	81.8	0.7	(0.4)
Futures	**8,300.0**	**5.8**	**-**	6,085.7	3.6	-
	26,907.8	**26.3**	**(3.4)**	24,267.5	4.4	(1.3)
Derivatives held as cash flow hedges						
Interest Rate Swaps	**22,857.4**	**143.6**	**(94.6)**	29,014.0	268.3	(118.3)
Cross Currency Swaps	**377.3**	**31.0**	**(10.6)**	307.0	0.9	(10.5)
Foreign Exchange Forwards	**455.6**	**33.1**	**(0.9)**	129.8	2.5	(0.2)
	23,690.3	**207.7**	**(106.1)**	29,450.8	271.7	(129.0)
	50,598.1	**234.0**	**(109.5)**	53,718.3	276.1	(130.3)

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 the reporting date for similar types of loans and advances, if the loans and advances were performing at the reporting 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 the reporting date are as follows:

		Consolidated Entity			
		Carrying value		Fair value	
	Note	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Assets carried at fair value					
Available for sale financial assets	11	**1,066.8**	1,064.9	**1,066.8**	1,064.9
Financial assets designated at fair value through profit and loss	11	**4,334.6**	4,624.5	**4,334.6**	4,624.5
Derivative assets	26	**260.4**	276.1	**260.4**	276.1
		5,661.8	5,965.5	**5,661.8**	5,965.5
Assets carried at amortised cost					
Cash and liquid assets	9	**873.2**	670.5	**873.2**	670.5
Due from other financial institutions	10	**118.5**	119.7	**118.5**	119.7
Loans and advances at amortised cost	12	**34,989.3**	34,147.2	**35,104.7**	34,290.6
		35,981.0	34,937.4	**36,096.4**	35,080.8
Liabilities carried at fair value					
Derivative liabilities	26	**(137.4)**	(253.0)	**(137.4)**	(253.0)
Insurance policy liabilities	37	**(72.5)**	(73.5)	**(72.5)**	(73.5)
		(209.9)	(326.5)	**(209.9)**	(326.5)
Liabilities carried at amortised cost					
Due to other financial institutions	18	**(201.1)**	(177.8)	**(201.1)**	(177.8)
Deposits	19	**(31,698.7)**	(31,171.9)	**(31,766.7)**	(31,240.9)
Borrowings including subordinated notes	21	**(7,136.9)**	(6,688.1)	**(7,168.7)**	(6,738.6)
Accounts payable and other liabilities		**(362.0)**	(450.4)	**(362.0)**	(450.4)
		(39,398.7)	(38,488.2)	**(39,498.5)**	(38,607.7)

26. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Other financial instruments (continued)

		Bank			
		Carrying value		Fair value	
	Note	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Assets carried at fair value					
Available for sale financial assets	11	**1,268.4**	1,152.4	**1,268.4**	1,152.4
Financial assets designated at fair value through profit and loss	11	**4,334.6**	4,624.5	**4,334.6**	4,624.5
Derivative assets	26	**234.0**	276.1	**234.0**	276.1
		5,837.0	6,053.0	**5,837.0**	6,053.0
Assets carried at amortised cost					
Cash and liquid assets	9	**242.2**	227.7	**242.2**	227.7
Due from other financial institutions	10	**23.8**	23.5	**23.8**	23.5
Loans and advances at amortised cost	12	**31,491.2**	30,654.6	**31,540.8**	30,710.8
		31,757.2	30,905.8	**31,806.8**	30,962.0
Liabilities carried at fair value					
Derivative liabilities	26	**(109.5)**	(130.3)	**(109.5)**	(130.3)
Liabilities carried at amortised cost					
Due to other financial institutions	18	**(201.1)**	(177.8)	**(201.1)**	(177.8)
Deposits	19	**(31,785.5)**	(31,288.7)	**(31,853.5)**	(31,357.7)
Borrowings including subordinated notes	21	**(1,312.8)**	(895.3)	**(1,344.6)**	(945.8)
Accounts payable and other liabilities		**(320.7)**	(404.8)	**(320.7)**	(404.8)
Amounts due to controlled entities		**(2,457.5)**	(2,553.6)	**(2,457.5)**	(2,553.6)
		(36,077.6)	(35,320.2)	**(36,177.4)**	(35,439.7)

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:

	2013	2012
Derivatives, deposits and borrowings including subordinated notes	**2.51% - 4.58%**	3.56% - 3.95%
Leases	**6.24% - 13.5%**	6.79% - 20.3%
Loans and advances at amortised cost	**4.75% - 6.85%**	5.55% - 7.3%

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	2013 Level 1 $m	2013 Level 2 $m	2013 Level 3 $m	2013 Total $m
Instruments carried at fair value				
Available for sale financial assets	426.2	630.8	9.8	1,066.8
Financial assets designated at fair value through profit and loss	134.2	4,200.4	-	4,334.6
Derivative assets	-	260.4	-	260.4
	560.4	5,091.6	9.8	5,661.8
Derivative liabilities	-	(137.4)	-	(137.4)
	560.4	4,954.2	9.8	5,524.4

Consolidated Entity	2012 Level 1 $m	2012 Level 2 $m	2012 Level 3 $m	2012 Total $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

Bank	2013 Level 1 $m	2013 Level 2 $m	2013 Level 3 $m	2013 Total $m
Instruments carried at fair value				
Available for sale financial assets	426.2	832.4	9.8	1,268.4
Financial assets designated at fair value through profit and loss	134.2	4,200.4	-	4,334.6
Derivative assets	-	234.0	-	234.0
	560.4	5,266.8	9.8	5,837.0
Derivative liabilities	-	(109.5)	-	(109.5)
	560.4	5,157.8	9.8	5,727.5

