



Melbourne University Credit Union Limited

(MUCU)

**CORPORATE GOVERNANCE
POLICY**

31st October 2006

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Introduction

Good Corporate Governance is at the core of MUCU’s Board’s approach to generating value for members and protection of members’ funds.

Policies and practices on financial reporting, remuneration reporting and corporate governance aim to meet appropriate levels of disclosure and compliance.

Directors are made aware of the Australian Stock Exchange (ASX) Corporate Governance Council (CGC) Best Practice Recommendations, (<http://www.shareholder.com/visitors/dynamicdoc/document.cfm?documentid=364&companyId=ASX>) and APRA's Prudential Standard 510 "Corporate Governance"

<http://www.apra.gov.au/Policy/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=10830>

Directors are also made aware of the Australasian Credit Union Institute publication *AP 7 - Credit Union Corporate Governance Manual*, and *AP 4 - Credit Union Director's Compliance Manual* (<http://www.acui.com.au/products/products.asp>) as sources of relevant information and those recommendations are reflected, as appropriate, in this policy.

This policy aims to incorporate best practice (recognising MUCU's mutual structure, non-listed status, and ADI responsibilities) and meets APRA's requirements that:

- The Board of an ADI must comply with specific composition requirements with respect to Board size, independence of directors, and shareholder representation;
- The Chairman of the Board must be an independent non-executive director;
- ADIs must establish a Board Audit, Compliance and Risk Committee;
- ADIs must have a dedicated internal audit function;
- Independence requirements for auditors apply;
- ADI Boards must put in place a policy on Board renewal;
- Certain information must be provided to APRA with respect to directors;
- ADIs must not constrain persons from providing information to APRA.

1. *Providing Solid Foundations for Management and Oversight*

MUCU makes relevant information regarding governance and performance available to its members through its website: www.mucu.com.au

The Board acknowledges its accountability to members for maintaining and developing the social capital accumulated through the activities and contributions of past members, and to safeguarding member's funds.

Board (and its Committees') roles and responsibilities, and relationship to those of management, are formalised in the Board Charter (as required under APRA APS 510) as set out in Appendix 1.

Board Committees focus on specialist areas and report to the Board which retains ultimate responsibility for those areas. MUCU has established the following Board Committees:

- Audit, Compliance and Risk Committee
- Finance Committee
- Executive Committee (which functions as a remuneration and rules committee)

MUCU also has a Marketing Committee comprising Board members, staff and external advisers which acts purely in an advisory role and reports to the Board.

The day-to-day management and operations of the Company are the responsibility of the CEO who reports to the Board, on key management and operational issues including:

- Developing and implementing corporate strategies and making recommendations to the Board on significant corporate strategic initiatives;
- Making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles;
- Developing the annual budget and managing day-to-day operations within the budget;
- Maintaining an effective risk management framework;
- Keeping the Board and regulators informed about developments with a material impact on MUCU's performance
- Managing day-to-day operations in accordance with agreed standards for social, ethical and environmental practices; and
- Internal Control.

Details of each Directors' attendance at Board and Committee meetings is detailed in the Annual Report.

2. *The Structure of the Board*

Composition of the Board/Committees - The Board has adopted a policy of ensuring that its members provide an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet the Board's responsibilities and objectives. The Board also aims for a composition which will appropriately represent the interests of the various groups contained within MUCU's common bond. Details of the skills, experience and expertise of each Director are set out on MUCU's web site.

MUCU does not remunerate its Directors and does not regard their years of service on the Board as necessarily compromising independence of thought or decision-making. All Directors are considered by MUCU to be independent unless there is some material business or any other relationship that could be reasonably considered to interfere with the exercise of their independent judgement. A relationship with MUCU as a borrower or depositor does not, in the normal course of affairs, constitute a "material relationship", and does not preclude involvement in decisions regarding general levels of interest rates, fees and charges. Directors are not permitted to participate in decision-making regarding financial contracts with MUCU which are specific to themselves or related parties.

Any Director who considers that he/she has or may have a conflict of interest or a material personal interest in any matter concerning MUCU is required to give the other Directors immediate notice of such interest.

The Chairman is elected from and by the Board, and available to meet with APRA on request (as are other members of the Board). The Board selects members of its Committees from among its number and, to add to available expertise, may invite non-directors to participate on such committees as non-voting members.

Seven directors are elected by members for a term of three years with two or more director's terms expiring at each Annual General Meeting. The Board may (as provided for in MUCU's constitution) appoint up to two additional directors (or more if required due to a resignation), provided that the total membership is no more than nine, for a period expiring no later than the next Annual General Meeting .

