

**the year of**

**re**

**Annual  
review.**  
2015

# ME AWARDS

## 2015



**CANSTAR's  
Bank of the Year**  
Term Deposits



**Money Magazine  
Best Term Deposit  
(Short Term)**  
Bank Category



**Money Magazine  
Cheapest Three-Year  
Fixed Home Loan**  
Bank Category



**Mozo's Expert's  
Choice Awards**

- Fee free account;
- Term Deposit Personal - Short Term;
- Term Deposit Business - Short Term; and
- Term Deposit Business - Medium Term



**Mozo's People's  
Choice Awards**  
Top 5 Bank



**Mozo's People's  
Choice Awards**  
Top 5 Home Loan

## 2014



**Australian  
Lending Awards**  
Best Customer  
Experience



**Australian  
Mortgage Awards**  
Best Non-Major  
Bank BDM



**CANSTAR Award  
Gold Medal**  
Outstanding Value  
Deposit Account



**CANSTAR Award  
Gold Medal**  
Outstanding Value  
Home Loan



**CANSTAR Award  
Gold Medal**  
Outstanding Value  
Savings Account



**CANSTAR Award  
Gold Medal**  
Outstanding Value  
Transaction Account



**Money Magazine  
Best Term Deposit  
(Long Term)**  
Bank Category



**Money Magazine  
Best Term Deposit  
(Short Term)**  
Bank Category



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



**Smart Investor Blue  
Ribbon Awards**  
Regional Bank of the Year

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# 01

## MESSAGE FROM THE CHAIRMAN AND CEO

This has been a significant year for ME. Not only did we achieve strong growth in earnings and home loan settlements, we did this while completing two major investments in the Bank's future: the final deployment of our 5-year, \$90-million technology transformation project, and a complete refresh of our company's brand and values.

It was a year in which we delivered on our current growth objectives and positioned the Bank for accelerated future growth, setting us up to meet our longer-term aims of being the best bank in the digital era and delivering long-term strategic and financial value to our industry super fund (ISF) owners and broader partner network.

In terms of financial performance, underlying earnings (NPAT) were up 27% on the prior year to \$60-million, largely driven by a 22% increase in home loan settlements to \$4.6 billion. Return on equity increased 90 basis points to 7.4% and customer numbers were up 8.5% to 338,000.

These numbers build on the strong growth we have already achieved over the last three years, and with a new technology platform in place, new brand and values, and a highly capable executive management team that has been built up over the last three years, we're well placed to accelerate our customer acquisition and asset growth agenda.

As well as growing the Bank's financial value, we continued to focus on building our strategic value for our ISF owners and broader partner network.

This includes creating bespoke products to cater for ISFs needs, which is critical for achieving a substantial increase in the number of member customers. In August 2014 we established the member benefit program to provide exclusive market-leading offers across our full range of products, an improvement on the original SMHL discount offer that was limited to a single product category.

We are working on a series of joint product and service propositions, including co-branded cards, a super cash management account, and a workplace employer value proposition. We are also in discussions with Link to provide ISF superannuation balance info in the ME mobile app. These initiatives provide additional reasons for members to switch, and will help ISFs improve member engagement and retain members and funds under management post retirement.

With our capabilities significantly enhanced, our focus has now turned to capitalising on the opportunities they provide and a pipeline of work has been established for the next three years. This includes a new transaction account, credit card, instant credit decisions, new mobile and internet banking applications and the ability to price for loyalty.

We believe the investments made in and by the Bank over the last five years align with the needs of our shareholders and have established the foundation from which the Bank can now drive growth for and on behalf of its shareholders and their members.



**Garry Weaven**  
Chairman



**Jamie McPhee**  
Chief Executive Officer

# 02

## ABOUT ME

### OVERVIEW

ME was originally established as Super Member Home Loans in 1994, to provide cost-effective home loans to members of industry superannuation funds (ISFs).

Today, the Bank is owned by 30 ISFs, who 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, transaction and saving accounts, credit cards, personal loans, novated car leasing, and term deposits.

The Bank's shareholders are listed to the right.



