15/16
ANNUAL REPORT

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY | WWW.APRA.GOV.AU

THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) IS THE PRUDENTIAL REGULATOR OF THE AUSTRALIAN FINANCIAL SERVICES INDUSTRY.

It oversees Australia's banks, credit unions, building societies, general insurers and reinsurance companies, life insurers, private health insurers, friendly societies and most members of the superannuation industry.

APRA currently supervises institutions holding $5.9 trillion in assets for Australian depositors, policyholders and superannuation fund members.

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AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
1 Martin Place (Level 12), Sydney, NSW 2000
GPO Box 9836, Sydney, NSW 2001

T 02 9210 3000 | W www.apra.gov.au

WAYNE BYRES
Chairman

7 October 2016

The Hon Scott Morrison, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

In accordance with sections 43 and 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2016.

Yours sincerely,

Byres.

APRA VISION, MISSION AND VALUES

OUR VISION

is to be a world-class prudential regulator, with excellence of supervision as | our foundation.

OUR CORE MISSION

is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system.

We also act as a national statistical agency for the Australian financial sector.

OUR VALUES

underpin the critical role we play in protecting the financial well-being of the Australian community. High standards are required in everything we do. In our work and in our interactions with others, we value and seek to demonstrate:

OUR SUPERVISORY APPROACH

is forward-looking, primarily risk-based, consultative, consistent and in line with international best practice. The approach also recognises that management and boards of supervised institutions are primarily responsible for financial soundness.

CONTENTS

GLOSSARY

ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APRA Act	*Australian Prudential Regulation Authority Act 1998*
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CET1	Common Equity Tier 1
CFR	Council of Financial Regulators
CLF	Committed Liquidity Facility
D2A	Direct to APRA
D-SIB	Domestic systemically important bank
FCS	Financial Claims Scheme
FSI	Financial System Inquiry
FSB	Financial Stability Board
ICAAP	Internal Capital Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
MoU	Memorandum of Understanding
NSFR	Net Stable Funding Ratio
PHI	Private health insurers
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
RSE	Registrable Superannuation Entity

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FROM THE CHAIRMAN

FROM THE CHAIRMAN

The Australian financial system remained in a sound financial position throughout 2015/16. That should not be surprising given a domestic economy, notwithstanding the transition away from the mining boom, that has gone two-and-a-half decades without a serious recession. It also reflects a prudential framework that has continually evolved and been strengthened in a number of important areas, particularly in response to the lessons of the global financial crisis.

Although the general picture is one of a broadly healthy Australian financial system, there remain some areas of vulnerability. These include risks in the housing market, the funding profile of the banking system, poor experience in some segments of the insurance market, and the need to continue to strengthen governance and transparency in the superannuation industry. There is also a need to consider, across the financial sector as a whole, how best to promote a sound risk culture. Looking beyond Australian shores, it is likely that international fragility – driven in part by political and financial strains in Europe, and by concerns about the nature of the ongoing slowdown in China - will remain a source of risk for some time.

In short, the current environment is one which reinforces the need to avoid complacency, and to continue to improve the resilience of the Australian financial system – and APRA itself – in an orderly manner while it remains in relatively good shape. Doing so will help reduce the potential for, and impact of, adverse events in the future. This imperative has been at the heart of APRA's work throughout the financial year.

In 2015/16, APRA established six Strategic Objectives that underpin APRA's ability to protect the interests of the ultimate beneficiaries of its work – that is, Australian depositors, policyholders and superannuation fund members, and the Australian community more generally:

1. To protect the interests of APRA's beneficiaries by responding in a timely and effective manner to significant risks at both institution and industry levels.
2. To maintain a robust prudential framework that sets requirements for prudent behaviour at regulated institutions, founded on relevant international standards where appropriate.
3. To materially strengthen our readiness for financial failure or crisis.
4. To attract and retain highly skilled and engaged people, supported by strong leaders within a values-aligned culture.
5. To have robust and efficient organisational processes and infrastructure supporting our core functions.
6. To be accountable for our performance by being transparent in our communication and effective in our engagement with stakeholders.

More detail on performance against these objectives can be found in Chapter 6.

REGULATORY AND SUPERVISORY PRIORITIES

The continually evolving nature of the financial system, and the risks to which it is exposed, mean that APRA is regularly adapting its supervisory and regulatory priorities to areas of greatest need.

- In the case of authorised deposit-taking institutions (ADIs), supervisory attention was again focussed on risks in the property market – both residential and, more recently, commercial. Considerable time in 2015/16 was devoted to monitoring the commitments given by ADIs to improve their residential underwriting standards in a range of areas and, in some cases, slow their growth in lending to residential property investors. APRA also announced an increase in risk weights on residential mortgages for those banks accredited to use internal models for capital adequacy purposes.
- The life industry is well capitalised and has improved its resilience to market volatility. Profitability across the industry has improved, although the experience from group insurance is mixed and disability income insurance remains loss-making for many insurers. These two lines of business have been particular areas of supervisory attention for some years. APRA also conducted a significant stress test of the larger industry participants during the year, which was designed to lift the bar of industry capability to deal with the unexpected.
- General insurance faced a number of challenges in the past year: lower growth, lower investment yields, an increase in working claims, challenges with CTP insurance (particularly in NSW) and a very competitive commercial insurance market. Despite these challenges, the sector continues to be relatively well managed and well capitalised. APRA's focus has been monitoring the extent to which participants have been disciplined in responding to the various challenges.
- APRA's ongoing focus on strengthening governance and risk management practices in the superannuation industry continued in 2015/16. This was informed by thematic reviews focused on insurance, investments and conflicts management. Common themes to emerge from all reviews was the need for appropriate strategic and business planning with an eye on future sustainability, and the importance of data quality and integrity to support enhanced transparency.
- As set out further below, APRA's first year of responsibility for the prudential supervision of private health insurance was focussed on a smooth and successful transition of staff and systems.

A few cross-industry issues were also an important part of APRA's agenda, consistent with the broad theme of improving the financial system's resilience.

- APRA conducted a survey on cyber security, which provided important insights into the incidence of, and preparedness for, cyber-related risks;
- APRA also continued its efforts to improve recovery planning by financial institutions, alongside its own resolution planning; and
- APRA continued to promote the development of sound risk cultures within financial institutions, consistent with the long-held philosophy that the responsibility for the sound management of financial institutions rests first and foremost with the boards and managements of those institutions.

Australian Prudential Regulation Authority, 1 Martin Place, Sydney.

NEW RESPONSIBILITIES

The 2014 Federal Budget included an announcement that the responsibility for the prudential supervision of health insurance funds would be transferred from the Private Health Insurance Administration Council (PHIAC) to APRA, and PHIAC would be closed down (with non-prudential functions transferred to the Department of Health).

This change took effect from 1 July 2015, and most of the PHIAC staff who had been involved in prudential supervision transferred to APRA at that date. For the private health insurance industry, APRA adopted a 'minimal change' approach to the transfer by, to the extent possible, replicating the existing PHIAC regulatory framework within new APRA standards, and thereby minimising the disruption to the private health insurance industry from the change. APRA's primary focus for the past year was therefore on the internal integration of its new responsibilities. This integration has largely been bedded down, and day-to-day supervisory responsibilities have been transitioned from Canberra to APRA's various state offices, with a view to ensuring supervisory staff are closer to the institutions they are responsible for supervising. The staff who joined APRA from PHIAC on the transfer of responsibilities have, in particular, played a critical role in making the transition a success – they have been determined to deliver a smooth handover of responsibilities and systems, even though many have chosen not to continue with APRA over the longer term.

NEW WORKING ENVIRONMENT

During 2015/16, APRA completed the move of its head office to new premises in 1 Martin Place, Sydney. The move provided an opportunity to establish a modern and flexible physical working environment for APRA's staff, as well as a complete upgrade in the technology suite that was available to them. Behind the scenes, the move and technology upgrade also provided the opportunity to substantially upgrade APRA's physical and IT security, and will be followed by similar moves in APRA's other state offices in the year ahead.

Australian Prudential Regulation Authority, 1 Martin Place, Sydney.

The Sydney move and technology upgrade were completed slightly ahead of both time and budget, and provide APRA with a very solid platform on which to build in future years.

RESOURCING

APRA continues to make careful and efficient use of the budget provided to it. Total expenditure and staffing has been little changed in recent years. Indeed, since the height of the global financial crisis, APRA's total staffing has been reduced and, at the end of the 2015/16 financial year, stood at 588 FTE on a like-for-like basis (i.e. excluding around 20 additional FTE transferred as part of the transfer of PHIAC responsibilities to APRA from 1 July 2015, which brought total APRA staffing to 608 FTE).

Similarly, APRA's operating costs – after adjusting for the PHIAC transfer - have grown only modestly over that same period, and have declined in real terms. Given the growth in the financial sector, APRA's costs relative to the value of assets supervised have declined from around 3 cents at the start of the decade to approximately 2.3 cents per $1000 of assets supervised in 2015/16.

In the 2016 Commonwealth Budget, APRA received approval for a new initiative: '*Modernising APRA's data capabilities*'. This will provide APRA with an additional $11.2 million of funding over the forward estimates to modernise and enhance its digital data-collection platforms, modernise and refine its data collection suite, enhance its in-house analytic and publication capabilities and increase the openness and accessibility of data to the public for transparency and analysis purposes.

APRA Members in 2015/16 – (left to right) Mr Wayne Byres, Mrs Helen Rowell and Mr Geoff Summerhayes.

OUR PEOPLE

In late 2015, the Treasurer announced Mr Geoff Summerhayes would be appointed as an APRA Member for a five-year term, commencing 1 January 2016. Geoff's appointment was very much welcomed by APRA given the extensive commercial and executive experience that he brings to APRA's governing group. At the same time, it was announced that Mrs Helen Rowell would be appointed Deputy Chairman for the remainder of her term until 30 June 2018.

APRA's *modus operandi* relies heavily on supervision to achieve sound prudential outcomes at relatively low cost. This, in turn, relies on the quality and experience of APRA's people. The APRA Members are fortunate that, in a challenging environment, the organisation has a dedicated and high calibre workforce with a strong blend of regulatory knowledge and commercial acumen, who bring passion and commitment to APRA's role in serving the Australian community. We thank them for their sterling efforts across the full gamut of APRA's activities in 2015/16.

Wayne Byres
APRA Chairman

KEY 2015/16 HIGHLIGHTS

2015

1 July 2015

APRA assumes responsibility for the prudential supervision of private health insurers.

6 July 2015

Information paper released on prudential considerations in relation to shared computing services, including cloud.

13 July 2015

APRA releases the results of an international study comparing the capital position of Australian banks with international peers.

20 July 2015

APRA announces an increase in capital required for Australian residential mortgage exposures for ADIs using the internal ratings-based approach to credit risk.

14 August 2015

APRA releases new guidance on use of restricted terms in relation to banking services.

27 November 2015

Helen Rowell announced as APRA Deputy Chairman and Geoff Summerhayes as the new APRA Member.

17 March 2016

The first online version of the quarterly *APRA Insight* publication is released.

29 March 2016

APRA releases risk and governance standards for conglomerates.

31 March 2016

APRA releases consultation on implementation of the Net Stable Funding Ratio (NSFR) to strengthen the resilience of ADIs.

8 April 2016

APRA releases report into failure of Trio Capital.

14 June 2016

APRA's Sydney Office relocates to its new home at 1 Martin Place.

21 June 2016

APRA launches a new website with information on the Financial Claims Schemes for banking and general insurance.

21 June 2016

APRA releases discussion paper on the role of actuaries within insurers.

2016

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GOVERNANCE

GOVERNANCE

THE APRA MEMBERS 2015/16

Under the *Australian Prudential Regulation Authority Act 1998* (APRA Act), APRA Members are collectively responsible and accountable for APRA's operation and performance. APRA Members are appointed by the Governor-General, on the advice of the Government, for terms of up to five years.

MR WAYNE BYRES / BEc (Hons), MAppFin, SF Fin - *Chairman and Member*

Appointed Member and Chairman of APRA from 1 July 2014. Present term expires 30 June 2019.

Wayne Byres' early career was in the Reserve Bank of Australia (RBA), which he joined in 1984. After more than 14 years with the RBA, including time on secondment to the Bank of England in London, he transferred to APRA on its establishment in 1998 holding a number of senior executive positions in APRA's policy and supervisory divisions. In 2011, Mr Byres was appointed Secretary General of the Basel Committee on Banking Supervision, based at the Bank for International Settlements in Basel, Switzerland.

During his time in Basel, Mr Byres was also a member of the Financial Stability Board (FSB), and served as the Basel Committee's representative on various FSB standing committees. In his current role, Mr Byres is APRA's representative on the RBA's Payment System Board, the Council of Financial Regulators, and the Trans-Tasman Council on Banking Supervision, and represents Australia on the Basel Committee and FSB's Standing Committee on Supervisory and Regulatory Cooperation.

MRS HELEN ROWELL / BA (Macquarie), FIAA – *Deputy Chairman and Member*

Appointed Member of APRA from 1 July 2013 and Deputy Chairman from November 2015. Present term expires 30 June 2018.

Prior to joining APRA in 2002, Mrs Rowell was for more than 17 years a partner at the international consulting firm Towers Perrin. Mrs Rowell joined APRA in a senior executive capacity and since that time has held a range of senior roles across the breadth of APRA's acitivities. She was also the Chair of APRA's (cross-divisional) General Insurance Industry Group from 2006 to 2011. Mrs Rowell has represented APRA at various subcommittees of the International Association of Insurance Supervisors, on the FSB's Supervisory Intensity and Effectiveness Group and was previously co-chair of the Joint Forum Financial Conglomerates Committee. Mrs Rowell is also a Fellow, and in 2002 was President, of the Institute of Actuaries of Australia.

MR GEOFF SUMMERHAYES / B. Bus, GMQ (AGSM) - *Member*

Appointed Member of APRA from 1 January 2016. Present term expires 31 December 2020.

Mr Summerhayes was Chief Executive Officer of Suncorp Life from 2008 to 2015, as well as being a director of Suncorp Portfolio Services Ltd and of Asteron Life NZ. Before joining Suncorp he held a number of senior roles at the National Australia Bank (NAB) in strategy, product and distribution. Prior to that he was CEO of Retail Investment at MLC and also held senior roles at Lend Lease. Mr Summerhayes was a director of the Financial Services Council (FSC) and was co-chair of their Life Board Committee. He was also a member of the FSC-Association of Financial Advisors' Life Insurance and Advice Working Group, formed to review advice in the life insurance industry.

ORGANISATIONAL CHART*

Executive Board
Wayne Byres (Chairman)
Helen Rowell (Deputy Chairman)
Geoff Summerhayes (Member)

- Risk Management Committee
- Audit Committees
- Chief Risk Officer — **Ben Gully**
- General Manager Internal Audit — **Goran De Costa**

Executive General Manager Diversified Institutions — Brandon Khoo
- General Manager Branch 1 — **Stuart Bingham**
- General Manager Branch 2 — **Paul Tattersall**
- General Manager Branch 3 — **Adrian Rees**
- General Manager Branch 4 — **Nigel Boik**
- General Manager Supervision Framework Team — **Greg Plummer**

Executive General Manager Specialised Institutions — Keith Chapman
- General Manager Central Region — **Louis Serret**
- General Manager South West Region — **Stephen Glenfield**
- Head of Northern Region — **Clayton Osborne**
- General Manager Industry Analysis — **Katrina Ellis**

Executive General Manager Supervisory Support — Charles Littrell
- General Manager AAMIRS[1] — **Greg Brunner**
- General Manager CORS[2] — **Neil Grummitt**
- General Manager Resolution & Enforcement — **Robyn McMahon**
- General Manager Statistics — **Steve Davies**

Executive General Manager Policy & Advice — Pat Brennan
- General Manager Policy Development — **Heidi Richards**
- General Manager Industry Technical Services — **Puay Sim**
- General Counsel — **Warren Scott**
- Head of International Relations — **Raman Sandhu**
- General Manager FSAP — **David Lewis**

Executive General Manager Corporate Services — Steve Matthews
- Chief Information Officer — **Doug Jenkins**
- General Manager People & Culture — **Yvette Gray**
- Head of Finance — **Mike Goddard**
- Head of Media & Communications — **Andrew McCutcheon**
- Head of Project & Portfolio Management — **Tracey Greenwood**
- Head of Security & Information Governance — **Mikhail Lopushanski**

* As at September 2016

1 AAMIRS – Actuarial, Accounting, Market and Insurance Risk Services

2 CORS – Credit and Operational Risk Services

RISK MANAGEMENT AND AUDIT

APRA's risk management and audit matters are the subject of oversight by a Risk Management Committee and an Audit Committee that comprise an independent non-executive chair, another independent non-executive member and APRA's Deputy Chairman.

The Risk Management Committee provides independent assurance and advice to the APRA Chairman on APRA's risk management, including assisting the APRA Chairman to understand and manage risks which may impede APRA from achieving its goals and objectives and impact on APRA's performance and reputation.

The Audit Committee provides independent assurance to the APRA Chairman on financial and performance reporting responsibilities, APRA's systems of internal control and compliance with applicable laws and regulations.

In addition to its members, the Australian National Audit Office (ANAO) and APRA management representatives are regular attendees at both committee meetings. The Audit Committee works closely with the Risk Management Committee to ensure APRA's risks are being identified and managed.

During the year the Risk Management Committee met four times. It reviewed and assessed the Enterprise Risk Management Framework and its use across APRA, obtained regular briefings from APRA executives, and assessed the approach to managing APRA's key risks including those associated with high risk projects, programs and activities.

During the year the Audit Committee met four times. It reviewed and endorsed the internal audit and external audit plans and monitored progress against those plans. The committee provided attestations to the APRA Chairman in relation to its activities and whether it was aware of any impediments to signing APRA's annual accounts.

The members of the Risk Management Committee and the Audit Committee in 2015/16 were:

Mr W Peter Day

LLB (Hons), MBA, FCPA, FCA, CTA, FAICD
Audit Committee – Chair (to 30 May 2016)
Risk Management Committee - Independent member

Peter Day originally joined the APRA Risk Management and Audit Committee (RMAC) as an independent member in 2008 and assumed the role of chair from 1 September 2010. With the restructure of the RMAC into separate risk and audit committees, Mr Day was appointed as Chair of APRA's Audit Committee on 1 January 2015 and also remained an independent member of the Risk Management Committee. Mr Day is a non-executive director of Alumina Limited, Ansell Limited, Boart Longyear Limited and SAI Global Limited. He also serves on the Accounting Professional and Ethical Standards Board. Mr Day was, for seven years until 2007, Chief Financial Officer of Amcor Limited. He is a former Chairman of the Australian Accounting Standards Board, has participated in the setting of international accounting standards and was Deputy Chairman of the Australian Securities and Investments Commission (ASIC) from 1997 to 1999.

Mr Day completed his term as a member of the Risk and Audit Committees on 30 May 2016.

Ms Fiona Bennett

BA (Hons), FCA, FAICD, FAIM
Risk Management Committee - Chair
Audit Committee - Independent member

Fiona Bennett originally joined the RMAC as an independent member on 1 January 2011. With the restructure of the RMAC into separate risk and audit committees, Ms Bennett was appointed as Chair of APRA's Risk Management Committee on 1 January 2015 for a three-year term. She also remains an independent member of the Audit Committee for the same period. Ms Bennett is Chair of the Victorian Legal Services Board and a non-executive director of Hills Limited, Boom Logistics Limited and Beach Energy Limited. During her executive career, Fiona held senior executive positions at BHP Billiton Limited and Coles Group Limited, and has been Chief Financial Officer in several organisations in the health sector.

Ms Sam Lewis

BA (Hons), CA, ACA, GAICD
Audit Committee – Chair (from 31 May 2016)
Risk Management Committee - Independent member

Sam Lewis was appointed Chair of APRA's Audit Committee and an independent member of APRA's Risk Management Committee for a three year-term from 31 May 2016.

Ms Lewis is a chartered accountant, and has been lead auditor to a number of major Australian listed entities. She has extensive expertise in accounting, finance, auditing, risk management and corporate governance. After a total of 24 years with Deloittes, where Ms Lewis was an Assurance and Advisory partner for 14 years, she has more recently taken on roles as a non-executive director of Aurizon Ltd (since February 2015) and Orora Ltd (since March 2014). She is Chair of the Audit, Governance and Risk Management Committee of Aurizon Ltd and Chair of the Audit and Compliance Committee of Orora Ltd.

Mrs Helen Rowell

APRA Deputy Chairman and Member

Further information on attendance at Risk Management Committee and Audit Committee meetings is provided in Chapter 8 - Statutory Report.

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FINANCIAL SECTOR DEVELOPMENTS

FINANCIAL SECTOR DEVELOPMENTS

THE FINANCIAL ENVIRONMENT

Global financial and geopolitical uncertainty has continued to hang over the financial landscape. Over the last year, a number of major central banks have further reduced interest rates and pursued other stimulatory monetary policy measures as growth has remained subdued. This has led to negative interest rates across a growing share of government debt markets, including in some cases for borrowings of extended terms, an unprecedented development for the financial system.

The referendum in the United Kingdom, and the resulting decision to exit from the European Union, and a range of other geopolitical events have continued to provoke periodic bouts of volatility across global financial markets. European banks, in particular, have been the focus of concerns about systemic risk and financial resilience, prompted by investor concerns regarding low margins and declining profitability, and an overhang of non-performing loans, which inhibit returns and capital generation.

Episodes of market volatility have not affected Australian financial institutions directly, aside from brief periods of marginally higher funding costs in offshore markets. The Australian economy has exhibited a moderate rate of growth, with domestic activity (particularly in the property market) taking up some of the slack from the reduced level of mining investment. The lower dollar has also helped export-facing industries. The Reserve Bank of Australia (RBA) reduced the cash rate once during the year to 1.75 per cent (and to 1.5 per cent subsequent to year end). The Australian ASX200 Index was down 4.1 per cent over the year.

The long-term impact on the Australian regulated financial sector of a prolonged period of extremely low interest-rates is difficult to predict. In the past, falling interest rates have tended to have negative impacts on financial institution business models, reflected in squeezed interest margins for banks and lower returns on asset portfolios for superannuation funds and insurers. Low rates also affect the behaviour of financial institution customers, who may prefer to search for yield in the uncertain but higher returns typically offered in equity and property markets rather than place their funds on deposit, or in fixed interest investments, at very low returns. Such an environment is one in which prudential supervisors need to be on alert, since it can fuel excessive asset price increases, as well as credit expansion underpinned by those assets. Certainly, housing prices in major cities continue to grow strongly in 2015/16, even if at a slower rate than in the previous year.

While business credit growth has remained muted, lending for residential property has been robust, increasing by around 7 per cent over 2015/16. Australia is not alone in this regard - a number of other countries have experienced very strong housing markets during this period, which has given rise to concerns about the build-up of systemic risk. More recently, housing lending has shown signs of some moderation, in part due to measures APRA has taken to ensure prudent lending standards and restrain the more speculative elements of growth in this sector (see Chapter 4).

The Financial System Inquiry

In 2013, the Government established a Financial System Inquiry (FSI) charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth. The final FSI report, published in late 2014, concluded that Australia has a well-functioning financial system. The report contained 44 recommendations aimed at addressing issues in support of: the resilience of the financial system; superannuation and retirement incomes; innovation; consumer outcomes; and the regulatory system.

After a period of public consultation, the Government released its response to the FSI in October 2015. The Government set out an agenda for wide-ranging improvements to the Australian financial system building on the FSI recommendations, including changes to governance in the superannuation sector and proposed changes to regulator funding and oversight. The FSI's recommendations regarding capital strength in the banking system were also endorsed by the Government, and APRA's progress in implementing them is discussed in Chapter 4, as are developments in strengthening APRA's crisis management powers - two of the key focus areas in enhancing the resilience of the financial system.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADIs)

Continued consolidation among smaller institutions has led to a reduction in the total number of ADIs operating in Australia (Figure 1a). At end-June 2016, the industry comprised 156 entities, including 79 banks, 4 building societies, 66 credit unions and 7 other ADIs. The number of building societies and credit unions has declined considerably over recent years, with an ever increasing number converting to mutually-owned bank – a trend that is is expected to continue. While 2015/16 saw a reduction in the number of locally-owned ADIs, this was offset to some degree by a number of foreign-owned ADIs entering the Australian industry during the year. These ADIs tend to operate as branches, and hence are confined to corporate and wholesale markets.

Industry concentration, as measured by the share of industry assets, has increased slightly compared to 12 months earlier, with 79 per cent of industry assets held by the largest five ADIs (Figure 1b). Five years ago, the corresponding figure was 73 per cent.

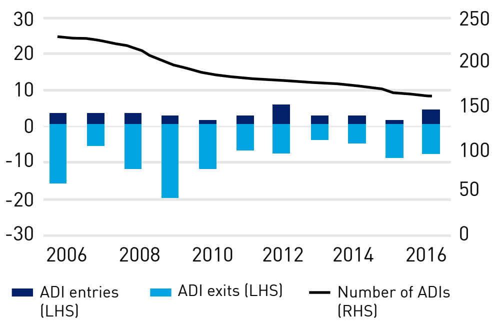
The industry's return on equity (RoE) was around 10 per cent in the year to June 2016 (Figure 1c). This was notably lower than prior years, although the reduction was primarily driven by a one-off loss from an asset sale by one large bank. This asset sale also affected the industry's cost to income ratio which increased slightly in 2015/16 to 51 per cent, temporarily reversing a long-term downward trend. Excluding this one-off impact, the industry continues to generate strong profitability. Expense management and efficiency continue to be a consistent focus as both large and small ADIs seek to become more competitive and profitable. Although financial markets have been affected by periods of volatility over the past year, interest margins have remained fairly stable.

Over recent years asset quality has benefited from relatively favourable economic conditions. At an industry level, non-performing loans represent slightly under 1 per cent of gross loans and advances at end-June 2016, which is largely unchanged from a year earlier, but a significant improvement from the peak seen in 2010. In the latter part of 2015, the stock of non-performing loans continued to fall; however, this trend was reversed in the first half of 2016 (Figure 1d), as the flow of new impaired assets, in particular from the business lending segment, picked up.

Over the past year, risk-based capital ratios have strengthened by approximately 70 basis points, to historically high levels. At end-June 2016, the industry Common Equity Tier 1 ratio stood at 10 per cent, while the industry Tier 1 ratio was 12 per cent (Figure 1f). The increase in the ratios primarily occurred in the latter part of 2015, driven predominantly by capital raisings by larger ADIs. As set out in more detail in *APRA Insight*[1], these capital raisings also significantly improved the major banks' capital adequacy positon relative to international peers.

1 *APRA Insight, Issue Two* (2016).

Figure 1a - Number of ADI entries and exits



Representative offices of foreign banks excluded

Figure 1b - Largest institutions' share of ADI industry assets

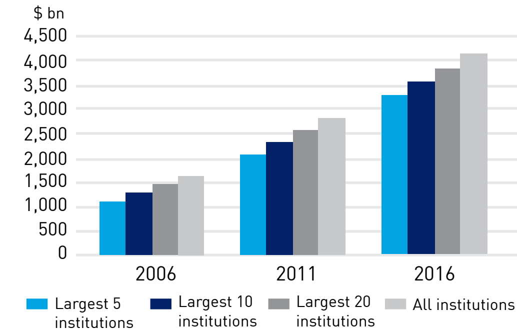
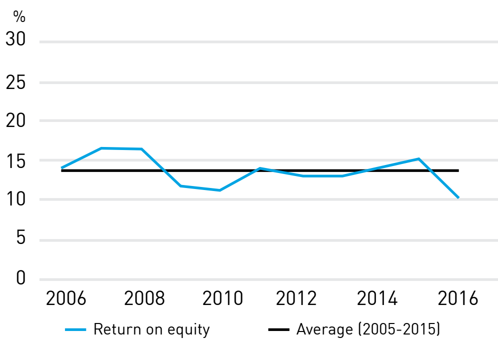


Figure 1c - ADI return on equity



Return on equity is net profit (loss) for the year divided by the average shareholders' equity over the yesr. Return on equity for 2016 was impacted by NAB's sale of Clydesdale Bank.

