Public Disclosure of Prudential Information

As at 31 March 2019

TEACHERS MUTUAL BANK LIMITED

This public disclosure is prepared for Teachers Mutual Bank Limited for the quarter ended the 31 March 2019. The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the bank. It complies with prudential standard APS 330 Public Disclosure and is unaudited.

Capital management

Capital levels are managed to ensure compliance with Australian Prudential Regulation Authority (APRA) requirements. Those requirements encompass a framework of three pillars.

Pillar 1 - Minimum capital requirements, including a specific capital charge for operational risk.

Pillar 2 - Enhanced supervision of capital management including the application of an internal capital adequacy assessment process.

Pillar 3 - More extensive disclosure requirements.

Pillar 1

Capital is measured as prescribed by Australian Prudential Regulation Authority (APRA) prudential standards. These standards act to deliver capital requirements in respect of Credit risk, Market risk and Operational risk.

Credit risk

Credit risk is measured using the Standardised Approach defined in prudential standard APS112. The capital charge attached to each asset is based on weightings prescribed by APRA as detailed in the table below:

On-statement of financial position exposures	Carrying value	Risk weighting	Risk weighted amount
Cash	1,084,802	0%	-
Deposits in highly rated ADIs	660,126,805	20%	132,025,361
Deposits in less highly rated ADIs	605,824,563	50%	302,912,282
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	5,314,616,695	35%	1,860,115,843
Standard loans secured against eligible residential mortgages over 80% LVR	973,932,862	50%-75%	492,080,524
Other standard mortgage loans	14,441,248	100%	14,441,248
Non-standard mortgage loans	20,069,740	35%-100%	12,838,955
Other loans	192,187,089	0%-100%	192,073,005
Other assets	67,449,570	100%	67,449,570
Total	7,849,733,374		3,073,936,788

Non-market related Off-statement of financial position exposures	Notional principal amount	Credit conversion factor	Credit equivalent amount	Risk weighting	Risk weighted amount
Loans approved and not advanced	114,338,386	100%	114,338,386	35%-100%	54,044,128
Redraws available	421,097,906	50%	210,548,953	35%-100%	76,478,398
Guarantees	100	100%	100	100%	100
Unused revolving credit limits	303,089,412	0%	-		
Possible contribution to CUFSS	100,000,000	0%	-		
Total	938,525,804		324,887,439		130,522,626

Market related Off-statement of financial position exposures	Notional principal amount	Credit conversion factor	Potential future exposure	Current exposure	Credit equivalent amount	Risk weighted amount
Residual maturity 1 year or less	291,500,000	0.0%	-	94,381	94,381	18,876
Residual maturity > 1 year to 5 years	76,500,000	0.5%	382,500	-	382,500	76,500
Residual maturity > 5 years	-	1.5%	-	-	-	-
Total	368,000,000		382,500	94,381	476,881	95,376
Total weighted credit risk exposures						3,204,554,790

Market risk

The Bank is not required to allocate capital against market risk as no trading activity is undertaken and the Standardised Approach does not result in any allocation against interest rate risk in the banking book.

Operational risk

Operational risk is measured using the Standardised Approach defined in prudential standard APS114. The capital charge is based upon portfolio balances and revenue streams with scaling and risk factors applied to reflect APRA's assessment of the particular risk profiles.

Operational risk capital requirement for retail banking

	30-Jun-16	31-Dec-16	30-Jun-17	31-Dec-17	30-Jun-18	31-Dec-18
Total gross outstanding loans and advances for retail banking	4,595,067,248	5,056,181,646	5,477,914,787	5,580,317,615	5,993,575,816	6,454,352,881
- multiplied by 3.5% scaling factor	160,827,354	176,966,358	191,727,018	195,311,117	209,775,154	225,902,351
- multiplied by 12% risk factor	19,299,282	21,235,963	23,007,242	23,437,334	25,173,018	27,108,282
Average of the 6 half year results = Total operational risk capital requirement for retail banking						23,210,187

Operational risk capital requirement for commercial banking

	30-Jun-16	31-Dec-16	30-Jun-17	31-Dec-17	30-Jun-18	31-Dec-18
Total gross outstanding loans and advances for commercial banking	853,625,849	903,383,637	1,078,074,273	1,218,730,671	964,941,406	1,193,181,406
- multiplied by 3.5% scaling factor	29,876,905	31,618,427	37,732,600	42,655,574	33,772,949	41,761,349
- multiplied by 15% risk factor	4,481,536	4,742,764	5,659,890	6,398,336	5,065,942	6,264,202
Average of the 6 half year results = Total operational risk capital requirement for commercial banking						5,435,445

