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APRA BASEL III PILLAR 3

Monday, 26 July 2021, Brisbane: Bank of Queensland Limited (**BOQ**) wishes to release the attached APRA Basel III Pillar 3 report relating to the period ending 31 May 2021.

ENDS

Authorised for release by: The Chief Financial Officer & Chief Operating Officer, Bank of Queensland Limited

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APRA BASEL III PILLAR 3 DISCLOSURES

Quarter ended 31 May 2021

BANK OF QUEENSLAND LIMITED, BASEL III PILLAR 3 DISCLOSURES

For the Quarter Ended 31 May 2021

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 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 2021:

- Common Equity Tier 1 Capital Ratio was 14.1% (10.0% as at 28 February 2021); and
- Total Capital Ratio was 18.0% (13.8% as at 28 February 2021).

Capital Initiatives

The Bank raised AUD 1,350 million through the issue of ordinary shares in March 2021 and AUD 250 million through the issue of subordinated debt in April 2021.

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1. Capital Structure

	May 21 $m	February 21 $m
COMMON EQUITY TIER 1 CAPITAL		
Paid-up ordinary share capital (1)	5,213	3,870
Reserves	206	298
Retained earnings, including current year earnings	341	199
Total Common Equity Tier 1 Capital	5,760	4,367
REGULATORY ADJUSTMENTS		
Deferred expenditure	(213)	(201)
Goodwill and intangibles	(948)	(927)
Other deductions	(10)	(18)
Total Regulatory Adjustments	(1,171)	(1,146)
Net Common Equity Tier 1 Capital	4,589	3,221
Additional Tier 1 Capital	610	610
Total Tier 1 Capital	5,199	3,831
TIER 2 CAPITAL		
Tier 2 Capital (2)	450	350
General Reserve for Credit Losses	195	263
Net Tier 2 Capital	645	613
Total Capital Base	5,844	4,444

Notes:
(1) Ordinary share capital was raised in March 2021 through the issue of ordinary shares.
(2) Tier 2 capital $250m was raised in April 2021 through the issue of subordinated notes and $150m subordinated notes matured in May 2021.

2. Capital Adequacy

Risk Weighted Assets	May 21 $m	February 21 $m
SUBJECT TO THE STANDARDISED APPROACH		
Government	–	–
Bank	520	471
Residential mortgages	13,261	12,865
Other retail [1]	15,322	15,256
Other	169	216
Corporate	–	–
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	29,272	28,808
Securitisation Exposures	57	62
Market Risk Exposures	162	222
Operational Risk Exposures	3,034	3,034
Total Risk Weighted Assets	32,525	32,126

Capital Ratios	%	%
Level 2 Total Capital Ratio	18.0	13.8
Level 2 Common Equity Tier 1 Capital Ratio	14.1	10.0
Level 2 Net Tier 1 Capital Ratio	16.0	11.9

Notes:
(1) Includes commercial lending and leasing.

3. Credit Risk

Exposure Type	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	May 21	February 21	May 21	February 21
Cash and due from financial institutions	2,070	1,770	1,920	1,977
Debt securities	5,264	4,941	5,103	4,653
Loans and advances	47,163	46,046	46,604	45,547
Off-balance sheet exposures for derivatives	1,402	485	1,467	448
Other off-balance sheet exposures [2]	466	1,532	476	1,410
Other	169	216	193	202
Total Exposures	56,534	54,990	55,763	54,237

Portfolios Subject to the Standardised Approach	Gross Credit Exposure [1] $m		Average Gross Credit Exposure $m	
	May 21	February 21	May 21	February 21
Government	5,174	4,860	5,018	4,569
Bank	2,626	2,345	2,485	2,515
Residential mortgage	33,225	32,275	32,750	31,752
Other retail	15,340	15,294	15,317	15,199
Other	169	216	193	202
Corporate	–	–	–	–
Total Exposures	56,534	54,990	55,763	54,237

