

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

The report as at the 31 December is based on the financial statements as unaudited as at the 31 December

There are no other legal entities that comprise a consolidated group.

Glossary of terms used in this guide is

- 'ATI' 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 year ended 30 June 2015. These amounts coincide with the audited accounts.

The following table 1 sets out the elements of the capital held by Sutherland Credit Union 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.

Table 1

Common Equity Tier 1 Capital : instruments and reserves		30/06/2015	Reconciliation
		\$,000	
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	0	
2	Retained earnings	13,592	g
3	Accumulated other comprehensive income (and other reserves)	203	g
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	0	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0	
6	Common Equity Tier 1 capital before regulatory adjustments on Equity Tier 1 capital : regulatory adjustments	13,795	f + h
Common Equity Tier 1 Capital : regulatory adjustments			
7	Prudential valuation adjustments	51	e
8	Goodwill (net of related tax liability)	0	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	51	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	
11	Cash-flow hedge reserve	0	
12	Shortfall of provisions to expected losses	0	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit superannuation fund net assets	0	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in common equity	0	
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 Sutherland Credit Union does not own more than 10% of the issued share capital (amount above 10% threshold)	0	i
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)	0	
20	Mortgage service rights (amount above 10% threshold)	0	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	244	b
22	Amount exceeding the 15% threshold	0	
23	of which: significant investments in the ordinary shares of financial entities	0	
24	of which: mortgage servicing rights	0	
25	of which: deferred tax assets arising from temporary differences	0	
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	0	
26a	of which: treasury shares	0	
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 Sutherland Credit Union	0	
26c	of which: deferred fee income	-6	c
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	0	
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	0	
26f	of which: capitalised expenses	0	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	0	
26h	of which: covered bonds in excess of asset cover in pools	0	
26i	of which: undercapitalisation of a non-consolidated subsidiary	0	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	6	c
27	Regulatory adjustments applied to Common Equity tier 1 due to the effect of Additional Tier 1 and Tier 2 covered deductions	0	
28	Total regulatory adjustments to Common Equity Tier 1	295	
29	Common Equity Tier 1 Capital (CET1)	13,500	

Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	0
31	of which: classified as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	Directly issued capital instruments subject to phase out from Additional Tier 1	910
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)	0
35	of which: instruments issued by subsidiaries subject to phase out	0
36	Additional Tier 1 Capital before regulatory adjustments	910
Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0
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 Sutherland Credit Union does not own more than 10% of the issued share capital (amount above 10% threshold)	0
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)	0
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	130
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	0
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	0
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	130
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0
43	Total regulatory adjustments to Additional Tier 1 capital	130
44	Additional Tier 1 capital (AT1)	780
45	Tier 1 Capital (T1=CET1+AT1)	14,280
Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	0
47	Directly issued capital instruments subject to phase out from Tier 2	1,200
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)	0
49	of which: instruments issued by subsidiaries subject to phase out	0
50	Provisions	400
51	Tier 2 Capital before regulatory adjustments	1,600
Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	0
53	Reciprocal cross-holdings in Tier 2 instruments	0
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 Sutherland Credit Union does not own more than 10% of the issued share capital (amount above 10% threshold)	0
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	0
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	0
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	0
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	0
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	0
57	Total regulatory adjustments to Tier 2 capital	0
58	Tier 2 capital (T2)	1,600
59	Total capital (TC=T1+T2)	15,880
60	Total risk-weighted assets based on APRA standards	105,715
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	12.77%
62	Tier 1 (as a percentage of risk-weighted assets)	0
63	Total capital (as a percentage of risk-weighted assets)	0
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)	0
65	of which: capital conservation buffer requirement	0
66	of which: Sutherland Credit Union-specific countercyclical buffer requirements	0
67	of which: G-SIB buffer requirement	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	0.77%
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	0
70	National Tier 1 minimum ratio (if different from Basel III minimum)	0
71	National total capital minimum ratio (if different from Basel III minimum)	0
Amount below thresholds for deductions (not risk-weighted)		
72	Non-significant investments in the capital of other financial entities	0
73	Significant investments in the ordinary shares of financial entities	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liabilities)	0
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)	400
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,321
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0
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	1,300
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	390
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	2,000
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	800

Regulatory Capital reconciliation

The following table discloses the Balance Sheet of Sutherland Credit Union Ltd as published in its audited financial statements.

