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This disclosure on the capital and credit risk refers to the Family First Credit Union Limited (ABN 39 087 650 057)

Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (trading book); and
- Operations risk.

The market risk component is not required as Family First Credit Union is not engaged in a trading book 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 earnings and realised reserves.

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.

- A general reserve for Credit Losses.

- The Credit Union’s available for sale (AFS) reserve, and an asset revaluation reserve on the land and buildings are discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

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Capital in the Credit Union is made up as follows:

Table A

	31 Mar 2014 Unaudited $'000	31 Dec 2013 Unaudited $'000
Tier 1 Retained earnings	9,030	8,918
Less prescribed deductions		
Intangible Assets	46	50
Equity in other ADI's	111	111
Deferred Tax assets	172	189
Net tier 1 capital	8,701	8,568
Tier 2		
Reserve for credit losses	208	208
Total	208	208
Less prescribed deductions	111	111
Net tier 2 capital	97	97
Total Capital	8,798	8,665

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 bonds for loans and other guarantees
3. Operational risk charge as described in APS 114.

These components are described below.

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The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance Note AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

Table B – 31 March 2014 (Current Quarter)

	Balance Sheet value **31 Mar 14 $'000**	**Commitments (at prescribed Credit equivalent)** **31 Mar 14 $'000**	**Total risk Weighted assets** **31 Mar 14 $'000**	**Risk Weight applied**	**Risk Weighted Value** **31 Mar 14 $'000**
Cash	302	-	302	0%	-
Funds on Deposit in highly rated ADI's	17,254	-	17,254	20% - 50%	4,358
Loans secured against eligible residential mortgages up to 80% LVR	45,689	281	45,970	35% - 75%	16,759
Loans secured against eligible residential mortgages over 80% LVR	10,624	-	10,624	50% - 100%	5,312
Loans secured against eligible residential mortgages over 80% LVR (LMI Insured)	2,972	-	2,972	35% - 100%	1,363
Other loans	9,542	-	9,542	100%	9,542
Equity exposure not deducted from capital	5	-	5	400%	20
Fixed Assets	163	-	163	100%	163
Other Assets	233	-	233	100%	233
Total Credit risk assets	86,784	281	87,065		37,750
Securitisation	14	-	14	0%	-
Operational risk assets	4,536	-	4,536		4,536
Total risk weighted assets	**91,334**	**281**	**91,615**		**42,286**

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 methodology.

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The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance Note AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

Table B – 31 December 2013 (Previous Quarter)

	Balance Sheet value	**Commitments (at prescribed Credit equivalent)**	**Total risk Weighted assets**	**Risk Weight applied**	**Risk Weighted Value**
	31 Dec 13 $'000	**31 Dec 13 $'000**	**31 Dec 13 $'000**		**31 Dec 13 $'000**
Cash	386	-	386	0%	-
Funds on Deposit in highly rated ADI's	18,139	-	18,139	20% - 50%	4,525
Loans secured against eligible residential mortgages up to 80% LVR	43,326	851	44,177	35% - 75%	16,214
Loans secured against eligible residential mortgages over 80% LVR	10,382	-	10,382	50% - 100%	5,191
Loans secured against eligible residential mortgages over 80% LVR (LMI Insured)	3,148	-	3,148	35% - 100%	1,426
Other loans	9,269	-	9,269	100%	9,269
Equity exposure not deducted from capital	5	-	5	400%	20
Fixed Assets	179	-	179	100%	179
Other Assets	207	-	207	100%	207
Total Credit risk assets	85,041	851	85,892		37,031
Securitisation	15	-	15	0%	-
Operational risk assets	4,536	-	4,536		4,536
Total risk weighted assets	**89,592**	**851**	**90,443**		**41,567**

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 methodology.

