

100%
customer
owned



Our place.

Annual Report 2012



100%
customer
owned

At our place, every account comes with a share, a say and benefits from our profits.

We believe in adopting a broader measure of performance than economic growth alone. By advancing the economic, social, environmental and governance conditions in the communities where we operate we can offer a better kind of bank.

Welcome to our place.

Contents

A message from the Chair	2
Responsible banking – Purpose, position and brand	3
Reputation – Pre-eminent customer owned bank brand	4
Target market – Customer owners	6
Customer benefit – Value and values	7
Governance – Customer accountability and participation	8
Profitability and productivity – Effective, efficient and sustainable	10
Sustainable growth – Creating customer value	12
For more information	14

Overview of report

In 2012 **bankmecu** is presenting its customers and stakeholders with a concise Annual Report of performance against its Strategic Plan. This report is supported by detailed data available through a dedicated website.

bankmecu is one of three Australian companies – and the only Australian customer owned business – participating in an international pilot project being run by the International Integrated Reporting Council (IIRC). IIRC is leading the development of a global framework for Integrated Reporting with a view to publishing a set of international guidelines in 2014.

Through this report, **bankmecu** aims to more concisely communicate its financial and non-financial performance against business strategy. It aims to demonstrate the links between business strategy and the creation of shareholder value.

Our 2012 highlights

Customer owned bank
Australia's first – September 2011

1st

Customer owned profit
Down from \$27.5m in 2011

\$27m

Cost/income
Up from 56.69% in 2011

57.73%

Customer satisfaction

94%

The Board

Board renewal led to the retirement of two long-serving Directors and the engagement of two new external Directors

-/+2

Return on average assets

Down from 1.09% on 2011

0.99%

Customer owned reserves
\$311.6m – \$2,406 per customer

+8.27%

Employees

Percentage who support **bankmecu's** commitment to sustainable development

95%

CO₂ emissions

A reduction of 205 tonnes from 2011

-9%

Customer value statement

	2012	2011	% change
Value of customer owned assets	\$2,837m	\$2,625m	+8.07%
Loans	\$2,210m	\$2,115m	+4.51%
Deposits	\$2,471m	\$2,232m	+10.72%
Cannex valuation of customer benefit in better rates and lower fees (in comparison with Big 4 banks)	\$20.14m	\$31.17m	-35.4%
Community Investment Program	\$1,143,745	\$1,141,360	+0.21%
Conservation Landbank	761.4 hectares	657.8 hectares	+0.16%
The average value of each customers' banking	\$36,523	\$33,000	+10.68%



Community

bankmecu's Community Investment Program contributed \$592k towards community resilience, \$397k towards the environment, \$124k towards housing and \$31k towards international development.



Economic

Total tax contribution towards government activity \$12.37m.



Environment

Head office solar panels have saved 30.648 tonnes of CO₂-e since they were installed in 2008.

A message from the Chair

Responsible banking is our core business and our competitive advantage at **bankmecu**.

On 1 September 2011, **bankmecu** became Australia's first customer owned bank. We took the decision to apply to the Australian Prudential Regulation Authority to adopt the restricted term 'bank' on the basis of research that told us our customers considered us to be 'their bank'. They supported a change of name as long as **bankmecu** remained firmly committed to its cooperative philosophy and values.

Over the past year **bankmecu** has continued its long-standing record of strong financial performance. **bankmecu's** net profit after tax of \$27.02 million represents a return on assets of 0.99%. Collectively owned by our customers, this profit is reinvested into the bank for the benefit of all customers.

In addition to our operating profit, **bankmecu** returned a total of \$20.1 million (as independently measured by Canstar Cannex) to customers in the form of more competitive interest rates on deposits and loans and lower fees when compared to Australia's four major banks.

These results are particularly pleasing considering the challenging market conditions of the past year. Intense competition from all banks, credit unions and building societies for retail deposits has seen an increase in our cost of funds while at the same time demand for credit has slowed and consumer confidence has weakened.

In March 2012 the Board reviewed and renewed **bankmecu's** 5-year strategic plan. It positions **bankmecu** within the social economy, comprising people and organisations that recognise the interdependence of economic, social, cultural, and environmental performance.

