



Unity Bank

Prudential Disclosure Document

31 December 2018

APS330 DISCLOSURE

This disclosure on capital and credit risk refers to Unity Bank Limited (ABN 11 087 650 315).

The information in this report is based on Unity Bank Limited's financial records.

Glossary of terms used in this Disclosure:

- '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 Standard APS 110 Capital Adequacy.

Capital Base

The details of the components of the capital base set out below are as at the financial year ended 30 June 2018. These amounts are in line with the audited accounts.

The following Table 1 sets out the elements of the capital held by Unity Bank 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 of Unity Bank Limited as at the last reporting date, 30 June 2018.

CAPITAL
Table 1: Common Disclosure - Capital

	Common Equity Tier 1 Capital Instruments and Reserve	30-June-18 \$m	30-June-17 \$m
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	N/A	N/A
2	Retained earnings	90.6	86.8
3	Accumulated other comprehensive income (and other reserves)	7.7	7.7
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	N/A	N/A
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	N/A	N/A
6	Common Equity Tier 1 capital before regulatory adjustments on Equity Tier 1 capital : regulatory adjustments	98.3	94.5
7	Prudential valuation adjustments	N/A	N/A
8	Goodwill (net of related tax liability)	N/A	N/A
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	N/A	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1.2	2.0
11	Cash-flow hedge reserve	N/A	N/A
12	Shortfall of provisions to expected losses	N/A	N/A
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	N/A	N/A
14	Gains and losses due to changes in own credit risk on fair valued liabilities	N/A	N/A
15	Defined benefit superannuation fund net assets	N/A	N/A
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	N/A	N/A
17	Reciprocal cross-holdings in common equity	N/A	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)	2.0	2.0
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	N/A
20	Mortgage service rights (amount above 10% threshold)	N/A	N/A

		30-June-18 \$m	30-June-17 \$m
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A
23	of which: significant investments in the ordinary shares of financial entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	2.9	2.9
26a	of which: treasury shares	N/A	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	N/A
26c	of which: deferred fee income	N/A	N/A
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	N/A	N/A
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	N/A	N/A
26f	of which: capitalised expenses of which: investments in commercial (non-financial) entities that are deducted under APRA requirements	0.5	0.4
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA requirements	2.4	2.5
26h	of which: covered bonds in excess of asset cover in pools	N/A	N/A
26i	of which: undercapitalisation of a non-consolidated subsidiary	N/A	N/A
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	N/A	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	N/A
28	Total regulatory adjustments to Common Equity Tier 1	6.1	6.9
29	Common Equity Tier 1 Capital (CET1)	92.2	87.6
	Additional Tier 1 Capital Instruments		
30	Directly issued qualifying Additional Tier 1 instruments	N/A	N/A
31	of which: classified as equity under applicable accounting standards	N/A	N/A
32	of which: classified as liabilities under applicable accounting standards	N/A	N/A

		30-June-18 \$m	30-June-17 \$m
33	Directly issued capital instruments subject to phase out from Additional Tier 1 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	0
34	of which: instruments issued by subsidiaries subject to phase out	N/A	N/A
35	of which: instruments issued by subsidiaries subject to phase out	N/A	N/A
36	Additional Tier 1 Capital before regulatory adjustments	0	0
	Additional Tier 1 Capital Regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	N/A	N/A
38	Reciprocal cross-holdings in Additional Tier 1 instruments	N/A	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	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	N/A
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	0.2	0.2
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	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	N/A
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	0.2	0.2
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	Total regulatory adjustments to Additional Tier 1 capital	0.2	0.2
44	Additional Tier 1 capital (AT1)	(0.2)	(0.2)
45	Tier 1 Capital (T1=CET1+AT1)	92.0	87.4
	Tier 2 Capital Instruments and Provisions		
46	Directly issued qualifying Tier 2 instruments	N/A	N/A
47	Directly issued capital instruments subject to phase out from Tier 2	0	10.0

