

**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 if applicable
- A General Reserve for Credit Losses.

Capital in the Credit Union is made up as follows:

**Table A**

	<b>30-Jun-19 (Unaudited) \$'000</b>	<b>31-Mar-19 (Unaudited) \$'000</b>
<b>Tier 1</b>		
Capital reserve	38	37
General reserve	112	-
Retained earnings	8,821	8,791
	<u>8,971</u>	<u>8,828</u>
<b>Less prescribed deductions</b>		
Equity in other ADI's	321	166
Equity in other entities		
Intangible assets		-
Deferred tax assets	106	86
Total Deductions	<u>427</u>	<u>252</u>
Net tier 1 capital	<u><u>8,544</u></u>	<u><u>8,576</u></u>
<b>Tier 2</b>		
Subordinated debt		
Reserve for credit losses	461	461
Asset revaluation reserves on property		
Asset revaluation reserves on equity		
Total	<u>461</u>	<u>461</u>
<b>Less prescribed deductions</b>	-	-
Net tier 2 capital	<u><u>461</u></u>	<u><u>461</u></u>
Total Capital (Tier 1 + Tier 2)	<u><u>9,005</u></u>	<u><u>9,037</u></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
	30-Jun-19	30-Jun-19	30-Jun-19		30-Jun-19
	\$'000	\$'000	\$'000		\$'000
Cash	0	-	0	0%	-
Funds on Deposit in highly rated ADI's	8,833	-	8,833	20%	1,767
Funds on Deposit in less highly rated ADI's	4,945	-	4,945	20% - 50%	2,473
Loans secured against eligible residential mortgages up to 80% LVR	65,583	-	65,583	35% - 75%	23,228
Loans secured against eligible residential mortgages over 80% LVR	7,653	-	7,653	50% - 100%	3,369
Other loans	0	-	0	100%	0
Investments in equity instruments	0	-	0	150%	0
Fixed assets	2,343	-	2,343	100%	2,343
Other assets	5,215	-	5,215	100%	5,215
<b>Total credit risk on balance sheet</b>	<b>94,572</b>	<b>-</b>	<b>94,572</b>		<b>38,395</b>
Total credit risk off balance sheet (commitments)					
- Undrawn financial commitments (overdrafts, redraw facilities, line of credit, loans approved not advanced)					399
Operational risk assets					4,380
<b>Total risk weighted assets</b>					<b>43,174</b>

Table B

	Balance Sheet value	Commitments (at prescribed credit equivalent)	Total risk weighted assets	Risk weight applied	Risk Weighted Value
	31-Mar-19	31-Mar-19	31-Mar-19		31-Mar-19
	\$'000	\$'000	\$'000		\$'000
Cash	0	-	0	0%	-
Funds on Deposit in highly rated ADI's	7,043	-	7,043	20%	1,409
Funds on Deposit in less highly rated ADI's	5,434	-	5,434	20% - 50%	2,717
Loans secured against eligible residential mortgages up to 80% LVR	61,010	-	61,010	35% - 75%	21,482
Loans secured against eligible residential mortgages over 80% LVR	9,137	-	9,137	50% - 100%	4,350
Other loans	0	-	0	100%	0
Investments in equity instruments	0	-	0	150%	0
Fixed assets	2,291	-	2,291	100%	2,291
Other assets	5,283	-	5,283	100%	5,283
<b>Total credit risk on balance sheet</b>	<b>90,198</b>	<b>-</b>	<b>90,198</b>		<b>37,532</b>
<b>Total credit risk off balance sheet (commitments)</b>					
- Undrawn financial commitments(overdrafts, redraw facilities, line of credit, loans approved not advanced)					779
Operational risk assets					4,164
<b>Total risk weighted assets</b>					<b>42,475</b>

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

Table C

	<b>Current Qtr 30-Jun-19 (Unaudited) \$'000</b>	<b>Current Qtr 31-Mar-19 (Unaudited) \$'000</b>
Capital requirements for credit risk (8% RWA)	3,072	3,003
Capital requirements for securitization credit risk (8% RWA)	-	-
Capital requirements for market risk	-	-
Capital requirements for operations risk (8% RWA)	350	333
Total Capital <i>required</i> (at 8% of risk weighted assets)	3,422	3,336
 Total Capital <i>held</i> by the credit union	 9,005	 9,037