Figure 1d - Ratio of ADI non-performing loans to gross loans and advances

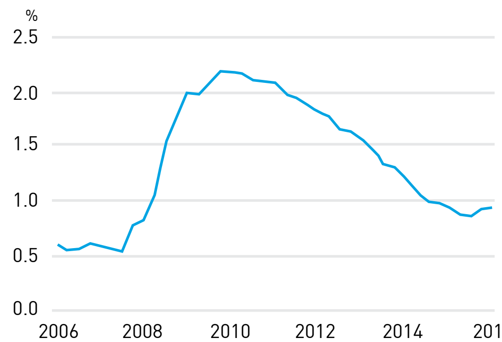


Figure 1e - ADI cost-to-income ratio

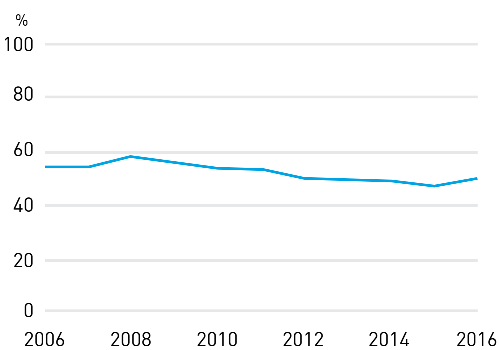
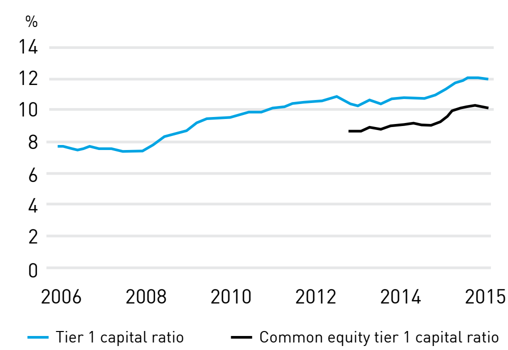


Figure 1f - ADI capital ratios



Capital data presented is collected under three different APRA reporting frameworks: the Basel I capital framework prior to 1 January 2008, the Basel II capital framework from 1 January 2008, and the Basel III capital framework from 1 January 2013.

GENERAL INSURANCE

At end-June 2016, there were 108 APRA authorised general insurers and reinsurers in Australia. This represents a net decline of seven over the past year, and 25 over the decade. The steady decline in recent years is largely the result of rationalisation within some insurance groups that had held multiple licences arising from past mergers and acquisitions (Figure 2a). As a result, the industry has become more concentrated, with the five largest insurers accounting for 54 per cent of total gross written premium (GWP). A decade earlier, the five largest insurers wrote only 42 per cent of GWP (Figure 2b).

Concentration is more observable in the personal lines market (home and motor) than for commercial lines, where competition, largely from subsidiaries and branches of foreign insurers, has contributed to smaller market shares.

The level of concentration within the reinsurance market in Australia remains higher than that for direct writers, with the two largest reinsurers accounting for about 79 per cent of the market.

The general insurance industry has achieved an average return on net assets of slightly more than 14 per cent per annum over the past decade (Figure 2c). However, four of the past six years have been below this average, driven in part by claims costs from significant natural catastrophe events. The drop in profitability in 2014/15 was mostly due to a series of storm events in New South Wales and Queensland which resulted in a 10 per cent increase in the industry's net loss ratio (Figure 2d). There was some improvement in 2015/16 given the absence of major catastrophe events during the year, however profitability continued to be adversely impacted by falls in investment income as a result of the continued low interest rate environment and subdued premium growth, particularly in commercial lines.

There have been limited efficiency improvements achieved by the industry over the past decade (Figure 2e). A large proportion of an insurer's cost base consists of underwriting expenses - half of which are commissions - and these tend to be a function of business volumes. Some improvements in the more discretionary operating expense base have been made, however.

The general insurance industry is well capitalised, with coverage of 1.7 times minimum requirements at end-June 2016 (Figure 2f). This reflects the healthy surplus of eligible capital held by most insurers above their prescribed capital requirements. The capital coverage ratio has declined somewhat over the last decade, driven mostly by the lower profitability experienced across the industry. Nevertheless, current coverage is still considered sound, with Common Equity Tier 1 the predominant form of eligible capital. Capital management practices across the industry have also improved.

Figure 2a - Number of general insurance entries and exits

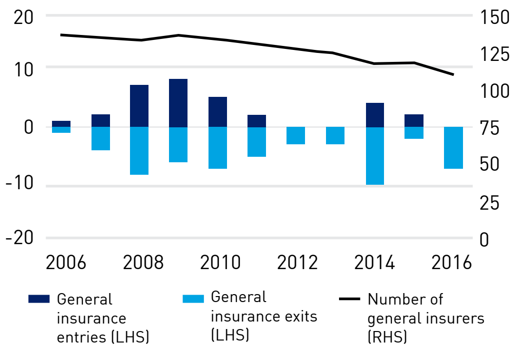


Figure 2b - Largest institutions' share of general insurance industry gross written premium

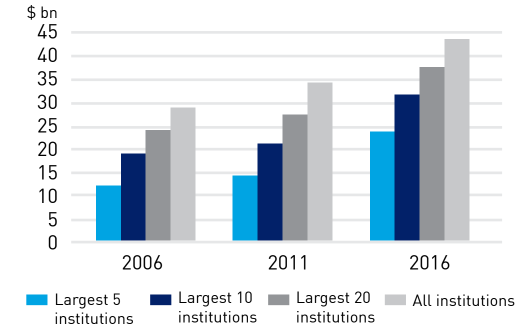
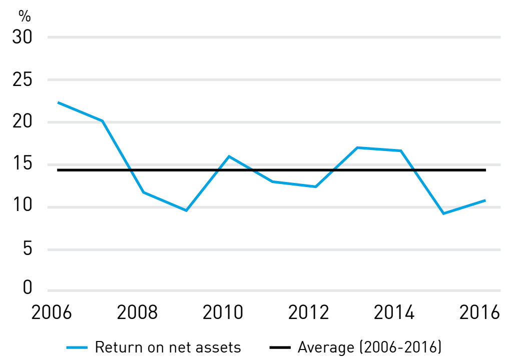
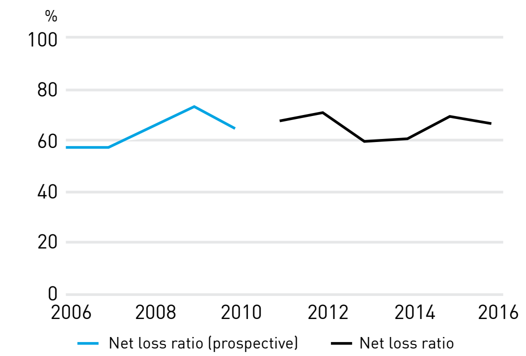


Figure 2c - General insurers' return on net assets



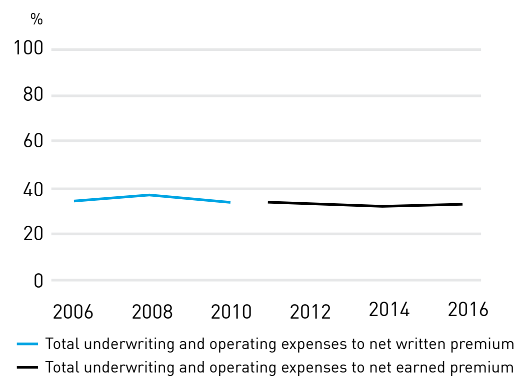
Return on net assets is net profit (loss) for the year divided by average net assets over the year.

Figure 2d - General insurers' net loss ratio



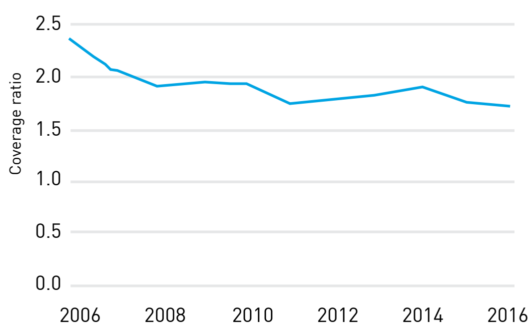
The break in the series is due to a change in reporting framework from 1 July 2010

Figure 2e - General insurers' expense ratio



The break in the series is due to a change in reporting framework from 1 July 2010

Figure 2f - General insurers' capital coverage ratio



From 1 January 2013, data are based on APRA's new capital standards

LIFE INSURANCE

The life insurance industry comprises 28 APRA-authorised life insurers and 12 friendly societies. The level of concentration in the industry has been relatively static in recent years, with one new life insurance license – only the second new license in a decade - granted in 2016 (Figure 3a). This followed an earlier period of consolidation which has resulted in the top five life insurers accounting for 80 per cent of gross industry assets at June 2016 (Figure 3b). At end-June 2016, there were eight large diversified insurers, four insurance risk or annuity specialists, nine relatively small or niche market players and seven reinsurers.

The industry return on net assets in the year to June 2016 was 12.7 per cent, a small increase compared with the prior year but still somewhat below the 10-year industry average of 15 per cent (Figure 3c). Returns for the industry have been volatile over the past decade, with the decline in profitability following the global financial crisis caused by significant falls in the value of superannuation assets under management, and resulting declines in fee revenue.

After recovering in the immediate aftermath of the financial crisis, industry profitability fell again primarily because of increased claims costs in individual disability income insurance and group risk insurance. The improved profitability in risk insurance business over the past two years, which has driven improvements in industry profitability overall, has been driven mainly by increases in premium rates to more sustainable levels as a response to these higher claim costs.

The asset risk charge continues to represent a reasonable proportion of net assets (Figure 3d) although this has fallen since the global financial crisis which prompted many insurers to de-risk their investment portfolios. Much of the capital held for asset risk relates to the asset-liability mismatch arising from the offerings of some insurers of so-called guaranteed products. Some of these allow policyholders to participate in profits from investment returns where matching of assets to liabilities cannot be achieved over the lifetime of the product.

There have been little overall efficiency gains in the industry over the past decade (Figure 3e). A contributing factor has been the continuing challenge of administering legacy business, which is often performed on outdated IT systems which are increasingly expensive to maintain and difficult to rationalise. The expense ratio has fallen a little in 2016, in line with the increased pricing margins for risk insurance business after a few years of higher claims costs.

Relatively strong capital ratios have been maintained in recent years, with an aggregate capital coverage ratio as at end-June 2016 of 1.8 times (Figure 3f). However, the amount of surplus capital held above regulatory requirements varies considerably between individual insurers, reflecting the heterogeneous nature of the industry with different risks and business models.

Figure 3a - Number of life insurance entries and exits

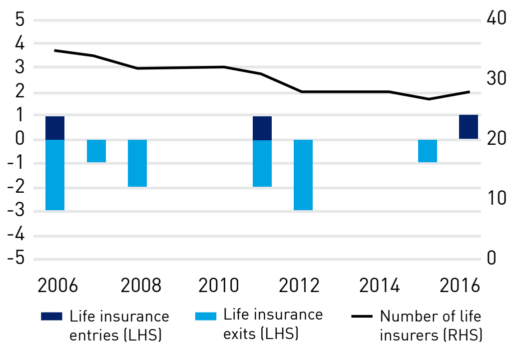


Figure 3b - Largest institutions' share of life insurance industry assets

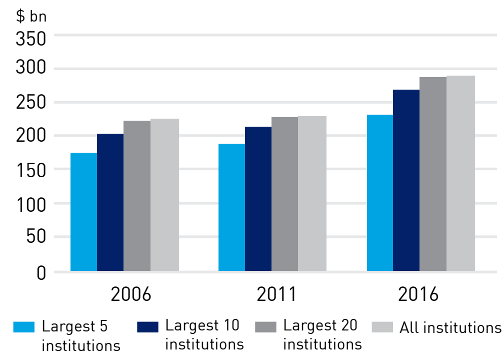
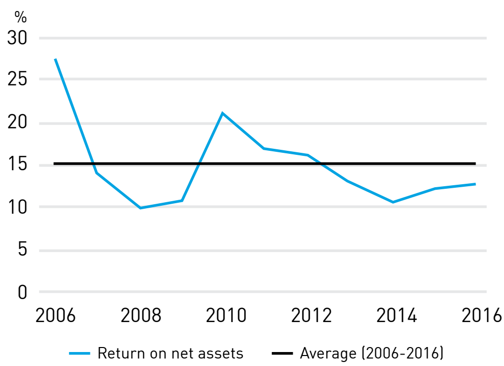


Figure 3c - Life insurers' return on net assets



Return on net assets is net profit (loss) for the year divided by average net assets over the year.

Figure 3d - Life insurers' asset risk charge to net assets ratio

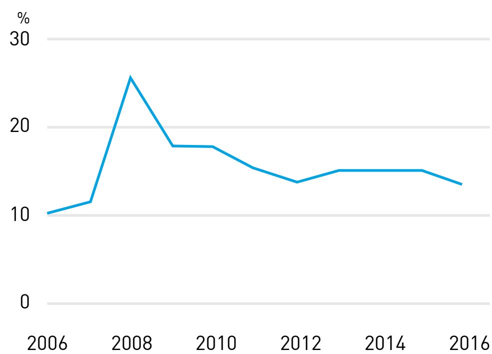


Figure 3e - Life insurers' controllable expenses to shareholders' margin ratio

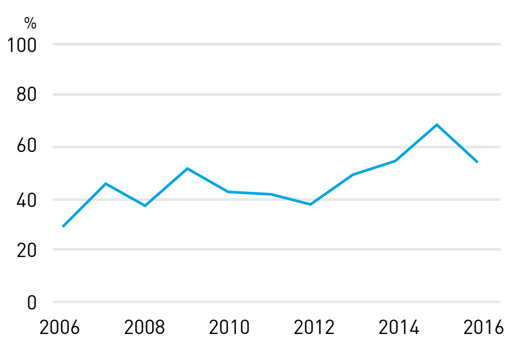
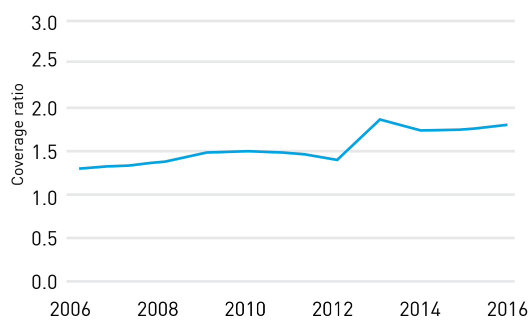


Figure 3f - Life insurers' capital coverage ratio



From 1 January 2013, data are based on APRA's new capital standards

PRIVATE HEALTH INSURANCE

The number of private health insurers registered fell by one to 33 in the year to June 2016 (Figure 4a). However, a number of existing players have expressed interest to APRA in seeking new authorisations, which will provide for an expansion of product offerings and competition. In its current structure, concentration within the industry is not dissimilar to a number of other sectors regulated by APRA; the largest five insurers hold 81 per cent market share (Figure 4b). This figure has been relatively stable over the last few years, despite strong competitive pressure from a relatively large number of smaller insurers.

Health insurance business premium revenue grew by 6 per cent over the year to June 2016, offsetting the growth in total benefit payments of slightly more than 5 per cent. This increase in benefits paid reflects rising benefit rates for hospital and general treatment services, and increased utilisation of services flowing from the ageing population, advancing technology and growing consumer awareness of available services and benefits. Growth in the population covered by private health insurance was a small factor. Profitability after tax in the industry remained steady as a proportion of premium income over the year (Figure 4c).

Overall, the private health insurance industry has maintained a relatively stable financial performance in recent years with an increase of around 1 per cent in gross margin to almost 14 per cent in the year to June 2016 (Figure 4d). The industry is exposed to risks arising from fundamental changes in government health policy which can have significant impacts on participation rates with flow on effects to revenue streams; product design, community rating, risk equalisation and portability are subject to the Government's broader health policy.

The number of hospital policies has continued to increase, and grew by 1 per cent to 5.5 million in the year to end June 2016. Despite the continuing private health insurance incentives provided by the Government to policyholders, the growth in policies is less than underlying population growth (currently around 1.3 per cent), reflecting ongoing sensitivity to increasing premiums. The 55-and-over age group has shown the largest growth, both in terms of number of persons covered and proportion of hospital treatment benefits paid by private health insurers. However, overall hospital treatment coverage has fallen marginally (to 47 per cent of the population). This shift in demographic mix will continue to be a key strategic challenge for the industry. The industry's management expense ratio has remained flat at around 8.5 per cent (Figure 4e) for a number of years, with operational efficiencies largely offset by increased marketing expenditures.

The private health insurance industry continues to be in a strong prudential position to meet its obligations to policyholders. Private health insurers hold assets well above the minimum capital adequacy requirement - in 2015/16, this multiple increased to around 1.8 times (Figure 4f).

Figure 4a - Number of private health insurers entries and exits

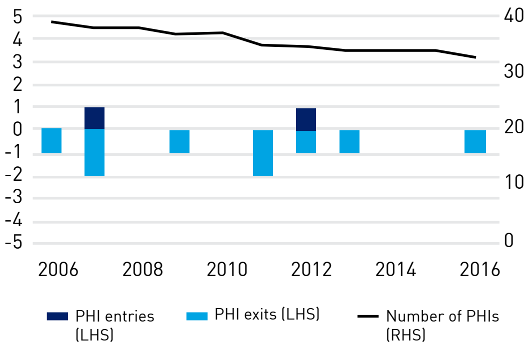


Figure 4b - Largest institutions' share of private health insurers policies

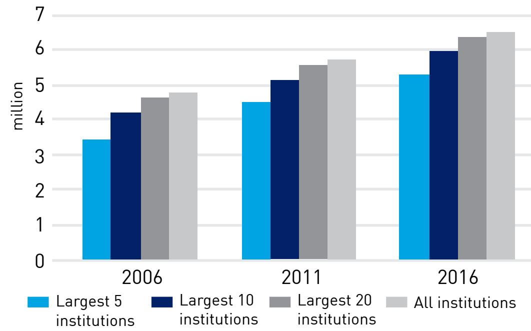
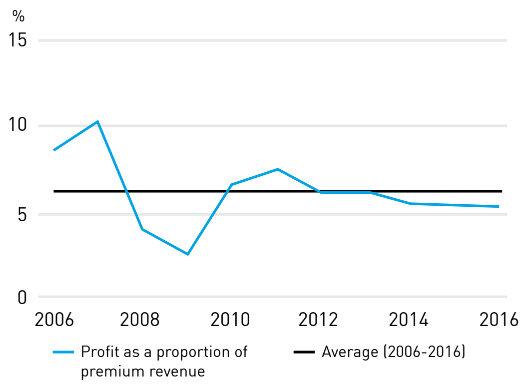


Figure 4c - Private health insurers' profits as a proportion of premium revenue



Percentage of profit against premiums is profit (loss) for the year divided by revenue for the year.

Figure 4d - Private health insurers' gross and net margin

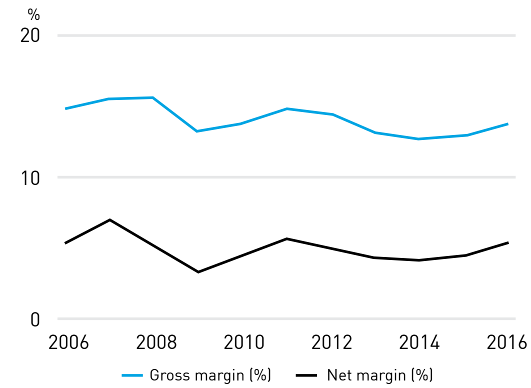


Figure 4e - Private health insurers' management expense ratio

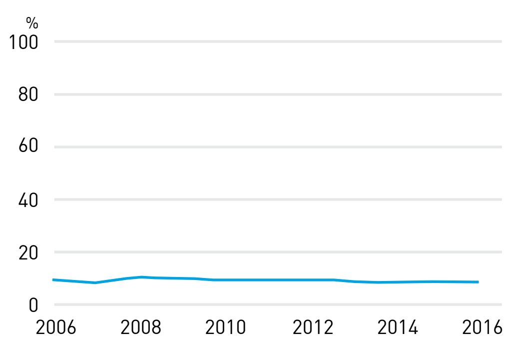
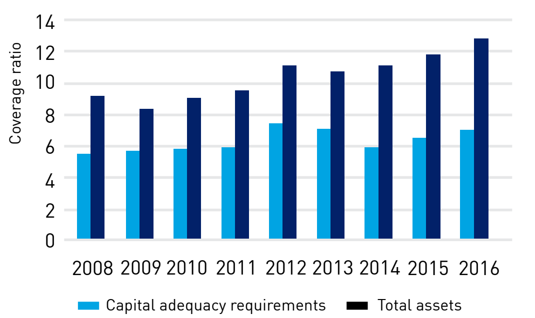


Figure 4f - PHI capital adequacy requirement and total assets



SUPERANNUATION

Consolidation in the superannuation industry continued to slow in 2015/16, with only a small net reduction in APRA-regulated superannuation funds. This stands in contrast to the significant reduction in the number of APRA-regulated superannuation funds seen earlier in the decade (Figure 5a). The earlier consolidation has been attributed in part to regulatory reform - including superannuation trustee licensing between 2004 and 2006 - and the introduction of prudential standards in 2013. Competitive pressures have also provided an impetus for smaller funds to merge in search of increased scale.

At end-June 2016, there were 144 licensed superannuation trustees who were responsible for 236 APRA-regulated superannuation funds with more than four members, and 2,233 small APRA funds (with four or less members). There were also 36 single-member approved deposit funds and 45 pooled superannuation trusts subject to APRA's supervision.

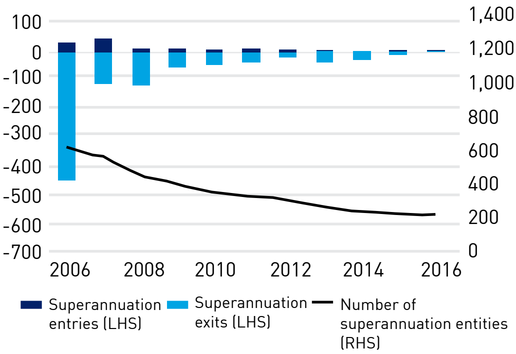
The industry has grown substantially in asset size over the past 10 years. Coupled with the consolidation in the number of APRA-regulated superannuation funds, this has led to an increase in industry concentration (Figure 5b). At end-June 2016, the top five funds accounted for 28 per cent of total industry assets, compared to 22 per cent a decade earlier, however this remains a relatively low level of concentration compared with other APRA-regulated industries.

Long-term investment returns remain strong and have averaged 5.3 per cent per annum over the past decade, despite a modest outcome in the year ending June 2016 (Figure 5c). Factors such as the industry's allocation to growth assets, including equity and property, have helped drive the longer-term performance. The industry did sustain two years of investment losses during the global financial crisis but otherwise returns have largely been positive.

The industry has continued to experience growth in assets, supported by the compulsory nature of the superannuation guarantee contribution, although this growth was dampened by lower investment returns in the year to June 2016. The net outflow ratio for APRA-regulated funds continued its upward trend in 2016, reflecting the increasing level of benefit payments (Figure 5d). This shift is expected given Australia's ageing population, with a growing number of members reaching retirement age and beginning to draw down on their superannuation assets. Historically more benefits (both retirement benefits and non-retirement benefits such as insurance claims) have been paid out in the form of lump sums. In the year ending June 2016, however, annual pension payments matched lump sum payments for the first time (Figure 5e).

Improvements in the efficiency of the superannuation industry have been marginal over the decade. Although there has been a gradual decline in the ratio of expenses to assets, the expected benefits of scale-related cost reductions associated with the consolidation in the industry and the increased size of superannuation funds are not evident (Figure 5f). This may be, in part, due to investments in enhanced member services, as well as the need to adapt to regulatory changes and meet governance and risk management expectations.

Figure 5a - Number of superannuation entries and exits



Only includes APRA-regulated entities with more than four members.

Figure 5b - Largest institutions' share of APRA-regulated superannuation industry assets

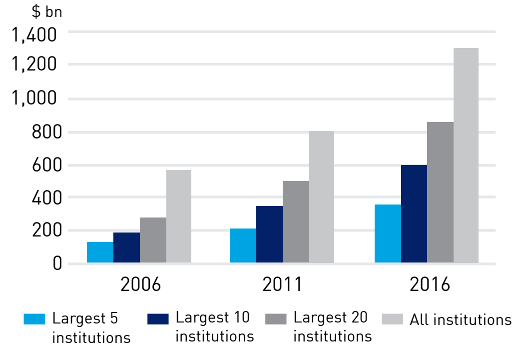
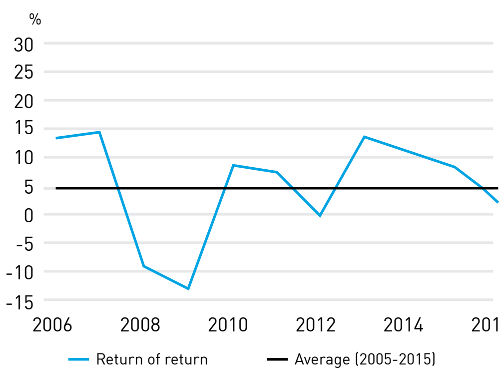


Figure 5c - Superannuation rate of return



Rate of return is net earnings after tax divided by cash flow adjusted net assets.

Figure 5d - Superannuation net outflow ratio

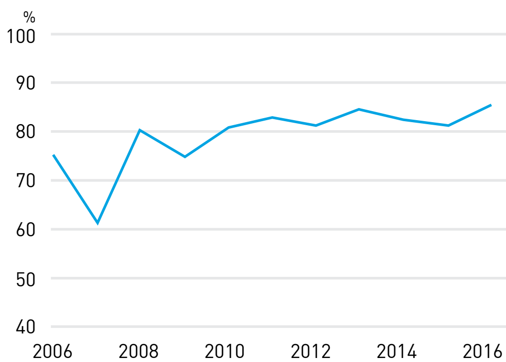


Figure 5e - Superannuation benefit payments

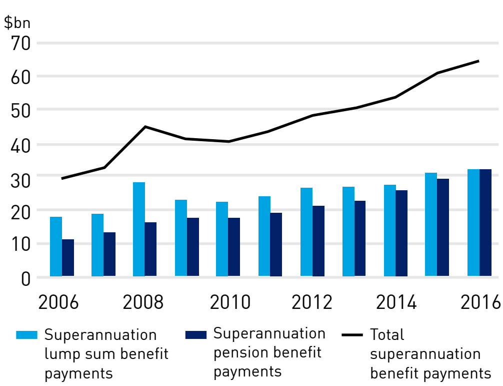
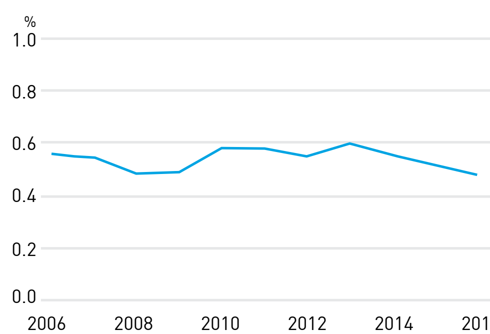


Figure 5f - Superannuation operating expenses as a proportion of cash flow adjusted net assets



APRA-regulated institutions

	Number of entities[1]			Assets ($ billion)[2]		
	30 Jun 15	**30 Jun 16**	% change	30 Jun 15	**30 Jun 16**	% change
ADIs[3]	161	**157**	-2.5%	3,853.7	**4,171.5**	8.2%
Banks	73	**80**	9.6%	3,786.8	**4,116.2**	8.7%
Building societies	7	**4**	-42.9%	21.3	**11.9**	-44.2%
Credit unions	75	**66**	-12.0%	42.4	**39.8**	-6.0%
Other ADIs	6	**7**	16.7%	3.2	**3.6**	12.1%
Representative offices of foreign banks	15	**16**	6.7%			
General insurers	115	**108**	-6.1%	121.0	**122.6**	1.3%
Life insurers	27	**28**	3.7%	299.0	**293.0**	-2.0%
Friendly societies	12	**12**	0.0%	6.8	**6.8**	0.6%
Private health insurers		**33**	N/A		**12.8**	N/A
Licensed trustees	155	**144**	-7.1%			
Superannuation entities	2,518	**2,550**	1.3%	1,246.2	**1,301.3**	4.4%
Public offer funds	143	**147**	2.8%	1,003.4	**1,049.9**	4.6%
Non-public offer funds	83	**78**	-6.0%	235.7	**244.5**	3.7%
Small APRA funds	2,196	**2,233**	1.7%	2.1	**2.1**	1.5%
Approved deposit funds	40	**39**	-2.5%	0.1	**0.1**	-12.1%
Eligible rollover funds	8	**8**	0.0%	4.9	**4.7**	-5.4%
Pooled superannuation trusts[4]	48	**45**	-6.3%	137.4	**122.9**	-10.5%
Non-operating holding companies	25	**24**	-4.0%			
Total	**3,028**	**3,072**	**1.5%**	**5,526.8**	**5,908.1**	**6.9%**

Notes:

1 Number of entities for end-June 2015 has been revised where better source data has become available.

2 Asset figures for end-June 2016 are based on the most recently submitted returns. Asset figures for end-June 2015 have been revised slightly from APRA's 2015 Annual Report in line with the audited returns received during the year.

