

APS 330 Public Disclosure

This public disclosure under APS 330 on the capital and credit risk is required for all locally incorporated ADIs.

CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards **APS 110, 111, 112, 114, 116** where capital is determined in three components

- Credit risk
- Market risk (trading Book)
- Operations risk.

The market risk component is not required by the credit union since the credit union is not engaged in trading book activities for financial instruments.

Capital resources

Under the prudential standards capital is segregated into Tier 1 and Tier 2 components

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Preference share capital
- Retained profits
- Realised reserves.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital, and discounted to 45% of the value net of any capital gains tax and estimated costs of sale.
- A subordinated loan remitted from the credit union's ultimate parent. The principal amount has been amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential standard APS 111.
- A General Reserve for Credit Losses.

Capital in the credit union is made up as follows:

| | 30 September 2011 |
|--|------------------------------|
| | \$'000 |
| Tier 1 | |
| Share capital | |
| Capital reserve | 16 |
| General reserve | |
| Retained earnings | 7,014 |
| | <u>7,030</u> |
| Less prescribed deductions | 131 |
| Net tier 1 capital | <u><u>6,899</u></u> |
| | |
| Tier 2 | |
| Reserve for credit losses | 130 |
| Asset revaluation reserves on property (discounted to 45%) | |
| Total | <u>50</u> |
| Less prescribed deductions | 50 |
| Net tier 2 capital | <u><u>79</u></u> |
| | |
| Total Capital (Tier 1 + Tier 2) | <u><u>6,978</u></u> |

The credit union is required to maintain a minimum capital level of 8% of risk weighted assets at any given time.

Risk Weighted Assets

The total of risk weighted assets comprises

1. Credit risk weighted for on balance sheet assets
2. Credit risk weighted assets for commitments to issue funds for loans and other guarantees
3. Operational risk charge as described in APS 114.

These components are described below

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

| | Balance Sheet value | Commitments (at prescribed credit equivalent) | Risk weight applied | Risk Weighted Value |
|---|------------------------|--|---------------------------|------------------------|
| | 30 Sep 11 | 30 Sep 11 | | 30 Sep 11 |
| | \$,000 | \$,000 | | \$,000 |
| Cash | 34 | | 0% | 0 |
| Funds on Deposit in highly rated ADI's | 4,706 | | 20%- 50% | 1,545 |
| Loans secured against eligible residential mortgages. | 16,021 | | 35% | 5,607 |
| Other loans | 1,581 | 515 | 0%- 100% | 2,096 |
| Past Due Claims | 3 | | 100% | 3 |
| Fixed assets | 132 | | 100% | 132 |
| Other assets | 225 | | 100% | 225 |
| Total Credit risk assets | 22,702 | 515 | | 9,608 |
| Operational risk assets | 1,266 | | 100% | 1,266 |
| Total risk weighted assets | 23,968 | 515 | | 10,874 |

The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel 2 Prudential framework enhancements.

The capital required and held as at 30th September 2011

30 Sep 2011

| | \$'000 |
|---|------------------|
| Deposits and Cash at Banks and other ADI's | 4,720 |
| Loans – residential mortgage | 16,021 |
| Loans - Other retail (personal, credit cards; overdrafts) | 1,584 |
| Other assets (Fixed assets; settlement accounts) | 377 |
| | <hr/> |
| Capital requirements for credit risk on assets (8% RWA) | 769 |
| Capital requirements for market risk | - |
| Capital requirements for operations risk (8% RWA) | 101 |
| Total Capital required (at 8% of Risk weighted assets) | <hr/> <u>870</u> |
| | <hr/> |
| Capital held by the credit union \$ | <u>6,979</u> |
| | <hr/> |
| Total Capital Ratio - % held by the credit union | 64.18% |

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

IMPAIRMENT OF ASSETS

(i) CREDIT RISK – INVESTMENTS

Surplus cash not invested in loans to members are held in high quality liquid assets. This included the funds required to be held to meet withdrawal of deposits by members of the credit union.

External Credit Assessment for Investments

The credit union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential Guidance APG112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

| | 30 th September 2011 | | | |
|--|--|----------|----------|-----------|
| Investments with banks and other ADI's | Carrying value on balance sheet \$,000 | Past due | Impaired | Provision |
| Cuscal – rated AA- | 1,677 | . | - | - |
| Banks – rated A and above | 3,009 | . | - | - |
| Banks – rated below AA | | . | - | - |
| Unrated institutions – credit unions | - | . | - | - |
| Total | 4,686 | . | - | - |

Impairment details

The level of impaired loans by class of loan is set out below. In the Note below -

- Carrying Value is the amount of the balance sheet gross of provision (net of deferred fees)
- Past due loans is the 'on balance sheet' loan balances which are behind in repayments past due by 30 days or more but not impaired
- Impaired loans is the 'on balance sheet' loan balances which are at risk of not meeting all principle and interest repayments over time
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans
- The losses in the period equate to the additional provisions set aside for impaired loans, and bad debts written off in excess of previous provision allowances.

| | As at 30 th September 2011 | | | | 30 th September 2011 | |
|---------------------------------|---------------------------------------|----------------------------------|----------------------------------|--------------------------|---------------------------------------|-------------------------|
| | Carrying value on balance sheet | Value of Loans that are past due | Value of Loans that are Impaired | Provision for impairment | Increase in provisions for impairment | Bad debts in the period |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Mortgage secured | 16,021 | | - | - | - | - |
| Personal | 1,090 | 3 | 3 | 3 | - | - |
| Overdrafts & Credit cards | 494 | - | | | | |
| Total to natural persons | | | | | | |
| Corporate borrowers | | | | | | |
| Government | | | | | | |
| Total | 17,606 | 3 | 3 | 3 | - | - |

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value all collateral as at the balance date due to the variety of assets and condition

Reserve for credit losses

In addition to the above provision for impairment, the board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future.

The reserve has been determined on the basis of the past experience with the loan delinquency and amounts written off. The amount of the reserve is currently \$130,000.

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