

APS 330 DISCLOSURE

This disclosure on the capital and credit risk refers to the Sutherland Credit Union Limited (ABN 89 087 650 708)

CAPITAL MANAGEMENT

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

- Credit risk
- Market risk (trading Book)
- Operations risk.

The market risk component is not required by Sutherland Credit Union as the credit union is not engaged in a trading book activities for financial instruments.

CAPITAL RESOURCES

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Preference share capital
- Retained profits
- Realised reserves.

The preference shares issued where approved by APRA qualify as Tier 1 capital.

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.

Tier 2 capital generally comprises:

- A subordinated 10 year loan. The principal amount will be amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential standard APS 111.
- A General Reserve for Credit Losses.

Capital in Sutherland Credit Union is made up as follows:

Table A

31 Mar 10
(Unaudited)
\$'000

| | |
|--|----------------------|
| Tier 1 | |
| Capital reserve | 137 |
| General reserve | 10,726 |
| Retained earnings year to date | 419 |
| Preference Shares | 1,270 |
| | <u>12,552</u> |
| Less prescribed deductions | |
| Equity exposures and other capital investments | 429 |
| Deferred tax assets | 377 |
| Other | 130 |
| | <u>11,616</u> |
| Net tier 1 capital | |
| Tier 2 | |
| Subordinated debt | 1,175 |
| Reserve for credit losses | 433 |
| Total | <u>1,608</u> |
| Less prescribed deductions | 549 |
| | <u>1,058</u> |
| Net tier 2 capital | |
| Total Capital (Tier 1 + Tier 2) | <u><u>12,674</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 the risk weighted assets.

Risk Weighted Assets

The total of risk weighted assets comprises

- Credit risk weighted for on balance sheet assets
- Credit risk weighted assets for commitments to issue funds for loans and other guarantees
- Operational risk charge as described in APS 114.

These components are described in the table following. The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

Table B

| Type of Asset | Balance Sheet value | Commitments (at prescribed credit equivalents) | Total risk weighted assets | Risk weight applied | Risk Weighted Value |
|--|---------------------|--|----------------------------|---------------------|---------------------|
| | 31 Mar 10 | 31 Mar 10 | 31 Mar 10 | | 31 Mar 10 |
| | \$'000 | \$'000 | \$'000 | % | \$'000 |
| Cash | 828 | - | 828 | 0% | - |
| Funds on Deposit in highly rated ADI's | 12,000 | - | 12,000 | 0% | - |
| Funds on Deposit in highly rated ADI's | 17,766 | - | 17,766 | 20% | 3,553 |
| Funds on Deposit in less highly rated ADI's | 2,688 | - | 2,688 | 50% | 1,344 |
| Loans secured against eligible residential mortgages up to 80% LVR | 112,437 | 5,271 | 117,708 | 0% -35% | 41,988 |
| Loans secured against eligible residential mortgages over 80% LVR | 11,190 | - | 11,190 | 35% - 75% | 5,074 |
| Other loans | 19,740 | 0 | 19,740 | 0% - 100% | 19,740 |
| Investments in equity instruments | 21 | - | 21 | 400% | 85 |
| Fixed assets | 287 | - | 287 | 100% | 287 |
| Other assets | 823 | - | 823 | 100% | 823 |
| Total Credit risk assets | 177,781 | 5,271 | 183,052 | | 72,895 |
| Operational risk assets | | | | | 8,892 |
| Total risk weighted assets | | | | | 81,787 |

The capital required and held as at the end of the current quarter is as follows

Table C

| | Current Qtr 31 Mar 2010 Unaudited \$'000 |
|---|---|
| Deposits at Banks and other ADI's | 392 |
| Loans – residential mortgage | 3,765 |
| Loans - Other retail (personal, credit cards; overdrafts) | 1,579 |
| Other assets (Fixed assets; settlement accounts) | 96 |
| Capital requirements for credit risk on assets (8% RWA) | 5,832 |
| Capital requirements for securitization credit risk (8% RWA) | - |
| Capital requirements for market risk | - |
| Capital requirements for operations risk (8% RWA) | 711 |
| Total Capital required (at 8% of Risk weighted assets) | 6,544 |
| Capital held by the credit union \$ | 12,674 |
| Capital ratio Tier 1 - % held by the credit union | 14.20% |
| Total Capital Ratio - % held by the credit union | 15.50% |

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 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.

External Credit Assessment for Investments

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 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

| Investments with banks and other ADI's | 31 March 2010 | | | |
|--|---------------------------------|----------------|----------|-----------|
| | Carrying value on balance sheet | Past due Loans | Impaired | Provision |
| Cuscal – rated AA- | 5,500 | - | - | - |
| Banks – rated AA and above | 19,266 | - | - | - |
| Banks – rated below AA | 5,688 | - | - | - |
| Unrated institutions – credit unions | 2,000 | - | - | - |
| Total | 32,454 | - | - | - |

(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 shown in the tables below:

Table E

| | 31 March 2010 | | | | 3 Months to 31 March |
|---------------------------------|---------------------------------|--------------|--|----------------|--------------------------------------|
| | Carrying value on balance sheet | Commitments | Other non-market off balance sheet exposures | Max exposure | Average Gross exposure in the period |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Mortgage secured loans | 126,066 | 5,271 | 8,133 | 139,470 | 135,043 |
| Personal loans | 13,962 | 0 | - | 13,962 | 13,743 |
| Overdrafts & Credit cards | 2,674 | - | 6,674 | 9,348 | 9,304 |
| Total to natural persons | 142,702 | 5,271 | 14,806 | 162,780 | 158,089 |
| Corporate borrowers | 1,207 | - | - | 1,207 | 1,606 |
| Government | - | - | - | - | - |
| Total | 143,910 | 5,271 | 14,806 | 163,987 | 159,695 |

| | 31 March 2010 \$'000 |
|--|----------------------------|
| The commitments set out above comprises: | |
| a. Outstanding loan commitments | |
| The loans approved but not funded | <u>5,271</u> |
| b. Loan redraw facilities | |
| The loan redraw facilities available | <u>8,133</u> |
| c. Undrawn loan facilities | |
| Loan facilities available to members for overdrafts and line of credit loans are as follows: | |
| Total value of facilities approved | 12,900 |
| Less: Amount advanced | <u>6,227</u> |
| Net undrawn value | <u>6,674</u> |
| These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn. | |
| Total financial commitments | <u>20,078</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)

- Past due loans is the 'on balance sheet' loan balances which are behind in repayments past due by 30 days or more but not impaired

- Impaired loans is 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.

Table F

| | As at 31 March 2010 | | | | For the period ended 31 March | |
|---------------------------------|---|--|--|------------------------------------|---|-----------------------------------|
| | Carrying value on balance sheet \$'000 | Value of Loans that are past due \$'000 | Value of Loans that are Impaired \$'000 | Provision for impairment \$'000 | Increase in provisions for impairment \$'000 | Bad debts in the period \$'000 |
| Mortgage secured | 117,429 | 385 | - | - | - | - |
| Personal | 15,243 | 249 | 102 | 69 | (100) | 16 |
| Overdrafts & Credit cards | 10,030 | 15 | 15 | 8 | (2) | 23 |
| Total to natural persons | 142,702 | 650 | 117 | 77 | - | 101 |
| Corporate borrowers | 1,207 | - | - | - | - | - |
| Government | - | - | - | - | - | - |
| Total | 143,910 | 650 | 117 | 77 | - | 101 |

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 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 the past experience with the loan delinquency and amounts written off. The amount of the reserve is currently \$433,000.

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.