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 21

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	188	203	51	4	3
Other retail	111	114	107	(3)	7
Other	–	–	–	–	–
Corporate	–	–	–	–	–
Total	299	317	158	1	10

February 21

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	116	260	48	4	2
Other retail	113	97	121	4	5
Other	–	–	–	–	–
Corporate	–	–	–	–	–
Total	229	357	169	8	7

	May 21 $m	February 21 $m
Statutory Equity Reserve for Credit Losses	53	58
Collective provision	142	205
APRA General Reserve for Credit Losses	195	263

Notes:

(1) Reconciliation of impaired loans	May 21 $m	February 21 $m
Impaired Assets per table above: Credit Risk	299	229
Add: Impaired assets in off-balance sheet securitisation trusts	16	6
Less: Restructured facilities included in APS 220	(116)	(41)
Impaired Assets per Accounting Standards	199	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 $125m for May 2021 and $132m for February 2021.

4. Securitisation Exposures

	May 21		February 21	
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	(21)	–	10	–
Non market off balance sheet exposures – Securities in trading book	–	–	–	–
Cash and due from financial institutions – Liquidity facilities	–	–	–	–
Loans and Advances – Funding facilities	–	–	(1)	–
On market off balance sheet exposures – Swaps	(4)	–	(13)	–
Other	(57)	–	(28)	–
Total exposures	(82)	–	(32)	–

May 21

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	258	–	3	6	–	7,561
Off-balance sheet securitisation exposure	–	–	–	–	24	–
Total exposures	258	–	3	6	24	7,561

February 21

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	279	–	3	6	–	7,618
Off-balance sheet securitisation exposure	–	–	–	–	28	–
Total	279	–	3	6	28	7,618

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 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 are comprised of HQLA1 (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 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 2021 quarter was 158%, which is 8% higher than the previous February quarter average of 150%. Weighted Net Cash Outflows (**NCO**) were higher over the quarter due to increased retail deposits, unsecured wholesale funding and other contractual funding obligations. Alternative liquid assets decreased over the quarter due to the reduction in BOQ's 2021 CLF, which is consistent with the smaller CLF available to the banking system. These negative impacts to the LCR were offset by an increase to BOQ's undrawn Term Funding Facility and a higher balance of HQLA1. 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 2021 quarter and 90 data points were used in calculating the average figures for the February 2021 quarter.

5. Liquidity Coverage Ratio (continued)

	Average Quarterly Performance			
	May 21		February 21	
	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)		*5,927*		*4,722*
Alternative liquid assets (ALA)		*3,755*		*4,052*
Total Liquid Assets		9,682		8,774
CASH OUTFLOWS				
Retail deposits and deposits from small business customers, of which:	21,347	2,147	20,929	2,076
stable deposits	*9,101*	*455*	*9,009*	*450*
less stable deposits	*12,246*	*1,692*	*11,920*	*1,626*
Unsecured wholesale funding, of which:	4,840	2,604	4,603	2,435
non-operational deposits (all counterparties)	*4,218*	*1,982*	*4,142*	*1,974*
unsecured debt	*622*	*622*	*461*	*461*
Secured wholesale funding		49		53
Additional requirements, of which	2,689	968	2,417	782
outflows related to derivatives exposures and other collateral requirements	*877*	*877*	*696*	*696*
credit and liquidity facilities	*1,812*	*91*	*1,721*	*86*
Other contractual funding obligations	1,563	1,250	1,463	1,158
Other contingent funding obligations	7,082	418	6,819	398
Total Cash Outflows	37,521	7,436	36,231	6,902
CASH INFLOWS				
Secured lending (e.g. reverse repos)	70	-	-	-
Inflows from fully performing exposures	627	314	612	307
Other cash inflows	1,001	1,001	687	747
Total cash inflows	1,698	1,315	1,299	1,053
Total Net Cash Outflows	35,823	6,121	34,932	5,849
Total liquid assets		9,682		8,774
Total net cash outflows		6,121		5,849
Liquidity Coverage Ratio (%)		158%		150%