

APS 330 PRUDENTIAL DISCLOSURE – CAPITAL AND CREDIT RISK SEPTEMBER 2019

This disclosure on the capital and credit risk refers to the Sydney Credit Union Limited (ABN 93 087 650 726).

Sydney Credit Union Limited is using the post 1 January 2018 common disclosure template because it is fully applying the Basel III regulatory adjustments as implemented by APRA from 30 June 2013. This a change from previous quarterly reporting formats.

The information in this report is prepared quarterly based on Sydney Credit Union Limited's financial records. The financial records are not audited for the Quarters ended 30 September, 31 December, and 31 March.

The report as at the 30 June is based on the financial statements as audited as at the 30 June.

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**.

The capital terms are further defined in the APRA Prudential Standards APS 110.

CAPITAL BASE

The details of the components of the capital base are set out below as at the financial year ended 30 June 2019. These amounts coincide with the audited accounts.

The following table 1 sets out the elements of the capital held by Sydney Credit Union Limited including the reconciliation of any adjustments required by the APRA Prudential Standards to the audited financial statements. Adjustments are usually in the form of deductions of assets not regarded as recoverable in the short term (such as intangible assets and deferred tax assets), and or discounts made to eligible capital of a short term nature.

All regulatory capital elements are consistent with the audited financial statements as at the last reporting date.

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Table 1 Capital Base elements

Common Equity Tier 1 Capital : instruments and reserves		30 Jun 2019 \$,000
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	n/a
2	Retained earnings	64,617
3	Accumulated other comprehensive income (and other reserves)	22,751
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	n/a
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	n/a
6	Common Equity Tier 1 capital before regulatory adjustments on Equity Tier 1 capital : regulatory adjustments	87,368
Common Equity Tier 1 Capital : regulatory adjustments		
7	Prudential valuation adjustments	n/a
8	Goodwill (net of related tax liability)	n/a
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	n/a
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	n/a
11	Cash-flow hedge reserve	n/a
12	Shortfall of provisions to expected losses	n/a
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	n/a
14	Gains and losses due to changes in own credit risk on fair valued liabilities	n/a
15	Defined benefit superannuation fund net assets	n/a
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	n/a
17	Reciprocal cross-holdings in common equity	n/a
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 Sydney Credit Union Limited does not own more than 10% of the issued share capital (amount above 10% threshold)	3,093
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)	n/a
20	Mortgage service rights (amount above 10% threshold)	n/a
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	n/a
22	Amount exceeding the 15% threshold	n/a
23	of which: significant investments in the ordinary shares of financial entities	n/a
24	of which: mortgage servicing rights	n/a
25	of which: deferred tax assets arising from temporary differences	n/a
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	2,667
26a	of which: treasury shares	n/a
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 Sydney Credit Union Limited	n/a
26c	of which: deferred fee income	-68
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	n/a
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	n/a
26f	of which: capitalised expenses	753
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	1,982
26h	of which: covered bonds in excess of asset cover in pools	n/a
26i	of which: undercapitalisation of a non-consolidated subsidiary	n/a

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26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	n/a
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	n/a
28	Total regulatory adjustments to Common Equity Tier 1	5,760
29	Common Equity Tier 1 Capital (CET1)	81,608
Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	n/a
31	of which: classified as equity under applicable accounting standards	n/a
32	of which: classified as liabilities under applicable accounting standards	n/a
33	Directly issued capital instruments subject to phase out from Additional Tier 1	n/a
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)	n/a
35	of which: instruments issued by subsidiaries subject to phase out	n/a
36	Additional Tier 1 Capital before regulatory adjustments	0
Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	n/a
38	Reciprocal cross-holdings in Additional Tier 1 instruments	n/a
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 Sydney Credit Union Limited does not own more than 10% of the issued share capital (amount above 10% threshold)	n/a
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)	n/a
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	n/a
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	n/a
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	n/a
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	n/a
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	n/a
43	Total regulatory adjustments to Additional Tier 1 capital	0
44	Additional Tier 1 capital (AT1)	0
45	Tier 1 Capital (T1=CET1+AT1)	81,608
Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	n/a
47	Directly issued capital instruments subject to phase out from Tier 2	n/a
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)	n/a
49	of which: instruments issued by subsidiaries subject to phase out	n/a
50	Provisions	2,401
51	Tier 2 Capital before regulatory adjustments	2,401
Tier 2 Capital: regulatory adjustments]		
52	Investments in own Tier 2 instruments	n/a
53	Reciprocal cross-holdings in Tier 2 instruments	n/a
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 Sydney Credit Union Limited does not own more than 10% of the issued share capital (amount above 10% threshold)	n/a
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	n/a
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	n/a
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	n/a

