

Annual Review

2011-2012

Chairperson's report

The 2012 financial year saw us maintain our strong financial position. Our asset base grew by a healthy 7% to \$3.8 billion, a robust result given the widespread uncertainty in the world economy.

Our surplus for the year of \$23.1 million, down from \$29.1 million in 2011, is a reflection of our commitment to mutuality where we continued to provide our members with excellent loan and deposit interest rates throughout challenging and highly competitive market conditions. That said, we are pleased to report our capital reserves increased to \$313 million.

The banking regulator APRA (Australian Prudential Regulation Authority) will be implementing the new Basel III regime in Australia, ahead of most other economies. Although the majority of these requirements begin in 2015, we may well begin to see their impact as early as 2013.

Under the new regime all deposit-taking institutions will be more favourably treated by APRA if they source a greater portion of their longer term funds locally, reducing their reliance on overseas wholesale funds; and increase the proportion of local mortgage loans in their loan portfolio. We will see therefore the major banks refocusing

their attention on the retail financial market - our traditional market for both deposits and consumer loans - and the competition to win customers/members will intensify.

This is good news for consumers, as banks will be competing harder for business. We look forward to rising to this challenge. It will undoubtedly mean more pressure on our interest margins (the difference between what we receive on loans and pay on deposits) and will continue to impact on our revenue and profit. However, as one of the biggest mutuals in Australia, with a strong brand identity and good member engagement, your directors and management are confident that Teachers Mutual Bank is well placed to manage these challenges, retain our competitiveness and grow market share.

Our capital adequacy ratio at 15.85% continues to be well above minimum requirements at year end and we expect this to continue. This gives us a substantial buffer to counter market pressures, and also to meet any future prudential requirements under Basel III.

While other institutions are struggling to attract borrowers, our loan portfolio continues to grow above industry levels at 11.05%. We have planned for above industry level growth in 2013 whilst continuing our prudent lending and

strong loan quality which is reflected by our low loan arrears. Our deposit growth of 6% over the year has allowed us to reduce our excessive liquidity levels. Managing our wholesale deposits has improved profitability while meeting loan demands.

When we became Teachers Mutual Bank in April we made a commitment to continue to do what we've always done - put you, our members, first. We will continue to improve member services and value, by offering easy and accessible financial services and investing in our people, infrastructure and technology.



John Kouimanos Chairperson

We have had a great year

With the introduction of the 'fifth pillar of banking', the mutual sector has seen six institutions become Mutual Banks including bankmecu, QT Mutual Bank, Victoria Teachers Mutual Bank, Heritage Bank and Defence Bank. This new mutual bank status has raised the profile of member-owned banking, so that more Australians now understand what mutual banking means. Already the sector is recognised as being more competitive and is set to become a powerful force in banking.

As one of the largest mutual banks in Australia, our focus is to be the 'first choice' bank for all teachers and their families for all of their financial needs. Becoming a mutual bank ensures we continue to attract new members and improve and expand our products and services. This includes our recently released applications for iPad, iPhone and Android mobile devices and an interest only repayment option on two of our home loans.

We put you first

Putting members first is our mantra and our member satisfaction is the most important measurement of our success.

Earlier this year we received a 93% member satisfaction rating for our service in the Roy Morgan Research Customer Satisfaction Awards¹.

This is the second year in a row Teachers Mutual Bank has received this high rating, and it is a testament to how we put members first.

93% MEMBER SATISFACTION RATING, IN THE ROY MORGAN RESEARCH CUSTOMER SATISFACTION AWARDS.

Our awards are your reward

Our products continue to be highly competitive and deliver exceptional member value. We remain committed to offering competitive, accessible and secure products and services.

Our Teachers Credit Card, All Purpose Loan, Secured New Car Loan, Everyday account and Everyday Direct account have all been awarded a 5 star rating by CANSTAR², the independent financial services research group.

CANSTAR star ratings are awarded to products offering outstanding value. As a member and consumer, this is your guarantee of a high-performance product.

We also received *Money Magazine* Best of the Best 2012 Awards³ for Best Term Deposit Long Term - Non Bank category and Cheapest New Car Loan - Non Bank category for our Secured New Car Loan product. Our Solutions Plus Home Loan won a Gold Medal - Best Mutual Basic Variable Home Loan from *Your Mortgage Magazine* 2012⁴ Mortgage of the Year Awards.



