

**Basic public disclosure requirements for locally incorporated ADIs - ANNUAL**

This disclosure on the capital and credit risk refers to Northern Inland Credit Union Limited (NICU) ABN 36 087 650 422. NICU is using the post 1 January 2013 common disclosure template because it is fully applying the Basel III regulatory adjustments as implemented from APRA from 30 June 2013.

The information in this report is prepared quarterly based on NICU's financial records. The financial records are not audited for the quarters ended 30 September, 31 December and 31 March.

The report as at the 30 September is based on the unaudited financial statements as at the 30 September 2018. The information is prepared on a consolidated group basis. The consolidated group comprises NICU as well as the following entities:

- a) Included in the scope of regulatory and accounting scope:
- Northern Inland Investment Group Pty Ltd (NIIG)
  - Northern Inland Investment Trust (NIIT)
  - Northern Inland Investment Services Pty Ltd (NIIS)

Entity	Total Assets	Total Liabilities	Principal Activity
NIIG	\$9,271	\$0	Trust account
NIIT	\$4,106,750	\$1,811	Commercial property investment
NIIS	\$1,684,874	\$39,041	Financial planning services

There are no restrictions on transfer of funds or regulatory capital.

A Glossary of terms used in this guide is as follows:

- 'AT1' refers to **Additional Tier 1 Capital**
- 'The Basel II framework' refers to the document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework, Comprehensive Version, June 2006*, published by the Basel Committee on Banking Supervision (the Basel Committee);
- 'Basel III' refers to the document *Basel III: A global regulatory framework for more resilient banks and banking systems*, revised version, June 2011, published by the Basel Committee;
- 'CET1' refers to **Common Equity Tier 1 Capital**;
- 'T1' refers to **Tier 1 Capital**; and
- 'T2' refers to **Tier 2 Capital**.

The capital terms are further defined in the APRA Prudential Standards APS 110.

### Capital Base

The details of the components of the capital base are set out below as at the 30 September 2018.

The following Table A sets out the elements of the capital held by NICU including the reconciliation of any adjustments required by the APRA Prudential Standards to the un-audited financial statements. Adjustments are usually in the form of deductions of assets not regarded as recoverable in the short term (such as intangible assets and deferred tax assets), and/or discounts made to eligible capital of a short-term nature.

**All regulatory capital elements are consistent with the un-audited financial statements as at the last reporting date.**

**TABLE A**

	Current quarter 30 September 2018	Previous quarter 30 June 2018
	\$,000	\$,000
<b>Tier 1 Capital: instruments</b>		
Current year earnings	260	1,056
Accumulated other comprehensive income (and other reserves)	37,111	33,841
Unrealised gains and losses on available-for-sale items	-	-
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>37,371</b>	<b>34,897</b>

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<b>Regulatory adjustments to Common Equity Tier 1:</b>		
Deferred tax assets in excess of deferred tax liabilities	(573)	(573)
Other intangibles other than mortgage servicing rights (net of related tax liability)	(1,442)	(1,479)
Equity investments in financial institutions	(617)	(617)
Equity investments in commercial (non-financial) entities	(40)	(40)
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>(2,672)</b>	<b>(2,709)</b>
Common Equity Tier 1 Capital (CET1)	34,699	32,188
<b>Tier 1 Capital (T1)</b>	<b>34,699</b>	<b>32,188</b>
<b>Tier 2 Capital: instruments and provisions</b>		
General reserve for credit losses	850	850
<b>Tier 2 Capital (T2)</b>	<b>850</b>	<b>850</b>
<b>Total Capital (TC = T1 + T2)</b>	<b>35,549</b>	<b>33,038</b>
<b>Total risk-weighted assets based on APRA standards</b>	<b>153,324</b>	<b>150,180</b>
<b>Capital Ratios</b>		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	22.63%	21.43%
Tier 1 (as a percentage of risk-weighted assets)	22.63%	21.43%
Total capital (as a percentage of risk-weighted assets)	23.19%	22.00%

**TABLE B**

The elements of the regulatory capital as set out above are summarised as follows in Table B:

Items (\$'000)	APRA (After applying national discretions)	Basel III (Not applying national discretions)
CET1 after regulatory adjustments (CET1)	34,699	34,699
Additional Tier 1 capital after regulatory adjustments (AT1)	-	-
Tier 1 capital (Tier 1 = CET1 + AT1)	34,699	34,699
Tier 2 capital after regulatory adjustments (T2)	850	850
Total capital (Total capital = Tier 1 + Tier 2)	35,549	35,549
Total Risk Weighted Assets (RWA)	153,324	153,324
<b>Capital ratios (%)</b>		
CET1 Ratio (CET1/Total RWA)	22.63%	22.63%
Tier 1 Ratio (Tier 1/Total RWA)	22.63%	22.63%
Total Capital Ratio (Total capital/Total RWA)	23.19%	23.19%

**CAPITAL INSTRUMENTS WITHIN NICU**
**Disclosure for main features of regulatory capital instruments**
**The regulatory capital is limited to:**

- Current year earnings
- General and other reserves specified by APRA
- General reserve for Credit Losses

There are no capital instruments (shares, debt instruments) issued by NICU.

