



ABN 14 087 650 771

QUARTERLY PRUDENTIAL CAPITAL DISCLOSURES

30 JUNE 2020

Prudential Disclosures

For the quarter ended 30 June 2020

INTRODUCTION

As a locally incorporated ADI using the standardised approach under Basel III regulatory requirements, Illawarra Credit Union Ltd (“the Credit Union”) is required to disclose information about their capital and risk exposure under Australian Prudential Standard APS 330.

CAPITAL MANAGEMENT

The Credit Union calculates capital requirements by analysing various major risks faced by the Credit Union and ensuring appropriate levels of capital are maintained to cover those risks. Major risks considered include credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and economic risk. The Credit Union’s Risk Management framework presents information about the Credit Union’s exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, the management of capital, and incorporates rules and ratios established by the Australian Prudential Regulation Authority.

The Credit Union has complied with all external capital requirements, as well as maintaining healthy capital ratios in order to support our ongoing business activities.

Capital Structure as at 30th June 2020

Common Equity Tier 1 capital: instruments and reserves		A\$
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	Not Applicable
2	Retained earnings	41,528
3	Accumulated other comprehensive income (and other reserves)	2,852
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	Not Applicable
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	Not Applicable
6	Common Equity Tier 1 capital before regulatory adjustments	44,380
Common Equity Tier 1 capital : regulatory adjustments		
7	Prudential valuation adjustments	Not Applicable
8	Goodwill (net of related tax liability)	Not Applicable
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	929
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	Not Applicable
12	Shortfall of provisions to expected losses	Not Applicable
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	Not Applicable
14	Gains and losses due to changes in own credit risk on fair valued liabilities	Not Applicable
15	Defined benefit superannuation fund net assets	Not Applicable
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	Not Applicable
17	Reciprocal cross-holdings in common equity	Not Applicable
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)	Not Applicable
20	Mortgage service rights (amount above 10% threshold)	Not Applicable
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not Applicable
22	Amount exceeding the 15% threshold	Not Applicable
23	of which: significant investments in the ordinary shares of financial entities	Not Applicable
24	of which: mortgage servicing rights	Not Applicable
25	of which: deferred tax assets arising from temporary differences	Not Applicable
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	6
26a	of which: treasury shares	Not Applicable
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	Not Applicable
26c	of which: deferred fee income	(130)
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	Not Applicable
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	Not Applicable

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26f	of which: capitalised expenses	136
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	Not Applicable
26h	of which: covered bonds in excess of asset cover in pools	Not Applicable
26i	of which: undercapitalisation of a non-consolidated subsidiary	Not Applicable
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	Not Applicable
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	Not Applicable
28	Total regulatory adjustments to Common Equity Tier 1	935
29	Common Equity Tier 1 Capital (CET1)	43,445
Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	Not Applicable
31	of which: classified as equity under applicable accounting standards	Not Applicable
32	of which: classified as liabilities under applicable accounting standards	Not Applicable
33	Directly issued capital instruments subject to phase out from Additional Tier 1	Not Applicable
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)	Not Applicable
35	of which: instruments issued by subsidiaries subject to phase out	Not Applicable
36	Additional Tier 1 Capital before regulatory adjustments	Not Applicable
Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	Not Applicable
38	Reciprocal cross-holdings in Additional Tier 1 instruments	Not Applicable
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)	Not Applicable
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)	Not Applicable
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	Not Applicable
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	Not Applicable
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	Not Applicable
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	Not Applicable
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	Not Applicable
43	Total regulatory adjustments to Additional Tier 1 capital	Not Applicable
44	Additional Tier 1 capital (AT1)	Not Applicable
45	Tier 1 Capital (T1=CET1+AT1)	Not Applicable
Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	Not Applicable
47	Directly issued capital instruments subject to phase out from Tier 2	Not Applicable
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)	Not Applicable
49	of which: instruments issued by subsidiaries subject to phase out	Not Applicable
50	Provisions	1,457
51	Tier 2 Capital before regulatory adjustments	1,457
Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	Not Applicable
53	Reciprocal cross-holdings in Tier 2 instruments	Not Applicable
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)	Not Applicable
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	Not Applicable
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	Not Applicable
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	Not Applicable
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	Not Applicable
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	Not Applicable
57	Total regulatory adjustments to Tier 2 capital	Not Applicable
58	Tier 2 capital (T2)	1,457
59	Total capital (TC=T1+T2)	44,902
60	Total risk-weighted assets based on APRA standards	281,283

