# APS 330 INTERIM FINANCIAL REPORTING 30 June 2018
# Public Disclosure requirements for all locally incorporated ADIs - QUARTERLY

This disclosure on capital and credit risk refers to South West Slopes Credit Union (SWSCU).

The information in this report is prepared quarterly based on the financial records. The financial records are not audited for the quarters ended 30 September, 31 December and 31 March.
There are no other legal entities that comprise a consolidated group.
Glossary of terms used in this guide is

- 'AT1' refers to Additional Tier 1 Capital
- The 'Basel II framework' refers to the document International Convergence of Capital Measurement and Capital Standards: A Revised Framework, Comprehensive Version, June 2006, published by the Basel Committee on Banking Supervision (the Basel Committee);
- 'Basel III' refers to the document Basel III: A global regulatory framework for more resilient banks and banking systems, revised version, June 2011 published by the Basel Committee;
- 'CET1' refers to Common Equity Tier 1 Capital;
- 'T1' refers to Tier 1 Capital; and
- 'T2' refers to Tier 2 Capital.

## CAPITAL BASE 30 June 2018

Table A Capital Base elements

| | |
|---|---|
| **1. Tier 1 capital** | |
| **1.1 Common Equity Tier 1 Capital** | |
| 1.1.1 Paid-up ordinary share capital and other qualifying instruments | **0** |
| 1.1.2 Retained earnings | **20,318,809** |
| 1.1.3 Current year earnings | **639,631** |
| 1.1.4.5 Property revaluation reserve | **-** |
| 1.1.4.6 General reserve | **-** |
| **2. Regulatory Adjustments to Common Equity Tier 1 Capital** | |
| 2.1 Deferred tax assets in excess of deferred tax liabilities | **200,242** |
| 2.6 Capitalised expenses | **522,502** |
| 2.6.4 Information technology software costs | **522,502** |
| 2.6.6 Other capitalised expenses | **0** |
| 2.7 Any other intangible assets not included above | **0** |
| 2.15.1.1 Other ADIs or overseas equivalents, and their subsidiaries | 225,133 |
| 2.15.1.2 Holding companies of ADIs and equivalent overseas entities | 0 |
| 2.15.1.3 Insurers, including holding companies of insurers, or other financial institutions other than ADIs, authorised NOHCs or equivalent overseas entities | 0 |
| **2.22 Common Equity Tier 1 Capital** | **20,010,563** |
| **3. Additional Tier 1 Capital** | |
| 3.1 Transitional Additional Tier 1 Capital as at reporting date | 0 |
| 3.2 Additional Tier 1 Capital instruments | 0 |
| **3.3 Regulatory Adjustments to Additional Tier 1 Capital** | **0** |
| 3.3.1 Capital investments in Additional Tier 1 instruments of ADIs or overseas equivalents and their subsidiaries, insurance companies and other financial institutions | 0 |
| 3.3.2 Holdings of own Additional Tier 1 Capital instruments and any unused trading limit agreed with APRA | 0 |
| 3.3.3 Adjustments to Additional Tier 1 Capital due to shortfall in Tier 2 Capital | 0 |
| 3.3.4 Adjustments and exclusions to Additional Tier 1 Capital | 0 |
| **3.4 Additional Tier 1 Capital** | **0** |
| | |
| **4. Tier 1 Capital** | **20,010,563** |

**5. Tier 2 Capital**

| | |
|---|---|
| 5.2 Transitional Adjustments to Tier 2 Capital | |
| 5.3 General reserve for credit losses | |
| 5.3.1 Standardised approach (to a maximum of 1.25% of total credit RWA) | 318,134 |
| **5.4 Regulatory adjustments to Tier 2 Capital** | |
| **5.5 Tier 2 Capital** | **318,134** |

| | |
|---|---|
| **6. Level 1 Total Capital** | **20,328,697** |

| | | Current quarter 30 Jun 2018 | Previous quarter 31 Mar 2018 |
|---|---|---|---|

<u>Table B Capital within the ADI</u>

The elements of the regulatory capital as set out above are as follows,

## CAPITAL INSTRUMENTS WITHIN THE ADI

The regulatory capital in the credit union comprises:

- Retained Earnings and
- General reserve for Credit Losses
- Capital Reserve Account
- Other Reserves
- Member Investment Shares

There are no other capital instruments (shares, debt instruments) issued by the ADI.

**Member Investment Shares (MIS)**
Member Investment shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. The MIS are transferable but are not listed on the Australian Securities Exchange or any other public stock exchange. MIS have no maturity date and investment shareholders have no right or option to demand their repayment. MIS are issued at a fully paid value of $10.00 per share.

