

APRA BASEL III PILLAR 3 DISCLOSURES

Quarter ended 31 May 2020

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

24 July 2020

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 2020 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 9.0% and 9.5% and the Total Capital target range to be between 11.75% and 13.5%.

As at 31 May 2020:

- Common Equity Tier 1 Capital Ratio was 9.8% (9.9% as at 29 February 2020); and
- Total Capital Ratio was 12.7% (13.2% as at 29 February 2020).

| CONTENTS | PAGE |
|---|-------------|
| Capital Structure | 3 |
| Table 2: Main Features of Capital Instruments | 4 |
| Table 3: Capital Adequacy | 5 |
| Table 4: Credit Risk | 6 |
| Table 5: Securitisation Exposures | 8 |
| Table 20: Liquidity Coverage Ratio | 9 |

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

Capital Structure

| | May 20 \$m | February 20 \$m |
|---|--------------------|--------------------|
| COMMON EQUITY TIER 1 CAPITAL | | |
| Paid-up ordinary share capital | 3,870 | 3,868 |
| Reserves | 108 | 131 |
| Retained earnings, including current year profits | 181 ⁽¹⁾ | 149 |
| Total Common Equity Tier 1 Capital | 4,159 | 4,148 |
| REGULATORY ADJUSTMENTS | | |
| Goodwill and intangibles | (930) | (914) |
| Deferred expenditure | (184) | (187) |
| Other deductions | 27 | 41 |
| Total Regulatory Adjustments | (1,087) | (1,060) |
| Net Common Equity Tier 1 Capital | 3,072 | 3,088 |
| Additional Tier 1 Capital | 350 ⁽²⁾ | 500 |
| Total Tier 1 Capital | 3,422 | 3,588 |
| TIER 2 CAPITAL | | |
| Tier 2 Capital | 350 | 350 |
| General Reserve for Credit Losses | 235 ⁽³⁾ | 179 |
| Total Tier 2 Capital | 585 | 529 |
| Total Capital Base | 4,007 | 4,117 |

Notes:

- (1) Current period profits are recognised as retained profits and not recognised as reserves as any transfer made from retained profits to reserves will occur six monthly.
- (2) The Capital Notes matured in May 2020 and were repaid \$150m.
- (3) The increase in General Reserve for Credit losses is largely due to a COVID19 related collective provision.

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

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.

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

Table 3: Capital Adequacy

| | May 20 | February 20 |
|--|---------------|---------------|
| | \$m | \$m |
| Risk Weighted Assets | | |
| SUBJECT TO THE STANDARDISED APPROACH | | |
| Government | - | - |
| Bank | 636 | 483 |
| Residential mortgages | 11,938 | 11,769 |
| Other retail ⁽¹⁾ | 15,468 | 15,467 |
| Other | 202 | 244 |
| Corporate | - | - |
| Total On-Balance Sheet Assets and Off-Balance Sheet Exposures | 28,244 | 27,963 |
| Securitisation Exposures | 62 | 62 |
| Market Risk Exposures | 233 | 173 |
| Operational Risk Exposures | 2,966 | 2,966 |
| Total Risk Weighted Assets | 31,505 | 31,164 |
| Capital Ratios | % | % |
| Level 2 Total Capital Ratio | 12.7 | 13.2 |
| Level 2 Common Equity Tier 1 Capital Ratio | 9.8 | 9.9 |
| Level 2 Net Tier 1 Capital Ratio | 10.9 | 11.5 |

Notes:

(1) Includes commercial lending and leasing.

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

Table 4: Credit Risk

| Exposure Type | Gross Credit Exposure ⁽¹⁾ \$m | | Average Gross Credit Exposure \$m | |
|--|---|---------------|--------------------------------------|---------------|
| | May 20 | February 20 | May 20 | February 20 |
| Cash and due from financial institutions | 2,493 | 1,733 | 2,113 | 1,836 |
| Debt securities | 3,855 | 3,682 | 3,768 | 3,553 |
| Loans and advances | 44,576 | 44,331 | 44,454 | 44,217 |
| Off-balance sheet exposures for derivatives | 428 | 241 | 334 | 241 |
| Other off-balance sheet exposures ⁽²⁾ | 1,013 | 997 | 1,006 | 986 |
| Other | 202 | 244 | 223 | 230 |
| Total Exposures | 52,567 | 51,228 | 51,898 | 51,063 |

| Portfolios Subject to the Standardised Approach | Gross Credit Exposure ⁽¹⁾ \$m | | Average Gross Credit Exposure \$m | |
|---|---|---------------|--------------------------------------|---------------|
| | May 20 | February 20 | May 20 | February 20 |
| Government | 3,765 | 3,493 | 3,628 | 3,408 |
| Bank | 3,011 | 2,163 | 2,587 | 2,222 |
| Residential mortgage | 30,154 | 29,875 | 30,015 | 29,831 |
| Other retail | 15,435 | 15,453 | 15,445 | 15,372 |
| Other | 202 | 244 | 223 | 230 |
| Corporate | - | - | - | - |
| Total Exposures | 52,567 | 51,228 | 51,898 | 51,063 |

Notes:

(1) Gross credit exposures reflect credit equivalent amounts.

(2) Other off-balance sheet exposures largely relate to customer commitments.

