

PRUDENTIAL DISCLOSURES – JUNE 2019

CAPITAL

The information in this report is prepared based on Macquarie Credit Union's financial records and audited financial statements as at 30 June 2019.

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

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.

Table A below sets out the elements of the capital held by Macquarie 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.

Table B reconciles the elements of Macquarie Credit Union's regulatory capital back against the Credit Union's audited Statement of Financial Position at 30 June 2019 and is referred back to Table A.

In complying with the capital disclosure requirements of APS330, Macquarie Credit Union is using the post 1 January 2018 common template as it is fully applying the Basel III regulatory adjustments as implemented by the Australian Prudential Regulatory Authority (APRA).

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

Table A Capital Base Elements

Common Equity Tier I capital: instruments and reserves		Current quarter 30 June 2019 \$'000	Source based on reference number in table
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	N/A	
2	Retained earnings	8,768	a
3	Accumulated other comprehensive income (and other reserves)	3,780	b
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)</i>	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 I capital before regulatory adjustments	12,548	
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)	239	c
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 ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	N/A	
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)	329	
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 the ADI	N/A	
26c	of which: deferred fee income	N/A	
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	173	d
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	156	e
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	
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	568	
29	Common Equity Tier 1 Capital (CET1)	11,980	
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	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	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 ATI)	N/A	

35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	N/A	
36	Additional Tier 1 Capital before regulatory adjustments	N/A	
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 the ADI 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	<i>of which: holdings of capital instruments in group members by other group members on behalf of third parties</i>	N/A	
41b	<i>of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40</i>	N/A	
41c	<i>of which: other national specific regulatory adjustments not reported in rows 41a and 41b</i>	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)	11,980	
46	Directly issued qualifying Tier 2 instruments	N/A	
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	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	<i>of which: instruments issued by subsidiaries subject to phase out</i>	N/A	
50	Provisions	572	f
51	Tier 2 Capital before regulatory adjustments	572	
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 the ADI 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	<i>of which: holdings of capital instruments in group members by other group members on behalf of third parties</i>	N/A	
56b	<i>of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55</i>	N/A	
56c	<i>of which: other national specific regulatory adjustments not reported in rows 56a and 56b</i>	N/A	
57	Total regulatory adjustments to Tier 2 capital	0	
58	Tier 2 capital (T2)	572	
59	Total capital (TC=T1+T2)	12,552	

60	Total risk-weighted assets based on APRA standards	55,638	
61	Common Equity Tier I (as a percentage of risk-weighted assets)	21.53%	
62	Tier I (as a percentage of risk-weighted assets)	21.53%	
63	Total capital (as a percentage of risk-weighted assets)	22.60%	
64	Buffer requirement (minimum CETI 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	N/A	
67	of which: G-SIB buffer requirement	N/A	
68	Common Equity Tier I available to meet buffers (as a percentage of risk-weighted assets)	14.53%	
69	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	N/A	
70	National Tier I minimum ratio (if different from Basel III minimum)	N/A	
71	National total capital minimum ratio (if different from Basel III minimum)	N/A	
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	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	572	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	N/A	
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	
80	Current cap on CETI instruments subject to phase out arrangements	N/A	
81	Amount excluded from CETI due to cap (excess over cap after redemptions and maturities)	N/A	
82	Current cap on ATI instruments subject to phase out arrangements	N/A	
83	Amount excluded from ATI 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	

Table B Regulatory Capital Reconciliation

ASSETS	Column A	Column B	Reference
	\$'000	\$'000	
Cash and liquid assets	19,296	19,296	
Accrued receivables	231	231	
Loans and advances	87,372	87,372	
Other investments	163		
-Cuscal		156	e
-Transaction Solutions Ltd		7	
Property, plant and equipment	378	378	
Intangibles	173	173	d
Deferred tax assets	239		
-Deferred Tax Asset		239	c
-Income Tax Paid in Advance		0	
Other assets	86	86	
TOTAL ASSETS	107,938	107,938	
LIABILITIES			
Deposits and short term borrowings	91,121	91,121	
Payables and other liabilities	362	362	
Interest bearing liabilities	3,000	3,000	
Provisions	335	335	
TOTAL LIABILITIES	94,818	94,818	
NET ASSETS	13,120	13,120	
EQUITY			
General Reserves for credit Losses	572		
-Up to 1.25% of RWA		572	f
Retained profits	12,548		
-Reserves		3,780	b
-Retained Earnings		8,768	a
TOTAL EQUITY	13,120	13,120	

Column A – Balance Sheet as per published Financial Statements as at 30 June 2019.

Column B – Balance Sheet under regulatory scope of consolidation as at 30 June 2019.

Disclosure for main features of regulatory capital instruments

The regulatory capital is limited to

- Retained earnings
- General reserve for Credit Losses

There are no capital instruments (shares, debt instruments) issued by Macquarie Credit Union.

