



This disclosure on the capital and credit risk refers to the  
**Lysaght Credit Union Ltd.**

ABN 79 087 650 226 AFSL 244520

## **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 the credit union since the credit union is not engaged in 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 profits

#### **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 General Reserve for Credit Losses.



Capital in the credit union is made up as follows:

Table A

	<b>30 Sep 2011 Unaudited \$'000</b>
<b>Tier 1</b>	
Share capital	4
Retained earnings	5,981
	<hr/> 5,985 <hr/>
<b>Less prescribed deductions</b>	
Equity of in other entities	(63)
Intangible assets	(74)
Deferred tax assets	(31)
Total Deductions	<hr/> (168) <hr/>
Net tier 1 capital	<hr/> <u>5,817</u> <hr/>
<b>Tier 2</b>	
Reserve for credit losses	<hr/> 334 <hr/>
Total	334
<b>Less prescribed deductions</b>	<hr/> (63) <hr/>
Net tier 2 capital	<hr/> <u>271</u> <hr/>
Total Capital (Tier 1 + Tier 2)	<hr/> <u>6,088</u> <hr/>

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

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 in its Guidance AGN 112-1. 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 Sep 11 \$'000	30 Sep 11 \$'000	30 Sep 11 \$'000		30 Sep 11 \$'000
Cash	64	-	64	0%	-
Funds on Deposit in highly rated ADI's	13,847	-	13,847	20%	2,769
Funds on Deposit in less highly rated ADI's				50%	
Loans secured against eligible residential mortgages up to 80% LVR or up to 90% with LMI	38,973	1,298	40,271	35%	14,095
Loans secured against eligible residential mortgages over 80% LVR	2,534	-	2,534	50%	1,267
Other loans	-	68	68	75%	-
Equity exposure	4,464	10	4,474	100%	4,474
Fixed assets	-	68	68	0%	-
Other assets	377	-	377	400%	377
Total Credit risk assets	111	375	486	100%	468
Securitisation	60,370	1,751	62,121		23,450
Operational risk assets	-	-	-		-
Total risk weighted assets	3,239	-	3,239		3,239
	63,609	1,751	65,360		26,689

*The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel 2 Prudential framework enhancements. Comparative data has not been available on the revised methods – the risk weighted assets for 2007 and prior reflect the previous Basel 1 methodology.*



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

Table C

<b>Current Quarter</b>	<b>30 Sep 11</b>	<b>Capital holding Requirement</b>
	<b>Unaudited \$'000</b>	<b>\$'000</b>
Cash & cash equivalents	64	0
Deposits at Banks and other ADI's	13,847	1,108
Loans – residential mortgage	41,950	3,356
Loans - Other retail (personal, credit cards; overdrafts)	4,021	322
Other assets ( Fixed assets; settlement accounts)	489	39
<b>Total Assets</b>	<b>60,371</b>	
<b>Capital requirements for credit risk on assets (8% RWA)</b>		<b>4,825</b>
Capital requirements for securitization credit risk (8% RWA)	-	-
Capital requirements for market risk	-	-
Capital requirements for operations risk (8% RWA)	3,239	259
<b>Total Capital required (at 8% of Risk weighted assets)</b>	<b>63,610</b>	<b>5,084</b>
<b>Total Capital held by the credit union \$</b>		<b>6,088</b>
Capital ratio Tier 1 - % held by the credit union		<b>22%</b>
Total Capital Ratio - % held by the credit union		<b>22%</b>

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

	30 Sep 11			
Investments with banks and other ADI's	Carrying value on balance sheet \$'000	Past due Loans	Impaired	Provision
Cuscal – rated AA-	1,000	-	-	-
Banks – rated AA and above	11,347	-	-	-
Banks – rated below AA		-	-	-
Unrated institutions – credit unions & BS	1,500	-	-	-
Total	13,847	-	-	-

### (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

Loans to	30 Sep 11			
	Carrying value on balance sheet	Commitments	Other non-market off balance sheet exposures	Max exposure
	\$'000	\$'000	\$'000	\$'000
Mortgage secured	41,950	1,298	4,020	47,268
Personal	4,004	10	-	4,014
Overdrafts & Credit cards	17	66	-	83
<b>Total to natural persons</b>	<b>45,971</b>	<b>1,374</b>	<b>4,020</b>	<b>51,365</b>
Corporate borrowers				
Government				
<b>Total</b>	<b>45,971</b>	<b>1,374</b>	<b>4,020</b>	<b>51,365</b>

The commitments set out above comprise

	30 Sep 11 \$'000
<b>a. Outstanding loan commitments</b> The loans approved but not funded	1,308
<b>b. Loan redraw facilities</b> The loan redraw facilities available	4,020
<b>c. Undrawn loan facilities</b> Loan facilities available to members for overdrafts and line of credit loans are as follows: Total value of facilities approved Less: Amount advanced Net undrawn value	83 17 <hr style="width: 100%;"/> 66
 These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.	
<b>Total financial commitments</b>	<b>5,394</b>



## 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 30 Sep 11				For the period ended 30 Sep 11	
	Carrying value on balance sheet	Value of Loans that are past due	Value of Loans that are Impaired	Provision for impairment	Increase in provisions for impairment	Bad debts in the period
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	41,950	-	-	-	-	0
Personal	4,004	-	4	4	0	0
Overdrafts & Credit cards	17	-	2	2	0	0
<b>Total to natural persons</b>	<b>45,971</b>	<b>-</b>	<b>6</b>	<b>6</b>	<b>0</b>	<b>0</b>
Corporate borrowers	0	-	-	-	-	-
Government						
<b>Total</b>	<b>45,971</b>	<b>-</b>	<b>6</b>	<b>6</b>	<b>0</b>	<b>0</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 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 \$424,070.

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.