

**Annual Review** 2019



years

**of helping Australians  
get ahead.**

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# ME awards.



**Canstar's Outstanding  
Value Savings Account**



**Canstar's Outstanding  
Value Transaction Account**



**Money magazine's  
Money Minder of the Year**



**Money magazine's  
Best of the Best**



**Finder Awards'  
Best Savings Account**



**Mozo's Experts Choice  
Award Term Deposit**



**Mozo's Experts Choice  
Award Regular Saver**

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**ME remains  
one of  
Australia's  
most trusted  
banks at a  
time when  
integrity is  
at a premium.**

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# 01. Highlights.

 25  
years

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ME turned  
**25 years old.**



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Household deposit portfolio grew **13% to \$8.6 billion** or 2.6 x system growth. Household deposits now fund 43% of ME's loan assets (excluding securitisation) and are forecast to fund the majority of the bank's asset growth for the foreseeable future. The bank met its stable funding targets earlier than planned.



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ME's statutory profit was **\$67.1 million** and after adjusting for impact of non-recurring items, underlying net profit after tax (NPAT) was **\$99.8 million, up 3%.**



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ME's total assets grew by **10% to \$31.1 billion** – it settled over \$6.3 billion of home loans, growing the home loan portfolio by **7.3% to \$26.3 billion** or 2.5 x system growth.



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Customer numbers increased by **9% to 517,868.**



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Net interest margin (NIM) was **1.59%**, return on equity (ROE) was **7.2%**, and cost-to-income (CTI) ratio was **64.8%.**

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# 02.

## Message from the Chairman.

**ME was set up in 1994 by industry super funds to help Australians buy a home and it has continued with this purpose. The bank has always prioritised consumer outcomes in its decision-making and ME remains one of Australia's most trusted banks at a time when integrity is at a premium.**

ME has a strong employee culture characterised by a genuine belief in the bank's core purpose and the values of diversity and inclusion. This has enabled it to build a loyal customer base who act as advocates. This strong customer connection is an important asset that will continue to stand ME in good stead.

Banking has become complicated and while many financial institutions grapple with vertical integration, in some cases divesting extraneous business, ME has kept it simple – improving its simple suite of transparent and competitively priced personal banking products.

Technology is becoming a competitive differentiator between banks and years ago, ME made a decision to modernise its core banking system. While technology transformation programs are inherently complex and take many years to complete, ME's foresight will allow it to add new products and services more quickly and at a lower cost.

ME's unique ownership structure adds to the strength of the brand. Over the course of the financial year, the bank achieved a \$150 million capital commitment and I would like to take the opportunity to thank and acknowledge the support of our shareholders. During the financial year, ME successfully completed a \$100 million Additional Tier 1 (AT1) capital issue into the general market. ME expects to manage its capital position largely through retained earnings and the management of risk-weighted assets.

The bank's balance sheet has continued to strengthen, with household deposits now constituting 43% of the total funding pool and are projected to fund the majority of asset growth. The rapid expansion of deposit funding illustrates ME's ability to pursue a growth agenda which allowed the bank to meet its APRA-mandated 'stable funding targets' during FY19. ME offered its first deposit product 15 years ago and up until the Global Financial Crisis, funded the vast majority of its assets through securitisation.

During the year, the Chairman Ken Hodgson retired in March 2019 and non-executive director Justin Milne retired in October 2018. The board wishes to acknowledge the contribution made by both directors during their time with the board.

Three new directors were appointed during March and April 2019; myself as Chairman, along with David Issa and Peter Everingham as directors.

We collectively bring some different and additional skills to the board and look forward to contributing to the growth and success of the bank.

ME is well positioned to manage the challenges ahead. These include record low interest rates, which require disciplined management, and record low credit growth, which requires close attention to asset quality. The bank will invest in its brand and ensure its simple suite of products stays competitive, maintaining strong customer demand as competition among banks intensifies. ME will also continue to invest in the capabilities of its people, systems and processes so it can manage the increased regulation and compliance that is expected to remain elevated over the longer-term. In addition, the bank will continue to build out its technology platforms, improving their reliability and flexibility, while building new services to meet the expectations of our consumers.

ME acquired its banking licence in 2001 when it was little more than a home loan provider with big ambitions. Today it is a fully-fledged bank with the infrastructure and operational maturity of a modern financial organisation. By continuing to refine its capabilities, the bank will keep growing in relevance as one of Australia's most trusted banks.

The board acknowledges with gratitude the ongoing support of its shareholders, customers and employees and looks forward to a successful year in FY20.



**James Evans**  
Chairman

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03.

## Message from the CEO.

**Despite challenging operating conditions, ME experienced above-system growth over the 12 months to 30 June 2019. The bank's home loan portfolio increased 7.3% to \$26.3 billion compared to market growth of 3%, a growth rate of 2.5 times system. As of June 2019, ME had a 1.53% share of the home loan market, up from 1.46% 12 months ago.**

ME also experienced strong growth in household deposits, which reached \$8.6 billion, an increase of 13.4% or a growth rate of 2.6 times system. Market share of household deposits over the last year increased from 0.85% to 0.92%. Household deposits now fund 43% of ME's loan assets (excluding securitisation), up from 39% in June 2018, and are forecast to fund the majority of the bank's asset growth for the foreseeable future. Customer numbers at 30 June 2019 were 517,868 (up 9% year-on-year).

Assisting in achieving the strong growth was ME's investment in marketing, advertising and public relations activities, which increased ME's brand awareness to 59%, an all-time high.

During the year ME invested in the home loan broker channel, and publicly supported the channel in the face of recommended changes following the Royal Commission. ME maintained its third-place industry ranking with brokers, who provided 72% of ME's record \$6.3 billion in home loan settlements.

ME's statutory net profit after tax was \$67.1 million, down from \$89.1 million the previous year. This result included non-recurring items comprising unrealised losses on hedging instruments (-\$3.2 million); IT system remediation and decommissioning costs that are forecast to be completed in the next 12 months (-\$15.1 million); as well as impairment losses on ME's credit card business, after the bank took the strategic decision to stop its investment in a new credit card platform and associated new credit card products as, among other factors, it was not economically feasible to continue due to the expectation of the significant disruption the credit card market is undergoing (-\$14.4 million). After excluding non-recurring items, ME's underlying NPAT was \$99.8 million, up 3% on the previous corresponding period.

NIM fell three basis points to 1.59% due to intense competition for home loans. The lower NIM and increased regulatory and compliance costs resulted in a fall in ROE to 7.2%. On an underlying basis, the cost-to-income (CTI) ratio increased 30 basis points to 64.8% while credit quality remained healthy with 90+ day delinquent home loans remaining favourable to the industry at 0.71%. Home loan write-offs remained low at \$456,133.

ME launched its new portfolio funding business to finance loans and other receivables originated and managed by partner businesses. This helps to diversify ME's income stream by building on ME's existing securitisation skills and provides innovative funding opportunities for a new range of business partners. ME established an initial \$100 million facility for Household Capital, an 'equity release' lending business, and acquired a minority stake in the organisation. ME anticipates more partnerships with other third-party lending organisations.

At ME we are proud of our values-based employee culture which will continue to assist the bank in attracting talent. ME's annual employee survey had its highest participation rate on record – 94% – and reported an increase in overall employee engagement from 68% in FY18 to 69% in FY19.

ME continued to invest in improving the digital services offered to customers – including the mobile apps, internet banking and online application services. The decommissioning of our legacy Ultracs banking platform was further progressed, resulting in a simpler and more robust platform.

ME will keep investing in building on our digital channels, providing customers with an improved banking experience and improving our efficiency through leveraging technology and automating manual processes.



**Jamie McPhee**  
Chief Executive Officer

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# 04.

## 25 years of ME.

### ME'S HISTORY DEFINES IT

Super Members Home Loans (now ME) was created by the industry super funds to be a fairer home loan lender, helping Australians reach the dream of owning their own home. ME originally only offered home loans and was a non-bank lender that funded its lending through securitisation, keeping assets and funding off the balance sheet.

In 2001, ME acquired its banking licence. In 2019, 25 years later, it is a fully-fledged bank, funding the majority of its lending growth through very stable and reliable household deposits. It now holds its assets and funding on balance sheet, and it offers a full range of personal banking products.

ME's objective is to help Australians get ahead financially. As a bank, it is proud to stand for something different. Its purpose is focused on ensuring customers are at the heart of everything it does. ME stays true to this proposition by keeping a unique set of promises to its customers, supported by values that empower and motivate employees to make a difference every day.

### ME'S SHAREHOLDERS

From a shareholder perspective, ME is now successfully growing its loan book at a rate above system, is profitable and has been funding its capital requirements to support its growth through retained earnings.

The bank's benefits go back to the 26 industry super funds that own it, which are listed on the next page:





**Figure 1** The 26 industry super fund shareholders of ME

# Timeline.

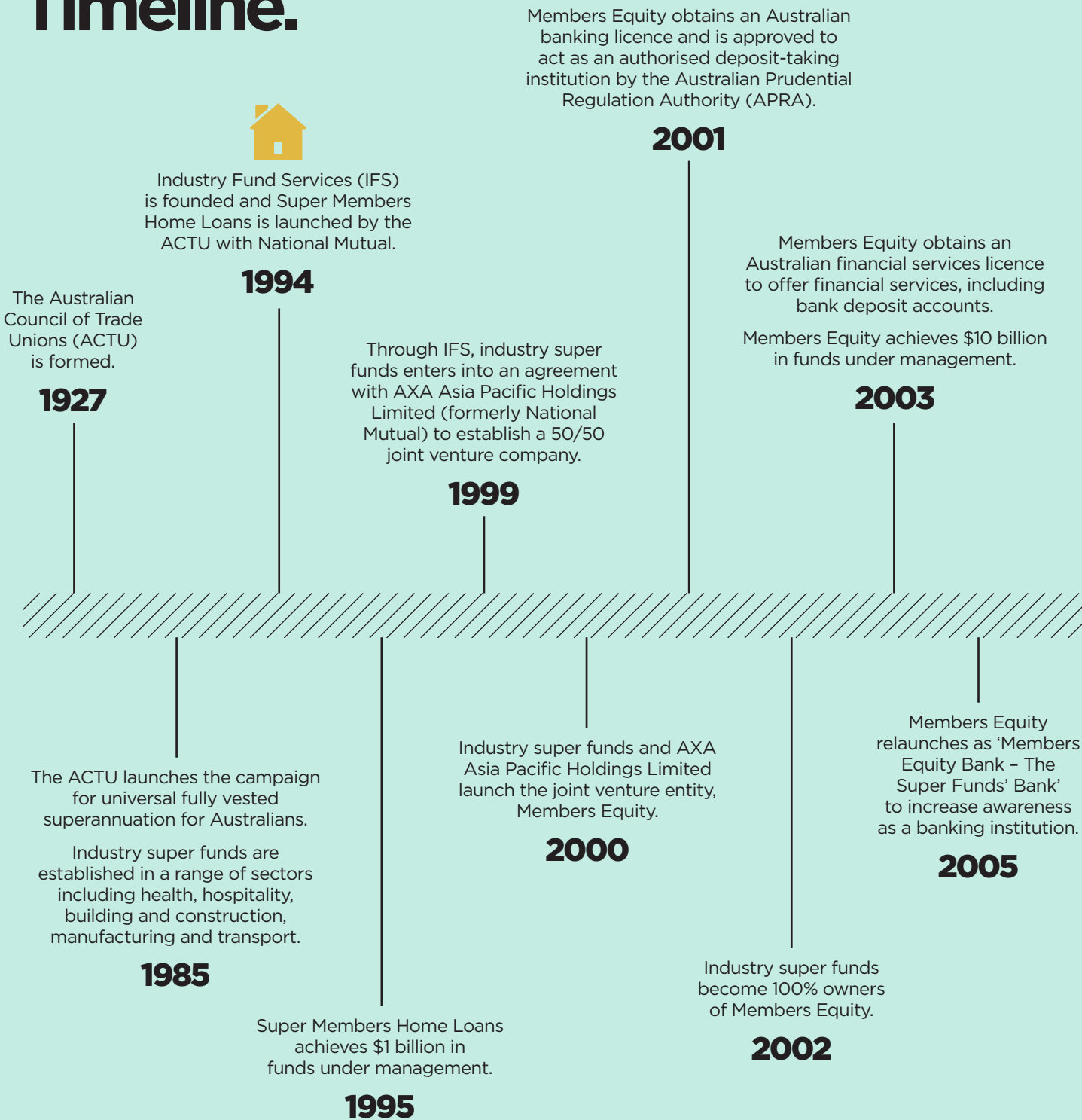
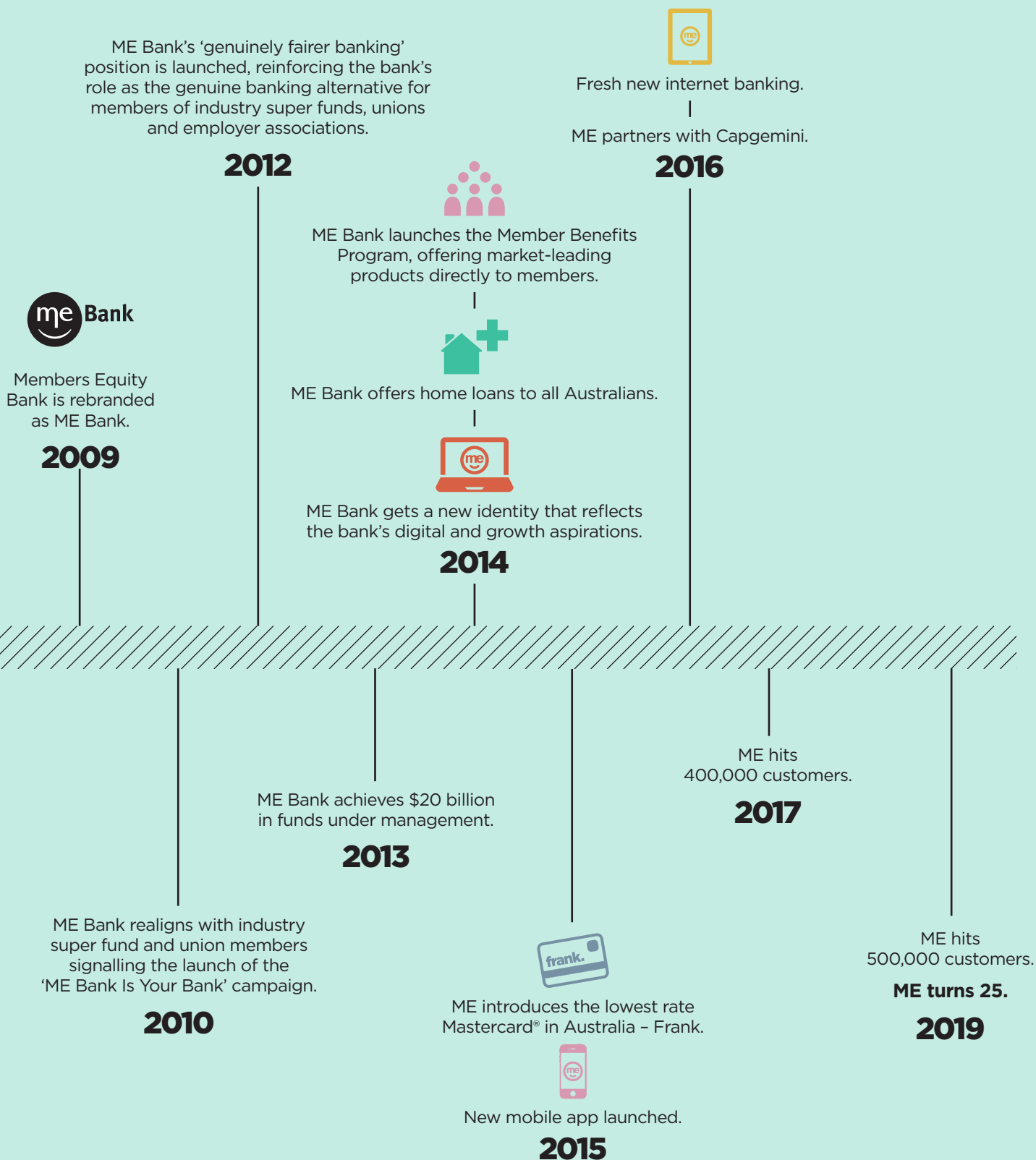


Figure 2 25 years of ME



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# 05. Strategy.

