

## **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:

<b>30 June 2010</b>	
<b>\$'000</b>	
<b>Tier 1</b>	
Capital reserve	15
Retained earnings	6,825
	<u>6,840</u>
<b>Less prescribed deductions</b>	<u>130</u>
<b>Net tier 1 capital</b>	<u><u>6,710</u></u>
<b>Tier 2</b>	
Reserve for credit losses	130
<b>Less prescribed deductions</b>	<u>53</u>
<b>Net tier 2 capital</b>	<u><u>77</u></u>
<b>Total Capital (Tier 1 + Tier 2)</b>	<u><u>6,787</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
	<b>30 Jun 10</b>	<b>30 Jun 10</b>		<b>30 Jun 10</b>
	<b>\$,000</b>	<b>\$,000</b>		<b>\$,000</b>
Cash	44		0%	0
Funds on Deposit in highly rated ADI's	5,203		20%- 50%	1,641
Loans secured against eligible residential mortgages.	14,695		35%	5,143
Other loans	1,604	3,951	0%- 100%	2,035
Past Due Claims	170		35%- 100%	63
Fixed assets	47		100%	47
Other assets	281		100%	281
<b>Total Credit risk assets</b>	<u>22,044</u>	<u>3,951</u>		<u>9,210</u>
<b>Operational risk assets</b>	<u>1,314</u>		100%	<u>1,314</u>
<b>Total risk weighted assets</b>	<u><u>23,783</u></u>	<u><u>3,951</u></u>		<u><u>10,524</u></u>

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 30<sup>th</sup> June 2010

	<b>30 June 2010</b>
	<b>\$'000</b>
Deposits at Banks and other ADI's	5,247
Loans – residential mortgage	14,860
Loans - Other retail (personal, credit cards; overdrafts)	1,609
Other assets ( Fixed assets; settlement accounts)	328
Capital requirements for credit risk on assets (8% RWA)	842
Capital requirements for market risk	-
Capital requirements for operations risk (8% RWA)	105
Total Capital required (at 8% of Risk weighted assets)	947
Capital held by the credit union \$	6,787
Total Capital Ratio - % held by the credit union	64.51%

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 <sup>th</sup> June 2010			
Investments with banks and other ADI's	Carrying value on balance sheet \$,000	Past due	Impaired	Provision
Cuscal – rated AA-	2,203	.	-	-
Banks – rated AA and above	3,000	.	-	-
Banks – rated below AA		.	-	-
Unrated institutions – credit unions	-	.	-	-
<b>Total</b>	<b>5,203</b>	.	-	-

**(ii) CREDIT RISK – LOANS**

The classes of loans entered into by the credit union is limited to loans; commitments and other non-market off-balance sheet exposures. The credit union does not enter into debt securities; and over-the-counter derivatives.

The analysis of the credit union's loans by class, is as follows:

	<b>30<sup>th</sup> June 2010</b>			
<b>Loans to</b>	<b>Carrying value on balance sheet</b>	<b>Other non-market off balance sheet exposures</b>	<b>Max exposure</b>	<b>Average Gross exposure in the period</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Mortgage	14,860	861	15,721	15,700
Personal	1,103	-	1,103	1,010
Overdrafts	506	2,390	2,896	2,721
Corporate borrowers	-	-	-	-
<b>Total</b>	<b>16,469</b>	<b>3,251</b>	<b>19,720</b>	<b>19,431</b>

The off balance sheet commitments set out above comprise

	30 <sup>th</sup> June 2010 \$'000
<b>a. Outstanding loan commitments</b> The loans approved but not funded	-
<b>b. Loan redraw facilities</b> The loan redraw facilities available	861
<b>c. Undrawn loan facilities</b> Loan facilities available to members for overdrafts and line of credit loans are as follows:	
Total value of facilities approved	2,896
Less: Amount advanced	506
Net undrawn value	2,390
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.	
<b>Total financial commitments</b>	<b>3,287</b>

## 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 <sup>th</sup> June 2010				30 <sup>th</sup> June 2010	
	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	14,860	165	-	-	-	-
Personal	1,103	5	5	5	-	7
Overdrafts & Credit cards	506	-	-	-	-	-
Corporate borrowers	-	-	-	-	-	-
Government	-	-	-	-	-	-
<b>Total</b>	<b>16,469</b>	<b>170</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>7</b>

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.