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BOQ GROUP
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APRA BASEL III PILLAR 3

Wednesday, 12 October 2022, Sydney: Bank of Queensland Limited (**BOQ**) today released its quarterly APRA Basel III Pillar 3 report relating to the period ending 31 August 2022.

ENDS

Authorised for release by: The Board of Directors, Bank of Queensland Limited

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APRA BASEL III PILLAR 3 DISCLOSURES

Quarter Ended 31 August 2022

BOQ GROUP

2022

Bank of Queensland Limited, Basel III Pillar 3 Disclosures

For the Quarter Ended 31 August 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 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% (1).

As at 31 August 2022, BOQ's capital ratios are as follows:

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

Contents

(1) Following payment of the FY22 final dividend in November 2022, CET1 is expected to fall below 9.5%, before increasing to above 9.5% by the end of 1H23. We will re-assess our CET1 target range once the final impacts of APRA's changes to RWAs and capital calibration are understood.

Bank of Queensland Limited, Basel III Pillar 3 Disclosures

For the Quarter Ended 31 August 2022

1. Capital Structure

	August 22 $m	February 22 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	5,258	5,218
Reserves	781	487
Retained earnings, including current year earnings	300	349
Total Common Equity Tier 1 Capital	**6,339**	6,054
Regulatory Adjustments		
Deferred expenditure	(404)	(350)
Goodwill and intangibles	(1,257)	(1,197)
Other deductions	(308)	(136)
Total Regulatory Adjustments	**(1,969)**	(1,683)
Net Common Equity Tier 1 Capital	**4,370**	4,371
Additional Tier 1 Capital	910	910
Total Tier 1 Capital	**5,280**	5,281
Tier 2 Capital		
Tier 2 Capital	836	836
General Reserve for Credit Losses	176	167
Net Tier 2 Capital	**1,012**	1,003
Total Capital Base	**6,292**	6,284

2. Capital Disclosure Template

	Common Equity Tier 1 Capital (CET1): Instruments and Reserves	$m	Ref
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	5,258	A
2	Retained earnings	300	B
3	Accumulated other comprehensive income (and other reserves)	781	-
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	-	-
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before Regulatory Adjustments**	**6,339**	-

	Common Equity Tier 1 capital: Regulatory Adjustments	$m	Ref
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	767	C
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	490	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash-flow hedge reserve	274	E
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined benefit superannuation fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage service rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	*of which: significant investments in the ordinary shares of financial entities*	-	-
24	*of which: mortgage servicing rights*	-	-
25	*of which: deferred tax assets arising from temporary differences*	-	-
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	438	-
26a	*of which: treasury shares*	-	-
26b	*of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI*	-	-
26c	*of which: deferred fee income*	374	F
26d	*of which: equity investments in financial institutions not reported in rows 18, 19 and 23*	9	G
26e	*of which: deferred tax assets not reported in rows 10, 21 and 25*	-	H
26f	*of which: capitalised expenses*	15	I
26g	*of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements*	10	J
26h	*of which: covered bonds in excess of asset cover in pools*	-	-
26i	*of which: undercapitalisation of a non-consolidated subsidiary*	-	-
26j	*of which: other national specific regulatory adjustments not reported in rows 26a to 26i*	30	K
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28	**Total Regulatory Adjustments to Common Equity Tier 1**	**1,969**	-
29	**Common Equity Tier 1 Capital (CET1)**	**4,370**	-

2. Capital Disclosure Template (continued)

	Additional Tier 1 Capital: Instruments	$m	Ref
30	Directly issued qualifying Additional Tier 1 instruments	910	-
31	*of which: classified as equity under applicable accounting standards*	300	-
32	*of which: classified as liabilities under applicable accounting standards*	610	L
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-	-
36	**Additional Tier 1 Capital before Regulatory Adjustments**	**910**	-

	Additional Tier 1 Capital: Regulatory Adjustments	$m	Ref
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	-	-
41a	*of which: holdings of capital instruments in group members by other group members on behalf of third parties*	-	-
41b	*of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40*	-	-
41c	*of which: other national specific regulatory adjustments not reported in rows 41a and 41b*	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total Regulatory Adjustments to Additional Tier 1 capital**	**-**	-
44	**Additional Tier 1 capital (AT1)**	**910**	-
45	**Tier 1 Capital (T1=CET1+AT1)**	**5,280**	-