<b>Capital Ratios</b>	<b>30-Jun-19</b>	<b>31-Mar-19</b>
Common Equity Tier 1	19.79%	20.19%
Tier 1	19.79%	20.19%
Total Capital	20.86%	21.28%

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

	30-Jun-19		
Investments with banks and other ADI's	Carrying value on balance sheet	Past due value / Impaired	Provision
Cuscal – rated AA-	8,833	-	-
Banks – rated AA and above	4,945	-	-
Banks – rated below AA	-	-	-
Unrated institutions – credit unions	-	-	-
Total	13,778	-	-

	31-Mar-19		
Investments with banks and other ADI's	Carrying value on balance sheet	Past due value / Impaired	Provision
Cuscal – rated AA-	7,043	-	-
Banks – rated AA and above	5,434	-	-
Banks – rated below AA	-	-	-
Unrated institutions – credit unions	-	-	-
Total	12,477	-	-

**(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

	<b>30-Jun-19</b>		
Loans to	Carrying value on balance sheet	Commitments	Max exposure
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Mortgage secured	73,236	1,140	74,376
Personal	5,165	-	5,165
Overdrafts & Credit cards	58	-	58
<b>Total to natural persons</b>	<b>78,459</b>	<b>1,140</b>	<b>79,599</b>
Corporate borrowers	-	-	-
Government	-	-	-
<b>Total</b>	<b>78,459</b>	<b>1,140</b>	<b>79,599</b>

	<b>31-Mar-19</b>		
Loans to	Carrying value on balance sheet	Commitments	Max exposure
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Mortgage secured	70,147	2,081	72,228
Personal	5,284	-	5,284
Overdrafts & Credit cards	30	-	30
<b>Total to natural persons</b>	<b>75,461</b>	<b>2,081</b>	<b>77,542</b>
Corporate borrowers	-	-	-
Government	-	-	-
<b>Total</b>	<b>75,461</b>	<b>2,081</b>	<b>77,542</b>

The commitments set out above comprise:

	<b>30-Jun-19</b>	<b>31-Mar-19</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>a. Outstanding loan commitments</b>		
Loans approved but not funded	1,140	2,081
	<u>          </u>	<u>          </u>
<b>b. Loan redraw facilities</b>		
Loan redraw facilities available	-	-
	<u>          </u>	<u>          </u>
<b>c. Undrawn loan facilities</b>		
Loan facilities available to members for overdrafts and lines of credit loans are as follows:		
Total value of facilities approved	339	192
Less: Amount advanced	161	66
Net undrawn value	178	126
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
<b>Total financial commitments</b>	1,318	2,207
	<u>          </u>	<u>          </u>

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.



## 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

<b>30-Jun-19</b>				
	Carrying value on balance sheet	Value of Loans that are past due or Impaired	Provision for impairment	Losses in the period
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Mortgage secured	73,236	0	-	-
Personal	5,165	92	86	-
Overdrafts & Credit cards	58	0	0	-
<b>Total to natural persons</b>	78,459	92	86	-
Corporate borrowers	-	-	-	-
Government	-	-	-	-
<b>Total</b>	<b>78,459</b>	<b>92</b>	<b>86</b>	<b>-</b>

<b>31-Mar-19</b>				
	Carrying value on balance sheet	Value of Loans that are past due or Impaired	Provision for impairment	Losses in the period
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Mortgage secured	70,147	0	-	-
Personal	5,284	95	87	-
Overdrafts & Credit cards	30	0	0	-
<b>Total to natural persons</b>	75,461	95	87	-
Corporate borrowers	-	-	-	-
Government	-	-	-	-
<b>Total</b>	<b>75,461</b>	<b>95</b>	<b>87</b>	<b>-</b>

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 (Jun 30<sup>th</sup>).

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.