Bank	2012 Level 1 $m	2012 Level 2 $m	2012 Level 3 $m	2012 Total $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

27. NOTES TO THE STATEMENTS OF CASH FLOWS

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

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Profit / (loss) from ordinary activities after income tax	**185.8**	(17.1)	**169.7**	(3.8)
Add / (less) items classified as investing / financing activities or non-cash items				
Depreciation	**16.1**	14.8	**7.3**	7.7
Amortisation	**16.0**	4.0	**1.4**	1.3
Dividends received from subsidiaries	**-**	-	**(23.3)**	(44.2)
Software amortisation	**18.6**	24.6	**16.5**	22.3
Investments equity accounted	**1.1**	-	**-**	-
Equity settled transactions	**5.2**	4.4	**4.6**	4.4
(Profit) / loss on sale of property, plant and equipment	**(3.2)**	5.5	**(0.1)**	7.7
(Increase) / decrease in due from other financial institutions	**1.2**	12.2	**(0.3)**	2.4
(Increase) / decrease in other financial assets	**288.0**	(529.4)	**174.0**	(544.2)
(Increase) in loans and advances at amortised cost	**(741.6)**	(1,030.2)	**(741.5)**	(1,067.6)
(Increase) / decrease in derivatives	**(25.4)**	(155.4)	**(25.3)**	(185.1)
Increase / (decrease) in provision for impairment	**(100.5)**	159.1	**(95.1)**	158.7
(Increase) / decrease in deferred tax asset	**41.4**	(67.1)	**23.1**	(55.3)
(Increase) in other assets	**(16.7)**	(7.9)	**(1.8)**	(54.6)
Decrease in amounts due from controlled entities	**-**	-	**(212.3)**	(121.3)
Increase in due to other financial institutions	**23.3**	8.6	**23.3**	8.6
Increase in deposits	**518.3**	1,530.1	**488.2**	1,398.4
Increase / (decrease) in accounts payable and other liabilities	**(75.2)**	19.2	**(75.3)**	42.8
Increase / (decrease) in current tax liabilities	**23.3**	(80.5)	**24.3**	(81.7)
Increase in provisions	**35.9**	14.1	**35.2**	12.1
Decrease in deferred tax liabilities	**(18.8)**	(13.2)	**(11.5)**	13.9
Decrease in insurance policy liabilities	**(1.0)**	(5.7)	**-**	-
Increase in borrowings including subordinated notes	**28.8**	265.9	**-**	-
Net cash from operating activities	**220.6**	156.0	**(218.9)**	(477.5)

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. AUDITOR'S REMUNERATION

	Consolidated		Bank	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Audit services – KPMG Australia				
- Audit and review of the financial reports	**919.8**	1,127.1	**595.9**	818.3
- Other regulatory and audit services	**342.2**	532.6	**182.2**	346.1
	1,262.0	1,659.7	**778.1**	1,164.4
Audit related services – KPMG Australia				
- Other assurance services [1]	**230.2**	123.9	**-**	-
	230.2	123.9	**-**	-

28. AUDITOR'S REMUNERATION (CONTINUED)

	Consolidated		Bank	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Non-audit services – KPMG Australia				
- Taxation services	**225.1**	222.5	**225.1**	218.2
- Compliance services	**249.2**	-	**249.2**	-
- Other	**88.7**	75.6	**72.6**	75.6
- Due diligence services	**64.5**	103.2	**64.5**	103.2
	627.5	401.3	**611.4**	397.0

(1) Other assurance services comprise audit related services provided in relation to mortgage securitisation trusts which are consolidated under Australian Accounting Standards.

29. CONTINGENT LIABILITIES

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Guarantees	**227.3**	123.4	**227.3**	123.4
Letters of credit	**8.4**	7.4	**8.4**	7.4

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. One proceeding has been heard and the Bank is awaiting judgement. 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's intention is to defend this action vigorously. At this stage no estimate of any potential liability can be made.

The trials involving the Bank by a number of former Owner Managers in NSW are almost complete with only closing submissions remaining. It is expected that closing submissions will be completed by the end of October 2013. It is not known when judgement will be delivered. At this stage no estimate of any potential liability can be made.

30. COMMITMENTS

	Consolidated		Bank	
	2013 $m	2012 $m	**2013 $m**	2012 $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	**39.0**	41.6	**37.1**	40.0
Between 1 year and 5 years	**65.6**	70.6	**61.7**	65.2
Later than 5 years	**0.3**	2.5	**0.3**	2.5
	104.9	114.7	**99.1**	107.7
(b) Customer funding commitments				
Loans to customers approved but not drawn at year end	**1,021.5**	1,008.7	**564.5**	588.2
Amounts undrawn against lines of credit	**448.8**	333.1	**357.2**	251.4
	1,470.3	1,341.8	**921.7**	839.6

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

31. CONTROLLED ENTITIES

(a) Particulars in relation to controlled entities

	Parent entity's interest		Amount of Investment (at cost)	
Controlled entities:	**2013**	2012	**2013 $m**	2012 $m
B.Q.L. Management Pty Ltd	**100%**	100%	-	-
B.Q.L. Nominees Pty Ltd	**100%**	100%	-	-
B.Q.L. Properties Limited	**100%**	100%	5.0	5.0
Queensland Electronic Switching Pty Ltd	**100%**	100%	-	-
BOQ Equipment Finance Limited	**100%**	100%	0.1	0.1
St Andrew's Australia Services Pty Ltd	**100%**	100%	15.4	15.4
Series 2005-1 REDS Trust	**-**	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 2012-1E EHP REDS Trust	**100%**	100%	-	-
Series 2012-1E REDS Trust	**100%**	-	-	-
Series 2013-1 EHP REDS Trust	**100%**	-	-	-
Series 2013-1 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	**100%**	100%	230.2	230.2
BOQ Credit Pty Limited	**100%**	100%	-	-
BOQ Funding Pty Limited	**100%**	100%	-	-
BOQ Finance (NZ) 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%	-	-
Virgin Money (Australia) Pty Limited	**100%**	-	42.6	-
Virgin Money Home Loans Pty Limited	**100%**	-	-	-
Virgin Money Financial Services Pty Ltd	**100%**	-	-	-
			975.7	933.1