	Tier 2 Capital: Instruments and Provisions	$m	Ref
46	Directly issued qualifying Tier 2 instruments	850	-
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-
50	Provisions	176	M + N
51	**Tier 2 Capital before Regulatory Adjustments**	**1,026**	-

2. Capital Disclosure Template (continued)

Tier 2 Capital: Regulatory Adjustments		$m	Ref
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	14	-
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	-
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	-	-
56a	*of which: holdings of capital instruments in group members by other group members on behalf of third parties*	-	-
56b	*of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55*	-	-
56c	*of which: other national specific regulatory adjustments not reported in rows 56a and 56b*	-	-
57	**Total regulatory adjustments to Tier 2 capital**	**14**	-
58	**Tier 2 capital (T2)**	**1,012**	-
59	**Total capital (TC=T1+T2)**	**6,292**	-
60	**Total risk-weighted assets based on APRA standards**	**45,669**	-
Capital Ratios and Buffers		%	Ref
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	9.6	-
62	Tier 1 (as a percentage of risk-weighted assets)	11.6	-
63	Total capital (as a percentage of risk-weighted assets)	13.8	-
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	7.0	-
65	*of which: capital conservation buffer requirement*	2.5	-
66	*of which: ADI-specific countercyclical buffer requirements*	-	-
67	*of which: G-SIB buffer requirement (not applicable)*		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	2.6	-
National Minima (if different from Basel III)		$m	Ref
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-	-
71	National total capital minimum ratio (if different from Basel III minimum)	-	-
Amount Below Thresholds for Deductions (not risk-weighted)		$m	Ref
72	Non-significant investments in the capital of other financial entities	-	-
73	Significant investments in the ordinary shares of financial entities	9	G
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable Caps on the Inclusion of Provisions in Tier 2		$m	Ref
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	176	M + N
77	Cap on inclusion of provisions in Tier 2 under standardised approach	506	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

2. Capital Disclosure Template (continued)

	Capital Instruments Subject to Phase-Out Arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	$m	Ref
80	*Current cap on CET1 instruments subject to phase out arrangements*	-	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities*	-	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	-
83	*Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)*	-	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	-

3. Reconciliation between the Consolidated Balance Sheet and the Regulatory Balance Sheet

Bank of Queensland Limited is the head of the Level 2 Group, as defined in Prudential Standard *APS 001: Definitions*. The transfer of funds or Regulatory Capital within the Level 2 Group requires approvals from Management and/or the Board, and has been disclosed in accordance with Prudential Standard *APS 330: Public Disclosure Paragraph 14*.

August 22	Group Balance Sheet $m	Adjustments $m	Level 2 Regulatory Balance Sheet $m	Reconciliation Reference
Assets				
Cash and cash equivalents	2,448	(240)	2,208	-
Due from other financial institutions	347	(24)	323	-
Derivative financial assets	1,073	(21)	1,052	-
Financial assets at fair value through profit or loss (FVTPL)	4	-	4	-
of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	*4*	-	*4*	J
Debt instruments at FVOCI	13,304	-	13,304	-
Equity instruments at FVOCI	6	-	6	-
of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	*6*	-	*6*	J
Debt instruments at amortised cost	-	-	-	-
Loans and advances	80,955	(6,482)	74,473	-
of which: deferred fee income	*374*	-	*374*	F
of which: Provisions	*118*	-	*118*	M
Other assets	250	22	272	-
of which: capitalised expenses	*15*	-	*15*	I
Current tax assets	14	-	14	-
Property, plant and equipment	264	-	264	-
Assets held for sale	-	-	-	-
Shares in controlled entities	-	-	-	-
of which: equity investments in financial institutions not reported in rows 18, 19 and 23	-	*9*	*9*	G
Deferred tax assets	-	-	-	-
of which : deferred tax assets arising from temporary differences deducted from CET1	-	-	-	H
Intangible assets	1,257	-	1,257	-
of which: Goodwill (net of related tax liability)	*767*	-	*767*	C
of which: other intangibles other than mortgage servicing rights (net of related tax liability)	*490*	-	*490*	D
Investments in joint arrangements and associates	8	(8)	-	-
Amounts due from controlled entities	-	-	-	-
Total Assets	**99,930**	**(6,753)**	**93,177**	**-**
Liabilities				
Due to other financial institutions - at call	1,821	-	1,821	-
Deposits	70,684	(108)	70,576	-
Derivative financial liabilities	630	-	630	-
Accounts payable and other liabilities	716	(20)	696	-
Current tax liabilities	-	-	-	-
Deferred tax liabilities	141	-	141	-
Liabilities held for sale	-	-	-	-
Provisions	66	-	66	-
Amounts due to controlled entities	-	-	-	-
Borrowings	19,187	(6,637)	12,550	-
of which: other national specific regulatory adjustments not reported in rows 26a to 26i	*30*	-	*30*	K
of which: classified as liabilities under applicable accounting standards	*610*	-	*610*	L
Total Liabilities	**93,245**	**(6,765)**	**86,480**	**-**
Net Assets	**6,685**	**12**	**6,697**	**-**

