

Public Disclosure of Prudential Information

**TEACHERS MUTUAL
BANK LIMITED**

As at 31 December 2021

This public disclosure is prepared for Teachers Mutual Bank Limited for the quarter ended 31 December 2021. 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	681,129	0%	-
Deposits in semi-government	62,952,609	0%	-
Deposits in highly rated ADIs	1,036,055,566	20%	207,211,113
Deposits in less highly rated ADIs	646,813,707	50%	323,406,854
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	7,468,311,549	35%	2,613,909,042
Standard loans secured against eligible residential mortgages over 80% LVR	587,685,891	50%-75%	299,094,416
Other standard mortgage loans	34,448,069	100%	34,448,069
Non-standard mortgage loans	23,499,550	35%-100%	15,286,046
Deposits in other entities	45,011,682	20%	9,002,336
Other loans	132,156,208	0%-100%	131,487,513
Other assets	81,355,647	100%	81,355,647
Total	10,118,971,607		3,715,201,036

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	262,685,347	100%	262,685,347	35%-100%	114,169,106
Redraws available	424,913,600	50%	212,456,800	35%-100%	76,592,290
Guarantees	786,864	100%	786,864	100%	786,864
Unused revolving credit limits	302,078,419	0%	-		
Possible contribution to CUFSS Limited	100,000,000	0%	-		
Total	1,090,464,230		475,929,011		191,548,260

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	-	0.0%	-	-	-	-
Residual maturity > 1 year to 5 years	-	0.5%	-	-	-	-
Residual maturity > 5 years	-	1.5%	-	-	-	-
Total	-		-	-	-	-
Total weighted credit risk exposures						3,906,749,296

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-19	31-Dec-19	30-Jun-20	31-Dec-20	30-Jun-21	31-Dec-21
Total gross outstanding loans and advances for retail banking	6,475,311,996	6,466,758,492	6,598,367,072	7,277,544,789	7,873,556,889	8,246,016,819
- multiplied by 3.5% scaling factor	226,635,920	226,336,547	230,942,848	254,714,068	275,574,491	288,610,589
- multiplied by 12% risk factor	27,196,310	27,160,386	27,713,142	30,565,688	33,068,939	34,633,271
Average of the 6 half year results = Total operational risk capital requirement for retail banking						30,056,289

Operational risk capital requirement for commercial banking

	30-Jun-19	31-Dec-19	30-Jun-20	31-Dec-20	30-Jun-21	31-Dec-21
Total gross outstanding loans and advances for commercial banking	1,433,281,868	1,438,303,213	1,402,473,285	1,447,004,747	1,691,273,326	1,637,547,072
- multiplied by 3.5% scaling factor	50,164,865	50,340,612	49,086,565	50,645,166	59,194,566	57,314,148
- multiplied by 15% risk factor	7,524,730	7,551,092	7,362,985	7,596,775	8,879,185	8,597,122
Average of the 6 half year results = Total operational risk capital requirement for commercial banking						7,918,648

Operational risk capital requirement for all other activity

	30-Jun-19	31-Dec-19	30-Jun-20	31-Dec-20	30-Jun-21	31-Dec-21
Adjusted gross income	3,381,640	2,563,695	8,460,113	9,410,826	2,469,126	2,482,642
- multiplied by 18% risk factor	608,695	461,465	1,522,820	1,693,949	444,443	446,876
Average of the 3 annual results = Total operational risk capital requirement for all other activity						1,726,083

Total operational risk capital requirement	39,701,020
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RWA equivalent amount for operational risk capital requirement = Operational risk capital * 12.50	496,262,748
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Total credit and operational risk weighted	4,403,012,044
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Capital adequacy

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 general reserve for credit losses and subordinated term debt.

Capital Structure	Capital Base	Capital Ratio
Common Equity Tier 1	573,835,577	13.03%
Tier 1 Capital	573,835,577	13.03%
Tier 2 Capital	48,494,742	1.10%
Total Capital	622,330,319	14.13%

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)	8	558,714,465	-	-	573,103,277
Rated A-2 or P-2 (short-term)	11	185,798,453	-	-	213,968,169
Rated A-3 (short-term)	1	4,990,375	-	-	5,981,116
Rated AAA to AA- or Aa3 (long term)	13	673,187,159	-	-	559,271,736
Rated A+ to A- (long-term)	12	195,710,878	-	-	267,812,818
Rated BBB+ to BBB or Baa1 (long-term)	9	172,432,234	-	-	168,842,146
Total		1,790,833,564	-	-	1,788,979,262

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	8,059,098	679,214	-	8,738,312	8,603,830
Personal	186,238	309,719	-	495,957	495,184
Total-natural persons	8,245,336	988,933	-	9,234,269	9,099,014
Corporate borrowers	1,467	744	-	2,211	1,969
Total	8,246,803	989,677	-	9,236,480	9,100,983

The commitments set out above comprise

Outstanding loan commitments	\$'000
The loans approved but not funded	262,685

Loan redraw facilities	
The loan redraw facilities available	424,914

Undrawn loan facilities	
Loan facilities available to members for overdrafts and credit cards are as follows:	
Total value of facilities approved	369,137
Less: amount advanced	(67,059)
Net undrawn value	302,078

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

Total loan commitments	989,677
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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	8,059,098	5,207	39,291	-	(233)	-
Personal	186,238	193	1,755	701	16	157
Total-natural persons	8,245,336	5,400	41,046	701	(217)	157
Corporate borrowers	1,467	-	1	-	-	-
Total	8,246,803	5,400	41,047	701	(217)	157

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.

The Bank carries on Expected Credit Loss provision of \$5,773,311 based on historic Loss Given Default and Probability of Default of \$2,024,286 with a management overlay of \$3,749,025 for the current economic situation. The calculation in respects of APRA 220 amounts to \$701,477 and the residual of \$5,071,834 is incorporated into Tier 2 capital.

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 Bank.

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 \$23,422,908.

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 \$2,417,998,656 consisting of mortgages secured loans.

On-statement of financial position - The Bank has invested in Residential Mortgage Backed Securities (RMBS). The total amount invested is currently \$45,011,682.

Public Disclosure of Prudential Information For Capital Instruments

**TEACHERS MUTUAL
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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