**CAPITAL REQUIREMENTS**

Capital requirements for NICU are determined by the risk weights of the relevant assets held with the minimum required capital to over 8% of the risk weighted assets. NICU maintains a capital policy level of minimum 13.5% and a minimum capital target of 16%. The current level of capital is 23.19% (as at 30/09/18).

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 ended 30/09/18 are as follows:

**TABLE C**

	Prescribed	
	RWA \$'000	
	Current quarter 30 September 2018	Previous quarter 30 June 2018
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Loans - secured by residential mortgage	90,617	89,427
• Loans – other	17,723	17,841
• Liquid investments	17,275	17,437
• All other assets	6,131	3,745
<b>Total credit risk on balance sheet</b>	<b>131,746</b>	<b>128,450</b>
Total credit risk off balance sheet (undrawn financial commitments – overdrafts, credit cards, line of credit, loans approved not yet advanced, loan redraws)	5,267	5,419
(b) Capital requirements for market risk.	-	-
(c) Capital requirements for operational risk.	16,311	16,311
<b>Total Risk Weighted assets</b>	<b>153,324</b>	<b>150,180</b>

**CAPITAL HELD BY NICU**

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

The capital ratio is the amount of capital described in Table A divided by the risk weighted assets.

**TABLE D**

	Capital \$' 000		Capital Ratio	
	Current quarter 30 September 2018	Previous quarter 30 June 2018	Current quarter 30 September 2018	Previous quarter 30 June 2018
Common Equity Tier 1	34,699	32,188	22.63%	21.43%
Tier 1	34,699	32,188	22.63%	21.43%
Total Capital ratio	35,549	33,038	23.19%	22.00%

**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 NICU Members. NICU 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 APG 112. 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 E:

**TABLE E**
**Current quarter – 30 September 2018**

Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet as at 30/09/18	Past due facilities	Impaired facilities	Specific Provision as at end of quarter	Increase in specific provision and write offs in quarter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CUSCAL	12,293	9,733	-	-	-	-
Major Banks	7,890	7,142	-	-	-	-
Other rated ADIs	20,288	21,437	-	-	-	-
Unrated institutions – ADIs	7,141	8,147	-	-	-	-
<b>Total</b>	<b>47,612</b>	<b>46,459</b>	-	-	-	-

**Previous quarter – 30 June 2018**

Investments with banks and other ADI's	Average gross exposure in quarter	Carrying value on balance sheet as at 30/06/18	Past due facilities	Impaired facilities	Specific Provision as at end of quarter	Increase in specific provision and write offs in quarter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CUSCAL	13,909	14,852	-	-	-	-
Major Banks	8,632	8,637	-	-	-	-
Other rated ADIs	20,085	19,141	-	-	-	-
Unrated institutions – ADIs	6,684	6,135	-	-	-	-
<b>Total</b>	<b>49,310</b>	<b>48,765</b>	-	-	-	-

**(ii) CREDIT RISK – LOANS**

The classes of loans entered into by NICU are limited to loans, commitments and other non-market off-balance sheet exposures. NICU does not enter into debt securities and/or 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

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- 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 NICU's loans by class, are as follows in Table F:

**TABLE F**
**Current Quarter – 30 September 2018**

Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet as at 30/09/18	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of quarter	Increase in specific provision and write offs in quarter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	220,944	211,295	13,013	-	-	-	-
Personal	11,888	11,130	611	-	56	32	18
Overdrafts & Credit cards	5,853	1,931	4,330	-	14	1	1
Corporate borrowers	13,877	12,435	903	-	-	-	(1)
<b>Total</b>	<b>252,562</b>	<b>236,791</b>	<b>18,857</b>	<b>-</b>	<b>70</b>	<b>33</b>	<b>18</b>

**Previous Quarter – 30 June 2018**

Loans Portfolio	Gross exposure value - Average for the period	Gross exposure value on balance sheet as at 30/06/18	Commitments – redraws, overdraft facilities undrawn	Past due facilities	Impaired facilities	Specific Provision as at end of quarter	Increase in specific provision and write offs in quarter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	214,033	204,637	12,943	-	-	-	-
Personal	12,111	11,458	577	-	38	14	(3)
Overdrafts & Credit cards	5,674	2,010	3,434	-	6	-	(1)
Corporate borrowers	14,322	12,501	1,915	-	2	1	1
<b>Total</b>	<b>246,140</b>	<b>230,606</b>	<b>18,869</b>	<b>-</b>	<b>46</b>	<b>15</b>	<b>(3)</b>

**General Reserve for Credit Losses**

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

In addition to the provision for impairment, the board has recognised the need to make an allocation from general reserves to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future.

The reserve has been determined on the basis of the past experience with the loan delinquency and amounts written off.



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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.

General Reserve for Credit Losses	Current quarter 30 September 2018	Previous quarter 30 June 2018
	\$'000	\$'000
<b>Balance</b>	850	850