CAPITAL ADEQUACY DISCLOSURES AS AT 30 JUNE 2019

The capital requirements for Macquarie Credit Union are determined by the risk weights of the relevant assets held with the minimum required capital to over 8% of the risk weighted assets. Macquarie Credit Union maintains a capital policy level of minimum 13% and a capital target of 23%. The current level of capital as at 30 June 2019 is 22.60%.

The risk weighted assets for each asset grouping as set out in the table below are 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.

Table C Risk Weighted Assets by Asset Class

	30 th June 2019	
	Carrying Value	Risk weighted value
(a) Capital requirements (in terms of risk-weighted assets) for credit risk by portfolio;		
• Loans - secured by residential mortgage	80,223,387	29,811,715
• Loans - other retail	6,426,064	6,374,931
• Loans - corporate	741,831	741,831
• Liquid investments	19,152,671	6,278,363
• all other assets	747,645	747,646
Total credit risk on balance sheet	107,291,598	43,954,486
Total credit risk off balance sheet (commitments)		
• Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	11,759,182	5,383,971
• Capital requirements for securitisation	232,856	nil
Total Credit Risk	119,283,636	49,338,457
(b) Capital requirements for market risk.		nil
(c) Capital requirements for operational risk.		6,299,768
Total Risk Weighted assets (Sum above components)	119,283,636	55,638,225

CAPITAL HELD BY MACQUARIE CREDIT UNION

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

Table D Capital Requirements as at 30 June 2019

	Capital Required
Capital requirements for credit risk assets (8% RWA)	3,947,077
Capital requirements for securitization credit risk (8% RWA)	-
Capital requirements for market risk	-
Capital requirements for operations risk (8% RWA)	503,981
Total Capital required (at 8% of Risk weighted assets)	4,451,058
Capital held by the credit union	12,731,765
Common Equity Tier I - % held by the credit union	21.53%
Total Tier I - % held by the credit union	21.53%
Total Capital Ratio - % held by the credit union	22.60%

CREDIT RISK

(i) CREDIT RISK – INVESTMENTS

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

Macquarie 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 exposure values associated with each credit quality step are as follows in Table E:

Table E

Current Quarter 30th June 2019

Investments with banks and other ADIs	Average gross exposure in quarter \$'000	Carrying value on balance sheet at 30 Jun 19 \$'000	Past due facilities \$'000	Impaired facilities \$'000	Specific Provision as at end of qtr \$'000	Increase in specific provision and write offs in qtr \$'000
Cuscal	5,146,561	4,555,419	-	-	-	-
ADIs rated A-I or better	9,805,998	9,614,754	-	-	-	-
ADIs rated BBB- or better	2,735,316	2,982,498	-	-	-	-
Unrated institutions – ADIs	1,250,000	2,000,000	-	-	-	-
Total	18,937,874	19,152,671	-	-	-	-

(ii) CREDIT RISK – LOANS

The classes of loans entered into by the credit union are limited to loans, commitments and other non-market off-balance sheet exposures. The 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 principal 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 Macquarie Credit Union's loans by class, is as follows in Table F

Table F

Current quarter 30th June 2019

Loans Portfolio	Gross exposure value – Average for the period	Gross exposure value on balance sheet at 30 Jun 19	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	80,210	80,224	8,872		135	9	9
Personal	5,211	5,453	293		10	7	5
Overdrafts / Credit cards	1,005	973	2,594				
Total to natural persons	86,425	86,650	11,759		145	16	14
Commercial borrowers	810	741	0				
Total Loans	87,235	87,391	11,759		145	16	14

General Reserve for Credit Losses

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.

	Current quarter 30 June 2019	Previous quarter 31 March 2019
Balance	\$572,319	\$552,024

SECURITISATION ARRANGEMENTS

Macquarie 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 Macquarie Credit Union and the amount securitised in the past quarter.

Table G

Current Quarter 30th 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
		Aggregate amount	Aggregate amount
Mortgage loans			232,856
Personal loans			
Credit cards			
Total			232,856