Following the financial collapse of 2008, there is renewed interest in both cooperation and a more responsible approach to capitalism. While the world is still recovering from the Global Financial Crisis there has never been a more important time for companies like **bankmecu** to demonstrate leadership.

In this, the International Year of Cooperatives, **bankmecu** is actively working to define and develop a 21st century approach to banking.

This year, **bankmecu** became the first Australian member of The Global Alliance for Banking on Values, an international network of banks using finance to deliver sustainable development for people, communities and the environment.

The **bankmecu** Board is strongly committed to renewal and ensuring that Directors have the diversity of skills and experience necessary to govern a modern bank. This year two Directors, Peter Crocker (former Chair) and Geoff Russell, retired from the Board. I thank them both for their commitment to **bankmecu** and its customers. I also

welcome Judith Downes and Greg Camm who both bring a wealth of experience in banking and finance to the Board as externally appointed Directors.

This year also saw Damien Walsh take up the position of Managing Director replacing former Chief Executive Officer, Phylip Doughty who retired in September 2011 after a distinguished career.

I would like to thank all Directors, management and staff for their significant contribution to the bank over the past 12 months.

Of course **bankmecu's** customers are integral to the future success of our customer owned bank. Thank you for your continuing support of **bankmecu** and for the trust you place in the Board, management and staff.



John Baistow, Chair



Responsible banking – Purpose, position and brand

As Australia's first customer owned bank, **bankmecu** is inspired to enhance the economic wellbeing of its customers in responsible ways. **bankmecu** is owned by its customers. It exists to serve its customers who as owners have an equal say, with one share and one vote, in how the bank conducts its business on their behalf.

During the year, **bankmecu** maintained its record of sustainable development and strong financial performance. It met its growth, profitability and prudential capital targets. However, rather than rewarding external investors, **bankmecu** profits are owned by its customers. Being accountable to its customers and sharing the bank's profits in this way helps ensure

it conducts the business in more sustainable and responsible ways. This model creates a generational shift in wealth. It provides for the future rather than focuses on short-term gain. The model resists a sense of entitlement where a current generation might seek to crystallise the wealth accumulated by prior generations.



Reputation – Pre-eminent customer owned bank brand

'On 1 September 2011, **bankmecu** became Australia's first customer owned bank.'

Trustworthy

bankmecu seeks to have its brand represent leadership in responsible banking performance. The bank invests its customers' money in ways which provide both an economic return as well as contributing to positive social and environmental outcomes. Again this year, **bankmecu** was recognised for its leadership in responsible banking and was invited to present at a range of industry and community forums.

bankmecu is part of an international cooperative movement. The United Nations General Assembly declared 2012 as the International Year of Cooperatives and **bankmecu** has been actively supporting activities in Australia to promote the role of cooperatives in Australia, to generate brand awareness and to assist consumers in making informed decisions about banking.

bankmecu is also a signatory to the United Nations Environment Programme Finance Initiative, United Nations Global Compact and United Nations Principles for Responsible Investment.

bankmecu produced its second Reconciliation Action Plan in collaboration with Reconciliation Australia. This assists the bank to contribute to the national effort to 'close the gap' between Aboriginal

and Torres Strait Islander Australians and other Australians.

During 2011/12, **bankmecu** was pleased to receive the following awards and recognition:

- Socially Responsible Institution of the Year (unlisted), *Money Magazine* 2012
- *Your Mortgage Magazine* Gold for the bank's 1-Year Fixed Home Loan.

Banker for civil society and the government

Satisfying the expectations of people and organisations engaged within the community sector requires a combination of competitive banking products and services. It demands a responsible approach to banking that reflects customers' attitudes and values as **bankmecu** invests its customers' funds for economic, social and environmental return.

