



2013

2014
ANNUAL
REVIEW.

ME BANK AWARDS.

ME BANK WON THE FOLLOWING AWARDS IN THE 2014 FINANCIAL YEAR

CANSTAR AWARDS



2014 CANSTAR Award
Gold Medal -
Outstanding Value
Transaction Account

Transaction Account



2014 CANSTAR Award
Gold Medal -
Outstanding Value
Savings Account

Savings Account



2014 CANSTAR Award
Gold Medal -
Outstanding Value
Mortgage

Mortgage



2014 CANSTAR Award
Gold Medal -
Outstanding Value
Home Loan

Home Loan



2014 CANSTAR Award
Gold Medal -
Outstanding Value
Deposit Account

Deposit Account

MONEY MAGAZINE AWARDS



2014 Money Magazine
Best of the Best Awards -
Best Short-Term Deposit



2014 Money Magazine
Best of the Best Awards -
Best Long-Term Deposit

SMART INVESTOR AWARDS



2014 Smart Investor
Blue Ribbon Awards -
Regional Bank of the Year



2014 Smart Investor
Blue Ribbon Awards -
Best Short-Term Deposit

OTHER AWARDS



2014 Australian
Mortgage Awards -
Best Non-Major Bank BDM



2014 Mozo People's
Choice Awards
Gold Medal

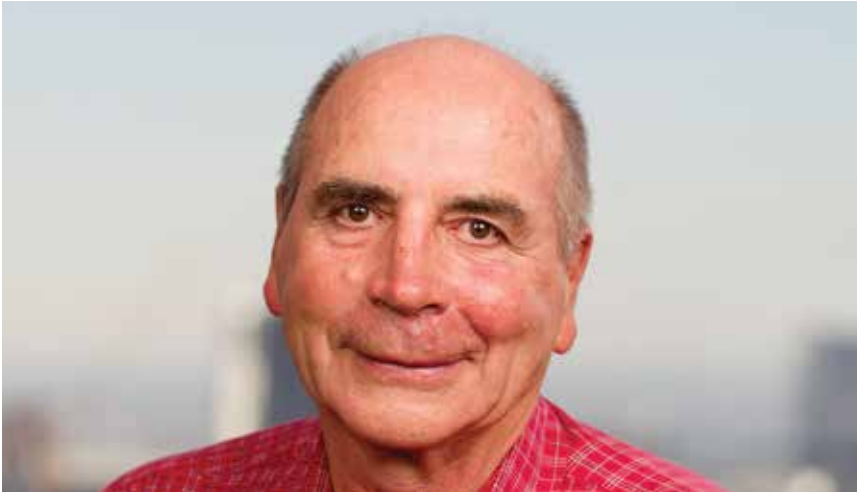


2014 Australian
Lending Awards -
Best Customer Experience

CONTENTS.

ONE: MESSAGES FROM THE CHAIRMAN AND CEO.	3
TWO: ABOUT ME BANK.	5
Overview	5
Products and Services	5
Customers	6
THREE: 2014 PERFORMANCE.	7
Overview	7
Financial Performance	7
Operational Efficiency	8
Balance Sheet	8
Funding	10
Capital Management	11
FOUR: PRIORITIES.	12
Overview	12
The Transformation Program	12
Growing Network Deposits	13
Workplace Banking	14
Mobile Lenders	14
Growing Primary Bank Relationships	15
Other Notable Changes	15
FIVE: RISK MANAGEMENT.	16
SIX: GOVERNANCE.	17
Corporate Governance	17
Board	17
SEVEN: EXECUTIVE TEAM.	23
EIGHT: CORPORATE RESPONSIBILITY.	26
Overview	26
People	26
Community	28
Environment	30
NINE: KEY FINANCIAL INFORMATION.	32

ONE: MESSAGES FROM THE CHAIRMAN AND CEO.



BERNIE FRASER, CHAIRMAN

ME Bank not only survived the global financial crisis but also emerged from those upheavals a different and stronger bank. One indicator of this is its good performance in the 2013-2014 financial year, with underlying net profit rising 28 per cent to over \$47 million.

The Bank's now emerging strength is expected to gather considerable momentum in the years ahead as the growth strategy embodied in the current three year Business Plan is played out.

The Plan provides for further solid increases in profits and customer numbers, further steady improvements in return on equity and cost-to-income ratios and, on the back of several initiatives, a strengthening of bonds between the Bank, its shareholders and their members - in short, the fruits of the recent refocusing of the Bank, the strengthening of the executive team and, not least, a giant leap forward in the Bank's technology systems.



JAMIE MCPHEE, CHIEF EXECUTIVE OFFICER

It is pleasing to report that ME Bank achieved a strong result over the 2013-2014 financial year (FY14).

Continuing investment in technology and our people have placed the Bank in an excellent position from which to achieve an accelerated growth agenda over future years.

Highlights

Underlying earnings were up 28 per cent to \$47.4 million, predominantly driven by growth in home loan settlements (up 19 per cent to \$3.8 billion), and an improved net interest margin (up 2 basis points to 1.55 per cent). This earnings growth was achieved as we continued to invest significantly in the business, and against the backdrop of a low credit growth environment.

The cost-to-income ratio continues to fall, reducing by over three percentage points to 71.1 per cent. This continues a year-on-year trend that has seen the cost-to-income ratio reduced from 80.4 per cent in June 2010. The expectation is that the cost-to-income ratio will continue to fall, aided by the introduction of new technology that will enable greater efficiency to be driven through the Bank.

Customer numbers grew 10 per cent to in excess of 312,000 during FY14. This represents 24 per cent growth in customer numbers over the past two years. This strong level of growth indicates customers are recognising the value of ME Bank products and services.

Total loans on-balance sheet grew by 19 per cent year-on-year, from \$12.5 billion to \$14.9 billion. This was driven by our home loan portfolio, which is benefiting from a diversified distribution strategy that includes Workplace Banking, Mobile Lenders and Brokers. ME Bank maintained a market-leading fixed rate home loan offer throughout the year.

Our deposit strategy continues to diversify our funding base, embedding a more robust balance sheet structure. During the year, ME Bank deposits grew ahead of the Australian banking system, recording growth in retail and business deposits. The range of deposit products offered to retail customers continues to expand with one new product, the Cash Notice Account, achieving over \$1 billion in deposits in its first year.

Outlook

ME Bank is focused on achieving a strong growth trajectory in customer numbers and strengthening its balance sheet.

Our nearly completed technology transformation program will be a key enabler for growth. In an industry increasingly reliant on technology, the completion of this project in early 2015 will result in ME Bank having the technical platform to be a leader in the range and attractiveness of its products and services.

Growth will also be boosted by the decision to extend ME Bank's home loan offering to all borrowers, not just to members of Industry Super Funds (ISFs) and unions. At the same time, ME Bank will remain focused on providing ISF and union members with special deals across a range of banking products and services.

The past few years have seen a significant focus on building the capability of ME Bank. With a restructured executive team and new technology in place, we are well positioned to pursue a growth agenda.

TWO: ABOUT ME BANK.

OVERVIEW

ME Bank was established as Super Member Home Loans in 1994, to provide cost effective home loans to members of ISFs and unions.

Today, the Bank is owned by 30 ISFs who collectively have in excess of \$250 billion in funds under management. The Bank obtained a banking licence in 2001, and is regulated by the Australian Prudential Regulation Authority (APRA). Consequently, customers' deposits up to \$250,000 are protected by the Government Guarantee.

Our head office is in Melbourne and we have offices in every Australian capital city. Our personal banking products include home loans, credit cards, personal loans, novated car leasing, transaction accounts, saving accounts, and term deposits. We also offer a range of finance solutions for employers, including loans and asset financing, as well as investment and term deposit accounts.

In March 2014 the shareholders approved the change of the Bank's company type to a public company. The change took effect on 25 April 2014.

PRODUCTS AND SERVICES

ME Bank's focus is on providing retail banking products to help Australians transact, save, and borrow. We are committed to providing products that enable people to meet their financial goals, especially saving for and purchasing assets such as homes and vehicles.

The distribution of these products is through a variety of channels designed to meet the needs of our customers. Customers can open accounts with Workplace Bankers at work-sites, over the phone, and online. Home loans are sold by over 70 of the Bank's Mobile Lenders, and through a network of 18 broker partnerships. Mobile Lenders, specialising in home loans, visit customers at home and in the workplace at a time convenient to the customer.

Personal Banking Products

- Home and investment property loans
- Credit cards
- Personal loans
- Car finance
- Transaction accounts
- Savings accounts
- Term deposits

Deposit Products

- Treasury Products
- 11am Account
- Term deposits
- Electronic Certificates of Deposit
- Long term debt
- Cash Notice Account

Business Banking Products

- Business MasterCard®
- Business finance solutions
- Asset finance solutions
- Staff car packaging

Servicing Customers

- Internet banking
- Workplace banking
- Mobile lending
- Broker network
- Australian-based national customer contact centre
- Sales and service centres



ME Bank's shareholders.

CUSTOMERS

ME Bank's customers come from a broad cross-section of the Australian community. ME Bank understands that customers have different needs and desires based upon their life stage and goals, and we offer a suite of banking products and services to meet the needs of our varied customer base.

For customers looking to purchase their own home, our core home loan products offer competitive rates. The Bank's standard variable home loan rate has been lower than those of the big four banks for every month of every year since we became a bank in 2001, something we are proud of and plan on continuing.

For customers who are looking to save and invest as they transition to retirement, we offer a competitive range of retail deposit products and innovative cash solutions in conjunction with ISFs.

Over the last financial year, ME Bank grew its customer base by 10 per cent, from 284,000 at the end of June 2013 to 312,000 in June 2014 (refer to Figure 1 below). We believe this growth is reflective of the breadth and competitiveness of the ME Bank product offering.

