



Quay Credit Union Ltd

Annual Disclosure of Prudential Information for the year ended 30 June 2014

Prudential Disclosures as required by APS 330 Capital Adequacy: Public Disclosure of Prudential Information.

The Prudential Disclosures contained herein apply to Quay Credit Union Limited (ABN 44 087 649 723)

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

The report as at the 30 June is based on the financial statements as audited as at the 30 June.

There are no other legal entities that comprise a consolidated group.

CAPITAL BASE

The details of the components of the capital base are set out below as at the financial year ended 30 June 2014. These amounts coincide with the audited accounts.

The following Table A sets out the elements of the capital held by the ADI including the reconciliation of any adjustments required by the APRA Prudential Standards to the audited financial statements.

Adjustments are usually in the form of deductions of assets not regarded as recoverable in the short term (such as intangible assets and deferred tax assets), and or discounts made to eligible capital of a short term nature.

All regulatory capital elements are consistent with the audited financial statements as at the last reporting date.

Glossary of terms used in this guide is

- AT1' refers to **Additional Tier 1 Capital**
- the Basel II framework' refers to the document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework, Comprehensive Version*, June 2006, published by the Basel Committee on Banking Supervision (the Basel Committee);
- 'Basel III' refers to the document *Basel III: A global regulatory framework for more resilient banks and banking systems*, revised version, June 2011, published by the Basel Committee;
- 'CET1' refers to **Common Equity Tier 1 Capital**;
- 'T1' refers to **Tier 1 Capital**; and
- 'T2' refers to **Tier 2 Capital**

The capital terms are further defined in the APRA Prudential Standards APS 110.

TABLE A – CAPITAL BASE ELEMENTS

		30-Jun-14	Ref
	Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	N/A	
2	Retained earnings	16,068,003	a
3	Accumulated other comprehensive income (and other reserves)	128,582	b
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)</i>	N/A	
5	Ordinary share capital issued by subsidiaries and held by third parties	N/A	
6	Common Equity Tier 1 Capital (before regulatory adjustments on Equity Tier 1 capital: regulatory adjustments)	16,196,585	
	Common Equity Tier 1 Capital: regulatory adjustments:		
7	Prudential valuation adjustments	N/A	
8	Goodwill (net of related tax liability)	N/A	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	N/A	
10	Deferred tax assets in excess of deferred tax liabilities	N/A	
11	Cash-flow hedge reserve	N/A	
12	Shortfall of provisions to expected losses	N/A	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	N/A	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	N/A	
15	Defined benefit superannuation fund net assets	N/A	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	N/A	
17	Reciprocal cross-holdings in common equity	N/A	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	379,667	c
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	N/A	
20	Mortgage service rights (amount above 10% threshold)	N/A	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	83,670	d
22	Amount exceeding the 15% threshold	N/A	
23	of which: significant investments in the ordinary shares of financial entities	N/A	
24	of which: mortgage servicing rights	N/A	
25	of which: deferred tax assets arising from temporary differences	N/A	
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	191,299	
26a	of which: treasury shares	N/A	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	N/A	
26c	of which: deferred fee income	N/A	
26d	of which: equity investments in financial institutions not reported in 18, 19 and 23	N/A	
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	N/A	
26f	of which: capitalised expenses	180,120	e
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	11,179	f
26h	of which: covered bonds in excess of asset cover in pools	N/A	
26i	of which: undercapitalisation of a non-consolidated subsidiary	N/A	
26j	of which: other national specific regulatory adjustments not reported in 26a to 26i	N/A	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	N/A	
28	Total regulatory adjustments to Common Equity Tier 1	654,636	
29	Common Equity Tier 1 Capital (CET1)	15,541,949	