In 2011/12 **bankmecu** invested 4.2 per cent of after-tax profits (\$1.1 million) through its Community Investment Program. The program invests in key areas identified through engagement with customers. They include: environment, housing, community resilience and international development.

bankmecu continued to invest in carbon sequestration and biodiversity through its

Conservation Landbank, increasing its land holding to 761 hectares. In 2011/12 **bankmecu** invested \$251,394 towards the project, contributing to environmental, social and economic outcomes for the local and broader community.

bankmecu maintained its Financial Inclusion Policy to encourage greater levels of access to financial products and services for people experiencing disadvantage.

In 2011, **bankmecu** collaborated with the Community Housing Federation of Australia and Powerhousing Australia to quantify the social benefits of support for affordable housing.

Satisfied and engaged customers

Customer satisfaction remained at 94 per cent, maintaining the high result of the previous year.

In 2011/12, **bankmecu** achieved a Net Promoter Score of 35, which indicates a strong willingness by existing customers to refer **bankmecu** to their friends and colleagues. This score has continued to improve over the past three years from 6 in 2009/10 to 20 in 2010/11.

There was a decrease in the number of complaints received in 2011/12 from 345 to 250. The main categories for complaints were 'cards' and 'internet

'In this, the International Year of Cooperatives, **bankmecu** is actively working to define and develop a 21st century approach to banking.'



Did you know customer satisfaction has been over 93% for the past seven years? Happy campers here.

banking'. In the same year, **bankmecu** received 104 service compliments.

During 2011/12 **bankmecu** provided 55 customers with hardship assistance on their loans.

Engaged staff

bankmecu's high level of staff satisfaction improved in 2011/12 to 88 per cent from 86 per cent in 2010/11. The Employer of Choice result remained steady at 87 per cent. The benefit of the relationship **bankmecu** enjoys with its staff can be seen in the bank's high levels of productivity and low cost to income ratio which directly contribute to customer benefit and value.

At 30 June 2012, **bankmecu** had 341 employees. Of these, 118 staff members worked in metropolitan Melbourne, 101 in Gippsland, 76 in Western Victoria and a further 46 at service centres located around Australia. **bankmecu** has a predominantly female workforce with 246 females of the 341 total employees at year end. The executive team are male. Of the seven non-executive Directors, two are female including the Deputy Chair.

bankmecu's turnover rate for continuing employees including full-time and part-time staff decreased to 9.7 per cent from 13.76 per cent in 2010/11. The bank

spent an average of \$908.95 per FTE on training and development in 2011/12, equating to an average of 43.80 hours training per employee.

During 2011/12, three injuries resulted in workers compensation claims totalling 98.24 lost work days. There were no incidents of discrimination identified or reported in the 2011/12 period.

Investment grade rating

International rating agency Standard & Poor's reaffirmed the Bank's investment grade credit rating – BBB+/Stable/A-2.



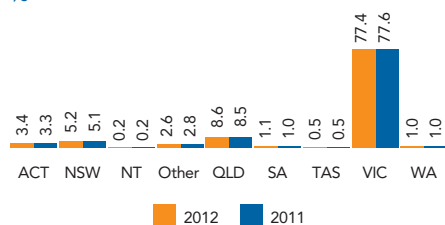
Target market – Customer owners

Customer activity

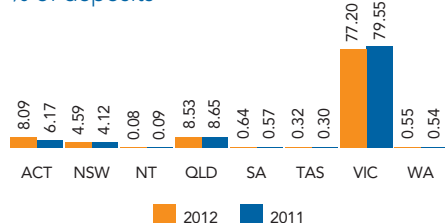
Key performance indicators of customer activity all increased in 2011/12.

Indicator	Target	Definition	2011/12	2010/11	2009/10
Product usage	>3 products	% of account holders with three or more products through bankmecu	73.64%	72.84%	70.91%
Customer retention rate	No target	% of account holders retained over the last 12 months	99.99%	99.36%	99.34%
Customer support value	>\$35,000	Total loans plus deposits/number of account holders	\$36,523	\$33,000	\$28,905

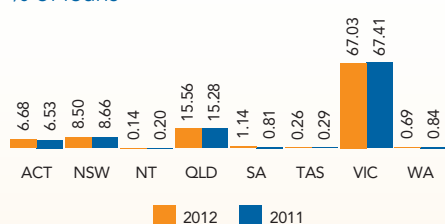
Geographic distribution of bankmecu's customers %



