



FINANCIAL SERVICES

# Australasian Mutuals Institute 2008 National Conference

## How are Mutual ADIs Performing?



**The Good**

**The Bad**

**And The Ugly**

# The Good

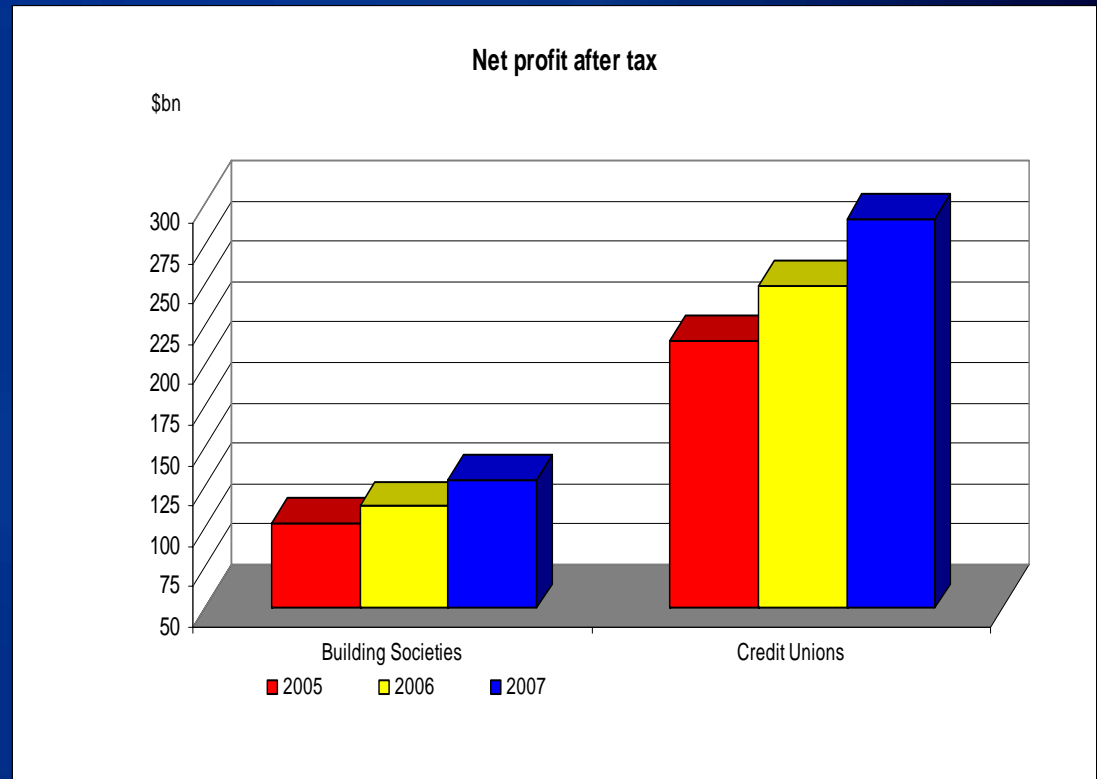


# Profits

BS profits up 14.3%

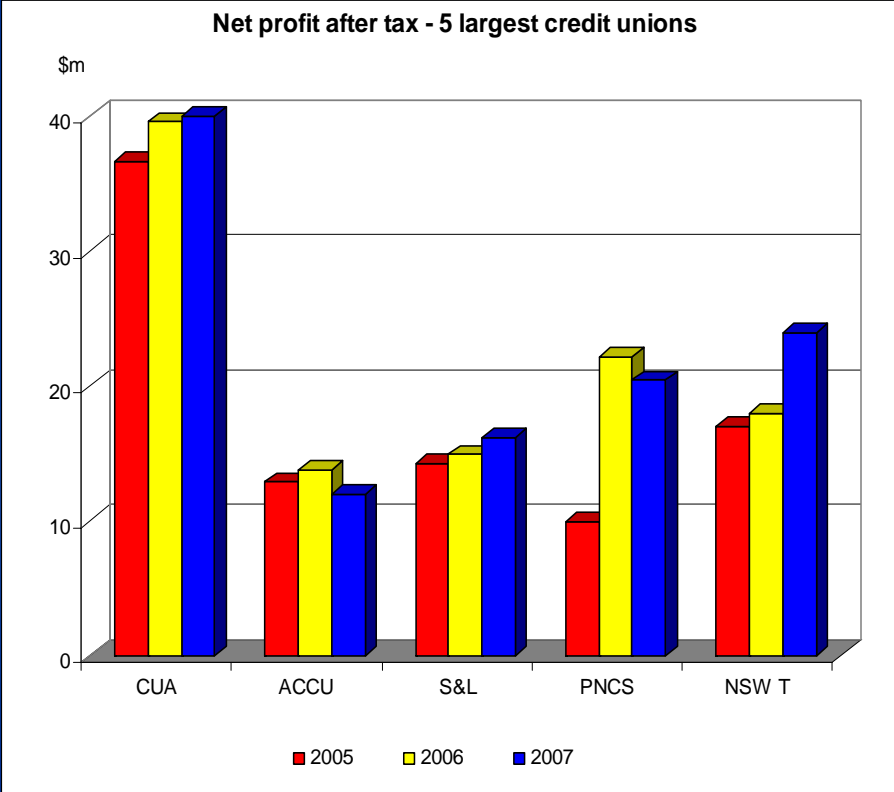
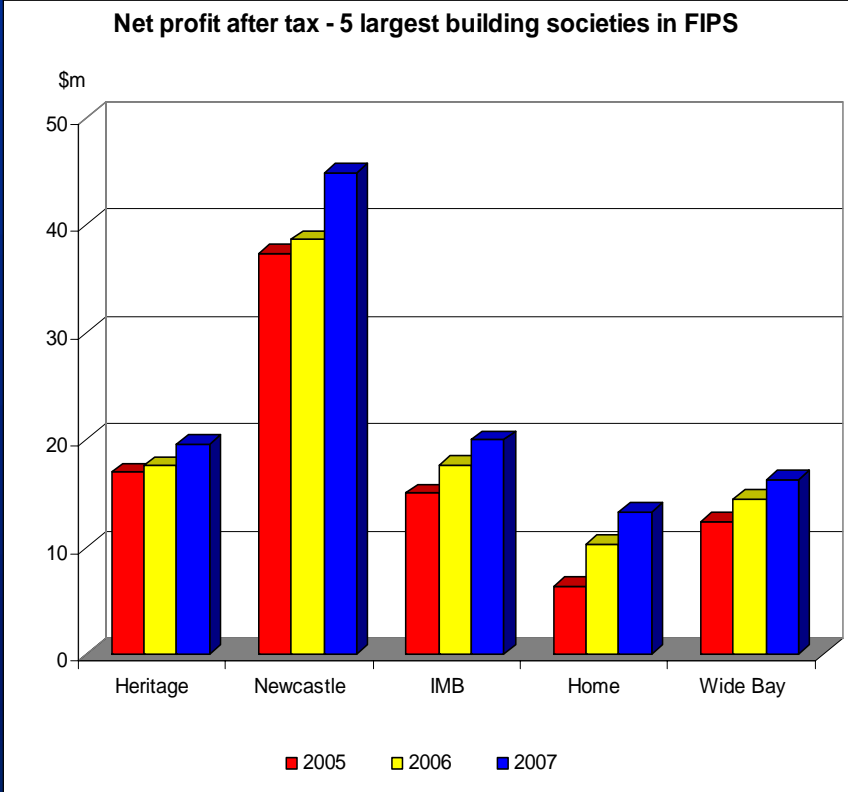
CU profits up 16.4%

- Strong results following on good results last year
- Features:
  - Asset growth
  - Some margin decline
  - Costs remained flat
  - Bad debts expense subdued