3. Reconciliation between the Consolidated Balance Sheet and the Regulatory Balance Sheet (continued)

August 22	Group Balance Sheet $m	Adjustments $m	Level 2 Regulatory Balance Sheet $m	Reconciliation Reference
Equity				
Issued Capital	5,258	-	5,258	A
Other equity instruments	305	(5)	300	-
Reserves	841	(2)	839	-
of which: Provisions (GRCL)	*58*	-	*58*	N
of which: Cash-flow hedge reserve	*291*	*(17)*	*274*	E
of which: Other reserves included in CET1	*492*	*15*	*507*	-
Retained profits	281	19	300	B
Total Equity	**6,685**	**12**	**6,697**	**-**

4. Entities excluded from the Regulatory Scope of Consolidation

August 22	Total Assets $m	Total Liabilities $m	Principal Activities
Securitisation Trusts			
Series 2012-1E REDS Trust	100	100	Securitisation
Series 2013-1 REDS Trust	104	104	Securitisation
Series 2015-1 REDS Trust	154	154	Securitisation
Series 2017-1 REDS Trust	247	247	Securitisation
Series 2018-1 REDS Trust	307	307	Securitisation
Series 2019-1 REDS Trust	369	369	Securitisation
Series 2022-1 REDS MHP Trust	340	340	Securitisation
SMHL Series Securitisation Fund 2015-1	0	0	Securitisation
SMHL Series Securitisation Fund 2016-1	157	158	Securitisation
SMHL Series Securitisation Fund 2017-1	234	234	Securitisation
SMHL Series Securitisation Fund 2018-2	271	271	Securitisation
SMHL Series Securitisation Fund 2019-1	669	669	Securitisation
SMHL Series Private Placement Trust 2017-2	1,116	1,116	Securitisation
SMHL Series Private Placement Trust 2019-1	1,092	1,092	Securitisation
SMHL Series Private Placement 2019-2	1,010	1,010	Securitisation
SMHL Securitisation Trust 2020-1	573	573	Securitisation
Manager and Non-Financial Operating Entities			
Home Credit Management Pty Ltd	23	14	Investment Holding Entity
Bank of Queensland Limited Employee Share Plans Trust	18	11	Employee Share Plan Trust

5. Capital Adequacy

Risk weighted assets	August 22 $m	May 22 $m
Subject to the standardised approach		
Government	-	-
Bank	505	416
Residential Mortgages	22,544	22,506
Other retail [1]	17,013	16,722
Other	388	347
Corporate	-	-
Total On-Balance Sheet Assets and Off-Balance Sheet Exposures	40,450	39,991
Securitisation Exposures	58	62
Market Risk Exposures	116	86
Operational Risk Exposures	5,045	4,944
Total Risk Weighted Assets	**45,669**	45,083

Capital ratios	%	%
Level 2 Total Capital Ratio	13.8	13.8
Level 2 Common Equity Tier 1 Capital Ratio	9.6	9.5
Level 2 Net Tier 1 Capital Ratio	11.6	11.5

(1) Includes commercial lending and leasing.

6. Credit Risk

Exposure Type	Gross Credit Exposure (1)		Average Gross Credit Exposure	
	August 22 $m	May 22 $m	August 22 $m	May 22 $m
Cash and due from financial institutions	2,224	2,463	2,344	2,534
Debt securities	8,187	8,080	8,134	8,353
Loans and advances	74,279	73,557	73,918	72,838
Off-balance sheet exposures for derivatives	1,789	1,329	1,559	1,024
Other off-balance sheet exposures (2)	2,947	3,238	3,092	3,191
Other	388	348	368	335
Total Exposures	**89,814**	89,015	**89,415**	88,275

Portfolios subject to the standardised approach	Gross Credit Exposure (1)		Average Gross Credit Exposure	
	August 22 $m	May 22 $m	August 22 $m	May 22 $m
Government	8,187	8,238	8,213	8,434
Bank	4,013	3,632	3,823	3,476
Residential mortgages	59,745	59,619	59,682	58,663
Other retail	17,481	17,178	17,329	17,367
Other	388	348	368	335
Corporate	-	-	-	-
Total Exposures	**89,814**	89,015	**89,415**	88,275

(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.