		30-June-18 \$m	30-June-17 \$m
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	N/A
49	of which: instruments issued by subsidiaries subject to phase out	N/A	N/A
50	Provisions	2.7	2.6
51	Tier 2 Capital before regulatory adjustments	2.7	12.6
52	Investments in own Tier 2 instruments	N/A	N/A
53	Reciprocal cross-holdings in Tier 2 instruments	N/A	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	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	N/A
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	0	5.0
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	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	N/A
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	0	5.0
57	Total regulatory adjustments to Tier 2 capital	0	5.0
58	Tier 2 capital (T2)	2.7	7.6
59	Total capital (TC=T1+T2)	94.7	95.0
60	Total risk-weighted assets based on APRA standards	553.2	542.2
	Capital Ratios and Buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.66%	16.16%
62	Tier 1 (as a percentage of risk-weighted assets)	16.63%	16.12%
63	Total capital (as a percentage of risk-weighted assets)	17.11%	17.52%
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%	7.00%
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: ADI-specific countercyclical buffer requirements	0.00%	0.00%
67	of which: G-SIB buffer requirement	0.00%	0.00%

		30-June-18 \$m	30-June-17 \$m
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	9.11%	9.52%
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	N/A	N/A
70	National Tier 1 minimum ratio (if different from Basel III minimum)	N/A	N/A
71	National total capital minimum ratio (if different from Basel III minimum)	N/A	N/A
	Amount below thresholds for deductions (not risk-weighted)	N/A	N/A
72	Non-significant investments in the capital of other financial entities	N/A	N/A
73	Significant investments in the ordinary shares of financial entities	N/A	N/A
74	Mortgage servicing rights (net of related tax liability)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of related tax liability)	N/A	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)	2.6	2.6
77	Cap on inclusion of provisions in Tier 2 under standardised approach	6.9	6.8
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	N/A
79	Cap for inclusion of provisions in Tier 2 under internal ratings based approach	N/A	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	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	N/A
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	N/A	N/A
84	Current cap on T2 instruments subject to phase out arrangements	0.0	5.0
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	N/A

CAPITAL INSTRUMENTS

Disclosure for the main features of regulatory capital instruments.

The regulatory Capital is limited to

- Retained Earnings
- General Reserve for Credit Losses
- Asset Revaluation Reserves
- Preference Shares (Tier 1)
- Subordinated Debt (Tier 2)

Table 2: Capital Instruments

The Tier 2 Capital Instrument held by Unity Bank Limited was redeemed in full on the 29th of December 2017.

Unity Bank Limited does not currently hold any Capital Instruments.

CAPITAL REQUIREMENTS

The capital requirement for Unity Bank Limited is determined by the Risk weights of the relevant assets held. Unity Bank Limited's policy is to maintain a capital target minimum of 12.5%. The current level of capital as at 31 December 2018 is 17.20%.

The risk weighted assets for each asset grouping as set out in the table below is determined by APRA Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk. These are prescribed risk weights to measure the level of risk based on the nature and level of security supporting the assets recovery.

The risk weighted assets held as at the quarter ended 31 December 2018 is as follows:

Table 3: Capital Adequacy

	Prescribed RWA	
	31-Dec-18 \$m	30-Sep-18 \$m
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio		
Cash	0	0
Loans - secured by residential mortgage	321.5	307.3
Loans - other retail	51.1	50.4
Loans - corporate	14.7	13.3
Liquid Investments	73.1	74.7
All other assets	40.3	33.8
Total credit risk on balance sheet	500.7	479.5
Total credit risk off balance sheet (commitments)	19.2	18.3
Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	19.2	18.3
(a) Capital requirements for securitisation	N/A	N/A
(b) Capital requirements for market risk.	N/A	N/A
(c) Capital requirements for operational risk.	64.7	61.9
Total Risk Weighted assets (Sum above components)	584.6	559.7

CAPITAL HELD

The capital held by Unity Bank Limited exceeds the policy and minimum capital prescribed by the APRA Prudential standards. This excess facilitates future growth within Unity Bank Limited. The capital ratio is the amount of capital described in Table 1 divided by the risk weighted assets.

