

APRA BASEL III PILLAR 3 DISCLOSURES

Quarter ended 31 May 2019

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2019

26 July 2019

This report has been prepared by Bank of Queensland Limited (Bank or BOQ) to meet its disclosure requirements under the Australian Prudential Regulation Authority's (APRA) Prudential Standard APS 330: Public Disclosure. It has been prepared using 31 May 2019 data.

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.

The Board has set the Common Equity Tier 1 Capital target range to be between 8.25% and 9.5% and the Total Capital target range to be between 11.75% and 13.5%.

As at 31 May 2019:

- Common Equity Tier 1 Capital Ratio was 8.9% (9.3% as at 28 February 2019); and
- Total Capital Ratio was 12.3% (12.7% as at 28 February 2019).

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Capital Structure

	May 19	February 19
	\$m	\$m
COMMON EQUITY TIER 1 CAPITAL		
Paid-up ordinary share capital	3,495	3,458
Reserves	(55)	2
Retained earnings, including current year profits	320	385
Total Common Equity Tier 1 Capital	3,760 ⁽¹⁾	3,845
REGULATORY ADJUSTMENTS		
Goodwill and intangibles	(900)	(887)
Deferred expenditure	(177)	(178)
Other deductions	28	(4)
Total Regulatory Adjustments	(1,049)	(1,069)
Net Common Equity Tier 1 Capital	2,711	2,776
Additional Tier 1 Capital	500	500
Total Tier 1 Capital	3,211	3,276
TIER 2 CAPITAL		
Tier 2 Capital	350	350
General Reserve for Credit Losses	181	174
Total Tier 2 Capital	531	524
Total Capital Base	3,742	3,800

Notes:

(1) Impacted by the payment of the interim dividend on 22 May 2019 and issue of new shares under the dividend reinvestment plan.

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Table 2: Main Features of Capital Instruments

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.

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Table 3: Capital Adequacy

	May 19	February 19
	\$m	\$m
Risk Weighted Assets		
SUBJECT TO THE STANDARDISED APPROACH		
Government	-	-
Bank	386	314
Residential mortgages	11,855	11,756
Other retail ⁽¹⁾	14,908	14,741
Other	98	115
Corporate	-	-
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	27,247	26,926
Securitisation Exposures	40	39
Market Risk Exposures	145	129
Operational Risk Exposures	2,885	2,885
Total Risk Weighted Assets	30,317	29,978
Capital Ratios	%	%
Level 2 Total Capital Ratio	12.3	12.7
Level 2 Common Equity Tier 1 Capital Ratio	8.9	9.3
Level 2 Net Tier 1 Capital Ratio	10.6	10.9

Notes:

(1) Includes commercial lending and leasing.

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Table 4: Credit Risk

Exposure Type	Gross Credit Exposure ⁽¹⁾ \$m		Average Gross Credit Exposure \$m	
	May 19	February 19	May 19	February 19
Cash and due from financial institutions	1,886	1,607	1,746	1,390
Debt securities	3,209	3,195	3,202	3,309
Loans and advances	43,778	43,515	43,647	43,325
Off-balance sheet exposures for derivatives	93	57	75	51
Other off-balance sheet exposures ⁽²⁾	984	939	961	936
Other	98	115	107	112
Total Exposures	50,048	49,428	49,738	49,123

Portfolios Subject to the Standardised Approach	Gross Credit Exposure ⁽¹⁾ \$m		Average Gross Credit Exposure \$m	
	May 19	February 19	May 19	February 19
Government	3,120	3,195	3,157	3,140
Bank	2,068	1,664	1,866	1,610
Residential mortgage	29,859	29,713	29,786	29,598
Other retail	14,903	14,741	14,822	14,663
Other	98	115	107	112
Corporate	-	-	-	-
Total Exposures	50,048	49,428	49,738	49,123

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.