3 The ADI classification does not include representative offices of foreign banks.

4 Pooled superannuation trust assets are not included in totals as these assets are already recorded in other superannuation categories.

CH/4

APRA'S ACTIVITIES

APRA'S ACTIVITIES

APRA's activities during 2015/16 encompassed its primary supervisory, regulatory and resolution functions, its role as a national statistical agency for the financial sector, and domestic and international liaison. The key activities in these areas are set out below.

SUPERVISORY AND REGULATORY ACTIVITIES

Authorised deposit-taking institutions

Response to the Financial System Inquiry

In its response to the Financial System Inquiry (FSI), the Government endorsed APRA to pursue a number of the recommendations, particularly as they related to the resilience of ADIs.

In July 2015, APRA published the Information Paper *International capital comparison study* as an important first step in addressing the FSI recommendation to '*set capital standards such that Australian authorised deposit-taking institution capital ratios are unquestionably strong'* (FSI recommendation 1). In its final report, the FSI suggested that for banks to be regarded as unquestionably strong they should have capital ratios that position them in the top quartile of internationally-active banks. Although APRA announced that it did not intend to mechanically adopt a top quartile benchmark for measuring 'unquestionably strong', it indicated that such a benchmark was a useful sense check of the banks' relative strength. APRA's study, which adjusted for differences in measurement methodology across jurisdictions and used a number of different measures of capital strength, found that although the Australian major banks were well-capitalised, their June 2014 capital adequacy ratios would need to increase further if they were to be comfortably positioned in the top quartile of internationally-active banks.

Also in July 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by ADIs accredited to use the internal ratings-based (IRB) approach to credit risk. This change meant that, for ADIs accredited to use the IRB approach, the average risk weight on Australian residential mortgage exposures increased from approximately 16 per cent to at least 25 per cent from 1 July 2016.

This change reflected the FSI's recommendation that APRA *'raise the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weights for authorised deposit-taking institutions using IRB risk-weight models and those using standardised risk weights'* (FSI recommendation 2). The major ADIs responded to the increased IRB mortgage risk weight by increasing capital levels, which also had the effect of lifting their capital ratios relative to international peers. Recent data indicates the average of the major banks' risk-based capital ratios are now broadly in line with the bottom of the benchmark suggested by the FSI.

As noted above, APRA intends to use the relative positioning of major bank capital ratios against international counterparts to inform, but not determine, its approach for setting capital adequacy requirements. The improvement in the major banks' international capital comparison provides time for APRA to consider the full range of factors that are relevant to satisfy the FSI's 'unquestionably strong' recommendation. Critically this includes assessing the impact of the Basel Committee on Banking Supervision's (Basel Committee's) reforms as they are finalised and considering how other measures of resilience, such as liquidity, funding, asset quality, and recovery and resolution planning can assist in achieving the FSI's objective.

Residential mortgage lending

In December 2014, APRA wrote to all ADIs emphasising the importance of sound mortgage lending standards. APRA's letter identified specific areas of prudential concern, focused on risk profile, investor lending and serviceability assessments. During 2015/16, APRA continued to undertake supervisory actions aimed at ensuring ADIs maintain sound lending standards. To this end, APRA:

- continued to drive improvements in mortgage underwriting standards and serviceability assessment criteria;
- conducted a Hypothetical Borrower Exercise to gauge the impact of improvements to underwriting standards since December 2014 and published a summary of the results; and
- monitored ADIs' moderation of investor lending, in instances where this had been growing strongly. Where specific undertakings regarding quantitative targets (notably, the 10 per cent year-on-year growth benchmark APRA outlined in its December 2014 letter) and timing had been given by ADIs, APRA ensured that these commitments were adhered to. APRA also engaged banks on the topic of data quality, especially following material reclassifications of home-loan purpose by some ADIs. System-wide growth in investor loans slowed to 5 per cent by end June 2016, compared with a peak of 11 per cent in mid-2015.

Although many of APRA's initial objectives in this work have been met, sound mortgage lending standards will continue to be an area of focus in the coming year.

Commercial property lending

In the second half of 2015, APRA commenced an industry-wide review of commercial property lending standards. The work has a number of complementary components: a significant data collection focusing on portfolio-wide metrics for recent loan originations, a review of documented underwriting standards, on-site discussions with relevant ADIs, and a detailed review of a sample of transactions. This investigative phase of the work will be complete by the end of 2016, after which APRA expects to produce more detailed publicly available guidance on prudent lending practices in this area.

Basel III-related policy initiatives

In November 2015, APRA consulted on a revised set of amendments to APRA's prudential framework for securitisation. These amendments were designed to simplify the existing framework to provide more flexibility in funding arrangements for ADIs as originators. APRA's proposals also reflected the updated framework for securitisation released by the Basel Committee, which primarily focuses on the regulatory capital requirements for ADIs that invest in or provide facilities to securitisations. These recent (late 2014) Basel Committee developments on the capital requirements for ADIs with exposures to securitisation forms part of the Committee's broader Basel III agenda to reform regulatory standards for banks in response to the global financial crisis and thus contributes to a more resilient banking sector. APRA intends to finalise these amendments to the prudential framework for securitisation by the end of 2016.

In January 2016, the capital buffers introduced as part of the Basel III reforms came into effect. Locally-incorporated ADIs are now required to hold a buffer of Common Equity Tier 1 Capital over and above minimum requirements, comprised of:

- a capital conservation buffer generally equal to 2.5 per cent of risk-weighted assets;
- a countercyclical capital buffer set at a level of between zero and 2.5 per cent of risk-weighted assets, and with the capacity to be varied over time (currently the buffer is set at zero per cent); and
- an additional capital buffer applicable to an ADI designated as a domestic systemically important bank (D-SIB), currently set at 1.0 per cent of risk-weighted assets.

In December 2015, APRA published the Information Paper *The countercyclical buffer in Australia*, setting out APRA's approach to assessing the appropriate settings for this buffer, and released for consultation the *Prudential Practice Guide APG 110 Capital Buffers* (APG 110), which provides guidance on the operation of the capital conservation and countercyclical buffers. APRA published the final version of APG 110 in August 2016.

In March 2016, APRA commenced consultation on the second Basel III liquidity-related standard: the Net Stable Funding Ratio (NSFR). The NSFR supplements the Liquidity Coverage Ratio (LCR), introduced from the beginning of 2015, by establishing a minimum stable funding requirement for ADIs based on the liquidity characteristics of an ADI's assets and off-balance sheet activities over a one-year time horizon. The NSFR seeks to ensure that long-term assets are financed by at least a minimum amount of stable funding. APRA proposes to apply the NSFR standard to larger, more complex locally-incorporated ADIs that are required to meet the LCR requirement. In addition, APRA consulted on proposed options for the future application of a liquid assets requirement for foreign ADIs. The options proposed were a continuation of the existing 40 per cent LCR requirement, or a new Foreign ADI Liquid Assets Requirement.

A response to submissions, and the associated draft prudential standards, were released for a second round of consultation in September 2016. It is intended that new requirements will come into effect from 1 January 2018.

Recovery planning

The development of robust and credible recovery plans by ADIs has continued to be an important area of focus for APRA over the past year. These plans are critical to ensuring that ADIs can recover from a period of severe adversity whilst still providing their essential payment and intermediation services to the community.

APRA's 2014 stress test of the ADI industry highlighted the need for further improvements in ADI recovery plans. In particular, the stress test identified that, when considering actions to rebuild capital in the stress scenario, there was only limited use of previously documented recovery plans. The stress test also raised concerns about the extent to which ADIs had considered the combined impact of their mitigating actions in a systemic scenario. To be robust and credible, recovery plans must include a realistic and continuously reviewed menu of actions that can be practically implemented in stressed operating conditions, bearing in mind that other ADIs may well be seeking to undertake similar (or related) actions at the same time.

In light of these results, APRA began a thematic review of ADI recovery planning. Over the past year, this led to APRA issuing new guidance to relevant ADIs, and requesting that larger ADIs submit updated recovery plans based on that guidance. Those updated plans were received in May/June 2016, and APRA is now reviewing and benchmarking them in order to highlight areas of better practice that will further increase the credibility of plans in subsequent iterations.

GENERAL INSURANCE

Pricing risk in commercial lines

As was also noted in last year's Annual Report, heightened levels of price competition continue to be evident in the commercial lines classes of business. In such an environment, the risk to insurers is that the desire to maintain existing customers and market share, as well as win new business, results in inadequate pricing that exposes them to material losses in the future. This price competition has been particularly evident in insurance for large, corporate property risks in the fire and industrial special risks (ISR) class of business.

In 2015/16, APRA conducted a review of the oversight and control of the pricing decision for commercial property insurance for a sample of insurers and reinsurers. The review found these frameworks have largely been operating as intended during this period of heightened competition. Formal pricing frameworks and oversight by risk and governance committees, policies documenting underwriting and pricing guidelines, delegated responsibilities, compliance reviews, regular monitoring and pricing tools were largely found to be in place.

Nonetheless, the review identified a number of better practices which insurers could consider in their pricing frameworks. This feedback was provided to the insurers that participated in the review, with the review's key findings communicated to the industry and more broadly in October 2016 through APRA's *Insight* publication.

Catastrophe modelling governance and risk management

Although the frequency of major catastrophe events has fallen somewhat in the past couple of years, APRA has had a long-standing focus on improving industry catastrophe modelling governance and risk management policies and practices. This reflects the risk that poor policies and practices can lead to property insurers purchasing inadequate levels of reinsurance, exposing them to significant claims costs in the event of a natural catastrophe.

In December 2013, APRA wrote to insurers setting out the conclusions from a thematic review of catastrophe modelling governance and risk management policies and practices, highlighting issues APRA expected insurers to address. In the past year, a follow-up review was conducted by APRA to gauge improvements in this area since the letter was issued. This review found that, in general, insurers:

- demonstrated a better understanding of the strengths, weaknesses and inherent assumptions of catastrophe risk models used;
- often purchased a higher level of catastrophe reinsurance to better reflect the uncertainty inherent in catastrophe modelling output; and
- enhanced their risk appetite statements to clearly set out the insurer's appetite for catastrophe risk.

CTP claims experience

Insurers face the persistent risk of inadequate reserving for insurance liabilities, which can expose them to potentially significant losses if their claims outlook deteriorates in later years. This is a natural area of supervisory attention. In 2015/16, an area of focus for APRA has been the trends evident in compulsory third party (CTP) insurance, with increased claims frequency in the NSW CTP scheme in particular heightening the risk of adverse claims development for insurers involved in this line of business. The NSW Government has announced plans to introduce reforms with the objective of making the NSW CTP scheme more sustainable and lowering the cost of CTP insurance premiums, by moving to a defined benefit, no fault structure for lower severity claims. The timing of the proposed reforms has yet to be finalised.

In the meantime, APRA has been closely monitoring developments through the analysis of claims data, along with discussions with insurers. A small team has also been tasked with examining the scope for the claims trends in the NSW CTP scheme to spread to other long tail classes of business. Claims data has been collected from CTP insurers to monitor trends in frequency and severity of claims, and to gauge any early indications of similar adverse trends in other classes. This exercise also provided insights for APRA's assessment of the management and controls in place at these insurers to monitor and manage the impact of this risk on their CTP reserves. This work will continue into the year ahead.

Stress testing

Planning for APRA's first industry stress test of general insurers commenced in 2015/16. The stress test involves the four largest general insurers and two largest reinsurers, and is a component of APRA's expanding stress testing programme across industry sectors. As with earlier tests for ADIs and life insurers, the primary objectives of the stress test are to:

- make a quantitative assessment of the resilience of participating insurers to adverse scenarios;

- support insurers to further develop their stress-testing capabilities; and
- support APRA's ongoing identification of current and emerging risks.

The stress test scenarios have been finalised and provided to the participating insurers, with a view to them reporting their results to APRA later in 2016. Following analysis of the results by APRA, including a review of consistency and reliability, feedback will be provided to the participating insurers and the industry more broadly.

Role of the Appointed Actuary and actuarial advice

In 2015/16 APRA commenced a review of the role of the Appointed Actuary across the life insurance and general insurance industries (in due course, the implications of the conclusions from this review will be considered for the private health insurance industry). The objectives of the review are to examine the existing responsibilities of the Appointed Actuary to ensure they remain appropriate and principles-based, clarify the strategic role to be performed by Appointed Actuaries, and harmonise requirements between the insurance industries where it would improve regulatory outcomes. After informal discussions with the Actuaries Institute and other industry stakeholders, APRA released a discussion paper in June 2016 with a range of specific proposals for consultation.

LIFE INSURANCE AND FRIENDLY SOCIETIES

Group insurance arrangements

As has been the case for a number of years, APRA continued to closely monitor the group insurance market in 2015/16. The flow-through of significant premium increases since 2013, together with more stability in claims costs, has seen this market once again return to profitability. While this is a more sustainable outcome for insurers, it has produced significant and unexpected premium increases for many superannuation fund members.

The current phase of APRA's work in the group insurance market focuses on the long-term sustainability of scheme benefit structures: these need to be viable for insurers and also meet the needs of fund members. In particular, a key objective is to reduce the likelihood of another significant period of price discontinuity, as seen in recent years. APRA's work with insurers has examined issues such as the willingness of insurers and superannuation trustees to design group life benefit structures with sustainability as a clear objective; the clarity of claims philosophy; and the effectiveness of adequately-resourced claims processes and procedures. This work has been complemented by a review of the steps taken by trustees to review insurance arrangements, including claims management processes, to ensure they are in the best interests of fund members and that insurance costs do not inappropriately erode the retirement benefits of members.

While the life insurance industry has made good progress in addressing the underlying structural issues that caused market stress a few years ago, more needs to be done. APRA is continuing to discuss how the market can be strengthened with key insurers and reinsurers active in group risk insurance, and with a representative sample of trustees. Areas that have scope to be strengthened further include the review of complex and old definitions, and enhanced dialogue between trustees and insurers to improve benefit design and alignment of group life policy terms to the terms of cover offered to superannuation fund members. The outcomes APRA is seeking to achieve through this work include:

- emphasising the need for insurers and trustees to address sustainability - requiring both sides of the group risk market to work together for positive outcomes for members, and changing practices if necessary to achieve this;
- developing clearer guidance on what constitutes better practice in sustainable benefit design; and
- enhancing APRA's ability to monitor the on-going sustainability of the market.

Insurers and trustees continue to consider how to balance product and benefit design to provide adequate and sustainable insurance cover for members while ensuring insurance costs do not inappropriately erode retirement benefits. Discussion on these issues will continue among industry participants and APRA.

Claims handling

In March 2016, public attention was drawn to allegations of inappropriate and unfair treatment of a small number of claimants by The Colonial Mutual Life Assurance Society Limited, trading as CommInsure. This matter has subsequently attracted intense scrutiny with respect to the allegations about both the treatment of claimants and the treatment of a whistleblower who was involved in bringing the matters to public attention.

In response to the allegations, the Commonwealth Government asked ASIC to investigate the treatment of claimants, and also to consider whether the matters were isolated to CommInsure or reflected systemic issues within the industry. While APRA does not have the mandate to pursue customer complaints, it nevertheless takes an interest in matters such as this given they can provide important insights into the strength of an institution's governance, risk management and risk culture. Working alongside ASIC, APRA established a small central team and commenced three streams of work:

- APRA wrote to the boards of all active insurers, as well as a number of trustee boards (given a number of the claimants were members of group risk schemes via their superannuation funds), to seek information about the effectiveness of their governance and oversight mechanisms for matters such as claims handling (including culture), updating of benefit definitions, rejected claims and customer complaints;
- APRA engaged with the board and senior management of CommInsure to gain assurance over the robustness and completeness of the independent reviews commissioned by Comminsure to investigate the allegations and to ensure a focus on stakeholder and community expectations through this process; and
- APRA met with the whistleblower and is considering whether the whistleblowing provisions in the *Life Insurance Act 1995,* which are designed to prevent the identification and victimisation of whistleblowers, have been adhered to in this matter.

APRA's consideration of these matters is continuing.

Product design and complexity

In April 2016, APRA made a submission to the Senate Standing Committee on Economics' 'Inquiry into the scrutiny of financial advice – Life Insurance Industry'. This Inquiry had its terms of reference expanded in March following the allegations in relation to CommInsure claimants. Although the terms of reference for the inquiry addressed issues that more directly fall within ASIC's mandate, APRA's submission addressed a number of key issues including:

- APRA's heightened supervisory focus on recent issues in the group risk market, in particular to address mispricing and benefit design;
- reiterating APRA's warning in a May 2015 letter to insurers that claims improvement programs must be genuine and not an excuse to avoid paying legitimate claims;
- the importance of aligning claims practices with claims philosophy, and that this should be a core element of the arrangements between insurers and superannuation trustees; and
- support for the FSI recommendation to find a mechanism to more easily permit rationalisation of legacy products, which add a considerable amount of complexity for insurers and can lead to unsatisfactory outcomes for consumers.

APRA has also encouraged the life insurance industry to take a fresh look at ways to reduce the risks arising from legacy products and complexity.

Stress testing

Preparatory work for APRA's first life insurance industry stress test began in 2014/15, including extensive liaison with the eight insurers participating in the test. In July 2015, APRA provided the insurers with the relevant scenario data for the test, which included key parameters such as asset market declines, higher interest rates, an increase in unemployment and increased claims rates for particular classes of business.

The results of the stress test were received from the participants in late 2015. Following data quality and consistency checks, and clarification of some aspects of the responses, APRA undertook its analysis of the stress test results, including the development of overall conclusions. Written feedback was provided to all participants in June 2016; this provided both industry-level observations as well as feedback specific to each participant about their results and practices. The written feedback was supplemented with bilateral meetings with all participants to discuss the outcomes further.

APRA's key observations from the stress test were that:

- the stress scenario produced, unsurprisingly, a significant adverse impact on insurers' capital positons, although pre-stress capital surpluses were largely restored after the impact of mitigating actions were taken into account;
- the heterogeneous nature of the industry meant that the stress test resulted in widely varying outcomes for insurers with different mixes of business;
- the feasibility, quantum and impact of mitigating actions needs to be carefully considered, given it was difficult to predict 'second round' effects (e.g. the response of competitors); and
- insurers' governance processes for the stress test scenario were broadly satisfactory and had improved since APRA's initial discussions with insurers as part of the preparatory work prior to the test.

The learnings from this stress test, together with APRA's experiences when stress testing other industries and the experience of overseas prudential regulators, will be used to develop further guidance for insurers on ways to strengthen their stress testing capabilities and enhance future stress testing exercises for the life insurance industry.

PRIVATE HEALTH INSURERS

In its first year of responsibility for supervising private health insurers (PHIs), APRA's objective was to gradually transition the industry knowledge and supervision processes of the former Private Health Insurance Administration Council (PHIAC) into the APRA supervision framework. Working closely with previous PHIAC supervisors based in Canberra, there has been an orderly transfer of responsibilities to supervisors located in APRA's other offices, reflecting APRA's *modus operandi* of placing supervisors close to the regulated institutions they are responsible for supervising. This transfer included visits to each of the PHIs to introduce the new supervisory teams and as well as the continuation of regular supervisory engagement. Meetings were also held between the boards of a number of insurers and senior APRA representatives. This handover process was largely completed in May 2016.

On the policy front, APRA hosted a series of discussions in May and June 2016 with PHIs and interested stakeholders to outline APRA's plans for a methodical review of the PHI prudential framework over the coming three years. The objective of the review is to maintain the quality and effectiveness of the prudential framework, and ensure it remains fit for purpose in the context of APRA's mandate. Insurers were advised that, in 2016/17, APRA will consult on formalising prudential standards for risk management and business continuity in the PHI industry, and review existing standards relating to outsourcing and the Appointed Actuary. While APRA anticipates the core principles of its existing cross-industry standards will be applicable to the PHI industry, it has committed to carefully consider whether specific requirements for PHIs are necessary. Equally, where APRA's review identifies practices in the PHI industry which can be applied to other regulated sectors, APRA will look to take on board those lessons.

APRA also announced it was not intending to review the PHI solvency or capital adequacy prudential standards prior to 2019, unless an issue arises with the prudential framework, or some other development occurs, which warrants an earlier review. This timetable will enable a fuller consideration of the effectiveness of the existing solvency and capital adequacy prudential standards for PHIs, which only came into operation in 2014.

Risk Management

In September 2015, APRA commenced a program of thematic reviews of PHIs' risk management practices. The review sought to:

- improve the resilience of PHIs to periods of stress through more effective management of risk; and
- enable smoother transition for PHIs to potential new regulatory requirements in future years.

The reviews formed part of APRA's ongoing prudential supervision, and focused on improving the effectiveness of risk management arrangements within individual insurers. The reviews also provided information about the state of risk management within the industry, and will be beneficial in informing possible changes to the prudential framework, including the development of a risk management prudential standard.

The risk management thematic reviews focused on four key areas — board oversight, effective risk management frameworks, risk management processes, and internal controls — providing insight into the risk governance and operational risk management arrangements within each insurer. Thirteen reviews were completed by the end of June 2016. General observations arising from the reviews to date include:

- boards generally demonstrated a strong commitment to risk management;
- risk management frameworks are being strengthened, but require further work to embed processes into business-as-usual activities;
- the 'three lines of defence' model of business assurance is gaining traction; and
- there is an increasing appreciation of the importance of the organisation's risk culture in assessing the effectiveness of risk management.

Feedback from PHIs to date indicates the reviews have been well received, with the recommendations viewed as useful for enhancing the maturity of their risk management frameworks.

SUPERANNUATION

Governance

In its engagement with superannuation funds in 2015/16, APRA continued to focus on enhancing board governance and risk management, with specific focus on strengthening governance practices of Registerable Superannuation Entity (RSE) licensee boards, their composition and the effectiveness of their operations. APRA also continued to emphasise, in industry forums and through supervisory activities, the importance of governance and culture in promoting the best interests of superannuation fund members.

To support these efforts, APRA released a discussion paper for consultation, *Governance arrangements for RSE licensees*, along with draft prudential standards and practice guides in August 2015. This consultation package proposed a number of amendments to *Prudential Standard SPS 510 Governance* and *Prudential Practice Guide SPG 510 Governance* intended to promote sound governance practices by the boards of all RSE licensees, including provisions to facilitate APRA's administration of the Government's proposed amendments to RSE licensee governance requirements reflected in the *Superannuation Legislation Amendment (Governance) Bill 2015* (the Bill). Although the Bill lapsed at prorogation due to the 2016 Federal Election, APRA has indicated that it intends to finalise in the coming months those amendments to the prudential standards and guidance that were not subject to the passage of the Bill.

During 2015/16, APRA also commenced a thematic review of board governance. This thematic review, which is expected to be completed in the second half of 2017, will highlight better industry practices, as well as areas for further improvement, in areas such as director appointment and nomination processes, board renewal and tenure, board size and the ongoing assessment of board performance and effectiveness.

Conflicts management

Aligned with the heightened focus on governance, APRA continued to examine industry practices with respect to the management of conflicts. As part of this broader initiative, APRA commenced a thematic review specifically into the way in which RSEs were managing related party arrangements. This review, which is expected to be completed in mid to late 2017, follows a broader 2014 thematic review of conflicts management and will review more deeply, for a sample of superannuation funds across all industry segments, practices in relation to the management and oversight of different types of related party arrangements. The review will include an assessment of the extent to which issues APRA has previously highlighted to the industry have been addressed, and identify if, and where, further improvements in practices are still needed.

Strategy and business planning

In light of an increased focus on efficiency and competition by the Government, and the impact of underlying economic and demographic trends, sound strategic and business planning is essential for RSE licensees' to effectively manage strategic priorities, respond to the challenges of the evolving industry and environment and ensure members' best interests are met over the long term.

APRA has observed that, particularly relative to other APRA-regulated sectors, there is scope for the superannuation industry to improve its strategic and business planning practices, and the approaches adopted for benchmarking, monitoring and reviewing the frameworks, processes and resources that support these activities. Given the evolving landscape, and the impact of potential reforms on the future shape of the industry, APRA's supervision activities over 2015/16 have given increased attention to the quality and effectiveness of RSE licensees' strategic and business planning practices. This will continue to be an area of focus in 2016/17.

Insurance

As noted above in relation to the life insurance industry, APRA continued to devote substantial resources to insurance in superannuation throughout 2015/16. Following a thematic review on this topic in 2014/15, APRA has been closely monitoring RSE's management of, and experience with, group life insurance over 2015/16.

The past few years have seen significant increases in premium rates for group life insurance. However, premium increases alone have not addressed the underlying structural reasons that contributed to the adverse claims experience that significantly impacted the life insurance industry. Further work is needed by the superannuation and life insurance industries to ensure sustainable group insurance arrangements that deliver appropriate outcomes for members at reasonable cost, particularly in an environment of continued low investment returns where the cost of insurance has more material impact on ultimate member benefits.

As noted above, APRA commenced a cross-industry thematic review in 2015/16 with a focus on the sustainability of group life insurance within the superannuation industry, and this is expected to be completed in the coming months.

Investment governance

Investment governance remained an important area of focus for APRA over the past year. Reflecting a difficult investment environment, some RSE licensees have lowered their return targets. Others have made changes to their investment strategies that increase investment risk in order to increase the probability of meeting the return targets advertised to members.

Over 2015/16, APRA's supervision activity has therefore devoted attention towards ensuring that RSE licensees have in place robust investment governance and investment risk management frameworks and processes. This includes having the right focus and skills at board level, robust and independent performance measurement, advanced investment risk measurement practices (including appropriate stress testing), and disciplined investment processes. Many RSE licencees have enhanced their practices in these areas in accordance with evolution in their investment activities, but many still require further enhancement.

The most significant weaknesses identified included, for some RSE licensees, a lack of understanding of underlying investments, an over-reliance on service providers, and weaknesses in, or misalignment between, investment governance and risk management frameworks.

The superannuation industry needs to be diligent in continuing to refine and lift standards of investment governance. The on-going challenges of a low return environment, coupled with the competitive dynamics of the superannuation industry, pose challenges for the sector. APRA's attention has been, and will continue to be, directed at how the industry is responding and adapting to these challenges, and how investment governance frameworks support RSE licensees in meeting their members' best interests obligations.

Liquidity management

APRA commenced a liquidity stress-testing thematic review in 2014/15 to gain greater insights into the superannuation industry's liquidity management and stress-testing practices, and to assess these against the requirements and expectations set out in *Prudential Standard SPS 530 Investment Governance* (SPS 530).

This review was completed in 2015/16 and indicated that the quality of liquidity stress-testing frameworks varies in sophistication and maturity across RSE licensees. Further, the level of sophistication of liquidity management is not always commensurate with the structure and complexity of the investment activities undertaken by the RSE licensee. The results of this review will be addressed as appropriate through the supervision plans for individual entities who participated in the review. The more general lessons from the review will be communicated more broadly to industry in the coming months and will also provide useful input to APRA's supervision activities for the superannuation industry more generally

CROSS INDUSTRY ACTIVITIES

Risk culture

In 2015, APRA established a small team to provide dedicated expertise on the topics of governance, culture and remuneration. The initial focus of the team has primarily been on how ADIs and insurers are implementing the risk culture requirements of *Prudential Standard CPS 220 Risk Management* (CPS 220). Engagement with a broad selection of industry, at both board and senior executive level, as well as a number of consultants and academics has been used to understand how the industry is approaching the task of assessing and monitoring the risk cultures within individual firms. Although CPS220 does not apply to them, discussions have also been held with some trustees within the superannuation industry.

APRA published a stocktake of industry practices in October 2016.

Margining and risk mitigation for non-centrally cleared derivatives

In February 2016, APRA commenced consultation on its proposed implementation of the internationally-agreed framework for margin requirements and risk mitigation for non-centrally cleared derivatives.

These requirements are designed to reduce systemic risk and contagion effects that may be caused by the default of a derivative counterparty, by ensuring collateral is available to offset any losses that default would cause. The margining proposals will apply to APRA-regulated entities that have a material level of transactions in non-centrally cleared derivatives; most APRA-regulated entities will therefore be unaffected. APRA expects to finalise its requirements later in 2016 and will set an implementation date when there is a clearer picture on implementation plans in other major jurisdictions. These requirements will come into effect over a multi-year transition period.

Conglomerates groups

APRA released a framework for the supervision of conglomerate groups (the 'Level 3 framework') in August 2014, but deferred setting an implementation date given the FSI was reviewing the financial services regulatory regime more broadly.