Customer Numbers

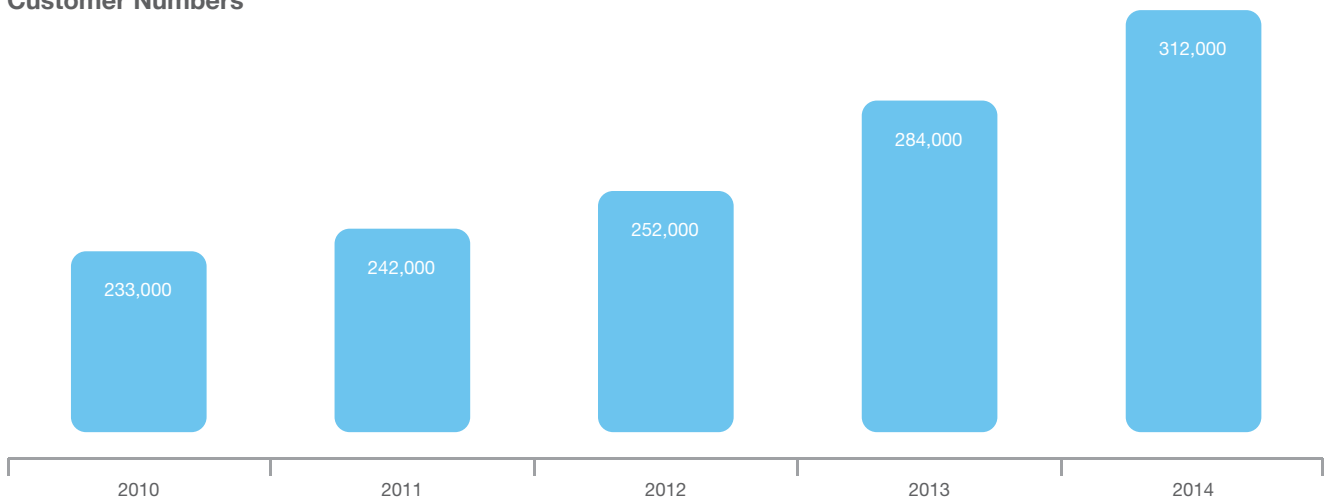


Figure 1: Customer Numbers (rounded to nearest thousand)

ME Bank currently provides banking products and services to an average of 4 per cent of our ISF shareholders' membership, and continues to pursue ways of increasing this take up rate significantly in collaboration with our partners.

THREE: 2014 PERFORMANCE.

OVERVIEW

ME Bank has produced a strong result across key financial metrics (refer to Table 1 for details).

Highlights for FY14 were:

- Net profit after tax was \$47.4 million, an increase of 28 per cent on the previous financial year.
- Customer numbers increased by 10 per cent to over 312,000.
- Home loan settlements were \$3.8 billion, up from \$3.2 billion last year, an increase of 19 per cent.
- In June, home loan settlements were \$409 million, the first time the Bank has exceeded \$400 million in home loan settlements in a single month.
- The Broker sales channel surpassed \$1.2 billion in home loan settlements, up from \$1 billion and \$500 million respectively the previous year.
- Total on and off-balance sheet assets grew by 9 per cent to \$21.7 billion.
- Customer deposits grew at 17 per cent, ahead of system growth.

FINANCIAL PERFORMANCE

ME Bank's underlying net profit after tax (NPAT) for the year ended 30 June 2014 was \$47.4 million, an increase of 28 per cent on the prior year. ME Bank's statutory profit after tax was \$28.2 million, a reduction of 30 per cent from last year (refer to Table 1 and Figure 2 below).

FY14 Key Financial Metrics

Key Metrics	Year ended 30 June 2014	Year ended 30 June 2013	% change
Profit - underlying (after tax)	\$47.4M	\$36.9M	28%
Profit - statutory (after tax)	\$28.2M	\$40.4M	-30%
Return on equity	6.5%	6.3%	3%
Net interest margin	1.55%	1.53%	1%
Cost-to-income	71.1%	74.7%	5%
Total on- and off-balance sheet assets	\$21.7B	\$20.0B	9%
Lending assets on-balance sheet	\$14.9B	\$12.5B	19%
Customer deposits	\$8.2B	\$7.0B	17%

Table 1: FY14 Key financial metrics

Underlying Net Profit After Tax (\$m)

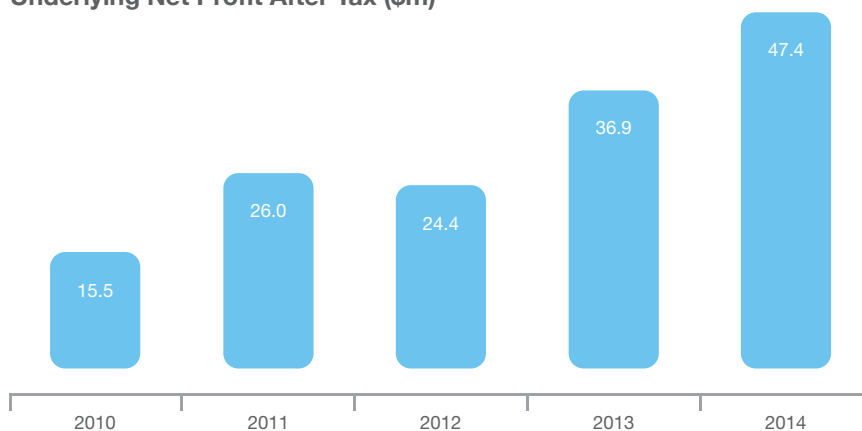


Figure 2: Underlying net profit after tax (\$m)

Reconciliation of Statutory Profit to Underlying Profit

Reconciliation of statutory profit to underlying profit	Year ended 30 June 2014 (\$M)	Year ended 30 June 2013 (\$M)
Net profit after tax (underlying)	47.4	36.9
Hedge revaluation gain/(loss)	(19.2)	3.5
Net profit after tax (statutory)	28.2	40.4

Table 2: Reconciliation of statutory profit to underlying profit

Cost-to-income Ratio

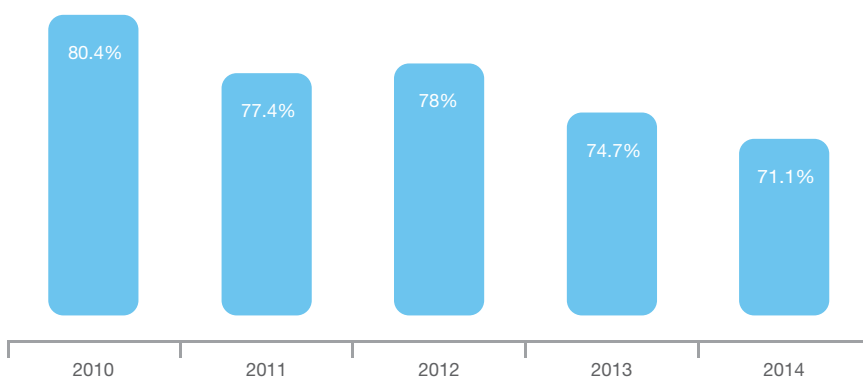


Figure 3: Cost-to-income ratio

Revenue (\$m)

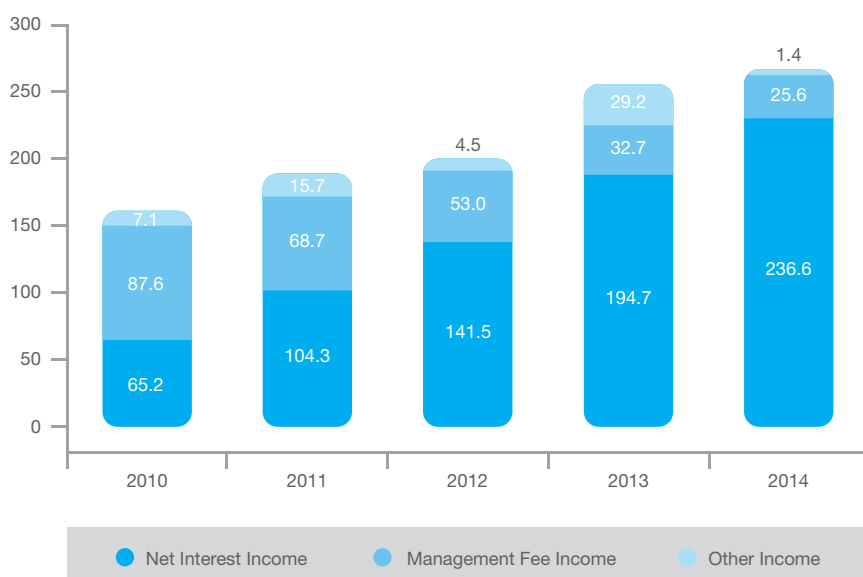


Figure 4: Revenue (\$m)

The statutory profit was impacted by a hedge revaluation loss (refer to Table 2, left) which resulted from the mark to market movement of the interest rate swaps used to convert fixed rate home loan interest revenue into a floating interest rate. While the swaps are required to be revalued for accounting purposes, the fixed rate home loans are carried at cost. The revaluation of the interest rate swaps resulted in an unrealised loss of \$27.4 million (\$19.2 million after tax) for the year ended 30 June 2014 compared to an unrealised gain of \$4.9 million (\$3.5 million after tax) for the year ended 30 June 2013. The unrealised loss reverses over the life of the interest rate swaps, which will be reflected in the profit and loss in future years.

OPERATIONAL EFFICIENCY

The primary measure of ME Bank's operational efficiency is its cost-to-income ratio. Since 2010, this ratio has improved from 80.4 per cent to 71.1 per cent (refer to Figure 3, left), and further improvement is a key focus for the Bank. Further reductions will be achieved through economies of scale and efficiency-enhancing investments, notably the transformation program.

BALANCE SHEET

The continued migration of loans from off-balance sheet to the traditional banking model of on-balance sheet has changed the composition of revenue for ME Bank. This is reflected in net management fee income decreasing and net interest income increasing (see Figure 4, left). Net interest income increased 22 per cent, or \$41.9 million, to \$236.6 million in FY14.

Assets

Total assets under management (on- and off-balance sheet) grew by 9 per cent to \$21.7 billion in FY14, which follows a period of relatively flat growth in FY13 (refer to Figure 5 below).

Total on-balance sheet assets grew by 24 per cent during the year, from \$14.4 billion to \$17.9 billion. This growth was driven by an increase in lending assets (loans and advances) of \$2.4 billion and an increase in investment assets of \$1 billion.

Home loans remain the core focus of ME Bank and account for 95 per cent of all lending assets. The Bank settled \$3.8 billion of new home loans in FY14, an increase of 19 per cent over the previous corresponding period. By volume, the Bank settled over 15,500 new home loans in FY14, an increase of 24 per cent on the previous corresponding period.

In FY15, the removal of the requirement to be an ISF or union member to be eligible for a home loan will expand the addressable home loan market from approximately 5.5 million to 11.4 million working Australians.