31. CONTROLLED ENTITIES (CONTINUED)

(b) Acquisition of controlled entities

On 30 April 2013, the Bank acquired 100% of Virgin Money (Australia) Pty Limited ("VMA") for consideration of $42.6 million. $30.6 million of new shares were issued in two tranches (Tranche 1 - 1,585,353 and Tranche 2 - 1,617,762) as part of the acquisition consideration. Fair value of the ordinary shares issued was based on the listed share price of BOQ at 30 April 2013 of $10.24 per share.

VMA engages in the provision of financial services (e.g: insurance, superannuation and home lending) on behalf of business partners. The Bank purchased VMA to expand its customer reach.

In the period from 30 April 2013 to 31 August 2013 VMA contributed a loss after tax of $0.2 million.

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

	Recognised values on acquisition $m	Pre-acquisition carrying amounts $m
Cash	3.9	3.9
Property, plant and equipment	0.1	0.1
Other assets	2.5	2.5
Unearned income	(1.3)	(1.3)
Accounts payable and other liabilities	(5.7)	(15.6)
Provisions	(0.5)	(0.5)
Net identifiable assets and liabilities	(1.0)	(10.9)
Goodwill and other identifiable assets on acquisition	43.6	
Total Consideration	42.6	
Consideration paid, satisfied in cash	9.8	
Equity purchase consideration	32.8	
Cash acquired	(3.9)	
Net cash outflow	5.9	

At 31 August 2013, the acquisition accounting balances were provisional due to ongoing work related to various matters which will impact the acquisition accounting entries.

The following entities were established during the financial year:

- Series 2012-1E REDS Trust was opened on 15 November 2012.
- Series 2013-1 EHP REDS Trust was opened on 17 May 2013.
- Series 2013-1 REDS Trust was opened on 26 July 2013.

(c) Disposal of controlled entities

Series 2005-1 REDS Trust was closed on 12 February 2013.

32. RELATED PARTIES INFORMATION

Controlled entities

Details of interests in controlled entities are set out in Note 31.

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 37.

33. AVERAGE BALANCES AND MARGIN ANALYSIS

	Consolidated 2013			Consolidated 2012		
	Average Balance $m	**Interest $m**	**Average Rate %**	Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Gross loans and advances at amortised cost [1]	**35,054.1**	**2,084.3**	**5.95**	34,060.9	2,345.1	6.89
Investments and other securities [1]	**6,027.8**	**213.1**	**3.54**	5,348.9	251.1	4.69
Total interest earning assets	**41,081.9**	**2,297.4**	**5.59**	39,409.8	2,596.2	6.59
Non-interest earning assets						
Property, plant and equipment	**36.8**			31.8		
Other assets	**1,367.8**			1,125.4		
Provision for impairment	**(376.3)**			(367.8)		
Total non-interest earning assets	**1,028.3**			789.4		
Total assets	**42,110.2**			40,199.2		
Interest bearing liabilities						
Retail deposits [1]	**22,890.9**	**897.9**	**3.92**	20,923.5	1,025.8	4.90
Wholesale deposits and borrowings [1]	**15,677.4**	**706.4**	**4.51**	15,850.0	918.9	5.80
Total interest bearing liabilities	**38,568.3**	**1,604.3**	**4.16**	36,773.5	1,944.7	5.29
Non-interest bearing liabilities	**705.4**			741.6		
Total liabilities	**39,273.7**			37,515.1		
Shareholders' funds	**2,836.5**			2,684.1		
Total liabilities and shareholders' funds	**42,110.2**			40,199.2		
Interest margin and interest spread						
Interest earning assets	**41,081.9**	**2,297.4**	**5.59**	39,409.8	2,596.2	6.59
Interest bearing liabilities	**38,568.3**	**1,604.3**	**4.16**	36,773.5	1,944.7	5.29
Net interest spread [2]			**1.43**			1.30
Net interest margin - on average interest earning assets	**41,081.9**	**693.1**	**1.69**	39,409.8	651.5	1.65

(1) Calculated on average monthly balances.

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

34. 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 Income Statement and consolidated Balance Sheet, comprising the Bank and its controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 August 2013 is set out as follows:

SUMMARISED INCOME STATEMENT AND RETAINED PROFITS

	Consolidated	
	2013 $m	2012 $m
Profit / (loss) before tax	**273.3**	(33.0)
Less: Income tax (expense) / benefit	**(80.7)**	4.7
Profit / (loss) for the year	**192.6**	(28.3)
Retained profits at beginning of year	**138.2**	321.1
Dividends to shareholders	**(174.6)**	(151.7)
Transfers to and from reserves	**-**	(2.9)
Retained profits at end of year	**156.2**	138.2
Profit / (loss) attributable to:		
Equity holders of the parent	**192.7**	(28.3)
Profit / (loss) for the year	**192.7**	(28.3)