ME's long-term strategic objective is to continue to grow in relevance by creating a genuine banking alternative. To that end, the bank will continue to pursue the following strategic priorities.

## 1. FOCUS ON A CORE SET OF PRODUCTS

ME will help Australians get ahead by offering a core set of retail banking products that meet the personal banking needs of the majority of Australians. These include:

- home loans
- personal loans
- credit cards
- an everyday transaction account and online savings account
- term deposits.

## 2. LEVERAGE ITS CORE PURPOSE

ME will deliver on its core purpose of 'helping all Australians get ahead', with an overall value proposition that improves the financial position of its customers, using this to differentiate relative to its competitors.

## 3. BE CUSTOMER-FOCUSED

ME will be customer-focused in everything it does both internally and externally to drive an experience that is intuitive to the way customers behave and make decisions.

## 4. ENABLE CUSTOMERS TO INTERACT WITH THE BANK DIGITALLY

ME will strive to enhance customers' main channel of choice, improve the customer experience and drive efficiency through the digitisation of customers' sales and service processes.

## 5. PROVIDE SIMPLE PRODUCT PROCESSES

ME will ensure a frictionless and simple application process for customers across its products. ME will continually improve its services for the mortgage segment by striving to make it easy for both brokers and customers to obtain and manage a mortgage at ME.

## 6. EXECUTE EFFECTIVELY

ME will enable the organisation to rapidly and effectively deliver the capabilities required in a fast changing and competitive environment through empowered teams and agile and flexible business architecture.

## 7. OPERATE EFFICIENTLY

ME will target a ROE of 8+% in a challenging environment by driving efficiency through an operating model that drives digitisation and automation in parallel with improving the customer experience.

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## PRODUCTS AND SERVICES

ME's focus is on providing retail banking products to help Australians save, transact and borrow. It is committed to providing products that enable people to meet their financial goals, including achieving their dream of owning a home. The bank offers these products through a variety of channels.

The bank has a national team of mobile lenders who specialise in home loans and visit customers at a time and place convenient to the customer. ME also offers its home loans through a national network of mortgage brokers and aggregators as well as a direct sales team which accepts home loan applications over the phone. Credit card, transaction products and deposit products can be opened online.



### Personal banking products

- Home loans
- Personal loans
- Credit cards
- Transaction accounts
- Online savings accounts
- Term deposits



### Business products

- 11am account
- Term deposits
- Electronic certificates of deposit
- Business online savings accounts
- Cash notice accounts
- Portfolio funding (specialised lending)



### Servicing customers

- Australia-based national customer contact centre
- Mobile-friendly website
- Internet banking
- Mobile app

## PORTFOLIO FUNDING

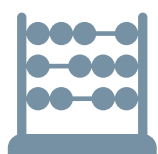
ME launched a new portfolio funding business in FY19 to finance loans and other receivables originated and managed by partner businesses as well as to diversify its income stream.

The portfolio funding business builds on ME's existing securitisation and credit skills and provides innovative funding opportunities for a new range of business partners, including third-party lenders and fintechs.

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# 06.

## Operating environment.



### INTEREST RATES

The first half of 2019 was characterised by a shift in the approach of the RBA to monetary policy settings, resulting in two rate reductions totalling 50 basis points. The key domestic driver for the rate cuts has been the view that there remains excess capacity in the labour market, with the unemployment rate at around 5.2% and a significant level of underemployment. The excess capacity means there has been minimal wages growth pressure and flow-on effects to inflation more broadly. With the broader target for unemployment being closer to 4.5% and a concern that unemployment could increase going forward, the RBA will likely maintain an easing bias. Lower interest rates put pressure on margins, given the asymmetry in the repricing profiles of assets and liabilities.



### CREDIT GROWTH

Credit growth and the housing market have experienced significantly lower growth than in past years. While the correction in house prices seen over the last 18 months appears to have run its course, weak consumer confidence is likely to constrain house price growth over the next 1-2 years. Housing credit growth has fallen to its lowest level since 1977, proving headwinds on business growth. 2019 data showed housing credit growth was a bit below 4% year-on-year. There have been a number of actions taken more recently by APRA and the RBA to provide support and stimulus to credit growth over the planning period. These include reducing the interest rate floor for mortgage affordability calculations, easing of the quantitative controls on investor lending, and the 50 basis points cut in the cash rate. Lower credit growth will require banks to put greater focus on maintaining asset quality.



## COMPETITIVE ENVIRONMENT

Given the historic low cycles for both the official cash rate and Australian credit growth environment, strong competition has persisted for both deposit and home loan customers. This has been exacerbated by the emergence of neobanks and non-traditional lenders who have introduced product and service innovations, including digital and payment ecosystems, and small business lending. This has increased pressure on banks to maintain competitive interest rates and service offerings in order to drive targeted balance sheet and customer growth.



## REGULATORY DEVELOPMENTS

In the aftermath of the Royal Commission and in the context of regulators more closely scrutinising banks, work on enhancing risk management controls continues across the industry. Changing requirements include maintaining capital ratios in the top quartile globally and in the future, the likelihood of further developments around responsible lending reforms. This heightened risk management environment is increasing regulatory and compliance costs.



## CUSTOMER

Customer expectations continue to centre on the need for greater self-service and digital access. The latter has driven a shift in focus across competitors toward product simplification and customer remediation activities. ME continued to maintain focus on simplification of its T24 core product set, as well as investing in an overhaul of its digital ecosystem which will include a completely new mobile app and upgraded internet banking, enhanced by integrated digital payments and new payment platform functionality.

# 07. FY19 performance.

## FINANCIAL PERFORMANCE

ME's statutory profit after tax was \$67.1 million, a decrease of 25% on the previous year, noting the impact of losses on hedging instruments and an impairment loss on statutory profit (refer to Tables 1 and 2). ME's underlying NPAT was \$99.8 million for the year, 3% up on the previous year, reflecting strong ongoing home loan growth. ME maintained a healthy asset growth trajectory over the 12 months to 30 June 2019, increasing its home loan portfolio by 7.3% to \$26.3 billion compared to market growth of 3%, a growth rate of 2.5 times system for the 12-month period.

Table 1 FY19 key financial metrics

Key Metrics	FY19	FY18	Change
Total on and off-balance sheet assets(\$bn)	\$31.1	\$28.3	10%
Lending assets on-balance sheet (\$bn)	\$26.2	\$24.2	8%
Customer deposits (\$bn)	\$16.3	\$14.8	10%
Profit – statutory (after tax)* \$m	67.1	89.1	-25%
Profit – underlying (after tax) \$m	99.8	96.5	3%
Return on equity – underlying	7.2%	8.1%	-0.90%
Net interest margin	1.59%	1.62%	-3bps
Cost-to-income – underlying	64.8%	64.5%	0.30%

\*As statutory profit includes realised and unrealised gains and losses on hedging instruments (primarily interest rate swaps) and other one-off items, ME uses underlying NPAT as its key profit measure.

For the year ended 30 June 2019, the following reconciling differences between net profit after tax (underlying) and net profit after tax (statutory) existed:

Table 2 Reconciliation of statutory profit to underlying profit

### Reconciliation of statutory profit to underlying profit

	FY19 (\$m)	FY18 (\$m)
Net profit after tax (statutory)	67.1	89.1
Net profit after tax (underlying)	99.8	96.5
Realised and unrealised gains/ (losses) on hedging instruments	(3.2)	3.6
Impairment losses – other	(14.4)	-
IT system remediation and decommissioning costs	(15.1)	(11.0)



### Gain/(loss) on hedging instruments

Effective 1 July 2014, the bank adopted hedge accounting and as a result, any mark to market movement of interest rate swaps from that date has been reflected in the cash flow hedge reserve in the equity section of the balance sheet. The losses for the year ended 30 June 2019 represent an unfavourable movement in fair value of ME's interest rate basis swaps.

### Impairment loss – other

During the year, ME took the strategic decision to stop its investment in a new credit card platform and associated new credit card products. Among other factors, it was not economically feasible to continue due to the expectation the credit card market is undergoing significant disruption. As a result, an impairment loss relating to the value of the associated development costs (intangible asset) has been recognised.

### IT systems remediation and decommissioning costs

These represent the:

- costs of decommissioning ME's legacy home loan system, Ultracs, as a result of the implementation of the new core banking system, T24
- one-off transition costs of consolidating multiple service providers for IT infrastructure, application solutions and support services with ME's partner, Capgemini
- work focused on improving the customer experience and driving productivity benefits in the bank's operations
- technical cost of meeting new regulatory and compliance requirements
- costs of fixing system errors and associated customer remediation.

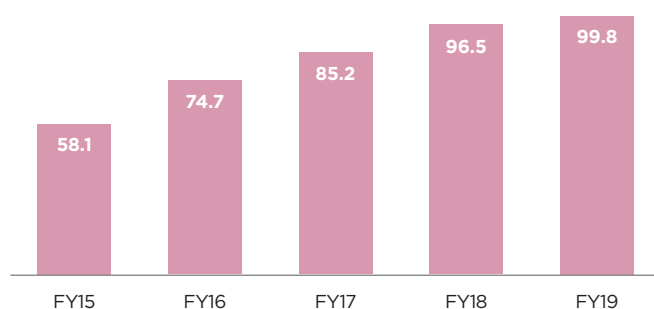


Figure 3 Underlying net profit after tax (\$m)

## Operational efficiency

The primary measure of operational efficiency is the CTI ratio. In the past four years, this ratio has seen a relatively steady reduction from 65.8% to 64.8% (refer to Figure 4). Pressures on NIM and cost management will remain as the bank continues to improve its core systems.

The overarching objective of the focus efficiency area is to achieve a 50% CTI ratio within five years. The discrete areas of focus are:

- Cost growth: the objective is to limit the cost growth over the next three years through efficiency gains within each business unit.
- Program of work (PoW): the PoW initiatives will start to accrue annual benefits and cost savings across all business units.
- Initiative cost buckets: ME will define and accelerate optimisation of large-cost categories to realise benefits in FY20 and beyond.

## Balance sheet

The migration of loans from 'off-balance sheet' to 'on-balance sheet' is nearly complete (with a residual \$200 million of off-balance sheet assets remaining as at 30 June 2019). ME is currently only originating loans from its own balance sheet. This change is reflected in the management fee income decreasing and net interest income increasing (refer to Figure 5). Net interest income increased 4% (or \$17 million) to \$414.1 million in FY19.

## Assets

Total assets under management (on-balance and off-balance sheet excluding offset account balances) grew by 10% to \$31.1 billion in FY19.

Total on-balance sheet assets grew by 11% from \$27.9 billion to \$30.9 billion, which was driven by increases in lending assets (loans and advances) of \$1.7 billion. Home loans remain a core focus, and account for 99% of all lending assets. In FY19, the bank settled over \$6.3 billion of home loans.

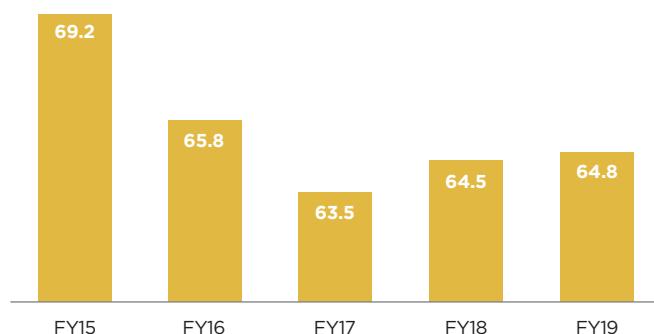


Figure 4 Cost-to-income ratio (%)

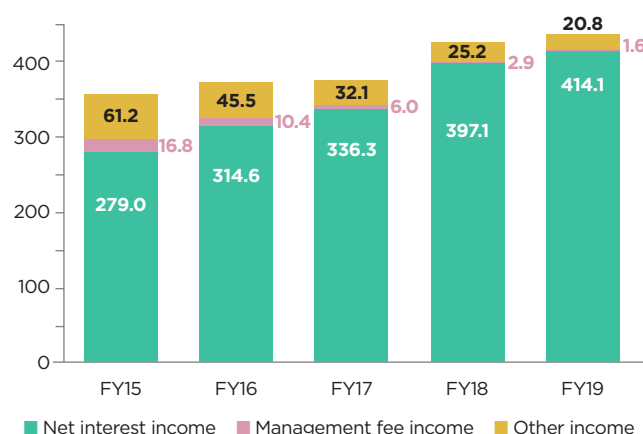


Figure 5 Revenue (\$m)

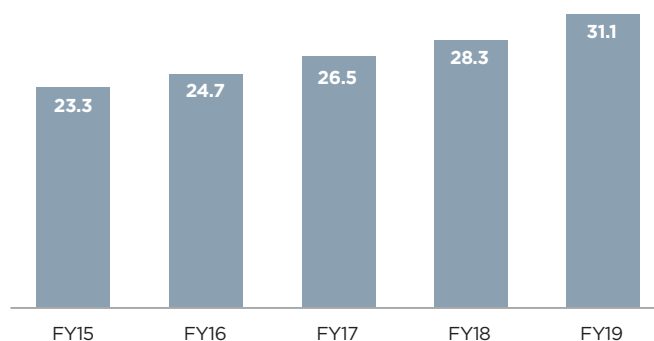


Figure 6 Total assets (\$bn)

## Funding

Strong growth in household deposits occurred over the full year as they reached \$8.6 billion, an increase of 13.4% or a growth rate of 2.6 times system. Market share of household deposits increased from 0.85% to 0.92%.

The quality of funding improved with household deposits funding 43% of ME's loan assets (excluding securitisation), up from 39%. Household deposits are forecast to fund the majority of the bank's asset growth for the foreseeable future. The bank met its stable funding targets earlier than planned.

Securitisation continues to be an important source of funding (refer to Figure 7), representing 22% of total funding. In May 2019, a new home loan warehouse was settled, providing a funding facility limit of \$1.0 billion. The most recent securitisation vehicle was launched in June 2019 with an issue size of \$1.75 billion. The transaction represents the largest deal by an issuer outside of the major banks post the Global Financial Crisis.

As part of the transition to the net stable funding ratio (NSFR), ME has realigned its definition of customer deposits to align with APRA's definition under NSFR. The chart on the right illustrates this change.

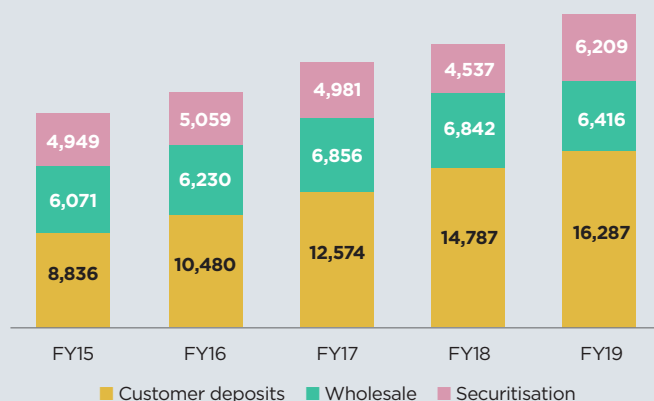


Figure 7 Funding mix (\$m)

## Capital management

The bank manages its capital in line with the requirements of APRA and is very focused on the requirements of the rating agencies to at least maintain its credit rating.

