Orange Credit Union Limited
ABN 34 087 650 477
APS330 Annual Disclosure
as at 30 June 2020

Capital Structure as at 30 June 2020

The information in this report is prepared based on Orange Credit Union's financial records and audited financial statements as at 30 June 2020. Orange Credit Union has no other legal entities that would comprise a consolidated group.

Table A below details the components of the capital base as at the financial year ended 30 June 2020 and agree with the audited accounts.

The table sets out the elements of capital held by Orange 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 Orange Credit Union’s regulatory capital back against the Credit Union’s audited Statement of Financial Position at 30 June 2020 and is referenced back to Table A.

In complying with the capital disclosure requirements of APS330, Orange 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).

Table A Capital Base elements

APRA Row Ref	Common Disclosure Template	A$m	Reconciliation Table Ref or item no. on Balance Sheet
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	N/A	
2	Retained earnings	23,843,422	a
3	Accumulated other comprehensive income (and other reserves)	421,160	
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**	**24,264,581**	
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)	272,613	b-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	
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	
22	Amount exceeding the 15% threshold	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)	959,659	
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	352,827	d

APRA Row Ref	Common Disclosure Template	A$m	Reconciliation Table Ref or item no. on Balance Sheet
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	606,832	e
26h	of which: covered bonds in excess of asset cover in pools	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**	**1,232,272**	
29	**Common Equity Tier 1 Capital (CET1)**	**23,032,309**	
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**	**N/A**	
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 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	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)**	**23,032,309**	
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	1,141,601	f
51	**Tier 2 Capital before regulatory adjustments**	**1,141,601**	
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 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	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	
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**	**1,141,601**	
58	**Tier 2 capital (T2)**	**1,141,601**	

APRA Row Ref	Common Disclosure Template	A$m	Reconciliation Table Ref or item no. on Balance Sheet
59	**Total capital (TC=T1+T2)**	**24,173,910**	
60	**Total risk-weighted assets based on APRA standards**	**104,265,375**	
Capital Ratios and Buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	22.09%	
62	Tier 1 (as a percentage of risk-weighted assets)	22.09%	
63	Total capital (as a percentage of risk-weighted assets)	23.18%	
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*	N/A	
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)	15.09%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	N/A	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	N/A	
71	National total capital minimum ratio (if different from Basel III minimum)	N/A	
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	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,777,840	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,141,601	
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 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	

Capital Instruments

Orange Credit Union Limited holds no capital instruments.

Table B Regulatory Capital Reconciliation as at 30 June 2020

	Balance Sheet as per published financial statements $	Balance Sheet under regulatory scope of consolidation $	Ref #
ASSETS			
Cash and liquid assets	31,698,191	31,698,191	
Receivables	711,361	711,361	
Loans and advances to members	145,709,083	145,709,083	
Investment securities	50,729,112		
- At amortised cost		50,112,626	e
- CUSCAL Ltd		606,832	
- Transaction Solutions Ltd		9,654	
Property, plant and equipment	359,551	359,551	
Current taxation assets	126,371	126,371	
Deferred taxation assets	337,364	337,364	b
Intangibles	352,827	352,827	d
TOTAL ASSETS	230,023,860	230,023,860	
LIABILITIES			
Deposits from members	201,515,751	201,515,751	
Payables and other liabilities	1,091,791	1,091,791	
Provisions	309,147	309,147	
Taxation liabilities	64,751		
- Deferred Tax on Deferred Capital Gains		64,751	
TOTAL LIABILITIES	202,981,440	202,981,440	
NET ASSETS	27,042,420	27,042,420	
MEMBERS' EQUITY			
General reserve for credit losses	2,777,840		
- Up to 1.25% of risk weighted assets		1,141,601	f
- Over 1.25% of risk weighted assets		1,636,239	
		2,777,840	
Retained profits	24,084,971	24,084,971	a
FVOCI Reserve	179,609	179,609	
TOTAL MEMBERS' EQUITY	27,042,420	27,042,420	

REMUNERATION DISCLOSURES

Responsibility for Overseeing Remuneration for Senior and Risk Managers

Orange Credit Union's Corporate Governance Committee is responsible for overseeing remuneration of senior and risk managers. A policy titled Management and Staff Remuneration has been established by the Board and applies to all employees of Orange Credit Union. The Management and Staff Remuneration Policy is reviewed by the Board every three years or as necessary. The last review was undertaken in July 2017.