Operational risk capital requirement for all other activity

	30-Jun-16	31-Dec-16	30-Jun-17	31-Dec-17	30-Jun-18	31-Dec-18
Adjusted gross income	3,939,191	2,694,694	4,352,198	2,997,841	4,559,025	3,738,151
- multiplied by 18% risk factor	709,054	485,045	783,396	539,611	820,625	672,867
Average of the 3 annual results = Total operational risk capital requirement for all other activity						1,336,866

Total operational risk capital requirement	29,982,498

RWA equivalent amount for operational risk capital requirement = Operational risk capital * 12.50	374,781,227

Total credit and operational risk weighted	3,579,336,017

Capital resources

Common Disclosure Table

Main features of capital

Common Equity Tier 1 Capital - The majority of Tier 1 capital consists of retained profits.

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 consists of a reserve for credit losses and subordinated term debt.

A minimum capital ratio of 8% is required to be maintained at all times. Our policy requires reporting to the board if the capital ratio falls below 14%.

The capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The Bank manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. Further, a 3 year capital projection is maintained to assess how strategic decisions or trends may impact on the level of capital. A stress test based on various asset growth and profitability assumptions is conducted annually.

Pillar 2 risk capital

Pillar 2 of the Prudential Framework relates to any risk factor to which an ADI might be exposed that is not included in Pillar 1.

These risks fall into 3 categories.

- Pillar 1 risks not fully captured by the Pillar 1 process, for example credit concentration risk.
- Inherent risks not covered by Pillar 1, including:
  - interest rate risk in the banking book
  - liquidity risk
  - strategic risk
  - reputation risk
- Risks arising from external factors such as business cycles effects and the macroeconomic environment.

The Bank documents, analyses and sets its own internal capital requirements to meet Pillar 2 risks.
The methodologies used to assess the required capital are a combination of quantitative and qualitative assessment and by their nature are based on a degree of collective subjective judgment of senior management and the board.

Internal capital adequacy management

The Bank manages its internal capital levels for both current and future activities through a combination of committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth or unforeseen circumstances are assessed by the board. The finance department then updates the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

Contingency buffer

Based on historical fluctuations in capital the Bank incorporates a contingency buffer of 4% when targeting minimum levels of capital and when preparing its Capital Management Plan to cover volatility in the risks identified above.

	RWA	Minimum capital required	% Equivalent of RWA
Credit risk	3,204,554,790	256,364,383	8.00%
Operational risk	374,781,227	29,982,498	8.00%
Total	3,579,336,017	286,346,881	8.00%
Pillar 2 uplift capital		71,586,721	2.00%
ICAAP capital required		357,933,602	10.00%
Buffer for business cycle volatility		143,173,441	4.00%
Capital available for future growth and product and service development		33,742,341	0.94%
Risk-based capital ratio		534,849,384	14.94%
Common Equity Tier 1 capital ratio		499,661,437	13.96%
Tier 1 capital ratio		499,661,437	13.96%
Tier 2 capital ratio		35,187,947	0.98%

Credit risk

The credit risk of a financial institution is the risk that customers (members), financial institutions and other counterparties will be unable to meet their obligations to the institution which may result in financial losses. Credit risk arises principally from the Bank's loan book and investment assets.

Investments

The risk of losses on investments is mitigated through the application of investment limits per counterparty based upon independent ratings of counterparties and by limiting exposure to groups of counterparties within a rating band.

The exposure values associated with each credit quality step are as follows:

Investments with entities:	No. of institutions	Carrying value	Past due value	Provision	Average gross exposure in the quarter
Rated A-1+ to A-1 (short-term)	7	229,384,468	-	-	254,679,492
Rated A-2 or P-2 (short-term)	14	420,092,429	-	-	381,208,753
Rated A-3 (short-term)	3	38,685,803			35,661,678
Rated AA+ to AA- (long term)	3	246,585,104	-	-	250,429,386
Rated A+ to A- (long-term)	5	209,196,310	-	-	201,716,843
Rated BBB+ to BBB or Baa1 (long-term)	7	122,007,254	-	-	122,529,787
Total		1,265,951,368	-	-	1,246,225,939

Loans

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved but not funded, redraw facilities, undrawn overdrafts and credit cards).