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

REMUNERATION DISCLOSURES – JUNE 2019

Qualitative Disclosures	
(a)	<p><u>Remuneration Committee</u></p> <p>The Remuneration Committee oversees remuneration at Macquarie Credit Union Limited.</p> <p>The Remuneration Committee is the instrument Macquarie Credit Union uses to ensure that the Remuneration Policy is properly enforced.</p> <p>The Committee currently comprises seven Board Directors, although three is the minimum in accordance with the Charter of the Remuneration Committee.</p> <p>Members of the Committee are as follows:</p> <ul style="list-style-type: none"> - D Rootes (Chairman of the Risk Committee) - P Nolan (Chairman of the Board) - J Moss (Chairman of the Audit Committee and Remuneration Committee) - C Shepherd - R Mills - J Gray - A Field <p>No consultants were directly engaged during the year to assist in assessing the appropriate remuneration of staff. However, the Committee reviews the results of a survey of remuneration of Credit Union officers conducted by McGuirk Management Consultants Pty Ltd to assist in assessing appropriate remuneration.</p> <p>The following employees are considered by the Committee to be senior managers and risk managers:</p> <ul style="list-style-type: none"> - General Manager - Deputy General Manager <p>Other Credit Union's employees are paid a wage for time worked in accordance with the <i>Banking, Finance and Insurance Award 2010</i> ('the Award').</p> <p>The Credit Union's general policy is not to pay performance based remuneration to employees paid under the Award.</p> <p>In cases of exceptional individual performance, the Board may on the written recommendation of the General Manager approve the payment of a performance bonus to an individual employee. Before exercising its discretion to approve such payments, the Board must be satisfied that payment consistent with the objectives of this policy.</p>
(b)	<p><u>Design and Structure of Remuneration Processes</u></p> <p>The objectives of the remuneration policy are:</p> <ul style="list-style-type: none"> • to ensure that Macquarie Credit Union's remuneration arrangements are in accordance with Prudential Standard CPS 510 Remuneration and Prudential Practice Guide APG 511 Remuneration. • encourage behaviour that supports the Credit Union's long-term financial soundness and its risk management framework. • align with prudent risk-taking and incorporate adjustments to reflect: <ul style="list-style-type: none"> ▪ the outcomes of business activities;

	<ul style="list-style-type: none"> ▪ the risks of business activities including, where relevant, the cost of the associated capital; and ▪ the time necessary for the outcomes of business activities to be reliably measured <ul style="list-style-type: none"> • do not compromise the independence of risk and financial control personnel. • able to drive growth while maintaining stability and financial soundness of the Credit Union.
(c)	<p><u>Risk Mitigation</u></p> <p>The Credit Union 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"> • 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; • reviewing all employment contracts against the objectives of this policy with a view to renegotiating them when next due to be renewed or extended. • limiting the performance based component of the General Managers and Deputy General Managers remuneration to 10% of the current based salary. <p>Where the Credit Union contracts for services, including those caught by the Prudential Standard, its policy is to enter into an agreement which specifies all remuneration to be paid by the Credit Union.</p> <p>Where the services to be provided are caught by the Prudential Standard, the Credit Union's policy is not to pay performance based remuneration. Rather, the Credit Union's policy is to agree either:</p> <ul style="list-style-type: none"> ▪ a fixed fee for the work; or ▪ a rate based on the time spent supported by an estimate of the time needed to perform the work <p>Where the services to be provided are caught by the Prudential Standard, the Credit Union's policy is to maintain flexibility to respond to changes in circumstances by providing for annual (or quarterly if appropriate) reviews of the contract.</p>
(d)	<p>Performance measures used during the measurement period include but not limited to:</p> <ul style="list-style-type: none"> (a) Implementation of the Board's Strategic Plan. (b) The implementation of the Board's approved annual management plan. (c) The standard of communication to the Board including the provision of key market, operational and strategic information. (d) The development and maintenance of a strong team and service culture amongst managers and staff of the Credit Union. (e) Attendance to action priorities as determined by the Board and documented in the Board minutes. (f) All growth is financially and operationally sustainable and maintains or improves board approved member benefit targets. (g) Such other matters as the Board from time to time considers in its discretion important to the management and financial sustainability of the Credit Union. (h)

(e)	Nil
(f)	The General Manager and Deputy General Manager were entitled to receive a cash bonus in addition to the fixed salary up to a maximum of 10% of the current base salary. No other employee was entitled to variable remuneration.

Quantitative Disclosures	
(g)	Number of Remuneration Committee meetings: 3 Remuneration Committee members do not receive additional remuneration compared to Directors who are not on the Remuneration Committee.
(h)	<ul style="list-style-type: none"> The number of persons having received a variable remuneration award during the financial year: Two Number and total amount of guaranteed bonuses awarded during the financial year: Nil Number and total amount of sign-on awards made during the financial year: Nil Number and total amount of termination payments made during the financial year: Nil
(i)	Deferred remuneration: not applicable
(j)	Refer to Table 18A below
(k)	Pertains to deferred remuneration: Nil

Table 18A: Total Value of remuneration awards for senior managers

Total value of remuneration awards	Unrestricted	Deferred
Fixed Remuneration		
• Cash-based	\$317,454	0
• Shares and Share-linked instruments	0	0
• Other	0	0
Variable Remuneration		
• Cash-based	\$30,260	0
• Shares and Share-linked instruments	0	0
• Other	0	0