Source: KPMG FIPS

# Profits

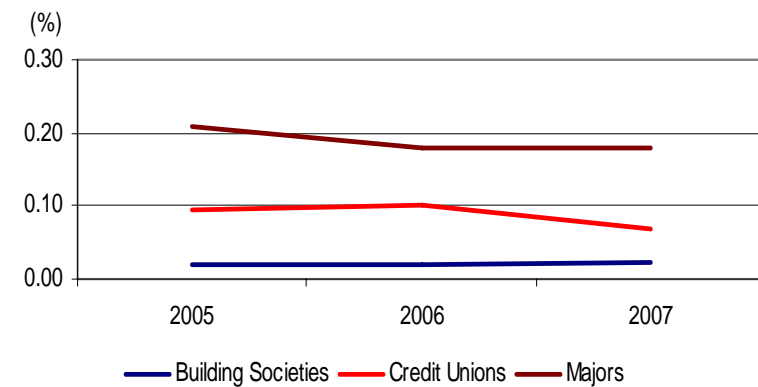


Source: KPMG FIPS

# Bad debts expense

- Asset quality defies gravity

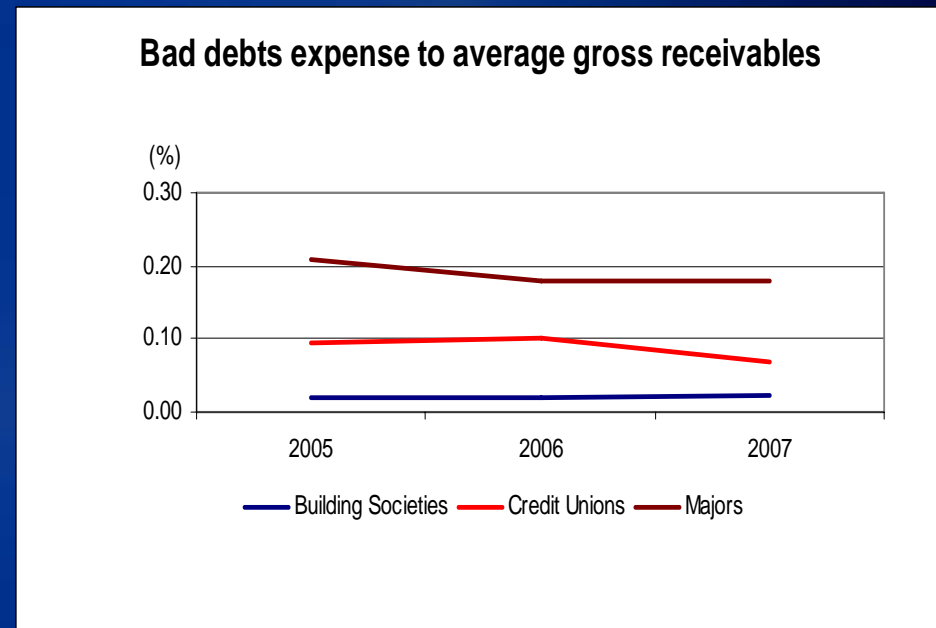
Bad debts expense to average gross receivables



Source: KPMG FIPS

# Bad debts expense

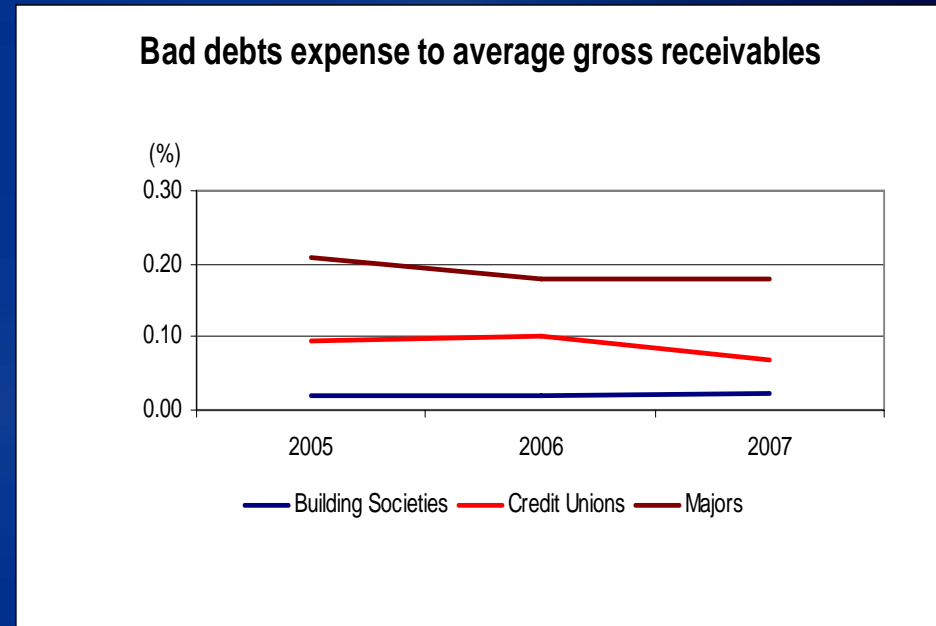
- Asset quality defies gravity
  - Bad debts expense dropped 21% for CU
  - Expense to avg gross rec. stable at 0.02% for BS and dropped from 0.10% to 0.07% for CU



Source: KPMG FIPS

# Bad debts expense

- Asset quality defies gravity
  - Bad debts expense dropped 21% for CU
  - Expense to avg gross rec. stable at 0.02% for BS and dropped from 0.10% to 0.07% for CU
- Do not take for granted!







Source: KPMG FIPS

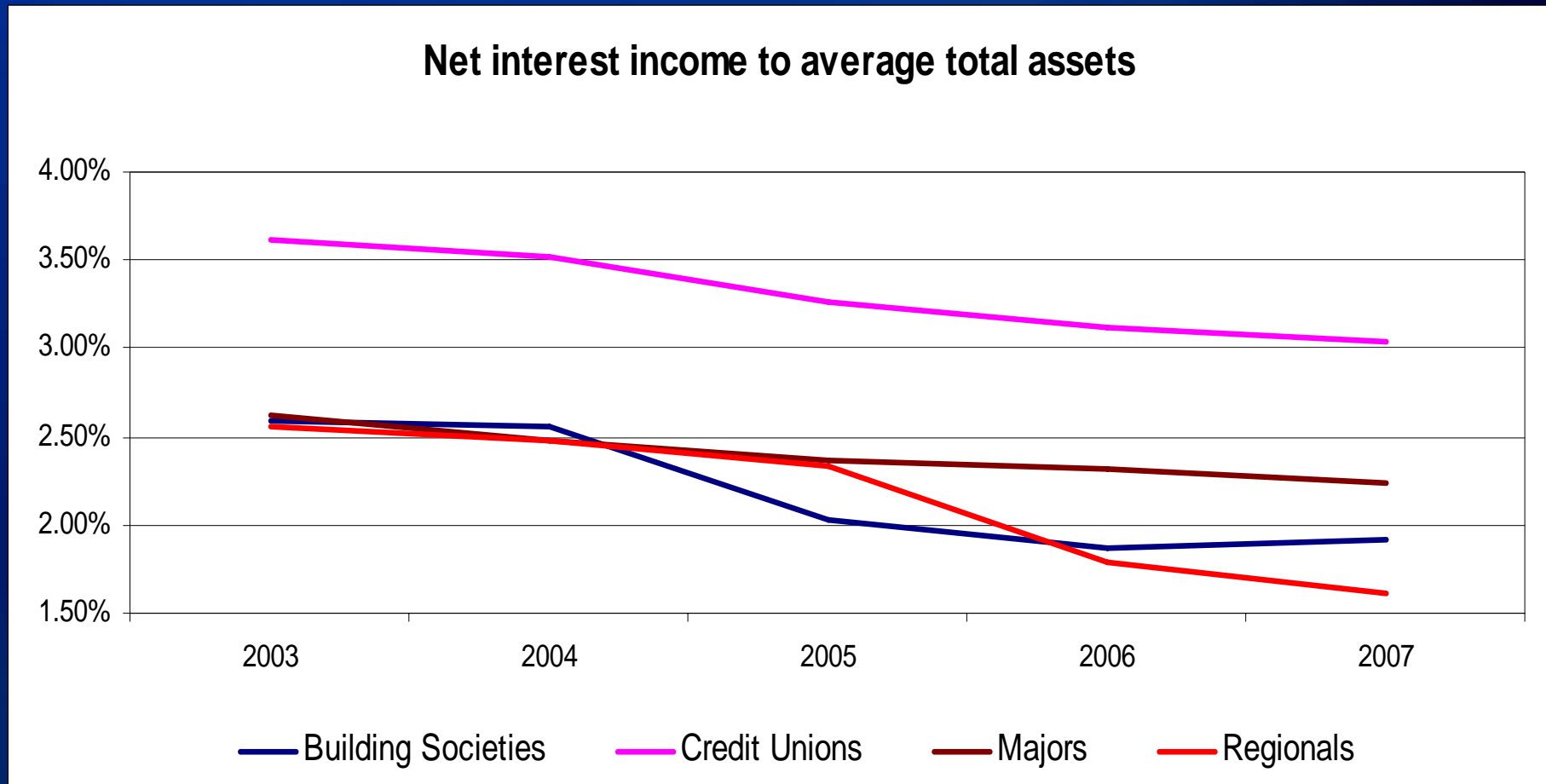


# The “Quite” Good

# Interest margins

Credit unions	 10 bps
Building societies	 7 bps
Major banks	 10 bps
Regional banks	 8 bps