APS 330 Public Disclosures	Transport Mutual Credit Union – Remuneration Disclosures
(a)	<ul style="list-style-type: none"> <li>• As required under the TMCU Corporate Governance Policy, the entire Board serves as the Remuneration Committee (RC). The RC operates under its own Charter and meets once per year and considers executive remuneration matters.</li> <li>• The RC may employ external data from a number of sources to inform decisions on executive remuneration.</li> <li>• The scope of the TMCU Remuneration Policy is to ensure that the Credit Union’s remuneration arrangements align with its own circumstances and advance the Credit Union’s mission of serving the interests of its Members.</li> <li>• The RC considers remuneration matters in relation to three senior managers / responsible officers of TMCU, as defined in APRA standard CPS 510. TMCU has no ‘material risk takers’ as defined in APRA standard APS 330.</li> </ul>
(b)	<ul style="list-style-type: none"> <li>• Key features and objectives of TMCU’s Remuneration Policy include encouraging behaviour that supports the Credit Union’s long-term financial soundness and its risk management framework, and to align with prudent risk-taking and incorporate adjustments which reflect the outcomes of business activities.</li> <li>• The RC reviewed the Remuneration Policy in the past 12 months. There were no material changes made to the policy.</li> <li>• The Credit Union policy is to mitigate the risk that the remuneration of employees may conflict with the objectives of this policy by not paying performance based remuneration.</li> </ul>
(c)	<ul style="list-style-type: none"> <li>• The RC considers the risk management framework to which TMCU is exposed and the degree to which the senior managers have addressed those material risks in the performance of their duties, when assessing performance and remuneration. Consideration may be given to data from external sources including internal and external audit, and regulatory reporting.</li> <li>• These data may be qualitative or quantitative in nature.</li> <li>• Ad-hoc projects or events may also factor into the consideration of senior management performance.</li> </ul>
(d)	<ul style="list-style-type: none"> <li>• The RC takes into account key budgetary performance indicators including capital adequacy, after-tax surplus, asset growth and lending data to inform senior management performance assessment. An individual senior manager’s remuneration may also reflect their own performance achievements in relation to their employment contract, if warranted.</li> <li>• Remuneration adjustments are not automatic and in a weak year of performance or at the RC discretion, adjustments may be declined.</li> </ul>
(e) and (f)	<ul style="list-style-type: none"> <li>• TMCU does not pay variable or deferred remuneration.</li> </ul>
(g)	<ul style="list-style-type: none"> <li>• TMCU does not remunerate the RC. The RC met once during the past year.</li> </ul>
(h)	<ul style="list-style-type: none"> <li>• No TMCU employee received variable remuneration during the past year.</li> <li>• No TMCU employee received a guaranteed bonus during the past year.</li> <li>• No TMCU employee received a sign-on award during the past year.</li> <li>• No TMCU employee received a termination payment during the past year.</li> </ul>

(i)	<ul style="list-style-type: none"> <li>• There is no outstanding deferred remuneration payable to any employee, nor was any deferred remuneration paid to any employee during the past year.</li> </ul>
(j)	<ul style="list-style-type: none"> <li>• Remuneration awarded during the past year was: <ul style="list-style-type: none"> <li>○ 100% fixed</li> <li>○ 100% non-deferred</li> <li>○ 100% cash</li> </ul> </li> </ul>
(k)	<ul style="list-style-type: none"> <li>• No senior manager was exposed to implicit or explicit adjustments in deferred or retained remuneration during the past year.</li> </ul>

Total value of remuneration awards for three Senior Managers / Responsible Officers:

<b>Total value of remuneration awards for the current financial year</b>	<b>Unrestricted</b>	<b>Deferred</b>
Fixed remuneration		
<ul style="list-style-type: none"> <li>• Cash-based</li> </ul>	\$ 420,163	\$0
<ul style="list-style-type: none"> <li>• Shares and share-linked instruments</li> </ul>	\$0	\$0
<ul style="list-style-type: none"> <li>• Other</li> </ul>	\$0	\$0
Variable remuneration		
<ul style="list-style-type: none"> <li>• Cash-based</li> </ul>	\$0	\$0
<ul style="list-style-type: none"> <li>• Shares and share-linked instruments</li> </ul>	\$0	\$0
<ul style="list-style-type: none"> <li>• Other</li> </ul>	\$0	\$0