	Capital (\$m)		Capital Ratio	
	31-Dec-18	30-Sep-18	31-Dec-18	30-Sep-18
Common Equity Tier 1	98.0	93.3	16.76%	16.67%
Tier 1	97.8	93.1	16.73%	16.63%
Total Capital	100.6	95.8	17.20%	17.11%

CREDIT RISK

CREDIT RISK – INVESTMENTS

Surplus cash not invested in loans to members is held in high quality liquid assets. This includes the funds required to be held to meet withdrawal of deposits by members of Unity Bank Limited.

Unity Bank Limited 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.

Table 4 below excludes the equities and securitisation exposures. Securitisation exposures are set out in Table 5 which follows. The exposure values associated with each credit quality step are as follows in Table 4.

Table 4: Credit Risk (Investments)

31 December 2018

Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet	Past due Facilities	Impaired Facilities	Specific Provision as at end of quarter	Increase in specific provision and write offs in quarter
	\$m	\$m	\$m	\$m	\$m	\$m
CUSCAL - Rated A	28.9	35.3	0	0	0	0
Banks - Rated AA and Above	0	0	0	0	0	0
Banks -Rated below AA	149.7	150.0	0	0	0	0
Credit Unions - Rated below AA	1.8	1.5	0	0	0	0
Unrated institutions – Credit Unions	5.5	5.0	0	0	0	0
Total	185.8	191.8	0	0	0	0

30 September 2018

Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet	Past due Facilities	Impaired Facilities	Specific Provision as at end of quarter	Increase in specific provision and write offs in quarter
	\$m	\$m	\$m	\$m	\$m	\$m
CUSCAL - Rated A	26.7	22.4	0	0	0	0
Banks - Rated AA and Above	0	0	0	0	0	0
Banks – Rated Below AA	145.4	149.4	0	0	0	0
Credit Unions - Rated Below AA	3.5	2.0	0	0	0	0
Unrated Institutions - Credit Unions	3.0	6.0	0	0	0	0
	178.6	179.8	0	0	0	0

CREDIT RISK – LOANS

The classes of loans entered into by Unity Bank Limited are limited to loans, commitments and other non-market off-balance sheet exposures. Unity Bank 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 by 90 days more.
- 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 of all collateral as at the balance date due to the variety of assets and their condition.

The analysis of Unity Bank Limited's loans by class, is as follows in Table 4.

Table 4: Credit Risk (Loans)

31 December 2018

Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet for the period	Commitments - redraws, overdraft facilities undrawn	Past Due Facilities	Impaired Facilities	Specific Provision as at end of quarter	Increase/ (Decrease) in specific provision and write offs in quarter
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Mortgage Secured	891.6	845.9	67.8	0	3.8	0	(0.1)
Personal	50.1	46.7	4.4	0.7	0.6	0.4	(0.2)
Overdrafts & Credit Cards	38.4	16.5	22.2	0.2	0.1	0.4	0.2
Corporate Borrowers	27.2	22.5	5.4	0	0	0.1	0.1
Total	1,007.3	931.6	99.8	0.9	4.5	0.9	0

30 September 2018

Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet for the period	Commitments - redraws, overdraft facilities undrawn	Past due Facilities	Impaired Facilities	Specific Provision as at end of quarter	Increase/ (Decrease) in specific provision and write offs in quarter
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Mortgage Secured	865.5	805.2	64.3	0	5.0	0.1	0.1
Personal	49.1	44.8	4.3	0.1	0.6	0.5	(0.1)
Overdrafts & Credit Cards	33.4	15.8	22.4	0	0.1	0.3	0
Corporate Borrowers	27.0	21.2	5.2	0	0	0	0
Total	979.9	887.0	96.2	0.1	5.7	0.9	0

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.

The reserve has been determined on the basis of the past experience with the loan delinquency and amounts written off.

The value of the reserve is amended to reflect the changes in economic conditions, and the relevant concentrations in specific regions and industries of employment within the loan book.

	31 December 2018 \$m	30 September 2018 \$m
Balance	2.8	2.7

SECURITISATION ARRANGEMENTS

Unity Bank 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 Unity Bank Limited and the amount securitised in the past quarter ended 31 December 2018.