The Executive Committee consists of the Chairman, Deputy Chairman and immediate past Chairman (or another Board member). Its main responsibilities are to review, as required, matters relating to corporate governance including the composition, criteria for membership, appointment, retirement and performance of the Board of Directors, the Board Committees and the Chief Executive Officer. The

Executive Committee acts as a Nomination Committee by considering and reporting to the Board:

- Assessment of the necessary and desirable competencies of Board members;
- Review of the Board's succession plans;
- Evaluation of the Board's performance;
- Recommendations for the appointment and removal of Directors.

The Executive Committee also acts as a Remuneration Committee, in which capacity it determines the remuneration of the CEO and other senior management where appropriate.

The Executive Committee reports to the Board.

The Board's policy on Board renewal is provided at Appendix 2.

3. *Promotion of Responsible and Ethical Decision Making*

The Directors, the Board and the Board Committees are empowered to seek external professional advice, as considered necessary, at MUCU's expense, subject to prior consultation with the Chairman. If appropriate, any advice so received will be made available to all Directors.

Directors are required to be aware of their legal and fiduciary duties relating to:

- Exercise of due care and diligence;
- Ensuring appropriate disclosure of material matters to regulators and stakeholders;
- Dealing with conflicts of interest and duties;
- Access to Company documents, information, insurance, indemnities and independent advice;
- Confidentiality; and
- Fair, open, ethical and honest standards of conduct and dealing.

4. *Safeguarding Integrity in Financial Reporting*

Financial Report Accountability

- The CEO, Chairman, and Deputy Chairman are required to state to the Board, in writing, that the Company's Financial Statements and Reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant Accounting Standards.
- As part of the process of approving the Financial Statements, the CEO provides a statement in writing to the Board on the effectiveness of the Company's risk management and internal compliance control systems.

MUCU has an Audit, Compliance and Risk Committee which provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to risk management and compliance systems and practice, Financial Statements, financial reporting processes, internal accounting and control systems, internal and external audit and such other matters as the Board may request from time to time. The Committee is responsible for the oversight of APRA statutory reporting requirements.

The Committee processes are designed to establish a proactive framework and dialogue in which the Committee, management and external and internal Auditors

review and assess the risk framework, the quality of earnings, liquidity and strength of the Statements of Financial Performance and Financial Position and transparency and accuracy of reporting. The Committee recommends any actions it deems appropriate to the Board for its consideration.

The Charter of the Committee is at Appendix 3.

5. *Making Timely and Balanced Disclosures*

MUCU does not have tradeable shares and thus no requirements for disclosure of stock price sensitive information. It does however adhere to a belief in providing stakeholders with information regarding material events which have implications for those stakeholders. MUCU directs its CEO to ensure that regulatory authorities are provided with any information regarding material developments relevant to their responsibilities as soon as possible, even when beyond those required under regulatory reporting responsibilities. MUCU provides members with relevant information via its website and via mail-outs in conjunction with distribution of account statements.

6. *Respecting The Rights of Members*

MUCU is committed to keeping members fully informed of significant developments and activities of MUCU. This commitment is delivered through the Company's website which includes financial information that is updated regularly to ensure transparency and a high level of communication of the Company's operations and financial situation, to the extent that this information is not commercially sensitive.

Information available to members includes, but is not limited to, the Company's annual reports, fees and charges and interest rates.

The Board requests the external Auditor to attend each Annual General Meeting of the Company and to be available to answer member questions.

7. *Recognising and Managing Risk*

MUCU has a sound system of risk management and internal control. It has a risk management policy framework and governance structure designed to ensure that the risks of conducting business are properly managed.

Management is responsible to the Board for identifying, managing, reporting upon and implementing measures to address risk.

The Board oversees and reviews the effectiveness of risk management in the organisation and is assisted and advised in this role by its Audit, Compliance and Risk Committee and Finance Committee.

The Finance Committee focuses upon financial risk and financial performance issues. The Charter of the Finance Committee is provided at Appendix 4.

Further, internal audit provides regular compliance assurance reports to the Board and its Committees.

Certification

MUCU makes the certifications required under the Corporations Act and under Prudential Standards for ADI's as promulgated by APRA.

The Board undertakes appropriate investigation of processes and procedures (both directly and through internal and external auditors), and interrogation of management to

satisfy itself that the process underlying certification is appropriate and that management is justified in providing and/or recommending certification.

