

The following disclosure relates to the capital and credit risk of Manly Warringah Credit Union Limited (A.B.N . 81 087 650 299)

CAPITAL MANAGEMENT

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

- Credit risk
- Operations risk
- Market risk (trading book)

Manly Warringah Credit Union Limited does not engage in trading book activities for financial instruments and as such the market risk component is not required.

Capital Resources

Under the provisions of the Australian Prudential Standards capital is segregated into Tier 1 and Tier 2 components:

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:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital, and discounted to 45% of the value net of any capital gains tax and estimated costs of sale
- A General Reserve for Credit Losses.
- Excess Tier 1 innovative capital

As at 31 March 2010 Capital in Manly Warringah Credit Union Limited is comprised of the following:

Capital Structure	
<i>Disclosure as at 31 March 2010 (Unaudited)</i>	
	\$ 000's
<u>Tier One Capital</u>	
Reserves (excluding credit loss reserve)	167
Retained earnings (including current year)	8,217
Less: Deductions from tier one capital	-410
Tier One Capital (net of deductions)	7,974
<u>Tier Two Capital</u>	
Deductions from Tier Two Capital	-158
Total Capital Base	8,484

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.

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.

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.

<u>Capital Adequacy</u>	
Quarterly Disclosure as at 31 March 2010	
Credit Risk	Risk weighted Exposure
\$000's	
Investment in ADI's	6,312
Other Assets	4,807
Residential Mortgages	18,055
Other Loans	19,570
Securitisation	NIL
Off Balance Sheet Exposures	2,742
Total Credit Risk	51,486
Market Risk	NIL
Operational Risk	6,326
Total Capital Ratio	14.68%
Total Tier One Capital Ratio	13.79%

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:

	31-Mar-10			
	Carrying value on balance sheet	Past due Loans	Impaired	Provision
Investments with banks and other ADI's				
Cuscal – rated AA-	2,495	-	-	-
Banks – rated AA and above	9,000	-	-	-
Banks – rated below AA	6,000	-	-	-
Unrated institutions – credit unions	3,500	-	-	-
Total	20,995	-	-	-

(ii) CREDIT RISK – LOANS

The classes of loans entered into by Manly Warringah 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.

The analysis of the credit union's loans by class is as follows:

Loans to	31-Mar-10				3 month to 31 Mar 10
	Carrying value on balance sheet	Commitment	Off balance sheet	Max Exposure	Average gross
Mort. Secu	49,880.00	3,716.00	293.00	53,889.00	54,980.33
Personal	17,326.00	769.00	1,309.00	19,404.00	18,856.67
O/D & C.C	1,360.00	2,741.00	-	4,101.00	4,106.33
				-	
Total to natural person	68,566.00	7,226.00	1,602.00	77,394.00	77,943.33
Corporate	2,168.00	751.00	-	2,919.00	2,946.33
Gov.			-	-	
Total	70,734.00	7,977.00	1,602.00	80,313.00	80,889.67

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.

Loans to	As at 31 Mar 2010				For the period ended 31 March 2010	
	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	
Mortgage secured	49,879.00	-	-		-	-
Personal	17,326.00	153.00	206.00	91.00	32.00	60.50
Overdrafts & Credit cards	1,360.00	11.00	30.00	8.00	13.00	0.50
					-	-
Total to natural persons	68,565.00	164.00	236.00	99.00	45.00	61.00
Corporate borrowers	2,168.00	51.00	101.00	95.00	24.00	0.00
Government						
Total	70,733.00	215.00	337.00	194.00	69.00	61.00

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 s of the reserve is currently **\$ 330,910**.

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.