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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	n/a
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	n/a
57	Total regulatory adjustments to Tier 2 capital	0
58	Tier 2 capital (T2)	2,401
59	Total capital (TC=T1+T2)	84,009
60	Total risk-weighted assets based on APRA standards	480,284
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.99%
62	Tier 1 (as a percentage of risk-weighted assets)	16.99%
63	Total capital (as a percentage of risk-weighted assets)	17.49%
64	Institution-specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIBs buffer requirement, expressed as a percentage of risk-weighted assets)	7.00%
65	<i>of which: capital conservation buffer requirement</i>	4.50%
66	<i>of which: Sydney Credit Union Limited -specific countercyclical buffer requirements</i>	2.50%
67	<i>of which: G-SIB buffer requirement</i>	n/a
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	9.49%
National minima (if different from Basel III)		
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)		
72	Non-significant investments in the capital of other financial entities	n/a
73	Significant investments in the ordinary shares of financial entities	n/a
74	Mortgage servicing rights (net of related tax liability)	n/a
75	Deferred tax assets arising from temporary differences (net of related tax liability)	n/a
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,401
77	Cap on inclusion of provisions in Tier 2 under standardised approach	6,003
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	n/a
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	n/a
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	n/a
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a
82	Current cap on AT1 instruments subject to phase out arrangements	n/a
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	n/a
84	Current cap on T2 instruments subject to phase out arrangements	n/a
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	n/a

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REGULATORY CAPITAL RECONCILIATION

The following tables is are a reconciliation the Regulatory capital of Sydney Credit Union Limited to the balance sheet in the audited Financial Statements as at 30 June 2019.

ASSETS	\$,000	\$,000	Common Disclosure Table Reference
Cash and Cash Equivalents		13,030	
Liquid Investments		27,230	
Due From Other Financial Institutions		10,903	
Receivables		1,174	
Prepayments		564	
Total Loans to Members	734,563		
Unamortised loan origination fees	(68)		26c
Unearned Income	(128)		
Provision for impaired loans	(699)		
Stage 1 ECL (Formerly GRCL)	(2,401)		50
Loans to Members		731,267	
Society One Loans		4,979	
LeasePlus Leases		3,541	
Negotiable Certificates Of Deposit	69,822		
Floating Rate Notes	51,756		
Cuscal	3,093		18
Transaction Solutions	1,942		26g
Shared Services Partners	40		26g
Total Investment and Equity Securities		126,653	
Property, Plant and Equipment	10,600		
Lease Make Good Asset	147		26f
Investment Properties	2,560		
Total Property Plant and Equipment		13,307	
Taxation Assets		732	
Intangible Assets		605	26f
TOTAL ASSETS		933,985	
LIABILITIES			
Borrowings		-	
Deposits from Members		833,583	
Creditor Accruals and Settlement Accounts		8,418	
Taxation Liabilities		398	
Provisions		4,217	
TOTAL LIABILITIES		846,616	
NET ASSETS		87,369	
MEMBERS EQUITY			
Capital Reserve Account		735	3
Asset Revaluation Reserve		7,976	3
General Reserves		14,041	3
General Reserve for Credit Losses		-	
Retained Earnings		64,617	2
TOTAL MEMBERS EQUITY		87,369	

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Reconciliation of Members Equity to Regulatory Capital as at 30 June 2019

MEMBERS EQUITY		Re Common Disclosure Table Reference	
Audited Members Equity		87,369	2,3
Stage1 ECL (Formerly GRCL)		2,401	50
Unamortised loan origination fees		68	26c
Total		89,838	
Less - Deferred tax Asset		-	
- Capitalised Expenses	754		26f
- Available for Sale Equity Investments	5,075		18,26g
- Other Regulatory Adjustments to Capital	-		
Total Deductions from Regulatory capital		5,829	
TOTAL REGULATORY CAPITAL		84,009	

CAPITAL INSTRUMENTS WITHIN SYDNEY CREDIT UNION LIMITED

The regulatory capital in the credit union comprises is limited to

- Retained earnings
- General reserve for Credit Losses
- Asset revaluation reserves
- Regulatory Capital instruments issued by Sydney Credit Union Limited.

There were no Regulatory Capital Instruments issued as at 30 September 2019.

CAPITAL REQUIREMENTS

Capital requirements of Sydney Credit Union Limited is determined by the risk weights of the relevant assets held with the minimum required capital to over 8% of the risk weighted assets. Sydney Credit Union Limited maintains a capital policy level of Minimum 15% and a capital target of 15%. The current level of capital is 17.40%.

The risk weighted assets for each asset grouping as set out in the table below is determined by the APRA Prudential Standards APS 112. These are prescribed risk weights to measure the level of risk of 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 September 2019 is as follows.

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Table 3 Risk Weighted Assets by Asset Class

	Prescribed RWA \$000	
	Current qtr 30 September 2019	Previous qtr 30 June 2019
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Loans - secured by residential mortgage	250,659.2	249,646.7
• Loans - other	48,005.7	51,441.5
• Liquid investments	78,428.9	71,715.4
• all other assets	17,687.3	16,354.2
Total credit risk on balance sheet	394,781.1	389,157.8
Total credit risk off balance sheet (commitments)	35,461.8	38,903.0
• Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	35,461.8	38,903.0
• Capital requirements for securitisation	-	-
(b) Capital requirements for market risk.	-	-
(c) Capital requirements for operational risk.	52,223.1	52,223.1
Total Risk Weighted assets (Sum above components)	482,466.0	480,283.9

CAPITAL HELD BY SYDNEY CREDIT UNION LIMITED

The capital held by Sydney Credit Union Limited exceeds the policy and minimum capital prescribed by the APRA Prudential standards. This excess facilitates future growth within the Sydney Credit Union Limited.