In March 2016, APRA announced a revised implementation timetable for the Level 3 framework, and consulted on some clarifications to the wording of nine prudential standards that are applicable to the Heads of Level 3 groups, and two associated prudential practice guides. In July 2016, APRA released the final requirements for the non-capital components of the Level 3 framework, which will become effective on 1 July 2017.

APRA also announced that it would defer the capital component of the Level 3 framework (i.e. the introduction of a measure of capital adequacy calculated at the conglomerate group level). This deferral will allow for the finalisation of other domestic and international policy initiatives that are currently in progress.

APRA anticipates consultation on the Level 3 capital requirements would not commence before mid-2017, and any new requirements stemming from that consultation would not become effective any earlier than 2019.

Governance

In October 2014, APRA wrote to ADIs, general insurers and life insurance companies seeking comments on the clarity of its requirements for boards. This was done in conjunction with APRA's release of *An Aid for Directors of ADIs and Insurers*. APRA responded to submissions via a letter to industry in August 2015 with a commitment to improve the clarity of language used to communicate APRA's requirements with respect to boards. As a sizeable proportion of the ADI, general insurance and life insurance prudential standards and practice guides that contain relevant board requirements are planned for review over the next three years or so, the clarifications to board requirements will be made as opportunities arise.

Shared computing services

The use of shared computing services (including cloud computing) represents a significant change to the way technology is employed. While shared computing services may bring benefits, such as economies of scale, they also bring associated risks. In July 2015, APRA released the Information Paper *Outsourcing involving shared computing services (including cloud)*, which outlined prudential considerations and key principles in relation to shared computing services to provide assistance to industry and encourage ongoing dialogue on this evolving area of risk.

In 2015/16, APRA also conducted a survey of 37 regulated institutions collecting information on cyber security threats over the previous 12 months and how these threats were managed by the institutions. The results of the survey were released in October 2016 and showed those involved in the survey experienced a range of cyber security incidents over the period, and those threats that had the potential to cause a material impact appeared to have been well managed through a combination of effective monitoring and response activities.

STATISTICAL ACTIVITIES

APRA acts as a national statistical agency for the Australian financial sector. In that role, APRA collects and publishes data from prudentially regulated and other financial institutions to support its primary mission, as well as provide support to other public sector agencies such as the Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS).

Data collections for APRA's primary activities

APRA made a number of improvements to its reporting requirements and processes during the year. APRA's primary data collection system, 'Direct to APRA' (D2A), is the reporting system that over 600 ADIs, general and life insurers, superannuation entities and other APRA-reporting entities use to submit data to APRA. D2A allows reporting entities to securely and electronically download, complete, validate and submit data to APRA. Institutions that create and import Standard Business Reporting format reports can also save time and effort in data quality assurance and in data entry.

With the aim of reducing the reporting burden while maintaining the collection of high-quality and timely data, APRA introduced a significant number of new data validation rules within D2A for all reporting industries. These new rules helped institutions identify and fix data errors and explain anomalies at the time they submit data to APRA; they also ensure that submitted data are immediately fit for use by APRA supervisors. During the year, APRA also removed or relaxed over 250 validation rules that were no longer effective at identifying errors.

As part of the transition of responsibility for prudential supervision of private health insurers to APRA, leading up to June 2016 arrangements were put in place to enable insurers to report statistical data to APRA via D2A. The switch to D2A reporting will apply for reporting periods ending on or after 30 June 2016, and provides an opportunity for insurers to reduce the burden of business-to-government reporting.

Statistical publications to assist APRA's activities and support others

APRA introduced a number of improvements to its regular statistical publications during 2015/16.

In September 2015, APRA released a discussion paper on the future of the ADI Points of Presence statistics. In response to feedback received on the paper, APRA announced it would streamline the statistics and data collection from 2017. APRA also released a discussion paper in January 2016 on proposed changes to its ADI liquidity statistics, reflecting recent changes to the ADI reporting framework. The new statistics will be published for the first time in late 2016.

Following consultations with industry, APRA introduced the new *Annual MySuper Statistics* report in February 2016. APRA also released more industry-level statistics in the *Annual Superannuation Bulletin* and more fund-level data in the *Annual Fund-level Superannuation Statistics.* The publication of these statistics provides a central source of superannuation information and supports the broader transparency objectives of the Stronger Super reforms. APRA also made improvements to the recently introduced *Quarterly Superannuation Performance statistics* in response to feedback from users.

In June 2016, APRA released a discussion paper on its proposal to expand its publication of industry-level general insurance statistics and institution-level statistics. The proposal to include all non-confidential data in the institution-level statistics is in line with the Government's Public Data Policy to extend the value of public data to the benefit of the Australian public.

As part of the 2016/17 Budget, the Commonwealth Government announced it will provide $9.7 million for capital expenditure and $11.2 million in operating expenditure over four years to develop and support the modernisation of APRA's data collection and dissemination capabilities.

Data collections for other agencies

As part of its role as a national financial sector statistics agency, APRA collects data from regulated and unregulated institutions to assist the RBA, ABS, Australian Securities and Investments Commission (ASIC), Australian Taxation Office (ATO) and Department of Health to fulfil their respective roles.

During the financial year, APRA introduced three new superannuation reporting forms for the ABS, which uses these data for statistical purposes. These statistical purposes include compiling and publishing the Australian National Accounts and other statistical publications.

APRA collects a range of data from ADIs and registered financial corporations (RFCs) on behalf of the RBA and the ABS. These data are used by the agencies for their policymaking and statistical roles: for example, the economic statistics collection is used by the ABS for inputs to the calculation of gross domestic product, and by the RBA for calculating credit aggregates for the purposes of setting monetary policy.

Many of the reporting forms in the economic statistics data collection have not been comprehensively reviewed for some time, despite a rapidly changing economy and changes in the way the financial sector interacts with the physical economy. This has meant discrepancies have developed between the data collected on reporting forms and the data required by these agencies; some sections of the reporting forms are also now no longer required. In early 2016, the agencies proposed a draft set of new forms, and engaged in informal consultation with industry to ensure the proposals were reasonable and avoided any unnecessary burden. The formal consultation on the new forms is due to commence in November 2016.

RESOLUTION AND ENFORCEMENT ACTIVITIES

Strengthening APRA's preparedness for financial failures and crises in regulated institutions was one of the strategic objectives set out in APRA's 2015-2019 Corporate Plan.

During the year APRA aligned a number of existing functions into a single, expanded Resolution and Enforcement unit. This unit covers policy and framework development, internal processes for responding to a failure or crisis event as well as developing industry responsiveness through improved recovery and resolution planning. The unit also includes APRA's Enforcement function, which supports both ongoing supervisory activities and potential resolution actions as well as the administration of the Financial Claims Schemes, which may be important to managing the orderly exit from the industry of a regulated institution.

Crisis management policy

APRA continued its work in identifying and progressing enhancements to Australia's failure and crisis management framework. This primarily included working with Treasury on crisis-related legislative reform, in particular the development of the *Financial System Legislation Amendment (Resilience and Collateral Protection) Act 2016* which includes a power to temporarily stay close-out rights in resolution, and the progression of a wider legislative reform package that is intended to strengthen APRA's crisis management powers. The Government has supported improvements in this area, in line with the FSI's final report (Recommendation 5) which noted there are some gaps and deficiencies in the Australian statutory framework for crisis management and resolution when compared with international standards. Other work has focussed on developing APRA's policies on recovery and resolution planning, including potential prepositioning measures to improve the resolvability of regulated institutions, in collaboration with members of the Council of Financial Regulators (CFR).

Crisis management operations

A number of activities were undertaken in 2015/16 to operationalise aspects of the crisis management framework. These included enhanced crisis management procedures and processes, including revised governance for problem entity escalation, monitoring and reporting (both within APRA and external with CFR agencies) and the identification of external expertise potentially needed in the event of a failure (for example, expertise may be needed in areas such as valuation, corporate restructure or insolvency and arrangements). In addition, further work was conducted to improve the operationalisation of the Financial Claims Scheme with an assurance program and testing sequential steps with CFR agencies.

APRA also continued to enhance its analysis tools and processes, and internal and external communication protocols to deal effectively with regulated institutions in severe distress.

Forensic analysis and enforcement

APRA's supervisory approach is aimed at identifying and evaluating potential risks in regulated institutions at an early stage, and seeking to have these risks appropriately mitigated before they could pose a threat to the viability of the regulated institution.

As a prudential regulator, APRA uses its formal enforcement powers less than traditional law enforcement agencies, preferring instead to focus on risk management practice and prevention measures. However, should a regulated institution be unwilling or unable to take the necessary corrective action, APRA will use its enforcement powers to protect the interests of depositors, policyholders and superannuation fund members. Enforcement activity may also be needed to support the resolution of a failing entity.

During 2015/16, APRA's enforcement resources continued to support frontline supervision in the early identification of emerging risks, so as to minimize the need for more intrusive intervention at a later stage. In addition, APRA released a report on its investigation into the failure of Trio Capital Limited, a result of which APRA removed 13 former Trio directors from the superannuation industry for specified periods of time.

APRA continues to develop and strengthen its network of information sharing with other regulators and law enforcement agencies to ensure that its supervisors have access to, and can assess the impact of, any relevant information on their regulated institutions.

DOMESTIC LIAISON ACTIVITIES

APRA has strong working relationships with Australia's key financial regulatory agencies - the RBA and ASIC. APRA also maintains a close and cooperative working relationship with the Australian Treasury. As noted above, the four agencies cooperate on a multilateral basis through their shared membership of the CFR. Beyond the members of the CFR, APRA also has active engagement with a range of other domestic bodies (see table on page 49). These engagements are typically guided by a Memorandum of Understanding (MoU) which, while not legally binding, signifies a commitment to cooperate and share relevant information, and establishes the practical arrangements by which this will occur. Many of these MoUs are available on APRA's website (see table on page 48). In 2015/16, APRA signed an MoU with the Department of Health.

List of domestic MoUs

Agency
Australian Bureau of Statistics
Australian Competition and Consumer Commission
Australian Crime Commission
Australian Federal Police
Australian Securities and Investments Commission
Australian Taxation Office
Australian Transactions Report and Analysis Centre
Commonwealth Treasury
Council of Financial Regulators
The Commissioner for Fair Trading, Office of Fair Trading, Department of Commerce
Department of Health
Motor Accident Insurance Commission of Queensland
Motor Accident Authority of NSW
Reserve Bank of Australia
Workcover Authority of NSW
Workcover TAS

In 2015, ASIC established its Digital Finance Advisory Committee (DFAC), primarily comprised of FinTech industry representatives. APRA joined DFAC as an observer. While the role of DFAC is to help inform ASIC's work in this area, APRA's participation provides insights on developments in this rapidly evolving area.

APRA also liaises with professional and industry associations for each industry sector that APRA regulates.

List of domestic agencies and organisations with whom APRA met during 2015/16

Public Sector	Private Sector
Auditing and Assurance Standards Board	Actuaries Institute
Australian Accounting Standards Board	Association of Superannuation Funds of Australia
Australian Bureau of Statistics	Australian Bankers' Association
Australian Federal Police	Australian Financial Markets Association
Australian Securities and Investments Commission	Australian Institute of Superannuation Trustees
Australian Taxation Office	Australian Retail Credit Association
Australian Transactions Report and Analysis Centre	Australian Securitisation Forum
Commonwealth Treasury	Banking and Finance Sector Group
Council of Financial Regulators	Corporate Superannuation Association
Department of Foreign Affairs and Trade	Customer Owned Banking Association
Department of Health	Finance Brokers Association of Australia
Financial Reporting Council	Financial Services Council
Heads of Commonwealth Law Enforcement Agencies	Industry Super Australia
Motor Accident Insurance Commission of Queensland	Insurance Council of Australia
Office of Best Practice Regulation	Health Insurance Restricted and Regional membership Association of Australia
Productivity Commission	Mortgage and Finance Association of Australia
Reserve Bank of Australia	Private Healthcare Australia
State Insurance Regulatory Authority	Risk Management Association Australia
WorkCover NSW	
WorkCover Tasmania	

INTERNATIONAL ACTIVITIES

APRA's primary international activities take two main forms:

- liaison with overseas home and host supervisory agencies on the activities of internationally active firms, including through participation in supervisory colleges; and
- participation in global standard-setting bodies to ensure relevant characteristics of the Australian financial system are taken into account in how international standards evolve.

During 2015/16, APRA signed two new MoUs with international agencies, taking to 29 the number of overseas regulatory agencies with which APRA has established formal bilateral information sharing arrangements. In July 2015, APRA signed an MoU with the Dubai Financial Services Authority, and an MoU was signed with the Central Bank of Timor-Leste in December 2015.

APRA is one of 56 signatories to the International Association of Insurance Supervisors (IAIS) multilateral MoU arrangements that now cover agencies supervising insurers which write over 65 per cent of global premiums. APRA also participates in institution-specific multilateral arrangements to support the sharing of confidential information in supervisory colleges involving internationally active financial institutions, including those headquartered in Australia.

APRA's engagement with international agencies and standard setting bodies is summarised in the lists below.

International organisations that APRA was a member of during 2015/16:

- Asian Forum of Insurance Regulators
- Basel Committee on Banking Supervision
- Executives' Meeting of East Asia Pacific Central Banks (Working Group on Banking Supervision)
- Financial Stability Board (Standing Committee on Supervisory and Regulatory Cooperation and Working Group on Governance Frameworks)
- International Association of Deposit Insurers
- International Association of Insurance Supervisors
- International Credit Union Regulators Network
- International Forum of Insurance Guarantee Schemes
- International Organisation of Pension Supervisors
- Trans-Tasman Council on Banking Supervision

International organisations APRA liaised with or assisted during 2015/16:

- ASEAN Insurance Training and Research Institute
- Asian Development Bank
- Asia-Pacific Economic Cooperation - Financial Regulators Training Initiative
- Association of Financial Supervisors of Pacific Countries
- Financial Stability Institute
- International Accounting Standards Board
- International Monetary Fund
- Organisation for Economic Cooperation and Development
- South East Asian Central Banks
- South Pacific Central Bank Governors
- World Bank

In addition to these activities, APRA also receives visits from international delegations for a range of core business and other purposes. Over 2015/16, APRA received visits from 51 international delegations from 21 countries, most commonly from China and Indonesia. Interest was focused on APRA's risk-based supervisory model, Australia's retirement income arrangements and supervision of superannuation funds, and requirements to establish operations in

Australia. APRA also hosted the Integrated Financial Supervisors Conference in Sydney in September 2015.

Technical assistance

In support of 'whole of Government' engagement with development partner countries, APRA undertakes targeted technical assistance activities, primarily in the Asia-Pacific region. These activities provide valuable interaction with the partner countries involved, including in respect of Australian institutions operating in those jurisdictions. Most of these activities are funded under programs agreed with agencies responsible for administering international aid, particularly the Department of Foreign Affairs and Trade (DFAT) and, to a lesser extent, the International Monetary Fund (IMF). As APRA is otherwise funded by levies on the institutions it supervises, it is considered inappropriate for more than incidental amounts of these funds to be used for technical assistance purposes.

With very limited staff resources available for these activities, APRA favours multilateral initiatives and can only accommodate a small number of the requests it receives. All such activities are subject to postponement or cancellation in the case of core business priorities. Nevertheless, as well as strengthening the prudential frameworks and activities of the partner agencies involved, these activities offer APRA valuable staff development and retention benefits.

Engagement with Indonesia is with the integrated regulator Otoritas Jasa Keuangan (OJK) and Bank Indonesia (BI) under the Government Partnership Fund (GPF II). During 2015/16, this engagement was primarily through APRA hosting four internships, which focused on risk-based prudential supervision including risk-rating procedures, crisis management and conglomerates. APRA also hosted a joint visit by senior OJK and BI staff, and another by the OJK Commission of Non-bank Financial Institutions. Over 2015/16, APRA hosted a total of 17 interns and other visitors from Indonesia.

In the Pacific, APRA supported several training programs under the multilateral Government Partnerships for Development (GPFD) program with local and visiting Pacific prudential regulators. Over the past year, the on-site training programs ranged across banking and other credit intermediaries, general insurance and provident funds.

APRA also plays its part in supporting the training activities of the Financial Stability Institute and various regional groups in the Asia Pacific region such as SEANZA and SEACEN. Over the year, APRA provided speakers to two regional conferences in Taiwan and Hong Kong SAR.

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APRA'S RESOURCES AND RISK MANAGEMENT

APRA'S RESOURCES AND RISK MANAGEMENT

FINANCIAL RESOURCES

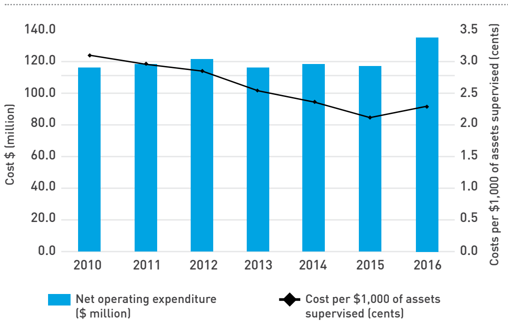
APRA's income is sourced primarily from annual levies on supervised institutions. APRA's expenditure is directed towards APRA's ongoing supervisory and enforcement activities, as well as implementing and enhancing Australia's prudential regulatory framework.

APRA's expenditure

APRA's total operating expenditure for the 12 months to 30 June 2016 was $135.4 million, against an updated budget of $131.1 million. The over-expenditure related mainly to additional property costs associated with the relocation of APRA's Sydney office to No.1 Martin Place, employee separation and redundancy costs, as well as employee leave provisions as a result of a one per cent fall in the 10-year bond rate. These additional costs were partly offset by operational underspends from a lower than budgeted average staffing level (ASL) during the year.

Due to additional responsibilities for the prudential supervision of private health insurance, APRA's costs relative to the value of assets supervised have increased in 2015/16 by 0.2 cents from the previous year, to approximately 2.3 cents per $1,000 of assets supervised. This still remains well below the 3.1 cents per $1,000 of assets supervised in 2010.

Figure 1- APRA's costs



APRA's income

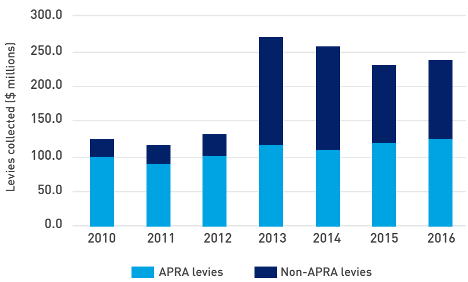
APRA's total income in 2015/16 was $131.2 million, as against an updated budget of $131.1 million. The income surplus was driven by marginally higher than budgeted industry levies collected.

Industry levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and the *Supervisory Levy Imposition Acts 1998* relevant to each of APRA's regulated industries. In addition, the *Private Health Insurance Supervisory Levy Imposition Act 2015* applies to private health insurers following the passage of the *Private Health Insurance (Prudential Supervision) Act 2015.* Following consultation with industry, the Minister determines the levy rates for each regulated industry prior to the beginning of each financial year. Industry levies are based on the costs incurred in APRA discharging its duties with respect to each sector. The levy rate is applied on the appropriate institution's asset value, subject to a minimum and maximum amount per institution. Exceptions to this are non-operating holding companies and small APRA-regulated superannuation funds, which are levied at a flat rate. Levies are also collected to cover the costs of the National Claims and Policies Database (NCPD); in this case a rate is applied to the gross earned premiums of general insurers that contribute to this database. The amount raised for NCPD purposes was $0.4 million.

The total levies collected by APRA also cover certain costs attributable to ASIC, the ATO, the Department of Human Services and the Government's SuperStream initiative. Total levies collected by APRA, including on behalf of these agencies, in 2015/16 were $237.7 million.

APRA also administers the Risk Equalisation Special Account whereby revenue collected by APRA for the purposes of Risk Equalisation across the private insurance industry is treated by the Government as revenue and expenses. Total Risk Equalisation collections and payments in 2015/16 were $440.9 million.

Figure 2 - Financial industry levies



On an annual basis, APRA releases a Cost Recovery Implementation Statement in order to provide further transparency on the APRA component of the levies collected from industry.

Reserves

The components of APRA's reserves were subject to the following changes during the year:

- APRA's retained surpluses fell by $1.7 million to $19.0 million as at year-end. APRA had an operating deficit from ordinary activities of $4.3 million in 2015/16, which was partly offset by a Machinery of Government change associated with the prudential supervision of private health insurers which increased retained surpluses by $2.6 million;
- the contributed equity component of reserves remained unchanged at $16.7 million; and
- a revaluation of the make-good provision and Machinery of Government change for private health insurance resulted in a $0.3 million increment to the Asset Revaluation Reserve to $7.4 million.

With these items, total reserves decreased to $49.0 million as at year-end, including a $6.0 million Contingency Enforcement Fund to support large unexpected investigation and enforcement activities.

STAFFING RESOURCES

APRA's total permanent staffing, which was 565 on a full-time equivalent (FTE) basis at 30 June 2015, increased to 607.7 FTEs by 30 June 2016. This increase was largely attributable to an increase of 20 FTE due to the transfer to APRA of responsibility for the supervision of private health insurance from 1 July 2015, and the addition of 18 new graduates recruited as part of APRA's graduate recruitment program.

Figure 3 - APRA's staffing (as at end June)

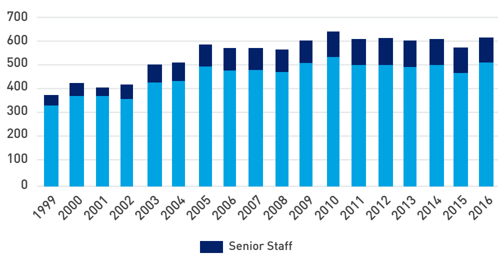
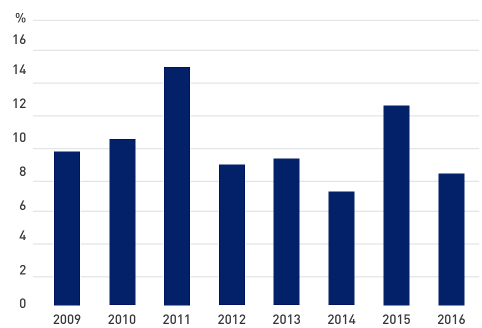


Figure 4 - Voluntary turnover rate



APRA continues to work towards a highly skilled workforce that comprises a strong blend of supervisory and industry expertise. This is essential for a supervision-led regulator such as APRA, which relies heavily on the judgement and experience of its staff to achieve sound prudential outcomes. During 2015/16, APRA experienced ongoing challenges in competing for high quality staff in the financial sector. APRA's turnover was 8.5 per cent during 2015/16, down from 12.5 per cent the previous financial year. While APRA has been reasonably successful in building and retaining supervisory experience within its staff, raising the level of industry experience remains a challenge.

Figure 5 - Staff supervisory experience levels

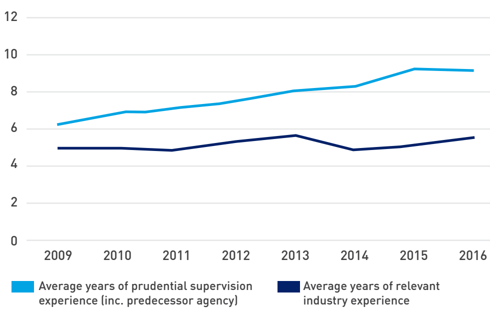
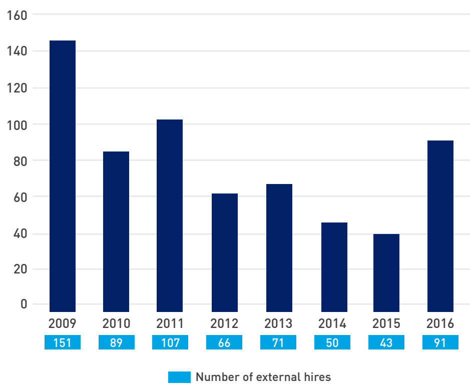


Figure 6 - External recruitment



Enhancing APRA's employee value proposition to attract and retain highly skilled and engaged staff has been a priority for APRA during 2015/16. This includes continuing to develop the capabilities of APRA's staff. Learning and development activities included a wide range of internal and external programs focused on both building technical skills and assisting staff to apply them effectively. APRA also maintained its strong focus on providing learning and development opportunities to enhance the leadership and management capabilities of current and future APRA leaders.

Support for staff undertaking postgraduate study continued in 2015/16, with 43 staff members participating in the studies support program.

As noted above, APRA also maintained its well-regarded graduate program, employing 18 graduates in 2015/16 as a supplement to general recruitment. As in previous years, the 2016 graduate cadre undertook five weeks of dedicated training on commencement, and these employees will continue to receive targeted development opportunities throughout their first two years of employment with APRA.

Table 1 - Training activities

Training by type (%)	2015	2016
Internal technical training and seminars	63	55
External training	33	41
Management training	4	4

Key training metrics	2015	2016
Training spend per employee	$3283	$4088
Per cent of staff provided with training (%)*	100	100
Training sessions per employee	8.1	11.8
Training days per employee	4.0	5.5
Number of internal classroom courses offered	370	440
Employees undertaking formal post-graduate studies	39	43

* This figure is for all training, including mandatory annual compliance training such as online Fraud and Security Awareness training for all staff.

APRA ASSURANCE

Risk management, internal audit and compliance

APRA has specialist independent functions which provide support and assurance to the APRA Members, including a risk management function. In July 2015, APRA appointed a dedicated Chief Risk Officer to develop a strengthened and centralised team focused on enhancing the effectiveness of APRA's internal risk management and related activities.

The risk management team is the custodian of APRA's Enterprise Risk Management (ERM) framework. This framework includes a clear statement of APRA's risk appetite and covers material risks to APRA's mandate and strategic objectives, each captured in a defined category. APRA's executives have responsibility for the ownership of key risks as well as ongoing review, management and reporting of them. Key risks are reassessed periodically and reported to APRA's Executive Board and the Risk Management Committee.

During 2015/16, APRA continued to enhance its ERM framework by considering developments in peer regulators and within APRA-regulated industry sectors, in order to incorporate good practice where appropriate. This included implementation of risk management software to support review and management of key risks, as well as improved risk identification and reporting practices.

Internal Audit conducts a broad-ranging and robust program of internal audits each year. The program is developed following consultation with APRA's senior executive and Audit Committee, and an assessment of APRA's strategies and key risks. The risk-based program covers specific aspects of APRA's supervisory and operational processes and its financial systems. Audit reviews identify and rate risks, and make recommendations aimed at improving APRA's internal control environment and processes. An external quality assessment, conducted by the Institute of Internal Auditors in February 2016, found that APRA's Internal Audit function had achieved 'general conformance' with auditing standards, which is the highest possible rating level.

APRA has an ongoing focus on fraud risk management, and has in place a fraud control framework that is consistent with Government requirements. All relevant internal audits assess whether potential fraud exposures are appropriately addressed by APRA's processes and controls. Online fraud awareness training is required to be completed by all staff annually and APRA management provides formal attestations in relation to reporting of any identified fraud on a six-monthly basis. There were no incidents of internal fraud reported for the year 2015/16.

APRA has a range of external accountabilities and, to ensure compliance, applies a comprehensive APRA-wide compliance framework based upon the relevant International Standard - AS/ISO 19600:2015 Compliance Management Systems. This framework includes a broad range of compliance attestations by senior management. Monitoring and ongoing development of this framework is the responsibility of the Executive General Manager, Corporate Services Division.

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APRA'S PERFORMANCE

APRA'S PERFORMANCE

The APRA Act tasks APRA with administering legislation that provides for prudential regulation of financial institutions. Those laws are the industry-based Acts — the *Banking Act 1959,* the *Insurance Act 1973,* the *Life Insurance Act 1995,* the *Private Health Insurance (Prudential Supervision) Act 2015* and the *Superannuation Industry (Supervision) Act 1993* — which charge APRA to protect the interests of depositors, policyholders and superannuation fund members.

The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) establishes uniform governance and accountability requirements and a performance framework for all Commonwealth Government entities, including APRA. Under the PGPA Act, APRA publishes accountability requirements each year in its annual report, including the Annual Performance Statement which is included at the end of this chapter. APRA is also required to publish a Corporate Plan setting out information on APRA's key strategies and activities over a rolling four-year period. APRA's *Corporate Plan 2016-2020* was published in August 2016 and is available on the APRA website.

APRA'S ROLE AS A PRUDENTIAL REGULATOR

In performing and exercising its functions and powers, APRA must balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in doing so, promote financial stability. As set out in APRA's 2014 Statement of Intent, APRA does not seek to establish a regulatory regime that targets a zero rate of failure amongst the institutions it supervises. As such, APRA's policy development work is largely directed towards achieving an appropriate balance between financial safety and other considerations, including regulatory costs. APRA's supervisors enforce the prudential policy framework in a risk-based manner, targeting supervisory attention on areas of greater risk and seeking to apply a proportionate approach that considers the scale, complexity and nature of each regulated institution.