34. DEED OF CROSS GUARANTEE (CONTINUED)

	Consolidated 2013 $m	Consolidated 2012 $m
Assets		
Cash and liquid assets	**350.9**	258.8
Due from other financial institutions	**1.9**	4.4
Other financial assets	**5,602.0**	5,777.0
Derivative financial instruments	**234.0**	276.1
Loans and advances at amortised cost	**34,992.4**	34,147.2
Other assets	**284.2**	258.7
Shares in controlled entities	**92.4**	49.8
Property, plant and equipment	**29.6**	31.0
Current tax asset	**-**	0.7
Deferred tax assets	**104.5**	118.1
Intangible assets	**543.6**	541.3
Investments in accounted for using the equity method	**21.4**	22.2
Total assets	**42,256.9**	41,485.3
Liabilities		
Due to other financial institutions	**201.1**	177.8
Deposits	**31,705.3**	31,188.0
Derivative financial instruments	**109.5**	130.3
Accounts payable and other liabilities	**348.9**	434.3
Current tax liabilities	**23.0**	-
Provisions	**73.9**	40.9
Borrowings including subordinated notes	**1,300.9**	886.8
Amounts due to controlled entities	**5,666.6**	5,710.3
Total liabilities	**39,429.2**	38,568.4
Net assets	**2,827.7**	2,916.9
Equity		
Issued capital	**2,562.6**	2,660.1
Reserves	**108.9**	118.6
Retained profits	**156.2**	138.2
Total equity	**2,827.7**	2,916.9

35. INSURANCE BUSINESS

The effective date of the actuarial report on life insurance policy liabilities and regulatory capital requirements, is 31 August 2013. 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 LPS: 340 *Valuation of Policy Liabilities*. 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	N/A
Direct Life	Accumulation	N/A
Real / Asia	Accumulation	N/A

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

Premium earning pattern

For single premium 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 claims frequencies. Past experience is used to set these assumptions. This earning pattern is also used to recognise commissions incurred.

For regular premium products, the UPR is based on the unearned proportion of premium for the given premium payment frequency.

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 by the Company and recent experience. The disputed claims provision is based on individual claim estimates and an assumed 50% probability of disputed claims being incurred.

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. As at 31 August 2013, 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.

Changes in assumptions relating to claims provisions would affect policy liabilities in the current period.

Variable	Impact of movement in underlying variable
Mortality rates	For 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.

35. INSURANCE BUSINESS (CONTINUED)

	2013 $m	2012 $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	**62.6**	65.5
Decrease in life insurance contract policy liabilities (i)	**(1.9)**	(2.9)
Gross life insurance contract liabilities at the end of the financial year	**60.7**	62.6
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	**(2.8)**	(2.4)
Increase / (decrease) in life reinsurance assets (ii)	**0.5**	(0.4)
Closing balance at the end of the financial year	**(2.3)**	(2.8)
Net life policy liabilities at the end of the financial year	**58.4**	59.8
(i) plus (ii) = change in life insurance contract liabilities reflected in the Income Statement	**(1.4)**	(3.3)
Components of net life insurance contract liabilities		
Future policy benefits	**81.4**	77.8
Future charges for acquisition costs	**(23.0)**	(18.0)
Total net life insurance contract policy liabilities	**58.4**	59.8
Components of general insurance liabilities		
Unearned Premium Liability	**13.3**	13.1
Outstanding Claims Liability	**0.8**	0.6
	14.1	13.7
Total Insurance Policy Liabilities	**72.5**	73.5

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.

35. INSURANCE BUSINESS (CONTINUED)

Life Insurance Regulatory Capital requirements

Since Prudential Requirements changed on 1st January 2013, the regulatory capital requirement of each fund and for the subsidiary in total is the amount required to be held in accordance with LPS 110: Capital Adequacy. 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 the Capital Base and regulatory capital requirements are in accordance with relevant Prudential Requirements.

	2013	
	Statutory Fund No. 1 $m	**Shareholders' Fund $m**
Capital Base		
Net Assets	**32.2**	**1.2**
Add / (subtract) regulatory adjustments to Net Assets	**(11.6)**	**-**
Total capital base	**20.6**	**1.2**
Asset risk charge	**1.3**	**-**
Operational risk charge	**2.1**	**-**
Total prescribed capital amount	**3.4**	**-**
Assets in excess of prescribed capital amount	**17.2**	**1.2**
Capital adequacy multiple	**6.1**	**61.9**

	2013 $m
Composition of capital Base	
Common equity tier 1 capital	**33.4**
Add / (subtract) regulatory adjustments to common equity tier 1 capital	**(11.6)**
Total capital base	**21.8**
Prescribed Capital Amount	
Statutory Fund No. 1	**3.4**
Shareholders' Fund	**-**
Additional amount to meet company minimum	**6.6**
Total prescribed capital amount	**10.0**
Assets in excess of prescribed capital amount	**11.8**
Capital adequacy multiple	**2.2**

The prudential standards determining prudential capital requirements for life insurance companies changed during the year on 1 January 2013. The prior year's prudential capital requirements are outlined below, however are not directly comparable.

Prior to 1st January 2013, the regulatory capital requirement of each statutory fund was the amount required to be held in accordance with LPS 2.04: Solvency Standard. These were 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 regulatory capital requirements were in accordance with the requirements of LPS 2.04: Solvency Standard.

35. INSURANCE BUSINESS (CONTINUED)

Life Insurance Regulatory Capital requirements (continued)

Statutory Fund No. 1	2012 $m
Solvency requirement [1]	77.5
Total assets less assets arising from reinsurance contracts	89.2
Assets in excess of solvency requirement	11.7

[1] The minimum level of assets required to be held in each statutory fund as prescribed in LPS 2.04: Solvency Standard

The Shareholders' Fund held a minimum regulatory capital requirement in accordance with Prudential Standard No. 2 (PS 2) of $10,000,000. As at 31 August 2012, the Shareholders' Fund held an excess of $853,300 above the minimum capital requirement.

