

This disclosure on capital and credit risk refers to Transport Mutual Credit Union Limited (A.B.N. 78 087 650 600). Transport Mutual Credit Union does not currently have any subsidiaries.

CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards **APS 110, 111, 112, 114, 116** capital is determined in three components:

- Credit risk
- Market risk
- Operations risk

The market risk component is not required by the Credit Union since the Credit Union is not engaged in any 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

- Retained earnings
- Capital reserve.

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.

For the Credit Union, Tier 2 capital generally comprises:

- Asset revaluation reserves for shares held by the Credit Union, and property owned by the Credit Union if applicable
- A General Reserve for Credit Losses.

Capital in the Credit Union is made up as follows:

Table A

	31-Dec-17 (Unaudited) \$'000	30-Sep-17 (Unaudited) \$'000
Tier 1		
Capital reserve	36	36
General reserve		
Retained earnings	8,734	8,712
	<u>8,770</u>	<u>8,748</u>
Less prescribed deductions		
Equity in other ADI's	166	166
Equity in other entities		
Intangible assets	-	-
Deferred tax assets	94	94
Total Deductions	<u>260</u>	<u>260</u>
Net tier 1 capital	<u>8,510</u>	<u>8,488</u>
Tier 2		
Subordinated debt		
Reserve for credit losses	409	402
Asset revaluation reserves on property		
Asset revaluation reserves on equity		
Total	<u>409</u>	<u>402</u>
Less prescribed deductions	<u>0</u>	<u>0</u>
Net tier 2 capital	<u>409</u>	<u>402</u>
Total Capital (Tier 1 + Tier 2)	<u>8,919</u>	<u>8,890</u>

The Credit Union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The ratio is derived by the fraction of total capital divided by risk weighted assets.

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 Prudential Standards APS 112. The general rules apply the risk weights according to the level of underlying security.

Table B

	Balance Sheet value	Commitments (at prescribed credit equivalent)	Total risk weighted assets	Risk weight applied	Risk Weighted Value
	31-Dec-17	31-Dec-17	31-Dec-17		31-Dec-17
	\$'000	\$'000	\$'000		\$'000
Cash	0	-	0	0%	-
Funds on Deposit in highly rated ADI's	6,688	-	6,688	20%	1,338
Funds on Deposit in less highly rated ADI's	3,956	-	3,956	20% - 50%	1,978
Loans secured against eligible residential mortgages up to 80% LVR	50,572	-	50,572	35% - 75%	17,776
Loans secured against eligible residential mortgages over 80% LVR	6,770	-	6,770	50% - 100%	3,068
Other loans	0	-	0	100%	0
Investments in equity instruments	0	-	0	150%	0
Fixed assets	2,386	-	2,386	100%	2,386
Other assets	5,439	-	5,439	100%	5,439
Total credit risk on balance sheet	75,811	-	75,811		31,985
Total credit risk off balance sheet (commitments)					
- Undrawn financial commitments (overdrafts, redraw facilities, line of credit, loans approved not advanced)					753
Operational risk assets					3,788
Total risk weighted assets					36,526

Table B

	Balance Sheet value	Commitments (at prescribed credit equivalent)	Total risk weighted assets	Risk weight applied	Risk Weighted Value
	30-Sep-17	30-Sep-17	30-Sep-17		30-Sep-17
	\$'000	\$'000	\$'000		\$'000
Cash	0	-	0	0%	-
Funds on Deposit in highly rated ADI's	6,308	-	6,308	20%	1,262
Funds on Deposit in less highly rated ADI's	3,461	-	3,461	20% - 50%	1,730
Loans secured against eligible residential mortgages up to 80% LVR	48,252	-	48,252	35% - 75%	16,972
Loans secured against eligible residential mortgages over 80% LVR	7,124	-	7,124	50% - 100%	3,268
Other loans	0	-	0	100%	0
Investments in equity instruments	0	-	0	150%	0
Fixed assets	2,395	-	2,395	100%	2,395
Other assets	5,733	-	5,733	100%	5,733
Total credit risk on balance sheet	73,273	-	73,273		31,360
Total credit risk off balance sheet (commitments)					
- Undrawn financial commitments(overdrafts, redraw facilities, line of credit, loans approved not advanced)					810
Operational risk assets					3,669
Total risk weighted assets					35,839