Total Assets Under Management (\$m)

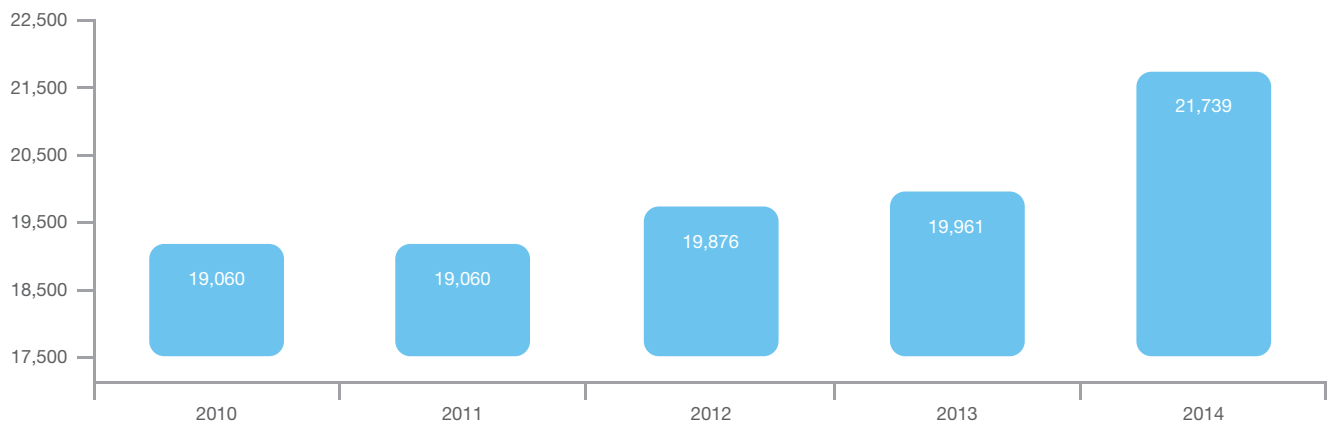


Figure 5: Total assets under management (\$m)

FUNDING

Customer deposits increased 17 per cent to \$8.2 billion over the year, representing 48 per cent of total funding, while wholesale funding increased 39 per cent to \$4.9 billion, representing 29 per cent of total funding, as at 30 June 2014. The increase in wholesale funding is mainly attributable to a continued increase in funding through the shareholder network.

Securitisation continues to be an important source of funding (refer to Figure 6 below), representing 23 per cent of total funding. A new securitisation vehicle, SMHL Series Securitisation Fund 2013-1, was launched in October 2013, and issued \$1.25 billion at a margin of 95 basis points over bank bills on the most senior (AAA rated) tranche, which was 92 per cent of the transaction.

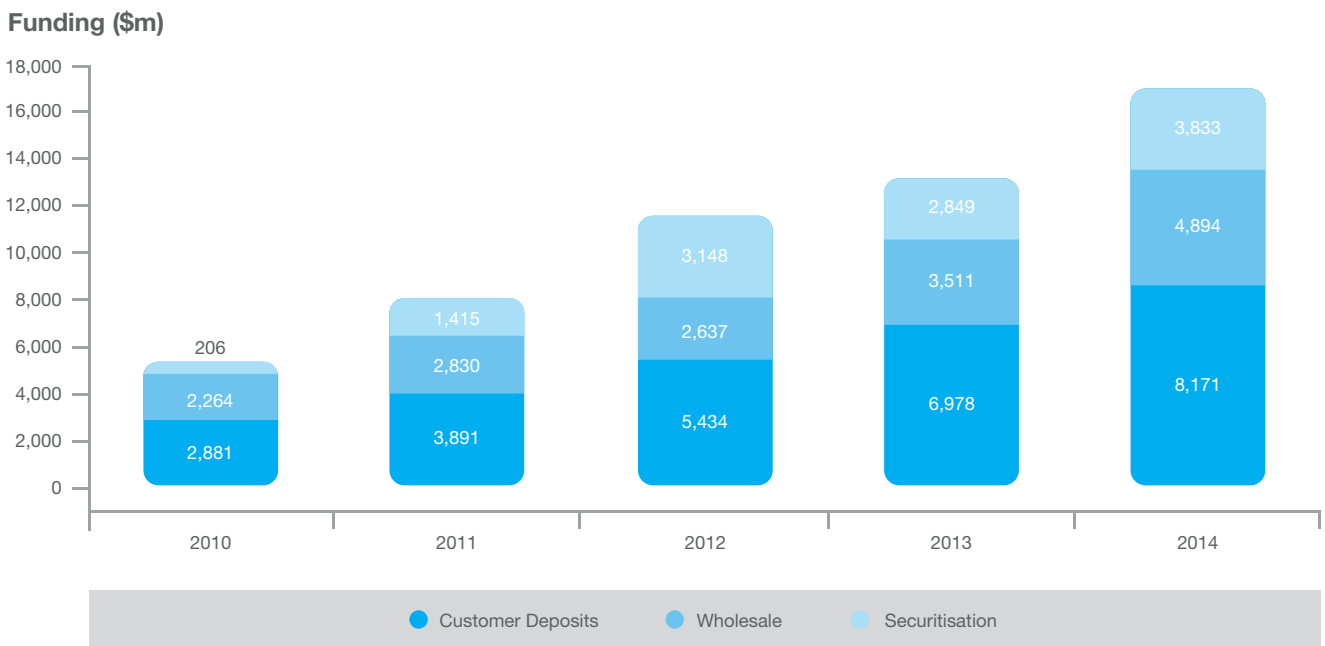


Figure 6: Funding (\$m)

CAPITAL MANAGEMENT

The Bank manages its capital recognising the expectations of shareholders, the requirements of APRA and to maintain credit ratings commensurate with the nature of the Bank's business. The capital of the Bank is the sum of Tier 1 and Tier 2 capital, net of all specified deductions and amortisation, subject to the limits that apply under APRA Prudential Standard APS 111 'Capital Adequacy: Measurement of Capital'.

Management has developed and employed systems and processes to identify and measure risks to ensure that 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 that the capital held meets the requirements imposed by 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 internal capital adequacy ratio set by the Board remained at 11.5 per cent during the financial year ended 30 June 2014 (2013: 11.5 per cent).

	31 August 2014	30 June 2014	30 June 2013
	%	%	%
Risk weighted capital adequacy ratios:			
Tier 1	10.6	10.8	10.8
Tier 2	5.7	1.1	0.9
Total capital ratio	16.3	11.9	11.7

Table 3: Capital adequacy ratio

On 29 August 2014, the Bank issued \$300 million of unsecured and subordinated floating rate notes with a maturity date of 29 August 2024 and a non-call period of five years. The notes were priced at 270 basis points over the 3 month bank bill swap rate. The subordinated notes qualify as Tier 2 capital for regulatory capital purposes. The capital ratio at 31 August 2014 was 16.3 per cent.

FOUR: PRIORITIES.

OVERVIEW

The Bank's strategic priorities during the last three years were delivering the core of the transformation program, growing network deposits, Workplace Banking and growing primary bank relationships. These initiatives remain important to the Bank and its goal of being the best Australian bank in the digital era. Looking to the future, these initiatives will enable substantial growth as part of the Bank's business-as-usual operating rhythm.

Looking forward, a revised set of strategic priorities have been identified. These include completion of the transformation program, the development of an automated credit decision engine, and increasing collaboration with our network partners, unions and employers.

THE TRANSFORMATION PROGRAM

The four-year transformation program is nearing completion, with the final release scheduled for delivery in FY15. This release will provide the core banking platform for our new loan products, along with relevant origination and servicing capabilities. The transformation program represents a major investment by the Bank, with an overall cost of approximately \$70 million. Phase 1 was completed in February 2012, yielding multiple efficiencies, including foundation elements of Security, Integration and Business Process Management systems.

Phase 2 was delivered in September 2013, and included the successful implementation of the new Pega Systems Business Process Management platform. The first new process implemented enabled customers to open their own transaction account online in minutes, with the majority requiring no internal staff intervention.

Phase 3, the most significant and most complex release, went live in July 2014 with the implementation of a new core banking platform. This is an important milestone as it creates the opportunity to leverage the technology and provide a more compelling customer experience. This phase also provides for a more streamlined origination process for deposit products and the ability to deliver product changes more quickly. A new data warehouse with associated analytic and reporting capabilities and electronic document management platform were also deployed during phase 3.

GROWING NETWORK DEPOSITS

Network deposits performed well in FY14, with member and fund investments growing \$567 million to \$3.1 billion at the end of June 2014, an increase of 23 per cent (refer to Figure 7 below).

The number of member investment accounts grew by 9 per cent over the year.

Distribution of member choice products onto fund member direct investment platforms continued in FY14 with an additional seven new distribution relationships. Fund level investments also deepened with twelve ISFs now investing over \$50 million, five funds investing over \$100 million and two Funds investing \$350 million. These investments have been made against a background of tenor remaining consistent and a decrease in average weighted cost of funds.

Network Deposits (\$m)

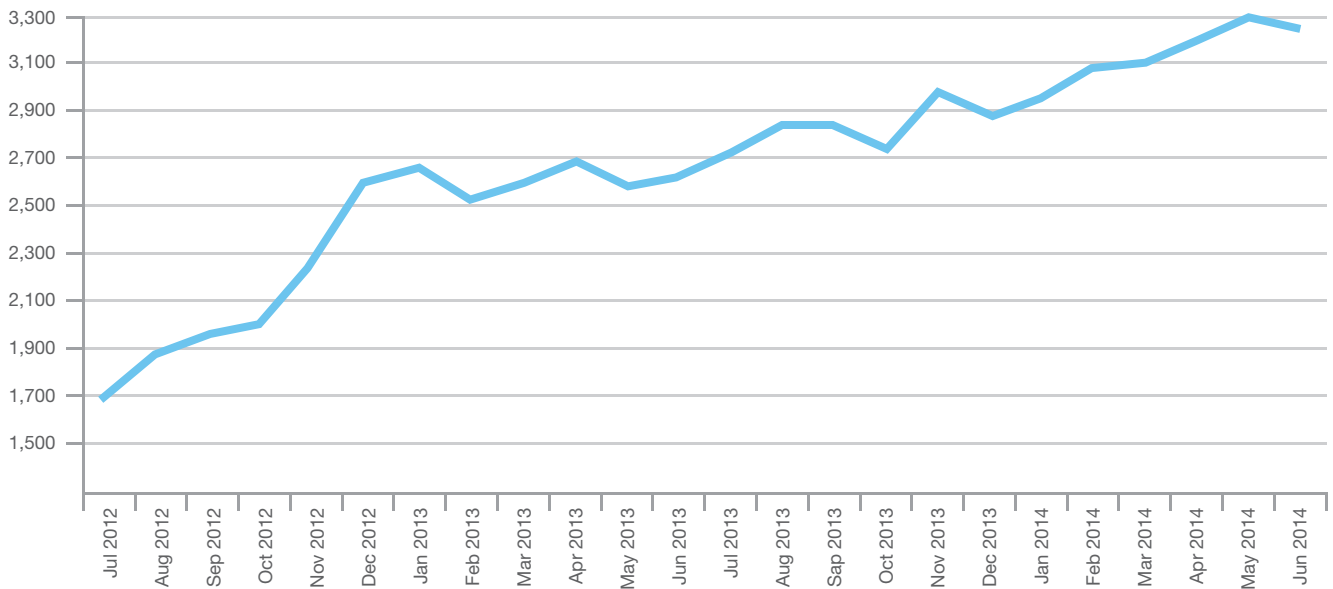


Figure 7: Network deposits (\$m)

Increasing network deposits remains a substantial opportunity for the Bank and its partners to work closely, developing mutually beneficial relationships with super funds, unions, and their members.