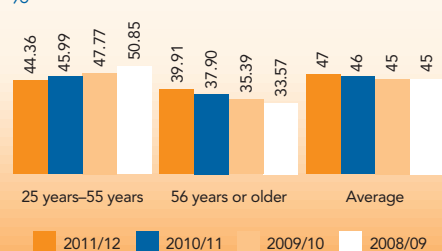
Geographic distribution of business % of deposits



Geographic distribution of business % of loans



Customer age demographic %



Active existing customers and their communities

As at 30 June 2012, there were 129,502 customers – down from 133,865 customers the previous year due to a continuing program to close dormant and inactive accounts. **bankmecu** seeks to maintain only active accounts in order that only those customers who support the bank enjoy the benefits it provides. The large majority (77 per cent) of **bankmecu** customers continue to live in Victoria, with 9 per cent in Queensland, 5 per cent in New South Wales, 3 per cent in the ACT and the remaining customers spread across other states and territories.

Corporate/community sector customers

In 2011/12, the growth in corporate/community customers outpaced that of personal customers, growing from 5,915 to 6,417 customers. The value of loans with these customers grew 31.17 per cent and value of deposits grew 23.29 per cent. The total value of community sector banking increased 23.91 per cent during the year. Customers from the community/social enterprise sector now represent fifteen of **bankmecu's** twenty largest investors.

Socially progressive consumers

bankmecu customers were recently asked about their decision making and attitudes around banking products and services. Ninety-two per cent said they are likely to factor in the reputation of the bank. Seventy per cent indicated renewable energy and the welfare of vulnerable people as important issues. The figure supports **bankmecu** customers being socially progressive and attracted to the bank because of its responsible reputation.

Consumers seeking to switch

During 2011/12, two pieces of research were commissioned to scope and define prospective target audience segments, to explore expectations of a customer owned bank and to test creative and engagement ideas.

Informed by this research **bankmecu** will continue to carve out a niche market position by appealing to specific segments of the community that are open to the bank's value and values proposition. The research has indicated these potential customers are generally younger (between 25 and 45); living in metropolitan areas with middle incomes; are motivated by ethics and community mindedness, and have or are planning to have a family. **bankmecu's** investment in marketing will be focused to these market segments.

Customer benefit – Value and values

Competitive pricing benefit

bankmecu consistently aims to offer its customers competitive pricing compared to Australia's four major banks. Independent financial services research group, Canstar Cannex, assessed that during 2011/12 **bankmecu** customers were collectively \$20.14 million better off than they would have been with one of the four major banks. This is a decrease in pricing benefits of \$11.03m from 2010/11, which largely reflects the intensity of the price-led competition for deposits by the four major banks.

Annual customer benefit dividend

	2011/12	2010/11	2009/10	2008/09	Difference between 10/11 & 11/12
Customer benefit dividend (millions)	\$20.14	\$31.17	\$31.52	\$24.05	-35%
Average customer benefit	\$155.35	\$231.60	\$220.60	\$210.07	-33%

Quality competitive product and service

	Jun 12	Jun 11	Jun 10
Loans mix			
Personal	1.76%	2.07%	2.94%
Total mortgage variable	79.59%	81.79%	81.18%
Total mortgage fixed	6.96%	5.75%	6.30%
Total revolving credit	3.27%	3.42%	3.88%
Commercial	8.42%	6.96%	5.69%
Deposit mix			
Deposits at call	48.62%	53.29%	53.29%
Fixed term	51.38%	46.71%	46.71%

During 2011/12, staff at the National Service Centre answered 256,749 calls, 83.74 per cent of which were answered within 40 seconds of the customer selecting their option – providing prompt and personal customer service.

bankmecu continued to focus on providing customers with competitive interest rates and fair fees. A fee-free banking option remains available to all customers. During 2011/12, **bankmecu** subsidised the cost of access to payment services to customers by \$716,988.

