

APS 330 INTERIM FINANCIAL REPORTING 30 SEPTEMBER 2019

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 2019

Table 1: Capital Base elements

1. Tier 1 capital	
1.1 Common Equity Tier 1 Capital	
1.1.2 Retained earnings	2,119,166
1.1.3 Current year earnings	(27,777)
1.1.4.5 Property revaluation reserve	439,313
1.1.4.6 General reserve	62,024
2. Regulatory Adjustments to Common Equity Tier 1 Capital	
2.1 Deferred tax assets in excess of deferred tax liabilities	-
2.6 Capitalised expenses	
2.6.4 Information technology software costs	(8,477)
2.15 Equity exposures	(10)
2.22 Common Equity Tier 1 Capital	2,584,239
3. Additional Tier 1 Capital	
3.2 Additional Tier 1 Capital Instruments	222,730
3.3 Regulatory Adjustments to Additional Tier 1 Capital	
3.4 Additional Tier 1 Capital	222,730
4. Tier 1 Capital	2,806,969
5. Tier 2 Capital	
5.1.1 Tier 2 Capital Instruments	123,580
5.3 General reserve for credit losses	
5.3.1 Standardised approach (to a maximum of 1.25% of total credit RWA)	117,539
5.4 Regulatory adjustments to Tier 2 Capital	
5.5 Tier 2 Capital	241,119
6. Level 1 Total Capital	3,048,088

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 2019 is 13.94%.

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 2019 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 2019	30 June 2019
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Cash	-	-
• Liquid investments	5,944,263	4,207,343
• Loans - secured by residential mortgage	10,453,765	10,679,031
• Loans - other retail	1,538,277	2,116,366
• Investments in premises, plant and equipment and all other fixed assets	1,075,837	1,083,669
• all other assets	(16,944)	(75,620)
Total credit risk on balance sheet	18,995,198	18,010,789
Total credit risk off balance sheet (commitments)		
• Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	32,673	50,543
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	2,844,331	2,844,331
(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).	-	-
Total Risk Weighted Assets	21,872,202	20,905,663
(f) Common Equity Tier	11.82%	12.49%
Tier 1	12.83%	13.55%
Total Capital	13.94%	14.71%

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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 2019					
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	16,851,223	-	-	-	-
ADIs — rated AA- and below Long Term	1,707,055	-	-	-	-
Unrated institutions— Credit Unions, Banks and Building Societies	6,300,000	-	-	-	-
Total	26,158,278	-	-	-	-

30 June 2019					
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	12,313,129	-	-	-	-
ADIs — rated AA- and below Long Term	1,700,000	-	-	-	-
Unrated institutions— Credit Unions, Banks and Building Societies	4,300,000	-	-	-	-
Total	19,613,129	-	-	-	-

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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 2019							
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	28,902,848	28,459,846	93,351	2,431,930	307,278	-	-
Personal Loans	1,652,384	1,600,154	-	208,872	49,676	77,763	(298)
Overdrafts	563,798	566,483	-	29,943	25,936	600	(516)
Commercial	322,512	241,096	-	-	-	-	-
Total	31,441,542	30,867,579	93,351	2,670,745	382,890	78,363	(814)

30 June 2019							
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	29,679,915	29,406,201	144,408	2,558,205	307,434	-	-
Personal Loans	1,821,718	1,737,612	-	177,939	55,138	79,437	(37,908)
Overdrafts	547,677	570,069	-	31,720	28,267	1,116	968
Commercial	378,770	373,364	-	-	-	-	-
Total	32,428,080	32,087,246	144,408	2,767,864	390,839	80,553	(36,940)

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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 2019	30 June 2019
	\$	\$
General reserve for credit losses	117,539	117,539

SECURITISATION ARRANGEMENTS

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