

CAPITAL ADEQUACY DISCLOSURES AS AT 31 DECEMBER 2016

The capital requirements for Macquarie Credit Union are determined by the risk weights of the relevant assets held with the minimum required capital to over 8% of the risk weighted assets. Macquarie Credit Union maintains a capital policy level of minimum 12% and a capital target of 23%. The current level of capital as at 31 December 2016 is 23.72%.

The risk weighted assets for each asset grouping as set out in the table below are determined by the APRA Prudential Standards APS 112. These are prescribed risk weights to measure the level of risk of based on the nature and level of security supporting the assets recovery.

Table A Risk Weighted Assets by Asset Class

	31 December 2016	
	Carrying Value	Risk weighted value
(a) Capital requirements (in terms of risk-weighted assets) for credit risk by portfolio;		
• Loans - secured by residential mortgage	64,620,330	23,913,196
• Loans - other retail	5,802,075	5,484,266
• Loans - corporate	888,958	888,958
• Liquid investments	25,487,348	8,045,666
• all other assets	939,592	939,592
Total credit risk on balance sheet	97,738,303	39,271,678
Total credit risk off balance sheet (commitments)		
• Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	11,063,848	5,429,860
• Capital requirements for securitisation	446,539	nil
Total Credit Risk	109,248,690	44,701,538
(b) Capital requirements for market risk.	nil	nil
(c) Capital requirements for operational risk.	nil	5,983,147
Total Risk Weighted assets (Sum above components)	109,248,690	50,684,685

CAPITAL HELD BY MACQUARIE CREDIT UNION

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

Table B Capital Requirements as at 31 December 2016

	Capital Required
Capital requirements for credit risk assets (8% RWA)	3,576,123
Capital requirements for securitization credit risk (8% RWA)	-
Capital requirements for market risk	-
Capital requirements for operations risk (8% RWA)	478,652
Total Capital required (at 8% of Risk weighted assets)	4,054,775
Capital held by the credit union	12,025,849
Common Equity Tier I - % held by the credit union	22.76%
Total Tier I - % held by the credit union	22.76%
Total Capital Ratio - % held by the credit union	23.72%

CREDIT RISK

(i) CREDIT RISK – INVESTMENTS

Surplus cash not invested in loans to members are held in high quality liquid assets. This includes the funds required to be held to meet withdrawal of deposits by members of Macquarie Credit Union.

Macquarie 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 C:

Table C

Current Quarter 31 December 2016

Investments with banks and other ADIs	Average gross exposure in quarter \$'000	Carrying value on balance sheet at 31 Dec 16 \$'000	Past due facilities \$'000	Impaired facilities \$'000	Specific Provision as at end of qtr \$'000	Increase in specific provision and write offs in qtr \$'000
Cuscal	4,370,500	4,554,597	-	-	-	-
ADIs rated A-1 or better	11,082,454	10,987,015	-	-	-	-
ADIs rated BBB- or better	3,970,971	4,469,104	-	-	-	-
Unrated institutions – ADIs	5,600,000	5,100,000	-	-	-	-
Total	25,023,925	25,110,716	-	-	-	-

(ii) CREDIT RISK – LOANS

The classes of loans entered into by the credit union are 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.

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 principal 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 all collateral as at the balance date due to the variety of assets and condition.

The analysis of Macquarie Credit Union's loans by class is as follows in Table D:

Table D

Current quarter 31 December 2016

Loans Portfolio	Gross exposure value – Average for the period	Gross exposure value on balance sheet at 31 Dec 16	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr	Increase in specific provision and write offs in qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage Secured	65,011	64,620	8,154	223	-	-	-
Personal	4,535	4,814	594	-	39	33	3
Overdrafts / Credit cards	976	988	2,315	-	-	-	-
Total to natural persons	70,522	70,422	11,063	223	39	33	3
Commercial borrowers	963	889	0	-	-	-	-
Total Loans	71,485	71,311	11,063	223	39	33	3

General Reserve for Credit Losses

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.

	Current quarter 31 December 2016	Current quarter 30 September 2016
Balance	\$488,285	\$488,285

SECURITISATION ARRANGEMENTS

Macquarie Credit Union has entered into arrangements for securitised loans to support its liquidity requirements from time to time. The table below states the current value of securitised loans managed by Macquarie Credit Union and the amount securitised in the past quarter.

Table E

Current Quarter 31 December 2016

	Loans Securitised in Current qtr, by type of securitisation	Securitised Loans On- balance sheet exposure retained or purchased	Securitised Loans Off- balance sheet exposures
		Aggregate amount	Aggregate amount
Mortgage loans			446,539
Personal loans			
Credit cards			
Total			446,539

The recognised gain or loss on securitised arrangements entered into in the past quarter is \$ Nil