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## PRODUCTS AND SERVICES

**ME'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, including saving and purchasing assets such as vehicles and homes.**

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The distribution of these products is via a variety of channels designed to meet the needs of the customer. Customers can open products over the phone and online. The Bank also has over 70 Mobile Lenders who specialise in home loans. Mobile Lenders visit customers at a time and place 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

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

### Servicing customers

- Internet banking
- Mobile banking
- Broker network
- Australian-based national customer contact centre



transaction account



low-rate credit card



competitive variable home loan



mobile app

**new**

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## CUSTOMERS

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

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For customers looking to purchase their own homes, 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 of which we are proud.

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 industry super funds.

Over the last financial year, ME grew its customer base by 8%, from 312,000 at the end of June 2014 to 338,000 in June 2015 (refer to Figure 1 below). This growth is reflective of the breadth and competitiveness of the ME product offering.

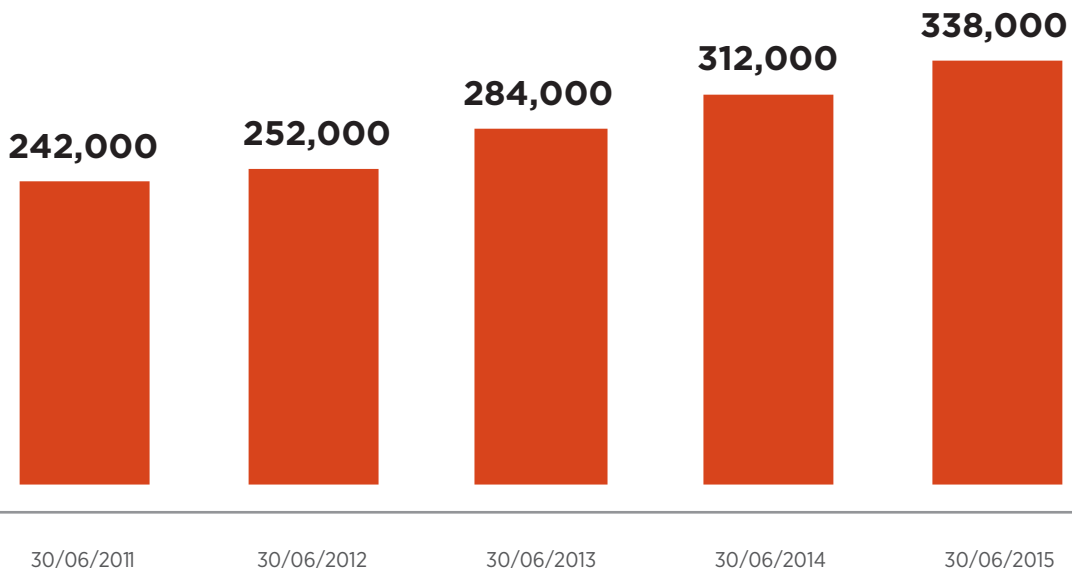


Figure 1 - Customer numbers

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

# 03

## 2015 PERFORMANCE

### OVERVIEW

**ME has produced a strong result across all key metrics as detailed in the corporate scorecard (refer to Table 1 for details).**

#### Highlights for FY15 were:

Underlying net profit after tax was \$60.0 million, an increase of 27% on the previous financial year.

Customer numbers increased by 8% to over 338,000 customers.

Home loan settlements were \$4.6 billion, up from \$3.8 billion last year, an increase of 22%.

The broker sales channel surpassed \$3.6 billion in home loan applications and \$2.2 billion in home loan settlements, up from \$2.4 billion and \$1.2 billion respectively the previous year.

Total on and off balance sheet assets grew by 7% to \$23.3 billion.

Lending assets on balance sheet grew by 19% to \$17.8 billion.

Customer deposits grew at 7%, in line with system growth.

### FINANCIAL PERFORMANCE

ME's underlying net profit after tax (NPAT) for the year ended 30 June 2015 was \$60.0 million, 27% ahead of the previous year, reflecting strong ongoing home loan growth and disciplined management of net interest margin assisted by lower funding costs. ME's statutory profit after tax was \$79.7 million, up 183% on the previous year (refer to Tables 1 and 2 below).

