APRA BASEL III PILLAR 3 DISCLOSURES

Quarter Ended 30 November 2022

BOQ GROUP

2022

Bank of Queensland Limited, Basel III Pillar 3 Disclosures

For the Quarter Ended 30 November 2022

Contents

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 APRA's new capital framework comes into effect on 1 January 2023, these are: Common Equity Tier 1 Capital Ratio greater than 9.5%; and Total Capital Ratio greater than 13.0%.

We intend to operate with CET1 above the target range of 9.0-9.5%.

As at 30 November 2022, BOQ's capital ratios are as follows:

- Common Equity Tier 1 Capital Ratio was 9.5% (9.6% as at 31 August 2022); and
- Total Capital Ratio was 14.1% (13.8% as at 31 August 2022).

Capital Initiatives

The Bank raised AUD 400 million through the issue of Capital Notes 3 and redeemed AUD 200 million ME Bank Capital Notes Series 1 in November 2022.

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1. Capital Structure

	November 22 $m	August 22 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	5,282	5,258
Reserves	600	781
Retained earnings, including current year earnings	439	300
Total Common Equity Tier 1 Capital	**6,321**	6,339
Regulatory Adjustments		
Deferred expenditure	(416)	(404)
Goodwill and intangibles	(1,272)	(1,257)
Other deductions	(270)	(308)
Total Regulatory Adjustments	**(1,958)**	(1,969)
Net Common Equity Tier 1 Capital	**4,363**	4,370
Additional Tier 1 Capital (1)	1,110	910
Total Tier 1 Capital	**5,473**	5,280
Tier 2 Capital		
Tier 2 Capital	836	836
General Reserve for Credit Losses	177	176
Net Tier 2 Capital	**1,013**	1,012
Total Capital Base	**6,486**	6,292

(1) Additional Tier 1 Capital $400m was raised in November 2022 through the issue of Capital Notes 3, partly offset by redemption of $200m ME Bank Capital Notes Series 1.

2. Capital Adequacy

Risk weighted assets	November 22 $m	August 22 $m
Subject to the standardised approach		
Government	-	-
Bank	530	505
Residential Mortgages	22,674	22,544
Other retail (1)	17,149	17,013
Other	381	388
Corporate	-	-
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	**40,734**	40,450
Securitisation Exposures	**52**	58
Market Risk Exposures	**44**	116
Operational Risk Exposures	**5,045**	5,045
Total Risk Weighted Assets	**45,875**	45,669

Capital ratios	%	%
Level 2 Total Capital Ratio	**14.1**	13.8
Level 2 Common Equity Tier 1 Capital Ratio	**9.5**	9.6
Level 2 Net Tier 1 Capital Ratio	**11.9**	11.6

(1) Includes commercial lending and leasing.

3. Credit Risk

Exposure Type	Gross Credit Exposure [1]		Average Gross Credit Exposure	
	November 22 $m	August 22 $m	November 22 $m	August 22 $m
Cash and due from financial institutions	2,164	2,224	2,194	2,344
Debt securities	7,278	8,187	7,732	8,134
Loans and advances	75,055	74,279	74,667	73,918
Off-balance sheet exposures for derivatives	1,716	1,789	1,753	1,559
Other off-balance sheet exposures [2]	2,806	2,947	2,876	3,092
Other	381	388	385	368
Total Exposures	**89,400**	89,814	**89,607**	89,415

Portfolios subject to the standardised approach	Gross Credit Exposure [1]		Average Gross Credit Exposure	
	November 22 $m	August 22 $m	November 22 $m	August 22 $m
Government	7,278	8,187	7,732	8,213
Bank	3,881	4,013	3,947	3,823
Residential mortgages	60,252	59,745	59,998	59,682
Other retail	17,608	17,481	17,545	17,329
Other	381	388	385	368
Corporate	-	-	-	-
Total Exposures	**89,400**	89,814	**89,607**	89,415

