

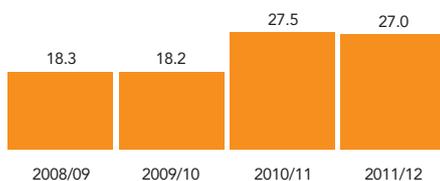
Profitability and productivity – Effective, efficient and sustainable

Effectiveness

bankmecu's credit quality ratio (the percentage of loans 30 days or more in arrears) decreased off an already low base in 2011 to 0.26 per cent of the total loan portfolio. This resulted from debts being paid in full, refinances or accounts brought up to date as well as the bank's strong commitment to lending responsibly in the first instance.

2011/12 also saw a reduction in total provisions for impaired loans, which was due to the removal of provisions made last financial year as a result of natural disasters. The provisions were removed because the potential losses identified were not realised.

Net profit after tax \$ in millions



Efficiency

bankmecu maintained a strong focus during 2011/12 on business management practices that deliver efficiency and protect operating margins in a challenging and competitive market.

The bank aims to increase business productivity to more than \$10 million of assets per full-time employee, and achieved \$9.6 million in 2011/12, up from \$8.5 million the previous year.

bankmecu's return on average assets decreased in 2011/12 to 0.99% per cent, due in large part to interest margin pressure from interest rate cuts and costs associated with adopting the new bank designation. The result is above its target for the year and above the Australian banking industry average of 0.90 per cent.

The reduction in the ratio also reflects the continuing competition in the market as

the banking sector replaces wholesale borrowings with retail deposits as a primary funding source.

Despite an increase due to lower operating income, the cost to income ratio at 57.37% remains a very clear benchmark indicator of **bankmecu's** efficient operation.

The cost to income ratio increase is attributed to a decrease in operating income (e.g. a static net interest margin, insurance portfolio transfer fees, lending fee income, dividends and securitised lending income decreasing), while operating expenses remained steady.

Sustainability

Responsibility for **bankmecu's** approach to sustainable development exists at all levels of the organisation and is considered core business.

In 2010/11, **bankmecu** established an Environmental Management System (EMS) to monitor aspects of **bankmecu's** operations with an environmental impact and to ensure continual environmental performance improvement.

bankmecu currently reports on emissions relating to car travel and gas consumption, electricity, air travel, paper and waste to landfill and is investigating how it can expand its reporting to other emissions sources to give a more complete account of its environmental impacts.

Total greenhouse gas emissions and emissions per FTE have decreased compared with 2010/11 due to ongoing efficiency measures. Items were added to

bankmecu's emissions profile in 2010/11 (e.g. waste to landfill, paper) and metrics improved. This resulted in increased total emissions being reported compared with 2009/10 (+1%).

bankmecu's electricity consumption decrease can largely be attributed to refurbishment and IT efficiency measures, while the decrease in gas consumption is due to turning gas services off during the summer months at various service centres.

More interstate travel is the result of expanded operations.

The large increase in water consumption can be attributed to issues such as undetected leaks, sandblasting prior to repainting and additional tenants increasing consumption at a service centre with shared metering. Low water use at head office, however, has consistently been achieved since the installation of on-site rainwater storage.

The increase of waste generation is largely due to major refurbishment works at Kew Head Office.

The increase in paper use arose from the rebrand to **bankmecu** during the year. Of purchased paper, 8.6 per cent had 100 per cent recycled content, 90.8 per cent had 80 per cent recycled content and 0.6 per cent had 50 per cent recycled content.

As part of its Environmental Management System, **bankmecu** developed a supply chain management system in 2010/11. The bank's Procurement Policy and Procedure was revised to include specific sustainability criteria when engaging new suppliers.

Total consumption increase/decrease in 2011/12 %



'Over the past year **bankmecu** has continued its long-standing record of strong financial performance.'

Profit and loss account

	2012 \$'000	2011 \$'000
What we earned		
Interest received on customer loans	145,059	140,519
Investment income	26,033	23,993
Other income	16,797	19,454
Total earnings	187,889	183,966
What we spent		
Interest paid on customer deposits	98,586	91,029
Interest paid on borrowings	1,760	2,912
Employee benefits	25,724	26,994
Other administrative costs	24,772	25,132
Income tax expense	10,031	10,388
Total expenses	160,873	156,455
Total profit	27,016	27,511

	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Interest income on loans	\$145.1m	\$140.5m	\$108.0m	\$89.9 m	\$80.4m	\$66.8m	\$59.8m	\$56.7m
Interest income on investments	\$26.0m	\$24.0m	\$21.9m	\$24.9m	\$28.1m	\$25.0m	\$18.9m	\$16.6m
Interest expense on deposits and loans	\$100.3m	\$93.9m	\$67.5m	\$64.2m	\$62.4m	\$48.9m	\$39.9m	\$35.6m
Net interest margin	\$70.7m	\$70.6m	\$62.5m	\$50.6m	\$46.0m	\$42.9m	\$38.8m	\$37.7m
Net interest margin as a % of average assets	2.59%	2.79%	2.92%	3.01%	3.20%	3.20%	3.30%	3.40%

Key performance indicator	Domestic bank industry average at Dec'11	Target	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06	Difference between 10/11 & 11/12
Cost to income ratio	69.60%	59.25%	57.73%	56.69%	66.13%	59.59%	56.02%	55.50%	55.80%	1.83%