The capital required and held as at the end of the financial year is as follows

Table C

	Current Qtr	Previous Qtr
	31-Dec-17	30-Sep-17
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Capital requirements for credit risk (8% RWA)	2,559	2,509
Capital requirements for securitization credit risk (8% RWA)	-	-
Capital requirements for market risk	-	-
Capital requirements for operations risk (8% RWA)	303	294
Total Capital <i>required</i> (at 8% of risk weighted assets)	2,862	2,802
 Total Capital <i>held</i> by the credit union	 8,919	 8,890

Capital Ratios	31-Dec-17	30-Sep-17
Common Equity Tier 1	23.30%	23.68%
Tier 1	23.30%	23.68%
Total Capital	24.42%	24.81%

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 is held in high quality liquid assets. This includes 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 exposures, where applicable, using the credit quality assessment scale in APRA's Prudential Guidance Note 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:

Table D

	31-Dec-17		
Investments with banks and other ADI's	Carrying value on balance sheet	Past due value / Impaired	Provision
Cuscal – rated AA-	6,688	-	-
Banks – rated AA and above	3,956	-	-
Banks – rated below AA	-	-	-
Unrated institutions – credit unions	-	-	-
Total	10,644	-	-

	30-Sep-17		
Investments with banks and other ADI's	Carrying value on balance sheet	Past due value / Impaired	Provision
Cuscal – rated AA-	6,308	-	-
Banks – rated AA and above	3,461	-	-
Banks – rated below AA	-	-	-
Unrated institutions – credit unions	-	-	-
Total	9,769	-	-

(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:

Table E

	31-Dec-17		
Loans to	Carrying value on balance sheet	Commitments	Max exposure
	\$'000	\$'000	\$'000
Mortgage secured	57,343	1,487	58,830
Personal	5,373	-	5,373
Overdrafts & Credit cards	39	-	39
Total to natural persons	62,755	1,487	64,242
Corporate borrowers	-	-	-
Government	-	-	-
Total	62,755	1,487	64,242

	30-Sep-17		
Loans to	Carrying value on balance sheet	Commitments	Max exposure
	\$'000	\$'000	\$'000
Mortgage secured	55,376	1,590	56,966
Personal	5,593	-	5,593
Overdrafts & Credit cards	48	-	48
Total to natural persons	61,017	1,590	62,607
Corporate borrowers	-	-	-
Government	-	-	-
Total	61,017	1,590	62,607

The commitments set out above comprise:

	31-Dec-17	30-Sep-17
	\$'000	\$'000
a. Outstanding loan commitments		
Loans approved but not funded	1,487	1,590
	<u>1,487</u>	<u>1,590</u>
b. Loan redraw facilities		
Loan redraw facilities available	-	-
	<u>-</u>	<u>-</u>
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and lines of credit loans are as follows:		
Total value of facilities approved	251	258
Less: Amount advanced	89	88
Net undrawn value	162	170
	<u>162</u>	<u>170</u>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
	<u>162</u>	<u>170</u>
Total financial commitments	<u>1,649</u>	<u>1,760</u>

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)
- Impaired loans value is the 'on balance sheet' loan balances which are behind in repayments past due by 30 days or more
- 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.

Table F

31-Dec-17				
	Carrying value on balance sheet	Value of Loans that are past due or Impaired	Provision for impairment	Losses in the period
	\$'000	\$'000	\$'000	\$'000
Mortgage secured	57,343	0	-	-
Personal	5,373	77	49	-
Overdrafts & Credit cards	39	0	0	-
Total to natural persons	62,755	77	49	-
Corporate borrowers	-	-	-	-
Government	-	-	-	-
Total	62,755	77	49	-

30-Sep-17				
	Carrying value on balance sheet	Value of Loans that are past due or Impaired	Provision for impairment	Losses in the period
	\$'000	\$'000	\$'000	\$'000
Mortgage secured	55,376	0	-	-
Personal	5,593	33	29	-
Overdrafts & Credit cards	48	0	0	-
Total to natural persons	61,017	33	29	-
Corporate borrowers	-	-	-	-
Government	-	-	-	-
Total	61,017	33	29	-

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 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 is based on estimation of potential risk in the loan portfolio based upon the level of security taken as collateral.

The reserve has been determined on the basis of past experience with loan delinquency and amounts written off. The amount of the reserve is currently \$ 461,067 (Dec 31st).

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.