Social and environmental benefits

bankmecu seeks to avoid any negative social and environmental impacts as a result of investing its customers' money. Nor does the bank invest customer savings in an unethical or socially and environmentally destructive manner. As at 30 June 2012, approximately 90 per cent of all customer deposits were lent to other customers. The remaining 10 per cent of deposits and accumulated cash reserves were predominantly invested across a range of cash securities – term deposits and negotiable certificates of deposit with Australian based Approved Deposit Taking Institutions regulated by the Australian Prudential Regulation Authority (APRA).

As a provider of finance, **bankmecu** is aware of its obligation and opportunity to assist its customers to reduce the consumption of resources, environmental degradation and pollution. The bank included a range of responsible banking features in its loans, which encourage both investors and borrowers to make more environmentally and socially responsible choices.

bankmecu takes a responsible approach to investing its customers' funds into financing loans. As a consequence **bankmecu** experiences one of the lowest levels of impaired loans of any bank, credit union or building society in Australia.

In 2009/10 **bankmecu** set a target to increase the proportion of products and services used by customers with an environmental or social benefit by 10% by 2014/15. The value of environmental and social loans as a percentage of the total loan portfolio has increased by 3% since 2009/10. The number of environmental and social loans as a percentage of the total loan portfolio has increased by 1% since 2009/10.

To date, **bankmecu** has offset 41,263 tonnes of CO₂-e in its Conservation Landbank for the cars it has financed, an equivalent of 10,000 cars taken off the road for one year. **bankmecu** has also committed a biodiversity offset of 78,622 square meters, increasing **bankmecu's** total biodiversity offset commitment to 331,881 square metres.

This year **bankmecu** purchased 2002 tonnes of greenhouse gas emission offsets from Climate Positive, a not-for-profit offset provider, to achieve carbon neutral operations.

Governance – Customer accountability and participation

Competent, well-qualified leadership

The majority of **bankmecu's** Board of Directors are elected by customers on a rotating basis for a three-year term. Five independent non-executive Directors were appointed by the members through election and two have been appointed by the Board. The Managing Director is also a Board appointment. The Chair is a non-executive independent Director.

As at 30 June 2012, Directors are:

- John Baistow (Chair)
- Greg Camm (appointed February 2012)
- Helen Clarke (Deputy Chair)
- Ron Dixon (Chair Finance and Risk Committee)
- Judith Downes (appointed March 2012)
- Peter Ford
- Peter Taylor (Chair Audit and Compliance Committee)
- Damien Walsh (Managing Director – appointed September 2011)

bankmecu's Board has adopted a formal renewal program to ensure there is at all times an appropriate level of expertise on the Board as well as diversity, commercial experience, and fresh perspective. The renewal program recognises the importance of ensuring the history, values and culture of the organisation are preserved and built upon.

The total remuneration for the Board (as approved by customers at the 2011 AGM) is \$491,270 per annum pro rata. This sum represents the total Board remuneration including fees, concessions and other benefits as well as all relevant taxes payable by the bank and Directors. The Directors determine how the remuneration is apportioned, and how and when it is paid.

Productive democracy

As a mutually owned financial services organisation, **bankmecu** operates for the benefit of its customers under the ultimate governance of its customer-owners. Stakeholder views (some of whom may not have a financial relationship with the bank) were heard during its AGM process, **bankmecu** strategic planning sessions, and customer research. Input was balanced to ensure long-term value creation for customers.

Risk management and compliance

bankmecu recognises risk awareness and risk management as a vital part of doing business and creating customer value. The bank does not expect to eliminate all risks, but to minimise and manage exposure based on an effective risk and reward analysis. It considers the management of sustainability as a risk issue as well as an opportunity.