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Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.45%
62	Tier 1 (as a percentage of risk-weighted assets)	15.45%
63	Total capital (as a percentage of risk-weighted assets)	15.96%
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)	7.00%
65	of which: capital conservation buffer requirement	2.50%
66	of which: ADI-specific countercyclical buffer requirements	Not Applicable
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)	7.96%
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	Not Applicable
73	Significant investments in the ordinary shares of financial entities	Not Applicable
74	Mortgage servicing rights (net of related tax liability)	Not Applicable
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not Applicable
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)	1,457
77	Cap on inclusion of provisions in Tier 2 under standardised approach	3,055
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	Not Applicable
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	Not Applicable
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	Not Applicable
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not Applicable
82	Current cap on AT1 instruments subject to phase out arrangements	Not Applicable
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	Not Applicable
84	Current cap on T2 instruments subject to phase out arrangements	Not Applicable
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	Not Applicable

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Capital Adequacy	30th Jun 2020	31st Mar 2020
Capital requirements - Credit Risk	Risk Weighted Assets	Risk Weighted Assets
	\$'000	\$'000
- Claims secured by residential mortgages	164,409	170,856
- Other retail loans	14,083	14,040
- Claims on ADI's & Banks	52,564	37,578
- Corporate claims	-	-
- Other claims	8,192	8,462
- Other non-market off balance sheet exposures	5,172	5,149
Capital requirements - Credit Risk	244,420	236,085
Capital requirements - Market Risk	-	-
Capital requirements - Operational Risk	36,732	36,732
TOTAL Risk Weighted Assets	281,152	272,817
Common Equity Tier 1 Ratio	15.45%	15.38%
Tier 1 Capital Ratio	15.45%	15.38%
Total Capital Ratio	15.96%	15.94%

General Reserve for Credit Losses	\$'000
as at 30th June 2020	1,457
as at 31st March 2020	1,540

Credit Risk as at 30th June 2020	Total Gross Exposure	Average Gross Exposure (Qtr)
	\$'000	\$'000
- Cash items	452	472
- ADI's & Banks	161,409	147,991
- Loans: Residential secured	458,410	464,343
- Loans: Other	15,196	14,752
- Loans: Total	473,606	479,094
- Other	8,192	7,319
- Other non-market off balance sheet exposures	91,346	94,787
Total exposures	735,005	729,662

Credit Risk as at 30th June 2020	Impaired	Past Due	Collective Provision	Collective Expense	Collective Charge	Specific Provision	Specific Charge
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
- Cash items							
- ADI's & Banks							
- Loans: Residential secured		752					
- Loans: Investment secured		-					
- Loans: Other	106	409	70	5	19	70	19
- Loans: Total	106	1,161	70	5	19	70	19
- Other							
- Other non-market off balance sheet exposures							
Total exposures	106	1,161	70	5	19	70	19

Credit Risk as at 31st March 2020	Total Gross Exposure	Average Gross Exposure (Qtr)
	\$'000	\$'000
- Cash items	490	516
- ADI's & Banks	118,437	121,216
- Loans: Residential secured	475,971	473,743
- Loans: Other	14,932	15,555
- Loans: Total	490,903	489,297
- Other	8,462	7,454
- Other non-market off balance sheet exposures	92,949	93,436
Total exposures	711,241	711,918

Credit Risk as at 31st March 2020	Impaired	Past Due	Collective Provision	Collective Expense	Collective Charge	Specific Provision	Specific Charge
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
- Cash items							
- ADI's & Banks							
- Loans: Residential secured	99	892					
- Loans: Investment secured		-					
- Loans: Other	21	44	56	9	26	56	26
- Loans: Total	120	936	56	9	26	56	26
- Other							
- Other non-market off balance sheet exposures							
Total exposures	120	936	56	9	26	56	26

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CAPITAL RECONCILIATION

As the scope for capital for regulatory purposes and accounting purposes is often different, locally incorporated ADIs are required to prepare a reconciliation between the two basis of preparation. The below reconciliation contains the regulatory and accounting capital for Illawarra Credit Union Ltd, which does not incorporate any consolidated entities and the principal activity of which is the provision of financial products, services and associated activities to members.

Regulatory Capital Reconciliation as at 30th June 2020

Accounting Scope of Consolidation (as per the financial statements)	\$'000	Capital Structure Reference
Total Assets	651,883	
Total Liabilities	605,932	
<u>Net Assets</u>	<u>45,951</u>	
Equity		
General reserve for credit losses	1,317	50
Redeemed share capital reserves	254	
Asset revaluation reserve	2,233	3
Total Reserves	3,804	
Retained Earnings	42,147	2
<u>Total Equity</u>	<u>45,951</u>	
Adjustments/Additions under the regulatory scope of consolidation	\$'000	
Redeemed share capital reserves	(254)	
Other intangibles (IT software costs)	(929)	9
Net deferred tax assets	0	10
Equity investments in other financial institutions	0	18
Capitalised Expenses - investment premiums	(118)	26f
Capitalised Expenses - loan aggregator expenses	(18)	26f
Capitalised Expenses - Securitisation Start-up costs	0	26f
Deferred loan fee income	130	26c
Collective provision for credit losses	140	50
<u>Total adjustments/additions under the regulatory scope of consolidation</u>	<u>(1,049)</u>	
<u>Regulatory capital</u>	<u>44,902</u>	