APRA BASEL III

PILLAR 3 DISCLOSURES

Quarter ended 30 November 2019

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 30 November 2019

31 January 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 30 November 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 9.0% and 9.5% and the Total Capital target range to be between 11.75% and 13.5%.

As at 30 November 2019:

- Common Equity Tier 1 Capital Ratio was 9.5% (9.0% as at 31 August 2019); and
- Total Capital Ratio was 12.8% (12.4% as at 31 August 2019).

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Capital Structure

	November 19 $m	August 19 $m
COMMON EQUITY TIER 1 CAPITAL		
Paid-up ordinary share capital	3,774 (1)	3,497
Reserves	56 (2)	171
Retained earnings, including current year profits	188 (3)	132
Total Common Equity Tier 1 Capital	4,018	3,800
REGULATORY ADJUSTMENTS		
Goodwill and intangibles	(948)	(923)
Deferred expenditure	(183)	(183)
Other deductions	50	67
Total Regulatory Adjustments	(1,081)	(1,039)
Net Common Equity Tier 1 Capital	2,937	2,761
Additional Tier 1 Capital	500	500
Total Tier 1 Capital	3,437	3,261
TIER 2 CAPITAL		
Tier 2 Capital	350	350
General Reserve for Credit Losses	173	175
Total Tier 2 Capital	523	525
Total Capital Base	3,960	3,786

Notes:

(1) The increase was primarily due to new shares issued under the $250m institutional share placement and also new shares issued under the dividend reinvestment plan for the FY19 final dividend paid in November 2019.

(2) Includes the profit reserve as at August 2019 which represents accumulated profits available for distribution as a dividend. Also includes a reduction for the FY19 final dividend payment which was made in November 2019.

(3) Current year profits are recognised as retained profits and not recognised as reserves as any transfer made from retained profits to reserves will occur six monthly.

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.

Table 3: Capital Adequacy

Risk Weighted Assets	November 19 $m	August 19 $m
SUBJECT TO THE STANDARDISED APPROACH		
Government	-	-
Bank	419	443
Residential mortgages	11,838	11,628
Other retail [(1)]	15,306	15,143
Other	216	139
Corporate	-	-
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	27,779	27,353
Securitisation Exposures	58	55
Market Risk Exposures	259	205
Operational Risk Exposures	2,920	2,920
Total Risk Weighted Assets	31,016	30,533
Capital Ratios	%	%
Level 2 Total Capital Ratio	12.8	12.4
Level 2 Common Equity Tier 1 Capital Ratio	9.5	9.0
Level 2 Net Tier 1 Capital Ratio	11.1	10.7

Notes:
(1) Includes commercial lending and leasing.

Table 4: Credit Risk

Exposure Type	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	November 19	August 19	November 19	August 19
Cash and due from financial institutions	1,940	1,845	1,893	1,865
Debt securities	3,424	4,354	3,889	3,782
Loans and advances	44,103	43,208	43,656	43,493
Off-balance sheet exposures for derivatives	241	394	317	243
Other off-balance sheet exposures [2]	975	1,102	1,038	1,043
Other	216	139	177	118
Total Exposures	50,899	51,042	50,970	50,544

Portfolios Subject to the Standardised Approach	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	November 19	August 19	November 19	August 19
Government	3,324	3,250	3,287	3,185
Bank	2,281	3,343	2,812	2,705
Residential mortgage	29,787	29,167	29,477	29,513
Other retail	15,291	15,143	15,217	15,023
Other	216	139	177	118
Corporate	-	-	-	-
Total Exposures	50,899	51,042	50,970	50,544

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.

Table 4: Credit Risk (continued)

November 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	263	156	36	1	4
Other retail	144	88	85	3	9
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	407	244	121 [3]	4	13

August 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	278	181	37	2	3
Other retail	142	91	83	-	13
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	420	272	120 [3]	2	16

	November 19 $m	August 19 $m
Statutory Equity Reserve for Credit Losses	62	62
Collective provision	111	113
APRA General Reserve for Credit Losses	173	175

Notes:

(1) Reconciliation of impaired loans	November 19 $m	August 19 $m
Impaired Assets per Table 4: Credit Risk	407	420
Add: Impaired assets in off-balance sheet securitisation trusts	24	28
Less: Restructured facilities included in APS 220	(230)	(251)
Impaired Assets per Accounting Standards	200	197

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

(3) Following clarification from APRA, the stage 2 component that is delinquent is treated as a Specific Provision and not part of the General Reserve for Credit Losses. Without this treatment, the Specific Provision would have been reported as $111m for November 2019 and $108m for August 2019.

Table 5: Securitisation Exposures

	November 19		August 19	
Exposure Type	Securitisation Activity $m	Gain or Loss on Sale $m	Securitisation Activity $m	Gain or Loss on Sale $m
Securities held in the banking book	19	-	47	-
Securities held in the trading book	-	-	-	-
Liquidity facilities	-	-	(1)	-
Funding facilities	-	-	1	-
Swaps	(3)	-	20	-
Other [1]	(37)	-	(26)	-
Total	21	-	41	-

November 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	247	-	4	6	-	5,433
Off-balance sheet securitisation exposure	-	-	-	-	36	-
Total	247	-	4	6	36	5,433

August 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	228	-	4	6	-	5,470
Off-balance sheet securitisation exposure	-	-	-	-	39	-
Total	228	-	4	6	39	5,470

Notes:

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

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 November quarter was 135%, which is slightly less than the previous August 2019 quarter average of 140%. Net Cash Outflows (NCO) were higher since the previous quarter due to an increase in contractual outflows relating to retail deposits and unsecured wholesale funding. Liquid assets were higher over the same period as a result of increased HQLA. The following table presents detailed information on the average LCR composition for the two quarters. 91 data points were used in calculating the average figures for the November 2019 quarter and 92 data points were used in calculating the average figures for the August 2019 quarter.

Table 20: Liquidity Coverage Ratio (continued)

	Average Quarterly Performance			
	November 19		August 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	3,817	n/a	3,659
of which: alternative liquid assets	n/a	3,279	n/a	3,280
Total Liquid Assets	n/a	7,096	n/a	6,939
CASH OUTFLOWS				
Customer deposits and deposits from small business customers	17,342	1,748	15,602	1,576
of which: stable deposits	6,964	348	6,339	317
of which: less stable deposits	10,378	1,400	9,263	1,259
Unsecured wholesale funding	4,546	2,659	4,474	2,564
of which: non-operational deposits	3,659	1,772	3,640	1,730
of which: unsecured debt	887	887	834	834
Secured wholesale funding	n/a	36	n/a	25
Additional requirements	2,209	776	2,175	772
of which: outflows related to derivatives exposures and other collateral requirements	701	701	698	698
of which: credit and liquidity facilities	1,508	75	1,477	74
Other contractual funding obligations	1,237	891	1,191	855
Other contingent funding obligations	8,992	510	8,917	525
Total Cash Outflows	34,226	6,620	32,359	6,317
CASH INFLOWS				
Secured lending (e.g. reverse repos)	223	-	193	-
Inflows from fully performing exposures	768	422	745	409
Other cash inflows	952	952	934	934
Total Cash Inflows	1,943	1,374	1,872	1,343
Total Net Cash Outflows	32,283	5,246	30,487	4,974
Total Liquid Assets	n/a	7,096	n/a	6,939
Total Net Cash Outflows	n/a	5,246	n/a	4,974
Liquidity Coverage Ratio (%)	n/a	135 %	n/a	140 %