Making banking even easier

We continue to implement new technology and improve our mobile and internet banking solutions and were recognised by CANSTAR in May with a Best Online Banking - Mutual Bank award.

Our online channel usage has continued to grow at a high rate as members prefer to use their smart phones when accessing our online services. This is now our fastest growing channel and members have taken to it with over 13,419 members downloading our iPhone application since it was launched in October 2011.

We are committed to improving both traditional and emerging channels of choice. Twelve months ago we introduced a call back service which allowed members to request a call back rather than wait in the queue. This service has become very popular with over 20,000 call backs actioned during the year. This has reduced the inconvenience for members having to be kept waiting on hold during peak times.

In September 2011 to help make it easy for members to manage their finances, functionality was added to SMS and email alerts allowing members to monitor their account activity and be alerted to deposits and balance changes on their accounts.

Members can register for SMS banking through internet banking, or by completing an SMS banking registration form.

To assist members to enter the investment market we now offer our most competitive interest only repayment option on the Solutions Plus Home Loan and Smart Home Loans.

In July 2011 we introduced payWave functionality on our Visa debit card. This simple, secure and quick payment method allows members to wave their card on a secure Visa payWave reader to make small transactions, rather than 'swiping or dipping' the card.

With no need for a PIN or to swipe your card, it offers members a new level of speed and convenience when buying small items.

Sustainability

an integral part of our business

Through regular engagement and surveys with our members we know that being a sustainable business is important to them. This includes being responsible and profitable, giving back to the education communities, as well as managing our impact on people and the planet.

WE INVEST 3% OF OUR NET PROFIT AFTER TAX INTO A DIVERSE RANGE OF COMMUNITY PARTNERSHIPS AND INITIATIVES EACH YEAR.

Sustainability has always been an integral part of our business. It is reflected in the objects of our Constitution, embedded in our Values and at the heart of our Mission Statement. For us, sustainability is simply the way we do business. We believe we have a responsibility to support the communities in which we conduct our business. By giving back to the education community, we are also supporting our existing and future members and their families.

International Sustainability leadership

With a score of 79% we achieved Bronze status in the International Corporate Responsibility Index⁵, published in the list of 110 winners in the *London Financial Times*.

The Corporate Responsibility Index (CRI) is a leading business benchmark, and provides a systematic approach to managing, measuring and reporting on responsible business practice. Companies are assessed on Corporate Strategy, Integration, Management, Performance and Impact.



Achieving Bronze status in the CR Index, demonstrates that we are committed on a national and international scale to pursue sustainable business best practices.

We outperformed the sector average of all 110 CRI companies in four categories. These were Community Management, Workplace Management, Environmental Impact and Employee Development. In the latter category, we scored 99%, versus the CRI average of 91%. Our target is to reach Silver next year.

Education community partnerships and sponsorship

We are passionate about education and invest in a diverse range of activities for teachers and their communities.

We collaborate with a wide range of education community partners and provide financial support through sponsorships, partnerships, grants, scholarships, donations, and charitable support including:

- Support to over 100 teacher development conferences
- Stewart House
- Schools Spectacular, NSW
- Step into the Limelight, ACT
- NSW Department of Education and Training programs in Creative and Performing Arts
- CUFA
- Bush Children's Education Foundation
- WA Education Awards
- ACT School Sport
- NSW Primary and High School Sport

Teachers Mutual Bank Mathematics Scholarship

The NSW Premier's Teacher Scholarships are designed to enhance and enrich the learning experiences of students in the classroom whilst presenting a unique opportunity for teachers to develop skills and knowledge in their chosen field of expertise.

As a corporate partner TMB provided \$15,000 funding for the Premier's Teachers Mutual Bank Mathematics Scholarship, which allows a teacher to investigate trends in mathematics education.

Last year's recipient, Jayanthi from Sydney Girls High School, conducted a study tour to the USA and UK researching 'the digital education revolution in the senior school'.

The main focus of Jayanthi's study tour was to observe and explore the ways in which aspects of technology can be integrated into the senior mathematics classroom to enhance and enrich student understanding of concepts taught in the calculus-based courses.



