

AUSTRALIAN MUTUAL BANK

APS 330 PRUDENTIAL DISCLOSURE – CAPITAL AND CREDIT RISK

31 December 2019

Public Disclosure requirements for all locally incorporated ADIs - QUARTERLY

This disclosure on capital and credit risk refers to Australian Mutual Bank Limited.

The information in this report is prepared quarterly based on the Mutual Bank's financial records. The financial records are not audited for the quarters ended 30 September, 31 December and 31 March.

Capital Instruments within the ADI

The regulatory capital in the Mutual Bank comprises:

- Retained Earnings and
- General reserve for Credit Losses
- Capital Reserve Account
- Asset Revaluation Reserve

There are no capital instruments (shares, debt instruments) issued by the ADI.

Capital Requirements

Capital requirements for Australian Mutual Bank are determined by the risk weights of the relevant assets held, with the minimum required capital to over 8% of risk weighted assets. Australian Mutual Bank maintains a capital policy level of a capital target of 14.00%. The current level of capital as at 31 December 2019 is 21.44%.

The risk weighted assets for each asset grouping as set out in the table below is determined by APRA Prudential Standard APS 112. These are prescribed risk weights to measure the level of risk based on the nature and level of security supporting the assets recovery.

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	Prescribed	
	Risk Weighted Assets \$'000	
	31-Dec-2019	30-Sep-2019
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
• Cash	0	0
• Liquid investments	175,137	78,429
• Loans - secured by residential mortgage	413,378	248,198
• Loans - other retail	59,976	47,682
• Loans - corporate	3,904	2,785
• all other assets	38,638	17,687
Total credit risk on balance sheet	691,033	394,781
Total credit risk off balance sheet (commitments)		
• Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)	24,992	35,462
Capital requirements for securitisation	0	0
(b) Capital requirements (in terms of risk-weighted assets) for equity exposures in the IRB approach (simple risk-weighted method).	0	0
(c) Capital requirements for market risk	0	0
(d) Capital requirements for operational risk	59,067	52,223
(e) Capital requirements (in terms of risk-weighted assets) for interest rate risk in the banking book (IRRBB) (IRB/AMA approved Australian-owned ADIs only).	0	0
Total Risk Weighted Assets	775,092	482,466

Capital Held by the ADI

The capital held by Australian Mutual Bank exceeds the policy and minimum capital prescribed by APRA Prudential standards. The excess may facilitate future growth for Australian Mutual Bank. The capital ratio is the amount of capital described in Table 3 divided by total risk weighted assets.

	Capital \$'000		Capital %	
	31-Dec-2019	30-Sep-2019	31-Dec-2019	30-Sep-2019
(f) Common Equity Tier 1	162,521	81,529	20.97%	16.90%
Tier 1	162,521	81,529	20.97%	16.90%
Total Capital	166,176	83,930	21.44%	17.40%

Credit Risk

(A) Credit Risk - Investments

Surplus cash not invested in loans to members are held in high quality liquid assets (HQLA) or other investments according to Australian Mutual Bank's Liquidity Policy. This includes the funds required to be held to meet withdrawal of deposits by members.

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Credit Risk

Investments (Continued)

Australian Mutual Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential Guidance in APS112. The credit quality assessment scale within this standard has been complied with. .

31 December 2019						
	Rating of investment issuers***	No. of issuers	Carrying Value \$'000	Past Due Value	Provision	Average Gross Exposure in the Quarter \$'000
Short-Term (Original Tenor of 1yr or less)	A1+ or A1 (or equivalent)	5	63,790	0		46,293
	A2 (or equivalent)	13	117,209	0		82,456
	A3 (or equivalent)	0	0	0		0
	B (or equivalent) and below	0	0	0		0
	Unrated Mutual Bank / ADIs - ST	8	69,267	0		49,426
Long-Term (Original Tenor > 1yr)	AAA to AA- (or equivalent)	5	39,230	0		33,908
	A+ to A- (or equivalent)	14	55,855	0		40,829
	BBB+ to BBB- (or equivalent)	12	38,611	0		29,712
	BB+ (or equivalent) and below	0	0	0		0
	Unrated Mutual Bank / ADIs - LT	0	0	0		0
	Total	57	383,962	0	0	282,624
*** Where a single issuer has multiple credit ratings assigned by more than one rating agencies, the entity is assigned to the corresponding rating band in accordance to its lowest credit rating.						

