APRA BASEL III PILLAR 3 DISCLOSURES

Quarter ended 30 November 2021

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 30 November 2021

Introduction

Bank of Queensland (**Bank** or **BOQ**) is an Authorised Deposit-taking Institution (**ADI**) regulated by the Australian Prudential Regulation Authority (**APRA**) under the authority of the *Banking Act 1959*.

This report has been prepared by BOQ to meet its disclosure requirements set out in APRA's prudential standard *APS 330 'Public Disclosure'* (**APS 330**). It presents information on the Bank's capital adequacy, credit risk, securitisation exposures and liquidity coverage ratio.

In addition to this report, the Bank's main features of capital instruments are updated on an ongoing basis and are available at the Regulatory Disclosures section of the Bank's website at the following address: https://www.boq.com.au/regulatory_disclosures.

Key points

The Bank's capital management strategy aims to ensure adequate capital levels are maintained to protect deposit holders. The Bank's capital is measured and managed in line with Prudential Standards issued by APRA. The capital management plan is updated annually and submitted to the Board for approval. The approval process is designed to ensure the plan is consistent with the overall business plan and for managing capital levels on an ongoing basis.

Capital Ratios

The Board has implemented interim targets until the finalisation of APRA's new capital framework, these are: Common Equity Tier 1 Capital Ratio greater than 9.5%; and Total Capital Ratio greater than 13.0%.

As at 30 November 2021, BOQ's capital ratios, including the consolidation of ME Bank acquired on 1 July 2021, are as follows:

- Common Equity Tier 1 Capital Ratio was 9.5% (9.8% as at 31 August 2021); and
- Total Capital Ratio was 13.1% (12.6% as at 31 August 2021).

Capital Initiatives

The Bank raised AUD 400 million through the issue of subordinated debt in November 2021.

CONTENTS	PAGE

1. Capital Structure

	November 21 $m	August 21 $m
COMMON EQUITY TIER 1 CAPITAL		
Paid-up ordinary share capital	5,210	5,213
Reserves	331	346
Retained earnings, including current year earnings	370	277
Total Common Equity Tier 1 Capital	5,911	5,836
REGULATORY ADJUSTMENTS		
Deferred expenditure	(324)	(311)
Goodwill and intangibles	(1,214)	(1,180)
Other deductions	(92)	(11)
Total Regulatory Adjustments	(1,630)	(1,502)
Net Common Equity Tier 1 Capital	4,281	4,334
Additional Tier 1 Capital	610	610
Total Tier 1 Capital	4,891	4,944
TIER 2 CAPITAL		
Tier 2 Capital (1)	836	450
General Reserve for Credit Losses	171	178
Net Tier 2 Capital	1,007	628
Total Capital Base	5,898	5,572

Notes:
(1) Tier 2 capital $400m was raised in November 2021 through the issue of subordinated notes.

2. Capital Adequacy

Risk Weighted Assets	November 21 $m	August 21 $m
SUBJECT TO THE STANDARDISED APPROACH		
Government	-	-
Bank	692	774
Residential mortgages	22,100	21,774
Other retail [(1)]	16,752	16,302
Other	289	344
Corporate	90	90
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	39,923	39,284
Securitisation Exposures	78	80
Market Risk Exposures	203	142
Operational Risk Exposures	4,723	4,723
Total Risk Weighted Assets	44,927	44,229

Capital Ratios	%	%
Level 2 Total Capital Ratio	13.1	12.6
Level 2 Common Equity Tier 1 Capital Ratio	9.5	9.8
Level 2 Net Tier 1 Capital Ratio	10.9	11.2

Notes:

(1) Includes commercial lending and leasing.