Future Teacher Scholarship

We are passionate about assisting education students pursue their dreams of becoming a teacher. Our Future Teacher Scholarships provide \$5000 in financial assistance to university students studying to become teachers, to help them focus on their studies. In 2012 we received a record 300 applications and have since increased the number of scholarships we award from five to seven.

Future Teachers Scholarship[®]

Clockwise from left to right: Anna McLeish, Janine Coghlan and Emily Chilvers.

Our people

Employer of Choice for Women



For the fifth year in a row we have been recognised as an Employer of Choice for Women (EOCFW)⁶. We are one of only 125 organisations across Australia to receive the 2012 citation from the

Equal Opportunity for Women in the Workplace Agency (EOWA).

The EOCFW citation is awarded to non-government organisations with more than 100 employees that have demonstrated they have policies and practices dedicated to supporting women across the organisation, achieving positive outcomes for both women and the business.

A finalist in the 2011 Australian HR Awards

We were a finalists in the Australian HR Awards 2011⁷, in the Employer of Choice category (for less than 1000 employees). This indicates our commitment to supporting our employees and enhancing their working environment, which was also confirmed by our employee satisfaction rating of 86%.



Staff members from our WA Office

Your Members Committee



Graeme Green
Chairperson - Members Committee

The Members Committee is a group of elected members who meet monthly to review any issues referred to it by the Board of Directors.

During the year we take part in a range of TMB activities (which includes attending the Marketing, Media and Member Relations committee meetings and member functions) and aim to have a representative at each of the Mobile Offices.

We would like to take this opportunity to thank the enthusiastic and very committed staff and management of Teachers Mutual Bank, especially Steve James, and to the Board for its continued support.

Graeme Green
Chairperson - Members Committee

The year ahead

As a mutual bank, we believe that profit has a purpose. Our profits help us build our capital base and deliver competitive rates, fairer fees, responsible lending, personalised service, and support for our members' communities.

WE WILL CONTINUE TO DELIVER ON OUR COMMITMENT TO CREATE PERSONALISED PRODUCTS AND SERVICES SPECIFICALLY FOR TEACHERS, WHICH WILL MAKE IT EASIER FOR OUR MEMBERS TO SAVE AND MAKE MONEY.

Over the next 12 months we will be looking to improve our product range (including our Everyday transaction account), introduce a loan offset savings account and provide more flexible credit products for casual and temporary teachers.

Continuing our quest for innovative solutions that deliver better experiences through our mobile and internet banking platforms, we are working with other mutuals on implementing one of the latest payment technologies which allows members to make instant mobile payments to anyone at any time.

Our commitment to providing customised products and services to support teachers will see further developments in our Future Teacher and Beginning Teacher programmes. We will also be reviewing our school contacts programme to ensure there are more opportunities for members to speak face to face with our staff and that we are delivering exceptional member service at every point of contact.

Thank you

Our members' most important impression is derived from the relationship they have with our staff. We recognise our staff are an important asset and we are indeed fortunate to have developed a culture which embraces commitment, compassion, knowledge and training. My thanks go to Steve James and the executive team whose strong leadership has not only strengthened our culture but will also allow us to continue our growth, financial strength and stability.

I would also like to thank the Board for their support and for the significant contribution they have made to this year's achievements. The constantly increasing levels of prudential and regulatory requirements, reinforced by our new bank status, brings with it increasing scrutiny of Board

performance, both collectively and individually. The composition of your Board offers diversity, skill and experience. Each Board member has a commitment to guiding our mutual in the best financial interest of our members. This, along with their passion for mutuality and respect for our members, provides the culture to continue to grow and prosper.

My thanks also to the Members Committee whose enthusiasm and commitment is greatly appreciated. Their understanding and support of the decisions taken by the Board are also acknowledged.

Finally to you, our members and owners, I thank you for your support and your loyalty. You are Teachers Mutual Bank. You are the focus of our commitment

and our endeavours. Our financial strength and our stability are sustained by your support.

WE NEVER TAKE YOUR SUPPORT OR YOUR LOYALTY FOR GRANTED.

We trust that our endeavours will continue to honour the commitments we have made to you and that our years under the banner of Teachers Mutual Bank will be our finest.



