Quay Credit Union Ltd

Annual Disclosure of Prudential Information for the quarter 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 Credit Union's 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 quarter ended 30 June 2014.

The following Table A sets out the elements of the capital held by the Credit Union.

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

	Jun 14	Mar 14
Common Equity Tier 1 Capital: instruments and reserves		
Retained earnings	15,562,407	15,563,822
Accumulated other comprehensive income (and other reserves)	622,621	450,813
Common Equity Tier 1 Capital (before regulatory adjustments on Equity Tier 1 capital: regulatory adjustments)	**16,185,028**	**16,014,635**
Other intangibles	180,121	180,600
Deferred tax assets (net of related tax liability)	96,347	92,266
Investments in commercial (non-financial) entities	390,846	390,846
Total regulatory adjustments to Common Equity Tier 1	**667,314**	**663,712**
Common Equity Tier 1 Capital (CET1)	**15,517,714**	**15,350,923**
Total regulatory adjustments to Additional Tier 1 Capital	**-**	**-**
Additional Tier 1 Capital (AT1)	**-**	**-**
Tier 1 Capital (T1 = CET1 + AT1)	**15,517,714**	**15,350,923**
Tier 2 Capital: instruments and provisions		
Provisions for credit losses	818,268	816,852
Tier 2 Capital before regulatory adjustments	**818,268**	**816,852**
Tier 2 Capital: regulatory adjustments	**-**	**-**
Total regulatory adjustments to Tier 2 capital	**-**	**-**
Tier 2 capital (T2)	**818,268**	**816,852**
Total capital (TC=T1+T2)	**16,335,982**	**16,167,775**

CAPITAL INSTRUMENTS WITHIN THE CREDIT UNION

The regulatory capital is limited to:

- Retained earnings
- General reserve for credit losses

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

CAPITAL REQUIREMENTS

Capital requirements in the Credit Union 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 Credit Union maintains a capital policy level of minimum 13.5% and a capital target of 15%. The current level of capital is 17%.

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 B - RISK WEIGHTED ASSETS BY ASSET CLASS

	Risk Weighted Assets	
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;	**Current Quarter Jun 14**	**Previous Quarter Mar 14**
▪ 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	**96,266,767**	**96,088,938**

TABLE C – CAPITAL HELD BY THE CREDIT UNION

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

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

	Capital ($)		Capital Ratio	
	Current Quarter Jun 14	**Previous Quarter Mar 14**	**Current Quarter Jun 14**	**Previous Quarter Mar 14**
Common Equity Tier 1	15,517,714	15,350,923	16.12%	15.98%
Tier 1	15,517,714	15,350,923	16.12%	15.98%
Total Capital	16,335,982	16,167,775	16.97%	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 Credit Union.

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 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 D - 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	9,451,821	9,461,203	-	-	-	-
- Unrated ADI's	1,000,000	1,000,000	-	-	-	-
Total liquid investments	**67,927,504**	**66,878,283**	-	-	-	-

(ii) 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 Credit Union's loans by class, is as follows in Table F.

TABLE E – 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 F – GENERAL RESERVE FOR CREDIT LOSSES

	Current Quarter Jun 14	Previous Quarter Mar 14
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.