3. Credit Risk

Exposure Type	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	November 21	August 21	November 21	August 21
Cash and due from financial institutions	2,779	3,069	2,924	2,866
Debt securities	9,669	9,416	9,542	8,727
Loans and advances	71,152	69,779	70,465	69,311
Off-balance sheet exposures for derivatives	647	387	517	437
Other off-balance sheet exposures [2]	4,664	4,347	4,506	4,188
Other	305	362	309	290
Total Exposures	89,216	87,360	88,263	85,819

Portfolios Subject to the Standardised Approach	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	November 21	August 21	November 21	August 21
Government	8,857	8,656	8,756	7,994
Bank	3,988	4,003	3,996	3,814
Residential mortgages	58,765	57,514	58,140	57,226
Other retail	16,999	16,566	16,782	16,208
Other	517	531	499	503
Corporate	90	90	90	74
Total Exposures	89,216	87,360	88,263	85,819

Notes:

(1) Gross credit exposures reflect credit equivalent amounts.

(2) Other off-balance sheet exposures largely relate to customer commitments. Subsequent to clarification by APRA, the Bank has adopted the concessional treatment available on housing approvals resulting in reduced exposure levels.

3. Credit Risk (continued)

November 21

Portfolios Subject to the Standardised Approach	Impaired Loans [1] $m	Past Due Loans > 90 Days [1] $m	Specific Provision Balance [2] $m	Charges for Specific Provision $m	Write-Offs $m
Government	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgages	316	236	38	(1)	(2)
Other retail	134	102	139	(2)	2
Other	–	–	–	–	–
Corporate	–	–	–	–	–
Total	450	338	177	(3)	0

August 21

Portfolios Subject to the Standardised Approach	Impaired Loans [1] $m	Past Due Loans > 90 Days [1] $m	Specific Provision Balance [2] $m	Charges for Specific Provision $m	Write-Offs $m
Government	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgages	247	187	43	(2)	2
Other retail	132	100	137	6	6
Other	–	–	–	–	–
Corporate	–	–	–	–	–
Total	379	287	180	4	8

	November 21 $m	August 21 $m
Statutory Equity Reserve for Credit Losses	57	52
Collective provision [2]	114	126
APRA General Reserve for Credit Losses	171	178

Notes:

(1) Reconciliation of impaired loans	November 21 $m	August 21 $m
Impaired Assets per table above: Credit Risk	450	379
Add: Impaired assets in off-balance sheet securitisation trusts	47	23
Less: Restructured facilities included in APS 220	(273)	(159)
Impaired Assets per Accounting Standards	224	243

(1) Excludes assets in off-balance sheet securitisation trusts as required under APRA Prudential Standard APS 220 Credit Quality.

(2) Following clarification from APRA, the stage 2 component that is delinquent is now treated as a Specific Provision and is no longer as part of the General Reserve for Credit Losses. If this change had not been made, the Specific Provision would have been reported as $170m for November 2021 and $173m for August 2021.

4. Securitisation Exposures

	November 21		August 21	
Exposure Type	Securitisation Activity $m	Gain or Loss on Sale $m	Securitisation Activity $m	Gain or Loss on Sale $m
Debt securities – Securities held in the banking book	(7)	–	(30)	–
Non market off balance sheet exposures – Securities in trading book	–	–	–	–
Cash and due from financial institutions – Liquidity facilities	–	–	(6)	–
Loans and Advances – Funding facilities	5	–	–	–
On market off balance sheet exposures – Swaps	(6)	–	(6)	–
Other	(22)	–	143	–
Total exposures (1)	(30)	–	101	–

November 21

Securitisation Exposure	Securities Held in the Banking Book $m	Securities Held in the Trading Book $m	Liquidity Facilities $m	Funding Facilities $m	Swaps $m	Other (2) $m
On-balance sheet securitisation exposure retained or purchased	346	–	33	6	–	7,682
Off-balance sheet securitisation exposure	–	–	14	17	11	–
Total exposures	346	–	47	23	11	7,682

August 21

Securitisation Exposure	Securities Held in the Banking Book $m	Securities Held in the Trading Book $m	Liquidity Facilities $m	Funding Facilities $m	Swaps $m	Other (2) $m
On-balance sheet securitisation exposure retained or purchased	353	–	33	6	–	7,704
Off-balance sheet securitisation exposure	–	–	14	12	17	–
Total	353	–	47	18	17	7,704

Notes:

(1) Includes the impact of the acquisition of ME Bank completed on 1 July 2021.

(2) Exposures relate to notes held in the Bank's on-balance sheet securitisation vehicles.