Management has developed and employed systems and processes to identify and measure risks to ensure the bank is appropriately capitalised. In managing its capital, the bank is committed to increasing the internal generation of capital commensurate with the increased business risks that are inherent in growing its business. The bank monitors the structure of capital through the Asset and Liability Committee (ALCO) to make sure the capital held meets the requirements of APRA.

## Externally imposed capital requirements

APRA guidelines require capital to be allocated against credit, market and operational risks. The bank must maintain a minimum ratio of qualifying capital (comprising Tier 1 and Tier 2 capital) to assets and off-balance sheet exposures determined on a risk-weighted basis.

The bank has met the minimum capital ratio requirements at all times during the financial year.

## Capital adequacy ratio

The minimum internal capital adequacy ratio set by the board remained at 11.5% during the financial year ended 30 June 2019.

The Standard & Poor's (S&P) capital ratio methodology differs from APRA as the bank is required to maintain a 15% ratio rather than the internal minimum of 11.5%.

The Moody's capital ratio methodology also differs from APRA as the bank is required to maintain an 11% ratio rather than the internal tier 1 capital minimum of 9.5%. Moody's does not recognise AT1 capital in its methodology.

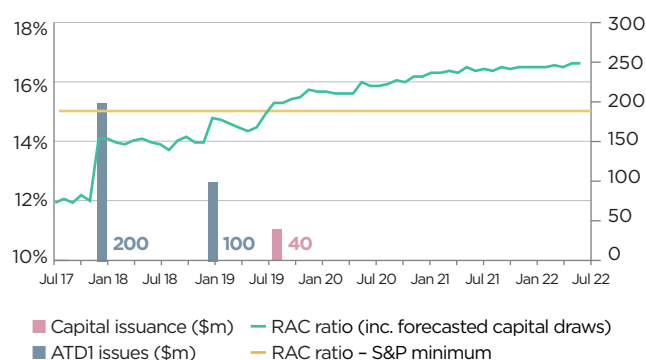


Figure 8 S&P's rating agency capital ratio until July 2022

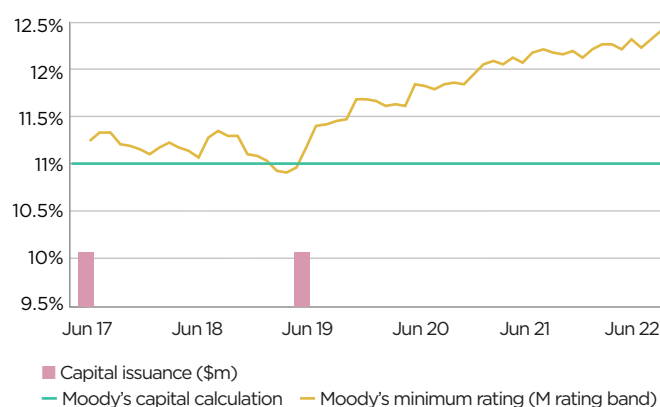


Figure 9 Moody's capital ratio until June 2022

The year-end prudential capital ratio was as follows:

Table 3 Capital adequacy ratios

	FY19 %	FY18 %
Tier 1		
Common Equity Tier 1	9.5	9.7
Additional Tier 1	2.9	2.0
Tier 2	3.4	3.4
<b>Total capital ratio</b>	<b>15.8</b>	<b>15.1</b>

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**For customers  
looking to  
purchase their  
own home, ME's  
core home loan  
products offer  
competitive rates  
and features.**

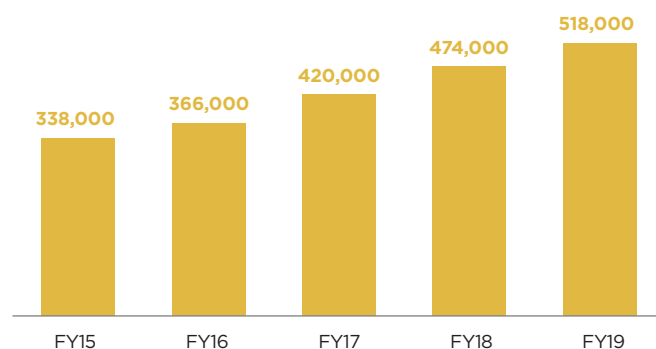
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# 08.

## Customer growth.

**Over the last financial year, ME grew its customer base by 9% from 474,490 to 517,868 (refer to Figure 10). This growth is reflective of the breadth and competitiveness of the ME product offering.**

For customers looking to purchase their own home, ME's core home loan products offer competitive rates and features. ME offers two core deposit products – an online savings account, which pays a bonus interest rate to retail customers who meet the qualifying criteria, and term deposits which offer competitive rates. In FY19, ME significantly grew its term deposit base via clients who use wealth intermediaries. ME also offers operational and innovative cash solutions for various industry super funds.



**Figure 10** Customer numbers

## KEY CUSTOMER ACHIEVEMENTS

### 1. ME launched national marketing campaign post-Royal Commission

In the face of negative customer sentiment post-Royal Commission, ME came up with a term that captured the essence of how disenfranchised Australians were feeling about their finances – ‘bank-xiety’. The campaign was based on research findings that revealed Australian’s distrust toward banks is almost universal:

- 95% of Australians agree bank products and rates aren’t as simple and transparent as they should be
- 95% agree banks sometimes put profits before customers
- 94% agree banks don’t act in their best interest.

Despite the level of distrust uncovered by the research, ME found only 14% of Australians were doing something about their primary banking relationship. The term ‘bank-xiety’ became the basis of a nationwide marketing campaign based around prompting Australians to talk about their bank-xiety and take action on these feelings of distrust by reconsidering one of their most important institutional relationships.

The campaign reached 12.1 million Australians.



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## 2. Internal customer forum

The bank established an internal customer forum to review customer feedback and elevate the voice of customers across the bank. Chaired by ME's customer advocate, the forum has focused on identifying key pain points for customers, exploring the drivers of these pain points, and implementing changes to policies, processes and products that will deliver better customer experiences.





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### 3. ME helps older Australians get ahead

In December 2018, ME finalised a \$100 million funding facility for Household Capital. This facility enables Household Capital to provide equity release mortgages to retirees who are seeking to use the equity in their home. While Household Capital's primary focus is on creating an annuity stream for retirees, it also lends towards aged care needs, debt consolidation, house maintenance costs and inter-generational wealth transfer.

ME's partnership with Household Capital is an important way of helping all Australians get ahead – in this case, older Australians looking to improve their standard of living in retirement while remaining in their home.



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#### 4. ME reaches significant CCR milestone

Under the Comprehensive Credit Reporting (CCR) regime, positive customer information is now available through Australia's national credit bureaux – including accounts that have been opened, the credit limits on those accounts and repayment history.

In an important milestone, ME is now sharing its customers' home loan and personal loan data with the major credit bureaux. This means ME will be able to consume data from many other credit providers when assessing a credit application, which will allow it to have a more complete and balanced picture of a customer's credit position.

Other benefits include:

- better matching of loan types and amount according to borrower capacity
- fairer access to loans
- reduced risk of over-extended customers.

On the back of CCR, it is expected that a significant proportion of customers will have their good credit behaviour reflected in their credit score – a great development for customers looking to obtain credit.



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## 5. Helping first home buyers through credit policy

During the year, ME altered its credit policy to help more first home buyers get ahead. The policy allows those who want to buy a high-density property in a development up to 50 units to take out a ME loan with an increased loan-to-value ratio of 95%. Previous policy restricted lending in high-density locations to 85% when there were more than 10 units in a development. First home buyers are often less able to accumulate sizeable deposits and high-density apartments are an affordable entry point into the property market.



## 6. Helping more home owners who use brokers

ME showed its strong support for the mortgage broker community throughout the Royal Commission, working closely with policymakers on how best to implement final changes around broker remuneration.

In May 2019, ME joined Mortgage Choice's lending panel. Mortgage Choice is Australia's second largest mortgage broker with over 500 brokers, and this new partnership has allowed ME to build on its position as a lender of choice through all major broker and aggregator groups.

November 2018 marked seven years since ME launched its broker channel. Brokers now contribute around 70% of home loan sales and have provided the ability for ME to connect with customers who would prefer to engage with a broker.



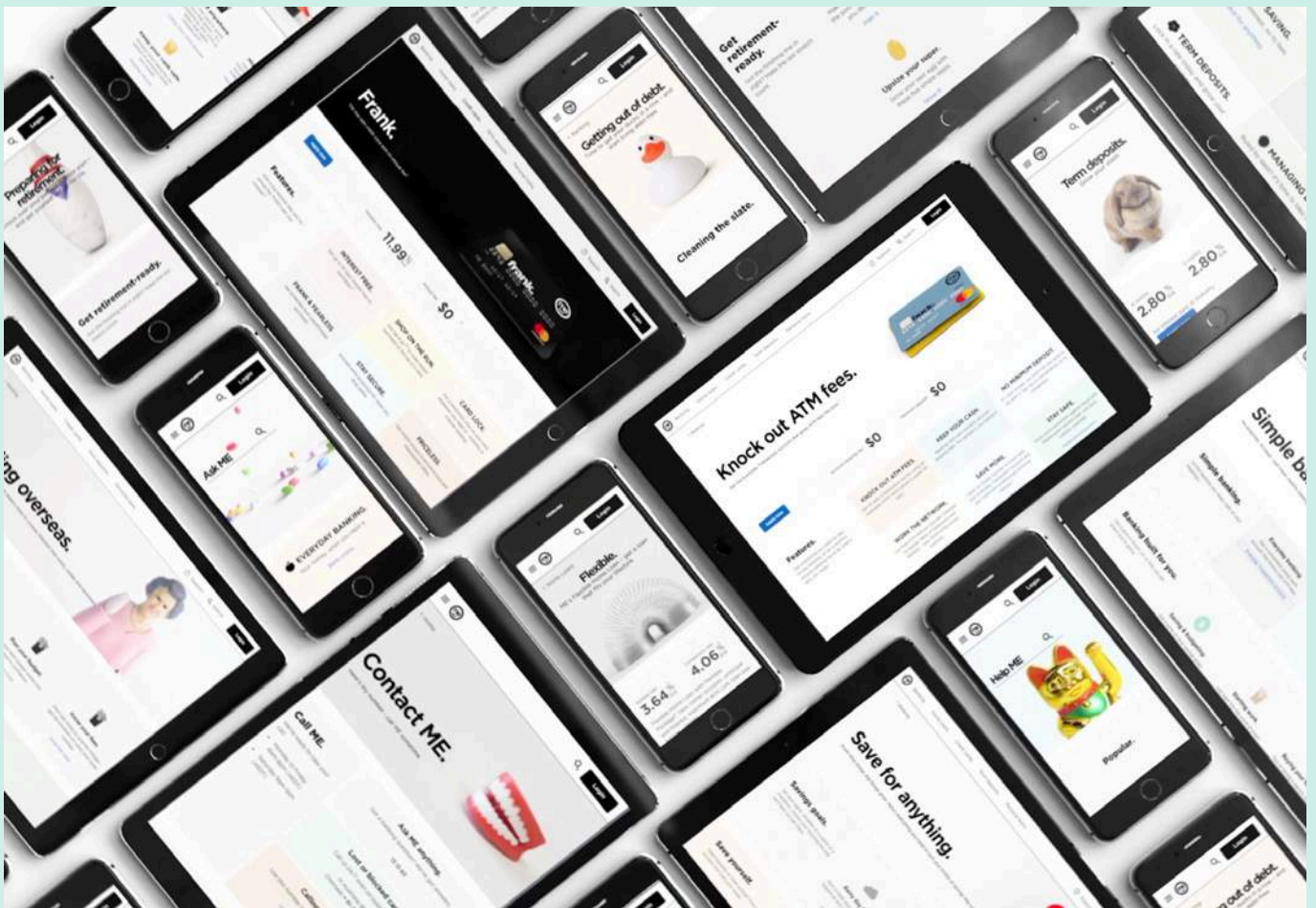
## 7. Digital service improvements for customers

ME continues to invest in new technology to improve the customer experience. Achievements in this sphere include:

- the option for ME's Android users to log on to their mobile app using their fingerprint, a feature previously only available to iPhone users
- a series of new icons in the mobile app to assist people who like dividing their money into separate buckets
- the ability for ME customers to reduce their credit card limit or close their credit card accounts through internet banking, in line with new ASIC credit card reforms

- the ability for customers to view their bank statements in their mobile app, in addition to internet banking
- the ability for new customers who open a credit card account as their first account to activate their card immediately on the app
- the ability for Everyday Transaction Account and Online Savings Account customers to see their pending transactions, both in internet banking and the app.

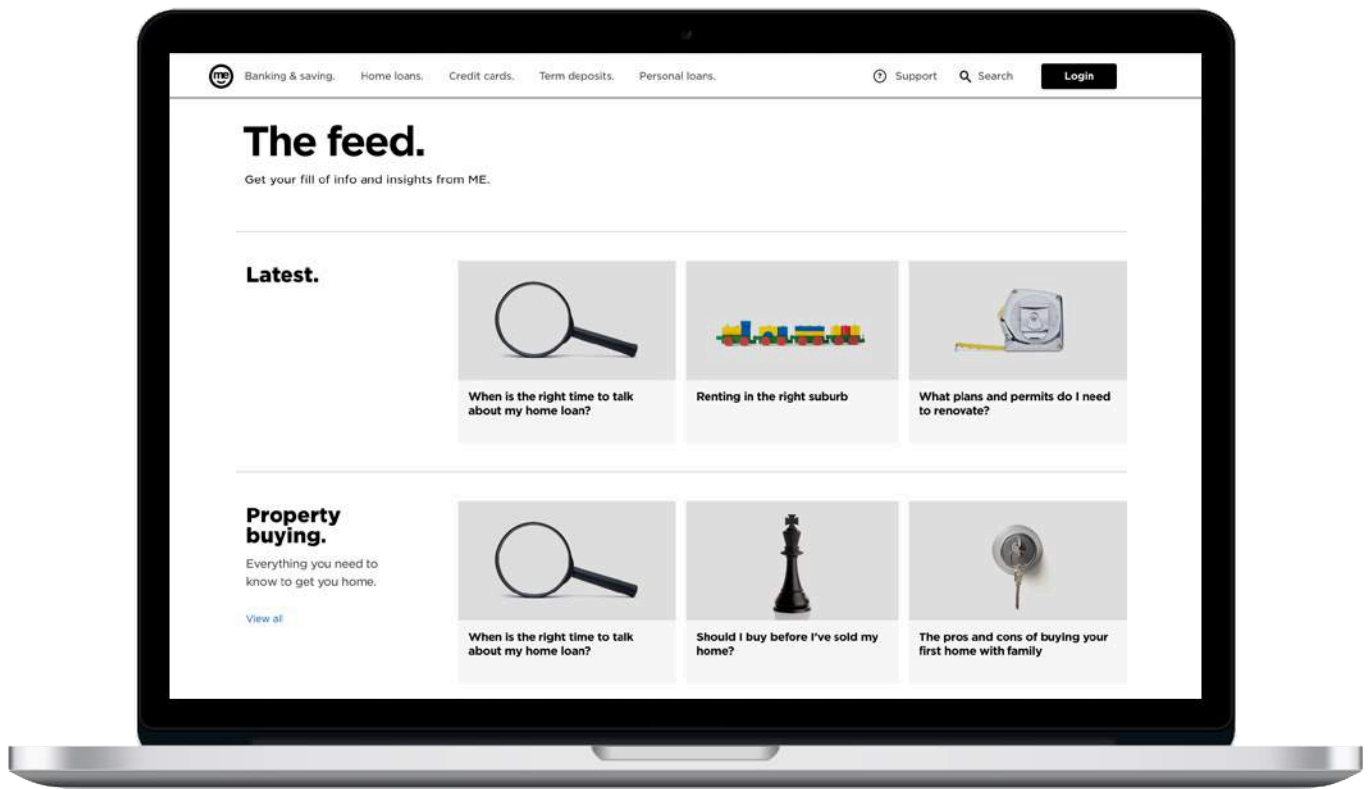
ME's website was recognised as the joint top financial services website alongside BankSA in Google's benchmarking study *Masters of Mobile: Australia and New Zealand Report*.