WORKPLACE BANKING

ME Bank has offered home loans in the workplace since 1994. In July 2011, the Bank established a pilot with six sites to provide increased banking services in the workplace at regular times during the week. This pilot program expanded to 115 sites by June 2014 (refer to Figure 8 below), with an average customer acquisition of 10 per cent of workers at each site. The pilot provided insights into how ME Bank can best provide banking in the workplace in future, and the Bank has evolved the workplace banking model accordingly.

This year, the Bank developed a more robust site selection process, and new ranking matrix to determine the level of ME Bank engagement required to make workplace banking viable at specific sites. A three-tier segmentation model is designed to provide the right level of

engagement for customers and ME Bank. At the end of the Workplace Banking pilot, around 35 per cent of sites were categorised as base tier, 58 per cent as enhanced, and 7 per cent as premium. These sites are served by 17 Workplace Banking Managers.

The Bank will continue to refine the Workplace Banking model based on lessons from the pilot. This is an opportunity to develop a unique distribution channel, and the pilot has shown that by having a direct connection with the workplace, the Bank can leverage ISF and union relationships to serve existing account holders and generate new customers. In this regard, it doubles as a sales and marketing opportunity and a distribution channel.

MOBILE LENDERS

ME Bank has over 70 Mobile Lenders, providing a one-on-one service at a time and location convenient to customers. Mobile Lenders work closely with Workplace Banking Managers to sell home loans to leads generated through the Workplace Banking channel. Mobile Lenders also convert home loan leads referred by the Bank's other direct channels – online, contact centre and network partners. Mobile Lenders also self-generate leads from other referral networks and existing ME Bank customers.

Mobile Lenders predominantly visit customers at their home or in the workplace to issue home loans. The Bank continues to invest in this channel, growing the number of Mobile Lenders and improving the collaboration with Workplace Banking Managers.

Workplace Banking Sites

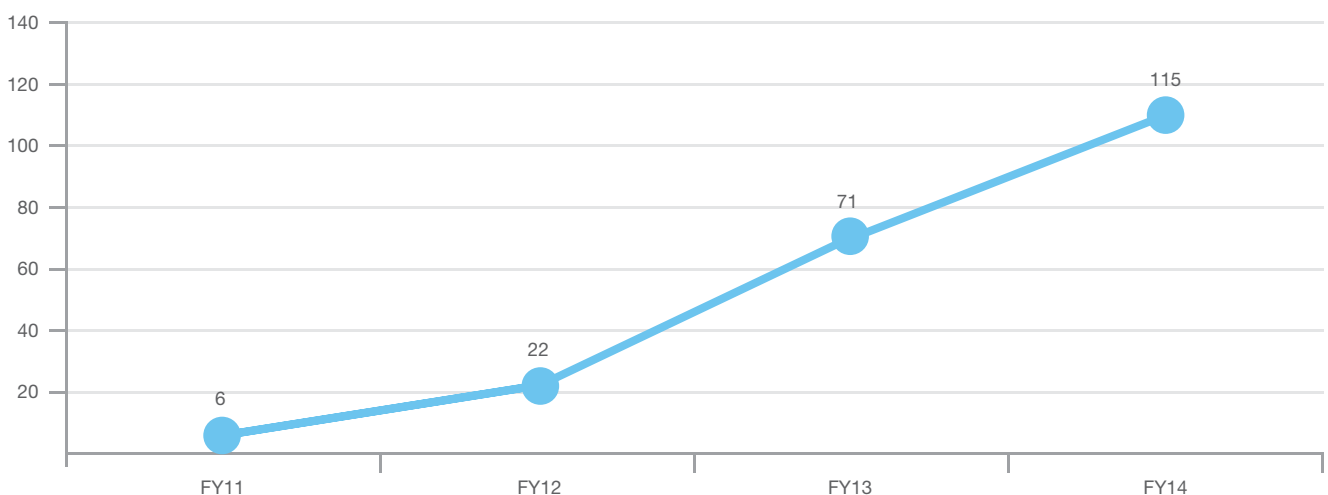


Figure 8: Number of workplace banking sites

GROWING PRIMARY BANK RELATIONSHIPS

Co-branding and default banking products represent an opportunity to capitalise on our partnerships both inside and outside the industry super network, benefiting the Bank, super funds and customers.

Growing primary bank relationships includes the delivery of a default banking product and co-branded products to ISFs and other aligned partners. The program exceeded its target of 5,000 customers, opening 7,808 accounts and delivering 23 per cent of new-to-bank customers.

The initial pilot for the co-branded products, in partnership with two ISFs, launched in November 2013 and generated over 2,000 new customers. These initiatives allow ISF members to establish an ME Bank transaction or online savings account when they join the super fund.

A follow-on trial, providing a co-branded default banking product, launched in February 2014 in partnership with Co-op Bookstores. This trial enabled customers to open a co-branded *EveryDay* Transaction Account during the application process for membership with the Co-op. This initiative added 5,500 new-to-bank customers.

OTHER NOTABLE CHANGES

In addition to the strategic priorities, the Bank has seen notable changes in the following areas.

Broker Channel

Broker sales for the year were \$1.2 billion, an increase of 143 per cent on last year. This was the first time the broker channel passed \$1 billion in settlements.

This growth has been achieved following the establishment of the broker offering in November 2011. The Bank now has partnerships with 18 aggregator groups, with nearly 5,000 accredited brokers (refer to Figure 9 below). The Bank is confident that growth through this channel will continue strongly as new technology will enable improved service to be delivered.

Employer Banking

The Bank's focus for the next 2-3 years will be on retail banking, and as a result Employer Banking will not be actively marketed. ME Bank will continue to offer business banking products through two external finance brokers, to service existing customers.

Number of Brokers

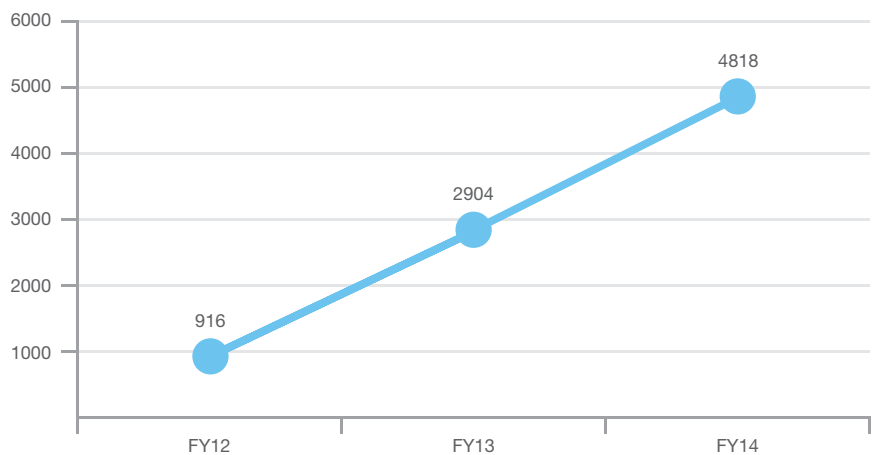


Figure 9: Accredited broker growth

FIVE: RISK MANAGEMENT.

ME Bank continues to target a risk profile that balances the growth aspirations of the business and the protection of shareholder funds, Bank earnings, reputation and the interests of its customers.

To understand the risks associated with its operations, the Bank continues to develop and evolve its Risk Appetite Statement, which identifies both the types and levels of risk(s) it is willing to accept as part of ongoing operations.

In terms of organisational structure, the Bank continues to apply the “three lines of defence” model to its operations. The second (risk management) and third (Internal Audit) lines are located in the Risk department, under the supervision of the Chief Risk Officer. Consistent with better market practice, Internal Audit has a direct reporting line to the Chair of the Audit, Risk and Governance Committee.

During the year a number of improvements to the Risk function have been made. This has included the ongoing development of the dedicated Market Risk function, focused solely on the management of market and related risks facing the Bank. In addition, the compliance function continues to be built out and expanded to help ensure the Bank proactively understands and manages its Compliance obligations and requirements. Recent focus has been on the Bank’s primary regulators, APRA, AUSTRAC and ASIC.

The Bank continues to adopt a risk-based approach to Internal Audit, with audit activity focused on the higher risk areas that have the potential to disrupt the achievement of strategic goals and objectives. The capability of the function has also been enhanced, with the co-sourced arrangement with PricewaterhouseCoopers evaluated and extended to allow the Bank to access subject matter expertise across specialist areas.

To support the Bank to achieve its strategic objectives, a key focus area for the coming financial year will be the development of Credit Risk capability and systems. This will include developing an automated credit decisioning (incorporating Comprehensive Credit Reporting) data analytics, and collections strategies.

SIX: GOVERNANCE.

CORPORATE GOVERNANCE

ME Bank's approach to corporate governance is based on the belief that in order to encourage the long-term growth of the Bank and meet the interests of shareholders, it is important to address the relationships between Board, executive management and our stakeholders through appropriate policies and processes.

The Board's approach is consistent with the Australian Council of Superannuation Investors Corporate Governance Guidelines and other best practice guides to ensure that our governance standards meet both industry and community expectations. The Board is committed to achieving the highest standard of internal corporate governance wherever appropriate, including promotion of gender diversity across the organisation. In addition, the Board is governed by APRA's requirements including those contained in Authorised Deposit-taking Institution (ADI) Prudential Standards.