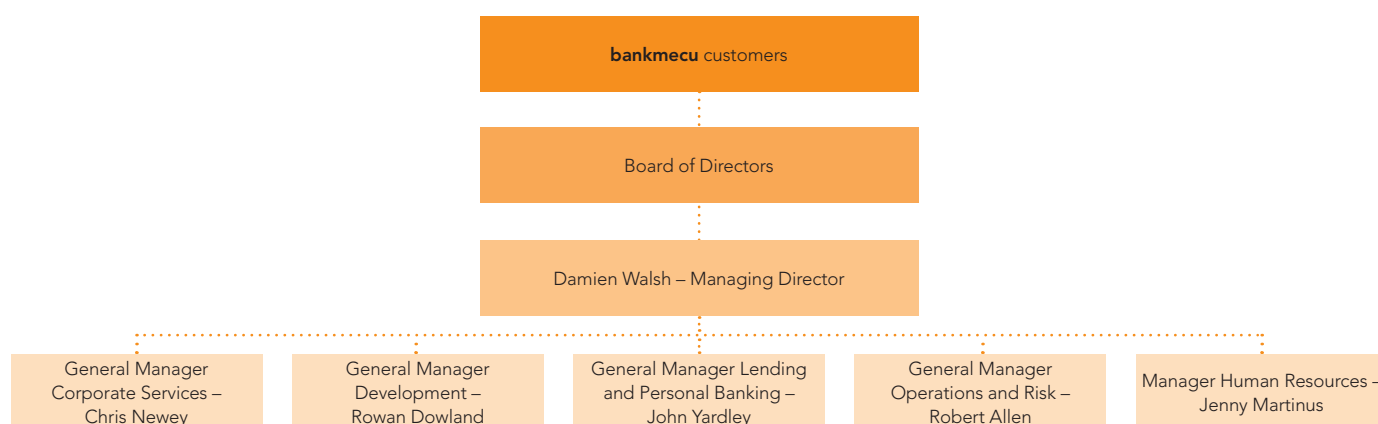


Left to right:

Peter Taylor, Greg Camm, Helen Clarke, Ron Dixon, Damien Walsh, John Baistow, Judith Downes, Peter Ford

‘The **bankmecu** Board is strongly committed to renewal and ensuring that Directors have the diversity of skills and experience necessary to govern a modern bank.’

Organisational and management structure



bankmecu recognises that effective risk management and robust compliance can only occur if sound compliance and risk management practice is embedded in responsibilities and performance across the organisation. Risk management assessments and assessment reviews are conducted annually and as required. Internally, each department identifies and rates its own risks and determines the appropriate actions to be taken to mitigate them. The Board also undertakes an annual risk assessment process separately. **bankmecu** maintains a risk register for recording and monitoring risk.

bankmecu is regulated by APRA as an Approved Deposit-Taking Institution (ADI) under the prudential standards demanded of all banks, credit unions, building societies and friendly societies. Other principal regulators are the Australian Securities and Investments

Commission (ASIC), the Australian Competition and Consumer Commission (ACCC) and the Australian Taxation Office (ATO).

Australia’s regulatory environment for banks remains one of the strongest in the world. APRA has signalled that it intends to bring in further changes as part of the BASEL III global regulatory framework including new standards for bank capital adequacy, stress testing and market liquidity risk. **bankmecu** is well positioned to meet all such requirements.

The **bankmecu** Staff Charter sets out guidelines to help staff understand what is required of them in order to earn the trust and respect of **bankmecu’s** stakeholders and to ensure the bank fulfils its vision.

bankmecu has had no incidence of non-compliance with any law or regulatory code of conduct where the

complaint was upheld, required reporting to ASIC or other authorities or resulted in court action. Nor did it receive any fines or sanctions for non-compliance with any laws and regulations relating to its business of banking.

External card fraud continues to be the main source of corrupt practice that has impacted on the Bank’s activities. Fraud via telephone and Internet were again the most common form of card fraud during 2011/12, while counterfeit cards accounted for the highest losses. Over the past three years the number of card data compromises in Australia has increased almost tenfold.

During the second half of 2011/12 **bankmecu** launched a 24 hours / 7 days per week card Fraud Bureau Service. This service has increased customer card protection and reduced card fraud losses.

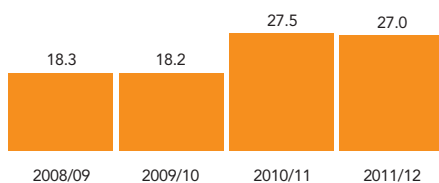
Profitability and productivity – Effective, efficient and sustainable

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.