## 8. ME relaunched content hub to help Australians get ahead

ME relaunched its personal finance blog 'The Feed', which publishes lifestyle and financial insights as well as the latest trends in money and property buying. The relaunch involved a user experience re-design and optimisation of content to be more engaging, useful and relevant to the financial education customers' wants. The relaunched content hub has seen a 91% increase in traffic, with more and potential customers accessing information to improve their financial knowledge.



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## 9. Australia's leading social bank

ME was Australia's fastest growing and most engaging bank on social media due to its consistently compelling content that spoke to customers' interests, values and trending topics of conversation. Examples of this include ME's April Fool's Day post which reached more than 176,000 people on Facebook, Twitter and Instagram. The post was picked up by a total of 29 media outlets, including Channel Nine National News, and reached more than two million Australians.



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# 09. Governance.

## CORPORATE GOVERNANCE

**ME is committed to fulfilling its corporate governance obligations and responsibilities in the best interests of the bank and its shareholders. Good corporate governance is based on a set of values and behaviours that: a) underpin day-to-day activities, b) provide transparency and fair dealing, and c) promote financial stability and healthy economic growth that can deliver better outcomes for customers.**

In performing its role, ME's board is committed to a high standard of corporate governance practice as well as fostering a positive and engaging high performance culture. This encourages values-based leadership to enable the execution of the bank's strategy and to create a diverse and inclusive workplace.

The bank's approach to corporate governance recognises a range of principles and frameworks. These include the ASX Corporate Governance Council Corporate Governance Principles and Recommendations and APRA Prudential Standards. The board is conscious that best practice in the area of corporate governance is continuously evolving and will continue to anticipate and respond to further corporate governance developments.

The bank's Corporate Governance Statement outlines the key components of ME's corporate governance framework. This provides guidance for the board, executives and employees, and defines their respective roles, responsibilities and the conduct expected of them. The framework establishes the structure through which the bank sets its objectives and ensures strategic guidance of the bank, as well as the effective monitoring of the ongoing performance of management by the board, and the board's accountability to the bank and its shareholders.



## BOARD

As of 30 June 2019, the board comprised eight independent directors.

ME is committed to ensuring that the composition of the board continues to have the right mix of individuals with relevant attributes, skills, knowledge and experience, with the overall competence collectively to deal with the current and emerging issues of the business and to effectively review the performance of management. These criteria are summarised to the right:

**Table 4** Criteria for ME board directors

Attributes	Skills, knowledge and experience
<ul style="list-style-type: none"><li>• Desire to contribute to long-term success as opposed to short-term expediency</li><li>• Commitment to the bank's values</li><li>• Willingness to embrace change and resolve dilemmas</li><li>• Ability to confront and defuse political interference so that it does not prevent sound decision-making</li><li>• Ability to focus on the big picture and strategic context of decisions</li><li>• Capacity to build harmonious, productive working relationships</li><li>• Confidence to express views openly at all levels</li><li>• Strong desire to see the management team develop and succeed</li><li>• Ability to focus on the process by which results are achieved as well as the results themselves</li><li>• Ability to consider various alternatives when faced with complex situations</li></ul>	<ul style="list-style-type: none"><li>• Retail banking</li><li>• Superannuation</li><li>• Industrial relations</li><li>• Human resource management</li><li>• Sales</li><li>• Marketing and branding</li><li>• Accounting and finance</li><li>• Risk management and controls</li><li>• IT</li><li>• Digital</li><li>• Governance</li><li>• Communications</li><li>• Auditing</li><li>• Compliance</li></ul>

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**The board has a diverse range of experience in banking and financial services as well as in other sectors. The experience of the board members is set out here.**



**James Evans**  
**Chairman**

Director since April 2019  
Chairman since April 2019

In addition to his role as Chairman of the board, Jim is a member of the People and Remuneration Committee (from 15 May 2019). Jim has over 40 years' experience, including 30 years in banking and financial services. He is currently Chairman of ASX 100-listed company Pandal Group Limited and its major subsidiary J O Hambro Capital Management Holdings Limited. He is also a non-executive director of Investa Wholesale Funds Management Limited and ICPF Holdings Limited. Jim worked at Commonwealth Bank for more than 10 years, including five as Chief Risk Officer of Wealth Management, during which time he held directorships in funds management, general insurance, life insurance and lease financing businesses. Jim has served as the Chairman of Suncorp Portfolio Services Limited and as a non-executive director of Australian Infrastructure Fund Limited as well as Hastings Funds Management Limited.



**Cheryl Bart AO**  
**Non-Executive Director**

Director since July 2016

Cheryl is Chair of the Digital Committee, a member of the Audit and Governance Committee (from 12 April 2019) and a member of the Risk and Compliance Committee (to 15 May 2019). She is currently Chair of Powering Australian Renewables Fund, and a non-executive director of SG Fleet Group Ltd, Audio Pixels Holding Ltd, TEDxSydney, and was a non-executive director for the Invictus Games 2018. Cheryl has a diverse director portfolio background, chairing both committees and boards across the utilities, funds management, auto-finance and leasing, broadcasting, technology and infrastructure sectors. Her previous non-executive directorships include Chairman of ANZ Trustees Ltd, South Australian Environment Protection Authority and South Australian Film Corporation, as well as a non-executive director of the Australian Broadcasting Corporation, Football Federation Australia, Prince's Trust Australia and Spark Infrastructure Ltd.



**David Issa**  
**Non-Executive Director**

Director since March 2019

David is a member of the Digital Committee (from 12 April 2019) and the Audit and Governance Committee (from 15 May 2019). He is currently a director at Industry Fund Services and has over 30 years' experience in the digital, technology, banking and insurance industries. His previous roles include director of Superpartners, CEO of online consumer networks One Big Switch and FiftyUp Club as well as CEO of Personal Insurance and CIO at Insurance Australia Group. At Westpac Banking Corporation, David held roles including CIO at Institutional Banking Group, Program Director at Westpac Investing, and CEO of the bank's wholly owned software incubator Qvalent.



**Christine Christian**  
**Non-Executive Director**

Director since November 2012

Christine is the Chair of the Risk and Compliance Committee, Chair of the Nominations Committee (from 4 October 2018 until that committee was dissolved on 15 May 2019) and a member of the Audit and Governance Committee. Christine is an independent company director; she is currently Chair of Kirwood Capital and Deputy Chair of FlexiGroup Ltd. She is a director of State Library of Victoria, Lonsec Financial Group, La Trobe University, the Cranlana Programme and the Victorian Managed Insurance Authority. She also has more than 30 years' experience in senior executive roles in Australia and overseas, primarily in the credit risk, financial services and global business publishing sectors – including 14 years as CEO of Dun & Bradstreet Australia and New Zealand, Chairman of Dun & Bradstreet Consumer Credit Services, and Executive Director of Dun & Bradstreet India.



**Peter Everingham**  
**Non-Executive Director**

Director since April 2019

Peter is a member of the Digital Committee (from 1 May 2019) and the People and Remuneration Committee (from 15 May 2019). He has over 25 years' corporate experience including 18 years in the digital sector. Peter is currently a director of Super Retail Group and iCar Asia. He is also a governor and Director of the World Wide Fund for Nature Australia. He was formerly Managing Director of SEEK Limited's International Division and served as a non-executive director of its education businesses IDP Education, Online Education Services and Think Education. He was also Chairman of SEEK's China subsidiary, Zhaopin Limited. Prior to SEEK, Peter was Director of Strategy for Yahoo! in Australia and Southeast Asia.



**Greg Combet**  
**Non-Executive Director**

Director since November 2014

Greg is a member of the Risk and Compliance Committee and the People and Remuneration Committee (to 15 May 2019), and Chair of the Investments and Partnerships Strategy Committee (until that committee was dissolved on 15 May 2019). He is Chair of IFM Investors and Industry Super Australia, and Director of Greg Combet Pty Ltd. He also holds a number of consultancy and advisory roles. Greg held various cabinet, ministerial and parliamentary roles within the Australian Government from 2007 to 2013, including as Minister for Industry and Innovation, Minister for Climate Change and Energy Efficiency, and Minister for Defence Personnel, Science and Materiel. He was formerly Secretary of the ACTU and a director of AustralianSuper. During the year, he was a patron of Mine Dust Victims Group.



**Elana Rubin**  
**Non-Executive Director**

Director since October 2016

Elana is a member of the People and Remuneration Committee and was appointed Chair of that committee on 15 May 2019. Elana is also a member of the Risk and Compliance Committee (from 15 May 2019). She was a member of the Digital Committee (to 15 May 2019), the Investments and Partnerships Strategy Committee (until that committee was dissolved on 15 May 2019) and the Nominations Committee (until that committee was dissolved on 15 May 2019). She is currently a director of Mirvac Group, Afterpay Touch Group, Slater and Gordon as well as several unlisted and/or government bodies in insurance, funds management, infrastructure and property sectors. Elana has over 20 years' experience as a non-executive director on private, government and not-for-profit boards. Previous non-executive directorships include Chair of AustralianSuper.



**John Nesbitt**  
**Non-Executive Director**

Director since February 2017

John is Chair of the Audit and Governance Committee as well as a member of the Risk and Compliance Committee, the Investments and Partnerships Strategy Committee (until that committee was dissolved on 15 May 2019) and the Nominations Committee (until that committee was dissolved on 15 May 2019). John is a non-executive director and Independent Chairman of AMP Capital Holdings Limited as well as a non-executive director of General Reinsurance Life Australia Limited, General Reinsurance Australia Limited and Evolve Housing Limited (previously Affordable Community Housing Limited). John has over 40 years' experience across broader financial services, property, infrastructure, technology and chartered accounting experience through his previous roles as CEO of Suncorp Banking and Wealth, Group Chief Financial Officer (CFO) of Suncorp Group Limited as well as Group CFO and Group Executive Private Wealth at Perpetual Limited and CFO roles at Lend Lease Corporation Limited. He has previously been Chair of the Perpetual Superannuation Board and has had memberships at a number of complex joint venture and industry representative boards.

## DIRECTORS WHO RETIRED DURING THE YEAR



**Ken Hodgson**  
**Chairman**

Retired March 2019

In addition to his role as Chairman of the board, Ken was the Chair of the People and Remuneration Committee and a member of the Audit and Governance Committee, the Investments and Partnerships Strategy Committee and the Nominations Committee until his retirement from the board in March 2019. He is a director of Hydro Tasmania and spent 28 years working at Westpac and National Australia Bank in their retail banking divisions – including as General Manager, Consumer Financial Services at Westpac and as General Manager, Personal Financial Services at National Australia Bank. Ken previously worked for AGL Energy Ltd as Group General Manager, Retail Energy.



**Justin Milne**  
**Non-Executive Director**

Retired October 2018

Justin was a member of the Digital Committee until his retirement from the board in October 2018, after which he remained a consultant to the committee until January 2019. He is a non-executive director of Tabcorp Holdings Ltd and NBN Co Ltd. Justin is a former Chairman of NetComm Wireless Limited, MYOB Group Limited, Australian Broadcasting Corporation and pieNETWORKS Limited, and was a director of SMS Management and Technology Limited, Basketball Australia Limited. He was also CEO of OzEmail and the Microsoft Network. Justin had an executive career in telecommunications, marketing and media. From 2002 to 2010, he was Group Managing Director of Telstra's broadband and media businesses and headed up Telstra's BigPond New Media businesses in China.

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## BOARD RESPONSIBILITIES

The bank has laid solid foundations for the management and oversight of its operations and administration, including clear guidelines on who the board comprises; well understood delineations on the roles of Chairman, Company Secretary and CEO; and clear enunciation of the board's priorities.

The composition of the board is determined in accordance with the ME Constitution and the following guidelines:

- The board maintains a majority of independent non-executive directors.
- The board comprises directors with an appropriate range of qualifications and experience.
- In accordance with the Board Renewal Policy, the directors are rotated through the mechanisms contained in the ME Constitution, which require a third of directors to retire in each year, with a three-year rotation period for each director. Directors retiring by rotation may stand for re-appointment. This process is used to periodically review and recommend changes in the composition of the board.

The board's authority level is described in ME's Constitution and in the bank's Authorities and Delegations Policy and Matrix. The Board Charter, on the other hand, sets out the roles and responsibilities of the board as set out below:

- appointing and, if necessary, removing the CEO

- reviewing and approving the Business Plan and budget
- agreeing on strategy
- providing strategic direction to the bank by engaging with the CEO in the development and oversight of the execution of the Business Plan and budget
- monitoring performance against the Business Plan and budget and reviewing that performance with the CEO
- setting the bank's risk appetite and ensuring the bank has in place an appropriate risk management framework and processes which support that appetite and within which management must operate
- approving any major corporate initiatives
- ensuring that management decisions are consistent with delegated authorities and the interests of shareholders
- overseeing the integrity of the bank's accounting and corporate reporting, including the external audit
- monitoring the effectiveness of the bank's governance practices
- assisting the CEO in creating the desired staff culture
- fostering an environment of innovation and deep customer understanding
- ensuring the bank's shareholders are provided with the appropriate information in a timely manner

- overseeing the appointment, and when necessary, replacement of other senior executives
- supporting the CEO in nurturing staff and developing succession plans
- approving the remuneration framework
- performing other such functions as prescribed by law or assigned to the board.

The Board Charter, which is reviewed from time to time to ensure it remains consistent with the board's objectives and responsibilities, and the ME Constitution, are available on the ME corporate website **[mebank.com.au](http://mebank.com.au)**

The primary role of the board is to protect the rights and interests of the bank and to create value for its shareholders and their members, having due regard to the interests of other stakeholders. The board has overall responsibility for overseeing the effective management and control of the bank and supervising management's conduct within a control and authority framework, which is designed to enable risk to be prudently and effectively assessed, monitored and managed. The role of the board is to approve strategic direction, guide and monitor management in achieving its strategic plans, and oversee good governance practice.

The board meets at least 11 times a year and follows meeting protocols designed to ensure all directors are appropriately informed and properly consider all agenda items.

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## CHAIRMAN AND COMPANY SECRETARY'S DUTIES

The Chairman is elected from the independent non-executive directors. The responsibilities of the Chairman are set out in the Board Charter.

The Company Secretary is appointed by the board. The Company Secretary attends board and board committee meetings and is responsible for providing directors with advice on corporate governance and other issues affecting the functioning and operations of the board. The Company Secretary is responsible for monitoring compliance with the board's procedures and implementing the governance framework to give practical effect to the board's decisions. The Company Secretary is also responsible for facilitating good information flows between the board and its committees and between the directors and management, as well managing the induction of new directors and the ongoing professional development of directors.