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

Table 4: Credit Risk (continued)

May 20

| 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 | 181 | 226 | 36 | (1) | 2 |
| Other retail | 134 | 136 | 98 | 7 | 5 |
| Other | - | - | - | - | - |
| Corporate | - | - | - | - | - |
| Total | 315 | 362 | 134 | 6 | 7 |

February 20

| 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 | 233 | 153 | 36 | (1) | 3 |
| Other retail | 136 | 97 | 84 | (3) | 12 |
| Other | - | - | - | - | - |
| Corporate | - | - | - | - | - |
| Total | 369 | 250 | 120 | (4) | 15 |

| | May 20 \$m | February 20 \$m |
|---|---------------|--------------------|
| Statutory Equity Reserve for Credit Losses | 64 | 64 |
| Collective provision | 171 | 115 |
| Total APRA General Reserve for Credit Losses | 235 | 179 |

Notes:

| | May 20 \$m | February 20 \$m |
|---|---------------|--------------------|
| (1) Reconciliation of impaired loans | | |
| Impaired Assets per Table 4: Credit Risk | 315 | 369 |
| Add: Impaired assets in off-balance sheet securitisation trusts | 14 | 15 |
| Less: Restructured facilities included in APS 220 | (136) | (188) |
| Impaired Assets per Accounting Standards | 193 | 196 |

(1) Excludes assets in off-balance sheet securitisation trusts as required under APRA Prudential Standard APS220 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 \$120m for May 2020 and \$109m for February 2020.

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

Table 5: Securitisation Exposures

| Exposure Type | May 20 | | February 20 | |
|-------------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | Securitisation Activity \$m | Gain or Loss on Sale \$m | Securitisation Activity \$m | Gain or Loss on Sale \$m |
| Securities held in the banking book | (18) | - | 23 | - |
| Securities held in the trading book | - | - | - | - |
| Liquidity facilities | (3) | - | 2 | - |
| Funding facilities | 2 | - | (2) | - |
| Swaps | 19 | - | (1) | - |
| Other ⁽¹⁾ | 2,228 | - | 31 | - |
| Total | 2,228 | - | 53 | - |

May 20

| 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 | 252 | - | 3 | 6 | - | 7,692 |
| Off-balance sheet securitisation exposure | - | - | - | - | 54 | - |
| Total | 252 | - | 3 | 6 | 54 | 7,692 |

February 20

| 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 | 270 | - | 6 | 4 | - | 5,464 |
| Off-balance sheet securitisation exposure | - | - | - | - | 35 | - |
| Total | 270 | - | 6 | 4 | 35 | 5,464 |

Notes:

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

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

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 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 covering 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.

BOQ's average LCR over the May quarter was 140%, which is slightly higher than the previous February 2020 quarter average of 135%. Net Cash Outflows (NCO) were higher than the previous quarter due to an increase in contractual outflows predominately relating to retail deposits and unsecured wholesale funding. This was more than offset by higher liquid assets over the same period resulting in a higher average LCR for the quarter. 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 2020 quarter and 91 data points were used in calculating the average figures for the February 2020 quarter.

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2020

Table 20: Liquidity Coverage Ratio (continued)

| | Average Quarterly Performance | | | |
|--|-------------------------------|--------------------------|-----------------------------|--------------------------|
| | May 20 | | February 20 | |
| | Total Un-Weighted Value \$m | Total Weighted Value \$m | Total Un-Weighted Value \$m | Total Weighted Value \$m |
| LIQUID ASSETS | | | | |
| <i>of which: high-quality liquid assets</i> | n/a | 3,827 | n/a | 3,739 |
| <i>of which: alternative liquid assets</i> | n/a | 3,732 | n/a | 3,214 |
| Total Liquid Assets | n/a | 7,559 | n/a | 6,953 |
| CASH OUTFLOWS | | | | |
| Customer deposits and deposits from small business customers | 17,854 | 1,806 | 17,448 | 1,750 |
| <i>of which: stable deposits</i> | 7,364 | 368 | 7,024 | 351 |
| <i>of which: less stable deposits</i> | 10,490 | 1,438 | 10,424 | 1,399 |
| Unsecured wholesale funding | 4,523 | 2,630 | 4,154 | 2,259 |
| <i>of which: non-operational deposits</i> | 3,760 | 1,867 | 3,592 | 1,697 |
| <i>of which: unsecured debt</i> | 763 | 763 | 562 | 562 |
| Secured wholesale funding | n/a | 47 | n/a | 52 |
| Additional requirements | 2,308 | 821 | 2,283 | 823 |
| <i>of which: outflows related to derivatives exposures and other collateral requirements</i> | 743 | 743 | 746 | 746 |
| <i>of which: credit and liquidity facilities</i> | 1,565 | 78 | 1,537 | 77 |
| Other contractual funding obligations | 1,219 | 914 | 1,214 | 920 |
| Other contingent funding obligations | 7,927 | 459 | 9,003 | 496 |
| Total Cash Outflows | 33,831 | 6,677 | 34,102 | 6,300 |
| CASH INFLOWS | | | | |
| Secured lending (e.g. reverse repos) | 115 | - | 44 | - |
| Inflows from fully performing exposures | 681 | 376 | 664 | 370 |
| Other cash inflows | 888 | 887 | 773 | 773 |
| Total Cash Inflows | 1,684 | 1,264 | 1,481 | 1,143 |
| Total Net Cash Outflows | 32,147 | 5,413 | 32,621 | 5,157 |
| Total Liquid Assets | n/a | 7,559 | n/a | 6,953 |
| Total Net Cash Outflows | n/a | 5,413 | n/a | 5,157 |
| Liquidity Coverage Ratio (%) | n/a | 140% | n/a | 135% |