## CAPITAL REQUIREMENTS

Capital requirements for SWSCU are determined by the risk weights of the relevant assets held, with the minimum required capital to over 8% of risk weighted assets. The current level of capital as at 30 June 2018 is 26.12%.

The risk weighted assets for each asset grouping as set out in the table below is determined by APRA Prudential Standard APS 112. These are prescribed risk weights to measure the level of risk based on the nature and level of security supporting the assets recovery.

The risk weighted assets held as at the end of the quarter ended 30 June 2018 is described in Table 3.

## APS 330 INTERIM FINANCIAL REPORTING 30 June 2018
## Public Disclosure requirements for all locally incorporated ADIs - QUARTERLY

The capital held by SWSCU exceeds the policy and minimum capital prescribed by APRA Prudential standards. The excess may facilitate future growth for SWSCU.

The capital ratio is the amount of capital described in Table 3 divided by total risk weighted assets

Table 3: Capital Adequacy

| | **Risk Weighted Assets $000's** | |
|---|---|---|
| | 30 June 2018 | 31 March 2018 |
| (a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio; | | |
| • Cash | 0 | 0 |
| • Liquid investments | 10,960 | 11,503 |
| • Loans - secured by residential mortgage | 34,607 | 33,935 |
| • Loans - other retail | 16,519 | 16,347 |
| • all other assets | 2,802 | 2,855 |
| Total credit risk on balance sheet | 64,888 | 64,640 |
| Total credit risk off balance sheet (commitments) | 2,636 | 2,670 |
| • Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees) | N/A | N/A |
| Capital requirements for securitisation | N/A | N/A |
| (b) Capital requirements (in terms of risk-weighted assets) for equity exposures in the IRB approach (simple risk-weighted method). | N/A | N/A |
| (c) Capital requirements for market risk | - | - |
| (d) Capital requirements for operational risk | 10,305 | 9,938 |
| (e) Capital requirements (in terms of risk-weighted assets) for interest rate risk in the banking book (IRRBB) (IRB/AMA approved Australian-owned ADIs only). | | |
| Total Risk Weighted Assets | 77,829 | 77,248 |

| | 30 June 2018 | 31 March 2018 |
|---|---|---|
| (f) Common Equity Tier | 25.71% | 25.69% |
| Tier 1 | 25.71% | 25.69% |
| Total Capital | 26.12% | 26.10% |

## IMPAIRMENT OF ASSETS

### CREDIT RISK — INVESTMENTS

Surplus cash not invested in loans to members are held in high quality liquid assets (HQLA)/Minimum Liquidity Holdings (MLH) or other investments according to SWSCU's Liquidity Policy. This includes the funds required to be held to meet withdrawal of deposits by members. SWSCU uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential Guidance in APS112. The credit quality assessment scale within this standard has been complied with. The table 4a below excludes equities and securitisation exposures. Securitisation exposures are set out in the table 5 that follows. The exposure values associated with each credit quality step are as follows in Table 4a.

**Table 4a: Credit Risk Investments**

| | 30 June 2018 | | | | |
|---|---|---|---|---|---|
| Investments with banks and other ADI's | Carrying value on Statement of Financial Position | Past due facilities | Impaired facilities | Specific Provision as at end of quarter | Increase in Specific Provision and write-offs in quarter |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| rated A+ Long Term and A-1 Short Term and above – includes Cuscal | 31,629 | 0 | 0 | 0 | 0 |
| ADIs — rated A-2 and above Short Term | 9,517 | 0 | 0 | 0 | 0 |
| ADIs — rated AA- and below Long Term | 3,462 | 0 | 0 | 0 | 0 |
| Unrated institutions— Credit Unions, Banks and Building Societies | 4,900 | 0 | 0 | 0 | 0 |
| **Total** | **49,508** | 0 | 0 | 0 | 0 |

**Table 4a: Credit Risk Investments (Continued)**

| | 31 March 2018 | | | | |
|---|---|---|---|---|---|
| Investments with banks and other ADI's | Carrying value on Statement of Financial Position | Past due facilities | Impaired facilities | Specific Provision as at end of quarter | Increase in Specific Provision and write-offs in quarter |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| rated A+ Long Term and A-1 Short Term and above | 28,439 | 0 | 0 | 0 | 0 |
| ADIs — rated A-2 and above Short Term | 9,063 | 0 | 0 | 0 | 0 |
| ADIs — rated AA- and below Long Term | 8,030 | 0 | 0 | 0 | 0 |
| Unrated institutions— Credit Unions, Banks and Building Societies | 4,400 | 0 | 0 | 0 | 0 |
| **Total** | **49,932** | | | | |

**CREDIT RISK — LOANS**

The classes of loans entered into is limited to loans; commitments and other non-market off-balance sheet exposures. SWSCU does not enter into debt securities; and over-the-counter derivatives.