## BOARD COMPOSITION

The board is conscious of the need to ensure proper processes are in place to deal with succession issues at a board level. The board believes succession and renewal planning should be managed over the medium to longer-term, and that the length of service of each director is appropriately balanced. The current directors possess an appropriate mix of skills, experience, expertise and diversity to enable the board to discharge its responsibilities and deliver the bank's strategic priorities.

The board may establish a Nominations Committee, with the responsibility to identify new directors as required. An external independent recruitment firm may be engaged as part of the process of recruiting and evaluating suitable candidates for appointment as a director.

Furthermore, before any letter of appointment is issued to a new director, enquiries, reference checks, checks of bankruptcy and criminal records, and validation of other records are carried out to affirm to the board that the person is of sound character and has the relevant attributes desired by the board to be a director of ME. In addition, directors must satisfy any other requirements as set out in, or made in accordance with, the Fit and Proper Requirements in the Fit and Proper Policy and their letter of appointment.

## INDEPENDENCE

The board recognises the importance of directors bringing independent judgement to all board decisions. In board deliberations, directors are expected to be free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement. The directors regularly confer without management present.

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## PERFORMANCE AND EVALUATION

The board and its committees carry out regular evaluations. A program is in place for the annual self-evaluation of performance by the board and each of its committees. During FY19, an external evaluation of the performance of the board and committees was completed, and the results of this evaluation were reported to the board. The Chairman also conducted one-on-one discussions with all directors.

## DIVERSITY

ME is a values-based organisation committed to creating an inclusive culture that embraces and values diversity. ME's approach encompasses both diversity and inclusion, as ME believes that a diverse and inclusive workplace is linked to increased quality of decision-making, ideation and financial success. ME has a board-approved Diversity & Inclusion Policy. For more information about this, please refer to the People section on page 46.

## DELEGATED AUTHORITY

The ME Constitution and the Board Charter enable the board to give delegations to any director, committee of directors, employee of the bank or any other person. Matters reserved for the board include decisions about ME's strategy, major projects and transactions, and the appointment and dismissal of the CEO. Reserved matters also include any matters where board accountability is prescribed by a law, licence or prudential regulation. The purpose of each committee and the roles and responsibilities delegated to each committee are captured in the charter of each of the four currently established committees.

The board currently has an Audit and Governance Committee, a Risk and Compliance Committee, a People and Remuneration Committee and a Digital Committee to assist with the execution of its responsibilities.

All directors have a standing invitation to attend committee meetings where there is no conflict of interest. The charter for each of the committees stipulates that the committee assists the board in fulfilling its responsibilities and acts in accordance with its delegated authority. The board committee charters are available on the ME corporate website [mebank.com.au](http://mebank.com.au)

The diagram on the next page shows the current committees of the board. From time to time, the board may form other committees or request directors to undertake specific duties.



## ME BOARD AND COMMITTEE STRUCTURE

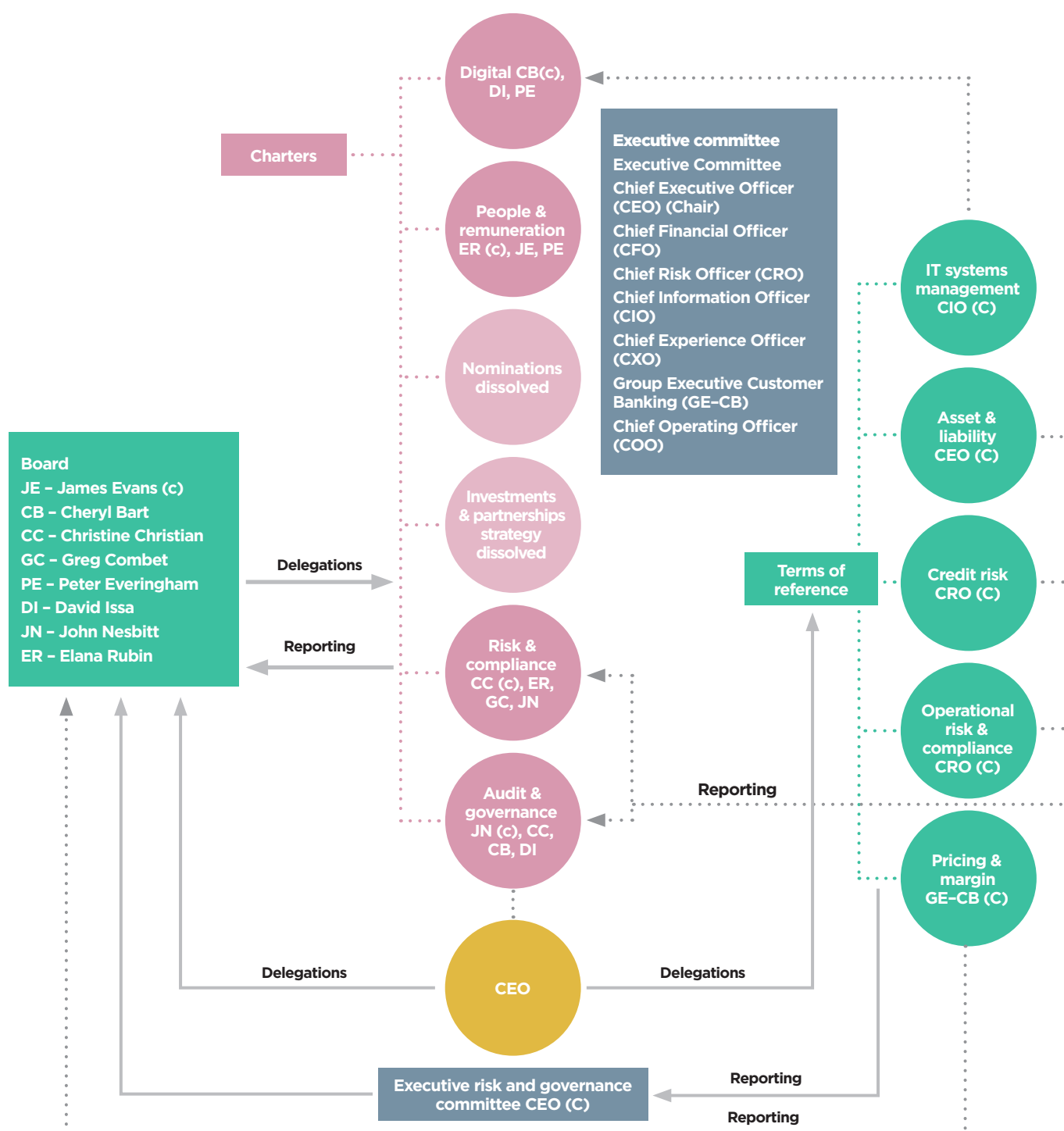


Figure 11 ME board and committees structure as at May 2019

The Executive Committee, Asset and Liability Committee, Credit Risk Committee, Operational Risk and Compliance Committee, IT Systems Committee, Executive Risk and Governance Committee, and the Pricing and Margin

Committee are not board committees, but sit beneath the CEO to implement board-approved strategies and policies, and manage risk for ME.

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## ROLE OF THE CEO

The CEO is responsible for the leadership and management of the ME Group (being ME and its wholly owned subsidiary ME Portfolio Management Limited). The board delegates to the CEO the responsibility for implementing ME's strategic direction and managing the day-to-day operations. The scope and specific limits of the authority delegated to the CEO and the executive team are clearly documented. These delegations balance effective oversight with appropriate empowerment and accountability of management.

## INDUCTION OF NEW DIRECTORS AND ONGOING DEVELOPMENT

New directors are provided with a letter of appointment and participate in a comprehensive induction program to ensure that new directors have a broad understanding of the role, culture and operations of the board and the bank. Appointees are provided with an information pack including governance policies and business information and receive presentations on ME's business functions by key members of the executive and senior management teams.

All directors are expected to maintain the skills required to carry out their obligations to the bank. On an ongoing basis, directors are provided with papers, presentations and briefings on a range of topics relevant to the bank's business activities.

## CODE OF CONDUCT AND PRINCIPLES FOR DOING BUSINESS

The board recognises the importance of being an inclusive employer and the value of a safe, fair and respectful workplace where there is no room for intolerance. ME is a place where teamwork is valued and diversity is celebrated. The board is committed to embracing diversity and inclusion and creating an environment where everyone can reach their full potential across the organisation.

ME has a Code of Conduct that provides a framework to guide its decisions, actions and behaviours for all directors, employees and contractors. The Code of Conduct sets out a number of guiding principles, which are set out under the following headings:

- Integrity
- Respect
- Be Your Best
- Live Our Values

Training about the Code of Conduct is part of the induction process for all new ME employees. It is also a requirement that ME employees complete regular online refresher training about the Code of Conduct.

As a values-based organisation, ME believes in free and open communication on even the most difficult of issues. ME's values of Love Monday, Have a Swing, Ride the Subway, Stay Hungry and Go to the Moon allow all employees to feel confident they may, in good faith, raise concerns internally.

The Code of Conduct provides a mechanism to enable employees to report actual or suspected breaches, including through the Speak Up Policy. The Speak Up Policy gives ME employees and others an avenue for speaking up regarding actual or suspected misconduct or unlawful activities. This includes instances where the employee wishes to raise a concern anonymously.

The board has delegated responsibility to the Audit and Governance Committee for ensuring ME has in place, and that ME employees are aware of, policies and procedures for ME employees to submit, confidentially, information about accounting, internal control, compliance, audit and other matters about which the employee has concerns.

The board also continues to actively listen to the needs of its employees through the annual HowÜDoin? employee engagement survey.



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## CONFLICTS OF INTEREST

Directors have a duty to not place themselves in a position which gives rise to an actual conflict, or real possibility of conflict, between their duties to the bank and a personal interest or duty owed elsewhere. All directors are required to disclose any interest which they believe is appropriate to disclose in order to avoid an actual conflict of interest or the perception of a conflict of interest and must disclose any material personal interest in a matter which relates to the bank's affairs. This disclosure must be made prior to their appointment and on an ongoing basis, with directors required to keep these disclosures to the board up-to-date through formal standing notices.

The Board Disclosure of Interests and Handling Conflicts of Interest procedures set out disclosure obligations and procedures to be followed by directors in the event of a conflict of interest.

The ME board is responsible for ensuring the bank's conflicts of interest systems and controls are appropriately designed and effectively implemented across the bank.

## FIT AND PROPER PERSON ASSESSMENT

ME has a board-approved Fit and Proper Policy that meets the requirements of APRA Prudential Standards. The fitness and propriety of all directors and any senior manager of any ME company is assessed annually (or as close to annual as practicable) against a variety of criteria outlined in the policy.

## BOARD AUDIT AND GOVERNANCE COMMITTEE

The board is ultimately responsible for the sound and prudent management of the bank, including oversight of ME's risk management framework, which governs the way ME manages risks arising in its operations. In discharging its responsibilities, the board may, as it considers prudent, place reasonable reliance on the recommendations and advice from the Audit and Governance Committee, external advisers and management. The Audit and Governance Committee maintains free and unfettered access to the bank's senior management, internal auditor, the heads of risk management functions and the bank's external auditor. Details of the number of Audit and Governance Committee meetings held during the year, and attendance at those meetings, are set out in the Directors' Report, which forms part of the FY19 Annual Financial Report.

The charter of the Audit and Governance Committee provides for it to assist the board in fulfilling its corporate governance and oversight responsibilities in relation to the bank's financial reporting, internal control system, risk management framework and internal and external audit functions.

Under its charter, the Audit and Governance Committee must have at least three members, the majority being independent non-executive directors. The charter also requires that all members have a working familiarity with basic finance and

accounting practices, with at least one member of the committee having accounting-related financial management expertise. The charter is reviewed and updated annually.

The charter includes the purpose, composition, authority and powers, and responsibilities of the committee. The Audit and Governance Committee's charter is available on the ME corporate website [mebank.com.au](http://mebank.com.au)

The committee reports to the board through an oral report from its Chair and, when available, the circulation of minutes on its activities and decisions that should be brought to the attention of the board.

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## EXTERNAL AUDITOR

The role of the external auditor is to provide an independent opinion that the bank's financial reports are true and fair and comply with applicable regulations. ME's external auditor is Deloitte Touche Tohmatsu, who has been engaged since March 2007. In accordance with the bank's Auditor Independence Policy and APRA requirements, the audit engagement partner rotates every five years. The Audit and Governance Committee is responsible for making recommendations to the board on the appointment, evaluation, oversight and removal of the bank's external auditor.

The external auditor must refuse to accept engagements involving non-audit services under which the auditor assumes the role of management, becomes an advocate for the ME Group, or offers services that could be reviewed as part of the audit.

The external auditor attends the bank's AGM and is available to answer shareholder questions about the conduct of the audit as well as the preparation and content of the auditor's report.

As part of the approval of the financial statements, the board will receive certification from the CEO and CFO that the financial records of the bank have been properly maintained to provide for a true and fair view of the bank's financial position and performance, and that the financial statements and notes provide for and comply with all relevant accounting standards.

## ACCOUNTABILITY

ME has a Prudential Disclosures Policy, which provides for the bank to meet its obligations under APS330 (and other good governance practices) to make public disclosures that reflect the scope and complexity of the bank's operations (including the sophistication of its risk management systems and processes) and are appropriate, accurate, high-quality and timely. The disclosures are intended to provide information that contributes to the transparency of financial markets and enhances market discipline.

The Audit and Governance Committee Charter states that one of the purposes of the committee is to provide an objective view of the effectiveness of ME's financial reporting framework. Communications about the half-year and full-year financial results are approved by the board before they are published.

## SHAREHOLDER COMMUNICATION AND PARTICIPATION

ME recognises the importance of keeping its shareholders fully informed and has an established network engagement framework, which provides pathways for two-way communication between the bank, the board and shareholders, including quarterly financial presentations.

The board has established a Shareholder and Key Stakeholder Engagement Group, which is a bi-annual forum for nominated shareholders and stakeholder representatives to meet with the Chairman, other directors and senior management to discuss relevant matters.

The bank releases financial information, including its annual Business Plan, valuation, half-year and full-year financial results, and APRA regulatory disclosures to its shareholders. In the first instance, shareholders receive information in electronic format with an option to receive printed material.

The AGM provides an important opportunity for engaging and communicating with shareholders. Shareholders are encouraged to attend and actively participate in the bank's AGM; those who are unable to attend the AGM are able to lodge their proxies through a number of channels.

ME's corporate website [mebank.com.au](http://mebank.com.au) provides detailed information about the bank's business and operations. Details of ME's board members and executive team can be found here. Information about ME's corporate governance is also available and includes the ME Constitution, board and board committee charters, Annual Review and an extensive list of other policies that support corporate governance.

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## RISK MANAGEMENT

The board has a risk management framework to identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risks across the bank. A strong internal controls system ensures all controls are appropriately designed and implemented to help the bank operate within the risk appetite settings approved by the board. Based on a risk assessment of ME's audit universe, a three-year risk-based assurance program is developed to provide assurance across key areas of risks and internal controls. Key factors considered include ME's strategic Business Plan, historic and emerging risk drivers, past audit results, and multiple risk categories including strategic, market, credit, operational, compliance and technology risks.

The risk management framework is centred on a Risk Management Statement, signed by the CEO, which articulates the purpose and value of successful risk management and is the overarching intent against which all components of the risk management framework are aligned. The statement recognises that the design and implementation of controls to mitigate risk will assist in the achievement of the bank's corporate objective. The four risk management standards contained in the risk management framework describe the risk management outcomes required to support the bank's risk management statement.