BOARD

The composition of the Board is determined in accordance with the Bank's Constitution and is comprised of non-executive independent directors with an appropriate range of qualifications and experience. In addition, each director satisfies the Board's Fit and Proper Policy. The Board has a diverse range of experience in banking and financial services as well as in other sectors.

The Constitution provides, amongst other matters, that directors may not hold office for more than 3 years without standing for re-election. Retiring directors are eligible for re-election. During the year, Ms De Salis and Mr Fraser offered themselves for re-election and were re-elected in November 2013.

Board Responsibilities

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 is ultimately responsible for the overall corporate governance of the Bank, including monitoring the business of the Bank on behalf of the shareholders.

The Board meets regularly and follows meeting protocols designed to ensure that all directors are appropriately informed and properly consider all agenda items. The Board also has procedures for handling matters that may give rise to a conflict of interest.

The experience of the Board members is set out below:



BERNIE FRASER

Chairman

Mr Fraser is Chair of the Nominations Committee, and a member of the People and Remuneration Committee.

He is a former Secretary to the Treasury and Governor of the Reserve Bank. He is currently the head of the Climate Change Authority, an independent body created to provide advice on the Australian Government's policies for reducing carbon pollution.



GARRY WEAVEN

Non Executive Director

Mr Weaven is Chair of the People and Remuneration Committee.

He is the Chairman of Industry Super Holdings Pty Ltd (ISH) and other entities in the ISH Group, including IFM Holdings Pty Ltd and IFM Investors Pty Ltd, and is Chair of Pacific Hydro Pty Ltd and a director of The New Daily Pty Ltd. Mr Weaven's background includes periods as Assistant Secretary of the ACTU and as Senior Consultant to Westpac Financial Services.



ANNE DE SALIS

Non Executive Director

Ms De Salis is a member of the People and Remuneration Committee, and the Technology Committee.

She has a diverse career spanning the public and private sectors, with considerable experience in financial services. She has held senior executive / director positions with AMP, MBF Australia, the Commonwealth Treasury and the Office of the Prime Minister, Rt Hon Paul Keating. She is currently a director of Funds SA and Super Consumers Centre.



BRIAN POLLOCK

Non Executive Director

Mr Pollock is a member of the Audit, Risk and Governance Committee, and the People and Remuneration Committee.

During the year he was Chairman of A E Smith Pty Ltd and a director of the Macquarie Real Estate Equity Fund series of companies. Mr Pollock has over 35 years' experience in superannuation, financial services and property investment. A former National President, he is one of only 7 members to have been awarded National Life Membership of the Property Council of Australia.



SALLY HERMAN

Non Executive Director

Ms Herman is the Chair of the Audit, Risk and Governance Committee.

She has a wealth of experience in consumer and commercial banking. From 1994 to 2010 she was employed in a number of roles at Westpac, the most recent being General Manager Corporate Affairs and Sustainability. Ms Herman is a non-executive director of Urbis Pty Ltd (where she is the Board Chair), FSA Group Ltd, Premier Investments Ltd, Breville Group Ltd, Investec Property Limited and Evans & Partners (Member of Advisory Board).



KEN HODGSON

Non Executive Director

Mr Hodgson is a member of the Audit, Risk and Governance Committee.

He 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.



CHRISTINE CHRISTIAN

Non Executive Director

Ms Christian is a member of the Audit, Risk and Governance Committee, and the Technology Committee.

She has served, during a career spanning more than 30 years, 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. Her current directorships include Private Media Pty Ltd, UNICEF Australia, Chief Executive Women, Powerlinx Inc and State Library of Victoria Foundation Council. She has also held director positions with Business Information Industry Association - Asia and Middle East and the Melbourne International Comedy Festival.



JUSTIN MILNE

Non Executive Director

Mr Milne is the Chair of the Technology Committee.

He is the Chairman of NetComm Wireless Ltd and a non-executive director of Tabcorp Holdings Ltd. He is also Chair of the National Basketball League and a board member of NBN Co Limited. He was a director of Basketball Australia, the Sydney Children's Hospital Foundation and Chair of their Building Appeal. He was also a Group Managing Director at Telstra, responsible for BigPond Broadband and Telstra's Media businesses. Prior to working at Telstra he was CEO of OzEmail and the Microsoft Network.

Board Committees

To provide for the effective discharge of its governance responsibilities, the Board has established Board Committees. During the year the following Committees were in place:

Audit, Risk and Governance Committee

The Audit, Risk and Governance Committee's purpose is to provide an objective view of the effectiveness of the Bank's financial reporting framework and overall internal control framework; to review operational, credit, market, liquidity, and strategic risk throughout all facets of the Bank's business; to oversee, monitor and review the Bank's risk management principles and policies, strategies, processes and control; and to review the development of and recommend to the Board all other corporate governance policies and principles applicable to the Bank.

The Committee is comprised of independent non-executive directors. During the period the Committee was chaired by Ms Herman.

People and Remuneration Committee

The People and Remuneration Committee's purpose is to make recommendations in respect of the Bank's Remuneration Policy and program; make recommendations in respect of the remuneration arrangements for the CEO and other specified employees or groups of employees whose roles may affect the financial soundness of the Bank; monitor compensation, including superannuation, levels and policy guidelines; ensure there is a robust and effective process for evaluating the performance of the Board, its committees and individual directors; assist the Board in relation to executive (including the CEO) succession planning to meet the Bank's longer term strategic goals; and provide a formal forum for communication between the Board and management on human resource matters. The People and Remuneration Committee may make recommendations to the Board in connection with the fitness and propriety of directors.

The Committee is comprised of independent non-executive directors. During the period the Committee was chaired by Mr Weaven.

Technology Committee

The objective of the Technology Committee is to provide oversight to the Bank's Information Technology (IT) function including the transformation program, IT strategy, the alignment of the IT function with the Bank's business, systems stability, information security, and related operations.

The Committee is comprised of independent non-executive directors. During the period the Committee was chaired by Mr Milne.

Nominations Committee

The purpose of the Nominations Committee is to make recommendations to the Board in respect of the appointment of new directors. It meets on an as needs basis, and did not meet during the period.

Mr Fraser is the Chair of the Committee. The Committee is comprised of independent non-executive directors, and two director representatives of the Bank's four largest shareholders.

Board Performance

The Board meets on a regular basis to address relevant operational and strategic issues affecting the Bank. A program is in place for the annual self-evaluation of performance by each of the Board and the Audit, Risk and Governance, People and Remuneration and Technology Committees. As the Nominations Committee did not meet during the period, it did not undertake an evaluation. The Chair also conducts one-on-one performance discussions with the directors.

Remuneration of Directors and Senior Managers and Material Risk Takers

During the year the People and Remuneration Committee oversaw remuneration for the Bank.

For ME Bank, senior managers are those people, excluding the directors and the external auditor, holding Responsible Person positions, in accordance with the Bank's Fit and Proper Policy, and any other relevant risk and financial control personnel. During the year there were 20 senior managers. During the period the Bank did not have any material risk takers.

ME Bank aims to provide remuneration to attract, motivate and retain employees to achieve its purpose and overall objectives within its risk appetite and risk framework. The following guiding principles are the foundation of the Bank's remuneration approach.

Remuneration at the Bank will...	Because it will...
Support the strategy	Encourage performance and behaviours that contribute to the overall achievement of the Bank's long-term business strategy. Link remuneration to the generation of sustainable value for the organisation and its shareholders.
Align to our values	Encourage performance and behaviours that are consistent with the Bank's values and culture.
Be fair	Attract, motivate and retain high performers by providing remuneration that is market competitive.
Be transparent	Be structured in remuneration programs that are clearly defined, simple to understand and clearly communicated.
Differentiate performance	Motivate employees to be high performers who deliver strong sustainable results by differentiating remuneration for performance, reflecting individual, team and organisational performance.
Embed risk awareness and good governance	Encourage prudent risk taking within the Bank's risk appetite. Encourage behaviours that support the risk management framework. Encourage actions clearly focused on the Bank's long-term financial soundness.

ME Bank uses a range of different remuneration elements to effectively reward employees. To ensure fair reward, the Bank references market competitive practices to determine which, and how, remuneration elements are used for different jobs.

Fixed pay

Fixed pay consists of salary (including packaged items) and superannuation contributions. It reflects the market competitive value of the skills, expertise and experience required to successfully fulfil the requirements of a job at ME Bank. Our target fixed pay position is the median of the financial services market. Fixed pay reviews are conducted annually.

Short-Term Incentives (STI)

Short-term incentives reflect the relative performance of an employee within his or her job at the Bank and the overall performance of the organisation. It is the main mechanism the Bank uses to reward and differentiate individual performance. The STI opportunity that is available is linked to the size of the role the individual performs. The main STI program at ME Bank is the Annual Bonus.

The Annual Bonus encompasses most employees. Where appropriate, the Board approves an Annual Bonus pool that reflects the Bank's performance. Incentives are then allocated to employees based on individual performance. Employees with higher performance ratings receive higher incentive payments relative to their peers.

Underperforming employees do not receive a bonus. Incentive amounts are provided on a pro-rata basis for those who have not worked the full year but who have worked at least 3 months in the year, or work part time. Employees who leave during the year due to retrenchment, retirement or death may be allocated a pro-rata payment based on their service and performance during the financial year.

Sales Incentive Programs, rather than Annual Bonuses, are provided for sales-focused employees. These programs reward sales results achieved within the appropriate risk and values frameworks.

Long Term Incentives (LTI)

An LTI arrangement is in place for the CEO only.

Remuneration Framework - Directors

The Bank's non-executive directors are remunerated by way of one base fee (inclusive of the Superannuation Guarantee Charge payment, at 9.25 per cent for the year). The Non-Executive Director Remuneration Policy provides for the fee to be approximately half the median level of non-executive director fees paid by Bendigo and Adelaide Bank and Bank of Queensland.

In addition to the base fee, non-executive directors who participate on Board Committees may receive additional remuneration as compensation for the additional responsibilities and workload.

The aggregate compensation made to senior managers and the directors is shown in Tables 4 and 5.