Key metrics	Year ended 30-Jun-15	Year ended 30-Jun-14	Change
Profit - underlying (after tax)	\$60.0M	\$47.4M	27%
Profit - statutory (after tax)	\$79.7M	\$28.2M	183%
Return on equity	7.4%	6.5%	+90bps
Net interest margin	1.53%	1.55%	-2bps
Cost-to-income	68.5%	71.1%	-260bps
Total on and off balance sheet assets	\$23.3B	\$21.7B	7%
Lending assets on balance sheet	\$17.8B	\$14.9B	19%
Customer deposits	\$8.8B	\$8.2B	7%

Table 1 - FY15 Key Financial Metrics



The statutory net profit after tax for the year ended 30 June 2015 is \$79.7 million (183%) higher than the comparative period.

The comparative period was impacted by a hedge revaluation loss of \$27.4 million (\$19.2 million after tax) which resulted from the mark to market movement of interest rate swaps used to convert fixed rate home loan interest revenue into floating rate interest revenue.

Effective 1 July 2014 the Bank adopted hedge accounting and as a result any mark to market movement of interest rate swaps from that date has been reflected in the cash flow hedge reserve in the equity section of the balance sheet.

The year ended 30 June 2015 has been favourably impacted by the reversal of unrealised swap losses from prior years of \$28.1 million (\$19.7 million after tax).

Reconciliation of statutory profit to underlying profit	Year ended 30-Jun-15 (\$M)	Year ended 30-Jun-14 (\$M)
Net profit after tax (underlying)	60.0	47.4
Hedge revaluation gain/(loss)	19.7	(19.2)
<b>Net profit after tax (statutory)</b>	<b>79.7</b>	<b>28.2</b>

Table 2 - Reconciliation of statutory profit to underlying profit

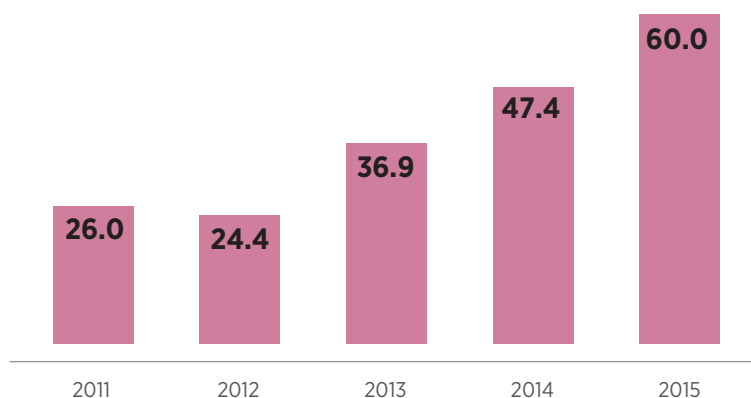


Figure 2 - Underlying net profit after tax (\$m)

## OPERATIONAL EFFICIENCY

The primary measure of ME's operational efficiency is its cost-to-income ratio. In recent years, this ratio has improved from 77.4% to 68.5% (refer to Figure 3), and further improvement is a key focus for the Bank. Further reductions will be achieved through economies of scale and efficiency-enhancing investments, resulting in revenue growth exceeding expense growth.

## 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 the Bank. This is reflected in management fee income decreasing and net interest income increasing (see Figure 4). Net interest income increased 16%, or \$37.3 million, to \$273.9 million in FY15.