Collectively, these elements of ME's framework:

- allow the board to establish and monitor risk appetite limits that reflect organisational strategy and good governance
- measure – across highly quantifiable risk classes such as credit, market and liquidity risk – the risk capacity of the organisation, and apply meaningful risk tolerances
- measure, across more qualitative risk classes, specifically operational risk, and develop and apply meaningful risk appetite limits for operational risk classes
- monitor the bank's risk exposures to its risk limits and provide relevant reporting and insight, for both management/board and regulators
- ensure clear accountability for the key controls on which the bank relies to operate an effective business and meet its regulatory and contractual obligations
- ensure adequate and effective business continuity capabilities are in place and regularly tested
- support the development of new or enhanced products and services, and the projects that deliver them
- provide insight for the board on the risk culture of the organisation
- assist the organisation make better risk-based decisions to achieve its purpose and business objectives.

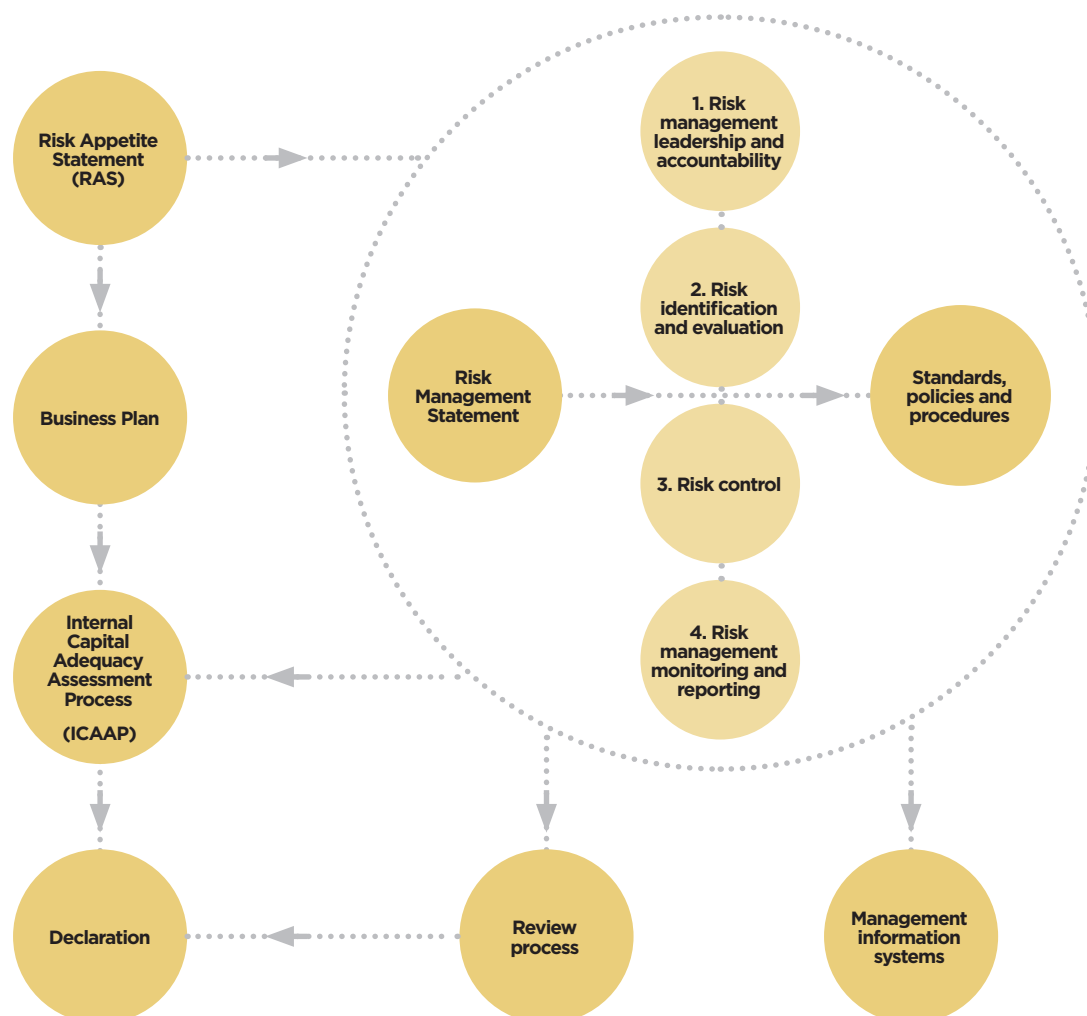
The framework supports a 'three lines of defence' model, which is reflected across roles and responsibilities, management and board committee structures, decision-making and reporting.

The risk management framework is a living document which is updated as required.

The following management committees have been established to assist the board and its committees to fulfil their responsibilities by implementing and overseeing the ongoing operation of established risk management frameworks, policies, procedures and controls, and setting and fostering the risk culture of the bank:

- Credit Risk Committee
- Asset and Liability Committee
- Operational Risk and Compliance Committee
- Executive Risk and Governance Committee.

Additionally, these committees ensure management monitor and promote compliance within the limits set in the board-approved Risk Appetite Statement.



**Figure 12** ME's risk management framework

The board must make an annual risk management declaration to APRA, which must be signed by the Chair of the board and the Chair of the Risk and Compliance Committee. The risk management declaration procedure applies to all material risks. Management follows a process, based on input from all executives, to develop a recommendation for the board regarding the Risk Management Declaration.

ME's internal audit function provides reasonable assurance to the Audit and Governance Committee on the effectiveness of its system of internal controls, including governance and risk management internal controls. The internal audit function is objective and independent and carries out audits under an annual plan, which is approved by the Audit and Governance Committee. The head of internal audit has a direct reporting line to the Chair of the Audit and Governance Committee and the internal audit team has unrestricted access to management and the right to seek information and explanations.

## REMUNERATION

The People and Remuneration Committee assists the board by regularly reviewing and making recommendations to the board on the bank's remuneration policy and by monitoring compensation levels and policy guidelines, including the alignment of remuneration with risk-related key performance indicators where appropriate. The committee reviews the bank's recruitment, retention and termination practices to ensure they attract and retain high calibre talent with the capability to lead the bank to achieve its targets. The committee has a charter that is reviewed at least every two years, and a copy of the charter is available on the ME corporate website [mebank.com.au](http://mebank.com.au)

**Table 5** Remuneration of key management personnel

Key management personnel	Company	
	FY19 (\$)	FY18 (\$)
Short-term benefits	3,945,700	4,760,697
Other long-term benefits	1,061,991	836,416
Termination benefits	317,277	821,719
<b>Total key management personnel compensation</b>	<b>5,324,968</b>	<b>6,418,832</b>

**Table 6** Board schedule of fees (fees are inclusive of superannuation)

BOARD SCHEDULE OF FEES OF THE COMPANY	FY19 (\$)	FY18 (\$)
<b>Chair of the board</b>	189,000	189,000
<b>Member of the board</b>	94,500	94,500
<b>Audit and Governance Committee</b>		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
<b>Risk and Compliance Committee</b>		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
<b>People and Remuneration Committee</b>		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
<b>Digital Committee</b>		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
<b>Investment and Partnerships Strategy Committee (dissolved 15 May 2019)</b>		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100

**Table 7** The remuneration paid to each director

The aggregate compensation (entirely consisting of short-term benefits) made to directors is set out below:

Director	Committee membership	FY19 (\$)	FY18 (\$)
<b>K Hodgson</b>	Chair of the board (ceased 31 March 2019)	142,811	189,000
	Committee member	17,307	22,500
<b>Total compensation</b>		<b>160,118</b>	<b>211,500</b>
<b>J Evans</b>	Chair of the board (appointed 30 April 2019)	30,508	-
	Committee member	864	-
<b>Total compensation</b>		<b>31,372</b>	<b>-</b>
<b>P Everingham</b>	Member of the board (appointed 30 April 2019)	15,396	-
	Committee member	2,044	-
<b>Total compensation</b>		<b>17,440</b>	<b>-</b>
<b>D Issa</b>	Member of the board (appointed 31 March 2019)	23,841	-
	Committee member	2,460	-
<b>Total compensation</b>		<b>26,301</b>	<b>-</b>
<b>C Bart</b>	Member of the board	94,500	94,500
	Committee member	21,798	21,300
<b>Total compensation</b>		<b>116,298</b>	<b>115,800</b>
<b>C Christian</b>	Member of the board	94,500	94,500
	Committee member	38,196	21,300
<b>Total compensation</b>		<b>132,696</b>	<b>115,800</b>

**The aggregate compensation (continued)**

Director	Committee membership	FY19 (\$)	FY18 (\$)
<b>G Combet</b>	Member of the board	94,500	94,500
	Committee member	28,024	16,877
		<b>122,524</b>	<b>111,377</b>
<b>J Milne</b>	Member of the board (ceased 4 October 2018)	22,998	62,879
	Committee member (ceased 31 March 2019)	4,965	4,724
		<b>27,963</b>	<b>67,603</b>
<b>J Nesbitt</b>	Member of the board	94,500	94,500
	Committee member	26,052	22,500
		<b>120,552</b>	<b>117,000</b>
<b>E Rubin</b>	Member of the board	94,500	94,500
	Committee member	29,979	15,400
		<b>124,479</b>	<b>109,900</b>
<b>Total directors compensation</b>		<b>879,744</b>	<b>848,980</b>

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# 10. People.

**ME remains committed to building a unique, values-based and high-performing culture; one that recognises that its people are critical to its success and allows it to ‘help all Australians get ahead’.**

In FY19, ME implemented several initiatives aimed at ensuring its people continue to thrive while building an employer brand that attracts great talent.

ME saw its People Experience and Customer Experience teams come together to form the Experience business unit and begin the journey to provide a consistent employee and customer experience to enable the delivery of the bank’s three-year business plan.

Below is a brief summary of key initiatives that ME implemented in FY19 to improve its people experience:

## LEADERSHIP AND TALENT

A development focus across ME’s senior leaders in FY19 was to continue to ensure that customers remain central in the bank’s thinking, both in its strategic activities and in its day-to-day activities. This was achieved by bringing ME’s senior leaders together for development, with a focus on applying a customer lens on cross-functional strategic planning and activity.

ME continues to invest in leaders across the enterprise through full-day leadership events for senior-level and mid-level leaders, and a longitudinal program that measures the managerial effectiveness of frontline leaders. Key themes for ME’s leadership days have revolved around inclusive leadership, growth mindset, and the launch of the bank’s new strategy and key focus areas for the year.

ME has evolved its succession planning for the executive team across the business. The approach to talent management has also evolved over FY19 with a focus on consolidating ME’s talent rhythm and understanding and investing in the needs of its senior talent. This approach has included identification and creation of success profiles for ME’s high-impact roles, and assessment and tailored development for ME’s top talent.

ME improved its performance management framework with the introduction of new policies, training for its leaders and processes to provide a more consistent approach across ME when managing performance and conduct.

## TRANSFORMING ME

ME has started to create a new way of working centred on an agile delivery model designed to bring value to customers faster. It’s called ‘The ME Way’ and ME is just at the start of an exciting journey ahead.

ME continued to refine the growth mindset journey across multiple business units by helping its people further understand the concept and apply the learnings in business.



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## ENGAGEMENT HOWÜDOIN? EMPLOYEE OPINION SURVEY

ME's annual engagement survey is a key way for the business to understand the employee experience and the extent to which employees are connected, motivated and committed to ME.

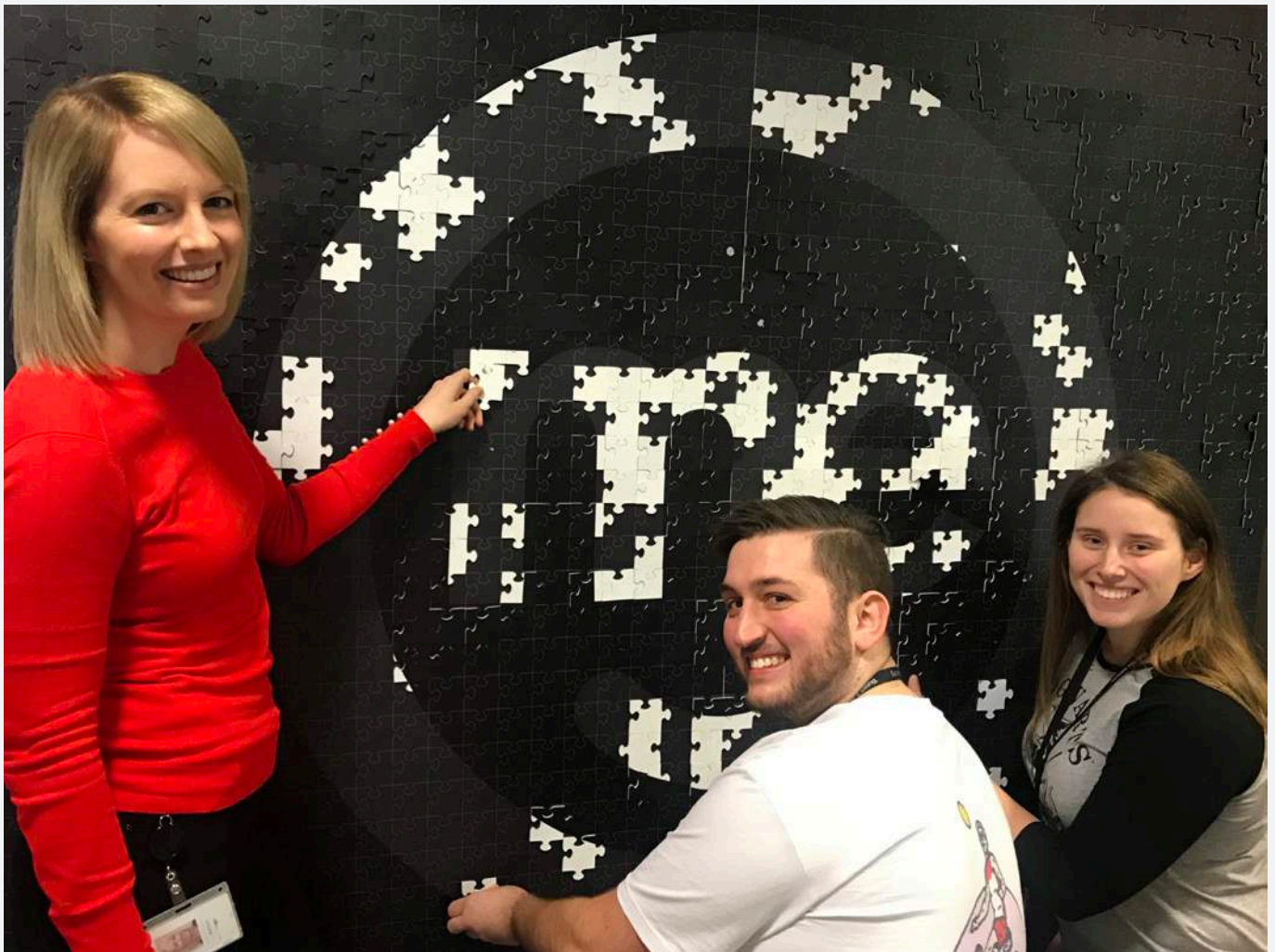
2019 saw a strong participation rate of 94% – a record high participation rate for ME – which demonstrated a commitment by ME's employees to have their say and provide meaningful feedback on making ME an even greater place to work.

ME's FY19 engagement score increased from 68% in FY18 to 69% in FY19, with strong increases in the areas of

inclusion, management and values. The majority of ME's staff believe that ME values and embraces diversity and that their manager genuinely cares about their wellbeing, and understand what ME's company values mean.