Impairment details

The level of impaired loans by class of loan is set out below. In the note below:

- Carrying Value is the amount of the balance sheet gross of provision (net of deferred fees).
- Past due loans is the 'on balance sheet' loan balances which are behind in repayments past due by 90 days or more but not impaired.
- Impaired loans are the 'on balance sheet' loan balances which are at risk of not meeting all principle and interest repayments over time.
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.
- The losses in the period equate to the additional provisions set aside for impaired loans, and bad debts written off in excess of previous provision allowances.

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and their condition. The analysis of SWSCU's loans by class, is shown in Table 4 b.

**Table 4 b: Credit Risk Loans**

| **30 June 2018** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Loans Portfolio | Gross Average Value for period | Carrying Value on Statement of Financial Position | Commitments (redraws, credit facilities undrawn) | Past Due Facilities | Impaired facilities | Specific Provision as at end of quarter | Movement in the provision / write off in the quarter |
| | $000's | $000's | $000's | $000's | $000's | $000's | $000's |
| Mortgage Secured | 91,630 | 95,396 | 10,084 | - | - | | - |
| Personal Loans | 16,850 | 17,368 | 999 | 83 | 241 | 132 | 13 |
| Overdrafts | 488 | 482 | - | - | - | 25 | 3 |
| **Total** | **108,968** | **113,246** | **11,083** | **83** | **241** | **157** | **16** |

| **31 March 2018** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Loans Portfolio | Gross Average Value for period | Carrying Value on Statement of Financial Position | Commitments (redraws, credit facilities undrawn) | Past Due Facilities | Impaired facilities | Specific Provision as at end of quarter | Movement in provision and write off in the quarter |
| | $000's | $000's | $000's | $000's | $000's | $000's | $000's |
| Mortgage Secured | 89,952 | 93,446 | 10,437 | - | - | - | - |
| Personal Loans | 16,677 | 17,381 | 932 | 71 | 179 | 119 | (36) |
| Overdrafts | 489 | 542 | - | - | - | 22 | (3) |
| **Total** | **107,118** | **111,369** | **11,369** | **71** | **179** | **141** | **(39)** |

## GENERAL RESERVE FOR CREDIT LOSSES

This reserve is set aside to quantify the estimate for potential future losses in loans and investments.

In addition to the above provision for impairment, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future, and the risk of loss on investments and other assets.

Table 4 c: The general reserve for credit losses

| | 30 June 2018 | 31 March 2018 |
|---|---|---|
| | $000's | $000's |
| General reserve for credit losses | 318 | 318 |