# Interest margins



Source: KPMG FIPS

# Interest margins

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## Factors impacting in 2007 include:

- Pricing competition, particularly fixed rate offers
- Not passing on full rate rise
- Fixed rate lending – can't pass on rises
- Funding mix changes
- Benefit of low cost deposits as rates rise
- Pre sub prime/liquidity crunch

# Costs

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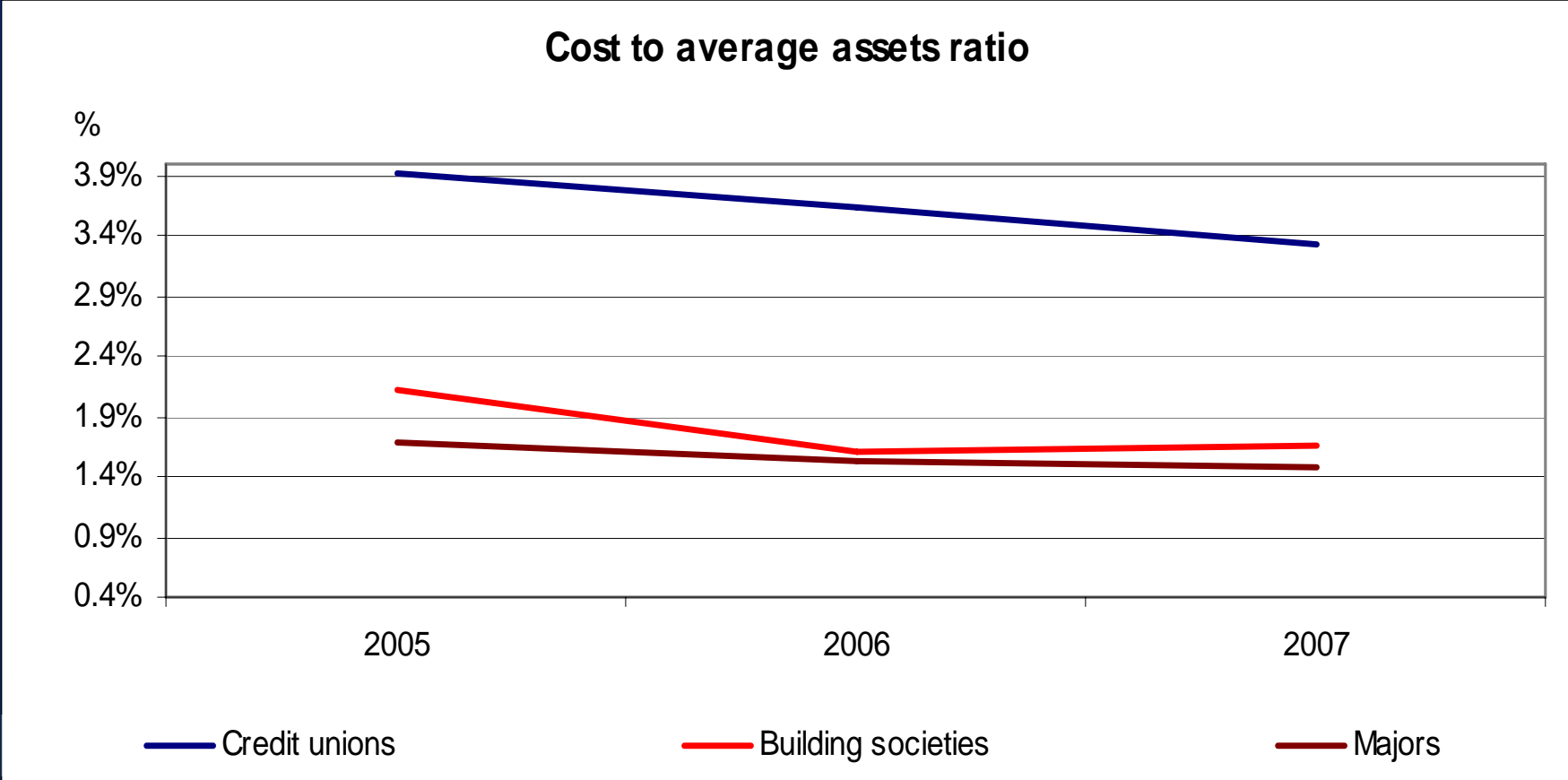
**CU costs up 7.7%**

**BS costs up 9.8%**

# Costs

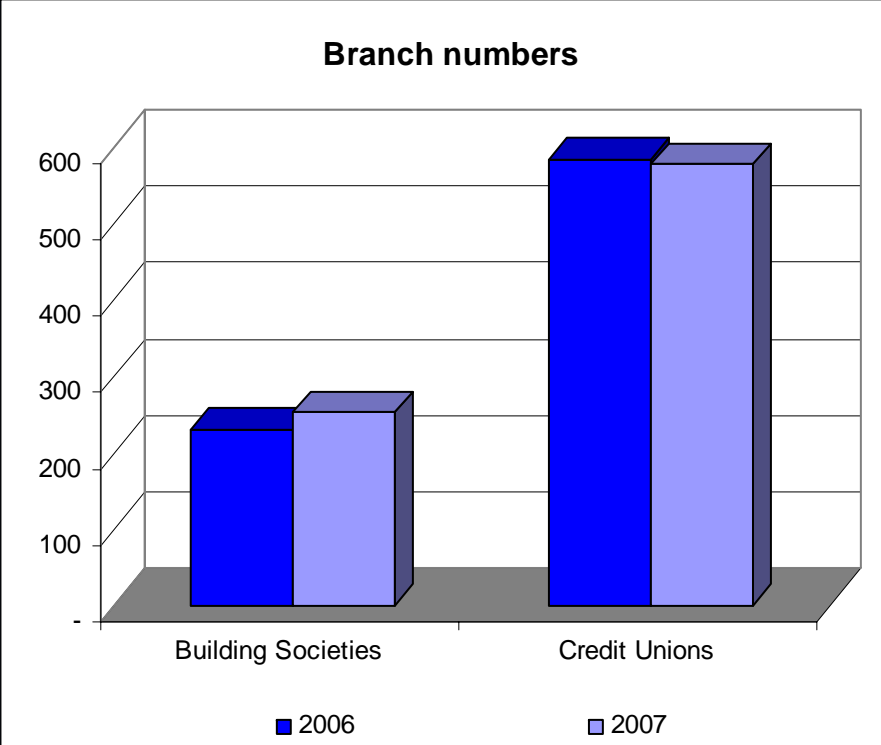
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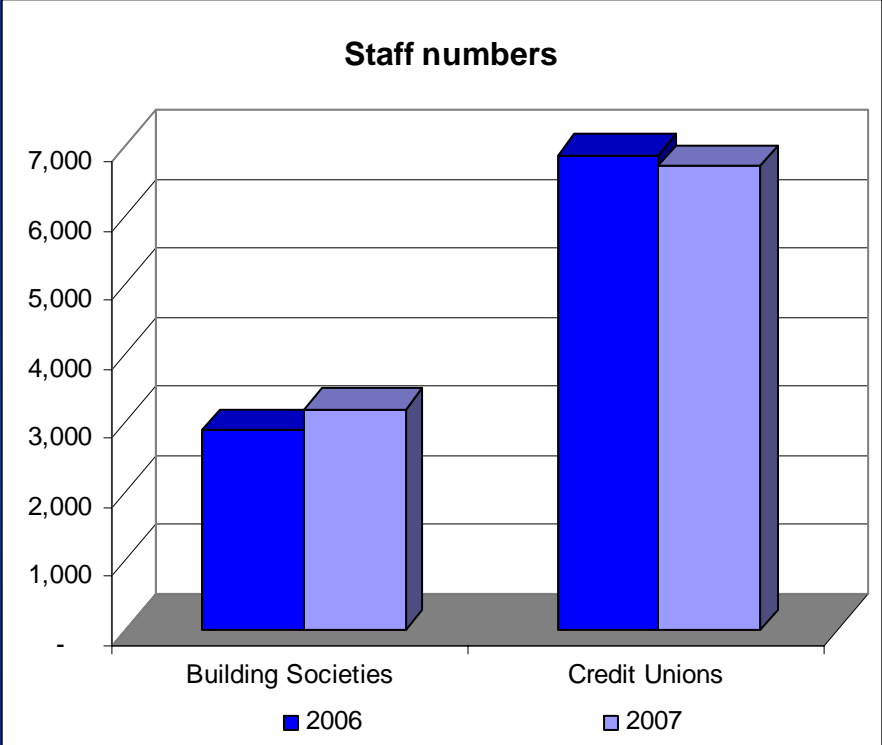


Source: KPMG FIPS

# Costs



Up 2% overall



Source: KPMG FIPS

Up 1.5 % overall

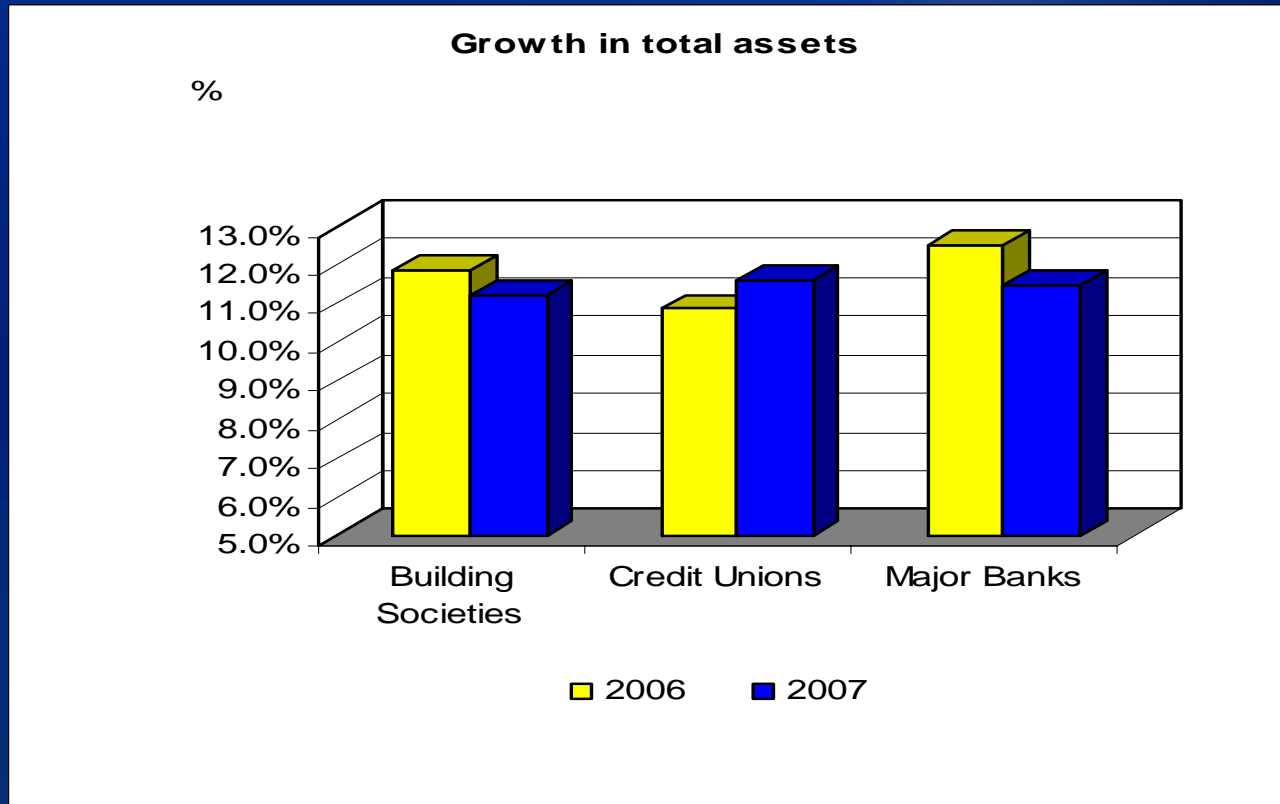
# Costs

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- Still scope for efficiency gains
- Systems are a major hurdle, but is the cost too high?
- Outsourcing
- Product sourcing

# Asset Growth

- Assets up 11.2% for BS and 11.6% for CU
- Similar to majors



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- System growth in housing up 12.9% and personal lending 19.2%

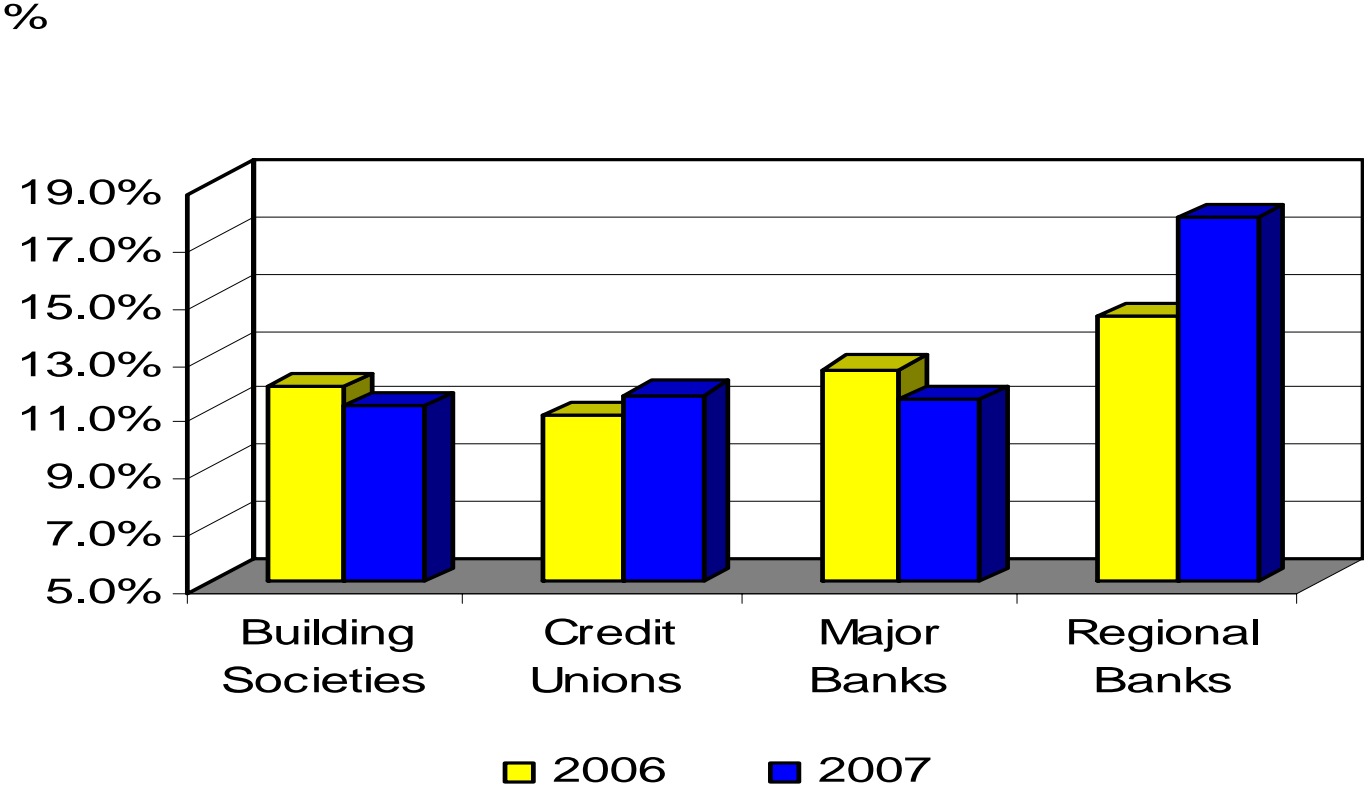
# Asset Growth

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- Assets up 11.2% for BS and 11.6% for CU
- Similar to majors
- System growth in housing up 12.9% and personal lending 19.2%
- Regionals stand out performers

