

APS 330 INTERIM FINANCIAL REPORTING 30 June 2019

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 2019

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	20,958,439
1.1.3 Current year earnings	652,117
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	373,354
2.6.4 Information technology software costs	373,354
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	20,811,827
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	20,811,827

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	21,129,961
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	Current quarter 30 Jun 2019	Previous quarter 31 Mar 2019
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Table B Capital within the ADI

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 2019 is 25.60%.

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 2019 is described in Table 3.

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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 2019	31 March 2019
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Cash	0	0
• Liquid investments	11,298	12,457
• Loans - secured by residential mortgage	36,967	36,588
• Loans - other retail	17,854	17,391
• all other assets	2,436	2,568
Total credit risk on balance sheet	68,555	69,004
Total credit risk off balance sheet (commitments)	3,338	3,398
• 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	10,638	10,591
(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	82,531	82,993

	30 June 2019	31 March 2019
(f) Common Equity Tier	25.22%	24.85%
Tier 1	25.22%	24.85%
Total Capital	26.60%	25.24%

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

Investments with banks and other ADI's	30 June 2019			Specific Provision as at end of quarter	Increase in Specific Provision and write-offs in quarter
	Carrying value on Statement of Financial Position	Past due facilities	Impaired facilities		
	\$'000	\$'000	\$'000	\$'000	\$'000
rated A+ Long Term and A-1 Short Term and above – includes Cuscal	8,259	0	0	0	0
ADIs — rated A-2 and above Short Term	31,772	0	0	0	0
ADIs — rated AA- and below Long Term	2,019	0	0	0	0
Unrated institutions— Credit Unions, Banks and Building Societies	11,100	0	0	0	0
Total	53,150	0	0	0	0

Table 4a: Credit Risk Investments (Continued)

Investments with banks and other ADI's	31 March 2019			Specific Provision as at end of quarter	Increase in Specific Provision and write-offs in quarter
	Carrying value on Statement of Financial Position	Past due facilities	Impaired facilities		
	\$'000	\$'000	\$'000	\$'000	\$'000
rated A+ Long Term and A-1 Short Term and above	7,269	0	0	0	0
ADIs — rated A-2 and above Short Term	33,423	0	0	0	0
ADIs — rated AA- and below Long Term	4,373	0	0	0	0
Unrated institutions— Credit Unions, Banks and Building Societies	8,900	0	0	0	0
Total	53,965	0	0	0	0

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 2019							
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	99,100	101,849	12,948	-	-	-	-
Personal Loans	18,254	18,810	2,063	93	151	123	(4)
Overdrafts	496	529	946	-	-	9	(2)
Total	117,850	121,188	15,957	93	151	132	(6)
31 March 2019							
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	98,184	100,485	12,798	-	-	-	-
Personal Loans	18,067	18,368	2,109	97	180	127	8
Overdrafts	486	519	962	-	-	11	(12)
Total	116,737	119,372	15,869	97	180	138	(4)

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 2019	31 March 2019
	\$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.
(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.
(c)	<p>Risk mitigation - Currently No Performance Components Paid</p> <p>The Credit Union’s policy is to mitigate the risk that the remuneration of employees may conflict with the objectives of this policy by:</p> <ul style="list-style-type: none"> • 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; • making the payment of any performance based component of remuneration entirely discretionary by the Credit Union; • 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; • reviewing all employment contracts against the objectives of this policy with a view to renegotiating them when next due to be renewed or extended.
(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 payable if targets have been achieved.
(e)	There is no deferral or vesting of variable remuneration
(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.		
(g)	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> The number of persons having received a variable remuneration award during the financial year. 		Nil
	<ul style="list-style-type: none"> Number and total amount of guaranteed bonuses awarded during the financial year. 		Nil
	<ul style="list-style-type: none"> Number and total amount of sign-on awards made during the financial year. 		Nil
	<ul style="list-style-type: none"> Number and total amount of termination payments made during the financial year. 		Nil
(i)	<ul style="list-style-type: none"> Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. 		Nil
	<ul style="list-style-type: none"> Total amount of deferred remuneration paid out in the financial year. 		Nil
(j)	<ul style="list-style-type: none"> Breakdown of the amount of remuneration awards for the financial year in accordance with Table 18A below to show: 		(\$,000)
	– fixed and variable;	Fixed	840
		Variable	\$ -
	– deferred and non-deferred; and	Deferred	Nil
		Non-Deferred	840
	– the different forms used (cash, shares and share-linked instruments and other forms).	Cash	840
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
Board of Directors			
		Unrestricted	Deferred
		(\$,000)	(\$,000)
Fixed remuneration			
	• Cash-based	137	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	703	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