Senior Managers	
Unrestricted Remuneration	\$
Fixed Remuneration	5,689,846
Variable Remuneration	828,016
Termination Benefits	1,437,208
	7,955,070
Deferred Remuneration	433,500
	\$8,388,570

Table 4: Total value of senior managers' remuneration awards for FY14

Directors	
Board schedule of fees	\$
Chair of the Board	155,456
Member of the Board	77,727
Audit, Risk and Governance Committee	
Chair of the Committee	17,500
Committee Member	8,750
People and Remuneration Committee	
Chair of the Committee	12,500
Committee Member	6,250
Technology Committee	
Chair of the Committee	12,500
Committee Member	6,250

Table 5: Directors' schedule of fees

The remuneration paid to each director is set out below:

Fixed Remuneration Details		
Director	Membership	\$
B Fraser	Chair of the Board	155,456
	People and Remuneration Committee	6,250
		161,706
C Christian	Member of the Board	77,727
	Audit, Risk and Governance Committee	8,750
	Technology Committee	6,250
		92,727
A De Salis	Member of the Board	77,727
	People and Remuneration Committee	6,250
	Technology Committee	6,250
		90,227
S Herman	Member of the Board	77,727
	Chair, Audit, Risk and Governance Committee	17,500
		95,227
K Hodgson	Member of the Board	77,727
	Audit, Risk and Governance Committee	8,750
		86,477
J Milne	Member of the Board	77,727
	Chair, Technology Committee	12,500
		90,227
B Pollock	Member of the Board	77,727
	Audit, Risk and Governance Committee	8,750
	People and Remuneration Committee	6,250
		92,727
G Weaven	Member of the Board	77,727
	Chair, People and Remuneration Committee	12,500
		90,227
Total directors' compensation		\$799,545

SEVEN: EXECUTIVE TEAM.



JAMIE MCPHEE

Chief Executive Officer

As Chief Executive Officer, Jamie's role is to work closely with the Board of Directors and Executive team to develop, implement and lead the business strategy and plan. The strategy sets out how the Bank will grow its business by providing its customers with market competitive products and services, while delivering acceptable returns for shareholders on their investment in the Bank. Jamie is responsible for ensuring a strong risk framework is in place to enable the Bank to grow profitably.

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

About Jamie

The Board of ME Bank appointed Jamie to the position of Chief Executive Officer in February 2010. Jamie joined ME Bank from the Bendigo and Adelaide Bank. 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.



ANTHONY ABOUD

Chief Operating Officer

As Chief Operating Officer, Anthony is accountable for making sure operations help the Bank achieve its business objectives and drive a customer centric approach. He is responsible for designing, improving and implementing the processes used to deliver products and services, and identifying and integrating similar functions within the business.

About Anthony

Anthony joined ME Bank in March 2011 after 15 years with GE Capital. His financial services experience spans sales, Lean Six Sigma, project management, collections, customer service and operations leadership.

Anthony has led teams ranging from small branch operations to functional leadership of 600 employees over five sites, three states and three countries. He spent two years as a full time Six Sigma black belt, successfully gaining certification in the Lean Six Sigma methodology.

Anthony has experience across numerous portfolios, such as mortgages, personal loans, credit cards, fleet, distribution finance and insurance. He has led strategic projects, including an IT re-platform, and was responsible for the GE customer centricity roadmap.



TONY BECK

Group Executive, Industry Affairs

As Group Executive, Industry Affairs, Tony is accountable for the design and implementation of public policy and corporate responsibility strategies as well as the FSU partnership. He is responsible for advocating the Bank's views to the community, government and regulators, utilising networks to influence the public policy agenda and distinguishing corporate responsibility as a driver of our business strategy.

About Tony

Tony has worked at ME Bank since March 2004. Before joining the Bank, he worked for the Finance Sector Union for 23 years, the last 10 years as National Secretary. Tony also served on the ACTU Executive and as Trustee of the industry superannuation fund Finsuper. Tony is currently a director of ME Portfolio Management Limited.



CARLO CATALDO

Chief Risk Officer

As Chief Risk Officer, Carlo is accountable for the oversight and management of the bank's credit, market and operational risks that arise from our activities. Carlo is also chair of the Operational Risk and Compliance and Credit Risk committees.

About Carlo

Carlo joined ME Bank in July 2014. Carlo has worked in senior risk and consulting roles for 20 years, most recently consulting via his own advisory company while also completing post graduate studies. Prior to this, he spent almost 13 years with GE Capital, which included six years as the consumer Chief Risk Officer and two years as the Responsible Lending Leader heading up the Responsible Lending Programme and lobbying for further changes to the Privacy Act to support broader access to credit and more comprehensive credit reporting.

He is Six Sigma Black Belt qualified and also worked as the Risk & Compliance Director with GE Money Argentina during the 2002 "Tango" crisis.

Carlo was a founding director and previous chairman of the Australasian Retail Credit Association (ARCA), using this opportunity to represent ARCA and the ABA in Parliamentary Senate hearings.

Prior to GE, Carlo worked in a credit scoring, fraud and project consulting capacity for Experian working with a number of large institutions across Australia, New Zealand and South East Asia.



GARY DICKSON

Chief Financial Officer

As Chief Financial Officer, Gary is primarily responsible for monthly management, regulatory and external reporting, the annual budgeting and business planning processes, capital management, treasury, investor relations and legal services.

About Gary

Gary joined ME Bank in February 2013. Before joining ME Bank, Gary worked in a variety of finance roles in both listed and unlisted corporate environments. He was most recently the Chief Financial Officer for AXA Australia from 2007 to 2012 and he previously held senior finance roles at Colonial First State, Commonwealth Bank and Portfolio Partners. Gary commenced his career with PricewaterhouseCoopers, working in their financial services practice in both Melbourne and London for approximately 10 years.



KATHRYN HAWKINS

Chief Information Officer

As Chief Information Officer, Kathryn is accountable for the development, management and monitoring of the Information Technology function. She is responsible for defining and delivering functions in line with the Bank's business objectives and developing technology solutions to achieve these objectives. Kathryn plans and leads significant information technology projects and process redesign. She makes sure that maintenance, upgrades and management of information technology suppliers is carried out effectively.

About Kathryn

Kathryn joined ME Bank in January 2011 from Masonic Homes in Adelaide where she was Chief Information Officer for more than four years.

Kathryn has experience in various industries including manufacturing with BHP and Mitsubishi, financial services with Bank SA and Lend Lease; she has also held the position of Principal Consultant with Tower Technology and Executive Manager with Adelaide Bank.



REBECCA JAMES

Chief Marketing Officer

As Chief Marketing Officer, Rebecca is responsible for defining the customer value proposition which includes customer analytics, product design, brand positioning and customer communications. Key to the Bank's success will be its ability to provide simple solutions which will enable customers to open and manage all accounts online.

About Rebecca

Rebecca joined ME Bank in January 2014 and has more than 20 years' experience in marketing and advertising, commencing at American Express and then independent agency Lavender where she was Managing Director for seven years.

At Lavender Rebecca led a team of 110 people with offices in Sydney and Melbourne servicing clients including Westpac, BT Financial Group, American Express, Qantas, Telstra, Coles, IKEA and Microsoft.

More recently she helped expand Lavender from pure advertising into technology, overseeing the development and sale of technology products to augment its communication services to clients.



ANGELA MIDDLETON

Group Executive, Sales

As Group Executive, Sales, Angela is responsible for driving sales growth and increasing customer take-up through a national multi-distribution channel. She is tasked with positioning and building the ME Bank brand across a number of distribution channels including retail sales and broker, as well as contributing to the strategic direction of ME Bank. A key focus is integrating ME Bank with its network of industry stakeholders.

About Angela

Angela joined ME Bank in October 2011, as General Manager Service and Sales. Prior to joining ME Bank, Angela held a number of leadership roles at National Australia Bank including Head of Business Capability and Head of Service Delivery for Lending Services, and Senior Management positions at Citibank and Australian Finance Group.



FIONA RYAN

Group Executive, People & Culture

As Group Executive, People and Culture, Fiona is responsible for leading the People and Culture team in establishing and embedding key enabling frameworks for values based leadership, talent acquisition and development, performance partnering, learning, internal communications and reward; as well as supporting the execution of significant change programs across ME Bank. In order to deliver the strategic growth challenge, Fiona's focus is on building a culture and capability for high performance.

About Fiona

Fiona joined ME Bank in February 2011 and was formerly the Head of HR for Bankwest's Business Division, with a focus on a major cultural change and business transformation program.

Fiona started her career in Retail and Private banking and her HR project experience spans the Asia Pacific region. She has held a range of senior HR generalist and specialist leadership positions, including Acting Head of People Capital Esanda, Head of Culture and Diversity Personal Division, Head of Engagement, and HR Project Manager Asia for the Global Cards division.

EIGHT: CORPORATE RESPONSIBILITY.

OVERVIEW

ME Bank launched its corporate responsibility program in 2009. The purpose of the program is to understand and respond to the economic, social and environmental opportunities and challenges we encounter as a result of our operations.

PEOPLE

ME Bank is committed to creating a unique, values-based, high performing culture. We recognise that our people are critical to our success. We are currently undertaking a significant cultural transformation to create an agile workforce to deliver our strategic priorities and growth plans.

Employee Opinion Survey

Each year, ME Bank asks staff to participate in a survey to measure the Bank's performance as an employer, and to gain insight into how our people feel about working at ME Bank.

This year's survey results were positive and an improvement on the previous year. Over 85 per cent of employees responded to the survey. Employee engagement increased to 70 per cent, more employees felt that ME Bank has an outstanding future, and there was greater satisfaction with ME Bank as a place to work. The survey results have ME Bank outperforming industry benchmarks on employee involvement, empowerment to express opinions and ideas, and initiating change.

FSU Partnership

We are the first Australian bank to enter into a formal partnership with a union to work collaboratively to solve business issues. ME Bank's partnership with the Finance Sector Union (FSU) recognises that management, employees and the union have a mutual interest in the ongoing success of the business, and uses collaboration as an important means of achieving our business objectives while improving employee satisfaction and engagement.

The partnership gives the Bank a more effective way to engage the FSU on business issues such as change, modernisation, productivity and employment terms and conditions and hinges on a shared understanding of agreed business objectives.

Developing our People

We recognise that leadership effectiveness is critical to our success. All of our leaders participate in Challenge ME, a values based leadership program that includes collaborative problem solving, emotional intelligence and partnering for performance. It also includes 360 degree feedback, change leadership and individual coaching.

Our Learning and Organisational Development program is aligned to our capability model which establishes the skills, knowledge and behaviours that employees need to pursue opportunities for career progression and growth. This includes a comprehensive induction program so that people transition into the workplace with ease when they commence with ME Bank.

