Public Disclosure of Prudential Information

As at 30th September 2012

Teachers Mutual Bank
We put you first

This public disclosure is prepared for Teachers Mutual Bank Limited for the quarter ended the 30th September 2012.
It complies with prudential standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information 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	1,590,277	0%	0
Deposits in highly rated ADIs	482,001,619	20%	96,400,324
Deposits in less highly rated ADIs	175,480,557	50%	87,740,279
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	2,316,990,079	35%	810,946,528
Standard loans secured against eligible residential mortgages over 80% LVR	488,907,525	50-75%	247,847,598
Other standard mortgage loans	6,258,789	100%	6,258,789
Non-standard mortgage loans	2,292,869	35-100%	1,678,114
Other loans	330,375,214	100%	330,375,214
Other assets	38,283,647	100%	38,283,647
Total	3,842,180,576		1,619,530,493

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	102,934,692	100%	102,934,692	35%-100%	53,612,325
Redraws available	312,473,628	50%	156,236,814	35%-100%	61,156,932
Guarantees	100	100%	100	100%	100
Unused revolving credit limits	256,159,610	0%	0		
Possible contribution to CUFSS	122,646,239	0%	0		
Total	794,214,269		259,171,606		114,769,357

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	8,000,000	0%	0	19,329	19,329	3,866
Residual maturity > 1 year to 5 years	22,000,000	0.5%	110,000	0	110,000	22,000
Total	30,000,000		110,000	19,329	129,329	25,866
Total weighted credit risk exposures						1,734,325,716

Market risk

The mutual 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

	31-Dec-09	30-Jun-10	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12
Total gross outstanding loans and advances for retail banking	2,313,217,856	2,436,539,080	2,562,109,970	2,771,806,877	2,912,194,314	3,070,330,500
- multiplied by 3.5% scaling factor	80,962,625	85,278,868	89,673,849	97,013,241	101,926,801	107,461,568
- multiplied by 12% risk factor	9,715,515	10,233,464	10,760,862	11,641,589	12,231,216	12,895,388
Average of the 6 half year results = Total operational risk capital requirement for retail banking						11,246,339

Operational risk capital requirement for commercial banking

	31-Dec-09	30-Jun-10	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12
Total gross outstanding loans and advances for commercial banking	490,890,671	608,957,249	588,319,324	689,062,584	792,341,065	645,359,216
- multiplied by 3.5% scaling factor	17,181,173	21,313,504	20,591,176	24,117,190	27,731,937	22,587,573
- multiplied by 15% risk factor	2,577,176	3,197,026	3,088,676	3,617,579	4,159,791	3,388,136
Average of the 6 half year results = Total operational risk capital requirement for commercial banking						3,338,064

Operational risk capital requirement for all other activity

	31-Dec-09	30-Jun-10	31-Dec-10	30-Jun-11	31-Dec-11	30-Jun-12
Adjusted gross income	1,921,721	2,808,222	2,111,070	3,401,488	2,030,846	3,906,064
- multiplied by 18% risk factor	345,910	505,480	379,993	612,268	365,552	703,091
Average of the 3 annual results = Total operational risk capital requirement for all other activity						970,765

Total operational risk capital requirement	15,555,168
RWA equivalent amount for operational risk capital requirement = Operational risk capital * 12.50	194,439,594
Total credit and operational risk weighted	1,928,765,310

Capital resources

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 generally comprises a reserve for credit losses.

A minimum capital ratio of 8% is required to be maintained at all times. Our policy requires reporting to the board and the regulator 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 mutual 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 mutual 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 mutual 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 mutual 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 mutual bank is reassessed.

Contingency buffer

Based on historical fluctuations in capital the mutual bank incorporates a contingency buffer of 2% 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	1,734,325,716	138,746,057	8.00%
Operational risk	194,439,594	15,555,168	8.00%
Total	1,928,765,310	154,301,225	8.00%
Pillar 2 uplift capital		77,150,612	4.00%
ICAAP capital required		231,451,837	12.00%
Buffer for business cycle volatility		38,575,306	2.00%
Capital available for future growth and product and service development		38,582,030	2.00%
Risk-based capital ratio		308,609,173	16.00%
Tier 1 capital ratio		289,428,718	15.01%
Tier 2 capital ratio		19,180,455	0.99%

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 mutual bank's loan book and investment assets.

Liquid investments

The risk of losses on liquid 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:	No. of institutions	Carrying value	Past due value	Provision	Average gross exposure in the quarter
ADIs-rated A-1+ or A-1 (short-term)	6	457,344,980	0	0	456,347,920
ADIs-rated A (long-term)		2,000,000	0	0	1,000,000
ADIs-rated A-2 or P-2 (short-term)	7	183,381,572	0	0	172,056,896
ADIs-rated A-3 (short-term)	1	14,755,624	0	0	14,059,270
Total	14	657,482,176	0	0	643,464,086

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	2,602,107	359,680	0	2,961,787	2,925,060
Personal	527,920	306,795	0	834,715	826,683
Total-households	3,130,027	666,475	0	3,796,502	3,751,743
Business	16,502	5,094	0	21,596	21,624
Total	3,146,529	671,569	0	3,818,098	3,773,367

The commitments set out above comprise

Outstanding loan commitments	$'000
The loans approved but not funded	102,935

Loan redraw facilities	
The loan redraw facilities available	312,474

Undrawn loan facilities Loan facilities available to members for overdrafts and credit cards are as follows:	
Total value of facilities approved	350,525
Less: amount advanced	(94,365)
Net undrawn value	256,160

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

Total loan commitments	671,569

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 mutual 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 and restructured loans. 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	2,602,107	0	5,261	90	(253)	126
Personal	527,920	0	4,438	1,613	(86)	330
Total-households	3,130,027	0	9,699	1,703	(339)	456
Business	16,502	0	2	1	(1)	0
Total	3,146,529	0	9,701	1,704	(340)	456

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

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.

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 $21,371,621.

The value of the reserve may be amended to reflect the changes in economic conditions, the level of security taken as collateral and the relevant concentrations in specific regions and industries of employment within the loan book.