APRA BASEL III PILLAR 3 DISCLOSURES

Quarter Ended 31 May 2023

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BOQ GROUP

2023

Bank of Queensland Limited, Basel III Pillar 3 Disclosures

For the Quarter Ended 31 May 2023

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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

Under APRA's Basel III new capital framework, effective from 1 January 2023, the Board has implemented new management target ranges, these are: Common Equity Tier 1 Capital Ratio 10.25-10.75%; Tier 1 Capital Ratio 11.75-12.50% and Total Capital Ratio 13.75-14.50%.

As at 31 May 2023, BOQ's capital ratios are as follows:

- Common Equity Tier 1 Capital Ratio was 10.76% (10.71% as at 28 February 2023);
- Tier 1 Capital Ratio was 13.44% (13.42% as at 28 February 2023); and
- Total Capital Ratio was 15.38% (15.89% as at 28 February 2023).

Capital Initiatives

The Bank redeemed AUD 200 million subordinated debt in May 2023.

Bank of Queensland Limited, Basel III Pillar 3 Disclosures

For the Quarter Ended 31 May 2023

1. Capital Structure

	May 23 $m	February 23 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	**5,286**	5,286
Reserves	**461**	515
Retained earnings, including current year earnings	**419**	316
Total Common Equity Tier 1 Capital	**6,166**	6,117
Regulatory Adjustments		
Deferred expenditure	**(433)**	(427)
Goodwill and intangibles	**(1,085)**	(1,073)
Other deductions	**(189)**	(223)
Total Regulatory Adjustments	**(1,707)**	(1,723)
Net Common Equity Tier 1 Capital	**4,459**	4,394
Additional Tier 1 Capital	**1,110**	1,110
Total Tier 1 Capital	**5,569**	5,504
Tier 2 Capital		
Tier 2 Capital (1)	**636**	836
Provisions eligible for inclusion in Tier 2 Capital	**168**	177
Net Tier 2 Capital	**804**	1,013
Total Capital Base	**6,373**	6,517

(1) Tier 2 Capital decreased by $200m in May 2023 post the redemption of subordinated debt.

2. Capital Adequacy

Risk Weighted Assets	May 23 $m	February 23 $m
Subject to the standardised approach		
Government	**58**	57
Bank	**468**	504
Residential Mortgages	**22,863**	23,163
Other retail [(1)]	**8,451**	8,410
Other	**541**	528
Corporate	**5,767**	5,679
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	**38,148**	38,341
Securitisation Exposures	**43**	49
Market Risk Exposures	**49**	46
Operational Risk Exposures [(2)]	**3,209**	2,584
Total Risk Weighted Assets	**41,449**	41,020

Capital Ratios	%	%
Level 2 Total Capital Ratio	**15.38**	15.89
Level 2 Common Equity Tier 1 Capital Ratio	**10.76**	10.71
Level 2 Net Tier 1 Capital Ratio	**13.44**	13.42

(1) Includes commercial property, leasing and personal.
(2) The quarter-on-quarter movement was driven by APRA's requirement for BOQ to hold an operational risk capital add-on of $50m, equivalent RWA amount of $625m, effective from 30 May 2023.

3. Credit Risk

Exposure Type	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	May 23	February 23	**May 23**	February 23
Cash and due from financial institutions	**1,547**	1,659	**1,603**	1,683
Debt securities	**17,269**	18,175	**17,722**	19,113
Loans and advances	**75,489**	75,751	**75,620**	75,659
Off-balance sheet exposures for derivatives	**162**	174	**168**	170
Other off-balance sheet exposures [2]	**6,688**	5,559	**6,124**	5,169
Other	**541**	528	**534**	506
Total Exposures	**101,696**	101,846	**101,771**	102,300

Portfolios subject to the standardised approach	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	May 23	February 23	**May 23**	February 23
Government	**18,776**	18,573	**18,675**	19,246
Bank	**1,714**	1,844	**1,779**	1,863
Residential mortgages	**63,568**	63,919	**63,743**	63,720
Other retail	**10,023**	10,002	**10,013**	9,935
Other	**541**	528	**534**	506
Corporate	**7,074**	6,980	**7,027**	7,030
Total Exposures	**101,696**	101,846	**101,771**	102,300

(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 23

Portfolios subject to the standardised approach	Non-performing Loans [1] $m	Specific Provision Balance [2] $m	Charges for Specific Provision $m	Write-Offs $m
Government	-	-	-	-
Bank	-	-	-	-
Residential mortgages	599	57	(1)	1
Other retail	227	65	-	3
Other	-	-	-	-
Corporate	96	59	1	3
Total	**922**	**181**	**-**	**7**