Given APRA's role to protect the interests of depositors, policyholders and superannuation fund members (which APRA refers to collectively as its beneficiaries), two important indicators of APRA's performance are:

- The Performing Entity Ratio (PER) — the PER is an indicator of the incidence of failure amongst regulated institutions. It is determined as the number of regulated institutions that met their commitments to beneficiaries in a given year divided by the total number of regulated institutions. The higher the percentage, the lower the incidence of failure.
- The Money Protection Ratio (MPR) — the MPR is an indicator of the incidence of loss in the financial sector. It is determined as the dollar value of liabilities to beneficiaries held in Australia in regulated institutions less any prudential losses to beneficiaries in a given year, divided by the total dollar value of liabilities to beneficiaries in Australia in regulated institutions. Again, the higher the percentage, the lower the incidence of loss.

Since APRA's inception in 1998, the annual PER has averaged 99.92 per cent and the annual MPR, has averaged 99.96 per cent.

Table 1 - Performing Entity Ratio (PER) and Money Protection Ratio (MPR)

Financial year	Number of failures[1]	Losses ($million)	Number of institutions[2]	Protected Accounts[3] ($million)	Annual PER %	Annual MPR %
1999	4	11	4,473	$886,640	99.91	100.00
2000	3	308	4,407	$993,369	99.93	99.97
2001	8	5,341[4]	4,350	$947,923	99.82	99.44
2002	6	140	3,803	$1,006,845	99.84	99.99
2003	5	19	3,252	$1,066,480	99.85	100.00
2004	1	0[5]	2,744	$1,207,241	99.96	100.00
2005	0	0	2,099	$1,347,813	100.00	100.00
2006	0	0	1,596	$1,546,338	100.00	100.00
2007	1	0[5]	1,244	$1,832,609	99.92	100.00
2008	0	0	1,129	$1,923,369	100.00	100.00
2009	0	0	1,028	$2,048,163	100.00	100.00
2010	1	1	965	$2,231,887	99.90	100.00
2011	4	72	832[6]	$2,462,275	99.52	100.00
2012	0	0	780[6]	$2,650,832	100.00	100.00
2013	0	0	724[6]	$2,972,844[7]	100.00	100.00
2014	0	0	673[6]	$3,313,942[7]	100.00	100.00
2015	0	0	661	$3,623,012	100.00	100.00
2016	**0**	**0**	**627**	**$3,864,976**	**100.00**	**100.00**

1. In the case of superannuation, failures refer to the number of funds affected and include failures due to employer sponsors.
2. The number of institutions excludes small APRA Funds, representative offices of foreign banks and non-operating holding companies.
3. Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were $5,908.1 billion at end-June 2016.
4. Includes HIH Group's estimated $5.3 billion loss incurred by creditors and policyholders, based on liquidator's advice to creditors in April 2002.
5. Losses incurred due to the failure of an employer sponsor in a superannuation fund were less than $0.5 million.
6. Number of institutions has been revised from APRA's 2014 Annual Report where better source data has become available.
7. Protected accounts has been revised from APRA's 2014 Annual Report in line with resubmissions received during the year.

APRA continues to develop its performance assessment and accountability framework in coordination with Federal Government initiatives to promote improvements in regulator accountability more generally. There has also been an international effort by prudential regulators to improve the way in which they assess their supervisory performance since the global financial crisis, and APRA is exploring practices that can be drawn from this work.

Indicators of risk identification and rectification

APRA's objective is to maintain a low (but not zero) incidence of failure of supervised institutions while not impeding continued improvements in efficiency or hindering competition within the broader industry. APRA therefore aims to identify likely failures early enough so that corrective action can be initiated to prevent the failure or appropriate wind-up, or other exit strategies can be undertaken to minimise losses to beneficiaries.

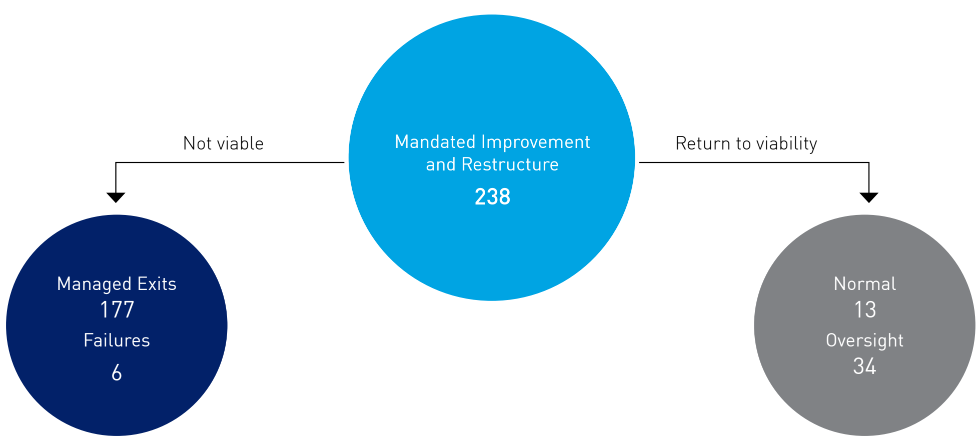
APRA's risk assessment and response systems — the Probability and Impact Rating System (PAIRS) and the Supervisory Oversight and Response System (SOARS) — are critical tools for identifying institutions that may be at a higher risk of failure. Monitoring outcomes for these institutions is an important indicator of the extent to which APRA identifies material risks and achieves rectification of problem issues or, where appropriate, facilitates orderly exit from the industry.

Of the 15 institutions that began the financial year in APRA's two highest categories (Mandated Improvement and Restructure), seven institutions exited the industry and two institutions moved to an improved supervision stance. As a result of two new institutions being added to the Mandated Improvement population during the year, eight remained in those categories at year end.

The PAIRS/SOARS framework was introduced in 2003. Over the 13 years since, a total of 238 institutions have been in Mandated Improvement and/or Restructure at the same time. Of that total, 47 institutions have returned to Normal or Oversight supervision stance, 177 have exited without loss to beneficiaries and 6 institutions have failed (4 of which moved through both Mandated Improvement and Restructure during that period). The remaining 8 have remained in either the Mandated Improvement or Restructure SOARS category.

While it is not possible to compare these outcomes with what would have happened had APRA not intervened, the overall direction of movement of institutions in these two supervisory stances, and the relatively low proportion of failures, is consistent with timely and effective intervention on APRA's part.

Figure 1 - Outcome for institutions in Mandated Improvement/Restructure, 2003–2016



Office of Best Practice Regulation

The Office of Best Practice Regulation (OBPR) has established a rigorous cost-benefit framework for analysing the impact of any proposed new regulation (as well as potential alternatives) on different groups in the Australian community and on the community as a whole. Adhering to OBPR processes provides an important foundation on which APRA can assess whether it has achieved an appropriate balance across the objectives of its mandate, and provides for open and transparent consideration of stakeholder views, including the publication of stakeholder submissions and APRA response papers. During 2015/16, APRA continued to meet the OBPR requirements in its policy development activities.

Regulatory cost savings

In August 2016, APRA released an update on its regulatory cost savings project. This indicated that, since the previous update on the project in February 20156, APRA had modified the regulatory framework to achieve approximately $5 million in cost savings for the regulated industry.

This project, which commenced in 2014, involved consultation with industry and other stakeholders, and soughteeks to identify specific, quantifiable opportunities for regulatory cost savings. In undertaking this project APRA sought to first identify specific, quantifiable options for potential cost savings, and APRA then proceeded with those options that could be implemented without compromising the soundness of the prudential framework. The project is consistent with the Government's broader agenda for reducing compliance costs for business and the community.

Regulator Performance Framework

The Regulator Performance Framework (RPF) assesses regulators' performance when interacting with business, the community and individuals while carrying out their respective functions. The RPF principally relates to regulatory burden arising from the administration of regulation, rather than the process for and outcomes of regulatory policy-making. In accordance with the timetable required by the Government, APRA will publish its self-assessment for 2015/16 by the end of 2016.

APRA'S ROLE AS A NATIONAL STATISTICAL AGENCY

APRA is the central repository of statistical information on the Australian financial system. It collects and publishes data from prudentially regulated and other financial institutions to support its core mission, and also its ancillary mission as a national statistical agency for the Australian financial sector.

Data collections for APRA's primary mission

APRA collects a broad range of financial and risk data that are an essential input to its core mission of the prudential supervision of regulated institutions. Almost all of APRA's data collections are legal requirements of institutions under the *Financial Sector (Collection of Data) Act 2001* and APRA's reporting standards. Accordingly, APRA closely monitors the timeliness and quality of submissions.

For regulated institutions, APRA targets a rate of 95 per cent of returns submitted by the statutory due date, with the remainder to be submitted within the following week. In 2015/16, 98 per cent of submissions were received by the due dates and 100 per cent were submitted within a week of the due dates.

Statistical publications to assist APRA's ancillary mission

Subject to confidentiality obligations, APRA publishes as much of the data it collects that are useful in industry-level and individual institution-level publications. This fulfils APRA's ancillary mission as a national statistical agency for the Australian financial sector.

By publishing these statistics, APRA promotes understanding of the industries it regulates and assists research, public discussion and well-informed decision-making by regulated institutions, policy-makers, other regulators, market analysts and researchers.

APRA observes international statistical standards in developing, producing and managing its statistics (except in the few cases where doing so would conflict with APRA's primary role as a prudential regulator). By acting consistently with these standards, APRA helps protect commercially sensitive information provided by institutions, whilst providing statistics that are useful and trustworthy and meet the needs of users.

Table 2 - Statistics key performance indicators

	Target	Year end June 2015	Year end June 2016
Number of forms expected per quarter	—	16,605	17,948
Proportion of (quarterly) forms submitted and validated by due date	≥ 95%	96%	98%
Proportion of (quarterly) forms submitted and validated within 1 week of due date	≥ 99%	99%	100%
Number of statistical publications released	—	44	73[1]
Proportion of statistics publications released according to pre-disclosed timetable	100%	100%	100%
Number of requests for customised statistics	—	189	243
Proportion of requests for custom statistics fulfilled as agreed	≥ 95%	97%	100%
Number of requests for reporting advice	—	954	512[2]

[1] Increase primarily due to APRA commencing the publication of private health insurance statistics from 1 July 2015.

[2] Decrease primarily due to the revised superannuation reporting requirements as the collection becomes more established

APRA'S ENGAGEMENT WITH STAKEHOLDERS

Mechanisms for engagement

APRA engages with a variety of stakeholders including regulated institutions, industry bodies, government departments, other regulatory agencies, media and the general public. APRA uses a diverse range of channels to communicate various policy, statistical and other announcements with stakeholders groups, as shown in the table below.

For further information on APRA's engagement with government, other regulatory agencies and industry associations, see Domestic Liaison in Chapter 4.

Financial Claims Scheme website

In June 2016 APRA launched a new website with information on the Financial Claims Scheme (FCS) for depositors and general insurance policyholders. APRA launched the new website as part of its role as administrator of the Scheme, in the event it is declared by the Commonwealth Government.

The FCS website provides information on key aspects of the banking and general insurance Financial Claims Schemes, and expands on information already available on APRA's website. Aimed at consumers, the website contains easy to understand information, including frequently asked questions that explain the Financial Claims Schemes, how they may be activated and how people may be protected under the Schemes. The website is www.fcs.gov.au.

Activity	2014/15	2015/16
Policy consultations conducted	16	26
Policy papers issued (for above consultations)	30	30
Information letters issued to industry	36	26
Presentations at formal speaking engagements	87	89
Media releases issued	35	42
Statistical publications released	44	73
Enquiries received by the Statistics Unit	617	578
Enquiries received through the APRAinfo call centre	12,635	11,550
Parliamentary hearings attended	6	9
Submissions to formal inquiries	4	2

ANNUAL PERFORMANCE STATEMENT

I, Wayne Byres, as the accountable authority of the Australian Prudential Regulation Authority (APRA), present the annual performance statement of APRA for 2015/16, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). This annual performance statement accurately reflects the performance of APRA in accordance with subsection 39(2) of the PGPA Act.

APRA's purpose

APRA is an independent statutory authority established for the purposes of prudential supervision of financial institutions and for promoting financial stability in Australia.

Results

Outcome 1 Portfolio budget statement. Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.

Performance criteria: APRA has the following key performance indicators:

- Timely issuance of prudential standards and guidance that address risk management exposures of regulated institutions;
- Identification of emerging prudential risks within regulated institutions through programs of on-site visits and off-site surveillance and the supervision of remedial actions to effectively manage such risks;
- Exercise of APRA's formal enforcement powers where necessary to protect the interests of depositors, policyholders, superannuation fund members or the public interest generally; and
- Transparent engagement with stakeholders including timely briefings to government on financial system developments and on major items of policy interest emerging from APRA's participation in international fora.

Criteria source: 2015/16 Portfolio Budget Statement

Results against performance criteria:

APRA formally reviews its policy priorities for development of the prudential framework on a biannual basis. This review includes considering the need to address existing and emerging risks, looking at both individual regulated institutions as well as the financial system as a whole. In 2015/16, APRA released a number of prudential standards and guidance documents, either for consultation or in final form, including:

- across a range of industry sectors, requirements and guidance on APRA's expectations of boards, governance and risk management and outsourcing of shared computing services (e.g. cloud computing);
- for the banking sector, requirements and guidance in relation to capital, liquidity and securitisation;
- for the insurance sector, requirements and guidance in relation to the role of external experts; and

- for the superannuation sector, governance arrangements and reporting.

In 2015/16, APRA continued its proactive on-site and off-site supervision activities which sought to identify and evaluate material risks in regulated institutions at an early stage, and ensure that these are appropriately mitigated before they could pose a threat to the viability of the regulated institution or the stability of the financial system.

As a prudential regulator, APRA uses its formal enforcement powers less than traditional law enforcement agencies, preferring instead to focus on risk management practice and prevention measures. However, should an institution be unwilling or unable to take necessary corrective action, APRA uses its enforcement powers to protect the interests of depositors, policyholders and superannuation fund members. During 2015/16, APRA's enforcement resources continued to support frontline supervision in the early identification of emerging risks, so as to minimise the need for more intrusive intervention at a later stage.

APRA also released a report on its investigation into the failure of Trio Capital Limited (Trio). As a result of APRA's investigation into Trio, APRA removed 13 former Trio directors from the superannuation industry for specified periods of time.

Throughout the year APRA's website remained up-to-date with consultation packages, speeches and information on other engagement with external stakeholders. APRA maintains regular and ongoing engagement with the Commonwealth Government, including through the Council of Financial Regulators, as discussed in the Annual Report.

Within APRA's Corporate Plan, APRA has set out six strategic objectives designed to promote the achievement of its purpose. Results against these objectives are set out below.

Objective 1: Supervision

To protect beneficiary interests by responding in a timely and effective manner to significant risks at both institution and industry levels.

Performance criteria: Key indicators of APRA's performance as an effective prudential supervisor are the extent to which APRA's supervisory approach responds to changes in the risk profile of regulated institutions, and the extent to which the Australian community is exposed to loss through the failure of an APRA-regulated institution. These areas can be monitored through APRA's risk rating system (PAIRS) and two key ratios: the Performing Entity Ratio (PER) and the Money Protection Ratio (MPR).

Criteria source: Corporate Plan

Results against performance criteria: PAIRS is used to rate, and track, the migration of institutions between the four supervision stances in APRA's Supervisory Oversight and Response System (SOARS), which guides supervisors in responding to identified risks. APRA monitors, benchmarks, and reviews the ratings assigned by its supervisors to ensure these remain consistent with underlying risks. All regulated institutions have a current PAIRS and associated SOARS stance, and these are regularly reviewed consistent with established targets based on risk and impact in accordance with APRA's PAIRS/SOARS framework.

The PER is an indicator of the incidence of failure amongst regulated institutions. It is determined as the number of regulated institutions that met their commitments to beneficiaries in a given year, divided by the total number of regulated institutions. The higher the percentage, the lower the incidence of failure. For the 2015/16 year, the PER was 100 per cent.

The MPR is an indicator of the incidence of loss in the financial sector. It is determined as the dollar value of liabilities to beneficiaries in Australia in a given year, less any losses due to prudential failures, divided by the total dollar value of liabilities to beneficiaries in Australia in APRA-regulated institutions. The higher the percentage, the lower the incidence of loss.
For the 2015/16 year, the MPR was 100 per cent.

Objective 2: Prudential Framework

To maintain a robust prudential framework that sets requirements for prudent behaviour at regulated institutions, founded on relevant international standards where appropriate.

Performance criteria: APRA is subject to the Government's best practice regulation process administered by the Office of Best Practice Regulation (OBPR). This process involves a rigorous cost-benefit analysis of the impact of any proposed new regulation (and its alternatives) on different groups in the Australian community and on the community as a whole, including the publishing of Regulation Impact Statements. Adhering to OBPR processes provides an important foundation on which APRA can assess its performance in relation to this objective.

APRA's prudential framework is also subject to a range of independent external assessments. The most comprehensive is the Financial Sector Assessment Program (FSAP) undertaken by the International Monetary Fund (IMF) every five years. There are also peer and thematic reviews undertaken periodically by international organisations such as the Financial Stability Board, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors, which focus on particular aspects of the prudential regime or supervisory approach. These reviews provide objective and independent assessments against internationally-accepted benchmarks of APRA's performance relative to international standards and overseas peers.

Criteria source: Corporate Plan

Results against performance criteria: APRA formally reviews its policy priorities for development of the prudential framework on a biannual basis. This review includes considering the need to respond to developments in international standards. During 2015/16, APRA fully met the OBPR requirements in its policy development activities. APRA consults with regulated entities, industry bodies and other interested parties prior to formulating or amending prudential policies or finalising prudential standards or reporting standards.
An FSAP assessment is expected to be conducted by the IMF in 2017/18.

Objective 3: Failure and Crisis Preparedness

To materially strengthen our readiness for financial failure and crisis.

Performance criteria: Performance against this objective can be assessed through the progress that APRA, working with other arms of Government, has achieved in enhancing APRA's statutory and prudential framework for managing failures and crises over the reporting period, and the extent to which APRA is assessed as having a framework for managing failures in a manner that meets its statutory objectives. This assessment is likely to be supported by FSAPs and similar peer review assessments of APRA's compliance with international standards and practices over the four year period of the plan.

Criteria source: Corporate Plan

Results against performance criteria: Throughout the year, APRA undertook significant work on the Financial System Inquiry recommendations in relation to failure and crisis management in conjunction with the other Council of Financial Regulators agencies. Progress was also made on operational readiness by improving and testing APRA's internal procedures, and working with the financial industry on contingency planning. APRA also continued work with Treasury to progress crisis-related legislative reform, in particular the *Financial System Legislation Amendment (Resilience and Collateral Protection) Act 2016*. An FSAP assessment is expected to be conducted by the IMF in 2017/18.

Strengthening failure and crisis preparedness requires commitment from both the public and private sector. APRA has given greater emphasis to, and expanded its resourcing in, this area of activity over the past year by diverting resources from other areas of activity. Investment in planning and contingency arrangements will also be required by industry and further significant progress on this objective is also contingent on the progression of legislative reforms.

Objective 4: People

To attract and retain highly skilled and engaged people, supported by strong leaders within a values-aligned culture.

Performance criteria: APRA monitors a wide range of measures in relation to the quality and capability of its staff. Particular indicators that are regularly monitored as part of APRA's assessment of its performance against this objective include: total staffing numbers relative to budgeted levels, remuneration and turnover rates relative to long term benchmarks and comparable sectors, and the proportion of budget allocated to learning and development activities each year.

Criteria source: Corporate Plan

Results against performance criteria: In 2015/16, APRA's Average Service Level (ASL) was 598.8 compared to the ASL updated budget for the year of 617.2.

APRA's voluntary turnover rate in its operational divisions spiked in 2014/15 and remained somewhat elevated in 2015/16. APRA primarily recruits staff from, and loses staff to, the financial services sector. Relative remuneration levels and recruitment activity within the financial sector therefore significantly impact APRA's ability to attract and retain staff. In recent years, declines in APRA's relative remuneration positioning vis-à-vis the financial sector have created increasing challenges for APRA in maintaining the quality of its workforce and building new capabilities.

APRA has a range of targets for key result areas pertaining to leadership (these include staff retention rates, performance against desired characteristics and behaviours, staff management and development, and progress against diversity targets). While these targets were largely met, further investment will be undertaken in coming years. In 2015/16, expenditure on external training for APRA staff was $1.7 million, in line with the budgeted level of training expenditure. This equated to approximately $4,088 per FTE. In addition, significant in-house training continued to be provided to APRA staff, with particular focus on enhancing leadership and management capability as well as upgrading technical and specialist skills.

Objective 5: Organisational management

To have robust and efficient organisational processes and infrastructure supporting our core functions.

Performance criteria: Progress on APRA's move to new Sydney premises to occur in 2016/17, a replacement of its primary data systems (D2A) and APRA's internal Data Transformation program and Information Management processes, will be of particular relevance to APRA's continued capability to deliver on its mission and objectives.

Criteria source: Corporate Plan

Results against performance criteria: APRA successfully transitioned to secure managed data centre facilities in early 2016. Following this, APRA moved to its new Sydney premises in June 2016. This move was complemented by an upgrade to APRA's desktop technology to support enhanced collaboration and workplace efficiencies. The information management project was also significantly progressed during the year, although it was not completed during 2015/16 as planned (rollout of the first phase of the project is expected from late 2016). Finally, a multi-year data transformation program has been initiated which includes a replacement of APRA's current data collection system (D2A), and enhanced public access to the data collected by APRA.

Objective 6: Transparency and accountability.

To be accountable for our performance by being transparent in our communication and effective in our engagement with stakeholders.

Performance criteria: APRA will assess its performance in relation to this objective based on its compliance with relevant requirements over the reporting period and stakeholder views articulated in APRA's biennial stakeholder survey report.

Criteria source: Corporate Plan

Results against performance criteria: APRA undertakes extensive stakeholder engagement, including consultation in relation to developments of the prudential framework and as part of supervision. Further details on APRA's engagement with stakeholders throughout the year are provided in Chapter 6 of APRA's 2015/16 Annual Report. APRA's compliance with relevant requirements over the reporting period, including the PGPA Act, have been met. The most recent stakeholder survey results were published on APRA's website in 2015; the next survey will be undertaken and published in 2017.

Analysis of performance against purpose

APRA's corporate plan is set each year with a view to effective delivery of its purpose, with a four year planning horizon. In this context, the 2015/16 Corporate Plan set six key objectives. Performance against each of these objectives has been analysed in this Statement.

Beyond the specific objectives noted in the Corporate Plan, APRA's broader mandate establishes APRA's purpose. In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

APRA does not pursue a 'zero failure' target. Rather, the objective is to maintain a low incidence of failure of supervised institutions while not impeding continued improvements in efficiency or hindering competition. APRA's performance throughout 2015/16 has continued to support the protection of the interests of depositors, policyholders and superannuation fund members as evidenced by the PER and MPR.

The Australian financial system is in broadly good health. This reflects the long-running strength of the domestic economy. However it also reflects a prudential framework that has continually evolved and been strengthened in a number of important areas, particularly in response to lessons from the global financial crisis. A great deal of APRA's policy development work is directed towards establishing an appropriate balance between financial safety and other considerations, including regulatory costs. Chapter 3 of APRA's 2015/16 Annual Report provides further discussion on the financial stability, efficiency and competitiveness of the prudentially regulated sectors.

CH/7

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

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* Administered items are distinguished from departmental items throughout these financial statements by background shading.

STATEMENT BY MEMBERS AND THE EXECUTIVE GENERAL MANAGER - CORPORATE SERVICES

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Prudential Regulation Authority will be able to pay its debts as and when they fall due.

MR WAYNE BYRES
Chairman
30 August 2016

MRS HELEN ROWELL
Deputy Chairman
30 August 2016

MR GEOFF SUMMERHAYES
Member
30 August 2016

MR STEVE MATTHEWS
Executive General Manager – Corporate Services
30 August 2016

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Expenses			
Employee benefits	4A	98,188	88,183
Supplier expenses	4B	29,987	21,827
Depreciation and amortisation	4C	6,795	7,224
Unwinding of discount for make good provision	11B	377	66
Losses from asset disposals	4D	64	32
Total expenses		135,411	117,332
Less:			
Own-source income			
Own-source revenue			
Rendering of services	5A	3,735	3,104
Rental income		42	22
Other revenue	5B	713	1,555
Resources received free of charge	1.5	196	188
Total own-source revenue		4,686	4,869
Total own-source income		4,686	4,869
Net cost of services		130,725	112,463
Revenue from Government	5C	126,466	120,534
Operating surplus/(deficit)		(4,259)	8,071
Other comprehensive income			
Items not subject to subsequent reclassification to profit or loss			
Changes in asset revaluation reserve	6	20	384
Total other comprehensive income		20	384
Total comprehensive income/(loss)		(4,239)	8,455

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Assets			
Financial assets			
Cash	8A	1,903	1,311
Trade and other receivables	8B	73,656	67,833
Total financial assets		75,559	69,144
Non-financial assets			
Property, plant and equipment	9A,B	22,027	5,323
Intangibles	9C,D	17,974	15,524
Other non-financial assets	9E	1,858	2,400
Total non-financial assets		41,859	23,247
Total assets		117,418	92,391
Liabilities			
Payables			
Suppliers	10A	–	1
Unearned fees and charges	10B	777	581
Other payables	10C	23,558	5,597
Total payables		24,335	6,179
Provisions			
Employee provisions	11A	39,185	33,155
Provision for make good	11B	4,855	2,596
Total provisions		44,040	35,751
Total liabilities		68,375	41,930
Net assets		49,043	50,461
Equity			
Contributed equity		16,657	16,657
Reserves		13,412	13,136
Retained surpluses		18,974	20,668
Total equity		49,043	50,461

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2016

	Retained surpluses		Asset revaluation reserve		Contingency Enforcement Fund		Contributed equity/capital		Total equity	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Opening balance										
Balance carried forward from previous period	20,668	12,597	7,136	6,752	6,000	6,000	16,657	16,549	50,461	41,898
Opening balance as at 1 July	20,668	12,597	7,136	6,752	6,000	6,000	16,657	16,549	50,461	41,898
Comprehensive income										
Other comprehensive income	–	–	20	384	–	–	–	–	20	384
Surplus/(deficit) for the period	(4,259)	8,071	–	–	–	–	–	–	(4,259)	8,071
Total comprehensive income	(4,259)	8,071	20	384	–	–	–	–	(4,239)	8,455
Contributions by owners										
Equity injection - appropriations	–	–	–	–	–	–	–	108	–	108
Machinery of Government change (Private health insurance)	2,565	–	256	–	–	–	–	–	2,821	–
Total contributions with owners	2,565	–	256	–	–	–	–	108	2,821	108
Closing balance as at 30 June	18,974	20,668	7,412	7,136	6,000	6,000	16,657	16,657	49,043	50,461

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Operating activities			
Cash received			
Appropriations		144,081	117,327
Rendering of services		4,956	4,280
Net GST received		3,925	2,104
Other		843	1,535
Total cash received		153,805	125,246
Cash used			
Employees		(95,821)	(87,539)
Suppliers		(27,868)	(25,007)
Section 74 receipts transferred to Official Public Account (OPA)[1]		(8,609)	(5,815)
Total cash used		(132,298)	(118,361)
Net cash from operating activities	12	21,507	6,885
Investing activities			
Cash used			
Purchase of property, plant and equipment		(16,445)	(2,778)
Purchase/development of software intangibles		(7,291)	(4,543)
Total cash used		(23,736)	(7,321)
Net cash (used by) investing activities		(23,736)	(7,321)
Financing activities			
Cash received			
Equity injection - appropriations		–	108
Machinery of Government change (Private health insurance)		2,821	–
Total cash received		2,821	108
Net cash from financing activities		2,821	108
Net increase/(decrease) in cash held		592	(328)
Cash at the beginning of the reporting period		1,311	1,639
Cash at the end of the reporting period	8A	1,903	1,311

The above statement should be read in conjunction with the accompanying Notes.

[1] Revenue and receipts from sources other than an appropriation Act are classified as Section 74 receipts.

