

## APS 330 INTERIM FINANCIAL REPORTING 30 SEPTEMBER 2018

### Public Disclosure requirements for all locally incorporated ADIs – QUARTERLY

This disclosure on capital and credit risk refers to MCU Ltd.

The information in this report is prepared quarterly based on the financial records. The financial records are not audited for the quarters ended 30 September, 31 December and 31 March.

#### CAPITAL BASE 30 SEPTEMBER 2018

Table 1: Capital Base elements

<b>1. Tier 1 capital</b>	
<b>1.1 Common Equity Tier 1 Capital</b>	
1.1.2 Retained earnings	2,286,561
1.1.3 Current year earnings	(100,578)
1.1.4.5 Property revaluation reserve	439,313
1.1.4.6 General reserve	61,634
<b>2. Regulatory Adjustments to Common Equity Tier 1 Capital</b>	
2.1 Deferred tax assets in excess of deferred tax liabilities	(54,140)
2.6 Capitalised expenses	
2.6.4 Information technology software costs	(39,577)
<b>2.22 Common Equity Tier 1 Capital</b>	<b>2,593,213</b>
<b>3. Additional Tier 1 Capital</b>	
3.2 Additional Tier 1 Capital Instruments	296,973
3.3 Regulatory Adjustments to Additional Tier 1 Capital	
<b>3.4 Additional Tier 1 Capital</b>	<b>296,973</b>
<b>4. Tier 1 Capital</b>	<b>2,890,186</b>
<b>5. Tier 2 Capital</b>	
5.1.1 Tier 2 Capital Instruments	164,774
5.3 General reserve for credit losses	
5.3.1 Standardised approach (to a maximum of 1.25% of total credit RWA)	117,539
<b>5.4 Regulatory adjustments to Tier 2 Capital</b>	
<b>5.5 Tier 2 Capital</b>	<b>282,313</b>
<b>6. Level 1 Total Capital</b>	<b>3,172,499</b>

Table 2: Capital within the ADI

The elements of the regulatory capital as set out above are as follows:

#### CAPITAL INSTRUMENTS WITHIN THE ADI

The regulatory capital in the credit union comprises:

- Retained Earnings and
- General reserve for Credit Losses
- Capital Reserve Account
- Other Reserves
- Member Investment Shares

There are no other capital instruments (shares, debt instruments) issued by the ADI.

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#### Member Investment Shares (MIS)

Member Investment shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. The MIS are transferable but are not listed on the Australian Securities Exchange or any other public stock exchange. MIS have no maturity date and investment shareholders have no right or option to demand their repayment. MIS are issued at a fully paid value of \$1.00 per share.

#### CAPITAL REQUIREMENTS

Capital requirements for MCU Ltd are determined by the risk weights of the relevant assets held, with the minimum required capital to over 8% of risk weighted assets. The current level of capital as at 30 September 2018 is 13.69%.

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

The risk weighted assets held as at the end of the quarter ended 30 September 2018 is described in Table 3.

The capital held by MCU Ltd exceeds the policy and minimum capital prescribed by APRA Prudential standards. The excess may facilitate future growth for MCU Ltd.

The capital ratio is the amount of capital described in Table 3 divided by total risk weighted assets.

Table 3: Capital Adequacy

	Risk Weighted Assets \$'000	
	30 September 2018	30 June 2018
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Cash	-	-
• Liquid investments	4,459,027	4,500,721
• Loans - secured by residential mortgage	11,280,365	11,748,780
• Loans - other retail	3,444,053	3,416,924
• Investments in premises, plant and equipment and all other fixed assets	1,107,618	1,115,647
• all other assets	97,305	(86,641)
Total credit risk on balance sheet	20,388,368	20,695,431
Total credit risk off balance sheet (commitments)		
• Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	98,325	207,612
Capital requirements for securitisation	-	-
(b) Capital requirements (in terms of risk-weighted assets) for equity exposures in the IRB approach (simple risk-weighted method).	-	-
(c) Capital requirements for market risk	-	-
(d) Capital requirements for operational risk	2,694,322	2,694,322
(e) Capital requirements (in terms of risk-weighted assets) for interest rate risk in the banking book (IRRBB) (IRB/AMA approved Australian-owned ADIs only).	-	-
<b>Total Risk Weighted Assets</b>	<b>23,181,015</b>	<b>23,597,367</b>
(f) Common Equity Tier	11.19%	11.37%
Tier 1	12.47%	12.63%
Total Capital	13.69%	13.83%

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#### IMPAIRMENT OF ASSETS

##### CREDIT RISK – INVESTMENTS

Surplus cash not invested in loans to members are held in high quality liquid assets (HQLA) or other investments according to MCU Ltd's Liquidity Policy. This includes the funds required to be held to meet withdrawal of deposits by members. MCU Ltd uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential Guidance in APS112. The credit quality assessment scale within this standard has been complied with. The table 4a below excludes equities and securitisation exposures. MCU Ltd does not have any securitisation exposures. The exposure values associated with each credit quality step are as follows in Table 4a.