5. Liquidity Coverage Ratio

APRA requires authorised deposit-taking institutions (**ADI**) to maintain a minimum Liquidity Coverage Ratio (**LCR**) of 100 per cent. The LCR requires an ADI to hold sufficient High Quality Liquid Assets (**HQLA1**) and alternative liquid assets (covered by the Committed Liquidity Facility (**CLF**)) to meet net cash outflows (**NCO**) over a 30 day period, under a regulator defined liquidity stress scenario. BOQ manages its LCR on a daily basis with a buffer above the regulatory minimum in line with the BOQ prescribed risk appetite and management ranges.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity needs and meet internal and regulatory requirements. Liquid assets are comprised of HQLA1 (ESA balances, cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered by the CLF from the Reserve Bank of Australia (**RBA**). Assets eligible for the CLF include senior unsecured bank debt, covered bonds, asset backed securities, residential mortgage backed securities (**RMBS**) and internal RMBS that are eligible for repurchase with the RBA. BOQ has a stable, diversified and resilient deposit and funding base that aims to mitigate the chance of a liquidity stress event across various funding market conditions. BOQ uses a range of funding instruments including customer deposits, short term and long term wholesale debt instruments, securitisation and covered bonds, with the objective of lengthening tenor, diversifying funding sources and increasing the stable funding base.

BOQ's Level 2 average LCR over the November 2021 quarter was 155%, which is 6% higher than the previous August quarter average of 149%. The November quarter is the first that includes the combined entity for the full observation period. The ME acquisition was completed on 1 July 2021 and therefore part of the change across all categories should be attributed to a full quarter of ME data being included in the average calculations. HQLA1 has risen significantly due to the upcoming phase out of the CLF, as well as the associated APRA requirement that the ratio of HQLA1 to NCO remains above 100% at all times. NCO growth has also contributed to the need for more HQLA1, and at a high level, this is primarily due to balance sheet growth. This can be seen in the increase in NCO related to retail, SME and customer treasury deposits (non-operational deposits) and a higher LANA (loans approved but not advanced) balance. The following table presents detailed information on the ratio composition for the two quarters. 91 data points were used in calculating the average figures for the November 2021 quarter and 92 data points were used in calculating the average figures for the August 2021 quarter.

5. Liquidity Coverage Ratio (continued)

	Average Quarterly Performance			
	November 21		August 21	
	Total Un-Weighted Value $m	Total Weighted Value $m	Total Un-Weighted Value $m	Total Weighted Value $m
LIQUID ASSETS				
High-quality liquid assets (HQLA)		*10,599*		*8,049*
Alternative liquid assets (ALA)		*4,551*		*4,398*
Total Liquid Assets		15,150		12,447
CASH OUTFLOWS				
Retail deposits and deposits from small business customers, of which:	34,825	3,963	29,619	3,239
stable deposits	*14,588*	*729*	*12,558*	*628*
less stable deposits	*20,237*	*3,234*	*17,061*	*2,611*
Unsecured wholesale funding, of which:	7,068	3,832	6,378	3,396
non-operational deposits (all counterparties)	*6,285*	*3,049*	*5,767*	*2,785*
unsecured debt	*783*	*783*	*611*	*611*
Secured wholesale funding		43		*47*
Additional requirements, of which	6,094	1,216	4,824	1,041
outflows related to derivatives exposures and other collateral requirements	*923*	*923*	*821*	*821*
credit and liquidity facilities	*5,171*	*293*	*4,003*	*220*
Other contractual funding obligations	2,017	1,625	1,659	1,301
Other contingent funding obligations	9,032	573	8,664	667
Total Cash Outflows	59,036	11,252	51,144	9,691
CASH INFLOWS				
Secured lending (e.g. reverse repos)	175	-	233	-
Inflows from fully performing exposures	793	402	729	371
Other cash inflows	1,058	1,058	973	973
Total cash inflows	2,026	1,460	1,935	1,344
Total Net Cash Outflows	57,010	9,792	49,209	8,347
Total liquid assets		15,150		12,447
Total net cash outflows		9,792		8,347
Liquidity Coverage Ratio (%)		155%		149%