6. Credit Risk (continued)

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**

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

	August 22 $m	May 22 $m
Statutory Equity Reserve for Credit Losses	58	63
Collective provision [2]	118	112
APRA General Reserve for Credit Losses	**176**	175

Notes:

(1) Reconciliation of impaired loans	August 22 $m	May 22 $m
Impaired Assets per table above: Credit Risk	**351**	326
Add: Impaired assets in off-balance sheet securitisation trusts	23	30
Less: Restructured facilities included in APS 220	(221)	(184)
Impaired Assets per Accounting Standards	**153**	172

(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 August 2022 and $162m for May 2022.

7. Securitisation Exposures

	August 22		May 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	(19)	-	(90)	-
Non market off balance sheet exposures - Securities in trading book	-	-	-	-
Cash and due from financial institutions - Liquidity facilities	6	-	-	-
Loans and Advances - Funding facilities	(1)	-	(1)	-
On market off balance sheet exposures - Swaps	(4)	-	(2)	-
Other	(38)	-	(46)	-
Total Exposures	**(56)**		(139)	-

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**

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

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

8. 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 August 2022 quarter was 136%, which is 3% lower than the previous May 2022 quarter average of 139%. The Bank continues to build its HQLA1 balance to maintain the LCR as NCOs increase with the growing balance sheet and to offset the CLF as it is reduced throughout 2022. NCO growth over the quarter primarily occurred due to a higher balance of retail deposits and unsecured wholesale funding in the LCR window but was partially offset by a decline in other contractual funding obligations. 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 August 2022 quarter and 92 data points were used in calculating the average figures for the May 2022 quarter.

8. Liquidity Coverage Ratio (continued)

Average Quarterly Performance	August 22		May 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)		13,130		*11,724*
Alternative liquid assets (ALA)		2,068		*2,991*
Total Liquid Assets		**15,198**		14,715
Cash Outflows				
Retail deposits and deposits from small business customers, of which:	36,471	4,547	37,175	4,444
stable deposits	15,111	756	*14,815*	*741*
less stable deposits	21,360	3,791	*22,360*	*3,703*
Unsecured wholesale funding, of which:	7,375	4,174	6,758	3,543
non-operational deposits (all counterparties)	6,358	3,159	*6,212*	*2,997*
unsecured debt	1,017	1,015	*546*	*546*
Secured wholesale funding		105		46
Additional requirements, of which	7,771	1,721	6,390	1,311
outflows related to derivatives exposures and other collateral requirements	1,378	1,378	*1,013*	1,013
credit and liquidity facilities	6,393	343	*5,377*	*298*
Other contractual funding obligations	2,144	1,710	2,281	1,876
Other contingent funding obligations	10,725	714	10,735	685
Total Cash Outflows	**64,486**	**12,971**	63,339	11,905
Cash Inflows				
Inflows from fully performing exposures	868	434	812	406
Other cash inflows	1,339	1,336	916	916
Total Cash Inflows	**2,207**	**1,770**	1,728	1,322
Total Net Cash Outflows	**62,279**	**11,201**	61,611	10,583
Total liquid assets		**15,198**		14,715
Total net cash outflows		**11,201**		10,583
Liquidity Coverage Ratio (%)		**136%**		139%

9. Net Stable Funding Ratio

The Net Stable Funding Ratio (**NSFR**) was implemented to strengthen funding and liquidity resilience. The NSFR came into effect to ensure assets and off-balance sheet exposures are funded by stable sources of funding, thereby promoting greater balance sheet resilience.

The NSFR establishes a minimum stable funding requirement based on the liquidity characteristics of the ADI's assets and off-balance sheet activities over a one year time horizon. The NSFR is defined as the ratio of the amount of Available Stable Funding to the amount of Required Stable Funding. APRA requires ADIs to maintain an NSFR of at least 100%. BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

BOQ's Level 2 NSFR as at 31 August 2022 was 125%, which was unchanged from 31 May 2022. An increase in retail and SME deposits and wholesale funding was sufficient to offset the increase in required stable funding (**RSF**), which was primarily driven by loan growth and growth in other assets and deposits held at other financial institutions for operational purposes.