The capital ratio is the amount of capital described in Table 4 divided by the risk weighted assets.

Table 4

	Capital \$' 000		Capital Ratio	
	Current qtr 30 September 2019	Previous qtr 30 June 2019	Current qtr 30 September 2019	Previous qtr 30 June 2019
Common Equity Tier 1	81,529.1	81,608.6	16.90%	16.99%
Tier 1	81,529.1	81,608.6	16.90%	16.99%
Total Capital ratio	83,930.1	84,009.7	17.40%	17.49%

CREDIT RISK

(i) CREDIT RISK – INVESTMENTS

Surplus cash not invested in loans to members are held in high quality liquid assets. This included the funds required to be held to meet withdrawal of deposits by members of Sydney Credit Union Limited.

Sydney Credit Union Limited 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 5 below excludes the Equities and securitisation exposures. Securitisation exposures are set out in the table G that follows

The exposure values associated with each credit quality step are as follows in Table 5:

Table 5

Current Quarter 30 September 2019

Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet at 30 September 2019	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	Increase in specific provision and write offs in qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cuscal	14,691	13,581	-	-	-	-
Major Banks	33,877	31,501	-	-	-	-
Other rated ADIs	105,728	106,394	-	-	-	-
Unrated institutions – ADIs	22,587	29,589	-	-	-	-
Total	176,882	181,065	-	-	-	-

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Previous Quarter 30 June 2019

Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet at 30 June 2019	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	Increase in specific provision and write offs in qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cuscal	14,533	15,800	-	-	-	-
Major Banks	35,794	36,252	-	-	-	-
Other rated ADIs	104,760	105,062	-	-	-	-
Unrated institutions – ADIs	20,630	15,585	-	-	-	-
Total	175,717	172,699	-	-	-	-

(ii) CREDIT RISK – LOANS

The classes of loans entered into by Sydney Credit Union Limited are limited to loans; commitments and other non-market off-balance sheet exposures. Sydney Credit Union Limited 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 all collateral as at the balance date due to the variety of assets and condition. The analysis of the Sydney Credit Union Limited's loans by class, is as follows in Table 6.

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Table 6

(excludes securitisation exposures or equities. Securitisation exposures are set out in table 8)

Current Quarter 30 September 2019

Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet at 30 September 2019	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	Increase in specific provision and write offs in qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	748,951	692,554	56,837	1,160	-	-	-
Personal	27,017	24,812	1,303	-	760	474	(60)
Overdrafts & Credit cards	46,834	15,841	30,820	-	143	103	(2)
Business loans	11,341	9,967	1,031	-	-	-	-
Total	834,142	743,174	89,991	1,160	903	577	(62)

Previous Quarter 30 June 2019

Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet at 30 June 2019	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	Increase in specific provision and write offs in qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	740,725	688,665	59,846	1,835	-	-	-
Personal	27,312	26,642	1,276	-	792	613	(48)
Overdrafts & Credit cards	47,053	17,062	29,944	-	212	153	44
Business loans	11,225	10,653	1,031	-	-	-	-
Total	826,315	743,022	92,097	1,835	1,004	766	(4)

General Reserve for Credit Losses

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

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In addition to the 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 7

	Current quarter 30 September 2019	Previous quarter 30 June 2019
Balance	\$2,401,038	\$2,401,038

SECURITISATION ARRANGEMENTS

Sydney Credit Union Limited has entered into arrangements for securitised loans to support its liquidity requirements from time to time. The table below states the current value of securitised loans managed by Sydney Credit Union Limited and the amount securitised in the past quarter ended 30 September 2019.

Table 8

Current Quarter Ending 30 September 2019

	Loans Securitised in Current qtr, by type of securitisation	Securitised Loans On- balance sheet exposure retained or purchased	Securitised Loans Off- balance sheet exposures
	\$'000	Aggregate amount \$'000	Aggregate amount \$'000
Mortgage secured	-	-	3,546
Personal	-	-	-
Overdrafts & Credit cards	-	-	-
Corporate	-	-	-
Total	-	-	3,546

The recognised gain or loss on securitised arrangements entered into in the past quarter is \$ Nil

Previous Quarter Ending 30 June 2019

	Loans Securitised in Current qtr, by type of securitisation	Securitised Loans On- balance sheet exposure retained or purchased	Securitised Loans Off- balance sheet exposures
	\$'000	Aggregate amount \$'000	Aggregate amount \$'000
Mortgage secured	-	-	3,604
Personal	-	-	-
Overdrafts & Credit cards	-	-	-
Corporate	-	-	-
Total	-	-	3,604

The recognised gain or loss on securitised arrangements entered into in the past quarter is \$ Nil