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Expenses			
Supervisory levy waivers	17	7	5
Risk equalisation payments		440,872	–
Total expenses administered on behalf of Government		440,879	5
Less:			
Income			
Levy revenue			
Financial Institutions Supervisory Levies	18	237,734	231,486
Risk equalisation levy collections	18	440,872	–
Total levy revenue		678,606	231,486
Net contribution by services		237,727	231,481

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Assets			
Financial assets			
Receivables	19	318	373
Total assets administered on behalf of Government		318	373
Liabilities			
Liabilities administered on behalf of Government		–	–
Total liabilities administered on behalf of Government		–	–
Net assets administered on behalf of Government		318	373

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED RECONCILIATION SCHEDULE
as at 30 June 2016

	2016 $'000	2015 $'000
Opening administered assets less administered liabilities as at 1 July	373	525
Plus: Administered income	678,606	231,486
Less: Administered expenses	(440,879)	(5)
Transfers to/from Australian Government:		
Plus: Appropriation transfers from Official Public Account	15	24
Less: Transfers to Official Public Account	(237,797)	(231,657)
Closing administered assets less administered liabilities as at 30 June	318	373

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		237,784	231,633
Risk equalisation levy collections		440,872	–
Total cash received		678,656	231,633
Net cash flows from operating activities	20	678,656	231,633
Net increase in cash held		678,656	231,633
Cash at the beginning of the reporting period		–	–
Cash from Official Public Account for:			
- APRA Special Account: Supervisory Levies		15	24
		15	24
Cash to Official Public Account for:			
- Financial Institutions Supervisory Levies		(237,799)	(231,657)
- Risk equalisation payments		(440,872)	–
		(678,671)	(231,657)
Cash at the end of the reporting period		–	–

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levies on behalf of the Government. While the revenues from Financial Institutions Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to APRA for its own purposes. The revenues from the Financial Assistance Levy are not available to APRA for its own purposes. All administered collections are remitted to the Official Public Account. Transactions and balances relating to levies are reported in Note 18: *Administered income*.

APRA also administers the Risk Equalisation Special Account whereby revenue collected by APRA for the purposes of risk equalisation across the private health insurance industry is treated by the Government as revenue and expenses. The transactions to and from this account are recorded within the Official Public Account (OPA) by way of notional receipts and payments.

This schedule should be read in conjunction with the accompanying Notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Objectives of the Australian Prudential Regulation Authority (APRA)

APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA also acts as a national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy. In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

APRA's activities contributing toward these outcomes are classified as either 'departmental' or 'administered'. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by APRA in its own right. Administered activities involve the management or oversight by APRA, on behalf of the Government, of items controlled or incurred by the Government.

From 1 July 2015 APRA assumed responsibility for the prudential supervision of private health insurance following the passage of the *Private Health Insurance (Prudential Supervision) Act 2015*. Previously this responsibility was performed by the former Private Health Insurance Administration Council (PHIAC). The transfer of assets and liabilities on 1 July 2015 have been summarised in Note 25.

APRA's continued existence in its present form and with its present programs is dependent on Government policy and on continuing appropriations from Parliament.

1.2 Basis of preparation of the financial statements

The financial statements and notes are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2015; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FRR, assets and liabilities are recognised in the *Statement of financial position* when and only when it is probable that future economic benefits will flow to APRA or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. Leasing commitments and property, plant and equipment purchase committments that are unrecognised are disclosed in notes 4 and 9B respectively.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the *Statement of comprehensive income* when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant accounting judgements and estimates

No accounting assumptions and estimates have been identified that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next accounting period.

APRA has assessed the value of its non-financial assets as at 30 June 2016 and is satisfied that they reflect the fair value.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. No new accounting standards, amendments to standards and interpretations issued by the AASB that were issued prior to the signing of the financial statements by Members and the Executive General Manager - Corporate Services and that are applicable in the current period, have had a material financial effect on APRA or are expected to have a future financial impact on APRA.

Future Australian Accounting Standard requirements

As a not-for-profit public sector entity, APRA was previously exempt from the requirements of AASB 124 Related Party Disclosures. However for reporting periods commencing on or after 1 July 2016 (previously 1 January 2015), AASB 124 has been extended to apply to all not-for-profit public sector entities and APRA will be required to disclose any related party transactions in accordance with this revised standard. Disclosure of comparative information is not required in the first year of application.

No new or revised pronouncements issued by the Australian Accounting Standards Board prior to the finalisation of the financial statements are expected to have a material financial impact on APRA in future reporting periods, with the exception of AASB 16 - Leases (which comes into effect for reporting periods beginning on or after 1 January 2019). The impact of this new standard has not yet been determined.

1.5 Revenue

Revenue from Government

APRA is funded primarily through levies imposed on the industries it supervises. These levies, known as the Financial Institutions Supervisory Levies, are administered transactions collected on behalf of the Government and paid into the Consolidated Revenue Fund (CRF). An amount equal to the net levy revenue, less an amount specified by the Minister in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), is credited to the APRA Special Account as a Special Appropriation, in accordance with subsections 50(2), (3) and (5) of the APRA Act. The amounts specified in the Minister's Determinations are retained in the CRF to cover: the costs of activities of the Australian Taxation Office (ATO) for unclaimed monies, lost member functions and for the implementation of the Stronger Super – SuperStream reforms; the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions; and the Department of Human Services (DHS) for the administration of claims for early release of superannuation benefits on compassionate grounds. The calculation of the Special Appropriation is shown at Note 3.

APRA also administers the private health insurance risk equalisation levy in accordance with the *Private Health Insurance (Risk Equalisation Levy) Act 2003*, with levy receipts and payments shown as administered income and expenses during the year.

Amounts appropriated for APRA's outputs for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when APRA gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

Other revenue

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits associated with the transaction will flow to APRA.

The stage of completion of contracts at the reporting date is determined by reference to the proportion of costs incurred to date bear to the estimated total costs of the transaction.

Revenue and receipts from sources other than an appropriation Act are classified as Section 74 receipts.

Receivables for goods and services, which have 30-day terms, are recognised at the nominal amounts due less any impairment allowance. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

Resources received free of charge

Resources received free of charge are recognised as revenue or gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature. The only resources received free of charge by APRA are audit services from the ANAO of $196,000 (2015: $188,000).

1.6 Transactions with the Government as owner

Equity injections

Amounts appropriated as 'equity injections' for a year (less any formal reductions) are recognised directly in contributed equity in that year.

1.7 Employee benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits expected within 12 months of the balance date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other long-term employee benefits are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years is estimated to be less than the annual entitlement for sick leave.

The annual and long service leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including APRA's employer superannuation contribution rates, assuming that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments in cases where APRA has developed a detailed formal plan for the terminations, and has informed those employees affected that it will carry out the terminations.

Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS and PSS are defined benefit schemes for the Australian Government. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes. APRA makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlement of APRA's employees. APRA accounts for the contributions as if they were contributions to defined contribution plans.

APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund and to State-based superannuation schemes for former employees of the Reserve Bank of Australia and State-based regulators respectively. These are defined benefit schemes and the liability for the defined benefits are recognised in the financial statements of the relevant fund.

For all other employees, employer contributions are made to other superannuation (accumulation) funds as nominated by the employee.

The liability for superannuation recognised at the balance date represents outstanding contributions for the remaining days following the last payroll in June 2016.

1.8 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. APRA has no finance leases. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis that is representative of the pattern of benefits derived from the leased assets.

1.9 Fair Value Measurement

APRA deems transfers between levels of the fair value hierarchy to have occurred between Level 1 and Level 2 if an asset has observable inputs other than quoted prices. An asset moves from Level 2 to Level 3 when inputs are no longer observable and are valued using depreciated replacement cost.

1.10 Cash

Cash is recognised at its nominal amount. Cash includes cash on hand and cash at bank.

1.11 Financial assets

APRA classifies its financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are individually assessed for impairment at each balance date. Where there is sufficient evidence to suggest that an impairment loss has been incurred, the carrying amount is reduced by way of an allowance account. The loss is recognised in the *Statement of comprehensive income.*

1.12 Financial liabilities

APRA classifies its financial liabilities as 'payables'. Financial liabilities are recognised and derecognised upon trade date. Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received, and irrespective of having been invoiced.

Other payables are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

1.13 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the *Statement of financial position* but are reported in the relevant notes. They may arise from uncertainty as to the existence of an asset or liability, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the probability of settlement is greater than remote.

1.14 Acquisition of assets

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

1.15 Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the *Statement of financial position*, except for purchases costing less than $5,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items that are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by APRA where there exists an obligation to restore the property to its original condition. These costs are included in the value of APRA's leasehold improvements with a corresponding provision for the 'make good' recognised. Unwinding of the discount for the make good provision is recognised in the *Statement of comprehensive income* as expenses.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency such that the carrying amount of each class of asset is not materially different, at reporting date, from its fair value. Valuations are undertaken every three years as at 30 June (last valuation in 2014).

Fair values for each class of asset are determined as shown below:

Asset Class	Fair Value measured at:
Leasehold improvements	Depreciated replacement cost
Computer hardware and office equipment	Market selling price and depreciated replacement cost

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the *Statement of comprehensive income*. Revaluation decrements for a class of assets are recognised directly in the *Statement of comprehensive income* except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and residual values are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2016	2015
Leasehold improvements	Lesser of 10 years or lease term	**Lesser of 10 years or lease term**
Computer hardware and office equipment	3 to 5 years	**3 to 5 years**

Impairment

All assets were assessed for indications of impairment as at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if APRA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.16 Intangibles

APRA's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of APRA's software are the lesser of five years or assessed useful life (2015: lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2016.

1.17 Taxation

APRA is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office. Receivables and payables are recognised inclusive of GST.

1.18 Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the *Administered Schedules* and related Notes. These administered items are distinguished from departmental items throughout these financial statements by background shading.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Administered cash transfers to and from the Official Public Account (OPA)

Revenue collected by APRA for use by the Government is administered revenue. Collections are transferred to the OPA maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by APRA on behalf of the Government and reported as such in the *Schedule of administered cash flows* and in the *Administered reconciliation schedule*.

Revenue

All administered revenues relate to the ordinary activities performed by APRA on behalf of the Government. These revenues are not directly available to be used by APRA for its own purposes and are remitted to the OPA, or in the case of the private health insurance risk equalisation levies, returned to the relevant industry participants in accordance with the *Private Health Insurance (Risk Equalisation Policy) Rules 2015* (the Rules).

APRA undertakes the collection of certain levies on behalf of the Government. These comprise Financial Institutions Supervisory Levies, Financial Assistance Levies and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

Administered revenue arising from levies (including Financial Assistance Levies) is recognised on an accrual basis, in line with the Minister's regulations and determinations. The collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more, likely.

Expenses

Administered expenses arising from waivers of levy debts are recognised at the time of approval by delegated APRA officials.

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 17, as required by the FRR. Waivers generally occur due to a change of status of a supervised entity during the year, resulting in the annual levy being wholly or partly waived.

Private health insurance risk equalisation expenses reflecting amounts returned to relevent industry participants in accordance with the Rules are recognised at the time of payment as administered expenses.

Contingent assets and liabilities

There were no administered contingent assets or liabilities in 2016 or in 2015.

1.19 Reporting of Risk Equalisation activities

Risk equalisation collections are notionally transferred to the Official Public Account (OPA) maintained by the Department of Finance and held in the Risk Equalisation Special Account (RESA) before being notionally drawn down in order to make risk equalisation payments. Details of the actual movements within the RESA are disclosed in notes 18 and 20.

NOTE 2: EVENTS AFTER THE REPORTING PERIOD

There were no significant events occurring after the balance sheet date that have the potential to significantly affect the ongoing structure or financial activities of APRA.

NOTE 3: CALCULATION OF APRA SPECIAL APPROPRIATION

The APRA Special Appropriation is calculated in accordance with the provisions of s50 of the *Australian Prudential Regulation Authority Act 1998*.

Details are as follows:	2016 $'000	2015 $'000
Table 1: Summary of APRA levy funding		
Current year levies and penalties (see Note 18, Table 1)	237,734	231,486
Risk equalisation receipts	440,872	–
Less: Waivers and doubtful debts (see Note 17)	(7)	(5)
Net current year levies and penalties (see Table 2 below)	678,599	231,481
Less: Amount retained in the CRF (see Table 3 below)	(112,500)	(111,900)
Less: Risk equalisation payments to private health insurers	(440,872)	–
Total APRA levy funding (see Table 4 below)	125,227	119,581
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	124,074	131,627
Authorised deposit-taking institutions	65,152	59,171
Life insurers and friendly societies	16,101	14,778
General insurers	26,169	25,905
Private health insurers	6,231	–
Risk equalisation receipts	440,872	–
Total	678,599	231,481
Table 3: Amounts retained in the CRF by levy type[1] or returned to industry		
Superannuation funds	(94,600)	(95,200)
Authorised deposit-taking institutions	(11,000)	(10,100)
Life insurers and friendly societies	(3,000)	(2,700)
General insurers	(3,900)	(3,900)
Total	(112,500)	(111,900)
Table 4: Amounts of levy payable to APRA under the APRA Special Appropriation by levy type[2]		
Superannuation funds	29,474	36,427
Authorised deposit-taking institutions	54,152	49,071
Life insurers and friendly societies	13,101	12,078
General insurers	22,269	22,005
Private health insurers	6,231	–
Total	125,227	119,581
This is represented by:		
Special Appropriation	125,227	119,581
Total	125,227	119,581

[1] Including amounts as determined by the Minister in accordance with subsection 50 (1) of the *Australian Prudential Regulation Authority Act 1998*.

[2] Table 4 above represents the total amount of levies payable to APRA for its operations.

NOTE 4: EXPENSES

	2016 $'000	2015 $'000
Note 4A: Employee benefits		
Salaries and wages	76,828	71,568
Superannuation	8,411	7,875
Leave and other entitlements	10,102	8,187
Separation and redundancies[1]	2,162	437
Other employee benefits	685	116
Total employee benefits	98,188	88,183

[1] During 2015-16 APRA restructured its operations leading to redundancy payments, and incurred other staff separation costs. The key changes in APRA's operational structure included the transfer of the supervision of private health insurers from its Canberra office to other APRA offices and the planned closure of the Perth office from late September 2016.

	2016 $'000	2015 $'000
Note 4B: Supplier expenses		
Goods and services		
Contractors	1,571	1,160
Travel-related	2,763	2,195
Administrative	2,501	2,552
Information, communication and technology	4,561	2,616
Professional services and consultants	2,781	3,064
Property	2,805	1,697
Training and conferences	2,066	1,820
Other	23	17
Total goods and services	19,071	15,121
Goods and services are made up of:		
Provision of goods – external parties	2,537	1,023
Rendering of services – related entities	1,439	1,629
Rendering of services – external parties	15,095	12,469
Total goods and services	19,071	15,121
Other supplier expenses		
Operating lease rentals - external parties		
- Minimum lease payments	10,402	6,041
Workers' compensation premiums	514	665
Total other supplier expenses	10,916	6,706
Total supplier expenses	29,987	21,827

Leasing commitments

APRA has leasing commitments for all its offices. Office leases, with expiry dates shown in brackets are current for space in: Sydney (2026), Melbourne (2016), Brisbane (2018), Adelaide (2019), Canberra (2017) and Perth (2017).

NOTE 4: EXPENSES (CONTINUED)

	2016 $'000	2015 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows* :		
Within 1 year	7,678	6,595
Between 1 to 5 years	26,870	2,595
More than 5 years	34,502	–
Total operating lease commitments	69,050	9,190

* Commitments are stated inclusive of GST where relevant.

Note 4C: Depreciation and amortisation

	2016 $'000	2015 $'000
Depreciation:		
Computer hardware	803	350
Leasehold improvements	1,139	1,018
Total depreciation	1,942	1,368
Amortisation:		
Intangibles - computer software	4,853	5,856
Total amortisation	4,853	5,856
Total depreciation and amortisation	6,795	7,224

Note 4D: Losses from asset disposals

	2016 $'000	2015 $'000
Intangibles		
Carrying value of assets disposed	64	32
Total losses from asset disposals	64	32
Total losses from asset disposals	64	32

NOTE 5: INCOME

	Notes	2016 $'000	2015 $'000
Note 5A: Rendering of services			
Rendering of services - government entities		1,505	1,224
Rendering of services - external entities		2,230	1,880
Total rendering of services		3,735	3,104
Note 5B: Other revenue			
Licence fees from finance sector entities		377	889
Superannuation trustee applications		15	–
Fees from foreign bank representative offices		196	190
Other		125	476
Total other revenue		713	1,555
Note 5C: Revenue from Government			
Appropriations:			
Special Appropriation	3	125,227	119,581
Departmental appropriation		1,239	953
Total revenue from Government		126,466	120,534

NOTE 6: OTHER COMPREHENSIVE INCOME

	2016 $'000	2015 $'000
Changes in asset revaluation reserve		
Make good revaluation	20	384
Total changes in asset revaluation reserve impacting income statement	20	384

NOTE 7: FAIR VALUE MEASUREMENT

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date. APRA does not have any Level 1 assets.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

Note 7A: Fair value measurements, Valuation Techniques and Inputs Used

	Fair value measurements at the end of the reporting period		For Level 2 and 3 fair value measurements			
	2016 $'000	2015 $'000	Category (Level 1,2 or 3)	Valuation technique(s)[1,2]	Inputs used	Range (weighted average)
Non-financial assets						
Computer hardware and office equipment	4,374	542	Level 2	Market approach	Adjusted market transactions	
	246	2,754	Level 2	Market approach	Market purchase price	
	5	–	Level 3	Market approach	Adjusted market transactions	(15.0%) -10.0%
	41	87	Level 3	DRC	Replaced cost	
					Consumed economic benefit/ obsolescence of asset	20.0% per annum
Leasehold improvements	15	–	Level 2	Market approach	Adjusted market transactions	
	32	–	Level 2	Market approach	Market purchase price	
	17,120	635	Level 3	DRC	Lease agreement	
	194	1,305	Level 3	DRC	Replacement cost (price per square metre)	
					Consumed economic benefit/ obsolescence of asset	5.6% - 34.3% (8.37%) per annum
Total non-financial assets	22,027	5,323				
Total fair value measurements of assets in the statement of financial position	22,027	5,323				
Total assets not measured at fair value in the statement of financial position	–	–				

1 There have been no changes to valuation techniques.
2 DRC – Depreciated replacement cost.

NOTE 7: FAIR VALUE MEASUREMENT (CONTINUED)

Fair value measurements - best use

APRA's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all controlled assets is considered their best use.

Recurring Level 3 fair value measurements - valuation processes

APRA conducts an internal management review of asset valuations at least once every 12 months (with a formal revaluation undertaken once every three years). During 2013-14, APRA procured the service of the Australian Valuation Services (AVS) to undertake a comprehensive valuation of all non-financial assets at 30 June 2014.

Recurring Level 3 fair value measurements - sensitivity of inputs

Significant Level 3 inputs used by APRA are derived and evaluated as follows:

Computer hardware, office equipment and leasehold improvements - consumed economic benefit / obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the Depreciated Replacement Cost (or DRC) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit / asset obsolescence (accumulated depreciation). Consumed economic benefit / asset obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

The weighted average is determined by assessing the fair value measurement as a proportion of the total fair value for the class against the total useful life of each asset.

Recurring Level 3 fair value measurements - sensitivity analysis for financial assets

Computer hardware, office equipment and leasehold improvements

The significant unobservable inputs used in the fair value measurement of APRA's leasehold improvements asset class relate to the consumed economic benefit / obsolescence of the asset. A significant increase (decrease) in this input would result in a significantly higher (lower) fair value measurement. There were no significant inter-relationships between unobservable inputs that materially affect fair value.

Note 7B: Level 1 and Level 2 transfers for recurring fair value measurements

There have been no transfers between levels of the hierarchy during the year.

NOTE 8: FINANCIAL ASSETS

	2016 $'000	2015 $'000
Note 8A: Cash		
APRA official bank accounts	1,901	1,309
Cash on hand	2	2
Total cash and cash equivalents	1,903	1,311
Note 8B: Trade and other receivables		
Goods and services:		
Goods and services - related entities	441	44
Goods and services - external parties	11,197	1,480
Total receivables for goods and services	11,638	1,524
Appropriations receivable:		
For existing outputs	–	1,177
Special Appropriations	7	62
APRA Special Account	57,329	64,130
Total appropriations receivable	57,336	65,369
Other receivables:		
GST receivable from the Australian Taxation Office	–	462
Other	4,682	478
Total other receivables	4,682	940
Total trade and other receivables (gross)	73,656	67,833
Less: impairment allowance account:		
Trade and other receivables	–	–
Total impairment allowance account	–	–
Total trade and other receivables (net)	73,656	67,833
Receivables are expected to be recovered in:		
No more than 12 months	73,641	67,833
More than 12 months	15	–
Total trade and other receivables (net)	73,656	67,833

NOTE 8: FINANCIAL ASSETS (CONTINUED)

	2016 $'000	2015 $'000
Receivables are aged as follows:		
Not overdue	73,270	66,320
Overdue by:		
- 0 to 30 days	358	1,467
- 31 to 60 days	–	4
- 61 to 90 days	–	1
- more than 90 days	28	41
Total receivables (gross)	73,656	67,833
The impairment allowance account is aged as follows:		
- more than 90 days	–	–
Total impairment allowance account	–	–

Reconciliation of the impairment allowance account:

	2016 $'000	2015 $'000
Movements		
Opening balance	–	(94)
Increase/(decrease) recognised in net cost of services	–	–
Amounts written off	–	94
Closing balance	–	–

NOTE 9: NON-FINANCIAL ASSETS

	2016 $'000	2015 $'000
Note 9A: Property, plant and equipment		
Computer hardware and office equipment		
- fair value	5,399	3,732
- accumulated depreciation	(733)	(350)
Total computer hardware and office equipment	4,666	3,382
Leasehold improvements		
- fair value	20,455	5,355
- accumulated depreciation	(3,094)	(3,414)
Total leasehold improvements	17,361	1,941
Total property, plant and equipment	22,027	5,323

APRA will dispose of leasehold improvements associated with its Melbourne, Perth and Canberra offices within the next 12 months.

Revaluations of non–financial assets

Revaluations are conducted in accordance with the revaluation policy stated in Note 1.15. The latest revaluation was undertaken by an independent valuer in May 2014. The revalued assets were valued as at 30 June 2014.

In 2016, APRA management performed an assessment of changes in the fair value of non-financial assets and concluded that this value is still materially correct.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment - 2016

	Computer hardware and office equipment $'000	Leasehold improvements $'000	Total $'000
As at 1 July 2015			
Gross book value	3,732	5,355	9,087
Accumulated depreciation	(350)	(3,414)	(3,764)
Net book value 1 July 2015	3,382	1,941	5,323
Additions:			
By purchase	1,930	14,515	16,445
By additional make-good asset creation	–	2,628	2,628
Revaluation of make good asset	–	(727)	(727)
Machinery of Government change (Private health insurance)	157	233	390
Depreciation:			
Depreciation expense	(803)	(1,139)	(1,942)
Machinery of Government change (Private health insurance)	–	(90)	(90)
Disposals:			
Write-off (at cost)	(420)	(1,549)	(1,969)
Write-off (accumulated depreciation)	420	1,549	1,969
Net book value 30 June 2016	4,666	17,361	22,027
Net book value as of 30 June 2016 represented by:			
Gross book value	5,399	20,455	25,854
Accumulated depreciation	(733)	(3,094)	(3,827)
Net book value 30 June 2016	4,666	17,361	22,027

Contractual commitments for the acquisition of property, plant and equipment

APRA is committed to the purchase of $390,315 of leasehold improvements for its Sydney office.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment – 2015

	Computer hardware and office equipment $'000	Leasehold improvements $'000	Total $'000
As at 1 July 2014			
Gross book value	1,236	5,435	6,671
Accumulated depreciation	(279)	(2,395)	(2,674)
Net book value 1 July 2014	957	3,040	3,997
Additions:			
By purchase	2,775	3	2,778
By additional make good asset creation	–	30	30
Revaluation of make good asset	–	(114)	(114)
Depreciation expense	(350)	(1,018)	(1,368)
Disposals:			
Write-off (at cost)	(279)	–	(279)
Write-off (accumulated depreciation)	279	–	279
Net book value 30 June 2015	3,382	1,941	5,323
Net book value as of 30 June 2015 represented by:			
Gross book value	3,732	5,355	9,087
Accumulated depreciation	(350)	(3,414)	(3,764)
Net book value 30 June 2015	3,382	1,941	5,323

	2016 $'000	2015 $'000
Note 9C: Intangibles		
Computer software:		
internally developed – in progress	5,040	2,913
internally developed – in use	36,424	31,988
purchased – in progress	96	225
purchased – in use	8,070	7,815
accumulated amortisation	(31,656)	(27,417)
Total computer software	17,974	15,524
Total intangibles	17,974	15,524

No intangibles are expected to be sold or disposed of within the next 12 months.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9D: Reconciliation of the opening and closing balances of intangibles – 2016

	Computer software internally developed $'000	Computer software purchased $'000	Total $'000
As at 1 July 2015			
Gross book value	34,901	8,040	42,941
Accumulated amortisation	(21,214)	(6,203)	(27,417)
Net book value 1 July 2015	13,687	1,837	15,524
Additions:			
By purchase	6,909	382	7,291
Machinery of Government change (Private health insurance)	204	114	318
Amortisation	(4,291)	(562)	(4,853)
Machinery of Government change (Private health insurance)	(173)	(70)	(243)
Disposals:			
Write-off (at cost)	(551)	(370)	(921)
Write-off (accumulated amortisation)	504	353	857
Net book value 30 June 2016	16,289	1,684	17,974
Net book value as of 30 June 2016 represented by:			
Gross book value	41,464	8,166	49,630
Accumulated depreciation	(25,174)	(6,482)	(31,656)
Net book value 30 June 2016	16,289	1,684	17,974

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9D: Reconciliation of the opening and closing balances of intangibles - 2015

	Computer software internally developed $'000	Computer software purchased $'000	Total $'000
As at 1 July 2014			
Gross book value	31,466	7,222	38,688
Accumulated amortisation	(16,125)	(5,694)	(21,819)
Net book value 1 July 2014	15,341	1,528	16,869
Additions:			
By purchase	3,610	933	4,543
Amortisation	(5,247)	(609)	(5,856)
Disposals:			
Write-off (at cost)	(175)	(115)	(290)
Write-off (accumulated amortisation)	158	100	258
Net book value 30 June 2015	13,687	1,837	15,524
Net book value as of 30 June 2015 represented by:			
Gross book value	34,901	8,040	42,941
Accumulated amortisation	(21,214)	(6,203)	(27,417)
	13,687	1,837	15,524

	2016 $'000	2015 $'000
Note 9E: Other non-financial assets		
Prepayments	1,858	2,400
Total other non-financial assets	1,858	2,400
Total other non-financial assets are expected to be recovered in:		
less than 12 months	1,837	2,357
more than 12 months	21	43
Total other non-financial assets	1,858	2,400

NOTE 10: PAYABLES

	2016 $'000	2015 $'000
Note 10A: Suppliers		
Trade creditors	–	1
Total suppliers payables	–	1

Suppliers are expected to be settled in less than 12 months.

	2016 $'000	2015 $'000
Note 10B: Unearned fees and charges		
Unearned revenue	777	581
Total unearned fees and charges	777	581

Unearned fees and charges are expected to be settled in less than 12 months.

	2016 $'000	2015 $'000
Note 10C: Other payables		
Accrued expenses	2,991	2,262
Minimum lease liabilities	3,660	257
Salaries and wages	358	2,852
Lease incentives	16,204	179
GST payable to the Australian Taxation Office	297	–
Motor vehicle lease liability	48	47
Total other payables	23,558	5,597
Other payables are expected to be settled in:		
no more than 12 months	6,735	5,302
more than 12 months	16,823	295
Total other payables	23,558	5,597

NOTE 11: PROVISIONS

	2016 $'000	2015 $'000
Note 11A: Employee provisions		
Leave	32,194	28,278
Bonus	5,422	4,731
Other employee provisions	1,569	146
Total employee provisions	39,185	33,155
Employee provisions are expected to be settled in:		
less than 12 months	16,664	13,427
more than 12 months	22,521	19,728
Total employee provisions	39,185	33,155
Note 11B: Provision for make good		
Provision for make good	4,855	2,596
Total provision for make good	4,855	2,596
Provision for make good is expected to be settled in:		
less than 12 months	1,788	–
more than 12 months	3,067	2,596
Total provision for make good	4,855	2,596

Reconciliation of provision for make good:	Provision for make good $'000
Carrying amount 1 July 2015	2,596
Additional provisions made	2,628
Revaluation	(746)
Unwinding of discount or change in rate	377
Closing balance 30 June 2016	4,855

At 30 June 2016, APRA leased premises in Sydney, Melbourne, Brisbane, Perth, Canberra and Adelaide.

