

Aggregator update.

AN UPDATE FROM ME



BANK
UPDATE

INDUSTRY
UPDATE

Welcome to Aggregator Update, ME's quarterly newsletter that contains all the latest news from ME and the banking industry. This edition provides a wrap-up of the first three quarters of FY19.

Bank update.

ME reached its customer number milestone for the financial year two months ahead of plan – the bank is now helping over 507,000 customers get ahead. ME's transaction account, which is bundled with an online savings account, was a key driver of the strong customer growth, while home loan growth continues to be strong.

ME's underlying earnings as of March 2019 were on par with the previous corresponding period, a strong performance in the current tough operating environment. Home loan settlements for the quarter were \$4.92 billion – up 5.6% on the same time last year due to above-budget application volumes recorded from October 2018 to January 2019.

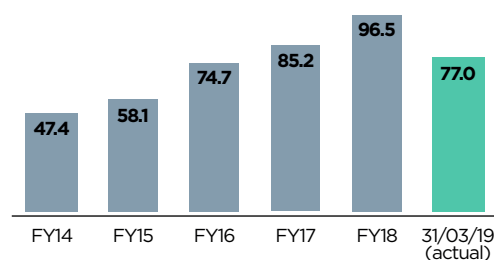
ME received positive feedback about the two below landmark broker events it organised in April, which were welcomed in a time of uncertainty for the broker community:

- a 'future of broking' luncheon in Sydney attended by approximately 350 brokers and facilitated by James Frost, a leading *Australian Financial Review* journalist
- an aggregator and broker dinner attended by over 30 CEOs and which enabled ME to deepen its relationships with key broker influencers.

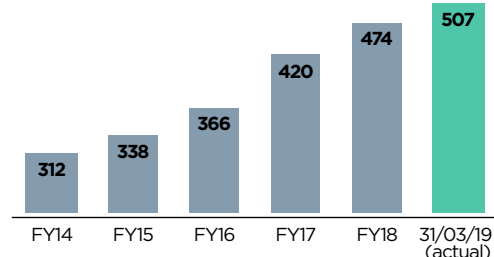
In May, ME joined Mortgage Choice's lending panel. Mortgage Choice is Australia's second largest mortgage broker with over 500 brokers. This new partnership will allow ME to further grow its mortgage portfolio and establish new relationships to gain insight into how it can position itself as a 'lender of choice'.

As part of efforts to strengthen its value proposition to mortgage brokers, ME also increased its business development manager footprint in both Victoria and New South Wales to further amplify its presence within the broker community.

Underlying net profit after tax (\$m)



Customer numbers (000s)



ME improves digital customer experience.

Customers with an everyday transaction account can now view pending transactions in internet banking and their mobile app. This change will give them better visibility of their transactions. Other improvements to the online banking experience include:

- customers can now view their bank statements in their mobile app in addition to internet banking
- new-to-ME customers who open a credit card account as their first account can now jump straight on to the app to activate their card.



ME reaches significant CCR milestone.

Under the Comprehensive Credit Reporting (CCR) regime, positive customer information is now available through Australia's national credit bureaus – 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 credit bureaus Experian and Equifax and will share its customer data with remaining credit bureau illion in August. This means credit providers who have signed up for CCR will be able to consume ME's data alongside data from many other credit providers when assessing a credit application, which will allow them a complete and more 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, approximately 90% of ME's customers in Experian's database have seen an increase in their credit score due to the credit bureau having a more accurate picture of their credit position – a great development for customers looking to obtain credit.

ME picks up more awards.

For the second year in a row, ME has won the Money Minder of the Year award in *Money* magazine's Consumer Finance Awards due to its consistently good term deposit rates and online savings account rate. ME was also a finalise in *Money* magazine's 'Bank of the Year' award.



Industry update.

State of the market.

Several factors are combining to affect the housing market - declining house prices, a period of low-income growth, slow economic growth and tightened credit conditions have dampened home loan lending. As a counterpoint to these forces, the RBA delivered two widely expected rate cuts on 4 June and 2 July, bringing the official cash rate to a record low of 1.00%. The RBA is hoping rate cuts will support its inflation target of 2-3% in the medium-term and employment growth as well as result in a pick-up in household disposable income, the effects of which are expected to flow through to the rest of the economy.

The rate cuts coupled with APRA's decision to loosen prudential rules mean home buyers are facing improved access to credit. Borrowing rates for households are at historically low levels. Under APRA's previous serviceability rules, banks had to assess if a buyer could withstand a jump in interest rates, with banks required to apply a minimum interest rate (floor rate) comfortably above 7.00% or an interest rate buffer comfortably above 2% the rate buyers were paying - whichever rate was higher. APRA has now removed the floor rate of 7.00% but has increased the second buffer to 2.5%. ME will be changing its own serviceability rules in line with this announcement.

Together, the RBA rate cuts and the APRA serviceability changes should help put a floor under falling house prices, with recent data indicating the rate of house price falls has slowed significantly.



House price expectations become more positive.

Australians in the property market have become more optimistic about house prices over the next 12 months, according to ME's second *Quarterly Property Sentiment Report* - conducted in July after the Federal Election, APRA's announcement of serviceability changes and two RBA cash rate cuts.

Only 17% of the report's respondents expected house prices to fall, compared to 38% who expected prices to rise and 30% who expected prices to remain the same. This optimism was reflected across all major cities; significantly more people in NSW, VIC and QLD predicted a price rise if compared to three months ago, while noticeably more people in NT, TAS, NSW and VIC predicted prices would no longer fall.

However, housing affordability remained a top worry for 93% of people, a rise from 88% three months ago. House prices remain high by historical and international standards, so perceived worries about housing affordability may take some time to shift. Encouragingly, however, perceived worries about the issues below eased in the last three months:

- tighter credit policies (10-point drop to 58%)
- negative equity (7-point drop to 42%)
- being forced to switch to interest-only repayments (7-point drop to 41%)
- property values falling (5-point drop to 57%).



For further information.

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