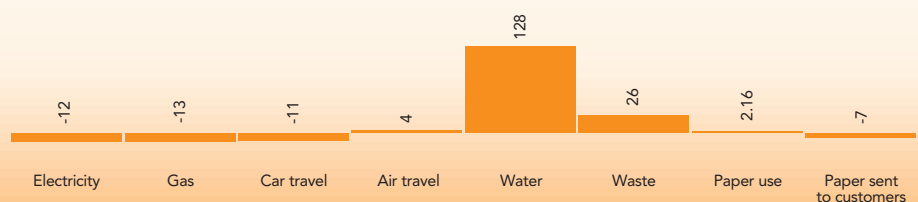
The large increase in water consumption can be attributed to issues such as undetected leaks, sandblasting prior to repainting and additional tenants increasing consumption at a service centre with shared metering. Low water use at head office, however, has consistently been achieved since the installation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

Sustainable growth – Creating customer value

Scale

bankmecu grew its assets by 8.07 per cent during 2011/12. This growth came mainly from strong growth in deposits. Loan growth of 4.49 per cent was less than the forecast 5.89 per cent and reflects a falling demand for credit across the Australian marketplace.

Capital growth

In 2011/12 **bankmecu** exceeded its asset growth target and generated \$27.02 million in net profit after tax, being a return on equity of 9.08 per cent.

Customer owned capital increased in 2011/12 from \$287.8 million to \$311.6 million, or \$2,406.14 per customer-owner.

bankmecu's capital consists solely of customer owned reserves. The bank does not pay shareholder dividends. As a customer owned bank, **bankmecu** provides a customer benefit through competitive products and services which is delivered in addition to the bank's return-on-equity. Bank profits build wealth on behalf of its customers by building prudential capital to support future growth.

Capital reserves belong to all customers. They underwrite the business and are reinvested into the business for the benefit of all customers.

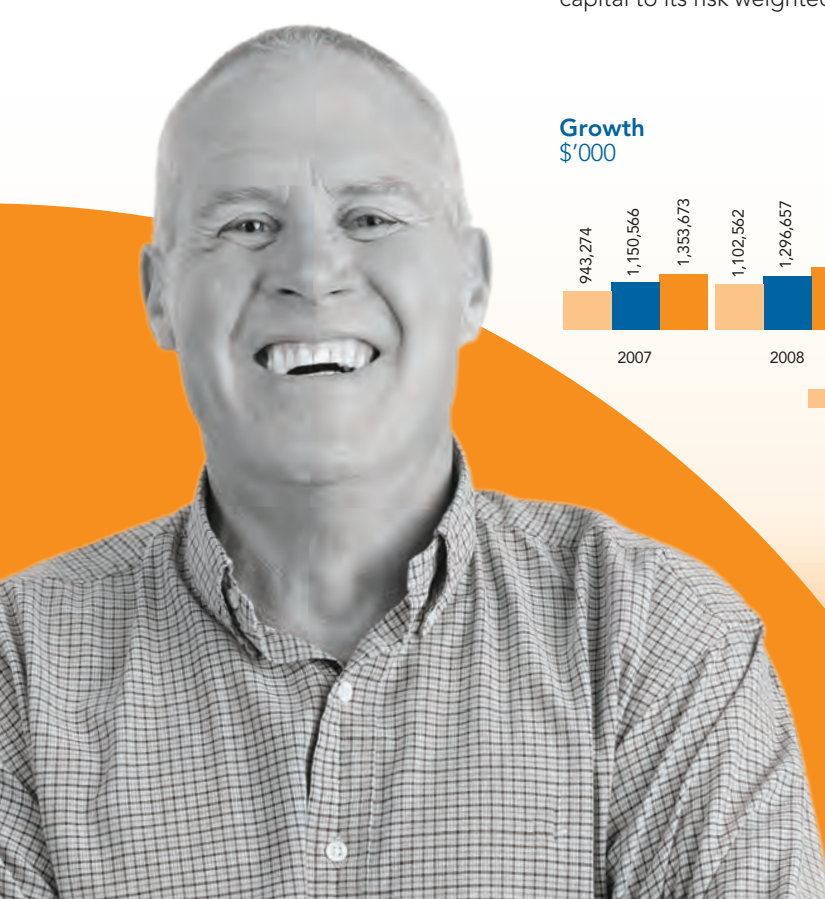
bankmecu's capital adequacy ratio – a measure of the percentage of a bank's capital to its risk weighted assets –

remained strong at 18.5 per cent as at 30 June 2012 and well above the prudential minimum of 8 per cent.