	Balance Sheet as per Audited Financial Statements	Adjustments	Balance Sheet for Regulatory purposes	Reference to Table 1
ASSETS				
Cash	5,868,800	1,000,888	4,867,912	(a)
Receivables from financial institutions	41,894,818 -	1,000,888	42,895,706	(a)
Receivables	576,021	8,963	567,058	(b)
Prepayments	120,112	-	120,112	
Loans to members	167,462,957 -	2,038	167,464,995	(c)
Less: General Reserve		400,000 -	400,000	(d)
Available for sale investments	492,442	-	492,442	
Property, plant and equipment	493,654	-	493,654	
Taxation assets	261,322	17,501	243,821	(b)
Loans to capital investors	-	-	-	
Intangible assets	55,703	-	55,703	(e)
Loan Loss reserve	-	130,000	130,000	(f)
TOTAL ASSETS	217,225,829	294,426	216,931,403	
LIABILITIES				
Short term borrowings	-	-	-	
Deposits from other institutions	-	-	-	
Deposits from members	197,688,074	77,984	197,610,090	(c)
Creditor accruals and settlement accounts	2,399,391	210,261	2,189,130	(b)
Taxation liabilities	64,370	-	64,370	
Member withdrawable shares	-	80,022	80,022	(c)
Provisions	268,136 -	183,797	451,933	(b)
Loan Capital	-	3,231,657	3,231,657	(f)
Long term borrowings	1,975,077	1,975,077	-	(f)
TOTAL LIABILITIES	202,395,048 -	1,232,154	203,627,202	
NET ASSETS	14,830,781	1,526,580	13,304,201	
MEMBERS' EQUITY				
Share capital - preference shares	1,126,580	1,126,580	-	(f)
Capital reserve account	201,094	-	201,094	(h)
General reserve for credit losses	400,000	400,000	-	(d)
Retained Earnings	13,103,107	-	13,103,107	(g)
TOTAL MEMBERS' EQUITY	14,830,781	1,526,580	13,304,201	

CAPITAL INSTRUMENTS WITHIN Sutherland Credit Union

The regulatory capital in the credit union comprises is limited to

- Retained earnings
- General reserve for Credit Losses
- Asset revaluation reserves

There are Tier 1 & Tier 2 capital instruments issued by Sutherland Credit Union.

Table 2

Disclosure template for main features of Regulatory Capital instruments

		Tier 1	Tier 2
1	Issuer	Australian Mutual T1 Capital Funding Trust No 1	Australian Mutual Investment Trust
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)		
3	Governing law(s) of the instrument	NSW Australia	NSW Australia
<i>Regulatory treatment</i>			
4	Transitional Basel III rules	Additional Tier 1	Tier 2
5	Post-transitional Basel III rules	Ineligible	Ineligible
6	Eligible at solo/group/group & solo		
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	Preference shares	Subordinated debt
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	\$.91m	\$ 1.2m
9	Par value of instrument	\$ 1.3m	\$ 2m
10	Accounting classification	Shareholders Equity	Liability
11	Original date of issuance	26/06/2006	9/11/2012
12	Perpetual or dated	perpetual	Dated
13	Original maturity date	-	9/11/2022
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	On any Dividend payment date following the 10th anniversary. Redemption of all, or some of the debt with a minimum and multiples of \$100,000	On any Interest payment date following the 5th anniversary. Redemption of all, or some of the debt with a minimum and multiples of \$100,000
16	Subsequent call dates, if applicable	See above	See above
<i>Coupons/dividends</i>			
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	90d bbsw + 299bps	90d bbsw + 593bps
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	Yes	No
22	Noncumulative or cumulative	Non cumulative	
23	Convertible or non-convertible	Non convertible	Non convertible
24	If convertible, conversion trigger (s)		
25	If convertible, fully or partially		
26	If convertible, conversion rate		
27	If convertible, mandatory or optional conversion		
28	If convertible, specify instrument type convertible into		
29	If convertible, specify issuer of instrument if converts into		
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)		

CAPITAL REQUIREMENTS

Capital requirements in Sutherland Credit Union is determined by the risk weights of the relevant assets held with the minimum required capital to over 8% of the risk weighted assets. Sutherland Credit Union maintains a capital policy level of Minimum 12% and a capital target of 15%. The current level of capital is 15.08%.