In the lease conditions of all locations there is a requirement for APRA, upon expiration of the lease, to restore the premises to the condition they were in at the commencement of the lease. The required level of 'make good' provision is being accumulated for each location over the terms of the various leases.

NOTE 12: STATEMENT OF CASH FLOWS RECONCILIATION

	2016 $'000	2015 $'000
Reconciliation of cash and cash equivalents as per *Statement of financial position* to *Statement of cash flows*		
Cash as per:		
Statement of cash flows	1,903	1,311
Statement of financial position	1,903	1,311
Difference	–	–
Reconciliation of net cost of services to net cash from operating activities		
Net cost of services	(130,725)	(112,463)
Add: revenue from Government	126,466	120,534
Adjustments for non–cash items		
Depreciation/amortisation	6,795	7,224
Loss on disposal of assets	64	32
Machinery of Government (Private health insurance) assets received	(375)	–
Make good change	(1,882)	468
Changes in assets / liabilities		
Increase in net receivables	(5,823)	(9,289)
Decrease in other non-financial assets	542	237
Increase in employee provisions	6,030	688
Increase / (decrease) in supplier payables	(1)	1
Increase in unearned fees and charges	196	98
Increase / (decrease) in other payables	17,961	(244)
Increase / (decrease) in other provisions	2,259	(401)
Net cash from operating activities	21,507	6,885

NOTE 13: CONTINGENT ASSETS AND LIABILITIES

Quantifiable contingencies

APRA has no quantifiable contingencies as at balance date (2015: Nil).

Unquantifiable contingencies

APRA has no unquantifiable contingencies as at balance date (2015: Nil).

Significant remote contingencies

APRA has no significant remote contingencies as at balance date (2015: Nil).

NOTE 14: SENIOR MANAGEMENT PERSONNEL REMUNERATION

	2016 $	2015 $
Short-term employee benefits:		
Salary (including annual leave)	7,941,498	8,014,290
Performance bonuses	459,291	416,234
Allowances	1,676	462
Total short-term employee benefits	8,402,465	8,430,986
Post-employment benefits:		
Superannuation	1,022,894	1,013,826
Total post-employment benefits	1,022,894	1,013,826
Other long-term benefits:		
Movement in annual leave provision	760,297	797,944
Long-service leave accrued	627,018	674,198
Total other long-term benefits	1,387,315	1,472,142
Termination benefits:		
Termination payments	751,889	–
Total termination benefits	751,889	–
Total senior executive remuneration expenses	11,564,563	10,916,954

The total number of senior management personnel that are included in the above table are 29 individuals (2015: 28 individuals).

NOTE 15: FINANCIAL INSTRUMENTS

	Notes	2016 $'000	2015 $'000
Note 15A: Categories of financial instruments			
Financial assets			
Loans and receivables:			
Cash		1,903	1,311
Trade receivables		11,638	1,524
Other receivables		4,682	478
Carrying amount of financial assets	16	18,223	3,313
Financial liabilities			
At amortised cost:			
Suppliers		–	1
Carrying amount of financial liabilities		–	1

The carrying amounts of the financial instruments are a reasonable representation of their fair value.

Note 15B: Credit risk

APRA's maximum exposure to credit risk at the reporting date is the carrying amount of the trade receivables reported in the *Statement of financial position*. APRA has no significant exposures to any other concentrations of credit risk.

Credit quality of financial instruments not past due or individually determined as impaired

	Not past due nor impaired 2016 $'000	Not past due nor impaired 2015 $'000	Past due or impaired 2016 $'000	Past due or impaired 2015 $'000
Cash	1,903	1,311	–	–
Trade receivables	11,252	11	386	1,513
Other receivables	4,682	478	–	–
Total	17,837	1,800	386	1,513

NOTE 15: FINANCIAL INSTRUMENTS (CONTINUED)

Ageing of financial assets that were past due but not impaired for 2016

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Trade receivables	358	–	–	28	386
Total	358	–	–	28	386

Ageing of financial assets that were past due but not impaired for 2015

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Trade receivables	1,467	4	1	41	1,513
Total	1,467	4	1	41	1,513

Note 15C: Liquidity risk

APRA is funded annually by appropriations from Government based on the actual cost of regulation of the financial sector, fee for service activities and other activities that APRA may be required to perform from time to time. In addition, APRA maintains reserves and a Contingency Enforcement Fund. These arrangements, along with strictly controlled cash flow monitoring and forecasting, expose APRA to negligible liquidity risk.

Note 15D: Market risk

APRA is not exposed to any form of currency risk, interest rate risk or other price risk.

NOTE 16: FINANCIAL ASSETS RECONCILIATION

	Notes	2016 $'000	2015 $'000
Financial assets			
Total financial assets as per *Statement of financial position*		75,559	69,144
Less: non-financial instrument components:	8B		
Other GST receivable		–	462
Appropriation receivable		57,336	65,369
Total non-financial instrument components		57,336	65,831
Total financial assets as per financial instruments note	15A	18,223	3,313

NOTE 17: ADMINISTERED EXPENSES

	2016 $'000	2015 $'000
Note 17A: Waivers		
Supervisory Levy waivers	7	5
Total waivers	7	5
Levies and late payment penalties waived by levy type		
General insurers	–	5
Authorised deposit-taking institutions	7	–
Total waivers	7	5
Note 17B: Risk equalisation expenses		
Risk equalisation payments made	440,872	–
Total risk equalisation expenses	440,872	–
Total administered expenses	440,879	5

NOTE 18: ADMINISTERED INCOME

	2016 $'000	2015 $'000
Revenue		
Levy revenue		
Current year Financial Institutions Supervisory Levies and penalties (see Table 1)[1]	237,734	231,486
Risk equalisation levy receipts	440,872	–
Total levy revenue	678,606	231,486
Table 1: Financial Institutions Supervisory Levies revenue by type		
Levy:		
Superannuation funds	124,063	131,515
Authorised deposit-taking institutions	65,159	59,171
Life insurers and friendly societies	16,101	14,778
General insurers	26,169	25,910
Private health insurers	6,231	–
Total Financial Industry Supervisory Levies	237,723	231,374
Late payment penalties:		
Superannuation funds	11	112
Total late payment penalties	11	112
Total current year financial industry levies and penalties	237,734	231,486

The Financial Institutions Supervisory Levies are set to recover the operational costs of APRA, and other specific costs incurred by certain Commonwealth agencies and departments. The proportion of total current year levies and penalties attributable to APRA is set out in Note 3.

The risk equalisation levy receipts are set to equalise risk across the Private Health Insurance industry, and are returned to relevant industry participants in accordance with the Rules shortly after they are collected.

[1] Financial institutions supervisory levies are detailed in the annual consultation paper released by Treasury. In addition, APRA publishes a Cost Recovery Implementation Statement in relation to its component of the financial institutions supervisory levies.

NOTE 19: ADMINISTERED FINANCIAL ASSETS

	2016 $'000	2015 $'000
Financial assets		
Receivables		
Financial Institutions Supervisory Levies	8	63
Financial Assistance Levy	310	310
Total receivables	318	373
Receivables were aged as follows:		
Not overdue	8	63
Overdue by:		
– more than 90 days	310	310
Total receivables	318	373

There is no impairment allowance in 2016 (2015: Nil).

NOTE 20: ADMINISTERED STATEMENT OF CASH FLOWS RECONCILIATION

	2016 $'000	2015 $'000
Reconciliation of cash as per *Administered schedule of assets and liabilities* to *Administered statement of cash flows*		
Cash as per:		
Administered statement of cash flows	–	–
Administered schedule of assets and liabilities	–	–
Difference	–	–
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	237,727	231,481
Risk equalisation levy receipts	440,872	–
Changes in assets / liabilities		
Decrease in net receivables	57	152
Net cash from operating activities	678,656	231,633

NOTE 21: ADMINISTERED CONTINGENT ASSETS AND LIABILITIES

Unquantifiable administered contingencies

APRA is responsible for the administration of the Financial Claims Scheme (FCS). The FCS provides depositors of authorised deposit taking institutions (ADIs) and claimants of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account-holder per ADI. As at 31 December 2015, deposits eligible for coverage under the Scheme were estimated to be $777 billion, compared to $766 billion as at 31 December 2014, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed GI. It is not possible to estimate these claims.

In the very unlikely event of an ADI or GI failure, any payments made under the FCS would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

Under the FCS, any payments to account-holders with protected accounts or eligible claimants would be made from APRA's FCS Special Account. Under the legislation, initial amounts available to meet payments, in the event of activation, are up to $20 billion per institution and up to $100 million for administration.

It is not possible to estimate the amounts of any eventual payments that may be required in relation to either the ADI FCS or GI FCS and as such no amount is included in this note.

NOTE 22: APPROPRIATIONS

Note 22A: Annual appropriations ('recoverable GST exclusive')

Annual appropriations for 2016

	Appropriation Act	*PGPA Act*				
	Annual appropriation $'000	Section 74 $'000	Total appropriation $'000	Appropriation applied in 2016 (current and prior years) $'000	Variance[1] $'000	Section 51 determinations $'000
Departmental						
Ordinary annual services	1,237	8,609	9,846	11,023	(1,177)	–
Other services						
Government equity contribution	–	–	–	–	–	–
Total departmental	1,237	8,609	9,846	11,023	(1,177)	–
Administered						
Other services						
New administered outcomes	–	–	–	–	–	–
Total administered	–	–	–	–	–	–

Annual appropriations for 2015

	Appropriation Act	*PGPA Act*				
	Annual appropriation $'000	Section 74 $'000	Total appropriation $'000	Appropriation applied in 2016 (current and prior years) $'000	Variance[1] $'000	Section 51 determinations $'000
Departmental						
Ordinary annual services	953	5,815	6,768	5,871	897	–
Other services						
Government equity contribution	108	–	108	108	–	–
Total departmental	1,061	5,815	6,876	5,979	897	–
Administered						
Other services						
New administered outcomes	–	–	–	–	–	–
Total administered	–	–	–	–	–	–

[1] The variance between the total appropriation and the appropriation applied is made up of the prior year appropriation receivable applied in the current year less the current year appropriation receivable.

There were no determinations under section 51 of the PGPA Act that constitute a permanent loss of control in 2016 or in 2015.

NOTE 22: APPROPRIATIONS (CONTINUED)

Note 22B: Unspent annual appropriations ('recoverable GST exclusive')

Authority	2016 $'000	2015 $'000
Departmental		
Appropriation Act (No. 1) 2015-16	–	–
Appropriation Act (No. 1) 2014-15	–	1,177
Appropriation Act (No. 1) 2013-14	–	–
Appropriation Act (No. 2) 2012-13	–	–
Total	–	1,177

Note 22C: Special appropriations applied ('recoverable GST exclusive')

Authority	Type	Purpose	Appropriation applied 2016 $'000	Appropriation applied 2015 $'000
Australian Prudential Regulation Authority Act 1998 – section 50, Departmental	Unlimited	To provide an appropriation for levy money received that exceeds the amount determined by the Minister under section 50(1) of the *Australian Prudential Regulation Act 1998*.	125,295	119,609
Total special appropriation applied			125,295	119,609

NOTE 23: SPECIAL ACCOUNTS

	APRA Special Account (Departmental)[1]		Financial Claims Scheme Special Account (Administered)[2]		Lloyd's Deposit Trust Special Account[3]	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance brought forward from previous period	65,439	57,614	835	835	2,000	2,000
Increases:						
Departmental						
Special appropriation for reporting period	125,295	119,609	–	–	–	–
Appropriation Act No.1	11,023	5,871	–	–	–	–
Appropriation Act No.2	–	108	–	–	–	–
Total departmental increases	136,318	125,588	–	–	–	–
Restructuring						
Machinery of Government change - Private Health Insurance (cash)	3,794	–	–	–	–	–
Total restructuring increases	3,794	–	–	–	–	–
Administered						
Special appropriation for reporting period	–	–	–	–	–	–
Total administered increases	–	–	–	–	–	–
Available for payments	205,551	183,202	835	835	2,000	2,000
Decreases:						
Departmental						
Payments made - employees	(95,821)	(87,539)	–	–	–	–
Payments made - suppliers and net GST received	(23,943)	(22,903)	–	–	–	–
Payments made - purchase assets	(23,736)	(7,321)	–	–	–	–
Total departmental decreases	(143,500)	(117,763)	–	–	–	–
Restructuring						
Machinery of Government change - Private Health Insurance (equity)	(2,821)	–	–	–	–	–
Total restructuring decreases	(2,821)	–	–	–	–	–
Administered						
Repayments made from the Special Account	–	–	–	–	–	–
Total administered decreases	–	–	–	–	–	–
Total balance carried to the next period	59,230	65,439	835	835	2,000	2000

[1] Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

NOTE 23: SPECIAL ACCOUNTS (CONTINUED)

Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 52.
Purpose: To pay the costs and other obligations incurred by APRA in the performance of its functions or the exercise of its powers; to pay any remuneration or allowances payable to persons appointed or engaged under the APRA Act; and to make any other payments that APRA is authorised or required to make under the APRA Act or any other law of the Commonwealth.

[2] Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.
Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 54A.
There were no transactions debited or credited to the Financial Claims Scheme Special Account in the current reporting period.
Purpose: To meet account-holders' entitlements under Subdivision C (Payment of account-holders with declared ADI) of Division 2AA of Part II of the *Banking Act 1959*; meet persons' entitlements under Division 3 (Early payment of claims) of Part VC of the *Insurance Act 1973*; pay APRA's agents or delegates amounts equal to the entitlements the agents or delegates meet on APRA's behalf or in the performance of APRA's delegated functions; and repayment of principal, interest and other costs connected with the borrowings under Division 2 of the APRA Act.

[3] Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 78.
Establishing Instrument: *Financial Management and Accountability Determination 2006/26*.
Purpose: To disburse amounts in accordance with section 92Q of the *Insurance Act 1973.*
Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA on 26 May 2008.

The market valuation as at 30 June 2016 for Lloyd's inscribed stock is $2,087,351 (2015: $2,034,920).

NOTE 24: ASSETS HELD IN TRUST

Monetary assets

Lloyd's inscribed stock is held by APRA in trust. Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA on 26 May 2008. The purpose is to disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.

	2016 $'000	2015 $'000
Lloyd's inscribed stock		
Total amount held at the beginning of the reporting period	2,000	2,000
Receipts	75	95
Payments	(75)	(95)
Total amount held at the end of the reporting period	2,000	2,000
Total	2,000	2,000

The market valuation as at 30 June 2016 for Lloyd's inscribed stock is $2,087,351 (2015: $2,034,920).

Non-monetary assets

APRA has no non-monetary assets held in trust.

NOTE 25: RESTRUCTURING

	2016 Machinery of Government (Private health insurance)[1] $'000
Financial assets recognised	
Cash and cash equivalents	3,794
Trade and other receivables	63
Total financial assets	3,857
Non-financial assets recognised	
Land and buildings	123
Property, plant and equipment	177
Intangibles	75
Other non-financial assets	82
Total non-financial assets	457
Total assets recognised	4,314
Payables recognised	
Suppliers	(161)
Other payables	(127)
Total payables	(288)
Provisions recognised	
Employee provisions	(1,099)
Other provisions	(106)
Total provisions	(1,205)
Total liabilities recognised	(1,493)
Net assets recognised	2,821
Equity assumed	
Revaluation reserve	(256)
Retained surplus	(2,565)
Total equity recognised	(2,821)

[1] The assets and liabilities of the former Private Health Insurance Administration Council (PHIAC) transferred to APRA on 1 July 2015, reflecting the transfer of responsibilities to APRA for the prudential supervision of private health insurance.

NOTE 26: REPORTING OF OUTCOMES

Net cost of outcome delivery

APRA is structured to meet the following outcome:

Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.

	2016 $'000	2015 $'000
	Outcome 1	
Departmental		
Expenses	135,411	117,332
Own-source income	4,686	4,869
Administered		
Expenses	440,879	5
Own-source income	678,606	231,486
Net (contribution) of outcome delivery	(107,002)	(119,018)

NOTE 27: COST RECOVERY SUMMARY

	2016 $'000	2015 $'000
Expenses		
Departmental	2,651	2,269
Total expenses	2,651	2,269
Revenue		
Departmental	2,651	2,269
Total revenue	2,651	2,269
Receivables	2,411	1,332
Receivables are aged as follows:		
Not overdue	2,058	–
Overdue by:		
- 0 to 30 days	353	1,332
Total receivables	2,411	1,332

Cost recovered activities:

- Statistical information provided to RBA
- Statistical information provided to ABS
- Assessment of models-based capital adequacy requirements for ADIs - Basel II

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES

The following tables provide a comparison of the original budget as presented in the 2015-16 Portfolio Budget Statements (PBS) to the 2015-16 final outcome as presented in accordance with Australian Accounting Standards for the entity. The Budget is not audited.

Variances are considered to be 'major' based on the following criteria:

- the variance between budget and actual is greater than 10%; and
- the variance between budget and actual is greater than 2% of the relevant category (Income, Expense, Asset, Liability and Cash Flow totals); or
- an item below this threshold but is considered important for the reader's understanding or is relevant to an assessment of the discharge of accountability and to an analysis of performance of an entity.

Note 28A: Departmental budgetary reports

	Actual	Budget estimate	
		Original	Variance[1]
Statement of comprehensive income *for the year ended 30 June 2016*	2016 $'000	2016 $'000	2016 $'000
Expenses			
Employee benefits	98,188	92,917	5,271
Supplier expenses	29,987	24,815	5,172
Depreciation and amortisation	6,795	7,386	(591)
Finance costs	377	–	377
Losses from asset disposals	64	–	64
Total expenses	135,411	125,118	10,293
Less:			
Own-source income			
Own-source revenue			
Rendering of services	3,735	3,680	55
Rental income	42	–	42
Other revenue	713	1,110	(397)
Resources received free of charge	196	140	56
Total own-source revenue	4,686	4,930	(244)
Total own-source income	4,686	4,930	(244)
Net cost of services	130,725	120,188	10,537
Revenue from Government	126,466	120,188	6,278
Operating surplus/(deficit)	(4,259)	–	(4,259)

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 28A: Departmental budgetary reports (continued)

	Actual	Budget estimate	
		Original	Variance[1]
Statement of comprehensive income *for the year ended 30 June 2016*	2016 $'000	2016 $'000	2016 $'000
Other comprehensive income			
Items not subject to subsequent reclassification to profit or loss			
Changes in asset revaluation reserves	20	–	20
Total other comprehensive income	20	–	20
Total comprehensive income/(loss)	(4,239)	–	(4,239)

[1] Material variances are explained in Note 28B.

	Actual	Budget estimate	
		Original	Variance[1]
Statement of financial position *as at 30 June 2016*	2016 $'000	2016 $'000	2016 $'000
Assets			
Financial assets			
Cash	1,903	1,639	264
Trade and other receivables	73,656	64,035	9,621
Total financial assets	75,559	65,674	9,885
Non-financial assets			
Property, plant and equipment	22,027	9,810	12,217
Intangibles	17,974	13,890	4,084
Other non-financial assets	1,858	2,804	(946)
Total non-financial assets	41,859	26,504	15,355
Total assets	117,418	92,178	25,240
Liabilities			
Payables			
Suppliers	–	475	(475)
Unearned fees and charges	777	403	374
Other payables	23,558	3,305	20,253
Total payables	24,335	4,183	20,152

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 28A: Departmental budgetary reports (continued)

	Actual	Budget estimate	
		Original	Variance[1]
Statement of financial position *as at 30 June 2016*	2016 $'000	2016 $'000	2016 $'000
Provisions			
Employee provisions	39,185	39,272	(87)
Other provisions	4,855	2,997	1,858
Total provisions	44,040	42,269	1,771
Total liabilities	68,375	46,452	21,923
Net assets	49,043	45,726	3,317
Equity			
Contributed equity	16,657	16,657	–
Reserves	13,412	13,099	313
Retained surpluses	18,974	15,970	3,004
Total equity	49,043	45,726	3,317

[1] Material variances are explained in Note 28B.

Note 28A: Departmental budgetary reports (continued)

	Retained surpluses			Asset revaluation reserve			Contingency enforcement			Contributed equity/capital			Total equity		
	A[1]	BE[2]		A[1]	BE[2]		A[1]	BE[2]		A[1]	BE[2]		A[1]	BE[2]	
		O[3]	V[4]		O[3]	V[4]		O[3]	V[4]		O[3]	V[4]		O[3]	V[4]
Statement of changes in equity *for the year ended 30 June 2016*	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000
Opening balance															
Balance carried forward from previous period	20,668	15,970	4,698	7,136	7,099	37	6,000	6,000	–	16,657	16,657	–	50,461	45,726	4,735
Opening balance as at 1 July	20,668	15,970	4,698	7,136	7,099	37	6,000	6,000	–	16,657	16,657	–	50,461	45,726	4,735
Comprehensive income															
Other comprehensive income	–	–	–	20	–	20	–	–	–	–	–	–	20	–	20
Surplus/(deficit) for the period	(4,259)	–	(4,259)	–	–	–	–	–	–	–	–	–	(4,259)	–	(4,259)
Total comprehensive income	(4,259)	–	(4,259)	20	–	20	–	–	–	–	–	–	(4,239)	–	(4,239)
Contributions by owners															
Equity injection - appropriations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Machinery of Government change	2,565	–	2,565	256	–	256	–	–	–	–	–	–	2,821	–	2,821
Sub-total: transactions with owners	2,565	–	2,565	256	–	256	–	–	–	–	–	–	2,821	–	2,821
Closing balance as at 30 June	18,974	15,970	3,004	7,412	7,099	313	6,000	6,000	–	16,657	16,657	–	49,043	45,726	3,317

1 A = Actual
2 BE = Budget Estimate
3 O = Original
4 V = Variance (Material variances are explained in Note 28B).

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 28A: Departmental budgetary reports (continued)

Statement of cash flows *for the year ended 30 June 2016*	Actual 2016 $'000	Budget estimate Original 2016 $'000	Variance[1] 2016 $'000
Operating activities			
Cash received			
Appropriations	144,081	120,188	23,893
Rendering of services	4,956	3,680	1,276
Net GST received / receipts from Government	3,925	4,930	(1,005)
Other	843	1,250	(407)
Total cash received	153,805	130,048	23,757
Cash used			
Employees	(95,821)	(92,917)	(2,904)
Suppliers	(27,868)	(25,794)	(2,074)
Section 74 receipts transferred to Official Public Account (OPA)	(8,609)	(4,930)	(3,679)
Total cash used	(132,298)	(123,641)	(8,657)
Net cash from operating activities	21,507	6,407	15,100
Investing activities			
Cash used			
Purchase of property, plant and equipment	(16,445)	(2,015)	(14,430)
Purchase/development of software intangibles	(7,291)	(4,392)	(2,899)
Total cash used	(23,736)	(6,407)	(17,329)
Net cash (used by) investing activities	(23,736)	(6,407)	(17,329)
Financing activities			
Cash received			
Equity injection – appropriations	–	–	–
Machinery of Government change - Private health insurance	2,821	–	2,821
Total cash received	2,821	–	2,821
Net cash from financing activities	2,821	–	2,821
Net increase/(decrease) in cash held	592	–	592
Cash at the beginning of the reporting period	1,311	1,639	(328)
Cash at the end of the reporting period	1,903	1,639	264

[1] Material variances are explained in Note 28B.

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 28B: Departmental major budget variances for 2016

Summary of key statement of comprehensive income differences to budget

During 2015-16 APRA's budget was updated to reflect the transition of the assets and liabilities and associated income and costs of the former PHIAC. This increased APRA's 2015-16 departmental budget for: income and expenses by approximately $5.7 million, assets by $4.3 million and liabilities by $1.5 million.

These budget changes were applied subsequent to the publication of the Portfolio Budget Statement and therefore are not included in the budget comparatives presented in these statements.

In addition to the above, APRA also incurred:

- Separation and redundancy costs due to internal restructuring of $2.2 million;
- Additional property costs of $3.5 million, and a surplus space provision of $1.5 million due to the relocation to No. 1 Martin Place; and
- Following a 1% fall in the 10 year bond rate an increase in employee leave provisions of $1.8 million.

The additional costs above were offset by operational underspends arising from an 18.4 lower average staffing level (ASL) during the year of $4.1 million.

These factors combine to drive the reported operating loss of $4.3 million for the year.

Explanations of major variances	Affected line items (and statement)
	Statement of comprehensive income
Machinery of Government change (Private health insurance) costs, property-related accounting impacts, staff redundancies and bond-rate related leave impacts. Offset by 18.4 lower ASL during the year.	Expenses
Less licencing activity than budgeted.	Own source income
Machinery of Government change (Private health insurance) additional levies.	Revenue from Government

Summary of key statement of financial position differences to budget

The transition of the former PHIAC to APRA on 1 July 2015 increased financial assets by $3.9 million, non financial assets by $0.5 million, payables by $0.3 million and provisions by $2.8 million. Equity in the form of a revaluation reserve and retained surplus of $2.8 million also arose.

Other key balance sheet variances were:

APRA's move to No.1 Martin Place in June 2016, resulted in an early recognition of a leasehold improvement asset of $14.5 million and corresponding capital lease incentive liability;

Recognising a $13.6 million receivable from the lessor for leasehold improvement work, to be reimbursed in 2016-17;

A $2.6 million make good asset and corresponding make good provision being recognised;

Recognition of a $3.5 million minimum lease payment liability; and

The creation of a $1.5 million surplus space provision for the residual lease over APRA's 400 George Street tenancy.

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 28B: Departmental major budget variances for 2016 (continued)

Explanations of major variances	Affected line items (and statement)
	Statement of financial position
Machinery of Government change (Private health insurance) receivables, a higher appropriation receivable arising from the lower than budgeted ASL and a higher opening balance from the prior year surplus.	Financial assets
Machinery of Government change (Private health insurance) non-financial assets. Leasehold improvements from property-related accounting impacts.	Non-financial assets
Machinery of Government change (Private health insurance) payables. Lease capital incentive, minimum lease liability and surplus space provision.	Payables
Higher property-related provisions.	Provisions
	Statement of changes in equity
Machinery of Government change (Private health insurance) retained surpluses, offset by operational loss for the year.	Retained surpluses
Machinery of Government change (Private health insurance) asset revaluation reserve.	Asset revaluation reserve
	Statement of cash flows
Special account draw down to fund No.1 Martin Place fitout expenditure.	Operating activities net cash
No.1 Martin Place fit-out and make-good asset plus higher project activity.	Investing activities net cash
Machinery of Government change (Private health insurance) equity.	Financing activities net cash

NOTE 28: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 28C: Administered budgetary reports

Administered schedule of comphrehensive income *for the year ended 30 June 2016*	Actual 2016 $'000	Budget estimate Original 2016 $'000	Variance[1] 2016 $'000
Expenses			
Supervisory Levy waivers	7	–	7
Risk equalisation payments	440,872	–	440,872
Total expenses administered on behalf of Government	440,879	–	440,879
Income			
Taxation/levy revenue			
Financial Institutions Supervisory Levies	237,734	231,478	6,256
Risk equalisation receipts	440,872	–	440,872
Total taxation/levy revenue	678,606	231,478	447,128
Net contribution by services	237,727	231,478	6,249

[1] Material variances are explained in Note 28D.

Administered schedule of assets and liabilities *as at 30 June 2016*	Actual 2016 $'000	Budget estimate Original 2016 $'000	Variance[1] 2016 $'000
Assets			
Financial assets			
Cash - Financial Claims Scheme special account	–	835	(835)
Receivables	318	525	(207)
Total expenses administered on behalf of Government	318	1,360	(1,042)
Liabilities			
Liabilities administered on behalf of Government	–	–	–
Total liabilities administered on behalf of Government	–	–	–
Net assets administered on behalf of Government	318	1,360	(1,042)

[1] Material variances are explained in Note 28D.

Note 28D: Administered major budget variances for 2016

Explanations of major variances	Affected line items (and schedule)
	Administered schedule of comprehensive income
Machinery of Government change (Private health insurance) levies of $6.3 million.	Net contribution by services

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2016, which comprise:

- Statement by the Members and the Executive General Manager – Corporate Services
- Statement of comprehensive income
- Statement of financial position
- Statement of changes in equity
- Statement of cash flows
- Administered schedule of comprehensive income
- Administered schedule of assets and liabilities
- Administered reconciliation schedule
- Administered statement of cash flows; and
- Notes comprising a Summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements of the Australian Prudential Regulation Authority:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Prudential Regulation Authority as at 30 June 2016 and its financial performance and cash flows for the year then ended.