John Kouimanos
Chairperson

156,523 members

In the 2012 Financial year we made

1490

school visits to meet with some of our

3720 school contacts



121,370 REGISTERED internet banking users



16,950 MOBILE BANKING USERS

41,500 MEMBER INSURANCE POLICIES

36,715 MEMBER CREDIT CARDS

111,117 MEMBER VISA DEBIT CARDS

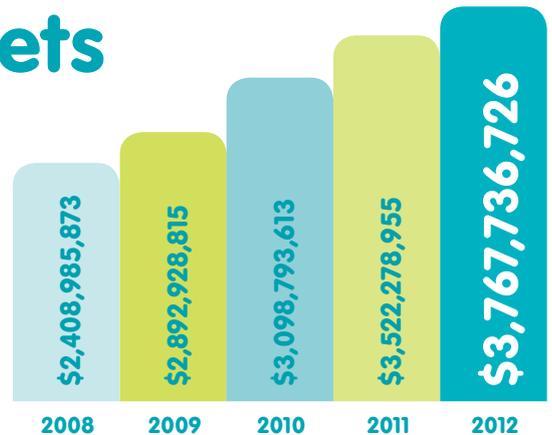


527 MEMBERS

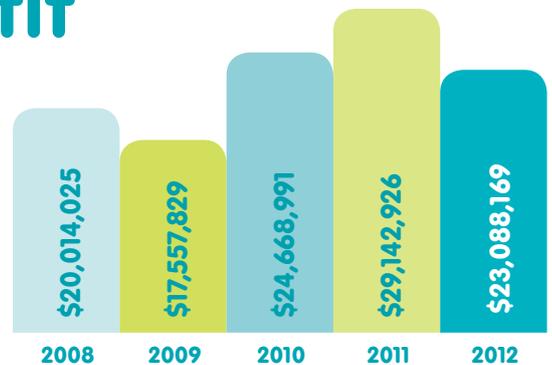
have used our Teachers Car Buying Service in the 2012 Financial year

\$131,667,215 in member car loans

Assets



Profit



\$3,194,006,014

MEMBER DEPOSIT BALANCES



includes withdrawable shares



\$3,086,385,189*

member loan balances

*before provisions and securitisation

DISTRIBUTED \$110,000 IN FUTURE TEACHER SCHOLARSHIPS TO 22 TEACHERS ACROSS NSW, ACT, NT AND WA SINCE 2009

¹Roy Morgan Research Customer Satisfaction Award given in February 2012. Roy Morgan Research has over 70 years' experience in collecting objective, independent information on consumers. Their customer satisfaction ratings are collected from Roy Morgan's Single Source survey of approximately 50,000 Australians annually and Business Single Source survey of 22,000 business decision makers annually - the world's largest ongoing single source survey. ²CANSTAR 5 star award, based on January 2012 ratings. CANSTAR is an independent financial services research group. Star ratings are consumer friendly benchmarks that provide a product comparison based on rates and features. ³Money, Australia's leading personal finance magazine, works with leading independent financial research group Canstar, for the term deposit and loan categories in the annual Best of the Best awards edition. The Cheapest New Car Loan category was ranked by the total cost of repayment of a 5-year loan of \$30,000 based on advertised rates and fees. The Best Term Deposit Long Term category was ranked by the average of the current rate and the historical six-month effective interest rate for a \$25,000 balance and one-year term. ⁴This award took into account all credit union and building society basic variable home loans that were currently in the market. ⁵www.bitc.org.uk ⁶Organisations are assessed for EOCFW against rigorous application criteria which consider a number of workplace issues including pay equity, women in executive management, flexibility, sex based harassment and career development training. Importantly, the citation requires the organisation's CEO to be the driving force behind the culture which supports the advancement of female employees. ⁷This award recognises the best small to mid-sized organisation to work for in Australia. Once nominations are submitted extensive research is conducted and organisations are evaluated on a set of key criteria. This report has been printed on Sun Offset paper. Sun Offset is manufactured under ISO 14001 environmental management standards. Lighthouse Press are FSC accredited. Teachers Mutual Bank Limited ABN 30 087 650 459 AFSL/Australian Credit Licence 238981 | 00464S-COR-0712