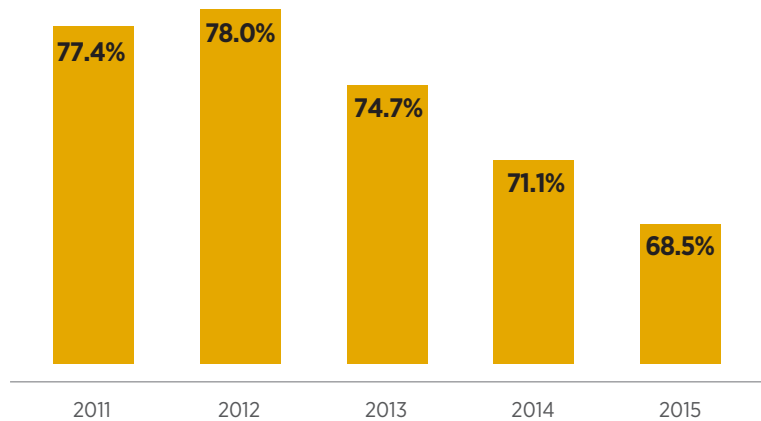


Figure 3 - Cost-to-income ratio

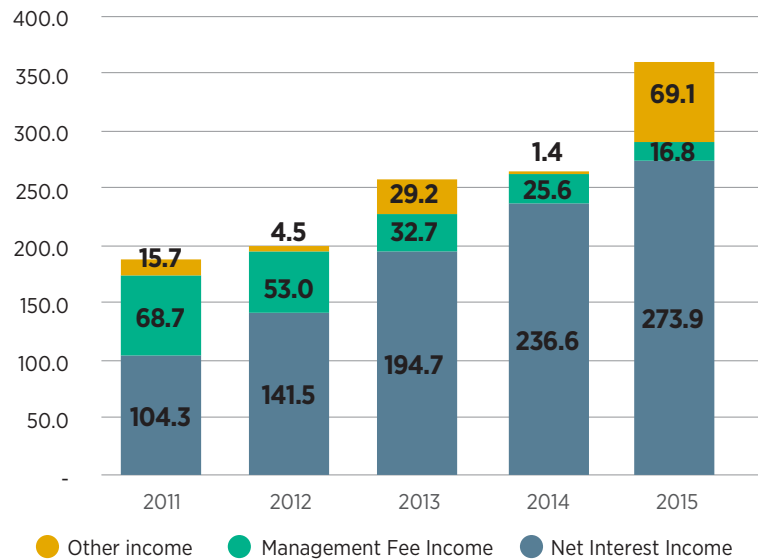


Figure 4 - Revenue (\$m)

## ASSETS

Total assets under management (on and off balance sheet) grew by 7% to \$23.3 billion in FY15. This follows growth in the prior year of 9%.

Total on balance sheet assets grew by 19% during the year, from \$17.9 billion to \$21.2 billion. This growth was driven by an increase in lending assets (loans and advances) of \$2.9 billion and an increase in investment assets of \$0.4 billion.

Home loans remain the core focus of the Bank, and account for 96% of all lending assets. The Bank settled over \$4.6 billion of new home loans in FY15, an increase of 22% over the previous corresponding period. By volume, the Bank settled over 17,800 new home loans in FY15, an increase of 11% on the previous corresponding period.

In August 2014, the removal of home loan eligibility criteria (the requirement to be an ISF or union member) expanded the addressable home loan market from approximately 5.5 million members to 11.4 million working Australians.

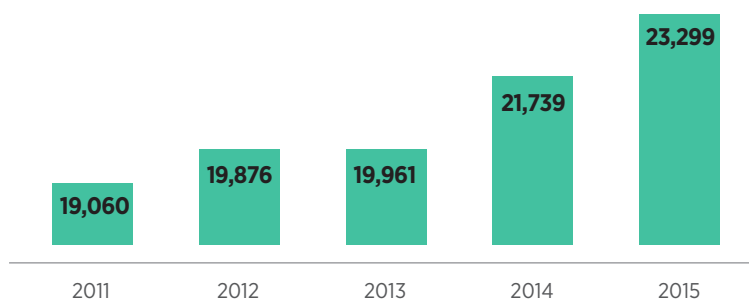


Figure 5 - Total assets under management (\$m)

## FUNDING

Customer deposits increased 7% to \$8.8 billion over the year, representing 44% of total funding, while wholesale funding increased 24% to \$6.1 billion, representing 31% of total funding, as at 30 June 2015.

Securitisation continues to be an important source of funding (refer to Figure 6), representing 25% of total funding. During the year, new securitisation vehicles were launched. The SMHL Series Securitisation Fund 2014-1 was launched in August 2014 and issued \$1.45 billion at a margin of 92 basis points on the most senior (AAA rated) tranche, which was 92% of the transaction. The SMHL Series Private Placement 2014-2 was launched in December 2014 and issued \$0.5 billion at a margin of 72 basis points on the most senior (AAA rated) tranche, which was 93% of the transaction.