Disaggregated information life insurance (before consolidation adjustments)

Summarised Statement of Profit and Loss and Other Comprehensive Income	2013 $m	2012 $m
Revenue		
Life insurance premium revenue	**62.3**	63.2
Investment income	**4.4**	5.6
Net life insurance premium revenue	**66.7**	68.8
Expenses		
Net claims and other liability expense from insurance contracts	**35.0**	36.3
Other expenses	**7.4**	7.2
	42.4	43.5
Profit / (loss) before income tax	**24.3**	25.3
Income tax expense	**(7.3)**	(7.6)
Profit / (loss) after income tax	**17.0**	17.7
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	**15.3**	16.2
Difference between actual and assumed experience	**(0.1)**	(0.5)
Summarised Balance Sheet		
Assets		
Investment assets	**98.5**	98.4
Other assets	**2.1**	1.8
	100.6	100.2
Liabilities		
Net life insurance liabilities	**50.2**	46.2
Liabilities other than life insurance liabilities	**16.9**	14.5
	67.1	60.7
Issued capital, reserves and retained profits		
Directly attributable to shareholders	**33.4**	39.5
	33.4	39.5

The life insurance business has no life investment contracts.

36. EVENTS SUBSEQUENT TO BALANCE DATE

Other than as disclosed below, no matters or circumstances have arisen since the end of the financial 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 declared after 31 August 2013, 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 2013.

37. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The Consolidated Entity's share of profit in its equity accounted investees for the year was $1.1m (2012: nil).

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

	Percentage Ownership Interest	
	2013 (%)	2012 (%)
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
Provence 2 Pty Ltd (Provence 2)	**25.00**	25.00

The above companies are proprietary companies incorporated in Australia. There are no material capital commitments or contingent liabilities relating to the joint ventures.

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

	2013 $m	2012 $m
Balance Sheet		
Current assets	**90.2**	106.5
Non-current assets	**97.8**	113.4
Total assets	**188.0**	219.9
Current liabilities	**60.9**	44.0
Non-current liabilities	**5.6**	18.9
Total liabilities	**66.5**	62.9
Net assets	**121.5**	157.0
Profit and Loss		
Revenues	**49.0**	65.4
Expenses	**(23.0)**	(23.7)
Profit	**26.0**	41.7

38. EMPLOYEE BENEFITS

(a) Superannuation commitments

The Consolidated Entity contributes to defined contribution superannuation plans which comply with the Superannuation Industry (Supervision) Act 1993.

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 to Note 5.

(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 Bank's 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 bank's	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 plan is 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 1 November 2007 - SMOP 7	3,999,000	Performance period - 2008, 2009 and 2010. These options lapsed in this financial year.	5 years

Long-Term Incentives - Award Rights

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

PARs

PARs have a vesting framework based on 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.

38. 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 and Restricted Shares								
SMOP 6 [2]	20 November 2006	20 November 2011	$2.13	$16.26	$14.90	15.0%	6.0%	4.5%
SMOP 7 [2]	1 November 2007	1 November 2012	$2.57	$19.11	$19.44	14.0%	6.5%	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%
DARs [4]	18 December 2012	18 December 2017	$6.55	Nil	$7.26	36.4%	2.8%	7.2%
Executives - Rights								
PARs [5]	29 June 2009	29 June 2014	$4.59	Nil	$8.89	35.1%	4.2%	7.2%
DARs [5]	29 June 2009	29 June 2014	$7.59	Nil	$8.89	35.1%	4.2%	7.2%
PARs [5]	23 December 2009	23 December 2014	$6.93	Nil	$11.22	36.3%	4.8%	4.6%
DARs [5]	23 December 2009	23 December 2014	$10.40	Nil	$11.22	36.3%	4.8%	4.6%
DARs [5]	28 May 2010	28 May 2015	$10.11	Nil	$11.19	36.9%	4.6%	4.6%
DARs [5]	29 November 2010	29 November 2015	$11.17	Nil	$11.45	37.1%	5.1%	4.2%
PARs [5]	29 November 2010	29 November 2015	$7.81	Nil	$11.45	37.1%	5.1%	4.2%
PARs [5]	25 January 2011	25 January 2016	$7.81	Nil	$10.12	37.1%	5.1%	4.2%
PARs [5]	16 December 2011	16 December 2016	$5.18	Nil	$7.71	36.7%	3.1%	7.0%
DARs [5]	16 December 2011 [6]	16 December 2016	$6.60	Nil	$7.71	36.7%	3.1%	7.0%
PARs [5]	1 February 2012	16 December 2017	$5.18	Nil	$7.44	37.1%	2.0%	8.5%
DARs [5]	1 February 2012 [6]	5 May 2017	$6.60	Nil	$7.44	37.1%	2.0%	8.5%
PARs [5]	10 February 2012	16 December 2017	$5.18	Nil	$7.33	37.1%	2.0%	8.5%
DARs [5]	10 February 2012 [7]	5 May 2017	$6.60	Nil	$7.33	37.1%	2.0%	8.5%
PARs [5]	26 February 2012	16 December 2017	$5.18	Nil	$7.48	37.1%	2.0%	8.5%
DARs [5]	26 February 2012 [7]	5 May 2017	$6.60	Nil	$7.48	37.1%	2.0%	8.5%
PARs [5]	29 February 2012	16 December 2017	$5.18	Nil	$7.34	37.1%	2.0%	8.5%
DARs [5]	29 February 2012 [7]	5 May 2017	$6.60	Nil	$7.34	37.1%	2.0%	8.5%
PARs [5]	10 May 2012 [7]	16 December 2017	$3.70	Nil	$6.89	37.1%	2.0%	8.5%
DARs [5]	18 December 2012	18 December 2017	$6.20	Nil	$7.26	36.4%	2.8%	7.2%
PARs [5]	18 December 2012	18 December 2017	$1.74	Nil	$7.26	36.4%	2.8%	7.2%
PARs [5]	1 March 2013	18 December 2017	$2.73	Nil	$9.13	25.9%	2.9%	5.7%
PARs [5]	14 May 2013	18 December 2018	$2.39	Nil	$9.68	25.8%	3.1%	5.4%

(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) The DARs will vest 50% in financial year 2014 and 50% in financial year 2015.