	Carrying value on-statement of financial position	Commitments	Other non-market off-statement of financial position exposures	Maximum exposure	Average gross exposure in the quarter
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Housing	5,931,888	500,885	-	6,432,773	6,428,790
Personal	584,712	337,050	-	921,762	930,126
Total-natural persons	6,516,600	837,935	-	7,354,535	7,358,916
Corporate borrowers	334	590	-	924	925
Total	6,516,934	838,525	-	7,355,459	7,359,841

The commitments set out above comprise

Outstanding loan commitments	**$’000**
The loans approved but not funded	114,338

Loan redraw facilities	
The loan redraw facilities available	421,098

Undrawn loan facilities Loan facilities available to members for overdrafts and credit cards are as follows:	
Total value of facilities approved	398,964
Less: amount advanced	(95,875)
Net undrawn value	303,089

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

Total loan commitments	838,525

Impairment

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts were written off when identified and are recognised as expenses in the statement of comprehensive income.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

Non-accrual loans are loans and advances, including savings accounts drawn past their approved credit limit, where the recovery of all interest and principal is considered to be reasonably doubtful. Interest charged and not received on this class of loan is not recognised as revenue. APRA has made it mandatory that interest is not recognised as revenue after irregularity exceeds 90 days for a loan facility or 15 days for an over limit overdraft and credit card facility or 15 days for overdrawn savings account.

Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and the revised terms are not comparable to new facilities of comparable risk. Loans, where interest has been stopped or is less than the Bank’s average cost of funds, are included in non-accrual loans.

The level of impaired loans by class of loan is set out below:

- Carrying value is the balance gross of provision (net of deferred fees).
- Past due loans as per APS 220 Credit Quality is the ‘on-statement of financial position’ loan balances which are behind in repayments by 90 days or more, well-secured and not impaired.
- Impaired loans value is the ‘on-statement of financial position’ loan balance and includes non-accrual loans, restructured loans and other assets acquired through security enforcement. Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.
- The losses in the quarterly period equate to the additional provisions set aside for impaired loans and bad debts written off in excess of previous provision allowances.

	Carrying value on-statement of financial position	Value of loans that are past due	Value of loans that are impaired	Provision for impairment	Provision for impairment quarterly movement	Bad debts in the quarter
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Housing	5,931,888	2,998	12,240	511	74	30
Personal	584,712	156	3,046	1,174	(426)	357
Total-natural persons	6,516,600	3,154	15,286	1,685	(352)	387
Corporate borrowers	334	-	2	1	-	-
Total	6,516,934	3,154	15,288	1,686	(352)	387

The impaired loans are generally not secured against residential property. Some impaired loans are secured by mortgage over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and condition.

Reserve for credit losses

The General Reserve for Credit Losses is a reserve in respect of credit losses prudently estimated but are not certain to arise over the life of individual loan facilities provided by the Group.

A historical Probability of Default and Loss Given Default are calculated and projected over the expected life of the loan portfolio to identify Expected Losses on loan facilities. This result is compared to Expected losses that would arise should the minimum Loss Given Default levels specified by APRA under an internal ratings based approach be applied. The Reserve is set at the greater of the two calculations. The Board considers whether there are any significant environmental factors that warrant adjustment to the reserve and makes increasing adjustments should it judge it appropriate.

The amount of the reserve is currently $15,187,947.

Securitisation exposures

On-statement of financial position - The Bank has established an internal securitisation of residential mortgages, linked to a repurchase agreement facility with the Reserve Bank of Australia, as a liquidity contingency. The Bank has not derecognised these loans from the statement of financial position and does not qualify for capital relief under APS 120 Securitisation. The amount of the facility is currently $691,791,998 consisting of mortgages secured loans.

Main features – Floating rate subordinated notes

Disclosure Template for Main Features of Regulatory Capital Instruments		
1	Issuer	Teachers Mutual Bank Limited (TMBL)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN - AU3FN0038105
3	Governing law(s) of the instrument	New South Wales
	Regulatory treatment	
4	Transitional Basel III rules	Not applicable
5	Post-transitional Basel III rules	Tier 2
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	Subordinated Notes
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	$20 million
9	Par value of instrument	$20 million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	7 September 2017
12	Perpetual or dated	Dated
13	Original maturity date	7 September 2027
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Prior to the maturity date, TMBL may, with the prior written approval of APRA, redeem the notes on 7 September 2022 and every Interest Payment Date thereafter
16	Subsequent call dates, if applicable	Not applicable, refer item 15 above

	Coupons/dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3 month BBSW + 280 basis points paid quarterly in arrears
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Trigger Event occurs, the Notes will be subject to write off
32	If write-down, full or partial	Can be full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	In the event of a winding-up of TMBL, the claims of Holders against TMBL in respect of the Notes rank ahead of the claims of all members of TMBL other than in their capacity as depositors, and behind the claims of unsubordinated creditors.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable