

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

ME Bank

ME34QON: **CHAIR: The red category customers had a situation where they were in excess. Were they contacted by phone before the recent events which led to customer complaints?**

Mr McPhee: No, because their redraw limits haven't been adapted.

CHAIR: No, but were they contacted before those events where it was brought to public attention, and we started to ask questions about it?

Mr McPhee: That communication of some of those customers had started to occur. I'd have to take on notice exactly what date that had started to occur.

Answer: Please note ME Bank has requested a correction to the above section of the transcript, with "adapted" being deleted and replaced with "adjusted".

In conducting its initial analysis of the redraw issue in late 2019 and early 2020, ME Bank identified certain home loan accounts where the current balance was above the original amortisation curve (red accounts).

As part of its continued analysis of the redraw issue, ME Bank started contacting red account holders from 31 January 2020. These calls were in the nature of individualised home loan health checks.

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ME35QON: [Proof Hansard, 3 June 2020, p. 4—In the context of calculations relating to customers affected by the redraw issue]
Does that have an impact on your capital holding?

Answer: In accordance with Prudential Standard APS 112, redraw balances are classified as off-balance sheet capital exposures and result in a capital deduction. The amount calculated is included in the risk weighted asset calculation for credit risk, and acts as a deduction to the capital ratio of ME Bank. The impact of the redraw adjustment was immaterial relative to ME Bank's capital (approximately 7bps, which is equivalent to approximately 0.5% of ME Bank's current total capital).

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ME36QON:

[Proof Hansard, 3 June 2020, p. 6]

Mr McPhee: The green customers are ones where should they access their full redraw limit they would still remain below the amortisation schedule.

CHAIR: How many of those are there?

Mr McPhee: There are 31,000 of those customers.

CHAIR: And you've communicated with them as well?

Mr McPhee: I'd have to get back to you exactly, because they weren't at risk. I'd have to get back to you on those. There was no action required, because they didn't have their redraw limits adjusted.

Answer:

The green account holders (approximately 31,000 in total) comprise two groups:

- (1) account holders who did not have an available redraw because they had not made repayments on their home loan in excess of their scheduled repayment amount; and
- (2) account holders who, should they access their full redraw limit, would still remain below their amortisation schedule.

No adjustment to the redraw limits of green account holders was necessary, and customers were therefore not contacted.

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ME37QON: [Proof Hansard, 3 June 2020, p. 6]
How many complaints have you, as a bank, received from your customers as a consequence of an adjustment of the redraw?

Answer: The total number of redraw related customer complaints from 27 April to 16 June 2020 is 454.

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ME38QON [Proof Hansard, 3 June 2020, pp. 7-8—Relating to the bank's internal review of its communication processes]
I ask that ME Bank provide us with an update when there are some conclusions arising from that and also whether there are any decisions as to changes that might arise in the way that ME Bank might deal with similar situations in the future.

Answer: The review is still in progress and is expected to be completed by the end of July 2020.

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Answer: UPDATED ANSWER FEBRUARY 2021
Please refer to ME24QON.

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ME39QON

[Proof Hansard, 3 June 2020, p. 9]

CHAIR: Right. Has the board hired anybody recently?

Mr McPhee: The board has three new directors that joined just over 12 months ago.

CHAIR: Has there been anything, say, in the past 12 months for executive roles?

Mr McPhee: Yes, there has—but, in relation to which, I would have to get back to you.

Answer:

In the last 12 months for executive roles, the following new hires have been made:

- Interim Chief Financial Officer (Ken Barnes), joined July 2019.
- Chief Financial Officer (Adam Crane), joined August 2019.
- Chief Operations Office (Rosanna Fornarino), joined December 2019.
- Interim Chief Risk Officer (Ken Barnes), joined January 2019.

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ME40QW In his appearance before the committee on 3 June 2020 the Chief Executive Officer accepted that ME Bank commissioned entities to recruit board members and executives, and offered to provide a list. In addition to providing that list, can he please advise whether the Board or ME Bank Executive requested any entity since 1 January 2020 to commence steps for the recruitment of any Bank Executive positions, including the Chief Executive Officer, and if so, which ones?

Answer: In his appearance before the Committee on 3 June 2020, the Chief Executive Officer of ME Bank offered to provide a list of new hires (and relevant consulting companies) over the past 12 months for executive roles.

This information is as follows:

Role	Start Date	Recruitment firm
Interim Chief Financial Officer	July 2019	Watermark Search International
Permanent Chief Financial Officer	August 2019	Blenheim Partners
Chief Operations Officer	December 2019	Omera Partners
Interim Chief Risk Officer	January 2020	Watermark Search International

To the extent that ME Bank is currently engaging recruiters for executive positions, those arrangements are confidential and commercially sensitive.

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ME41QW **In his appearance before the committee on 3 June 2020 the Chief Executive Officer of ME Bank referred to a 2015 report from KPMG into ME Bank. Please provide a copy of that report.**

Answer: This report was not commissioned by ME Bank, but by certain shareholders of ME Bank. The report is the property of those shareholders.

The report is confidential and commercially sensitive.

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ME42QW

In an article from 14 November 2014, 'Review sparks questions about ME Bank sale', *Australian Financial Review*, available at: <https://www.afr.com/companies/review-sparks-questions-about-me-bank-sale-20141114-11mdzn>:

- a. Mr McPhee is quoted as saying 'no one has given me that indication at all' regarding the potential sale of ME Bank. Can he clarify whether that statement remains true today?**
- b. Reference is made to HESTA's holding of ME Bank at \$151 million (reflecting 15.9 per cent of ME Bank), which could be crudely calculated as putting the valuation of ME Bank at \$950 million.**
 - i. Does ME Bank agree with that valuation at that time, and if not, what was the valuation at that time?**
 - ii. What is the valuation today?**
- c. Reference is made to ME Bank having 312,000 customers at around 4 per cent of industry super fund members. What are those numbers for 30 June 2019?**

Answer:

- a.** As discussed by Mr McPhee in his evidence to the Committee on 14 May 2020 and 3 June 2020, boards and shareholders continually assess the market for potential opportunities. As to any potential sale of ME Bank, that issue is ultimately a matter for the shareholders of ME Bank. Any further detail on specific potential opportunities, including a potential sale, as they are assessed from time to time, is commercial in confidence.
- b.** (i) The information sought is confidential and commercially sensitive.
(ii) The information sought is confidential and commercially sensitive.
- c.** As of 30 June 2019, ME Bank had 515,000 customers. ME Bank does not record whether or not its customers are industry super fund members.