		30-Jun-14	Ref
	Additional Tier 1 Capital: instruments	0	
30	Directly issued qualifying Additional Tier 1 instruments	N/A	
31	of which: classified as equity under applicable accounting standards	N/A	
32	of which: classified as liabilities under applicable accounting standards	N/A	
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	N/A	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	of which: instruments issued by subsidiaries subject to phase out	N/A	
36	Additional Tier 1 Capital before regulatory adjustments	0	
	Additional Tier 1 Capital: regulatory adjustments	0	
37	Investments in own Additional Tier 1 instruments	N/A	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	N/A	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	N/A	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	N/A	
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)		
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	N/A	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	N/A	
43	Total regulatory adjustments to Additional Tier 1 Capital	0	
44	Additional Tier 1 Capital (AT1)	0	
45	Tier 1 Capital (T1 = CET1 + AT1)	15,541,949	
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	N/A	
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	N/A	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	N/A	
49	of which: instruments issued by subsidiaries subject to phase out	N/A	
50	Provisions	818,268	g
51	Tier 2 Capital before regulatory adjustments	818,268	
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	N/A	
53	Reciprocal cross-holdings in Tier 2 instruments	N/A	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	N/A	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	N/A	
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	N/A	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	N/A	
56c	of which: other national specific regulatory adjustments not reported in 56a and 56b	N/A	
57	Total regulatory adjustments to Tier 2 capital	0	
58	Tier 2 capital (T2)	818,268	
59	Total capital (TC=T1+T2)	16,360,217	
60	Total risk-weighted assets based on APRA standards	96,266,767	

		30-Jun-14	Ref
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.14%	
62	Tier 1 (as a percentage of risk-weighted assets)	16.14%	
63	Total capital (as a percentage of risk-weighted assets)	16.99%	
64	Institution-specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIBs buffer requirement, expressed as a percentage of risk-weighted assets)	6.00%	
65	<i>of which: capital conservation buffer requirement</i>	4.50%	
66	<i>of which: ADI-specific countercyclical buffer requirements</i>	2.50%	
67	<i>of which: G-SIB buffer requirement</i>	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	8.99%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
	Amount below thresholds for deductions (not risk-weighted)		
72	Non-significant investments in the capital of other financial entities	N/A	
73	Significant investments in the ordinary shares of financial entities	N/A	
74	Mortgage servicing rights (net of related tax liability)	N/A	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	N/A	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	818,268	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	204,503	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	N/A	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	N/A	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	N/A	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	N/A	
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	N/A	
83	<i>Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)</i>	N/A	
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	N/A	
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	N/A	

REGULATORY CAPITAL RECONCILIATION

Quay Credit Union Limited is an Authorised Deposit Taking Institution. It does not consolidate any entities for accounting or regulatory purposes.

Comparison of accounting and regulatory balance sheet as at 30 June 2014:

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref to Table A
Regulatory Capital Reconciliation			
ASSETS			
Cash and cash equivalents	1,432,268	1,432,268	
Liquid investments	75,368,617	75,368,617	
Receivables	1,189,884	1,189,884	
Loans to members	128,097,112	128,097,112	
Available for sale investments	390,846	390,846	
<i>of which: commercial (financial) entities</i>		379,667	c
<i>of which: commercial (non-financial) entities</i>		11,179	f
Property, plant and equipment	57,868	57,868	
Taxation assets	96,347	96,347	
<i>of which: deferred tax assets</i>		83,670	d
Intangible assets	180,120	180,120	e
TOTAL ASSETS	206,813,062	206,813,062	
LIABILITIES			
Deposits from members	187,438,786	187,438,786	
Creditors accruals and settlement accounts	2,056,439	2,056,439	
Borrowings	-	-	
Tax liabilities	127,526	127,526	
Provisions	175,458	175,458	
TOTAL LIABILITIES	189,798,209	189,798,209	
NET ASSETS	17,014,853	17,014,853	
MEMBERS EQUITY			
Reserve for credit losses	818,268	818,268	g
Retained earnings	16,068,003	16,068,003	a
Capital reserve account	128,582	128,582	b
TOTAL MEMBERS EQUITY	17,014,853	17,014,853	

CAPITAL INSTRUMENTS WITHIN THE ADI

The regulatory capital is limited to:

- Retained earnings
- General reserve for credit losses

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

Disclosure template for main features of Regulatory Capital instruments		
1	Issuer	N/A
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	N/A
	<i>Regulatory treatment</i>	N/A
4	Transitional Basel III rules	N/A
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group & solo	N/A
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	N/A
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	N/A
9	Par value of instrument	N/A
10	Accounting classification	N/A
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons/dividends</i>	N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

CAPITAL REQUIREMENTS

Capital requirements in the ADI is determined by the risk weights of the relevant assets help with the minimum required capital to over 11% of the risk weighted assets. The ADI maintains a capital policy level of minimum 13.5%.