ME's howÜdoin? results revealed that line managers have played a positive role in providing feedback and keeping team members up-to-date with details they need to support ME's customers and succeed in their roles.

ME is in the process of developing an action plan for FY20, which will continue to make ME the best place to work.



## VALUES

ME's customer-centric values are one of its most important assets and is what helps differentiate the bank and drive growth. ME continues to embed and reinforce its values through everything it does. In the latest staff survey, 91% of ME's staff said they understand what the company's brand and values are, elevating them to the highest scored factor in the FY19 howÜdoin? engagement survey.

In the last 12 months, ME has focused on further refining its values to ensure they are clearer when it comes to defining accountability and risk, and simpler to understand. As part of the performance process for retail and sales staff, ME values have also been incorporated into the calculation of employee incentives instead of sales performances being the sole predictor of incentive payments. More balanced scorecards have been introduced to measure 'how' retail and sales staff do their job instead of merely 'what' they do in their job.

**Our purpose and strategy.**

**Our long-term objective**  
Continue to grow in relevance by creating a genuine banking alternative.

Long term focus.	FY20 focus.	How you and ME will win.
<b>We'll do this long-term by focusing on:</b> <ul style="list-style-type: none"> <li>being customer-focused</li> <li>leveraging our core purpose</li> <li>offering a core set of simple, fair and transparent retail products that are always competitively priced</li> <li>greater digitisation of all customer touchpoints</li> <li>greater simplification of product application processes</li> <li>executing more effectively</li> <li>operating more efficiently</li> </ul>	<b>While we'll work across a broad range of areas in FY20, our seven key focus areas will be:</b> <ol style="list-style-type: none"> <li>Our core purpose</li> <li>All banks for mortgage brokers</li> <li>The best ETA/OSA bundle</li> <li>Competitive customer digital ecosystem</li> <li>Efficiency '50 in 5'</li> <li>Execution - deliver customer value</li> <li>Regulation and compliance</li> </ol>	<b>To uphold our core purpose, we need a healthy corporate environment. That's why success in FY20 will look like:</b> <ul style="list-style-type: none"> <li>return on equity of 8%</li> <li>home loan portfolio growth of 3.5%</li> <li>net interest margin of 1.64%</li> <li>total customers of \$31.95B</li> <li>net profit after tax of \$18 million</li> <li>cost-to-income ratio of 50.7%</li> </ul> <b>Success for ME = reward for you!</b>

**values**

- love monday.
- go to the moon.
- ride the subway.
- stay hungry.
- have a swing.
- values
- free thinking.

## GROWTH AND DEVELOPMENT

ME embedded a new centralised learning curriculum, continuing its focus on supporting its people to build current and future skills. Every week, formal face-to-face learning is offered to all ME team members on topics ranging from goal setting through to the art of conducting difficult conversations. The development of these skills is designed to increase personal effectiveness, drive careers and, ultimately, lead to outstanding outcomes for ME's customers.

Complemented by online, on-demand learning, the bank now delivers learning outcomes 24/7 regardless of location and enables flexibility to allow team members to learn at their convenience in ways that work for them.

The continued development and focus on learning has seen the growth and development staff engagement score increase by 5% in FY19.

During FY19, ME furthered its commitment to develop strong leadership capability across the entire organisation.

Managers with positions in people leadership varying from one month through to 20 years participated in ME's 'Shape Up' leadership program. The program brought together leaders across every business unit and helped ME's leaders grow in areas of leadership including self-awareness, planning and coaching, change management and resilience.

Feedback from participants, their managers, and their teams highlighted participants' improved leadership and management capabilities. This was further supported by statistical data from ME's engagement partner Culture Amp, who measured participants' management effectiveness to find the majority of the group exceeded Culture Amp's global manager effectiveness standard.







Move

Munch

Mind

## WORKPLACE HEALTH AND SAFETY

Health, safety and wellbeing continued to be a focus at ME in FY19. In February 2019, the health, safety and wellbeing team ran their first wellbeing and benefits expo with numerous ME staff getting involved in health and wellbeing activities with partners such as Fitness First, Kaya Fitness and Medibank.

In FY19, MindfullyME, the newest affinity group at ME, was born. This group focuses on encouraging preventative and proactive management of health and wellbeing throughout ME. MindfullyME came up with a calendar of events for FY19-20, which included sessions with an external mindfulness facilitator.

The bank also continues to work towards plans that reduce the return to work timeframe after an employee has sustained a workplace injury.

**Table 8** Workplace profile

WORKPLACE PROFILE	FY19	FY18	CHANGE
Number of employees	1,280	1,167	9.7%
Permanent	1,137	1,027	10.7%
Contractor*	143	140	-2.1%

\*Excludes ME's service suppliers and consultants

# Actively supporting the health & wellbeing of everyone at ME.

## Mindfully



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## REGULATORY & COMPLIANCE

ME is committed to ensuring it not only meets the regulatory requirements, but that it continues its effective management of risk and ensures it has a plan which demonstrates a focus on the areas in which it needs to improve.

### **Banking Executive Accountability Regime (BEAR)**

On 1 July 2019, BEAR came into effect for ME and all other medium and small authorised deposit-taking institutions (ADIs). The government has implemented BEAR to provide a heightened accountability framework for the most senior and influential directors and executives.

In response to BEAR, ME has:

- identified and registered the board of directors and senior executives as 'accountable persons' with APRA
- strengthened existing accountability structures, including a new accountability policy to provide greater clarity on accountabilities across ME
- refined delegation and management committee protocols to result in clearer decision-making with greater accountability, including updates to delegation policy and committee terms of reference
- implemented changes to its remuneration policy and deferral periods for incentive pay to align with BEAR requirements and delivery of better risk outcomes.

ME will continue work to embed BEAR across ME in FY20.

### **Sedgwick**

ME has completed the implementation of the key recommendations under the Retail Banking Remuneration Review (Sedgwick Report) and continues to work on the cultural change required to ensure customers and ethical considerations are at the forefront of decision-making within the organisation.

ME also continues to work on third-party relationships to ensure their processes and remuneration are in line with ME's and the Sedgwick Report's expectations.

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## DIVERSITY AND INCLUSION

ME believes a diverse and inclusive workplace is critical to the quality of decision-making, idea generation and financial success. The bank supports this belief through its diversity and inclusion commitments to its customers, its people and the industry.

### For customers

A diverse workforce provides the bank with deeper insights and understanding into its customer base, allowing it to better meet their needs from a communication, engagement and innovation perspective.

### For people

ME provides a respectful and inclusive environment, where employees can bring their whole selves to work, where their opinions and talents are welcomed and valued, and where they will be given fair and equitable career development opportunities.

### For the industry

ME thinks differently to other banks. It has a free-thinking culture, with its customer promises and values at the core of all it does.

FY19 saw ME's staff-led affinity groups ProudlyME and Women at ME continue to grow to have a positive impact across the organisation. This included the implementation of internal events that grew awareness of the importance of fostering a diverse and inclusive environment, and which helped to create a setting where everyone at ME feels like they can bring their whole selves to work.



Highlights include:

- International Women's Day Event in March 2019, which featured a keynote presentation from Sally Moyle, Chief Executive of CARE Australia. Sally shared insights on how supporting women and girls is one of the most effective ways to create sustainable outcomes in poor communities.
- ProudlyME's first Queer Week, centred on the theme 'Queerness in Australia: Past, Present and Future'. Queer Week featured a movie night, a market and a panel headlined by leaders in the LGBTIQ+ community, which discussed how queer diversity and inclusion has changed post the achievement of marriage equality.
- ME's inaugural sponsorship of the Melbourne Queer Film Festival, with ME's brand visible to over a million filmgoers across the two-week festival.

**Table 9** Gender diversity

	FY19	FY18	CHANGE
<b>Non-managerial employees</b>			
Female	49%	50%	-2%
Male	51%	50%	2%
<b>Business leaders</b>			
Female	44%	34%	29.4%
Male	56%	66%	-15.2%
<b>Executive (including CEO)</b>			
Female	30%	37%	-18.9%
Male	70%	63%	11.1%
<b>Board (including Chair)</b>			
Female	38%	43%	-11.6%
Male	62%	57%	8.77%



**Table 10** Number of employees utilising parental leave

	FY19	FY18	CHANGE
<b>Primary carer's leave</b>			
Female	28	23	21.7%
Male	5	4	25%
<b>Secondary carer's leave</b>			
Female	8	8	0%
Male	17	32	-46.9%

From the 2018-19 public report form submitted by Members Equity Bank Limited to the Workplace Gender Equality Agency.



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## EXECUTIVE TEAM



**Jamie McPhee**  
**Chief Executive Officer**

Jamie has been CEO of ME since February 2010, working with the board and executive team to develop, implement and lead the business strategy.

Jamie has the key responsibility of establishing and maintaining strong relationships between ME and its stakeholders (the industry super funds, unions and their employer associations) to help align ME's interests with theirs and foster an understanding of each other's goals and directions.

**About Jamie**

Before ME, Jamie was Managing Director of Adelaide Bank when it merged with Bendigo Bank in November 2007 and was appointed Executive Director of the merged company. He then went on to hold the position of Chief Executive, Partner Advised Banking.



**Ingrid Purcell**  
**Chief Experience Officer**

As Chief Experience Officer, Ingrid is primarily responsible for the customer and people experience functions. Ingrid is focused on helping ME transform its customer experience by delivering on the expectations of its customers and delighting them in the process. Internally, Ingrid is creating new ways for ME's people to work together with centricity and ensuring ME's culture continues to grow.

**About Ingrid**

Prior to joining ME, Ingrid led large teams working as a business director at creative digital agencies in London and Sydney. Ingrid has worked with a range of companies across the financial services, fast-moving consumer goods (FMCG) and technology industries, helping to create and implement digital brand transformation.



**Craig Ralston**  
**Group Executive, Customer Banking**

Craig joined ME in February 2015. As Group Executive, Customer Banking, Craig works closely with the Experience business unit to build market-leading customer journeys, to meet the increasingly evolving needs of customers and to ensure ME's core products are competitively positioned and aligned with ME's core purpose.

**About Craig**

Craig has over 20 years' experience in the financial services industry – the majority of which was at Bendigo and Adelaide Bank. Craig's experience spans across retail sales, operations, technology, product and project management, and strategy.





**Adam Crane**  
**Chief Financial Officer**  
 Commenced August 2019

Adam is ME's Chief Financial Officer and is responsible for management, regulatory and external reporting; the annual budgeting and financial planning processes; funding and capital management; investor relations; procurement; and legal services.

**About Adam**

Adam has extensive experience across the banking and financial services industries. His more than 25-year-career has included stints across a broad range of operational areas including e-commerce, strategy and credit. Before ME, Adam spent seven years at ANZ Banking Group working across areas including e-commerce, strategy, credit, and analyst roles, 13 years working in senior e-commerce, strategy and finance roles at Suncorp including as Chief Financial Officer of Suncorp's Life and Wealth Management business, and three years at Indue where he worked as the Chief Financial Officer.



**Matt Toohey**  
**Chief Information Officer**

Matt joined ME in July 2018. As Chief Information Officer, Matt is accountable for the development, management and monitoring of ME's information technology function.

**About Matt**

Before joining ME, Matt was General Manager of Delivery and Engineering at Bankwest, where he managed the bank's software delivery operations and change. He has also held Chief Information Officer roles at Wesfarmers Chemicals, Energy & Fertilisers and iiNet.



**Angela Middleton**  
**Group Executive,  
 Service Excellence**

Angela joined ME in October 2011. As Group Executive, Service Excellence, Angela is accountable for the delivery of service outcomes to ME's customers. She is responsible for designing, improving and implementing processes to deliver seamless service to ME's customers.

**About Angela**

Angela has been at ME for eight years, helping the bank's customers get ahead by leading its service teams. Prior to ME, she held senior management positions at NAB, Citibank and the Australian Finance Group.



**Carlo Cataldo**  
**Chief Risk Officer**

Carlo joined ME in July 2014. As Chief Risk Officer, Carlo is accountable for the oversight of the bank's credit, market and operational risks that arise from ME's activities.

**About Carlo**

With over 20 years in risk management prior to ME, Carlo was consulting via his own advisory company and spent almost 13 years with GE Capital. Carlo's time at GE included six years as the consumer Chief Risk Officer for Australia and New Zealand and two years as the Responsible Lending Leader, which included lobbying for further changes to the *Privacy Act* to support access to credit and more comprehensive credit reporting.

**EXECUTIVES WHO  
 RETIRED DURING  
 THE YEAR**



**Gary Dickson**  
**Chief Financial Officer**  
 Resigned June 2019

Gary was ME's Chief Financial Officer from February 2013 to June 2019. Before joining ME, Gary worked in a variety of finance roles in both listed and unlisted corporate environments, including as Chief Financial Officer of AXA Australia for five years. Prior to that, Gary held senior financial roles at Portfolio Partners, Commonwealth Bank, Colonial First State and PricewaterhouseCoopers.



**Melanie Simpson**  
**Group Executive,  
 People Experience**  
 Resigned January 2019

Melanie was appointed to the ME executive team in November 2017 as its Group Executive, People Experience. Prior to joining ME, Melanie was Executive Vice President, Human Resources with fast-growing fintech EllieMae and General Manager HR with divisions of Microsoft, both based on the West Coast of the United States.

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# 11. Community.

**ME is committed to contributing to the community – as a bank that helps all Australians get ahead, giving back and supporting the community is part of ME's DNA. The bank believes that its long-term success depends on the wellbeing of the communities in which it operates.**



## MOTHER'S DAY CLASSIC

2019 marked an exciting milestone year for ME and its partnership with the Women in Super's Mother's Day Classic, which saw ME celebrate its 15th year as the major sponsor of the event. The Mother's Day Classic is Australia's largest breast cancer fundraiser – a national fun run and walk that raises funds for breast cancer research. Today the event takes place in over 90 locations, with over \$36 million having been raised for the National Breast Cancer Foundation since the event began in 1998.

Over the last 15 years, ME has raised over \$200,000 through internal fundraising and on-the-day giveaways for the Mother's Day Classic. In addition to this, the event is passionately supported by ME employees, their family and friends, with a record-high 540 registrations for the ME team in 2019.





### ME PINK BUCK DEBIT MASTERCARD®

ME has proudly donated over \$1 million to the National Breast Cancer Foundation through donations made from its Pink Buck Debit Mastercard®. Since May 2011, ME has donated one cent to the National Breast Cancer Foundation for every transaction made by customers using the pink card. Around one in seven women are affected by breast cancer and ME is proud to support the National Breast Cancer Foundation's important research that aims to identify ways to beat breast cancer.



### COMMUNITY AWARDS - HESTA AWARDS

ME is the major sponsor of the annual HESTA awards program which recognises, celebrates and promotes the achievements of those working in nursing, primary healthcare, early childhood education, aged care and the community sector. ME provides the entire prize pool for the various awards, which is shared among the winners to support their vital community programs and initiatives.



### ME'S PHILANTHROPIC EMPLOYEE INITIATIVES

ME's Giving Back Program provides the bank's employees with the opportunity to make regular donations from their pre-tax pay to a group of eight community partners. In FY19, employees donated just over \$6,500 to ME's community partners – a figure which was matched by the bank.

ME's current Giving Back Program community partners are the National Breast Cancer Foundation, the Prostate Cancer Foundation of Australia, Beyond Blue, Mission Australia, The Smith Family, Australian People for Health, Education and Development Abroad, Redkite, and World Animal Protection.