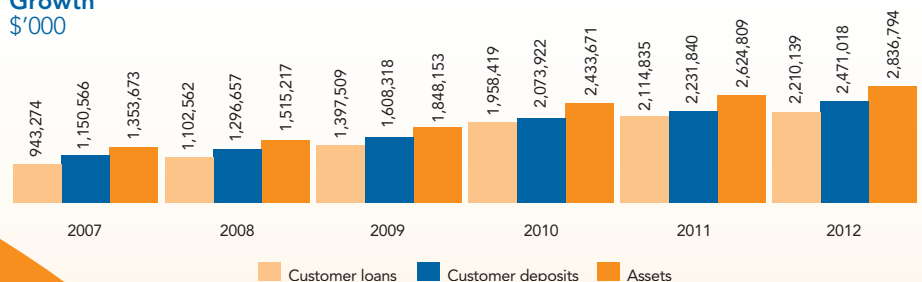
Annual tax paid contributes towards government activity and citizen wellbeing.

Sector consolidation

Whilst **bankmecu** seeks to capitalise on the opportunities for organic growth provided by its new bank designation, it continues to investigate and pursue strategic merger opportunities where these are consistent with its strategic objectives. No new merger opportunities emerged during 2011/12, while past merger synergies were consolidated further.



Growth
\$'000



‘Collectively owned by our customers, profit is reinvested into the bank for the benefit of all customers.’



Did you know bankmecu offset the GHG emissions from its operations in 2011/12

Balance sheet

	2012 \$'000	2011 \$'000
What we own		
Property, plant and equipment	18,682	19,871
Cash and investments	566,271	449,483
Loans to customers (net of provision)	2,210,139	2,114,835
Other assets	41,702	40,620
Total assets	2,836,794	2,624,809
What we owe		
Customers' deposits	2,471,018	2,231,840
Amounts payable and provisions	54,208	105,153
Total liabilities	2,525,226	2,336,993
Leaving customer owners' funds		
General reserves	307,520	282,424
Asset revaluation reserve	4,048	5,392
	311,568	287,816

Tax

Year	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06	Difference between 10/11 & 11/12
Income tax	\$10.0m	\$10.4m	\$7.5m	\$7.2m	\$7.4m	\$7.0m	\$6.9m	-0.40%
Fringe benefits tax	\$0.12m	\$0.10m	\$0.11m	\$0.07m	\$0.04m	\$0.04m	\$0.08m	0.02%
Goods and services tax	\$1.00m	\$1.01m	\$1.1m	\$0.91m	\$0.92m	\$0.94m	\$0.95m	-0.01%
Payroll tax	\$1.25m	\$1.14m	\$1.17m	\$0.71m	\$0.56m	\$0.53m	\$0.52m	0.11%

For more information

This concise report is supported by more comprehensive data available from **bankmecu's** annual report website located at www.bankmecuannualreport2012.com.au. It includes the detailed **bankmecu** Statutory Accounts – a copy of which can also be made available on request. Assurance and Audit Reports are available on-line.

Feedback

Please provide **bankmecu** with comments or questions by emailing mail@bankmecu.com.au, phoning 132 888, or by completing **bankmecu's** Annual Report and Sustainability 'Strategy Survey' available on-line.

mecu Limited ABN 21 087 651 607
AFSL/Australian Credit Licence Number
238431 trading as **bankmecu**.

222 High Street,
Kew Victoria 3101, Australia

Telephone 132 888
Facsimile 03 9853 9294
Email mail@bankmecu.com.au

bankmecu.com.au



Certified by the
Carbon Reduction Institute

Designed by twelvecreative.com.au

bankmecu
responsible banking™