9. Net Stable Funding Ratio (continued)

August 22	Unweighted value by residual maturity				
	No maturity $m	< 6 months $m	6 months to < 1 year $m	> 1 year $m	Weighted value $m
Available Stable Funding (ASF) Item					
Capital	6,601	200	-	1,360	8,161
Regulatory Capital	6,601	200	-	1,360	8,161
Other capital instruments	-	-	-	-	-
Retail deposits and deposits from small business customers	30,958	15,312	-	-	42,514
Stable deposits	14,459	3,251	-	-	16,825
Less stable Deposits	16,499	12,061	-	-	25,689
Wholesale funding	3,498	21,518	2,817	8,622	17,450
Operational deposits	-	-	-	-	-
Other wholesale funding	3,498	21,518	2,817	8,622	17,450
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities	807	593	157	388	467
NSFR derivative liabilities		593	-	-	
All other liabilities and equity not included in the above categories	807	-	157	388	467
Total ASF					**68,592**
Required Stable Funding (RSF) Item					
Total NSFR (HQLA)					654
ALA					542
RBNZ securities					-
Deposits held at other financial institutions for operational purposes	1,055	-	-	-	1,003
Performing loans and securities	-	2,778	2,591	63,191	48,316
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	97	-	2	16
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	-	2,034	1,854	12,878	12,758
With a risk weight of less than or equal to 35% under APS 112	-	129	149	1,198	918
Performing residential mortgages, of which:	-	647	737	50,304	35,536
With a risk weight equal to 35% under APS 112	-	334	336	44,852	30,543
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	7	6

9. Net Stable Funding Ratio (continued)

August 22	Unweighted value by residual maturity				
	No maturity $m	< 6 months $m	6 months to < 1 year $m	> 1 year $m	Weighted value $m
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets	3,010	511	67	855	3,957
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		-	-	189	161
NSFR derivative assets		-	-	-	-
NSFR derivative liabilities before deduction of variation margin posted		-	-	126	126
All other assets not included in the above categories	3,010	511	67	540	3,670
Off-balance sheet items		-	-	8,669	420
Total RSF					**54,892**
Net Stable Funding Ratio (%)					**125%**

9. Net Stable Funding Ratio (continued)

May 22

	Unweighted value by residual maturity				
	No maturity $m	< 6 months $m	6 months to < 1 year $m	> 1 year $m	Weighted value $m
Available Stable Funding (ASF) Item					
Capital	6,837	-	-	1,260	8,097
Regulatory Capital	6,837	-	-	1,260	8,097
Other capital instruments	-	-	-	-	-
Retail deposits and deposits from small business customers	23,967	20,298	-	-	40,652
Stable deposits	9,571	6,849	-	-	15,598
Less stable Deposits	14,396	13,449	-	-	25,054
Wholesale funding	3,656	20,629	3,329	7,669	16,483
Operational deposits	-	-	-	-	-
Other wholesale funding	3,656	20,629	3,329	7,669	16,483
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities	597	406	151	296	372
NSFR derivative liabilities		406	-	-	
All other liabilities and equity not included in the above categories	597	-	151	296	372
Total ASF					**65,604**
Required Stable Funding (RSF) Item					
Total NSFR (HQLA)					539
ALA					542
RBNZ securities					-
Deposits held at other financial institutions for operational purposes	593	-	-	-	515
Performing loans and securities	-	3,225	2,533	62,402	47,471
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	361	-	25	79
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	-	2,046	1,688	13,444	13,178
With a risk weight of less than or equal to 35% under APS 112	-	99	154	1,181	894
Performing residential mortgages, of which:	-	818	845	48,933	34,214
With a risk weight equal to 35% under APS 112	-	470	469	44,061	29,710
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-

9. Net Stable Funding Ratio (continued)

May 22

	Unweighted value by residual maturity				
	No maturity $m	< 6 months $m	6 months to < 1 year $m	> 1 year $m	Weighted value $m
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets	2,294	852	54	754	3,196
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		-	-	181	154
NSFR derivative assets		-	-	-	-
NSFR derivative liabilities before deduction of variation margin posted		-	-	95	95
All other assets not included in the above categories	2,294	852	54	478	2,947
Off-balance sheet items		-	-	7,385	349
Total RSF					**52,612**
Net Stable Funding Ratio (%)					**125%**

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