

Australian Defence Credit Union Limited, as an Authorised Deposit-Taking Institution (ADI), is regulated by the Australian Prudential Regulation Authority (APRA). APRA is the prudential regulator of the Australian financial services industry. The fundamental role of APRA is to ensure the stability of the financial industry, primarily through the establishment and enforcement of prudential standards.

One of APRA's main focus areas in ensuring that the member's funds are safe is to ensure that financial institutions hold adequate amounts of capital.

In 2008 Prudential Standard 'APS 330 Capital Adequacy: Public Disclosure of Prudential Information' became effective. The standard requires financial institutions 'to make high quality and timely disclosures of information on its risk management and capital adequacy to contribute to the transparency of financial markets and to enhance market discipline'.

The following disclosures on capital and credit risks are for Australian Defence Credit Union Limited (ADCU) ABN 48 087 649 741.

### Capital Requirements

An ADI's capital is measured by means of risk based capital ratios calculated by dividing each of its Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital by its risk weighted assets.

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

The risk weighted assets held as at the end of the quarter 30 September 2013 is as follows.

**Table 3: Risk Weighted Assets (RWA) by Asset Class**

	Prescribed	
	RWA	
	\$'000	
	30-Sep-13	30-Jun-13
(a) Capital requirements (in terms of risk-weighted		
Cash	-	-
Liquid investments	33,111	34,197
Loans - secured by residential mortgage	200,915	193,545
Loans - other retail	108,137	112,286
Loans - corporate	-	-
all other assets	3,331	4,933
<b>Total credit risk on balance sheet</b>	<b>345,493</b>	<b>344,961</b>
Total credit risk off balance sheet (commitments)		
Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	13,716	11,534
Capital requirements for securitisation	-	-
<b>Total credit risk off balance sheet</b>	<b>13,716</b>	<b>11,534</b>
<b>(b) Capital requirements for market risk.</b>	<b>-</b>	<b>-</b>
<b>(c) Capital requirements for operational risk.</b>	<b>45,022</b>	<b>45,022</b>
<b>Total Risk Weighted assets</b>	<b>404,231</b>	<b>401,517</b>

### Capital Held by ADCU

ADCU maintains a capital policy and sets a capital target above the minimum as prescribed by the APRA Prudential Standards. Any excess facilitates future growth within the ADI.

The capital ratio is the amount of capital divided by the risk weighted assets in Table 3

**Table 4: Capital**

	Capital	
	\$' 000	
	30-Sep-13	30-Jun-13
Common Equity Tier 1 Capital Ratio	16.98%	16.82%
Tier 1 Capital Ratio	16.98%	16.82%
<b>Total Capital ratio</b>	<b>18.35%</b>	<b>18.20%</b>

## Credit Risk

### 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 ADCU.

ADCU 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 Prudential Guidance in APS112. The credit quality assessment scale within this standard has been complied with.

Table 5 below excludes equity and securitisation exposures. Securitisation exposures are set out in the Table 8 that follows.

The exposure values associated with each credit quality step are as per below in Table 5.

**Table 5: Credit Risk Investments**

30-Sep-13						
Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet at 30 September 2013	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
Cuscal	40,032	39,548	-	-	-	-
Major Banks	103,629	92,271	-	-	-	-
Other rated ADIs	6,514	6,525	-	-	-	-
Unrated institutions – ADIs	-	-	-	-	-	-
<b>Total</b>	<b>150,175</b>	<b>138,344</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

30-Jun-13						
Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet at 30 June 2013	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
Cuscal	39,284	36,081	-	-	-	-
Major Banks	86,591	87,404	-	-	-	-
Other rated ADIs	8,158	6,483	-	-	-	-
Unrated institutions – ADIs	-	-	-	-	-	-
<b>Total</b>	<b>134,033</b>	<b>129,968</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Credit Risk- Loans

The classes of loans entered into by ADCU are limited to loans, commitments and other non-market off-balance sheet exposures. The ADI 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 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.

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 the ADI's loans by class is as follows in Table 6

**Table 6: Credit Risk Loans**

30-Sep-13						
Loans Portfolio	Gross exposure value -Average for the period	Gross exposure value on balance sheet at 30 September 2013	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	517,098	523,264	23,110	1	167	-
Personal	93,004	92,273	4,010	143	659	417
Overdrafts & Credit cards	23,638	23,391	-	38	629	402
Corporate borrowers	363	304	-	-	-	-
<b>Total</b>	<b>634,102</b>	<b>639,232</b>	<b>27,121</b>	<b>182</b>	<b>1,455</b>	<b>819</b>

30-Jun-13						
Loans Portfolio	Gross exposure value -Average for the period	Gross exposure value on balance sheet at 30 June	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of qtr
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	495,122	502,456	22,423	-	-	-
Personal	94,950	94,639	3,822	162	670	436
Overdrafts & Credit cards	24,621	24,560	-	33	788	434
Corporate borrowers	605	619	-	112	162	-
<b>Total</b>	<b>615,297</b>	<b>622,273</b>	<b>26,245</b>	<b>307</b>	<b>1,620</b>	<b>870</b>

### General Reserve for Credit Losses

This reserve is set aside to quantify the estimate for potential future losses in ADCU loans and investments.

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, and the risk of loss on investments and other assets.

**Table 7: General Reserve for Credit Losses**

	30-Sep-13	30-Jun-13
Balance	1,506,419	1,506,419

### Securitisation Arrangements

ADCU 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 the ADI and the amount securitised in the past quarter ended 30 June 2013.

**Table 8: Securitised Loans**

30-Sep-13			
	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
	\$'000	\$'000	\$'000
Mortgage loans	-	-	149,228
Personal loans	-	-	-
Credit cards	-	-	-
<b>Total</b>	-	-	<b>149,228</b>

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

30-Jun-13			
	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
	\$'000	\$'000	\$'000
Mortgage loans	-	-	159,603
Personal loans	-	-	-
Credit cards	-	-	-
<b>Total</b>	-	-	<b>159,603</b>