Leading Through Change

The Leading Through Change program delivered in 2014 built on our existing Challenge ME program to ensure the Bank's executive, managers and people leaders had the appropriate skills to lead their teams through the transformation program. It involved a series of training events delivered over 9 months, and included actions for managers to demonstrate their competence in 'real world' change events in the business. All managers were assigned a change coach to help support them in leading their team through the major change process. The Bank also conducted over 120 training and information sessions in our offices to train staff in new systems.

Workplace Health and Safety

ME Bank is committed to providing a safe and healthy workplace for our employees, contractors, customers and visitors. Employees are consulted on health and safety matters through elected Health and Safety Representatives at all our major workplaces and through our Workplace Health and Safety Committee.

In 2014, the Bank continued to embed Keep ME Safe - our workplace health and safety management system. Workplace Health and Safety policies, supporting procedures and tools have been refined to ensure they are accessible and easy to use.

A common Workplace Health and Safety benchmarking measure is Lost Time Injury Frequency Rate (LTIFR) which measures the number of lost time injuries per million hours worked. ME Bank's LTIFR is 0.68, which compares favourably to the industry rate of 1.2 (source: SafeWork Australia).

Workplace Profile FY14¹

Workforce Profile	
Number of employees	
Permanent	809
Contractors	79
Workforce turnover (12 month rolling average)	15.4%
Absenteeism days/FTE (includes personal, compassionate and workers compensation leave)	8.4

Table 6: Workforce profile FY14

Parental Leave	
Primary Carer's Leave	
Female	43
Male	7
Secondary Carer's Leave	
Female	1
Male	5

Table 7: Number of employees utilising parental leave in FY14

Female/Male Ratio:	
All Staff	
Female	51%
Male	49%
Leadership Group/Managers	
Female	45%
Male	55%
Executive (including CEO)	
Female	4
Male	5
Board (including Chairman)	
Female	3
Male	5

Table 8: Gender diversity

¹More detail on our workforce profile is available in ME Bank's Workplace Gender Equality Agency (WGEA) 2014 Compliance Report, which is available on request.

COMMUNITY

ME Bank believes its long-term success depends on the wellbeing of the communities in which it operates. The Bank continues its commitment to contributing to the community.

Mother's Day Classic

This year ME Bank celebrated its tenth year as the major sponsor of the Women in Super Mother's Day Classic, a national fun run and walk that raises funds for breast cancer research. Held in all capital cities and a number of regional centres throughout Australia, the Mother's Day Classic is our biggest community and sponsorship event of the year. In 2014 the event raised \$4.5 million for the National Breast Cancer Foundation.

ME Bank provides additional fundraising support by selling Mother's Day Classic bandanas. Bandanas were purchased by thousands of participants and supporters at events around Australia and raised more than \$24,000 for breast cancer research.

The event is well supported by ME Bank employees and their families. This year, ME Bank had the eleventh largest team, with 167 members, who raised over \$17,000 for breast cancer research. Many other employees volunteered on the day. Our employees also purchased over 1,000 bandanas leading up to the event.

ME Bank *EveryDay* Transaction Account with Pink Debit MasterCard®

This year we continued our association with the National Breast Cancer Foundation through issuing the Pink Debit MasterCard®. Since May 2011, ME Bank has donated one cent to the National Breast Cancer Foundation for every purchase made by customers using their Pink card.

Since 2008 ME Bank has contributed more than \$700,000 to breast cancer research through the Pink Debit MasterCard®, Mother's Day Classic fundraising and employee donations.

ME Bank Green Card for Fairer Play

ME Bank, in partnership with the Football Federation of Australia, again ran the ME Bank Green Card for Fairer Play initiative, which has been developed to recognise and reward significant gestures of fairer play on or off the field by participants in Hyundai A-League and Grassroots football.

More than 1,850 nominations of fairer play by a Hyundai A-League player were received in a national competition. Western Sydney Wanderer Jerrad Tyson was named the Season 9 winner of the ME Bank Green Card for Fairer Play Award and presented with \$10,000 for the junior football club of his choice.

The ME Bank Centre and Richmond Football Club

This year ME Bank continued its support of the Richmond Football Club (AFL), as naming rights sponsor of the Club's training and office headquarters in Melbourne, known as the ME Bank Centre. The ME Bank Centre also houses the Korin Gamadji Institute (meaning "Grow and Emerge" in the Woiwurrung language spoken by the Wurundjeri people of the Kulin Nation), which provides leadership development, education / training and career pathway opportunities for Indigenous people.

Industry Support – HESTA Awards

ME Bank is a major sponsor of the HESTA Awards which recognise, celebrate and promote the achievement of those working in nursing, primary health care, early childhood education, aged care and the community sector.

Overall winners in each category of the Awards share in a prize pool provided by ME Bank that directly supports their industry and provides an opportunity to continue the initiative that led to their Award nomination.

Giving Back

ME Bank's Giving Back program provides our employees the opportunity to make regular donations through their pay to a group of eight community partners. In FY14 employees donated more than \$18,000 to our community partners, which was matched by ME Bank. At the end of June, nearly 10 per cent of employees participated in the program.

Our Giving Back community partners are: the National Breast Cancer Foundation, the Prostate Cancer Foundation of Australia, Beyond Blue, Mission Australia, The Smith Family, APHEDA, Redkite, and the Worldwide Society for the Protection of Animals.



Good Return

ME Bank partners with Good Return to provide our employees with an innovative way to positively impact the lives of those living in poverty in developing countries. Good Return is a social enterprise that seeks to ameliorate poverty in the Asia Pacific region by delivering microfinance, financial literacy and livelihood development programs to ensure long-term benefits to families and their communities.

ME Bank employees contribute by funding a microfinance loan for an individual through Good Return. For every employee who funds a loan, ME Bank makes a donation to Good Return to run financial literacy programs.

November

ME Bank employees once again participated in November, an initiative raising funds and awareness for men's health issues. During the month of November, we had the largest team of ME Bank employees to date take part by growing a mo'. Staff raised \$15,800 which, through November, was donated to our community partners Beyond Blue and the Prostate Cancer Foundation of Australia.

Natural Disaster Relief

In October 2013 residents of the Blue Mountains in New South Wales experienced the devastating effects of bushfires. ME Bank demonstrated its support to those affected by offering hardship assistance to customers who suffered loss of property, employment or were facing other financial difficulties. The Bank provided support for employees living in affected areas. ME Bank also donated \$20,000 to the Salvation Army NSW Bushfire Appeal. Employees donated more than \$3,300 to the Appeal, all of which was matched by ME Bank.

Shortly after, in November 2013, Typhoon Haiyan struck the Philippines causing widespread destruction. ME Bank made a donation of \$20,000 to the Australian Red Cross Typhoon Haiyan Appeal to support its efforts to assist on the ground in affected communities, help people evacuate and provide emergency first aid, relief supplies and shelter. Our employees donated over \$3,000 to this Appeal and ME Bank again matched all donations.

ENVIRONMENT

Reducing our impact on the environment is a core part of ME Bank's corporate responsibility program. We understand the Bank's environmental impact extends beyond its operations to include the products and services we provide and procure, as well as investment decisions.

Head office in Melbourne, where the majority of staff are located, received a Green Star rating of 5 stars from the Green Building Council of Australia in April 2013. Our green star accommodation has provided significant environmental benefits, including reduced electricity consumption, largely due to improved heating, cooling and lighting efficiencies. In FY14 ME Bank renovated two additional floors in our head office, also with a Green Star rating of 5 stars.

Resource Use

In FY14 ME Bank produced almost 2,895 tonnes of greenhouse gas (GHG) emissions from its operations including electricity use in offices, our vehicle fleet and employee air travel (see Figure 10 below). This is a decrease of almost 2 per cent from the previous year, which was primarily achieved from a reduction in vehicle fleet emissions.

The largest source of GHG emissions for ME Bank is electricity use in our offices which accounts for more than half of our total emissions. During the year we conducted an energy audit for our head office in Melbourne which identified opportunities to further reduce electricity use. In FY14 ME Bank's mobile banking vehicle fleet reduced fuel consumption by more than 100 kilolitres from the previous year.

Total Greenhouse Gas Emissions (tonnes CO₂-e)

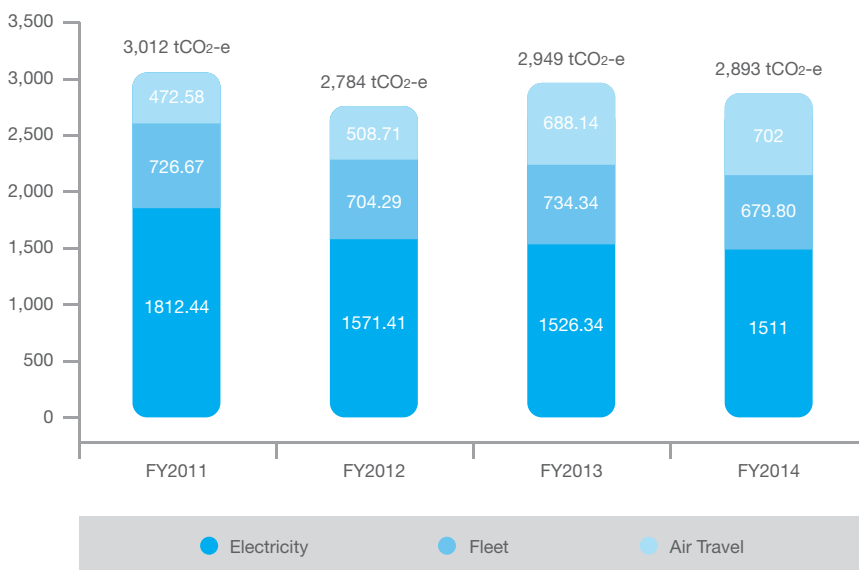


Figure 10: Total greenhouse gas emissions (tonnes CO₂-e)

Paper Use

During the year ME Bank used 106 tonnes of paper. Of this, 30 per cent was used in our offices and 70 per cent was used for printed material for customer product information, banking activities such as application forms, and marketing material. ME Bank reduced the paper used to produce printed material this year by more than 20 per cent, but the proportion of paper we used that was recycled or carbon neutral fell.

In our offices, paper use decreased by more than 16 per cent this year.

This decrease is largely attributable to the technology transformation program, which has digitised and streamlined the processes involved in customer applications and opening new accounts. We expect to see our office paper use continue to decline in coming years as more of our processes are digitised.