## SECURITISATION ARRANGEMENTS

SWSCU does not currently have a formal agreement for securitisation arrangements

**Table 18A**

| | Remuneration | |
|---|---|---|
| (a) | The Remuneration Committee consists of 3 directors (Mr Keith Carmody, Mr Adrian Hanrahan and Mr Kevin Cloake) who are responsible for assessing any movements in remuneration levels and making recommendations to the Board on Board remuneration levels, for subsequent consideration by members. The Board has currently chosen to utilise the latest available "Non-Bank Financial Institutions – Remuneration Surveys" provided by McGuirk Management Consultants Pty Ltd as a basis for determining proposed Director and management remuneration levels. The Board however, retains the discretion to engage alternate and/or additional resources or consultants to research any potential market relativity movements. There are five Executive Staff (Senior Management) included as per the prudential standard including Chief Executive Officer (1), Chief Finance Officer (1), Chief Operations Officer (1), Chief Risk Officer (1) and Loans Manager (1). There are no material risk takers. | Information relating to the bodies that oversee remuneration.<br>• the name, composition and mandate of the main body overseeing remuneration;<br>• the name of external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;<br>• a description of the scope of the ADI's Remuneration Policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches; and<br>• a description of the types of persons considered as material risk takers and as senior managers as defined in paragraph 17 of this Prudential Standard, including the number of persons in each group. |
| (b) | Objectives of the remuneration policy include ensuring that the Credit Union's remuneration arrangements align with its circumstances and advance the Credit Union's mission of serving its members, compliance with the Prudential Standard in relation to its remuneration arrangements and, in particular, that performance based components of remuneration and promote a responsible remuneration culture that enables the Credit Union to engage and retain suitable staff, while also encouraging positive performance and contributions from all employees. The Credit Union recognises the special position of its risk and financial control personnel in carrying out their functions; particularly, in implementing and monitoring the Credit Unions risk management system. In addition to the other requirements of this policy, the remuneration of risk and financial control personnel must not compromise the independence of these personnel in carrying out their functions. | Information relating to the design and structure of remuneration processes. Disclosures must include:<br>• an overview of the key features and objectives of remuneration policy;<br>• whether the Remuneration Committee reviewed the ADI's Remuneration Policy during the past year, and if so, an overview of any changes that were made; and<br>• a discussion of how the ADI ensures that risk and financial control personnel (as defined in paragraph 48(b) of CPS 510) are remunerated independently of the businesses they oversee. |
| (c) | Risk mitigation - **Currently No Performance Components Paid**<br>The Credit Union's policy is to mitigate the risk that the remuneration of employees may conflict with the objectives of this policy by:<br>• limiting the performance component of Senior Management's (as detailed in part (a) above) remuneration to a maximum of 5% of their total remuneration cost (TRC) and all other individuals to 5% of their gross annual salary amount;<br>• making the payment of any performance based component of remuneration entirely discretionary by the Credit Union;<br>• not considering the payment of any discretionary remuneration until the end of the relevant financial year statements have been audited and accepted by the board;<br>• reviewing all employment contracts against the objectives of this policy with a view to renegotiating them when next due to be renewed or extended. | Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures must include:<br>• an overview of the key risks that the ADI takes into account when implementing remuneration measures;<br>• an overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed);<br>• a discussion of the ways in which these measures affect remuneration; and<br>• a discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration. |
| (d) | Performance measures used during the measurement period include but not limited to Customer Satisfaction, Return on assets, Growth (Assets, Loans & Deposits), Delinquency, Liquidity, Capital Adequacy, and Profitability. Payment of any performance based component of remuneration is entirely discretionary by the Credit Union for institution-wide targets and individual performance separately and are only | Description of the ways in which the ADI seeks to link performance during a performance<br>• an overview of the main performance metrics for the ADI, top-level business lines and individuals;<br>• a discussion of how amounts of individual remuneration are linked to institution-wide and individual<br>• a discussion of the measures the ADI will in general implement to adjust remuneration in the event |
| (e) | There is no deferral or vesting of variable remuneration | Description of the ways in which the ADI seeks to adjust remuneration to take account of longer-term<br>• a discussion of the ADI's policy on deferral and vesting of variable remuneration and, if the fraction<br>• a discussion of the ADI's policy and criteria for adjusting deferred remuneration before vesting and |
| (f) | Cash based bonuses are the only form of variable remuneration that the credit union has paid in the past to a maximum of 5% of gross package, consistent across all employees. | Description of the different forms of variable remuneration that the ADI utilises and the rationale for<br>• an overview of the forms of variable remuneration offered (i.e., cash, shares and share-linked<br>• a discussion of the use of the different forms of variable remuneration and, if the mix of different |

| | | | |
|---|---|---|---|
| **Remuneration** | | | |
| (g) | • Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members. | 1 meeting. Remuneration committee directors receive no additional remuneration compared to directors who are not on remuneration committee | |
| | | | |
| (h) | • The number of persons having received a variable remuneration award during the financial year. | | Nil |
| | • Number and total amount of guaranteed bonuses awarded during the financial year. | | Nil |
| | • Number and total amount of sign-on awards made during the financial year. | | Nil |
| | • Number and total amount of termination payments made during the financial year. | | Nil |
| | | | |
| (i) | • Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. | | Nil |
| | • Total amount of deferred remuneration paid out in the financial year. | | Nil |
| | | | |
| (j) | • Breakdown of the amount of remuneration awards for the financial year in accordance with Table 18A below to show: | | ($,000) |
| | – fixed and variable; | Fixed | 779 |
| | | Variable | $ - |
| | – deferred and non-deferred; and | Deferred | Nil |
| | | Non-Deferred | 779 |
| | – the different forms used (cash, shares and share-linked instruments and other forms). | Cash | 779 |
| | | Motor Vehicle | 13 |
| | | | |
| (k) | Quantitative information about persons' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration: | | |
| | • Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. | | Nil |
| | • Total amount of reductions during the financial year due to ex pose explicit adjustments. | | Nil |
| | • Total amount of reductions during the financial year due to ex post implicit adjustments. | | Nil |

| | | Unrestricted ($,000) | Deferred ($,000) |
|---|---|---|---|
| **Board of Directors** | | | |
| Fixed remuneration | | | |
| | • Cash-based | 116 | N/A |
| | • Shares and share-linked instruments | N/A | N/A |
| | • Other | N/A | N/A |
| Variable remuneration | | | |
| | • Cash-based | N/A | N/A |
| | • Shares and share-linked instruments | N/A | N/A |
| | • Other | N/A | N/A |
| **Employee Remuneration** | | | |
| | • Cash-based | 663 | N/A |
| | • Shares and share-linked instruments | N/A | N/A |
| + | • Other | 13 | N/A |
| Variable remuneration | | | |
| | • Cash-based | N/A | N/A |
| | • Shares and share-linked instruments | N/A | N/A |
| | • Other | N/A | N/A |