(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 22

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	212	251	37	(3)	-
Other retail	110	111	129	-	5
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	**322**	**362**	**166**	**(3)**	**5**

August 22

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	240	266	39	(2)	(1)
Other retail	111	80	127	(6)	8
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	351	346	166	(8)	7

	November 22 $m	August 22 $m
Statutory Equity Reserve for Credit Losses	55	58
Collective provision [2]	122	118
APRA General Reserve for Credit Losses	**177**	176

Notes:

(1) Reconciliation of impaired loans	November 22 $m	August 22 $m
Impaired Assets per table above: Credit Risk	**322**	351
Add: Impaired assets in off-balance sheet securitisation trusts	19	23
Less: Restructured facilities included in APS 220	(202)	(221)
Impaired Assets per Accounting Standards	**139**	153

(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 $155m for November 2022 and $155m for August 2022.

4. Securitisation Exposures

	November 22		August 22	
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	(24)	-	(19)	-
Non market off balance sheet exposures - Securities in trading book	-	-	-	-
Cash and due from financial institutions - Liquidity facilities	(1)	-	6	-
Loans and Advances - Funding facilities	(3)	-	(1)	-
On market off balance sheet exposures - Swaps	(3)	-	(4)	-
Other	(69)	-	(38)	-
Total Exposures	**(100)**	**-**	(56)	-

November 22

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	182	-	60	15	-	12,965
Off-balance sheet securitisation exposure	-	-	-	-	2	-
Total Exposures	**182**	**-**	**60**	**15**	**2**	**12,965**

August 22

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	206	-	61	18	-	13,034
Off-balance sheet securitisation exposure	-	-	-	-	5	-
Total Exposures	206	-	61	18	5	13,034

(1) 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 the regulatory minimum, with appropriate additional Board and management buffers set in line with the Group risk appetite. 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 average Level 2 LCR over the November 2022 quarter was 139%, which is 3% higher than the previous August 2022 quarter average of 136%. The Bank continues to build its HQLA1 balance to offset the CLF as it is reduced throughout 2022. BOQ's CLF declined by $1.2b on 1 September 2022. The decline in NCO's over the quarter was primarily due to reductions in retail deposit funding, unsecured wholesale funding in the LCR window and other contractual funding obligations. 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 2022 quarter and 92 data points were used in calculating the average figures for the August 2022 quarter.

5. Liquidity Coverage Ratio (continued)

Average Quarterly Performance	November 22		August 22	
	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)		13,941		13,130
Alternative liquid assets (ALA)		903		2,068
Total Liquid Assets		**14,844**		15,198
Cash Outflows				
Retail deposits and deposits from small business customers, of which:	35,348	4,360	36,471	4,547
stable deposits	14,430	722	15,111	756
less stable deposits	20,918	3,638	21,360	3,791
Unsecured wholesale funding, of which:	6,808	3,816	7,375	4,174
non-operational deposits (all counterparties)	6,202	3,210	6,358	3,159
unsecured debt	606	606	1,017	1,015
Secured wholesale funding		139		105
Additional requirements, of which	8,288	1,517	7,771	1,721
outflows related to derivatives exposures and other collateral requirements	1,160	1,160	1,378	1,378
credit and liquidity facilities	7,128	357	6,393	343
Other contractual funding obligations	2,026	1,586	2,144	1,710
Other contingent funding obligations	10,692	748	10,725	714
Total Cash Outflows	**63,162**	**12,166**	64,486	12,971
Cash Inflows				
Inflows from fully performing exposures	880	440	868	434
Other cash inflows	1,055	1,055	1,339	1,336
Total Cash Inflows	**1,935**	**1,495**	2,207	1,770
Total Net Cash Outflows	**61,227**	**10,671**	62,279	11,201
Total liquid assets		**14,844**		15,198
Total net cash outflows		**10,671**		11,201
Liquidity Coverage Ratio (%)		**139%**		136%