8. *Encouraging Enhanced Performance*

The Chairman is responsible for monitoring the contribution of individual Directors and counselling them on any areas which might help improve Board performance.

The performance evaluation of the CEO is undertaken by the Chairman in conjunction with the Executive Committee.

9. *Remunerating Fairly and Responsibly*

The Executive Committee (acting as a Remuneration Committee) review and recommend to the Board regarding:

- Executive remuneration and incentive policies;
- MUCU recruitment, retention and termination policies and procedures for staff evaluation and assessment;
- Incentive schemes;
- Superannuation arrangements; and
- The remuneration framework for Directors.
- appropriate human resources strategies
- Remuneration policies and practices consistent with its strategic and financial goals and human resource objectives; and
- Processes in place for succession planning and management development.

10. *Recognising the Legitimate Interests of Stakeholders*

MUCU is committed to operating in an ethical manner which recognises the legitimate rights of members, employees, and the broader community. It aims to comply with all relevant legislative requirements in this regard (including consumer protection, codes of practice, privacy requirements, occupational health and safety, equal opportunity) and to investigate any complaints where members, staff or third parties believe that appropriate practices have not been followed.

Members are able to contact the Chairman or other Board members if they do not believe they have received satisfactory resolution of issues raised from management, and are advised by management of other mechanisms available to them (including the Banking Ombudsman).

Management has responsibility for ensuring that all staff are aware of the need for maintenance of standards of honesty, integrity and fair dealing in their dealings with members, suppliers, the community, competitors and each other in the performance of their duties and responsibilities.

APPENDIX 1

Board Charter

The Board is accountable to MUCU members for MUCU's operating and financial performance and its responsibilities include:

1. Strategy – Reviewing and approving strategic direction and initiatives;
2. Board performance and composition – Evaluating the performance of the Board and determining its size and composition;
3. Leadership selection – Evaluating the performance of and selecting the Chief Executive Officer (CEO) and other key members of management
4. Succession and remuneration planning – Planning for Board, CEO and executive succession; determining management remuneration; recommending Board remuneration arrangements for member approval
5. Financial performance – Reviewing MUCU's budget, monitoring management and financial performance;
6. Financial reporting – Considering and approving annual financial statements and required reports to APRA;
7. Risk management – Reviewing and monitoring the effectiveness of risk management and compliance in the organisation;
8. Relationship with regulators – Maintaining an appropriate level of dialogue with regulators
9. Social responsibility – Considering the social, ethical and environmental impact of all activities and operations and ensuring that these are acceptable; and
10. Audit – Selecting (subject to member approval), evaluating performance of, maintaining dialogue with the external auditor; appointing an internal auditor to review risk management and compliance and report to the Audit, Compliance and Risk Committee.

APPENDIX 2

Board Renewal

1. MUCU adheres to the view that Board Renewal involves both gradual change of membership of the Board, together with mechanisms for ensuring that members of the Board are exposed to new information and ideas to assist in determining the strategic direction and providing governance of MUCU.
2. MUCU also adheres to the view that, as a mutual organisation, the determination of Board members is the prerogative of members through the election process. However, given the fiduciary responsibilities of the Board of an ADI, MUCU recognises the need for the Board to have an appropriate mix of expertise and experience, and for Directors to be “fit and proper” persons acceptable to the regulatory authorities. MUCU has a policy regarding “fit and proper” requirements for Board Appointments.
3. Hence, MUCU’s Board attempts, using its network of contacts within MUCU’s membership, to identify appropriate individuals with needed skills and interests as potential Board members. When vacancies arise among the seven elected director positions, such individuals are encouraged to nominate for election. Such individuals may also be appointed under the Constitution to one of two additional Board positions for a term expiring at the next AGM.
4. MUCU exposes its Board to new information and ideas by such mechanisms as: meetings with Boards of other ADIs; encouraging attendance at industry association meetings; encouraging attendance at training course relevant to the industry; regular distribution of relevant literature, encouraging and facilitating Board interaction with members of the University community with expertise and knowledge about financial and industry matters. MUCU’s Board also holds a strategic planning session for the Board, with an external facilitator, on a two year cycle.

APPENDIX 3

Audit, Compliance and Risk Committee Charter

Membership

The committee shall comprise at least three directors, appointed by the Board, that have diverse, complementary backgrounds, are financially literate, and are independent of management and the company. In addition, the committee chair shall have leadership experience and a strong finance, accounting and/or business background, and shall not be the Chairman of the Board of Directors.