Table 4a: Credit Risk Investments

30 September 2018					
Investments with banks and other ADI's	Carrying value on Statement of Financial Position	Past due facilities	Impaired facilities	Specific Provision as at end of quarter	Increase in Specific Provision and write-offs in quarter
	\$	\$	\$	\$	\$
Indue— rated A+ Long Term and A-1 Short Term	1,300,000	-	-	-	-
ADIs — rated A-2 and above Short Term	7,231,689	-	-	-	-
ADIs — rated AA- and below Long Term	4,457,972	-	-	-	-
Unrated institutions— Credit Unions, Banks and Building Societies	1,994,976	-	-	-	-
<b>Total</b>	<b>14,984,637</b>	-	-	-	-

30 June 2018					
Investments with banks and other ADI's	Carrying value on Statement of Financial Position	Past due facilities	Impaired facilities	Specific Provision as at end of quarter	Increase in Specific Provision and write-offs in quarter
	\$	\$	\$	\$	\$
Indue— rated A+ Long Term and A-1 Short Term	1,300,000	-	-	-	-
ADIs — rated A-2 and above Short Term	6,275,612	-	-	-	-
ADIs — rated AA- and below Long Term	3,963,148	-	-	-	-
Unrated institutions— Credit Unions, Banks and Building Societies	2,985,285	-	-	-	-
<b>Total</b>	<b>14,524,045</b>	-	-	-	-

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#### CREDIT RISK – LOANS

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

#### Impairment details

The level of impaired loans by class of loan is set out below. In the note below:

- Carrying Value is the amount of the balance sheet gross of provision (net of deferred fees).
- Past due loans is the 'on balance sheet' loan balances which are behind in repayments past due by 90 days or more but not impaired.
- Impaired loans are the 'on balance sheet' loan balances which are at risk of not meeting all 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.

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and their condition. The analysis of MCU Ltd's loans by class, is shown in Table 4 b.

Table 4 b: Credit Risk Loans

30 September 2018							
Loans Portfolio	Gross Average Value for period	Carrying Value on Statement of Financial Position	Commitments (redraws, credit facilities undrawn)	Past Due Facilities	Impaired facilities	Specific Provision as at end of quarter	Movement in the provision / write off in the quarter
	\$	\$	\$	\$	\$	\$	\$
Mortgage Secured	32,234,000	31,887,912	561,858	2,235,903	-	-	-
Personal Loans	2,222,495	2,182,387	-	180,080	91,065	87,062	(39,219)
Overdrafts	489,952	504,103	-	60,895	571	9,708	9,644
Commercial	452,218	446,032	-	-	-	-	-
<b>Total</b>	<b>35,398,665</b>	<b>35,020,434</b>	<b>561,858</b>	<b>2,476,877</b>	<b>91,635</b>	<b>96,770</b>	<b>(29,575)</b>

30 June 2018							
Loans Portfolio	Gross Average Value for period	Carrying Value on Statement of Financial Position	Commitments (redraws, credit facilities undrawn)	Past Due Facilities	Impaired facilities	Specific Provision as at end of quarter	Movement in the provision / write off in the quarter
	\$	\$	\$	\$	\$	\$	\$
Mortgage Secured	32,194,001	32,311,623	1,110,643	2,516,807	270,879	-	-
Personal Loans	2,317,824	2,286,597	13,250	225,719	111,542	126,281	34,755
Overdrafts	485,207	483,544	-	118,466	147	64	7
Commercial	466,708	465,452	-	-	-	-	-
<b>Total</b>	<b>35,463,740</b>	<b>35,547,216</b>	<b>1,123,893</b>	<b>2,860,992</b>	<b>382,568</b>	<b>126,345</b>	<b>34,762</b>

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#### GENERAL RESERVE FOR CREDIT LOSSES

This reserve is set aside to quantify the estimate for potential future losses in loans and investments.

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, and the risk of loss on investments and other assets.

Table 4 c: The general reserve for credit losses

	30 September 2018	30 June 2018
	\$	\$
General reserve for credit losses	117,539	117,539

#### SECURITISATION ARRANGEMENTS

MCU Ltd does not currently have a formal agreement for securitisation arrangements.