February 23

Portfolios subject to the standardised approach	Non-performing Loans [1] $m	Specific Provision Balance [2] $m	Charges for Specific Provision $m	Write-Offs $m
Government	-	-	-	-
Bank	-	-	-	-
Residential mortgages	520	48	(1)	1
Other retail	151	52	4	7
Other	-	-	-	-
Corporate	111	66	(8)	2
Total	782	166	(5)	10

	May 23 $m	February 23 $m
Statutory Equity Reserve for Credit Losses	30	40
Collective provision [2]	138	137
General provisions	**168**	177

(1) Excludes assets in off-balance sheet securitisation trusts as required under APRA Prudential Standard APS 220 Credit Risk Management.
(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 Provisions. If this change had not been made, the Specific Provision would have been reported as $165m for May 2023 and $151m for February 2023.

4. Securitisation Exposures

Exposure Type	May 23 Securitisation Activity $m	May 23 Gain or Loss on Sale $m	February 23 Securitisation Activity $m	February 23 Gain or Loss on Sale $m
Debt securities - Securities held in the banking book	**(23)**	**-**	(16)	-
Non market off-balance sheet exposures - Securities in trading book	**-**	**-**	-	-
Cash and due from financial institutions - Liquidity facilities	**(2)**	**-**	(2)	-
Loans and Advances - Funding facilities	**(2)**	**-**	1	-
On market off-balance sheet exposures - Swaps	**(1)**	**-**	-	-
Other	**(19)**	**-**	75	-
Total Exposures	**(47)**	**-**	58	-

May 23

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	**143**	**-**	**56**	**14**	**-**	**13,021**
Off-balance sheet securitisation exposure	**-**	**-**	**-**	**-**	**1**	**-**
Total Exposures	**143**	**-**	**56**	**14**	**1**	**13,021**

February 23

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	166	-	58	16	-	13,040
Off-balance sheet securitisation exposure	-	-	-	-	2	-
Total Exposures	166	-	58	16	2	13,040

(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**) 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). 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 May 2023 quarter was 147%, which is 4% lower than the previous February 2023 quarter average of 151%. The reduction in LCR is primarily due to an increase in cash outflows from a higher balance of secured wholesale funding and retail deposits in the LCR window, however this impact was partially offset by a reduction in other contractual funding obligations. HQLA growth in the quarter had a small positive impact on the LCR. The following table presents detailed information on the ratio composition for the two quarters. 63 data points were used in calculating the average figures for the May 2023 quarter and 60 data points were used in calculating the average figures for the February 2023 quarter.

5. Liquidity Coverage Ratio (continued)

Average Quarterly Performance	May 23 Total Un-Weighted Value $m	May 23 Total Weighted Value $m	February 23 Total Un-Weighted Value $m	February 23 Total Weighted Value $m
Liquid Assets				
*High-quality liquid assets (**HQLA**)*		18,317		17,919
*Alternative liquid assets (**ALA**)*		-		263
Total Liquid Assets		18,317		18,182
Cash Outflows				
Retail deposits and deposits from small business customers, of which:	38,230	5,374	38,434	5,212
stable deposits	13,318	666	13,924	696
less stable deposits	24,912	4,708	24,510	4,516
Unsecured wholesale funding, of which:	7,662	4,590	7,520	4,558
non-operational deposits (all counterparties)	6,949	3,877	6,704	3,742
unsecured debt	713	713	816	816
Secured wholesale funding		638		170
Additional requirements, of which	8,953	1,684	8,263	1,411
outflows related to derivatives exposures and other collateral requirements	1,257	1,257	1,050	1,050
credit and liquidity facilities	7,696	427	7,213	361
Other contractual funding obligations	1,540	1,090	1,739	1,298
Other contingent funding obligations	11,181	835	11,121	828
Total Cash Outflows	67,566	14,211	67,077	13,477
Cash Inflows				
Inflows from fully performing exposures	925	475	902	461
Other cash inflows	1,249	1,249	1,014	1,014
Total Cash Inflows	2,174	1,724	1,916	1,475
Total Net Cash Outflows	65,392	12,487	65,161	12,002
Total liquid assets		18,317		18,182
Total net cash outflows		12,487		12,002
Liquidity Coverage Ratio (%)		147%		151%

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