

APS 330 INTERIM FINANCIAL REPORTING 30 June 2016

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 2016

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	18,885,331
1.1.3 Current year earnings	797,536
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	254,132
2.6 Capitalised expenses	535,383
2.6.4 Information technology software costs	535,383
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	18,668,219
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	18,668,219

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)	301,049
5.4 Regulatory adjustments to Tier 2 Capital	
5.5 Tier 2 Capital	301,049

6. Level 1 Total Capital	18,969,268
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		Current quarter 30 Jun 2016	Previous quarter 31 Mar 2016
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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 \$1.00 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 2016 is 27.29%.

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 2016 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 2016	31 March 2016
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Cash	0	0
• Liquid investments	12,027	12,314
• Loans - secured by residential mortgage	29,240	28,541
• Loans - other retail	13,650	14,394
• all other assets	2,887	2,958
Total credit risk on balance sheet	57,805	58,207
Total credit risk off balance sheet (commitments)	1,977	2,111
• 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	8,604	7,944
(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	68,386	68,262

	30 June 2016	31 March 2016
(f) Common Equity Tier	27.29%	26.72%
Tier 1	27.29%	26.72%
Total Capital	27.74%	27.192%

IMPAIRMENT OF ASSETS

CREDIT RISK — INVESTMENTS

Surplus cash not invested in loans to members are held in high quality liquid assets (HQLA) 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 2016			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		
Cuscal — rated A+ Long Term and A-1 Short Term	5,600	0	0	0	0
ADIs — rated A-2 and above Short Term	20,986	0	0	0	0
ADIs — rated AA- and below Long Term	8,500	0	0	0	0
Unrated institutions— Credit Unions, Banks and Building Societies	15,000	0	0	0	0
Total	50,086	0	0	0	0

Table 4a: Credit Risk Investments (Continued)

Investments with banks and other ADI's	31 March 2016			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		
Cuscal — rated A+ Long Term and A-1 Short Term	8,700	0	0	0	0
ADIs — rated A-2 and above Short Term	17,024	0	0	0	0
ADIs — rated AA- and below Long Term	18,848	0	0	0	0
Unrated institutions— Credit Unions, Banks and Building Societies	8,034	0	0	0	0
Total	52,606	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 2016							
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	78,538	79,385	3,199	-	-	-	(14)
Personal Loans	16,507	16,438	33	71	171	117	(24)
Overdrafts	545	559	-	-	-	21	-
Total	95,590	96,382	3,232	71	171	138	(38)
31 March 2016							
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	76,650	77,594	618	-	216	-	-
Personal Loans	17,276	17,126	60	212	50	131	(1)
Overdrafts	441	498	-	-	-	45	-
Total	94,367	95,218	678	212	266	176	(1)

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 2016	31 March 2016
	\$000's	\$000's
General reserve for credit losses	301	301

SECURITISATION ARRANGEMENTS

SWSCU does not currently have a formal agreement for securitisation arrangements