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Table 4: Credit Risk (continued)

May 19

Portfolios Subject to the Standardised Approach	Impaired Loans ⁽¹⁾ \$m	Past Due Loans > 90 Days ⁽²⁾ \$m	Specific Provision Balance \$m	Charges for Specific Provision \$m	Write-Offs \$m
Government	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgages	242	183	27	(1)	3
Other retail	149	95	83	8	7
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	391	278	110	7	10

February 19

Portfolios Subject to the Standardised Approach	Impaired Loans ⁽¹⁾ \$m	Past Due Loans > 90 Days ⁽²⁾ \$m	Specific Provision Balance \$m	Charges for Specific Provision \$m	Write-Offs \$m
Government	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgages	227	162	27	-	1
Other retail	136	96	73	(6)	11
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	363	258	100	(6)	12

	May 19 \$m	February 19 \$m
Statutory Equity Reserve for Credit Losses	60	60
Collective provision	121	114
APRA General Reserve for Credit Losses	181	174

Notes:

	May 19 \$m	February 19 \$m
(1) Reconciliation of impaired loans		
Impaired Assets per Table 4: Credit Risk	391	363
Add: Impaired assets in off-balance sheet securitisation trusts	25	16
Less: Restructured facilities included in APS 220	(251)	(227)
Impaired Assets per Accounting Standards	165	152

(2) Excludes assets in off-balance sheet securitisation trusts as required under APRA Prudential Standard APS220 Credit Quality.

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Table 5: Securitisation Exposures

Exposure Type	May 19		February 19	
	Securitisation Activity \$m	Gain or Loss on Sale \$m	Securitisation Activity \$m	Gain or Loss on Sale \$m
Securities held in the banking book	-	-	(11)	-
Securities held in the trading book	-	-	-	-
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	-
Swaps	10	-	-	-
Other ⁽¹⁾	181	-	381	-
Total	191	-	370	-

May 19

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 ⁽¹⁾ \$m
On-balance sheet securitisation exposure retained or purchased	181	-	5	5	-	5,496
Off-balance sheet securitisation exposure	-	-	-	-	19	-
Total	181	-	5	5	19	5,496

February 19

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 ⁽¹⁾ \$m
On-balance sheet securitisation exposure retained or purchased	181	-	5	5	-	5,315
Off-balance sheet securitisation exposure	-	-	-	-	9	-
Total	181	-	5	5	9	5,315

Notes:

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

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Table 20: Liquidity Coverage Ratio

APRA requires authorised deposit-taking institutions (ADI) to maintain a minimum 100 per cent Liquidity Coverage Ratio (LCR). 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 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's average LCR over the May quarter was 141% which is higher than the previous February 2019 quarter average of 134%. Net Cash Outflows (NCO) declined since the previous quarter due to an increase in the Other Cash Inflows category. Liquid assets were higher over the same period as a result of the increased CLF for 2019 and increased HQLA holding. The following table presents detailed information on the average LCR composition for the two quarters. 92 data points were used in calculating the average figures for the May 2019 quarter and 90 data points were used in calculating the average figures for the February 2019 quarter.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements. Liquid assets comprise of HQLA1 (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 mitigates 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.

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Table 20: Liquidity Coverage Ratio (continued)

	Average Quarterly Performance			
	May 19		February 19	
	Total Un-Weighted Value \$m	Total Weighted Value \$m	Total Un-Weighted Value \$m	Total Weighted Value \$m
LIQUID ASSETS				
of which: high-quality liquid assets	n/a	3,464	n/a	3,411
of which: alternative liquid assets	n/a	3,281	n/a	3,175
Total Liquid Assets	n/a	6,745	n/a	6,586
CASH OUTFLOWS				
Customer deposits and deposits from small business customers	15,411	1,566	15,327	1,551
of which: stable deposits	6,201	310	6,427	321
of which: less stable deposits	9,210	1,256	8,900	1,230
Unsecured wholesale funding	4,119	2,535	3,909	2,343
of which: non-operational deposits	3,152	1,568	3,148	1,582
of which: unsecured debt	967	967	761	761
Secured wholesale funding	n/a	25	n/a	26
Additional requirements	2,322	823	2,243	741
of which: outflows related to derivatives exposures and other collateral requirements	744	744	662	662
of which: credit and liquidity facilities	1,578	79	1,581	79
Other contractual funding obligations	1,149	811	1,121	804
Other contingent funding obligations	9,075	552	9,331	539
Total Cash Outflows	32,076	6,312	31,931	6,004
CASH INFLOWS				
Secured lending (e.g. reverse repos)	67	-	53	-
Inflows from fully performing exposures	741	403	678	361
Other cash inflows	1,105	1,105	740	740
Total Cash Inflows	1,913	1,508	1,471	1,101
Total Net Cash Outflows	30,163	4,804	30,460	4,903
Total Liquid Assets	n/a	6,745	n/a	6,586
Total Net Cash Outflows	n/a	4,804	n/a	4,903
Liquidity Coverage Ratio (%)	n/a	141 %	n/a	134 %