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

Table C

	Current Qtr 31 Mar 2014 Unaudited $'000	Current Qtr 31 Dec 2013 Unaudited $'000
Capital requirements for credit risk on assets (8% RWA)	3,020	2,963
Capital requirements for securitisation credit risk (8%)	-	-
Capital requirements for market risk	-	-
Capital requirements for operations risk (8% RWA)	363	363
Total Capital required(at 8% of Risk weighted assets)	3,383	3,326
Capital held by credit union $	8,798	8,665
Capital ratio Tier 1 - % held by the credit union	20.3%	20.6%
Total Capital ratio - % held by the credit union	20.8%	20.8%

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 – 31 March 2014 (Current Quarter)

	31 March 2014 $'000			
Investments with banks and other ADI's	**Carrying value on Bal Sheet**	**Past due loans**	**Impaired**	**Provision**
Cuscal – rated A-1 (short term)	1,884	-	-	-
Cuscal - rated A+ (long term)	3,024	-	-	-
Banks – rated A-1 (short term)	2,273	-	-	-
Banks – rated A-2 (short term)	4,262	-	-	-
Banks – rated AAA (long term)	2,018	-	-	-
Banks – rated A (long term)	1,287	-	-	-
Unrated ADI's	2,008	-	-	-
Other ADI's – rated A-2 (short term)	498	-	-	-
Total	**17,254**	**-**	**-**	**-**

Table D – 31 December 2013 (Previous Quarter)

	31 December 2013 $'000			
Investments with banks and other ADI's	**Carrying value on Bal Sheet**	**Past due loans**	**Impaired**	**Provision**
Cuscal – rated A-1 (short term)	3,265	-	-	-
Cuscal – rated A+ (long term)	2,992	-	-	-
Banks – rated A-1 (short term)	2,263	-	-	-
Banks – rated A-2 (short term)	4,261	-	-	-
Banks – rated AAA (long term)	2,032	-	-	-
Banks – rated A (long term)	1,319	-	-	-
Unrated ADI's	2,007	-	-	-
Total	**18,139**	-	-	-
		-	**-**	**-**

(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 – 31 March 2014 (Current Quarter)

	31 March 2014				6 months to 31 Dec 2013
Loans to	**Carrying value on balance sheet**	**Commitments**	**Other non-market off balance sheet exposures**	**Max exposure**	**Average gross exposure in the period**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Mortgage secured	60,876	5,238	-	66,114	63,500
Personal	8,233	1,925	-	10,158	10,180
Total to natural persons	69,109	7,163	-	76,272	73,680
Corporate borrowers	-	-	-	-	-
Total	**69,109**	**7,163**	**-**	**76,272**	**73,680**

Table E – 31 December (Previous Quarter)

	31 December 2013				6 months to 31 Dec 2013
Loans to	**Carrying value on balance sheet**	**Commitments**	**Other non-market off balance sheet exposures**	**Max exposure**	**Average gross exposure in the period**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Mortgage secured	58,127	6,031	-	64,158	62,628
Personal	8,585	1,438	-	10,023	10,188
Total to natural persons	66,712	7,469	-	74,181	72,816
Corporate borrowers	-	-	-	-	-
Total	**66,712**	**7,469**	**-**	**74,181**	**72,816**

The commitments set out above comprise

	31 Mar 2014 $'000	**31 Dec 2013 $'000**
a. Outstanding loan commitments The loans approved but not funded	281	851
b. Loan redraw facilities The loan redraw facilities available	4,418	3,956
c. Undrawn loan facilities Loan facilities available to members for overdrafts, and Line of Credit loans are as follows:		
Total value of facilities approved	4,329	4,366
Less: amounts advanced	1,865	1,704
Net undrawn value	2,464	2,662
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn		
Total financial commitments	**7,163**	**7,469**

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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 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.

Table F – 31 March 2014 (Current Quarter)

	As at 31 March 2014				**For the period ended 31 Mar 2014**	
	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	60,876	149	-	-	-	-
Personal	8,233	-	218	115	63	96
Total to natural persons	**69,109**	**149**	**218**	**115**	**63**	**96**
Corporate borrowers	-	-	-	-	-	-
Total	**69,109**	**149**	**218**	**115**	**63**	**96**

Table F – 31 December 2013 (Previous Quarter)

	As at 31 December 2013				**For the period ended 31 Dec 2013**	
	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	58,127	222	-	-	-	-
Personal	8,585	-	227	148	56	54
Total to natural persons	**66,712**	**222**	**227**	**148**	**56**	**54**
Corporate borrowers	-	-	-	-	-	-
Total	**66,712**	**222**	**227**	**148**	**56**	**54**

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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 $207,803 (Previous Quarter – 31 December 2013 $207,803).

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.