Additionally, ME partners with social enterprise Good Return to provide employees with an innovative way to positively impact the lives of those living in poverty in developing countries.

The Good Return loan platform was launched in 2010 to offer small loans to people living in poverty to help them build or grow an income. ME employees can contribute by becoming a lender and funding a microfinance loan for an individual through Good Return. For every employee who funds a loan, ME makes a donation to Good Return that goes towards the development of financial literacy programs.

# 12.

## Environment.

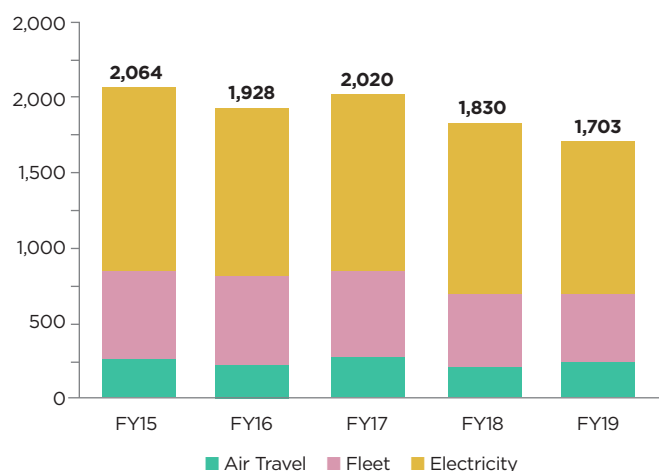
**Reducing its impact on the environment is part of ME's commitment to responsible business. The bank understands that its environmental impact extends beyond its own operations to include the products and services it provides and procures.**

ME's head office in Melbourne Central Tower, where the majority of its people operate from, has a five-star 'Green Star – Office Interiors v1.1' rating. The building that ME sits in has a five-star assisted NABERS Energy Rating and a three-star NABERS Water Rating. The bank's green star accommodation has provided significant environmental benefits, including reduced electricity consumption (due primarily to improved heating, cooling and lighting efficiencies), waste improvement campaigns to minimise contamination of organic and recyclable waste that's sent to landfill, as well as social awareness campaigns among tenants around annual occasions like Clean Up Australia Day and Plastic Free July.

### RESOURCE USE

In FY19, ME reduced its greenhouse gas (GHG) emissions by 7% to 1,703 tonnes from its operations, which covers electricity use in offices, vehicle fleet usage and employee air travel (see Figure 13 to the right). This is a decrease of 127.5 tonnes from the previous year, achieved from a consistent reduction in all reported areas.

The largest source of GHG emissions for ME was electricity use in its offices, which accounted for 59% of the bank's total emissions. In FY19, ME reduced its electricity usage by 134 tonnes, or 11.7%, of carbon dioxide equivalent (CO<sub>2</sub>-e) and vehicle fleet usage by 32 tonnes, or 6.6%, of CO<sub>2</sub>-e.



**Figure 13** Total greenhouse gas emissions (tonnes CO<sub>2</sub>-e)

**Table 11** Yearly comparison of total greenhouse gas emissions (tonnes CO<sub>2</sub>-e)

	FY15	FY16	FY17	FY18	FY19
Air Travel	249.8	222.6	266.9	195.58	234.6
Fleet	587.3	589.2	569.9	489.33	456.9
Electricity	1226.44	1116.4	1183	1145.3	1011.2
<b>Total</b>	<b>2063.54</b>	<b>1928.20</b>	<b>2019.80</b>	<b>1830.21</b>	<b>1702.70</b>

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## RESPONSIBLE PROCUREMENT

ME believes in value for money as a founding principle of all procurement activities. A decision on price alone does not necessarily represent value for money. Value for money is achieved when all risks are considered across social, economic and environmental impacts. Costs and benefits are thoroughly examined, optimised and managed during the bank's sourcing and contract management activities. All procurement activities are documented to demonstrate the integrity, transparency, consistency and accountability of the process.

In FY19, ME completed a full review of the supplier due diligence process, which has ensured that the bank's evaluations adhere to its regulatory requirements, new legislation such as the *Modern Slavery Act 2018* (Commonwealth), and a continued commitment to secure customer data.

ME values and respects human rights and the environment. Relationships with suppliers are based on lawful, efficient and fair practices. The bank expects its suppliers to be environmentally conscious and to obey the laws and regulations in their jurisdictions that require fair treatment of all workers within a safe environment.



# 13.

## Key financial information.

The key financial information has been derived from the Annual Financial Report of Members Equity Bank Limited (ME) for the year ended 30 June 2019.

The Annual Financial Report comprises the Directors' Report and the annual financial statements. The annual financial statements are general purpose financial statements prepared in accordance with the

Corporations Act 2001, Australian Accounting Standards and Interpretations, and other requirements of the law. An explanation of all accounting policies is set out in full in the Annual Financial Report.

The notes in the tables below relate to the Annual Financial Report.

**Table 12** Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2019

### Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2019

	Notes	Consolidated FY19 (\$'000)	FY18 (\$'000)
Interest and similar income	5	1,312,512	1,245,424
Interest and similar expense	5	(898,387)	(848,311)
<b>Net interest income</b>		<b>414,125</b>	<b>397,113</b>
Funds management fee income	5	1,618	2,900
Other operating income	5	20,760	25,190
<b>Total net operating income</b>		<b>436,503</b>	<b>425,203</b>
<b>Expenses</b>			
Operating expenses	5	267,113	253,040
Impairment on intangibles	13	20,606	-
Impairment losses	5	8,944	8,159
Project expenses	5	43,770	36,065
Loss on sale of commercial loans and asset finance portfolios	5	-	350
<b>Total expenses</b>		<b>340,433</b>	<b>297,614</b>
<b>Profit before income tax</b>		<b>96,070</b>	<b>127,589</b>
Income tax expense	6	28,955	38,533
<b>Profit for the year</b>		<b>67,115</b>	<b>89,056</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss			
Net fair value gain/(loss) on FVTOCI financial assets, net of tax		2,625	(1,103)
Cash flow hedges - effective portion of changes in fair values, net of tax		(63,265)	12,066
<b>Total comprehensive income for the year</b>		<b>6,475</b>	<b>100,019</b>



**Table 13** Statement of financial position as at 30 June 2019

**Statement of financial position as at 30 June 2019**

	Note	FY19 (\$'000)	Consolidated FY18 (\$'000)
<b>Assets</b>			
Cash and cash equivalents	24(a)	839,889	409,650
Investments	3	3,581,453	3,176,469
Derivatives	16	3,785	11,005
Trade and other receivables	8	9,520	5,894
Current tax assets	6	9,265	-
Loans and advances	4	26,272,491	24,212,838
Investment in controlled entities	10	-	-
Plant and equipment	12	6,567	5,780
Intangible assets	13	86,632	93,228
Deferred tax assets	6	43,845	8,802
Other assets	14	14,875	13,083
<b>Total assets</b>		<b>30,868,322</b>	<b>27,936,749</b>
<b>Liabilities</b>			
Deposits and other borrowings	5	28,911,694	26,165,970
Derivatives	16	98,544	11,572
Trade and other payables	17	40,499	22,230
Current tax liabilities	6	-	838
Provisions	18	31,235	29,235
Subordinated debt	19	301,079	300,734
<b>Total liabilities</b>		<b>29,383,051</b>	<b>26,530,579</b>
<b>Net assets</b>		<b>1,485,271</b>	<b>1,406,170</b>
<b>Equity</b>			
Issued capital	20	1,105,459	1,006,282
Reserves	21	(40,720)	22,759
Retained earnings		420,532	377,129
<b>Total equity</b>		<b>1,485,271</b>	<b>1,406,170</b>
Book value per share		\$134.46	\$127.30

**Table 14** Statement of changes in equity for the financial year ended 30 June 2019

**Statement of changes in equity for the financial year ended 30 June 2019**

	Notes	Consolidated					Total \$'000
		Issued capital \$'000	Retained earnings \$'000	General reserve for credit losses \$'000	Investment revaluation reserve \$'000	Cash flow hedge reserve \$'000	
Balance at 1 July 2017		807,921	297,942	17,457	2,722	(13,387)	1,112,655
Issue of capital notes	20	198,361	-	-	-	-	198,361
Dividends paid	22	-	(4,865)	-	-	-	(4,865)
Transfer to/(from) general reserve for credit losses	21	-	(5,004)	5,004	-	-	-
Other comprehensive income for the year		-	-	-	(1,103)	12,066	10,963
Profit for the year		-	89,056	-	-	-	89,056
<b>Balance at 30 June 2018</b>		<b>1,006,282</b>	<b>377,129</b>	<b>22,461</b>	<b>1,619</b>	<b>(1,321)</b>	<b>1,406,170</b>
Balance at 1 July 2018		1,006,282	377,129	22,461	1,619	(1,321)	1,406,170
Adjustment due to change in accounting policy		-	(14,086)	-	-	-	(14,086)
<b>Balance as at 1 July 2018</b>		<b>1,006,282</b>	<b>363,043</b>	<b>22,461</b>	<b>1,619</b>	<b>(1,321)</b>	<b>1,392,084</b>
Issue of capital notes	20	99,177	-	-	-	-	99,177
Dividends paid	22	-	(12,465)	-	-	-	(12,465)
Transfer to/(from) general reserve for credit losses	21	-	2,839	(2,839)	-	-	-
Other comprehensive income for the year		-	-	-	2,625	-	2,625
Other comprehensive expense for the year		-	-	-	-	(63,265)	(63,265)
Profit for the year		-	67,115	-	-	-	67,115
<b>Balance at 30 June 2019</b>		<b>1,105,459</b>	<b>420,532</b>	<b>19,622</b>	<b>4,244</b>	<b>(64,586)</b>	<b>1,485,271</b>



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## NOTES FOR THE KEY FINANCIAL INFORMATION

**For the financial year ended  
30 June 2019**

### 1. Review of operating results

ME recorded an after-tax statutory profit of \$67.1 million for the financial year ended 30 June 2019 compared to \$89.1 million in the previous financial year.

Net interest income increased to \$414.1 million from \$397.1 million in the previous financial year and funds management fee income decreased to \$1.6 million from \$2.9 million in the previous financial year, reflecting the migration of home loans from off-balance sheet to on-balance sheet.

Other operating income has decreased predominantly due to the fair value movement in the derivatives book.

Total expenses increased by 14.3% from \$297.6 million in the previous financial year to \$340.4 million. Staff and related costs have increased year-on-year due to increases in base salary (driven by the increase in full-time equivalent employees), terminations and short-term employee benefits. General administrative costs increased by 8%, mainly due to the increase in system-related costs – like the costs of decommissioning ME's legacy home loan system and the implementation of the new core banking system – and non-recoverable GST expenses.

Impairment losses for the year were \$8.9 million compared to \$8.2 million in the previous financial year, mainly due to higher provisioning expenses. At 30 June 2019, the loss provisions balance was \$43.1 million, including \$5.0 million of specific provisions (representing 0.15% of the ME Group's total lending portfolio),

compared to \$20.6 million (\$6.9 million of specific provisions) at 30 June 2018. ME adopted AASB 9 Financial Instruments on 1 July 2018 that resulted in a transition adjustment to retained earnings of \$14.1 million and an additional \$20.1 million of collective provisions required to be held.

The bank took the strategic decision to stop its investment in a new credit card platform and associated new credit card products. It was deemed not economically feasible to continue due to the expectation that the credit card market is undergoing significant disruption. This resulted in an impairment expense of \$14.4 million after before tax on the intangible asset held in relation to the development costs of the credit card platform.

Total on-balance sheet assets at 30 June 2019 were \$30.9 billion, an increase from \$27.9 billion at 30 June 2018 (both amounts are net of Everyday Transaction Account offset balances). Loans and advances have increased to \$26.3 billion at 30 June 2019 from \$24.2 billion at 30 June 2018. Intangible assets have decreased due to the write-off of the credit card platform intangible asset associated with the bank's program of work.

The increase in total ME Group assets has been funded by liabilities increasing to \$29.4 billion from \$26.5 billion. Retail deposits increased to \$8.1 billion from \$7.2 billion.

Due to significant movements in the fair value of the interest rate swap book, ME has incurred losses through other comprehensive income and recognised an increase in derivative liabilities on the balance sheet. These derivative movements are based on timing and over the life of the instrument, ME expects them to have an immaterial impact on the financial statements.

### 2. Subsequent events

Subsequent to the financial year ended 30 June 2019, the company redeemed \$300 million of subordinated debt in August 2019. Other than the matters disclosed previously, there are no matters or circumstances occurring subsequent to the end of the financial year that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the entity in future financial years.

**Table 15** Investments, loans and advances for the financial year ended 30 June 2019

	FY19 (\$'000)	FY18 (\$'000)
<b>3. Investments</b>		
<b>Amortised cost investments</b>	-	-
Mortgage backed securities	1,039	-
<b>Fair value through other comprehensive income (FVTOCI) investments</b>		
Treasury notes and semi-government securities	1,343,565	775,657
Bank bills	158,475	293,886
Corporate floating rate notes	915,220	1,030,662
Mortgage backed securities	200,983	171,017
	<b>2,618,243</b>	<b>2,271,222</b>
<b>Fair value through profit and loss (FVTPL) investments</b>		
Government securities	959,171	905,247
Unlisted equity	3,000	-
	<b>3,581,453</b>	<b>3,176,469</b>
<b>4. Loans and advances</b>		
Credit cards	169,619	167,694
Personal loans	144,697	156,734
Residential home loans	26,001,274	23,909,054
Intercompany loans	-	-
	<b>26,315,590</b>	<b>24,233,482</b>
<b>Less:</b>		
Allowance for impairment losses	(43,099)	(20,644)
	<b>26,272,491</b>	<b>24,212,838</b>

## Investments are held for capital and liquidity purposes.

The group applied AASB 9 in the financial year beginning 1 July 2018 with respect to the classification and measurement of financial assets and impairment of financial assets, for which a transition adjustment has been recognised in its retained earnings as at 1 July 2018 of \$14.1 million. The transitional adjustment has been made to the opening retained earnings and the required collective provision balance.

	FY19 (\$'000)	FY18 (\$'000)
<b>5. Deposits and other borrowings</b>		
<b>Unsecured – at amortised cost</b>		
Retail customer deposits	8,080,144	7,232,019
Business customer deposits	1,657,872	1,467,080
Superannuation banking deposits	762,592	598,809
Advised and corporate deposits	5,785,927	5,489,170
Institutional borrowings	4,893,297	4,944,533
Treasury borrowings	416,551	790,071
Medium-term notes <sup>(i)</sup>	1,105,706	1,105,824
Other borrowings	142	-
	<b>22,702,231</b>	<b>21,627,506</b>
<b>Secured – at amortised cost</b>		
Mortgage-backed securities <sup>(ii)</sup>	6,209,463	4,538,464
Liabilities to the securitisation trusts <sup>(iii)</sup>	-	-
	6,209,463	4,538,464
<b>Total deposits and other borrowings</b>	<b>28,911,694</b>	<b>26,165,970</b>

(i) Medium-term notes include interest payable and deferred expenses directly attributable to its issuance, with a face value of \$1,100,000,000. Of the \$1,100,000,000 floating rate notes, \$550,000,000 is current with the remaining \$550,000,000 classified as non-current.

(ii) Mortgage-backed securities relate to securities issued by securitisation trusts where the group has assessed that it retains substantially all the risks and rewards of ownership and continues to control the transferred assets. The holders of these securities have recourse only to the assets in the relevant securitisation trusts.

(iii) Liabilities to the securitisation trusts represent the residential home loans that are securitised into the special purpose securitisation vehicles.

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