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 31 Dec is as follows

Table 3
RISK WEIGHTED ASSETS (RWA) BY ASSET CLASS

	Prescribed	
	RWA	
	\$'000	
	31/12/2015	30/09/2015
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio:		
Cash	0	0
Liquid investments	20,299	18,563
Loans - secured by residential mortgage	55,825	55,106
Loans - other retail	10,080	9,958
Loans - corporate	2,744	2,744
	0	0
all other assets	843	866
Total credit risk on balance sheet	89,791	87,238
Total credit risk off balance sheet (commitments)		
- Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	4,028	4,927
- Capital requirements for securitisation	0	0
(b) Capital requirements for market risk.	0	0
(c) Capital requirements for operational risk.	11,896	11,668
Total Risk Weighted assets (Sum above components)	105,715	103,833

CAPITAL HELD BY Sutherland Credit Union

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

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

Table 4

	Capital	
	\$ '000	
	31/12/2015	30/09/2015
Common Equity Tier 1	13,558	13,500
Tier 1	14,338	14,280
Total Capital	15,938	15,880
Common Equity Tier 1	12.82%	13.00%
Tier 1	13.56%	13.75%
Total Capital	15.08%	15.29%

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 Sutherland Credit Union.

Sutherland Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, 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		31/12/2015					
Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet at 31 Dec 2015	Current quarter				Increase in specific provision and write offs in qtr
			Past due facilities	Impaired facilities	Specific Provision as at end of qtr		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cuscal	6,650	5,300	-	-	-	-	-
Major Banks	9,451	5,817	-	-	-	-	-
Other rated ADIs	26,531	31,961	-	-	-	-	-
Unrated institutions – ADIs	2,008	2,009	-	-	-	-	-
Total	44,640	45,087	-	-	-	-	-

Previous Quarter		30/09/2015					
Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet at 30/09/2015	Previous quarter				Increase in specific provision and write offs in qtr
			Past due facilities	Impaired facilities	Specific Provision as at end of qtr		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cuscal	7,050	6,100	-	-	-	-	-
Major Banks	11,280	9,475	-	-	-	-	-
Other rated ADIs	24,099	27,095	-	-	-	-	-
Unrated institutions – ADIs	1,505	1,004	-	-	-	-	-
Total	43,934	43,673	-	-	-	-	-

(I) CREDIT RISK – LOANS

The classes of loans entered into by Sutherland Credit Union are limited to loans; commitments and other non-market off-balance sheet exposures. Sutherland Credit Union 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 Sutherland Credit Union's loans by class, is as follows in Table 6

Table 6

Current Quarter		31/12/2015					
Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet at 31 Dec 2015	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	
							\$'000
Mortgage secured	156,265	157,965	15,584	447	0	0	
Personal	7,569	7,791	1,322	84	65	54	
Overdrafts & Credit cards	2,371	2,288	4,577	47	4	6	
Corporate borrowers	2,945	2,744	0	0	0	0	
Total	169,150	170,789	21,483	578	69	59	

Previous Quarter		30/09/2015					
Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet at current 30 Sep 2015	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	
							\$'000
Mortgage secured	155,138	155,712	17,203	460	0	0	
Personal	7,471	7,596	557	87	50	71	
Overdrafts & Credit cards	2,408	2,363	5,000	35	1	2	
Corporate borrowers	2,945	2,744	0	0	0	0	
Total	167,963	168,414	22,760	582	50	73	

General Reserve for Credit Losses

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

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

	31-Dec-15	30-Sep-15
Balance	400	400

SECURITISATION ARRANGEMENTS

Sutherland Credit Union 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 Sutherland Credit Union and the amount securitised in the past quarter ended 31 Dec 2015

Table 8
Securitized loans

Current Quarter		31/12/2015	
	Loans Securitised in Current qtr, by type of securitisation	Securitized Loans On-balance sheet exposure retained or purchased	Securitized Loans Off-balance sheet exposures
		Aggregate amount	Aggregate amount
	\$'000	\$'000	\$'000
Mortgage loans	-	-	42
Personal loans	-	-	-
Credit cards	-	-	-
Total	-	-	42

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

Previous Quarter		30/09/2015	
	Loans Securitised in Current qtr, by type of securitisation	Securitized Loans On-balance sheet exposure retained or purchased	Securitized Loans Off-balance sheet exposures
		Aggregate amount	Aggregate amount
	\$'000	\$'000	\$'000
Mortgage loans	-	-	45
Personal loans	-	-	-
Credit cards	-	-	-
Total	-	-	45