

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

	31-Dec-19 (Unaudited) \$'000	30-Sep-19 (Unaudited) \$'000
Tier 1		
Capital reserve	38	38
General reserve	112	112
Retained earnings	8,875	8,846
	<u>9,025</u>	<u>8,996</u>
Less prescribed deductions		
Equity in other ADI's	321	321
Equity in other entities		
Intangible assets	352	
Deferred tax assets	63	63
Total Deductions	<u>736</u>	<u>384</u>
Net tier 1 capital	<u>8,289</u>	<u>8,612</u>
Tier 2		
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>
Less prescribed deductions	-	-
Net tier 2 capital	<u>461</u>	<u>461</u>
Total Capital (Tier 1 + Tier 2)	<u>8,750</u>	<u>9,073</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-19	31-Dec-19	31-Dec-19		31-Dec-19
	\$'000	\$'000	\$'000		\$'000
Cash	0	-	0	0%	-
Funds on Deposit in highly rated ADI's	10,012	-	10,012	20%	2,002
Funds on Deposit in less highly rated ADI's	4,474	-	4,474	20% - 50%	1,937
Loans secured against eligible residential mortgages up to 80% LVR	65,420	-	65,420	35% - 75%	23,152
Loans secured against eligible residential mortgages over 80% LVR	7,487	-	7,487	50% - 100%	3,141
Other loans	0	-	0	100%	0
Investments in equity instruments	0	-	0	150%	0
Fixed assets	2,427	-	2,427	100%	2,427
Other assets	5,513	-	5,513	100%	5,513
Total credit risk on balance sheet	95,333	-	95,333		38,172
Total credit risk off balance sheet (commitments)					
- Undrawn financial commitments (overdrafts, redraw facilities, line of credit, loans approved not advanced)					465
Operational risk assets					4,604
Total risk weighted assets					43,241

Table B

	Balance Sheet value	Commitments (at prescribed credit equivalent)	Total risk weighted assets	Risk weight applied	Risk Weighted Value
	30-Sep-19	30-Sep-19	30-Sep-19		30-Sep-19
	\$'000	\$'000	\$'000		\$'000
Cash	0	-	0	0%	-
Funds on Deposit in highly rated ADI's	9,066	-	9,066	20%	1,813
Funds on Deposit in less highly rated ADI's	4,470	-	4,470	20% - 50%	2,235
Loans secured against eligible residential mortgages up to 80% LVR	64,124	-	64,124	35% - 75%	22,712
Loans secured against eligible residential mortgages over 80% LVR	8,303	-	8,303	50% - 100%	3,697
Other loans	0	-	0	100%	0
Investments in equity instruments	0	-	0	150%	0
Fixed assets	2,647	-	2,647	100%	2,647
Other assets	5,603	-	5,603	100%	5,603
Total credit risk on balance sheet	94,213	-	94,213		38,707
Total credit risk off balance sheet (commitments)					
- Undrawn financial commitments(overdrafts, redraw facilities, line of credit, loans approved not advanced)					484
Operational risk assets					4,380
Total risk weighted assets					43,571

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

Table C

	Current Qtr 31-Dec-19 (Unaudited) \$'000	Current Qtr 30-Sep-19 (Unaudited) \$'000
Capital requirements for credit risk (8% RWA)	3,054	3,097
Capital requirements for securitization credit risk (8% RWA)	-	-
Capital requirements for market risk	-	-
Capital requirements for operations risk (8% RWA)	368	350
Total Capital <i>required</i> (at 8% of risk weighted assets)	3,422	3,447
 Total Capital <i>held</i> by the credit union	 8,750	 9,073

Capital Ratios	31-Dec-19	30-Sep-19
Common Equity Tier 1	19.16%	19.76%
Tier 1	19.16%	19.76%
Total Capital	20.23%	20.82%

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-19		
Investments with banks and other ADI's	Carrying value on balance sheet	Past due value / Impaired	Provision
Cuscal – rated AA-	10,012	-	-
Banks – rated AA and above	4,474	-	-
Banks – rated below AA	-	-	-
Unrated institutions – credit unions	-	-	-
Total	14,486	-	-

	30-Sep-19		
Investments with banks and other ADI's	Carrying value on balance sheet	Past due value / Impaired	Provision
Cuscal – rated AA-	9,066	-	-
Banks – rated AA and above	4,470	-	-
Banks – rated below AA	-	-	-
Unrated institutions – credit unions	-	-	-
Total	13,536	-	-

(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-19		
Loans to	Carrying value on balance sheet	Commitments	Max exposure
	\$'000	\$'000	\$'000
Mortgage secured	72,907	1,046	73,953
Personal	5,247	99	5,346
Overdrafts &Credit cards	61	-	61
Total to natural persons	78,215	1,145	79,360
Corporate borrowers	-	-	-
Government	-	-	-
Total	78,215	1,145	79,360

	30-Sep-19		
Loans to	Carrying value on balance sheet	Commitments	Max exposure
	\$'000	\$'000	\$'000
Mortgage secured	72,429	870	73,299
Personal	5,396	180	5,576
Overdrafts &Credit cards	55	-	55
Total to natural persons	77,880	1,050	78,930
Corporate borrowers	-	-	-
Government	-	-	-
Total	77,880	1,050	78,930

The commitments set out above comprise:

	31-Dec-19	30-Sep-19
	\$'000	\$'000
a. Outstanding loan commitments		
Loans approved but not funded	1,145	1,050
	<u>1,145</u>	<u>1,050</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	368	363
Less: Amount advanced	237	160
Net undrawn value	131	203
	<u>131</u>	<u>203</u>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	<u>1,276</u>	<u>1,253</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-19				
	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	72,907	0	-	-
Personal	5,247	152	114	-
Overdrafts & Credit cards	61	0	0	-
Total to natural persons	78,215	152	114	-
Corporate borrowers	-	-	-	-
Government	-	-	-	-
Total	78,215	152	114	-

30-Sep-19				
	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	72,429	0	-	-
Personal	5,396	145	106	-
Overdrafts & Credit cards	55	0	0	-
Total to natural persons	77,880	145	106	-
Corporate borrowers	-	-	-	-
Government	-	-	-	-
Total	77,880	145	106	-

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.