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30 September 2019						
	Rating of investment issuers***	No. of issuers	Carrying Value \$'000	Past Due Value	Provision	Average Gross Exposure in the Quarter \$'000
Short-Term (Original Tenor of 1yr or less)	A1+ or A1 (or equivalent)	5	28,796	0		35,014
	A2 (or equivalent)	13	47,703	0		46,693
	A3 (or equivalent)	0	0	0		0
	B (or equivalent) and below	0	0	0		0
	Unrated Mutual Bank / ADIs - ST	7	29,585	0		22,585
Long-Term (Original Tenor > 1yr)	AAA to AA- (or equivalent)	5	28,585	0		28,661
	A+ to A- (or equivalent)	10	25,804	0		25,063
	BBB+ to BBB- (or equivalent)	11	20,813	0		19,441
	BB+ (or equivalent) and below	0	0	0		0
	Unrated Mutual Bank / ADIs - LT	0	0	0		0
	Total	51	181,286	0	0	177,457

*** Where a single issuer has multiple credit ratings assigned by more than one rating agencies, the entity is assigned to the corresponding rating band in accordance to its lowest credit rating.

(B) Credit Risk - Loans

The classes of loans entered into are limited to loans; commitments and other non-market off-balance sheet exposures. Australian Mutual Bank does not enter into debt securities; and over-the-counter derivatives.

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 90 days or more but not impaired.
- Impaired loans are the 'on balance sheet' loan balances which are at risk of not meeting all principle 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.

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to

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Credit Risk

Loans (Continued)

determine the fair value of all collateral as at the balance date due to the variety of assets and their condition.

31 December 2019							
Loans Portfolio	Gross exposure value-Average for the period	Carrying value on Statement of Financial Position	Commitments (redraws, credit facilities undrawn)	Past Due facilities	Impaired Facilities	Specific Provision as at end of quarter	Increase in specific provision and write-offs in quarter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	1,013,058	1,144,127	126,921	1,619	0	0	0
Personal	40,110	42,697	10,070	0	699	441	163
Overdrafts & Credit cards	50,806	16,675	38,276	0	400	283	193
Corporate borrowers	6,363	5,015	3,729	0	3	1	1
Total	1,110,337	1,208,514	178,996	1,619	1,102	725	357

30 September 2019							
Loans Portfolio	Gross exposure value-Average for the period	Carrying value on Statement of Financial Position	Commitments (redraws, credit facilities undrawn)	Past Due facilities	Impaired Facilities	Specific Provision as at end of quarter	Increase in specific provision and write-offs in quarter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage secured	755,173	697,921	57,147	1,160	0	0	0
Personal	28,366	26,147	1,307	0	760	474	(60)
Overdrafts & Credit cards	46,834	15,841	30,820	0	143	103	(2)
Corporate borrowers	3,769	3,265	717	0	0	0	0
Total	834,142	743,174	89,991	1,160	903	577	(62)

General Reserve for Credit Losses

This reserve is set aside to quantify the estimate for potential future losses in loans and investments.

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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, and the risk of loss on investments and other assets.

	31 December 2019	30 September 2019
	\$'000	\$'000
General reserve for credit losses	3,655	2,401

Securitisation Exposures

Australian Mutual Bank has entered into a self securitisation arrangement for the purpose of meeting APRA's liquidity requirement. The table below states the current value of securitised loans managed by Australian Mutual Bank and the amount securitised in the past quarter ended 31 December 2019.

31 December 2019			
	Loans Securitised in Current qtr., by type of securitisation	Securitised Loans On-balance sheet exposure retained or purchased	Securitised Loans Off-balance sheet exposures
	\$'000	Aggregate amount \$'000	Aggregate amount \$'000
Mortgage secured	-	211,411	3,502
Personal	-	-	-
Overdrafts & Credit cards	-	-	-
Corporate	-	-	-
Total	-	211,411	3,502

The recognised gain or loss on securitised arrangements entered into in the past quarter is \$ Nil.

30 September 2019			
	Loans Securitised in Current qtr., by type of securitisation	Securitised Loans On-balance sheet exposure retained or purchased	Securitised Loans Off-balance sheet exposures
	\$'000	Aggregate amount \$'000	Aggregate amount \$'000
Mortgage secured	-	152,941	3,546
Personal	-	-	-
Overdrafts & Credit cards	-	-	-
Corporate	-	-	-
Total	-	152,941	3,546

The recognised gain or loss on securitised arrangements entered into in the past quarter is \$ Nil.

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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.