Members of the Committee, and their attendance at the eight (8) Committee meetings during the year, were:

Members	Meetings Attended
M Catlin	8
SJ Ryan	8
A Kent	8
T Edmonstone (July19 - November 19)	3

Remuneration to members of the Committee during the year totalled $92,602 (2019: $78,783).

The following employees are considered by the Committee to be senior managers and risk managers:

- Chief Executive Officer
- Corporate Services Manager
- Retail Services Manager
- Finance and Administration Manager
- Risk and Compliance Officer

No consultants were directly engaged during the year to assist in assessing the appropriate remuneration of staff. However the Committee used the results of a survey of remuneration of Credit Union officers conducted by McGuirk Management Consultants Pty Ltd to assist in assessing appropriate remuneration.

Remuneration and the Risk Management Framework

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union. The Credit Union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Audit and Risk Committees which are integral to the management of risk.

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk
- Liquidity management
- Credit risk management
- Operational risk management including data risk management.

The risk management framework has significant influence on how employees are remunerated, particularly in the assessment of any performance bonus that may be paid. Individual performance is reviewed against the above key risk measures to ensure remuneration is appropriate.

Management and Staff Remuneration Policy

The Management and Staff Remuneration Policy is considered an important component to recruit and retain those who have the necessary skills for the effective and prudent operation of the Credit Union. The objectives of the policy are as follows:

(a) to attract and retain Managers and Staff with the necessary skill and knowledge to effectively perform the duties required in the Credit Union's operations.

(b) to motivate the Managers and Staff of the Credit Union to achieve the goals and objectives established by the Board.

(c) to provide an incentive for outstanding performance by Managers and Staff of the Credit Union.

(d) to encourage behaviour that supports the Credit Union's long term financial soundness and risk management framework.

(e) to ensure that the independence of Risk and Control Personnel in the performance of their functions is not compromised.

(f) generally, to ensure the ADI's remuneration arrangements are, and remain, compliant with corporate governance requirements, including requirements under Prudential Standard CPS 510 Governance.

Remuneration Arrangements and Components

As detailed in the Remuneration Policy, remuneration arrangements comprise both fixed and variable or performance-based components.

The fixed components of the Credit Union's remuneration consist of base salary and superannuation benefits. In addition, some persons covered by this Policy receive remuneration in the form of fringe benefits including motor vehicle, and/or loan interest rate concession.

The performance-based components of the Credit Union's remuneration consist of performance bonuses, paid by cash. The Credit Union does not provide equity or equity-linked forms of remuneration.

Variable components are based on an individual's performance and the overall performance of the Credit Union during the year. At the commencement of the year, the Board establishes relevant key performance indicators (KPIs), including risk and compliance measures, that are designed to align performance based remuneration with prudent risk taking.

Chief Executive Officer

The Board reviews the performance of the Chief Executive Officer each year against the KPIs set by the Board at the commencement of the year, and determines the amount of the performance bonus to be paid. The amount of the performance bonus is not significant to the amount of fixed remuneration paid to the Chief Executive Officer.

Other Staff

Each individual has a position statement that outlines the various duties to be performed by that position and the associated performance requirements. Performance indicators that encourage prudent risk taking as required by CPS510 are included in the position description and are used to evaluate the performance of the individual. Each individual is subject to an annual performance assessment whereby they are rated on each component of their position statement. Each individual may receive a performance bonus for a performance assessment result of "above standard". The maximum value of such performance bonus is 5% of the individual's fixed remuneration. The amount of the performance bonus is not significant in relation to the amount of fixed remuneration paid to the individual.

Each individual is entitled to a share in an annual corporate bonus depending on the extent to which the corporate KPIs are achieved. The amount of the corporate bonus amount is determined by the Board; the amount of the performance bonus is not significant in relation to the amount of fixed remuneration paid to the individual.

The determination of the corporate bonus pool is based on various performance metrics, and includes targets around risk and compliance, profitability, loan growth, return on assets, expenses to income, bad debts written off, and new business.

During the year, 30 (2019: 22) employees received a bonus, with bonus payments totalling $44,980 (2018: $42,820).

No employees received sign-on award payments or had remuneration payments deferred. Six(6) persons received termination payments amounting to $195,696 (2018: $6,308).