# Asset Growth

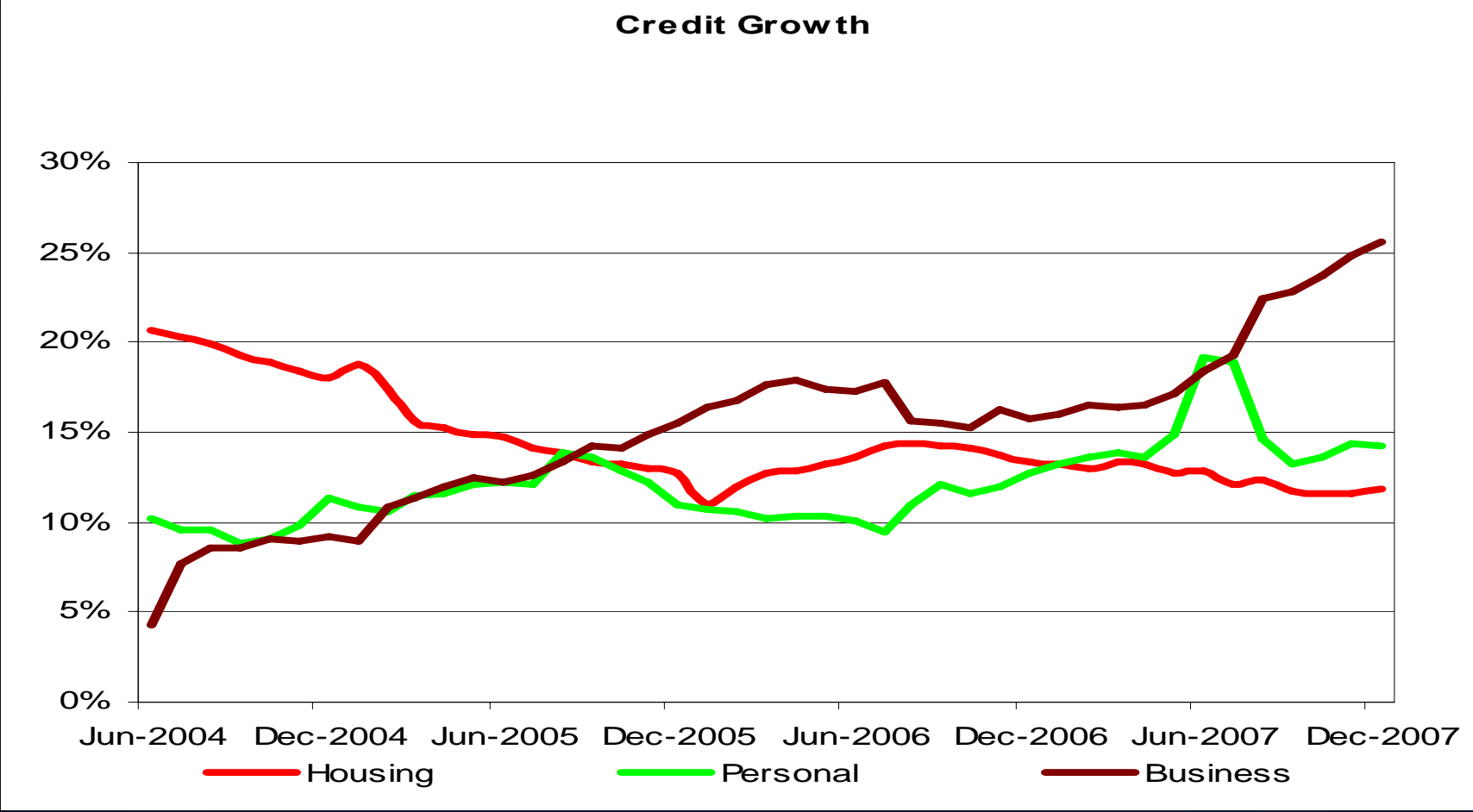
### Growth in total assets



# What's their secret?

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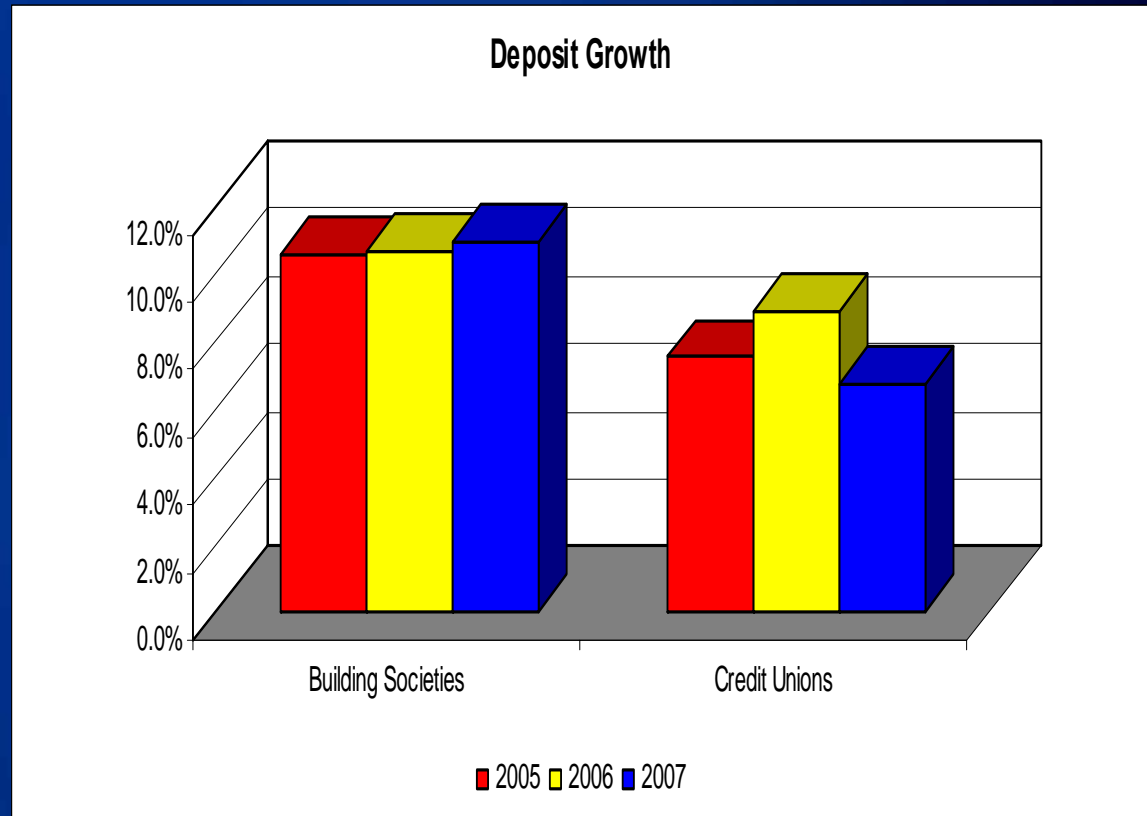
# Should business lending be a focus?



Source: RBA Statistics

# Deposits

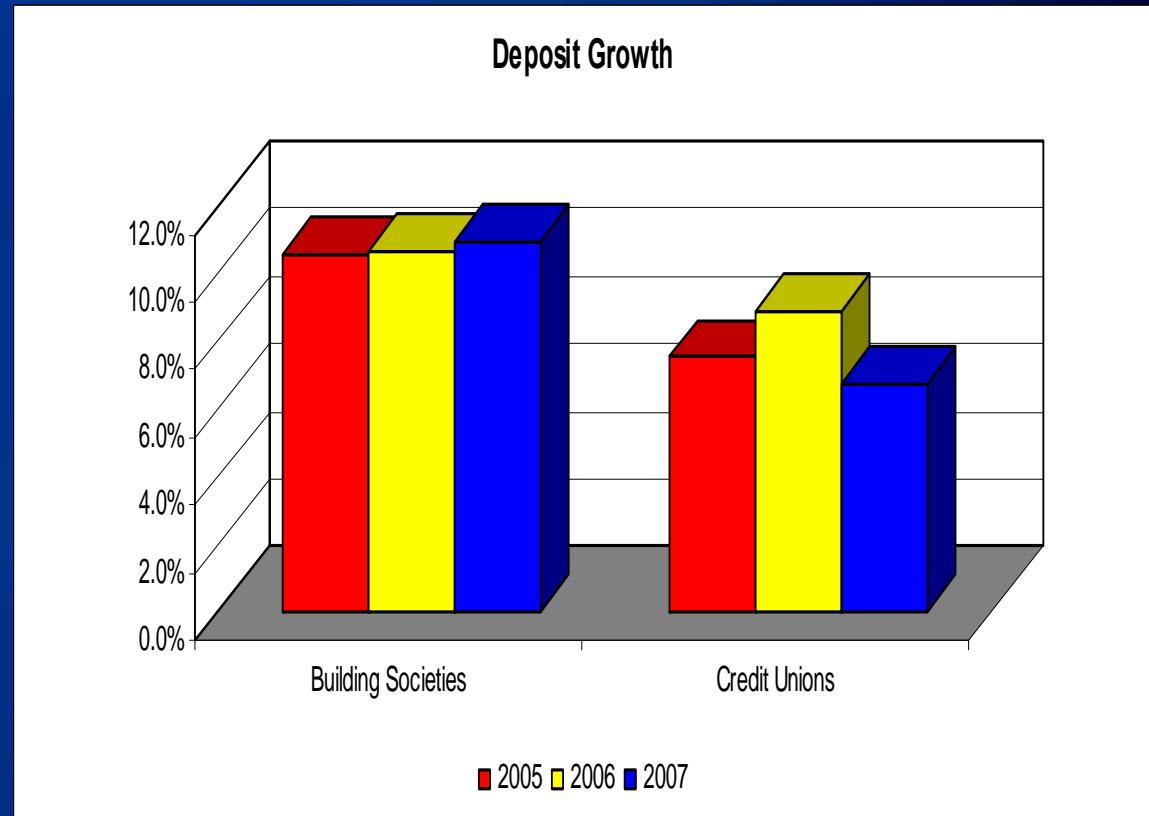
- BS increased deposits  
11.0%
- CU increased deposits  
6.9%



Source: APRA Statistics

# Deposits

- BS increased deposits 11.0%
- CU increased deposits 6.9%
- Deposit growth  $\neq$  asset growth
- Competition intense



Source: APRA Statistics

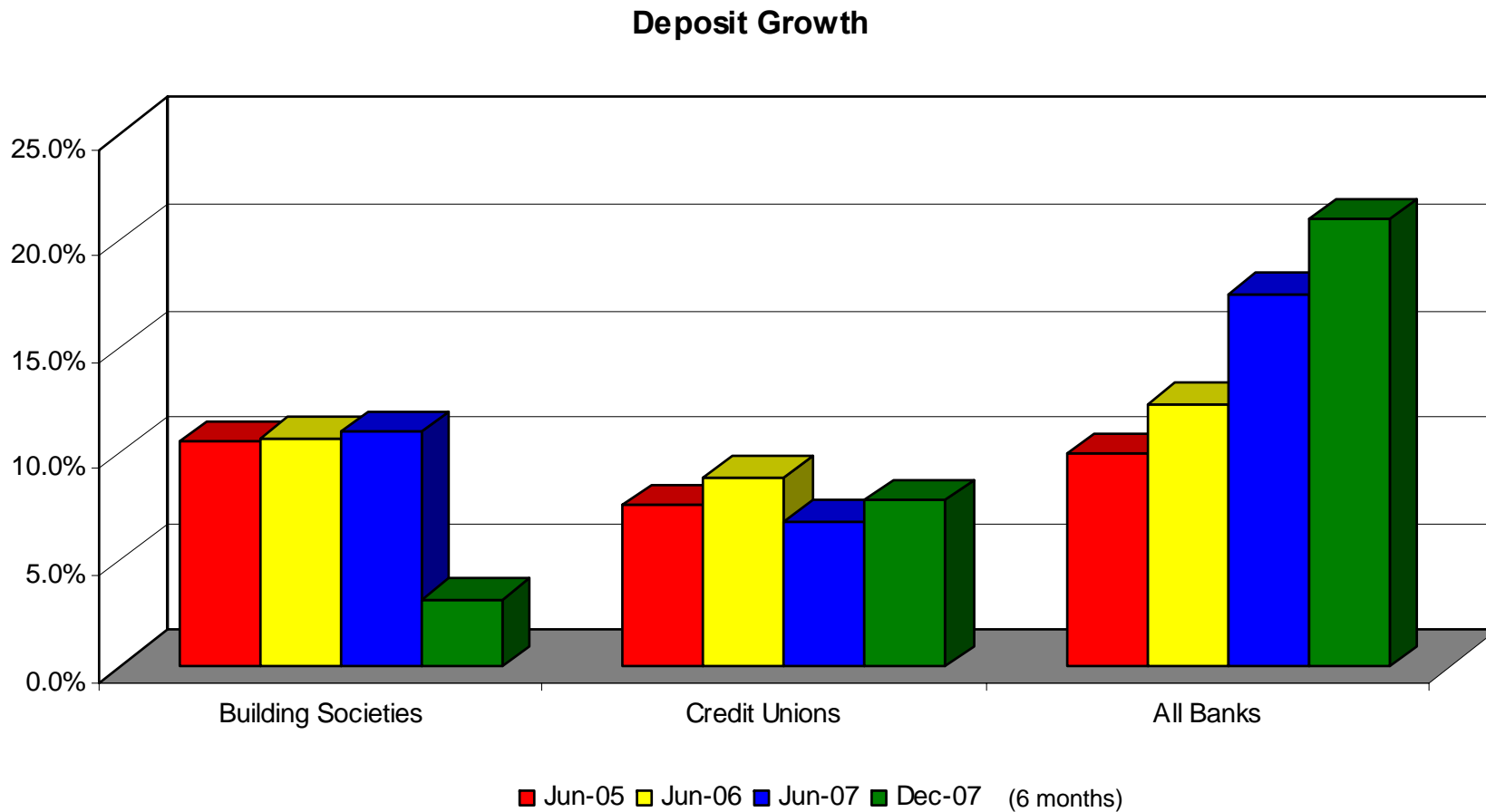
# The Bad



# The World is Changing!

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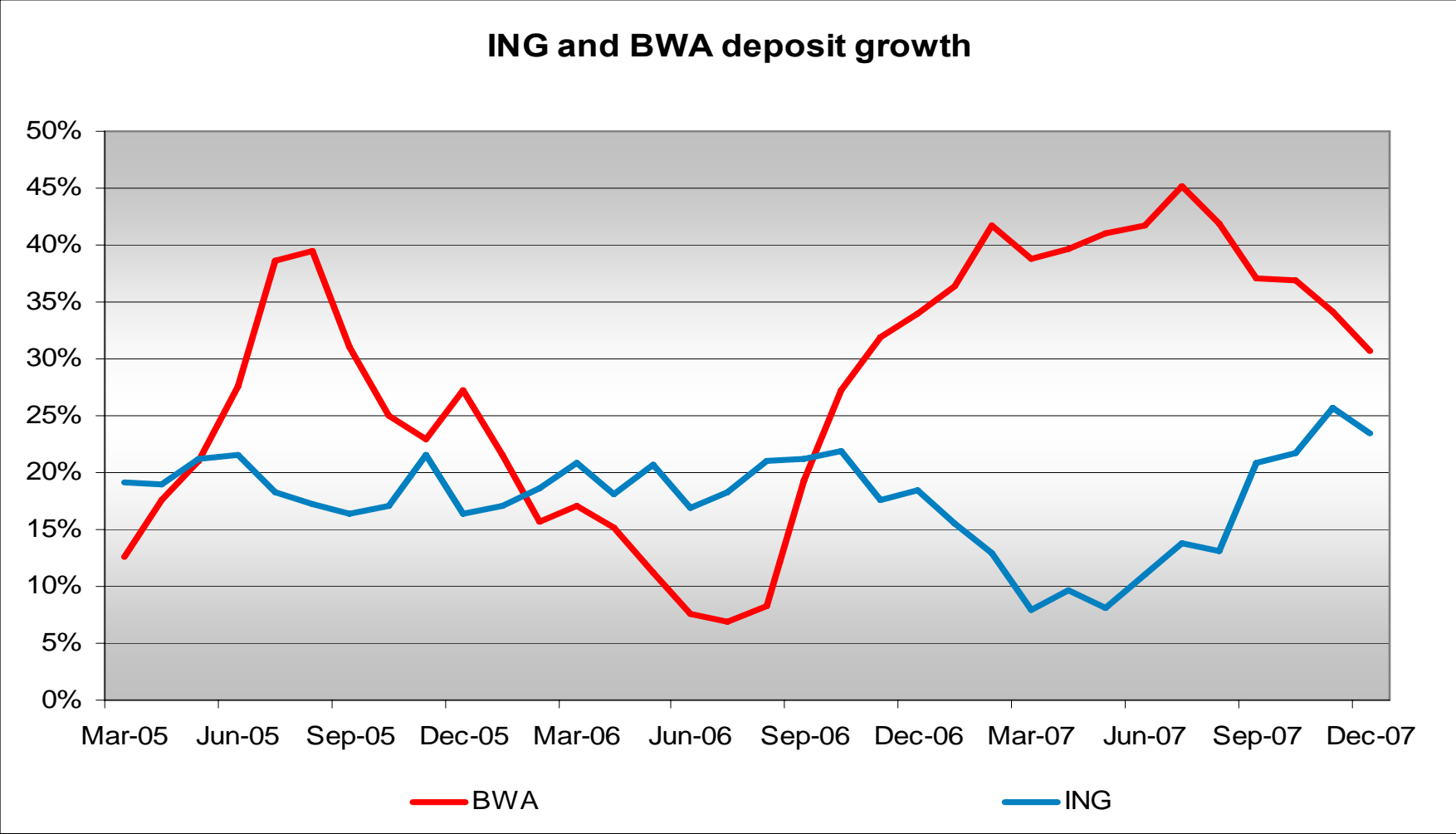


Source: RBA statistics

# The Competition is aggressive

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# Non-interest income

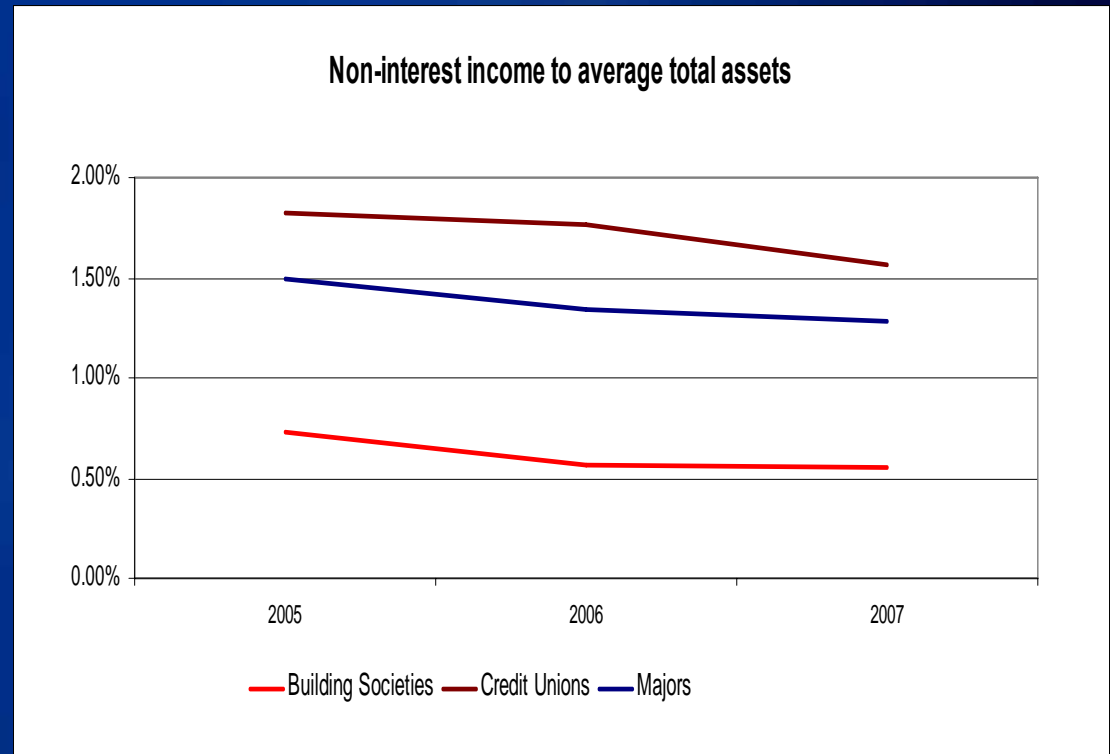
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# Non-interest income

Non interest income to average total assets declined

BS from 0.56% to 0.55%

CU from 1.79% to 1.56%



Source: KPMG FIPS

# Consolidation

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**Is Consolidation too slow?**

# Consolidation

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## Is Consolidation too slow?

- CU numbers decreased from 146 to 143
- Planned mergers not proceeding
  - NewEngland/Bananacoast
  - Hunter/Companion/Phoenix

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## Is Consolidation heading in the wrong direction?

# Consolidation

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## Is Consolidation too slow?

- CU numbers decreased from 146 to 143
- Planned mergers not proceeding
  - NewEngland/Bananacoast
  - Hunter/Companion/Phoenix

## Is Consolidation heading in the wrong direction?

- BOQ and Home/Pioneer



# The Ugly

# Funding Options reduced

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- Securitisation markets

# Funding Options reduced

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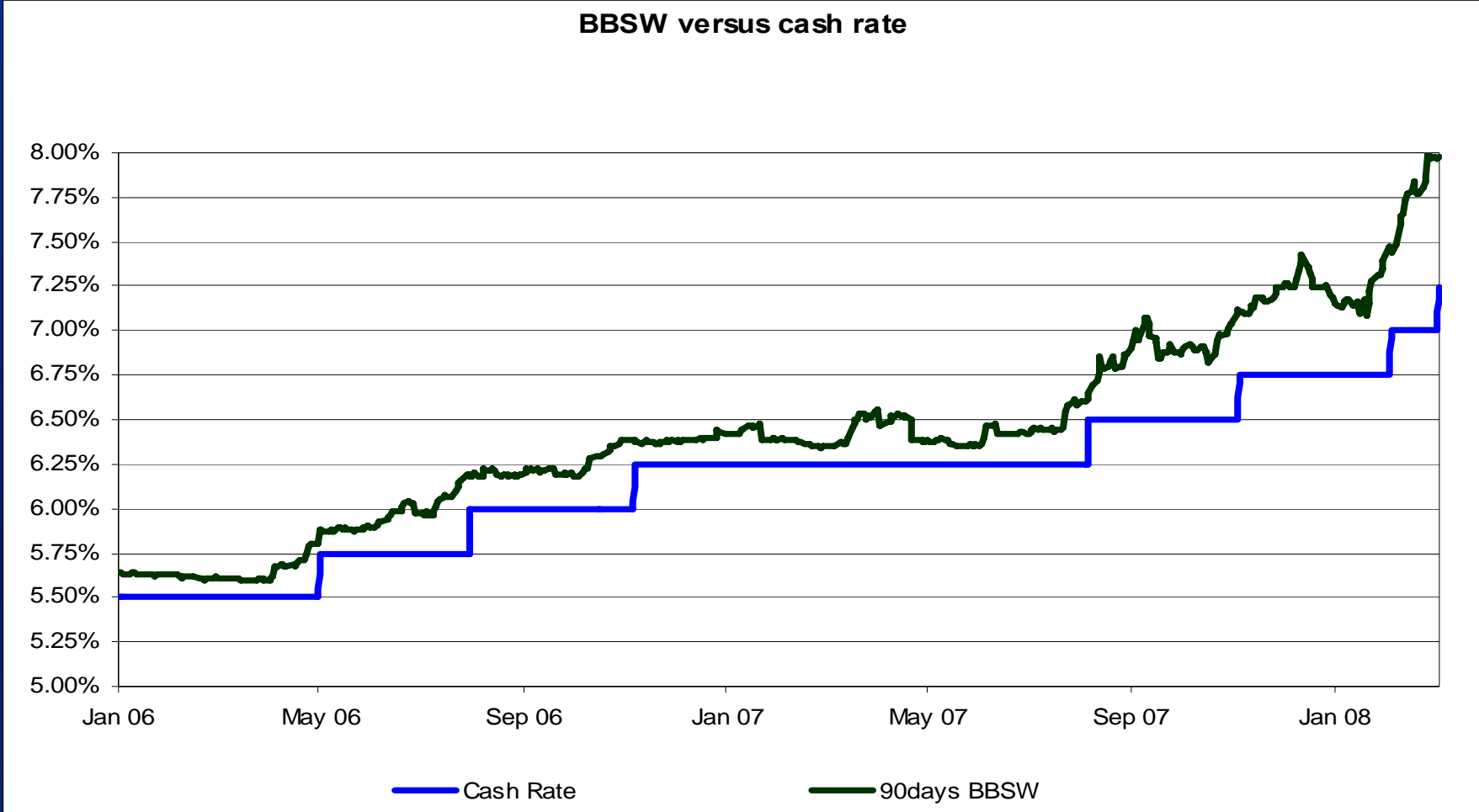
- Securitisation markets
- Banks?