Table 5: Securitised Exposures

31 December 2018	Loans Securitised in Current quarter, by type of securitisation \$m	Securitised Loans On balance sheet exposure Aggregate Amount \$m	Securitised Loans Off balance sheet exposure Aggregate Amount \$m
Mortgage loans	0	146.9	0.1
Personal loans	N/A	N/A	N/A
Credit cards	N/A	N/A	N/A
Total	0	146.9	0.1

30 September 2018	Loans Securitised in Current quarter, by type of securitisation \$m	Securitised Loans On balance sheet exposure Aggregate Amount \$m	Securitised Loans Off balance sheet exposure Aggregate Amount \$m
Mortgage loans	0	160.5	0.1
Personal loans	N/A	N/A	N/A
Credit cards	N/A	N/A	N/A
Total	0	160.5	0.1

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

REGULATORY CAPITAL RECONCILIATION TO BALANCE SHEET

Statement of Financial Year Position as at 30 June 2018

	Item No. Per Table 1	30-Jun-18	30-Jun-17
ASSETS		\$'000	\$'000
Cash		15,287	20,485
Liquid Investments		163,257	178,101
Receivables		1,204	1,571
Prepayments		1,121	1,102
Loans to members		877,690	822,612
Other Loans in unlisted companies		13,904	13,983
Available for sale equity investments		4,449	4,499
<i>Available for sale equity investments:</i>			
<i>Shares in unlisted companies at cost - Cuscal</i>	<i>Item 18</i>	<i>2,025</i>	<i>2,025</i>
<i>Shares in unlisted companies at cost - Transaction Solutions Pty Ltd, SocietyOne Holdings Pty Ltd, Shared Service Partners Pty Ltd.</i>	<i>Item 26g</i>	<i>2,424</i>	<i>2,474</i>
<i>Property, plant and equipment</i>		<i>11,223</i>	<i>12,107</i>
<i>Taxation assets</i>	<i>Item 10</i>	<i>1,205</i>	<i>2,006</i>
<i>Tax Instalments Recoverable</i>		<i>709</i>	<i>851</i>
<i>Intangible assets and capitalised costs</i>	<i>Item 26f</i>	<i>456</i>	<i>432</i>
Total Assets		1,090,505	1,057,749
LIABILITIES			
Short term borrowings			
Deposits from other institutions		0	4,000
Deposits from members		977,658	932,210
Creditor accruals and settlement accounts		8,656	8,688
Taxation liabilities		0	0
Provisions		3,433	5,917
Deferred tax liabilities	<i>Item 10</i>	<i>14</i>	<i>14</i>
Long term borrowings		0	10,000
<i>Balance at the beginning of the year</i>	<i>Item 47</i>	<i>0</i>	<i>10,000</i>
<i>Increase due to debt issued</i>	<i>Item 47</i>	<i>0</i>	<i>0</i>
<i>Amortisation of capitalised debt raising costs</i>	<i>Item 26f (part)</i>	<i>0</i>	<i>0</i>
Total Liabilities		989,761	960,829
NET ASSETS		100,744	96,920
Members' equity			
<i>Share capital preference shares:</i>			
<i>Additional Tier 1 Capital Instruments</i>	<i>Item 33</i>	<i>0</i>	<i>0</i>
<i>Less Prescribed Deduction: Cost of Capital Raising</i>	<i>Item 41c (part)</i>	<i>(202)</i>	<i>(202)</i>
		(202)	(202)
<i>Less Prescribed Deduction: Loss Reserve</i>	<i>Item 26j</i>	<i>0</i>	<i>0</i>
<i>Capital reserve account</i>	<i>Item 3</i>	<i>615</i>	<i>595</i>
<i>Asset revaluation reserve</i>	<i>Item 3</i>	<i>4,053</i>	<i>4,053</i>

<i>General reserve for credit losses</i>	<i>Item 50</i>	2,663	2,663
<i>General reserve</i>	<i>Item 3</i>	2,779	2,981
<i>Retained earnings</i>	<i>Item 2</i>	93,634	86,830
<i>Total Members' Equity</i>		100,744	96,920