

Profitability and productivity.

Effective, efficient and sustainable.

Effectiveness

	2012/13 (\$'000)	2011/12 (\$'000)	2010/11 (\$'000)
What we earned			
Interest received on customer loans	130,172	145,059	140,519
Investment income	23,357	26,033	23,993
Other income	16,734	16,797	19,454
Total earnings	170,263	187,889	183,966
What we spent			
Interest paid on customer deposits	84,580	98,586	91,029
Interest paid on borrowings	87	1,760	2,912
Employee benefits	26,884	25,724	26,994
Other administrative costs	23,919	24,772	25,132
Income tax expense	9,396	10,031	10,388
Total expenses	144,866	160,873	156,455
Total profit	25,397	27,016	27,511

The Bank's credit quality ratio (the percentage of loans 30 days or more in arrears) decreased from an already low base in 2011/12 to 0.24% 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. Delinquency remains low compared to industry benchmarks.

In 2012/13 we saw an increase in provisions for impaired loans from 0.02% to 0.03%, which was due to the inclusion of the Fitzroy & Carlton Community Credit Cooperative Limited (FCCC) provision, and the addition of a collective provision, which seeks to recognise inherent losses within the loan portfolio.

Efficiency

bankmecu maintained a strong focus 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 \$10 million in 2012/13, up from \$9.6 million the previous year.

Our return on average assets decreased in 2012/13 to 0.86% from 0.99%, due to interest margin pressure from several interest rate cuts during the year. In addition, average assets increased by \$206m. The return on average assets is 0.01% below target for the year, yet above the Australian Mutual ADI average of 0.5%.



Did you know our Conservation Landbank is the equivalent size of 464 MCGs.



Did you know we acquired a further 167 hectares for our Conservation Landbank in July 2012

Net interest margin

	2012/13	2011/12	2010/11
Interest income on loans	\$130.2m	\$145.1m	\$140.5m
Interest income on investments	\$23.4m	\$26.0m	\$24.0m
Interest expense on deposits and borrowings/NCDs	\$84.7m	\$100.3m	\$93.9m
Net interest margin	\$68.9m	\$70.7m	\$70.6m
Net interest margin as a % of average assets	2.34%	2.59%	2.79%

Cost to income ratio

Key performance indicator	Mutual ADI average Jun-13	Target	2012/13	2011/12	2010/11	Difference between 2011/12 & 12/13
Cost to income ratio	74.57%	58.95%	58.71%	57.73%	56.69%	1.99%

Despite an increase due to lower operating income, the cost/income ratio remains a very clear benchmark indicator of our efficient operation.

The cost to income ratio increase is attributed to a decrease in operating income (e.g. a static net interest margin, dividends, VISA Commission and customer fee income decreasing due to lower growth and transaction volumes), while operating expenses increased only slightly.

Sustainability

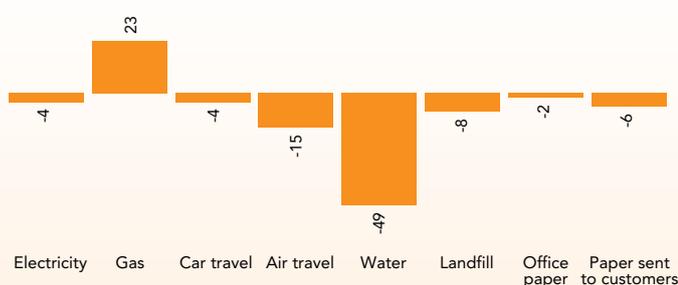
Responsibility for our approach to sustainable development exists at all levels of the organisation and is considered core business.

bankmecu has in place an Environmental Management System (EMS) to monitor aspects of operations with an environmental impact and to ensure continual environmental performance improvement.

We currently report on emissions relating to car travel, gas consumption, electricity, air travel, paper and waste to landfill.

Total greenhouse gas emissions reduced by 9% and emissions per FTE decreased by 11% compared to 2011/12, due to ongoing efficiency measures.

Total consumption increase/decrease in 2012/13 %



The electricity decrease can largely be attributed to the closure of Kerang and Kensington service centres in November 2012 and savings at Kew, Morwell, Castlemaine, Echuca, Townsville and Brisbane service centres. Electricity costs increased by 1%.

Gas usage increased most significantly at Bendigo service centre due to ongoing timer malfunction issues.

Car travel reduced due to less employee business travel in personal cars being claimed.

Air travel reduced due to less domestic air travel being undertaken during the year. More travel was taken in the previous year due to the bank designation in 2011/12. We have also introduced video conferencing in an attempt to further reduce air travel.

Water consumption decreased significantly due to leak identification, separate meterage and ongoing efficiency measures, including the installation of a rainwater tank at head office. Water costs have decreased by 19%.

Total waste generation, including recycled material and waste to landfill, decreased by 2.63% compared to last year.

The ratio of waste to landfill versus recycled material shifted from 68% landfill and 32% recycled to 64% landfill and 36% recycled.

Paper use decreased from the previous year which was unusually high due to the rebrand to **bankmecu**. Of purchased office paper, 7.08% had 100% recycled content, 92.10% had 80% recycled content and 0.82% had 10% recycled content.

The decrease in paper sent to customers is attributed to an increasing number of customers subscribing to electronic statements (increase of 15%) and receiving their statements via internet banking.

The Bank's supply chain management system saw two large tenders assessed against a formal sustainability questionnaire.