All office paper is 100 per cent Australian made, certified carbon neutral, accredited by the Australian Forestry Standard, and certified by the Forestry Stewardship Council.

Responsible Procurement

ME Bank works closely with a wide range of suppliers in the day-to-day operation of our business. In line with our commitment to corporate responsibility, we prefer to partner with suppliers demonstrating a proactive approach to economic, social and environmental responsibility. In 2014 ME Bank became a member of ECO-Buy, a non-profit membership program for organisations to access sustainable procurement expertise, resources and peer networks.

When sourcing new suppliers, ME Bank assesses performance across a range of corporate responsibility indicators in the areas of governance, environmental management, health and safety, workplace policies and human rights, supply chain management and community impact. We also manage the use and disposal of goods and services to minimise social and environmental impacts.

We work with our existing suppliers on an ongoing basis to better understand their economic, social and environmental impacts and partner with them to build their capability in these areas.

Internal Paper Use

FY14	FY13	FY12
32.3 tonnes	38.6 tonnes	36.9 tonnes
7,296 A4 sheets/FTE	9,416 A4 sheets/FTE	9,609 A4 sheets/FTE

Table 9: Internal paper use

External Paper Use

FY14	FY13	FY12
73.4 tonnes	92.0 tonnes	76.4 tonnes
25.3% recycled content	39.4% recycled content	25.9% recycled content
47.5% carbon neutral	84.6% carbon neutral	91.7% carbon neutral

Table 10: External paper use

NINE: KEY FINANCIAL INFORMATION.

The Key Financial Information has been derived from the Bank's Annual Financial Report for the year ended 30 June 2014. 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.

Income Statement for the Financial Year Ended 30 June 2014

	2014 \$'000	2013 \$'000
Interest and similar income	1,033,757	837,006
Interest and similar expense	(797,185)	(642,335)
Net interest income	236,572	194,671
Funds management fee income	25,612	32,744
Other operating income	1,447	29,161
Total net operating income	263,631	256,576
Expenses		
Operating expenses	196,754	176,509
Impairment losses	14,301	9,861
Project expenses	13,689	13,275
Total operating expenses	224,744	199,645
Profit before income tax	38,887	56,931
Income tax expense	10,722	16,578
Profit for the year	28,165	40,353

Balance Sheet as at 30 June 2014

	Note	2014 \$'000	2013 \$'000
Assets			
Cash and cash equivalents		360,414	281,169
Investments	3	2,461,801	1,446,753
Derivatives		10,019	13,530
Trade and other receivables		8,255	7,349
Loans and advances	4	14,916,724	12,548,608
Plant and equipment		35,602	27,160
Intangible assets		58,192	30,817
Deferred tax assets		19,336	9,342
Other assets		5,113	3,360
Total assets		17,875,456	14,368,088
Liabilities			
Amounts due to other financial institutions		30,897	3,259
Deposits and other borrowings	5	16,897,526	13,605,006
Derivatives		39,271	16,745
Trade and other payables		29,996	34,293
Current tax liabilities		12,343	6,423
Provisions		24,371	19,829
Subordinated debt		32,903	33,068
Total liabilities		17,067,307	13,718,623
Net assets		808,149	649,465
Equity			
Issued capital		699,995	570,101
Reserves		21,683	9,684
Retained earnings		86,471	69,680
Total equity		808,149	649,465

Statements of Changes in Equity for the Financial Year Ended 30 June 2014

	Issued capital \$'000	Retained Earnings/ (Accumulated losses) \$'000	General reserve for credit losses \$'000	Investment revaluation reserve \$'000	Total \$'000
Balance at 1 July 2012	500,101	30,724	2,308	3,208	536,341
Adjustment on Consolidation	-	169	-	-	169
Balance at 1 July 2012 (restated)	500,101	30,893	2,308	3,208	536,510
Issue of share capital	70,000	-	-	-	70,000
Transfer to/(from) general reserve for credit losses	-	(1,556)	1,566	-	-
Other comprehensive income for the year	-	-	-	2,602	2,602
Profit for the year	-	40,353	-	-	40,353
Balance at 30 June 2013	570,101	69,680	3,874	5,810	649,465
Balance at 1 July 2013	570,101	69,680	3,874	5,810	649,465
Adjustment on Consolidation	-	(169)	-	-	(169)
Balance at 1 July 2013 (restated)	570,101	69,511	3,874	5,810	649,296
Issue of share capital	129,894	-	-	-	129,894
Transfer to/(from) general reserve for credit losses	-	(11,205)	11,205	-	-
Other comprehensive income for the year	-	-	-	794	794
Profit for the year	-	28,165	-	-	28,165
Balance at 30 June 2014	699,995	86,471	15,079	6,604	808,149

Notes to the Key Financial Information for the Financial Year Ended 30 June 2014

1. Review of operating results

ME Bank recorded an after tax statutory profit of \$28.2 million for the financial year ended 30 June 2014 compared to \$40.4 million in the previous financial year. The Bank has produced a strong result against all financial targets set for the year. Home loan sales volumes continue to gather momentum with a very strong finish to the year - the highest sales month on record was achieved in June with settlements of \$409 million, the first time the \$400 million mark has been exceeded in a single month.

ME Bank's pre-tax profit was impacted by a hedge revaluation loss which resulted from the mark to market movement of the interest rate swaps used to convert fixed rate home loan interest revenue into a floating interest rate. While the swaps are required to be revalued for accounting purposes, the fixed rate home loans are carried at cost. The revaluation of the interest rate swaps resulted in an unrealised loss of \$27.4 million for the year ended 30 June 2014 compared to an unrealised gain of \$4.9 million for the year ended 30 June 2013.

Net interest income increased to \$236.6 million from \$194.7 million in the previous financial year and funds management fee income decreased to \$25.6 million from \$32.7 million in the previous financial year, reflecting the migration of home loans from off-balance sheet to on-balance sheet.

Operating expenses increased to \$196.8 million from \$176.5 million in the previous financial year. Staff and related costs increased 15 per cent with head count increasing from 821 to 888. General administrative costs increased mainly due to higher information technology expenses as part of the transition to the new core banking platform and further investment in infrastructure to support customer service. Impairment losses for the year ended 30 June 2014 were \$14.3 million compared to \$9.9 million in the previous financial year, mainly due to the personal loans and credit cards portfolios. At 30 June 2014, the loss provisions balance was \$17.2 million (including \$1.4 million of specific provisions) representing 0.1471 per cent of the total lending portfolio compared to \$12.9 million (\$1 million of specific provisions) at 30 June 2013. Total assets at 30 June 2014 were \$17.9 billion, an increase from \$14.4 billion at 30 June 2013. The combined total of cash and cash equivalents and investments increased from the previous financial year to meet the APRA minimum liquidity holding requirement.

Loans and advances have increased to \$14.9 billion at 30 June 2014 from \$12.5 billion at 30 June 2013. The growth in loans and advances is split approximately 82 per cent new business and 18 per cent migration from off-balance sheet to on-balance sheet. Plant and Equipment and Intangibles have increased mainly due to the capitalisation of costs associated with the transformation program.

The increase in total assets has been funded by liabilities increasing to \$17.1 billion from \$13.7 billion. The growth in advised and corporate deposits plus institutional borrowings is attributable to products such as the Cash Notice Account which has now grown to over \$1 billion (within a year of being launched). During the year, the Bank issued \$250 million of 4 year senior unsecured floating rate notes. A new securitisation Series trust was established during the year which increased the issuance of mortgage backed securities.

A total of \$130 million of paid up capital was injected by the shareholders during the year.

2. Subsequent events

On 29 August 2014, the Bank issued \$300 million of unsecured and subordinated floating rate notes with a maturity date of 29 August 2024 and a non-call period of five years. The notes were priced at 270 basis points over the 3 month bank bill swap rate. The subordinated notes qualify as Tier 2 capital for regulatory capital purposes. There has not been any other matter or circumstance that has arisen since the end of the financial year, that has significantly affected or may significantly affect, the operations of the Bank, the results of those operations, or the state of affairs of the Bank in future financial years.

	2014	2013
	\$'000	\$'000

3. Investments

Available-for-sale investments

Treasury notes and semi-government securities	796,612	351,634
Bank bills	367,651	217,549
Corporate fixed rate notes	256,749	187,349
Corporate floating rate notes	1,015,447	478,127
Mortgage backed securities	25,342	212,094
	2,461,801	1,446,753

4. Loans and advances

Credit cards	120,734	131,257
Personal loans	219,426	191,677
Residential home loans	14,264,993	11,969,309
Commercial loans	146,949	117,573
Asset finance	205,253	175,044
	14,957,355	12,584,860

Less:

Unearned asset finance income	(23,395)	(23,400)
Allowance for impairment losses	(17,236)	(12,852)
	14,916,724	12,548,608

	2014 \$'000	2013 \$'000
5. Deposits and other borrowings		
Unsecured - at amortised cost		
Retail customer deposits	3,127,333	2,744,791
Business customer deposits	1,252,246	1,139,817
Superannuation banking deposits	420,968	428,450
Advised and corporate deposits	3,370,461	2,665,143
Institutional borrowings	3,528,000	2,405,472
Treasury borrowings	550,035	598,030
Medium term notes (i)	813,932	504,550
Finance lease liability	-	1,403
Other borrowings	1,634	2,180
Issued bonds	-	266,648
	13,064,609	10,756,484
Secured - at amortised cost		
Mortgage backed securities (ii)	3,832,917	2,848,522
Liabilities to the securitisation trusts (iii)	-	-
	16,897,526	13,605,006

(i) Of the \$811,000,000 floating rate notes (excluding accrued interest):

- \$216,000,000 is due in the second half of the 2015 financial year;
- \$20,000,000 is due in the first half of the 2016 financial year;
- \$325,000,000 is due in the first half of the 2017 financial year; and
- \$250,000,000 is due in the first half of the 2018 financial year;

(ii) Mortgage backed securities relate to securities issued by securitisation trusts where the Bank has assessed that it retains substantially all the risks and rewards of ownership and continues to control the transferred assets.

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



ME Bank
Level 28, 360 Elizabeth Street
Melbourne VIC 3000 Australia

National Customer Contact Centre
ME Bank, G.P.O Box 1345
Melbourne VIC 3001 Australia

Call
13 15 63
Open Monday to Friday 8am to 8pm
and Saturday 9am to 5pm (AEST)

Web
www.mebank.com.au

Media Enquiries
matthew.read@mebank.com.au