Members of the committee shall be considered independent so long as they do not have any relationship with the company that may interfere with the exercise of independent judgment.

The Secretary of the Audit, Compliance and Risk Committee (who is not a member) is appointed by the Board and has responsibility for circulating minutes and matters arising from each meeting to all members of the Committee and the Board.

Meetings

The committee shall meet at least four times each year. The purpose of these meetings shall be to:

1. Review and approve external audit plans.
2. Review and approve the annual financial report.
3. Oversee the risk management framework
4. Risk Event “Consideration”: The Committee oversees the appropriate investigation and management reporting of significant risk events and incidents.
5. Ensure provision and disclosure of high quality information and compliance with required Accounting Standards.
6. Internal Controls: The Committee examines the adequacy of the nature, extent and effectiveness of the internal audit control processes.
7. Compliance: The Committee assists the Board in fulfilling its compliance responsibilities.
8. The committee also meets as and when appropriate to discuss any other matters that warrant committee attention.

Purpose

The Audit, Compliance and Risk Committee assists the Board of Directors in fulfilling its corporate governance and oversight responsibilities in relation to the company's financial reporting, internal control structure and external audit functions. In doing so, it is the responsibility of the committee to maintain free and open communication between the committee, external auditors, and management of the company. The Committee is responsible for the oversight of APRA statutory reporting requirements, as well as other financial reporting requirements, professional accounting requirements, internal and external audit, and the appointment of the regulated institution's external auditor.

In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The key issues and reports discussed at each Committee meeting are reported to the Board by the Chairman of the Committee at the immediately following Board meeting

Duties and Responsibilities

Financial reporting: Oversee the company's financial reporting processes on behalf of the Board and report the results of its activities to the Board.

Assessment of accounting, financial and internal controls: discuss with management and the external auditors, the adequacy and effectiveness of the accounting and financial controls; review with the external auditor any audit problems or difficulties and management's response.

Risk management framework: provide periodical reports to the Board on the most significant risks facing the Group and the mitigation strategies and practices adopted by management.

Appointment of external auditors: make recommendations to the Board of Directors on choice and performance of the external auditors and on resolution of disagreements between management and the auditor regarding financial reporting. The committee shall not recommend the engagement of the external auditors to perform any non-audit/assurance services that may impair their independence.

Assessment of the external audit: at least on an annual basis, discuss with the external auditors:

- The audit firm's internal quality control procedures and any issues which have been other entities regarding such procedures
- All relationships between the external auditor and the company (to assess the auditor's independence).

Independence of the external auditors: review and assess the independence of the external auditor.

Scope of the external audit: discuss with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures. The committee shall also review the external auditor's compensation to ensure that an effective, comprehensive and complete audit can be conducted for the agreed compensation level.

Appointment and oversight of internal auditor: appoint and review performance of the internal Auditor; review the overall scope, annual plans and budget for internal audit activities; review all key internal audit reports; maintain direct access to the internal Auditor, who reports to both the committee and the CEO.

Communications with stakeholders: review the annual financial report and annual audit and any other matters required to be communicated to the committee by the external auditors under generally accepted auditing standards; review all representation letters signed by management to ensure that the information provided is complete and appropriate; establish procedures for the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters.

Committee performance: perform an evaluation of its performance at least annually to determine whether it is functioning effectively by reference to current best practice.

APPENDIX 4

Finance Charter

1. Composition of the Committee

The Committee consists of four members, currently the Chairman, the Deputy Chairman and two other Directors.

2. Principal Functions of the Committee

- (a) To act as an advisory body to the management with the preparation and review of MUCU's budget;
- (b) To review the financial performance of MUCU on a regular basis;
- (c) To report or re commend any appropriate policy changes to the Board deemed necessary to ensure the financial viability of MUCU.

3. Operational Terms of Reference

- (a) To review preparation of overall budget for presentation to the Board;
- (b) To review actual performance against the approved budget and make recommendations to the Board when deemed necessary;
- (c) To develop and recommend to the Board adequate budgetary control procedures; and
- (d) To carry out any additional duties as directed by the Board.

4. Delegation of Authority on Behalf of the Board

(a) Variation of Interest Rates

The Committee is authorised to vary the interest rates on both deposits and loans (within the legislative framework of the appropriate Acts); and

(b) Endorsement of Capital Expenditure

The Committee is authorised by the Board to recommend items of Capital Expenditure.