Remuneration Awards for Senior Managers and Material Risk Managers

	2020		2019	
Senior Managers	**Unrestricted**	**Deferred**	**Unrestricted**	**Deferred**
Fixed Remuneration	$'000	$'000	$'000	$'000
· Cash-based	$737	0	$580	0
· Shares and Share-linked instruments	0	0	0	0
· Other	0	0	0	0
Variable Remuneration				
· Cash-based	$10	0	$16	0
· Shares and Share-linked instruments	0	0	0	0
· Other	0	0	0	0
Material Risk Managers				
Fixed Remuneration				
· Cash-based	$284	0	$195	0
· Shares and Share-linked instruments	0	0	0	0
· Other	0	0	0	0
Variable Remuneration				
· Cash-based	$1	0	$9	0
· Shares and Share-linked instruments	0	0	0	0
· Other	0	0	0	0

CAPITAL ADEQUACY DISCLOSURES

The capital requirements for Orange 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. Orange Credit Union maintains a capital policy minimum level of 14.25% and its current budgeted target level of 24%.

The current level of capital as at 30 June 2020 is 23.18%.

The risk weighted assets for each asset grouping as set out in table C 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 A Risk Weighted Assets by Asset Class

	30-Jun-20	
	Carrying Value	Weighted Value
(a) Credit Risk On Balance Sheet		
Loans Secured by Mortgage	133,476,307	50,466,429
Loans - Other Retail	10,655,698	12,136,822
Loans - Corporate	1,722,169	241,045
Liquid Investments	81,993,872	21,831,497
All Other Assets	1,029,281	931,872
Total credit risk on Balance Sheet	228,877,327	85,607,665
Total credit risk off balance sheet (commitments)		
Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees	10,374,738	5,856,688
Capital requirements for securitisation	-	-
Total Credit Risk	239,252,065	91,464,353
(c) Capital requirements for operational risk.		12,801,022
Total Risk Weighted assets (Sum above components)		104,265,375

CAPITAL HELD BY ORANGE CREDIT UNION

The capital held by Orange Credit Union exceeds the policy and minimum capital prescribed by the APRA Prudential standards. This excess facilitates future growth within Orange Credit Union.
Table B shows capital held by the Credit Union against capital requirements.

	Capital Required
Capital requirements for credit risk assets (8% RWA)	7,317,148
Capital requirements for securitization credit risk (8% RWA)	-
Capital requirements for market risk	-
Capital requirements for operations risk (8% RWA)	1,024,082
Total Capital required (at 8% of Risk weighted assets)	8,341,230
Capital held by the credit union	24,173,910
Common Equity Tier 1 - % held by the credit union	22.09%
Total Tier 1 - % held by the credit union	22.09%
Total Capital	23.18%

CREDIT RISK DISCLOSURES

(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 Orange Credit Union.
Orange 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 as at 30 June 2020 are as follows in Table C:

Table C

Investments with banks and other ADIs	Average gross exposure in quarter	Carrying value on balance sheet at 30/06/2020	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	12,151	15,675	-	-	-	-
ADIs rated AAA- or better	31,536	33,857	-	-	-	-
ADIs rated BBB- or better	9,243	9,743	-	-	-	-
Unrated institutions – ADIs	22,500	22,500	-	-	-	-
Total	75,430	81,775	-	-	-	-

(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.
The analysis of Orange Credit Union's loans by class, is as follows in Table D

Table D

Loans Portfolio 30 June 2020	Carrying value on balance sheet	Commitments redraws overdraft facilities undrawn	Maximum Exposure	Gross exposure value Average for the period
	$'000	$'000	$'000	$'000
Mortgage Secured	132,332	7,667	139,998	136,888
Personal	11,969	764	12,733	12,290
Overdrafts / Credit cards	29	2	31	79
Business Loans	-	-	-	-
Total to natural persons	144,330	8,433	152,762	149,257
Commercial borrowers	1,722	-	-	-
Total Loans	146,052	8,433	152,762	149,257

(iii) Impairment details

The level of impaired loans by class of loan is set out in table E.
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.

Table E

Loans Portfolio Current quarter 30 June 2020	Carrying value on balance sheet	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	Increase in specific provision in qtr	Write offs in qtr
	$'000	$'000	$'000	$'000	$'000	$'000
Mortgage Secured	132,332	-	342	-	-	-
Personal	11,969	-	187	134	17	38
Overdrafts / Credit cards	15	-	-	9	3	-
Business Loans	-	-	-	-	-	-
Total to natural persons	144,316	-	529	143	20	38
Commercial borrowers	1,722	-	-	-	-	-
Total Loans	146,038	-	529	143	20	38

GENERAL RESERVES 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-Jun-20	**Previous quarter 30-Mar-20**
Balance	$2,777,840	$2,788,395

SECURITISATION ARRANGEMENTS

Orange Credit Union does not have any securitisation exposures.