(5) Value using the trinomial pricing metholodgy.

(6) Remaining DARs will vest 50% in financial year 2014.

(7) Remaining DARs will vest 30% in financial year 2014 and 50% in financial year 2015.

(8) The DARs will vest 20% in financial year 2014, 30% in financial year 2015 and 50% in financial year 2016.

38. 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	Number of options	Weighted average exercise price	Number of options
	2013 $m	**2013 '000**	2012 $m	2012 '000
Outstanding at the beginning of the year	**19.11**	**1,391**	17.75	3,892
Forfeited / expired during the year	**19.11**	**(1,391)**	17.00	2,501
Outstanding at the end of the year	**-**	**-**	19.11	1,391
Exercisable at the end of the year		**-**		1,391

The options outstanding in the prior year, 31 August 2012, had a weighted average contractual life of 0.2 years.

During the year no options were exercised (2012: nil).

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

	Number of rights	Number of rights
	2013 '000	2012 '000
Balance at beginning of the year	2,415	1,683
Granted during the year [(1)]	1,271	1,866
Forfeited / expired during the year	(488)	(714)
Exercised during the year	(678)	(420)
Outstanding at the end of the year	2,520	2,415

The weighted average share price at the date of exercise was $8.29 (2012: $7.46).

(1) Included restricted shares in the 2012 financial year, the restricted shares were exercised during the 2013 financial year.

39. 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	
	2013 $	2012 $
Short-term employee benefits	**9,343,008**	8,155,415
Post-employment benefits	**263,992**	254,096
Long term employee benefits	**11,446**	65,132
Termination benefits	**755,978**	2,455,522
Share based employment benefits	**3,554,972**	1,847,125
	13,929,396	12,777,290

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.

39. 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, 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 2012	Granted as remuneration	Exercised / vested	Forfeited	Held at 31 August 2013	Vested during the year	Vested and exercisable at 31 August 2013
Executive Director								
Stuart Grimshaw	- DARs	-	64,620	-	-	64,620	-	-
	- PARs	121,619	166,933	-	-	288,552	-	-
Executives								
Anthony Rose	- DARs	30,030	6,258	-	-	36,288	15,015	15,015
	- PARs	75,075	50,067	-	-	125,142	-	-
	- Restricted shares	30,030	-	30,030	-	-	30,030	-
Peter Deans	- DARs	-	6,173	-	-	6,173	-	-
	- PARs	69,061	48,064	-	-	117,125	-	-
Brendan White	- DARs	75,574	6,258	37,787	-	44,045	37,787	-
	- PARs	67,476	50,067	-	-	117,543	-	-
	- Restricted shares	40,486	-	40,486	-	-	40,486	-
Matthew Baxby	- DARs	36,982	5,257	-	-	42,239	18,491	18,491
	- PARs	73,964	42,056	-	-	116,020	-	-
	- Restricted shares	29,586	-	29,586	-	-	29,586	-
Jon Sutton	- DARs	62,687	7,009	31,344	-	38,352	31,344	-
	- PARs	74,627	56,075	-	-	130,702	-	-
	- Restricted shares	104,478	-	74,627	-	29,851	74,627	-
Julie Bale (1)	- DARs	-	8,010	-	-	8,010	-	-
Brian Bissaker (2)	- PARs	-	31,748	-	-	31,748	-	-
Former Executives								
Chris Nilon	- DARs	5,224	3,655	-	4,382	-	4,497	-
	- PARs	31,466	22,063	2,425	51,104	-	2,425	-
	- Options	50,000	-	-	50,000	-	-	-
Renato Mazza	- DARs	5,693	3,655	-	4,246	-	5,102	-
	- PARs	55,402	21,929	-	77,331	-	-	-

The vesting of PARs is conditional on the Consolidated Entity's TSR performance measured against a Peer Group over a 2 to 3 year period.

No option or right held by key management personnel are vested but not exercisable at 31 August 2013.

(1) Julie Bale became a member of the key management personnel on 17 December 2012.

(2) Brian Bissaker became a member of the key management personnel on 30 April 2013.

39. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

		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
Executive Director								
Stuart Grimshaw [(1)]	- PARs	-	121,619	-	-	121,619	-	-
Executives								
Anthony Rose [(2)]	- DARs	-	30,030	-	-	30,030	-	-
	- PARs	-	75,075	-	-	75,075	-	-
	- Restricted shares	-	30,030	-	-	30,030	-	-
Peter Deans [(3)]	- PARs	-	69,061	-	-	69,061	-	-
Brendan White [(4)]	- DARs	-	75,574	-	-	75,574	-	-
	- PARs	-	67,476	-	-	67,476	-	-
	- Restricted shares	-	40,486	-	-	40,486	-	-
Matthew Baxby [(5)]	- DARs	-	36,982	-	-	36,982	-	-
	- PARs	-	73,964	-	-	73,964	-	-
	- Restricted shares	-	29,586	-	-	29,586	-	-
Jon Sutton [(6)]	- DARs	-	62,687	-	-	62,687	-	-
	- PARs	-	74,627	-	-	74,627	-	-
	- Restricted shares	-	104,478	-	-	104,478	-	-
Renato Mazza	- DARs	7,116	-	1,423	-	5,693	1,423	-
	- PARs	33,207	22,195	-	-	55,402	-	-
Chris Nilon	- Options	70,000	-	-	20,000	50,000	-	-
	- DARs [(7)]	15,303	-	10,079	-	5,224	4,933	-
	- PARs	15,883	21,283	-	5,700	31,466	-	-
Former Executives								
Keith Rodwell	- DARs	9,488	-	1,898	7,590	-	1,898	-
	- PARs	47,438	31,925	-	79,363	-	-	-
Ram Kangatharan	- Options	350,000	-	-	350,000	-	-	-
	- Restricted shares	208,000	-	108,000	-	100,000	108,000	-
	- DARs	28,736	-	28,736	-	-	28,736	-
	- PARs	155,457	-	-	155,457	-	-	-
Ewan Cameron	- DARs	7,116	-	1,423	5,693	-	1,423	-
	- PARs	47,438	30,405	-	77,843	-	-	-
Darryl Newton	- DARs	6,072	-	1,214	4,858	-	1,214	-
	- PARs	40,323	25,844	-	66,167	-	-	-
David Tonuri	- PARs	18,975	21,283	-	40,258	-	-	-

No option or right held by key management personnel were 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.

39. 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 2012	Purchases / (Sales)	Received on exercise of award rights / restricted shares	Held at 31 August 2013
Executive Director				
Stuart Grimshaw	10,825	(7,319)	-	3,506
Directors				
Steve Crane	25,678	-	-	25,678
Roger Davis	4,896	10,339	-	15,235
Carmel Gray	10,946	-	-	10,946
Michelle Tredenick	2,433	-	-	2,433
David Willis	1,414	98	-	1,512
Richard Haire	4,000	-	-	4,000
Neil Berkett (1)	-	10,600	-	10,600
Former Director				
John Reynolds (2)	5,217	-	-	-
Neil Summerson (3)	45,599	23,160	-	-
Executive				
Anthony Rose	-	-	30,030	30,030
Brendan White	-	(75,000)	78,273	3,273
Matt Baxby	-	-	29,586	29,586
Jon Sutton	-	(29,851)	105,971	76,120
Former Executive				
Chris Nilon	25,530	(2,425)	2,425	-

(1) Neil Berkett appointed as a Director on 30 July 2013.

(2) John Reynolds retired as Director on 13 December 2012.

(3) Neil Summerson retired as Chairman on 28 May 2013 and as a Director on 30 July 2013.

39. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

Ordinary shares	Held at 1 September 2011	Purchases / (Sales)	Received on exercise of award rights / restricted shares	Held at 31 August 2012
Executive Directors				
Stuart Grimshaw (1)	-	10,825	-	10,825
Directors				
Neil Summerson	27,655	17,944	-	45,599
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 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.

(3) Bill Kelty retired as Director on 31 July 2012.

39. 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:

	2013				2012			
	Balance at 1 September 2012 $	**Interest paid and payable during the year $**	**Balance at 31 August 2013 $**	**Highest balance during the year $**	Balance at 1 September 2011 $	Interest paid and payable during the year $	Balance at 31 August 2012 $	Highest balance during the year $
Former Director:								
Bill Kelty (1)	-	-	-	-	325,782	18,863	-	344,645
Neil Summerson (2)	801,767	39,834	-	804,021	864,785	52,191	801,767	864,820
Executive Director:								
Stuart Grimshaw	-	32,247	2,138,400	2,148,045	-	-	-	-
Executives:								
Brendan White	-	10,458	153,762	270,961	-	-	-	-
Former Executives:								
Keith Rodwell	-	-	-	-	2,210,556	128,940	-	2,229,559
Ram Kangatharan	-	-	-	-	3,204,675	139,332	-	4,302,916
Ewan Cameron	-	-	-	-	1,967,705	122,999	-	1,979,599
Darryl Newton	-	-	-	-	1,819,938	71,667	-	1,824,810
David Tonuri	-	-	-	-	1,335,957	21,209	-	2,074,436
Renato Mazza (3)	315,837	9,201	-	318,892	300,250	18,394	315,837	346,428

(1) Bill Kelty retired on 31 July 2012.
(2) Neil Summerson retired as Chairman on 28 May 2013 and as a Director on 30 July 2013.
(3) Renato Mazza resigned on 25 February 2013.

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 2012 (1) $	**Balance at 31 August 2013 $**	**Interest paid and payable $**	**Number in group at 31 August 2013 #**
Directors:	894,198	2,138,400	72,081	1
Executives:	315,837	153,762	19,659	1

	Balance at 1 September 2011 (2) $	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

(1) Balance as at 1 September 2012 will not equal 31 August 2012 closing balance due to changes in key management personnel during the year.
(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.

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

The following are transactions undertaken between the Consolidated Entity and key management personnel as at 31 August 2013:

	Balance as at		For the period (1)			
	01/09/12(2) $	31/08/13 $	Total Loan Repayments $	Total Loan Redraws / Further Advances $	Total Loan / Overdraft interest $	Total Fees on Loans / Overdraft $
Term Products (Loans / Advances)	**(1,210,035)**	**(2,292,162)**	**493,850**	**(2,603,395)**	**(91,740)**	**(113)**

	Balance as at		For the period (1)			
	01/09/11 (3) $	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)			
	01/09/12 (2) $	31/08/13 $	Total Deposits $	Total Withdrawals $	Total Account Fees $	Total Deposit Interest $
Term Products (Deposits)	669,014	428,104	8,180,744	(5,347,633)	(860)	21,569

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

(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 2012 will not equal 31 August 2012 closing balance due to changes in key management personnel during the year.

