BOQ GROUP

APRA BASEL III PILLAR 3 DISCLOSURES

Quarter ended 31 May 2022

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BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2022

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 31 May 2022, 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% (9.7% as at 28 February 2022); and
- Total Capital Ratio was 13.8% (13.9% as at 28 February 2022).

CONTENTS | **PAGE**

1. Capital Structure

	May 22 $m	February 22 $m
COMMON EQUITY TIER 1 CAPITAL		
Paid-up ordinary share capital	5,252	5,218
Reserves	525	487
Retained earnings, including current year earnings	440	349
Total Common Equity Tier 1 Capital	6,217	6,054
REGULATORY ADJUSTMENTS		
Deferred expenditure	(380)	(350)
Goodwill and intangibles	(1,208)	(1,197)
Other deductions	(336)	(136)
Total Regulatory Adjustments	(1,924)	(1,683)
Net Common Equity Tier 1 Capital	4,293	4,371
Additional Tier 1 Capital	910	910
Total Tier 1 Capital	5,203	5,281
TIER 2 CAPITAL		
Tier 2 Capital	836	836
General Reserve for Credit Losses	175	167
Net Tier 2 Capital	1,011	1,003
Total Capital Base	6,214	6,284

2. Capital Adequacy

Risk Weighted Assets	May 22 $m	February 22 $m
SUBJECT TO THE STANDARDISED APPROACH		
Government	–	–
Bank	416	441
Residential mortgages	22,506	22,018
Other retail[1]	16,722	17,105
Other	347	322
Corporate	–	–
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	39,991	39,886
Securitisation Exposures	62	77
Market Risk Exposures	86	256
Operational Risk Exposures	4,944	4,944
Total Risk Weighted Assets	45,083	45,162

Capital Ratios	%	%
Level 2 Total Capital Ratio	13.8	13.9
Level 2 Common Equity Tier 1 Capital Ratio	9.5	9.7
Level 2 Net Tier 1 Capital Ratio	11.5	11.7

Notes:
(1) Includes commercial lending and leasing.

3. Credit Risk

Exposure Type	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	May 22	February 22	May 22	February 22
Cash and due from financial institutions	2,463	2,605	2,534	2,692
Debt securities	8,080	8,625	8,353	9,147
Loans and advances	73,557	72,120	72,838	71,636
Off-balance sheet exposures for derivatives	1,329	719	1,024	683
Other off-balance sheet exposures [2]	3,238	3,143	3,191	3,904
Other	348	322	335	313
Total Exposures	89,015	87,534	88,275	88,375

Portfolios Subject to the Standardised Approach	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	May 22	February 22	May 22	February 22
Government	8,238	8,629	8,434	8,743
Bank	3,632	3,320	3,476	3,654
Residential mortgages	59,619	57,708	58,663	58,237
Other retail	17,178	17,555	17,367	17,277
Other	348	322	335	419
Corporate	-	-	-	45
Total Exposures	89,015	87,534	88,275	88,375

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)

May 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	210	315	43	(5)	5
Other retail	116	100	131	1	6
Other	–	–	–	–	–
Corporate	–	–	–	–	–
Total	326	415	174	(4)	11

February 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	254	308	42	(1)	(4)
Other retail	125	102	138	(2)	3
Other	–	–	–	–	–
Corporate	–	–	–	–	–
Total	379	410	180	(3)	(1)

	May 22 $m	February 22 $m
Statutory Equity Reserve for Credit Losses	63	63
Collective provision [2]	112	104
APRA General Reserve for Credit Losses	175	167

Notes:

(1) Reconciliation of impaired loans	May 22 $m	February 22 $m
Impaired Assets per table above: Credit Risk	326	379
Add: Impaired assets in off-balance sheet securitisation trusts	30	30
Less: Restructured facilities included in APS 220	(184)	(215)
Impaired Assets per Accounting Standards	172	194

(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 $162m for May 2022 and $163m for February 2022.

4. Securitisation Exposures

	May 22		February 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	(90)	–	(31)	–
Non market off balance sheet exposures – Securities in trading book	–	–	–	–
Cash and due from financial institutions – Liquidity facilities	–	–	8	–
Loans and Advances – Funding facilities	(1)	–	(3)	–
On market off balance sheet exposures – Swaps	(2)	–	–	–
Other	(46)	–	5,436	–
Total Exposures	(139)	–	5,410	–

May 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	225	–	55	19	–	13,072
Off-balance sheet securitisation exposure	–	–	–	–	9	–
Total Exposures	225	–	55	19	9	13,072

February 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	315	–	55	20	–	13,118
Off-balance sheet securitisation exposure	–	–	–	–	11	–
Total Exposures	315	–	55	20	11	13,118

Notes:

(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 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 May 2022 quarter was 139%, which was 13% lower than the previous February quarter average of 152%. BOQ's CLF declined $1.2bln to $2.4bln on 1 May 2022 and the LCR impact of this was partially offset by a higher HQLA balance. NCO growth over the quarter primarily occurred due to a higher balance of retail deposits in the LCR window and a reduction in other cash inflows. The following table presents detailed information on the ratio composition for the two quarters. 92 data points were used in calculating the average figures for the May 2022 quarter and 90 data points were used in calculating the average figures for the February 2022 quarter.

5. Liquidity Coverage Ratio (continued)

	Average Quarterly Performance			
	May 22		February 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)		*11,724*		*11,458*
Alternative liquid assets (ALA)		*2,991*		*3,806*
Total Liquid Assets		14,715		15,264
CASH OUTFLOWS				
Retail deposits and deposits from small business customers, of which:	37,175	4,444	36,021	4,169
stable deposits	*14,815*	*741*	*14,800*	*740*
less stable deposits	*22,360*	*3,703*	*21,221*	*3,429*
Unsecured wholesale funding, of which:	6,758	3,543	6,984	3,595
non-operational deposits (all counterparties)	*6,212*	*2,997*	*6,542*	*3,153*
unsecured debt	*546*	*546*	*442*	*442*
Secured wholesale funding		46		*52*
Additional requirements, of which	6,390	1,311	6,364	1,378
outflows related to derivatives exposures and other collateral requirements	*1,013*	*1,013*	*1,084*	*1,084*
credit and liquidity facilities	*5,377*	*298*	*5,280*	*294*
Other contractual funding obligations	2,281	1,876	2,240	1,829
Other contingent funding obligations	10,735	685	9,857	612
Total Cash Outflows	63,339	11,905	61,466	11,635
CASH INFLOWS				
Inflows from fully performing exposures	812	406	848	437
Other cash inflows	916	916	1,162	1,162
Total cash inflows	1,728	1,322	2,010	1,599
Total Net Cash Outflows	61,611	10,583	59,456	10,036
Total liquid assets		14,715		15,264
Total net cash outflows		10,583		10,036
Liquidity Coverage Ratio (%)		139%		152%