# Funding Options reduced

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- Securitisation markets
- Banks?
- APRA data requests

# Cost of Funding Rising

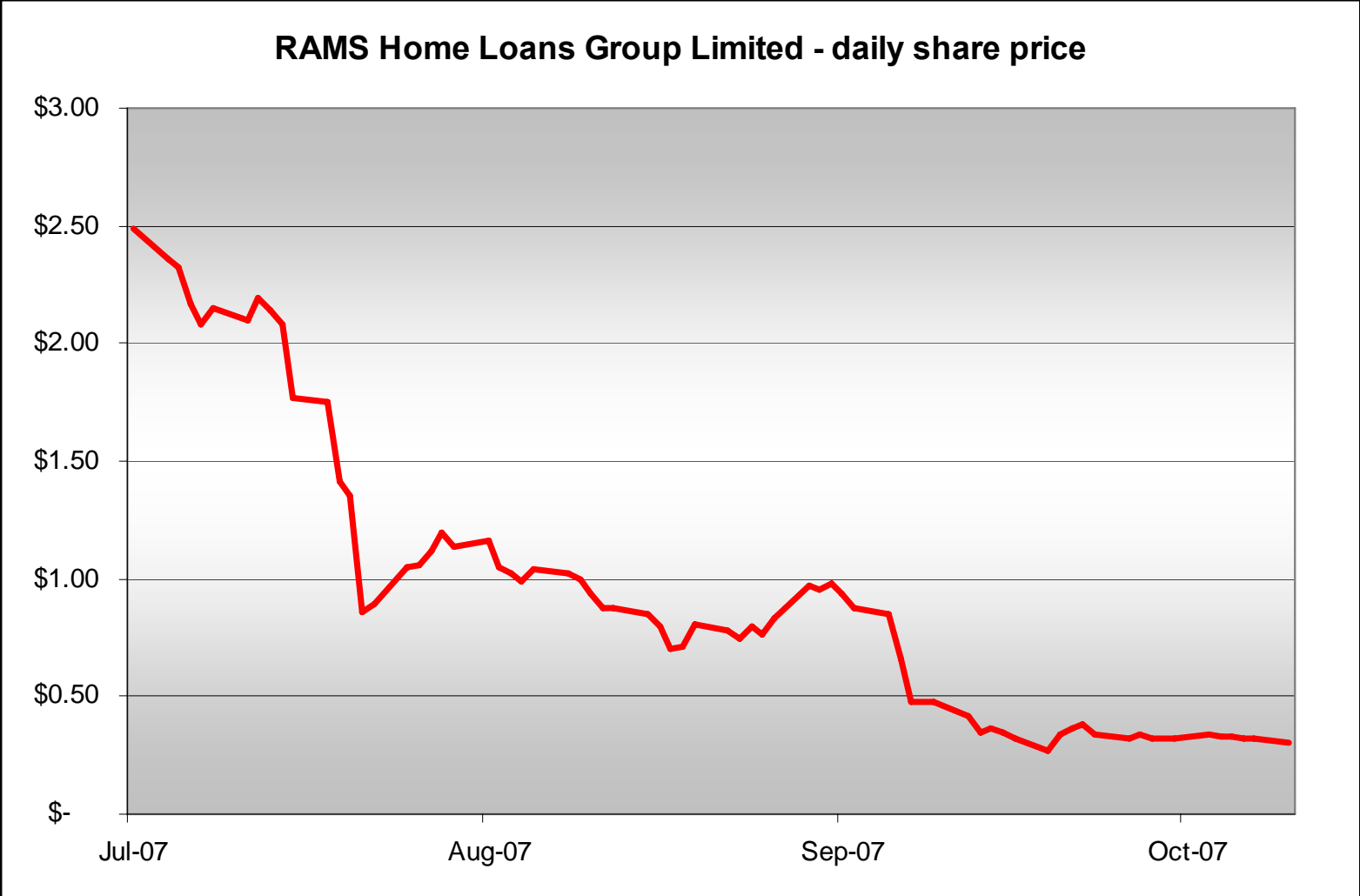


Source: RBA Statistics

# Competitors are failing/changing

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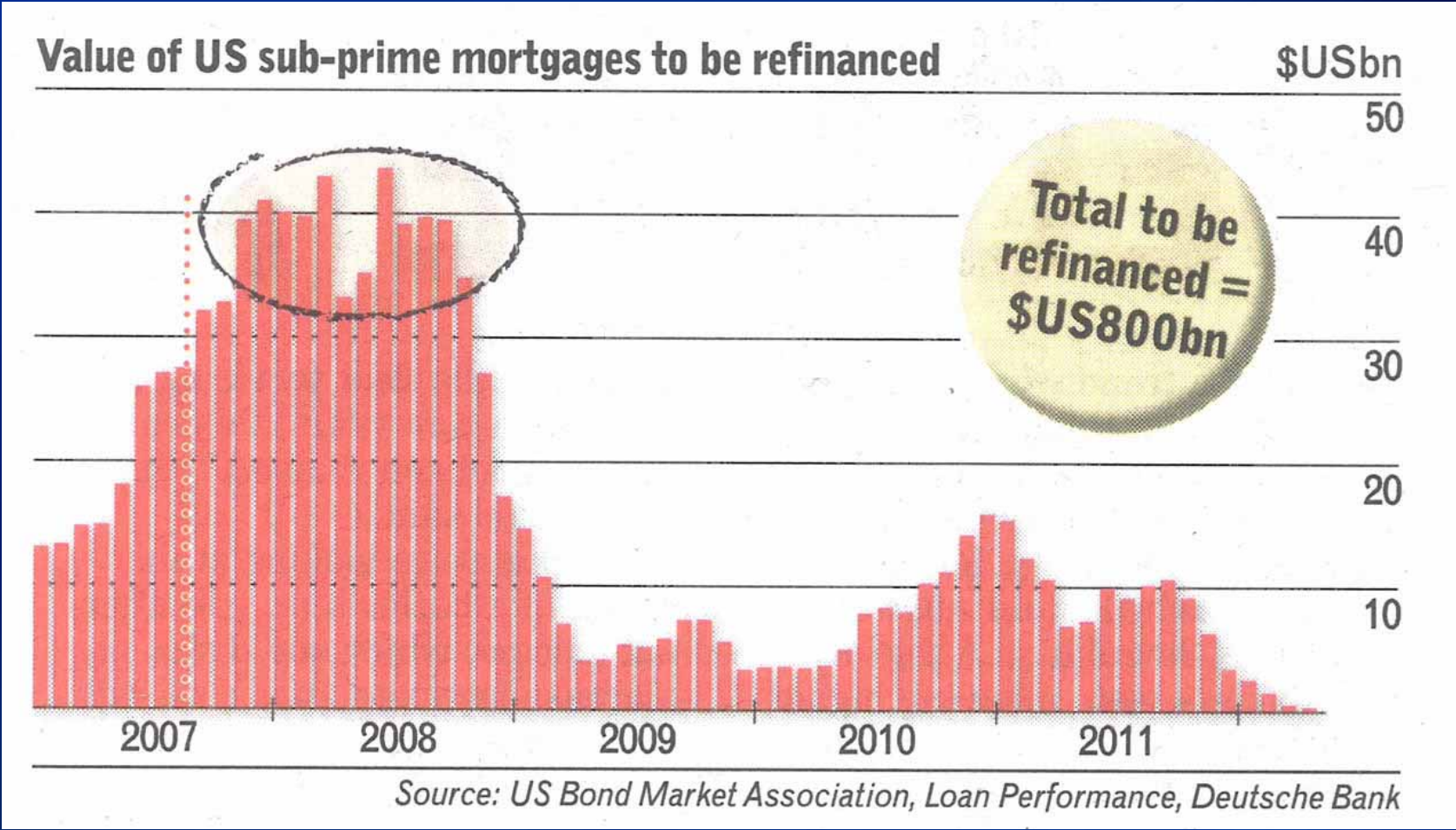
# Competitors are failing/changing



# Is there worse to come?

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# Conclusion

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  - Profitability
  - Growth

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- However significant concerns arising from market developments
- Areas to focus on
  - Liquidity plans
  - Loans in arrears
  - Bad debts
  - Opportunities that may arise from impacts of changes on competitors

# Conclusion

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- Sector continues to perform strongly
  - Profitability
  - Growth
- However significant concerns arising from market developments
- Areas to focus on
  - Liquidity plans
  - Loans in arrears
  - Bad debts
  - Opportunities that may arise from impacts of changes on competitors
- The world has changed!



## Presenter's contact details

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**KPMG's Financial Institutions  
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