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

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 11 to 39, 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 2013 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 31 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 2013.

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 ninth day of October 2013

Roger Davis
Chairman

Stuart Grimshaw
Managing Director

KPMG

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 2013, and Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of 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 gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Bank of Queensland Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Bank's and the Consolidated Entity's financial position as at 31 August 2013 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 21 to 38 of the Directors' Report for the year ended 31 August 2013. 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 Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Bank of Queensland Limited for the year ended 31 August 2013, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Martin McGrath
Partner
Brisbane
9 October 2013

SHAREHOLDING DETAILS

As at 18 September 2013, the following shareholding details applied:

1. **Twenty largest ordinary shareholders**

Shareholder	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	41,997,329	13.13%
NATIONAL NOMINEES LIMITED	36,136,769	11.30%
J P MORGAN NOMINEES AUSTRALIA LIMITED	26,272,009	8.21%
CITICORP NOMINEES PTY LIMITED	12,006,717	3.75%
MILTON CORPORATION LIMITED	6,550,276	2.05%
BNP PARIBAS NOMS PTY LTD	6,160,477	1.93%
JP MORGAN NOMINEES AUSTRALIA LIMITED	6,120,234	1.91%
AMP LIFE LIMITED	3,554,370	1.11%
CORVINA HOLDINGS LIMITED	3,203,115	1.00%
CITICORP NOMINEES PTY LIMITED	2,172,778	0.68%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,091,356	0.65%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY	1,966,231	0.61%
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,344,347	0.42%
NEWECONOMY COM AU NOMINEES PTY LIMITED	1,342,338	0.42%
QIC LIMITED	1,263,981	0.40%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,120,180	0.35%
UBS NOMINEES PTY LTD	1,111,575	0.35%
BNP PARIBAS NOMINEES PTY LTD	1,036,107	0.32%
JBWERE (NZ) NOMINEES LTD	935,860	0.29%
KARATAL HOLDINGS P/L	830,380	0.26%
Total	157,216,429	49.14%

Voting rights

On a show of hands every person present who is a holder or 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.

As at 18 September 2013, the following shareholding details applied:

2. Twenty largest CPS shareholders

Shareholder	No. of ordinary shares	%
J P MORGAN NOMINEES AUSTRALIA LIMITED	67,504	2.25%
MILTON CORPORATION LIMITED	50,000	1.67%
DOMER MINING CO PTY LTD	32,200	1.07%
NAVIGATOR AUSTRALIA LTD	32,118	1.07%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	31,783	1.06%
NATIONAL NOMINEES LIMITED	25,749	0.86%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	24,740	0.82%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	24,252	0.81%
THE AUSTRALIAN NATIONAL UNIVERSITY	20,000	0.67%
NULIS NOMINEES (AUSTRALIA) LIMITED	17,446	0.58%
BNP PARIBAS NOMS PTY LTD	16,400	0.55%
WENTHOR PTY LTD THE JOHN THORSEN FAMILY	15,000	0.50%
CITICORP NOMINEES PTY LIMITED	11,518	0.38%
BCITF (QLD)	10,700	0.36%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	10,237	0.34%
SOUTHERN METROPOLITAN CEMETERIES	10,000	0.33%
F & B INVESTMENTS PTY LIMITED	10,000	0.33%
EASTCOTE PTY LTD	10,000	0.33%
MR JOHN HARRISON VALDER & MRS KAY ORMONDE VALDER	10,000	0.33%
CANTALA PTY LTD	9,150	0.31%
Total	438,797	14.62%

Voting rights

The CPS 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		CPS	
Category	2013	2012	2013	2012
1 - 1,000	56,120	55,474	6,332	4,065
1,001 - 5,000	24,722	21,665	355	208
5,001 - 10,000	4,164	3,408	22	17
10,001 - 100,000	2,134	1,696	15	11
100,000 - and over	77	66	-	1
Total	87,217	82,309	6,724	4,302

The number of ordinary shareholders holding less than a marketable parcel is 3,051.

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

4. Partly Paid Shares

There are no partly paid shares.

5. There are currently no substantial shareholders in the Bank

6. Stock exchange listing

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

7. Options

At 31 August 2013 there were no options over unissued ordinary shares.

8. On market buy-back

There is no current on market buy-back.

9. Other information

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

SHAREHOLDER INFORMATION

Share registry

Link Market Services Limited
Level 15
324 Queen Street
Brisbane Qld 4000

Australia: 1800 779 639
International: +61 2 8280 7626
Facsimile: +61 2 9287 0303

Email: boq@linkmarketservices.com.au
linkmarketservices.com.au

Company details

Bank of Queensland Limited
Level 17, BOQ Centre
259 Queen Street
Brisbane QLD 4000

Telephone: +61 7 3212 3333
Investor Relations: +61 7 3212 3990
Facsimile: +61 7 3212 3399

boq.com.au
twitter.com/boq
facebook.com/BOQOnline

Customer service

1300 55 72 72 (within Australia)
+61 7 3336 2420 (overseas)

ABN 32 009 656 740
CAN 009 656 740

ISO 14001 Environmental Management System in use.

Manufactured using elemental chlorine free (ECF) pulps.

Pulp is sourced only from responsibly managed forests.

IT'S POSSIBLE TO LOVE A BANK

BOQ