The risk weighted assets for each asset grouping as set out in the table below is determined by the APRA Prudential Standards 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 June 2014 is as follows:

TABLE C - RISK WEIGHTED ASSETS BY ASSET CLASS

	Risk Weighted Assets	
	Current Quarter 30 June 2014	Previous Quarter 31 March 2014
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
▪ Loans - secured by residential mortgage	42,544,657	44,387,586
▪ Loans - other retail	6,626,893	7,204,593
▪ Loans - corporate	186,380	197,288
▪ Liquid investments	29,678,464	26,543,097
▪ all other assets	663,484	1,427,711
Total credit risk on balance sheet	79,699,878	79,760,275
▪ Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	5,123,055	5,170,816
▪ Capital requirements for securitisation	-	-
(b) Capital requirements for market risk	-	-
(c) Capital requirements for operational risk	11,443,834	11,157,847
Total Risk Weighted assets (Sum above components)	96,266,767	96,088,938

TABLE D – CAPITAL HELD BY THE ADI

The capital held by the ADI exceeds the policy and minimum capital prescribed by the APRA Prudential Standards. This excess facilitates future growth within the ADI.

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

	Capital (\$)	Capital Ratio	
	Current Quarter 30 June 2014	Current Quarter 30 June 2014	Previous Quarter 31 March 2014
Common Equity Tier 1	15,541,949	16.14%	15.98%
Tier 1	15,541,949	16.14%	15.98%
Total Capital	16,360,217	16.99%	16.83%

CREDIT RISK

(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 ADI.

The ADI 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 in APS112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows in Table E.

TABLE E - INVESTMENTS

Current Quarter 30 June 2014

Investment Category	Total Gross	Average Gross	Impaired Facilities	Past Due	Specific Provisions	Bad Debt Expense (Quarter)
Investments						
- Cuscal	25,266,034	22,885,347	-	-	-	-
- Banks	45,163,190	42,499,232	-	-	-	-
- Other rated ADI's	6,455,426	6,455,023	-	-	-	-
- Unrated ADI's	500,000	583,333	-	-	-	-
Total liquid investments	77,384,650	72,422,935	-	-	-	-

Previous Quarter 31 March 2014

Investment Category	Total Gross	Average Gross	Impaired Facilities	Past Due	Specific Provisions	Bad Debt Expense (Quarter)
Investments						
- Cuscal	23,519,268	22,153,958	-	-	-	-
- Banks	33,953,415	34,263,122	-	-	-	-
- Other rated ADI's	9,454,821	9,461,203	-	-	-	-
- Unrated ADI's	1,000,000	1,000,000	-	-	-	-
Total liquid investments	67,927,504	66,878,283	-	-	-	-

CREDIT RISK – LOANS

The classes of loans entered into by the Credit Union are limited to loans, commitments and other off-balance sheet exposures. The Credit Union 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 balance date due to the variety of assets and conditions.

The analysis of the ADI's loans by class, is as follows in Table F.

TABLE F – LOANS

Current Quarter 30 June 2014

By Portfolio	Gross Exposure (on balance sheet)	Gross Exposure Average Gross	Redraws & Overdraft Facilities	Loans Impaired	Loans Past Due 90 days	Specific Provisions	Bad Debt Expense (Quarter)
Loan Portfolio							
- Mortgage secured	121,292,240	124,641,087	25,753,353	-	-	-	-
- Personal loans	6,111,825	6,071,141	-	41,161	-	413	-
- Overdrafts	506,667	562,029	3,473,493				
- Corporate	186,380	188,434	-				
Total	128,097,112	131,462,691	29,226,846	41,161	-	413	-

Previous Quarter 31 March 2014

By Portfolio	Gross Exposure (on balance sheet)	Gross Exposure Average Gross	Redraws & Overdraft Facilities	Loans Impaired	Loans Past Due 90 days	Specific Provisions	Bad Debt Expense (Quarter)
Loan Portfolio							
- Mortgage secured	126,821,674	128,146,440	26,808,221	-	-	-	-
- Personal loans	6,682,789	6,636,169	-	36,068	-	2,792	-
- Overdrafts	506,667	543,529	3,329,056				
- Corporate	197,288	187,464	-				
Total	134,208,418	135,513,602	30,137,277	36,068	-	2,792	-

General Reserve for Credit Losses

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

In addition to the 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 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.

TABLE G – GENERAL RESERVE FOR CREDIT LOSSES

	Current Quarter 30 June 2014	Previous Quarter 31 March 2014
General Reserve for Credit Losses	818,268	816,852

SECURITISATION

The Credit Union has not entered into any arrangements for securitised loans to support its liquidity requirements.