Chairman's Responsibility for the Financial Statements

The Chairman of the Australian Prudential Regulation Authority is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act and is also responsible for such internal control as the Chairman determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Prudential Regulation Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Prudential Regulation Authority's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chairman of the Australian Prudential Regulation Authority, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office

JAH

Jocelyn Ashford
Senior Executive Director

Delegate of the Auditor-General

Canberra
31 August 2016

CH/8

STATUTORY REPORT

STATUTORY REPORT

STATUTORY REPORTING REQUIREMENTS

APRA reports in accordance with the following Commonwealth legislation and other requirements:

- *Australian Prudential Regulation Authority Act 1998;*
- *Environment Protection and Biodiversity Conservation Act 1999;*
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987;*
- *Freedom of Information Act 1982;*
- *Public Governance, Performance and Accountability Act 2013;*
- *Work Health and Safety Act 2011;*
- Commonwealth Fraud Control Framework; and
- Requirements for Annual Reports for Departments, Executive Agencies and other Non-corporate Commonwealth Entities.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ACT 1998 (APRA ACT)

Section 59 of the APRA Act requires APRA to report on:

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act;
- the operation of Division 2AA (Financial Claims Scheme for account-holders with insolvent ADIs) of Part II of the *Banking Act 1959*;
- the operation of Part VC (Financial Claims Scheme for policyholders with insolvent general insurers) of the *Insurance Act 1973*;
- the number of times during the year that APRA determined, under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001*, a reporting standard that is not a legislative instrument; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act 1959* during 2015/16. There were no continuing appointments during the year.

There were no schemes in operation under Division 2AA of Part II of the *Banking Act 1959*.

On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to one general insurer[1]. No payments were made from the Financial Claims Scheme Special Account in 2015/16 to satisfy claims against this general insurer.

APRA did not determine any reporting standards under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* during 2015/16 that were not legislative instruments.

APRA did not exercise its powers under Part 15 of the RSA Act in 2015/16.

1 Australian Family Assurance limited (in liquidation).

APRA exercised its powers under Part 29 of the SIS Act in relation to particular entities or persons as set out below:

Exemption number	Date	Provision of SIS Act / regulations exempted
A5 of 2015	13/11/2015	r.9.04D(1)
A6 of 2015	27/11/2015	s.89(2)
A1 of 2016	16/02/2016	r.6.17(2)
A2 of 2016	22/02/2016	r.9.04D(3)
A3 of 2016	03/05/2016	r.6.17(2)
A4 of 2016	04/05/2016	s.89(2)
A5 of 2016	18/05/2016	r.9.04D(1) and r.9.04I(1)

Modification number	Date	Provision of SIS Act / regulations modified
A3 of 2015	16/09/2015	Variation of SIS Act Exemption A4 of 2015
1 of 2015	23/09/2015	Class declaration in relation to r.5.08(2)
A1 of 2016	16/02/2016	s.1.03
A2 of 2016	24/06/2016	s.1.03

ENVIRONMENT PROTECTION AND BIODIVERSITY CONSERVATION ACT 1999

Ecologically-sustainable development and environmental performance

APRA's Environmental Policy Statement reinforces its commitment to operating in an ecologically sustainable manner. APRA actively takes steps to reduce its environmental impact and adopts environmentally-friendly options where practical. Measures include: sensor-controlled lighting; energy-efficient power management settings on office equipment; recycling of paper, cardboard, office furniture and printer cartridges; reducing waste; and fostering staff awareness of environmental issues including considering the need to print documents. The move of APRA's Sydney Head Office to 1 Martin Place in June 2016 also enabled a shift to mobile devices and 'follow-me' printing. This has led to a substantial reduction in the use of paper in the Sydney office.

EQUAL EMPLOYMENT OPPORTUNITY (COMMONWEALTH AUTHORITIES) ACT 1987 (EEO ACT)

Inclusive diversity at APRA

APRA has been proactive in meeting its responsibilities under the EEO Act through a comprehensive workplace diversity program. APRA is dedicated to ensuring that it continues to create an environment that fosters inclusivity and respect for all its staff. APRA believes that diverse and inclusive teams are critical for its success, because they broaden the range of perspectives that contribute to sound and well-informed judgments which are critical to the success of supervisory authorities.

As part of APRA's ongoing commitment to workplace inclusion, the Committee on Diversity and Inclusion (CDI) has been created to promote awareness and understanding, and initiate a refreshed strategy that sets diversity of thought as the business imperative. This work involves building networks within and outside of APRA, and providing greater emphasis on diversity and inclusion within APRA's reporting and people management policies and practices. APRA continues to be a member of the Diversity Council of Australia to help it remain current and consistent with evolving industry practices in this area.

Key activities currently underway in APRA include:

- raising awareness of specific aspects of diversity (gender, LGBTIQ, disability, indigenous and multicultural) through a series of events, a speaker series, and other staff communications;
- conducting a diversity and inclusion review of APRA's practices to identify key areas for improvement in the coming years;
- monthly updates of APRA's diversity profile and progress against long-term targets to APRA's executive management; and
- data analysis and trends for specific areas of focus.

Flexibility for all – if not, why not

Underpinning APRA's ability to develop and create an inclusive working environment is its workplace flexibility. APRA has always offered a wide range of flexible work options. However, over the past year, APRA has recognised that it needs to provide further support for staff to utilise these options to the full extent. As a result, a new flexible work initiative has been launched based on the principle of 'flexibility for all – if not, why not'.

As well as generally adding to APRA's employment value proposition, this initiative is intended to support diversity and inclusion within APRA by helping to attract and retain a more diverse talent pool.

Current state of diversity

Women now occupy 24 per cent of senior positions within the organisation against a target of 40 per cent by June 2019. Thirty-five per cent of APRA employees come from culturally and linguistically diverse backgrounds.

APRA diversity as at 30 June 2016[2]

Level	Female	Male	ATSI[3]	CALD1	CALD2	PWD
Level 1	21	13	0	7	3	1
Level 2	52	26	0	21	5	0
Level 3	81	80	0	70	6	0
Level 4	88	158	1	77	8	7
Senior	21	59	0	15	3	0
Executive	3	23	0	3	1	0
Total	**266**	**359**	**1**	**193**	**26**	**8**

ATSI Aboriginal and Torres Strait Islander

CALD1 Culturally and Linguistically Diverse, first generation

CALD2 Culturally and Linguistically Diverse, second generation

PWD People with disability

2 Includes permanent and fixed-term staff but excludes casuals.

3 Staff identifying as ATSI is unchanged between the current and preceding year.

NATIONAL DISABILITY STRATEGY

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007/08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at www.apsc.gov.au. APRA is no longer required to report on its performance under these various roles.

The National Disability Strategy 2010-2020, which has applied since 2010/11, sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. These reports can be found at www.dss.gov.au.

FREEDOM OF INFORMATION ACT 1982 (FOI ACT)

The FOI Act provides the public with a general right of access to documents held by Commonwealth agencies, including APRA. This general right is limited by exemptions needed to protect essential public interests or the privacy and business affairs of those who give information to APRA or the Commonwealth.

In 2015/16, APRA dealt with 62 applications for access to documents under the FOI Act, which included three applications that were on hand from the preceding year. During 2015/16, 56 applications were determined and six remained on hand as at 30 June 2016. In addition, APRA received five applications for internal review, one of which was revised on review and four were affirmed.

During the year, the FOI applications for access were dealt with as follows:

FOI Application	Number
Granted in full	4
Granted in part	7
Access refused	33
Withdrawn	12
Transferred to another agency	0
Ongoing at 30 June 2016	**6**
Total	**62**

Charges collected for FOI requests amounted to $15.00, while the estimated cost of handling initial FOI requests along with internal and Information Commissioner reviews was $52,958.62.

Information Publication Scheme

Part II of the FOI Act requires APRA to publish information as part of the Information Publication Scheme. APRA's Information Publication Plan shows the information APRA publishes in accordance with the Scheme requirements and is accessible on the APRA website.

WORK HEALTH AND SAFETY ACT 2011 (WHS ACT)

Details of investigations and other matters as prescribed

In compliance with reporting obligations under Schedule 2, Part 4 of the WHS Act, there were:

- no notifiable incidents arising out of the conduct of business of APRA;
- no investigations conducted during the year that related to undertakings carried out by APRA;
- no tests conducted on any plant, substance or thing in the course of such investigations;
- no directions to APRA by an investigator that the workplace not be disturbed; and
- no prohibition or improvements and provisional notices given to APRA.

Work health and safety measures

APRA continued to undertake a number of work health and safety measures during 2015/16 to safeguard the health and safety of its staff and visitors. These measures included:

- availability of comprehensive health assessments for senior staff and staff aged over 40;
- availability of cardiac-risk assessments for all other staff;
- an annual flu vaccination program;
- ergonomic assessments;
- an employee assistance program;

- provision of first-aid services in all APRA offices;
- mental health awareness training for people managers;
- mental health ambassadors;
- staff-elected WHS Representatives; and
- an active and responsive WHS Committee.

A key project in 2015/16 was the formalisation of APRA's Rehabilitation Management System to support APRA's long-term commitment to improving the physical and mental health of staff. This involves providing high quality and timely rehabilitation assistance and support to staff with injury or illness. APRA also has a Work Health and Safety Committee which focusses on issues to do with the health, safety and wellbeing of staff.

WHS policies including establishment of staff committees and selection of health and safety representatives

APRA has arrangements for consultation on all occupational health and safety issues, including maintenance of the WHS Committee with four staff and four management representatives. The WHS Committee satisfies legislative requirements, including meeting at least every three months and providing all staff with access to minutes of the meetings.

Health and safety outcomes

The number of worker compensation claims submitted by current employees remained low at just one claim in 2015/16. APRA's health and wellbeing program has helped to ensure that personal leave, which includes leave for personal illness and carer's leave, is not taken beyond a reasonable level. In the 2015 calendar year, APRA staff were absent for an average of 6.5 days personal leave per person, which has increased from 5.2 days in 2014. APRA's level of staff personal leave continues to compare favourably to the overall public sector average and 'all-industry' averages on similar metrics for staff absences.

Statistics requiring the giving of notice under Part 3 of the WHS Act

During the year there were no incidents notified to APRA that required a report to Comcare under Part 3 of the WHS Act.

OTHER REPORTING

Advertising and market research

Under the *Commonwealth Electoral Act 1918* APRA is required to report annually on the amounts paid to advertising agencies, market research and media advertising organisations.

In 2015/16, APRA paid $120,166 for recruitment advertising, of which $57,236 was paid to Linkedin Australia Pty Limited, and $49,630 to Dentsu Mitchell Media Australia Pty Ltd. APRA did not conduct any advertising campaigns during the financial year.

Auditor-General's activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audit of APRA for 2015/16. In addition the ANAO commenced a performance audit on APRA's prudential regulation of superannuation entities. This work will continue into 2016/17.

Collective agreements and common law contracts

As at 30 June 2016, 526 staff were covered by the terms of the APRA Employment Agreement, 2015. In addition, 105 senior staff were covered by common-law agreements.

All staff are appointed under the APRA Act. APRA applies a total remuneration package (TRP) approach whereby all salary, superannuation and 'salary-sacrifice' benefits are included in an employee's TRP.

The TRP ranges for non-executive staff as at 30 June 2016 were:

Level	Range
Level 4	$122,298 - $203,898
Level 3	$86,088 - $143,412
Level 2	$59,364 - $98,940
Level 1	$39,372 - $65,688

The APRA Employment Agreement 2015 commenced on 8 December 2015 for a three-year term.

Commonwealth Fraud Control Guidelines

The Chairman of APRA certifies that he is satisfied that:

- a fraud risk assessment and fraud control plan has been prepared and complies with the Commonwealth Fraud Control Guidelines;
- appropriate fraud prevention, detection, investigation, recording and reporting procedures are in place to meet the specific needs of APRA; and
- all reasonable measures to appropriately deal with fraud relating to APRA have been taken.

Commonwealth Ombudsman

The Commonwealth Ombudsman did not conduct any investigation into APRA's conduct in 2015/16.

Commonwealth Procurement Rules

The APRA Chairman's Finance Instructions and Financial Policies, and associated operational procedures, ensure that APRA's procurement process complies with the Commonwealth Procurement Rules (CPRs). In particular, they ensure that the core procurement principle of value-for-money is observed.

APRA conducts its procurement processes within the CPRs, including but not limited to:

- conducting open tenders for procurement activities of more than $80,000 (unless otherwise exempted under the CPRs);
- reporting all procurements over $10,000 on AusTender; and
- providing a link on APRA's website to the AusTender report on all purchases over $100,000.

In 2015/16, APRA had no AusTender-exempt contracts and all APRA competitively-tendered contracts over $100,000 provided for the Auditor-General to have access to the contractor's premises, as required under the CPRs.

Procurement initiatives to support small business

APRA supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website: www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts/

APRA's procurement activities that support small business are consistent with paragraph 54 of the CPRs and include:

- using the Commonwealth Contracting Suite for low risk procurements valued under $200,000;
- prequalified panels with SME providers;
- payments via electronic systems; and
- meeting the objective of paragraph 5.5 of the CPRs on sourcing over 10 per cent of procurements through SME providers.

Consultancies

APRA's Chairman's Finance Instructions and Financial Policies, and associated operational procedures, include specific provisions on consultants.

APRA engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice, information or solutions to assist in APRA's decision-making.

Prior to engaging consultants, APRA takes into account the skills and resources required for the task, the skills available in-house, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with legislation, CPRs and internal policies.

During 2015/16, APRA entered into 19 new consultancy contracts involving a total actual expenditure of $1,440,365. In total there were 24 consultancy contracts active during the 2015/16 year, involving total actual expenditure of $2,968,550.

Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au.

Consultative Arrangements

APRA consults extensively with regulated entities, industry bodies and other interested parties prior to formulating or amending prudential policies or finalising prudential standards or reporting standards.

APRA complies with the Government's policy on best practice regulation. During 2015/16 APRA met the requirements of the Office of Best Practice Regulation (OBPR) for Regulation Impact Statements (one in number). In addition, APRA completed 23 preliminary assessments; of these, the OBPR advised that further regulatory impact analysis was required for six.

Courts and Tribunals

Over 2015/16, there were no judicial decisions that had, or may have, a significant effect on APRA's operations, nor any court and tribunal decisions relating to enforcement action taken by APRA during the year.

Executive Committees

Executive Board

The Executive Board comprises the APRA Members and meets formally on a monthly basis, and more frequently as required, to discuss and resolve the major prudential policy, supervisory and strategic issues.

Member	Meetings	Attended
Wayne Byres (chair)	12	12
Helen Rowell	12	11
Geoff Summerhayes*	5	5

* From 1 January 2016

To aid its day-to-day management of APRA, the Executive Board has established a number of committees and steering groups. During 2015/16, these groups are set out below.

Risk Management Committee

APRA's risk management is overseen by the Risk Management Committee. Further information on APRA's governance is provided in Chapter 2 - Governance.

Attendance at Risk Management Committee meetings from 1 July 2015 to 30 June 2016

Member	No. of meetings	No. attended
Fiona Bennett (Chair)	4	4
Peter Day	4	4
Helen Rowell	4	4

Audit Committee

The Audit Committee is responsible for providing independent assurance and advice to the APRA Chair on APRA's financial and performance reporting responsibilities, systems of internal control and compliance with applicable laws and regulations.

Attendance at Audit Committee meetings from 1 July 2015 to 30 June 2016

Member	No. of meetings	No. attended
Peter Day (Chair)	4	4
Fiona Bennett	4	4
Helen Rowell	4	4

APRA Management Committee (AMC)

Responsible for high-level information-sharing and decisions on routine organisational matters, it met weekly or more frequently as required.

Policy Development Committee (PDC)

Responsible for providing guidance and direction on prudential policy and supervisory matters.

Enforcement Steering Group (ESG)

Responsible for ensuring that: a whole-of-APRA perspective is brought to potential and actual investigation and enforcement actions; a consistent approach is taken to any significant use of enforcement powers by areas within APRA; and there is effective oversight of ongoing enforcement actions.

Infrastructure Steering Group (ISG)

Responsible for overseeing the development of APRA's physical and IT infrastructure and its business, financial and resource planning systems.

People and Culture Steering Group (PCSG)

Responsible for addressing initiatives on management and leadership, performance management, rewards and recognition, and APRA culture.

Supervision Steering Group (SSG)

Responsible for overseeing the development and integration of APRA's supervisory approach, systems and tools.

Other committees and groups

Reporting to the above groups and committees are other more focused committees and groups, typically chaired by a General Manager. These include the following:

Industry groups

Reporting to the SSG, there are industry groups comprising representatives of the various divisions of APRA, covering each of APRA's regulated industries:

- ADIs;
- superannuation;
- general insurance;
- life insurance (including friendly societies); and
- private health insurance.

These groups monitor industry developments so as to identify emerging risks and issues and act as a sounding board for prudential policy issues in the different industries.

Licensing Committee

Reporting to the SSG, this Committee provides APRA-wide guidance on issues that need to be considered in licensing submissions and, after consideration of an application, recommends action to the relevant delegate.

International committees

Reporting to the SSG, two committees coordinate APRA's involvement with international bodies — one for banking and one for insurance. Their purpose is to: prioritise the allocation of resources for APRA's involvement in international activities; coordinate consistent and timely responses to issues raised in the relevant international forums; and ensure information from international sources is communicated effectively within APRA.

Work Health and Safety Group

Reporting to the PCSG, this Group focusses on issues to do with the health, safety and wellbeing of staff, and ensures that these are integrated into broader management systems and practices.

Staff Consultative Group

Reporting to the PCSG, this Group facilitates communication and consultation with all APRA staff below the senior management level on the terms and conditions of their employment (including the Human Resources Policy Manual) and the impact of these on APRA's organisational culture and values.

Security Group

Reporting to the ISG, this Group is the key forum for maintaining strategic and operational oversight of APRA's security policy and initiatives, and their implementation. Its main priority is to develop an overarching policy and governance strategy on all security matters affecting APRA and to take the measures necessary to implement the strategy.

Grant programs

The Commonwealth Grants Rules and Guidelines require agencies to publish details of grants on their websites within 14 working days after the funding agreement for the grant takes place. Details must remain on the websites for at least two financial years. Grant programs, including discretionary grant programs, that APRA either jointly administered or participated in during 2015/16, including previous recipients of the Brian Gray Scholarship and the University of New South Wales Cooperative Actuarial Scholarship, are available on APRA's website at www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Pages/brian-gray-scholarship-program.aspx

Information on grants awarded by APRA during 2015/16 is available at: www.apra.gov.au/AboutAPRA/Pages/StatutoryReportingRequirements.aspx

Indemnities and insurance premiums

APRA Members and officers are covered by the professional indemnity insurance cover of the Commonwealth-managed insurance scheme, Comcover. The generic terms and conditions of the insurance cover provided by Comcover to Commonwealth agencies are available on the Comcover website www.finance.gov.au/comcover. Under the conditions of the cover, APRA has an obligation to not disclose the nature and limits of liability and the amount of the premium.

Legal Services Directions 2005

The *Legal Services Directions 2005* require Commonwealth agencies to make publicly available information on records of their legal services expenditure for the previous financial year. During 2015/16, APRA's total expenditure on external legal advice and litigation services was $346,412.48 (excluding GST).

Parliamentary committees

Avenues through which APRA is accountable to the Parliament include Parliament's *ad hoc* and standing committees, and specific references on legislation or issues of particular interest to parliamentary committees.

During 2015/16, APRA Members and officers made themselves available for public hearings before the:

- House of Representatives Standing Committee on Economics Inquiry into Home Ownership (6 August 2015);
- House of Representatives Standing Committee on Economics reference on APRA's Annual Report (23 October 2015 and 18 March 2016);
- Senate Standing Committee on Economics Inquiry into Matters Relating to Credit Card Interest Rates (27 August 2015);
- Senate Economics Legislation Committee (sitting as Senate Estimates) (22 October 2015 and 10 February 2016);
- Senate Economics Legislation Committee Inquiry to the Superannuation Legislation Amendment (Trustee Governance) Bill 2015 (28 October 2015);
- Senate Economics References Committee Inquiry on Cooperative, Mutual and Member Owned Firms (26 February 2016); and
- Parliamentary Joint Committee on Corporations and Financial Services, Inquiry into Impairment of Customer Loans (16 February 2016).

Copies of Opening Statements of APRA's appearances delivered by APRA Members may be downloaded from APRA's website www.apra.gov.au, and transcripts of APRA's appearances and copies of its submissions to parliamentary committees are available from the Parliamentary website www.aph.gov.au.

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all eligible employees. For 2015/16, the aggregate bonus pool was $5.68 million. Under deferred bonus arrangements introduced in the APRA Employment Agreement, 2015/16 bonuses are only paid to eligible staff still in APRA's employ at the payment date.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 40 of the *Privacy Act 1988 during* 2015/16. No reports were served under section 30 of the Act. The Privacy Commissioner made no determinations under section 52, nor did APRA seek any under section 73. There were no adverse or favourable comments made by the Privacy Commissioner in respect of APRA's operations.

Privacy inquiries relating to APRA sent by post should be addressed to:

Freedom of Information Coordinator
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Or by phone: 02 9210 3000; fax: 02 9210 3424; or email: foi@apra.gov.au.

Responsible Ministers

The Hon Scott Morrison MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA. He is assisted in this role by the Hon Kelly O'Dwyer MP, Minister for Revenue and Financial Services.

STAFF STATISTICS

Additional statistics on APRA's staffing are presented in Chapter 5 – APRA's Resources and Risk Management.

Staff by location and full-time/part-time as at 30 June 2016

Location	Full-time	Part-time	Total
Adelaide	4	2	6
Brisbane	14	0	14
Canberra	19	0	19
Melbourne	54	5	59
Perth	4	1	5
Sydney	484	44	528
Total	**579**	**52**	**631**

Staff by division and full-time/part-time as at 30 June 2016

Division*	Full-time	Part-time	Total
Corporate	123	9	132
Diversified Institutions	114	9	123
Policy and Advice	69	10	79
Specialised Institutions	136	11	147
Supervisory Support	137	13	150
Total	**579**	**52**	**631**

* From 1 July 2015 a new organisational structure was introduced.

Full-time equivalent (FTE) staff strength as at 30 June 2016

Employment Type	Total
Permanent	598.7
Fixed-term	9
Casual	0
Total	**607.7**

AGENCY RESOURCES AND EXPENSE BY OUTCOME

Under the *Requirements for Annual Reports for Departments, Executive Agencies and other Non-corporate Commonwealth Entities*, issued by the Department of Prime Minister and Cabinet, APRA must provide information outlining its various funding sources during the financial year and total expenses for each agency outcome. To this end, APRA's Agency Resource Statement and Expenses by Outcome Statement for 2015/16 are set out below.

Agency Resources Statement		Actual available appropriation $'000	Payments made $'000	Balance remaining $'000
		(a)	(b)	(a) – (b)
Ordinary annual services				
Departmental appropriation		9,846	11,023	(1,177)
Total		**9,846**	**11,023**	**(1,177)**
Total ordinary annual services		**9,846**	**11,023**	**(1,177)**
Departmental non-operating				
Equity injections		–	–	–
Total		–	–	–
Total available annual appropriations and payments	A	**9,846**	**11,023**	**(1,177)**
Special Accounts				
Opening balance		65,439		
Appropriation receipts		11,023		
Special appropriation receipts		125,295		
MoG change - Private health insurance (cash)		3,794		
MoG change - Private health insurance (equity)		(2,821)		
Payments made			143,500	
Total Special Account	B	**202,730**	**143,500**	**59,230**
Total resources and payments				
A+B		212,576	154,523	58,053
Less appropriations drawn from annual or special appropriations above and credited to special accounts		9,846	11,023	(1,177)
Total net resourcing and payments for APRA		**202,730**	**143,500**	**59,230**

Expenses by Outcome Statement

Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.	Budget $'000	Actual expenses $'000	Variation $'000
	(a)	(b)	(a)-(b)
Program 1.1: Australian Prudential Regulation Authority			
Departmental expenses			
Departmental appropriation	6,167	9,846	(3,679)
Special Accounts	118,951	125,565	(6,614)
Other services (Appropriation Bill No. 2)	-	-	-
Total expenses for Outcome[1]	**125,118**	**135,411**	**(10,293)**

	Actual 2015/16	Actual 2014/15	Variation
Average staffing level (number)	599	566	33

[1] Departmental appropriation combines 'Ordinary annual services (Appropriation Bill No.1) 'and 'Revenue from independent sources'.

LIST OF REQUIREMENTS

The following list of mandatory annual reporting requirements, as outlined in the *Requirements for Annual Reports for Departments, Executive Agencies and other Non-corporate Commonwealth Entities* approved by the Joint Committee of Public Accounts and Audit, has been annotated with either 'not applicable' or the location of the information in this Report.

Part of *Report*	Description	Location or applicability
	Letter of transmittal	Page 2
	Table of contents	Page 4
	Index	Pages 147-48
	Glossary	Page 5
	Contact officer(s)	Page 149
	Internet home page address and internet address for report	Page 149
Review by Chairman		Chapter 1
Overview of Authority	Overview	Chapter 6
	Role and functions	Chapter 4 and Chapter 6
	Organisational structure	Page 16
	Outcome and program structure	Chapter 4 and Chapter 6
Report on performance	Review of performance in relation to programs and contribution to outcomes	Chapter 6
	Actual performance in relation to deliverables and KPIs	Chapter 6
	Narrative discussion and analysis of performance	Chapters 4-6
	Trend information	Chapters 4-6
	Discussion and analysis of the Authority's financial performance	Chapter 5 and Chapter 7
	Authority's resource statement and summary resource tables by outcomes	Chapter 8
Corporate governance	Compliance with the Commonwealth Fraud Control Guidelines	Chapter 8
	Statement of the main corporate governance practices in place	Chapter 2

Part of *Report*	Description	Location or applicability
External scrutiny	Significant developments in external scrutiny	Chapter 6
	Judicial decisions and decisions of administrative tribunals	Chapter 8
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Chapter 8
Management of human resources	Assessment of effectiveness in managing and developing human resources to achieve the Authority's objectives	Chapter 5
	Statistics on staffing	Chapter 5 and Chapter 8
	Statistics on employees who identify as Indigenous	Chapter 8
	Enterprise or collective agreements, determinations and common law contracts	Chapter 8
	Performance pay	Chapter 8
Assets management	Assessment of effectiveness of assets management	Chapter 8
Purchasing	Assessment of purchasing against core policies and principles	Chapter 8
Consultants	Summary statement detailing consultancy arrangements and confirming that information on contracts and consultancies is available through the AusTender website.	Chapter 8
Australian National Audit Office access clauses	Absence of provisions in contracts allowing access by the Auditor-General	Chapter 8
Exempt contracts	Contracts exempt from the AusTender process	Chapter 8
Financial statements		Chapter 7
Other information	Occupational health and safety (section 74 of the *Occupational Health and Safety Act 1991*) and Schedule 2 Part 4 of the *Work Health and Safety Act 2011*	Chapter 8
	Advertising and market research (Section 311A of the *Commonwealth Electoral Act 1918*) and statement on advertising campaigns	Chapter 8
	Ecologically sustainable development and environmental performance (Section 516A of the E*nvironment Protection and Biodiversity Conservation Act 1999*)	Chapter 8
	Grant programs	Chapter 8
	Disability reporting	Chapter 8
	Agency Resource Statements and Resources for Outcomes	Pages 143-144
	Information Publication Scheme statement	Chapter 8

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HEAD OFFICE

New South Wales

Delivery address:
APRA
1 Martin Place (Level 12)
SYDNEY NSW 2000

Mailing address:
GPO Box 9836
SYDNEY NSW 2001

T: 02 9210 3000
F: 02 9210 3411

APRAinfo: 1300 55 88 49

Website: www.apra.gov.au

Email: info@apra.gov.au

OTHER OFFICES

Australian Capital Territory

Delivery address:
APRA
10-12 Brisbane Ave (Level 2)
Barton ACT 2600

Mailing address:
GPO Box 9836
CANBERRA ACT 2601

T: 1300 55 88 49
F: 02 6213 5251

Queensland

Delivery address:
APRA
500 Queen Street (Level 9)
Brisbane QLD 4000

Mailing address:
GPO Box 9836
Brisbane QLD 4001

T: 07 3001 8500
F: 07 3001 8501

Victoria

Delivery address:
APRA
Casselden Place (Level 21)
2 Lonsdale Street
MELBOURNE VIC 3000

Mailing address:
GPO Box 9836
MELBOURNE VIC 3001

T: 03 9246 7500
F: 03 9663 5085

South Australia

Delivery address:
APRA
25 Grenfell Street (Level 22)
ADELAIDE SA 5000

Mailing address:
GPO Box 9836
ADELAIDE SA 5001

T: 08 8235 3200
F: 08 8235 3222