Public Disclosure of Prudential Information

TEACHERS MUTUAL BANK LIMITED

As at 31 December 2022

This public disclosure is prepared for Teachers Mutual Bank Limited for the quarter ended 31 December 2022. 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	857,444	0%	-
Deposits in semi-government	179,089,107	0%	-
Deposits in highly rated ADIs	1,062,983,555	20%	212,596,711
Deposits in less highly rated ADIs	422,656,846	50%	211,328,423
Standard loans secured against eligible residential mortgages up to 80% LVR (up to 90% with Lenders Mortgage Insurance)	8,361,929,562	35%	2,926,675,347
Standard loans secured against eligible residential mortgages over 80% LVR	498,387,878	50%-75%	252,796,533
Other standard mortgage loans	18,176,222	100%	18,176,222
Non-standard mortgage loans	15,854,887	35%-100%	10,229,059
Deposits in other entities	31,859,488	20%	6,371,898
Other loans	140,860,131	0%-100%	140,751,618
Other assets	114,337,489	100%	114,337,489
Total	10,846,992,609		3,893,263,300

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	210,394,597	100%	210,394,597	35%-100%	103,670,262
Redraws available	471,884,138	50%	235,942,069	35%-100%	84,105,099
Guarantees	424,598	100%	424,598	100%	424,598
Unused revolving credit limits	291,205,345	0%	-		
Possible contribution to CUFSS Limited	100,000,000	0%	-		
Total	1,073,908,678		446,761,264		188,199,959

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						4,081,463,259

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-20	31-Dec-20	30-Jun-21	31-Dec-21	30-Jun-22	31-Dec-22
Total gross outstanding loans and advances for retail banking	6,598,367,072	7,277,544,789	7,873,556,889	8,246,016,819	8,641,176,855	9,035,130,123
- multiplied by 3.5% scaling factor	230,942,848	254,714,068	275,574,491	288,610,589	302,441,190	316,229,554
- multiplied by 12% risk factor	27,713,142	30,565,688	33,068,939	34,633,271	36,292,943	37,947,547
Average of the 6 half year results = Total operational risk capital requirement for retail banking						33,370,255

Operational risk capital requirement for commercial banking

	30-Jun-20	31-Dec-20	30-Jun-21	31-Dec-21	30-Jun-22	31-Dec-22
Total gross outstanding loans and advances for commercial banking	1,402,473,285	1,447,004,747	1,691,273,326	1,637,547,072	1,577,647,818	1,628,070,666
- multiplied by 3.5% scaling factor	49,086,565	50,645,166	59,194,566	57,314,148	55,217,674	56,982,473
- multiplied by 15% risk factor	7,362,985	7,596,775	8,879,185	8,597,122	8,282,651	8,547,371
Average of the 6 half year results = Total operational risk capital requirement for commercial banking						8,211,015

Operational risk capital requirement for all other activity

	30-Jun-20	31-Dec-20	30-Jun-21	31-Dec-21	30-Jun-22	31-Dec-22
Adjusted gross income	8,460,113	9,410,826	2,469,126	2,482,642	2,944,376	2,477,008
- multiplied by 18% risk factor	1,522,820	1,693,949	444,443	446,876	529,988	445,861
Average of the 3 annual results = Total operational risk capital requirement for all other activity						1,694,645

Total operational risk capital requirement	43,275,915

RWA equivalent amount for operational risk capital requirement = Operational risk capital * 12.50	540,948,939

Total credit and operational risk weighted	4,622,412,198

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 includes Provision for Credit Losses.

Capital Structure	Capital Base	Capital Ratio
Common Equity Tier 1	658,089,764	14.24%
Tier 1 Capital	658,089,764	14.24%
Tier 2 Capital	4,949,829	0.10%
Total Capital	663,039,593	14.34%

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	564,015,875	-	-	476,002,079
Rated A-2 or P-2 (short-term)	14	216,838,621	-	-	208,891,878
Rated A-3 (short-term)	-	-	-	-	-
Rated AAA to AA- or Aa3 (long term)	12	533,840,869	-	-	550,367,785
Rated A+ to A- (long-term)	13	245,880,884	-	-	246,470,640
Rated BBB+ to BBB or Baa1 (long-term)	6	136,012,747	-	-	129,413,374
Total		1,696,588,996	-	-	1,611,145,756

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	8,827,417	674,726	-	9,502,143	9,409,632
Personal	206,856	298,158	-	505,014	503,954
Total-natural persons	9,034,273	972,884	-	10,007,157	9,913,586
Corporate borrowers	1,544	600	-	2,144	2,155
Total	9,035,817	973,484	-	10,009,301	9,915,741

Commitments set out above comprise

Outstanding loan commitments	$'000
The loans approved but not funded	210,395
Loan redraw facilities	
The loan redraw facilities available	471,884
Undrawn loan facilities Loan facilities available to members for overdrafts and credit cards are as follows:	
Total value of facilities approved	362,599
Less: amount advanced	(71,394)
Net undrawn value	291,205

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

Total loan commitments	973,484

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. APS220 Credit Quality requires interest to not be 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	8,827,417	4,999	21,207	41	(4)	-
Personal	206,856	44	1,479	567	54	221
Total-natural persons	9,034,273	5,043	22,686	608	50	221
Corporate borrowers	1,544	-	1	1	0	-
Total	9,035,817	5,043	22,687	609	50	221

	12 month ECL provisions for performing loans	Lifetime ECL provisions for performing loans	Total ECL provisions for performing loans	Lifetime ECL provisions for non-performing loans	Total ECL
	$'000	$'000	$'000	$'000	$'000
Housing	1,265	931	2,196	762	2,957
Personal	1,966	366	2,332	268	2,601
Total-natural persons	3,231	1,297	4,528	1,030	5,558
Corporate borrowers	-	-	-	-	-
Total	3,231	1,297	4,528	1,030	5,558

The Bank carries an Expected Credit Loss provision of $5,558,153 based on historic Loss Given Default and Probability of Default of $1,624,864 with a management overlay of $3,933,289 for the current economic situation. The Provision for Impairment as per APS 220 Credit Quality amounts to $608,324 and the residual Provision for Credit Losses of $4,949,829 is included in Tier 2 Capital.

Provision for Credit Losses

The Provision for Credit Losses comprises provisions held against the Expected Credit Losses (ECL) of non-defaulted exposures that represents a purely forward-looking amount for future losses that are presently unidentified and a management overlay.

ECL are measured using the three-stage approach prescribed under AASB 9 Financial Instruments. Stage 1 exposures have not deteriorated significantly in credit quality since initial recognition or have low credit risk. Stage 2 exposures have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.

A Probability of Default and a Loss Given Default is determined and projected over twelve months for Stage 1 exposures, or over the expected life of Stage 2 exposures to derive the ECL. The Board considers whether there are any significant environmental factors that warrant adjustment and will apply a management overlay should it judge it appropriate.

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 $1,845,077,771 consisting of mortgage secured loans.

On-statement of financial position - The Bank has invested in Residential Mortgage Backed Securities (RMBS).
The total amount invested is currently $31,859,488.