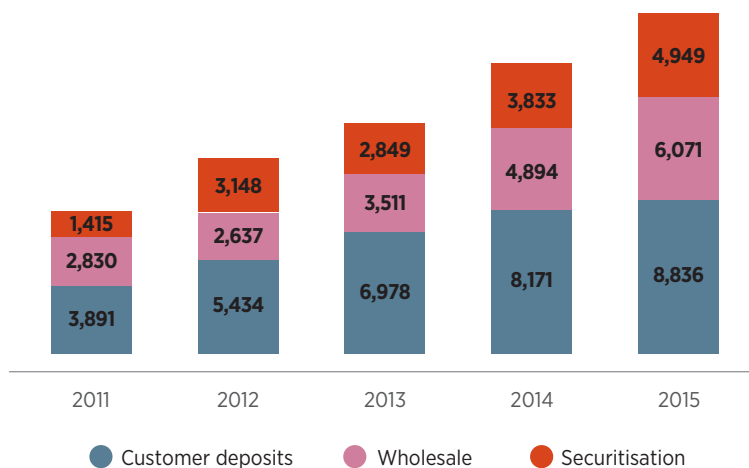


Figure 6 - Funding (\$m)

## CAPITAL MANAGEMENT

The Bank manages its capital in accordance with the expectations of shareholders and 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% during the financial year ended 30 June 2015 (it remained unchanged from the previous year).

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.

	30 June 2015 %	30 June 2014 %
<b>Risk-weighted capital adequacy ratios:</b>		
Tier 1	9.8	10.8
Tier 2	5.0	1.1
Total capital ratio	14.8	11.9

Table 3 - Capital adequacy ratios

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## OTHER ACHIEVEMENTS

### Transformation

The completion of the 5-year, \$90-million technology transformation program is the most important investment in the Bank's history. It enables ME to build a full suite of highly competitive retail banking products, design a best-in-class customer experience and importantly provide ISFs with the data insights required to help grow and retain members in an increasingly competitive superannuation environment.

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### Transformation has enabled:



Expansion of the Bank's product suite to include transaction accounts, credit cards and competitively priced and featured home loans.



The ability to develop co-branded cards that feature the fund logo on the front and the member's membership number on the back.



Pricing flexibility with the ability to implement 'specials' for members and price for loyalty.



Online account origination, allowing customers to open new deposit accounts and start transacting within minutes. Up to 50% of home loan applications now reach conditional approval status within a few minutes.



A single view of customers so we can provide faster and more accurate customer service. This also gives us the capability to analyse data for customer insights.



An enterprise architecture that will allow the Bank to 'plug 'n' play' with third party software.

## Refreshed brand and values

ME conducted an 18-month program to research and develop a new brand and set of values to support the Bank's significant growth ambitions and the vision to be the best bank in the digital era.

The Bank's new ME brand built on the existing sentiment – genuinely fairer banking – and adds

a new proposition: that we're working to help Australians get ahead, to live the best lives they can. ME is working to deliver this by introducing a whole new range of products and services to help make customers become 'financially fit' and make better decisions on managing their money. The new look and feel better supports the refreshed approach and reflects our position as a modern, digitally focused bank.

# To help all Australians GET AHEAD.



customer  
promises.



CUSTOMER  
CAPABILITY & CULTURE

free  
thinking



### Go to the Moon.

Don't be afraid to fail. Get out there, get amongst it, be brave, break new ground, do things differently and change the world.



### Love Monday

Love what you do and put yourself in the game every day. Bring your whole self to work and be present every second, give a damn about every single aspect of what you do.



### Ride the Subway

Get out there and see the real world, see what our customers see, what they want, what they dream of, hope for, aspire to. Get into their kitchen and feel that heat.



### Stay Hungry

Keep looking, keep learning, keep growing. Look outside and inside and make sure you know what's going on in our world and the whole world.



### Have a Swing

Just get going. Don't hesitate, make things happen, make every day count. Push yourself to do more than you've ever done before.

### Our new brand mark

A variety of research techniques were used to develop a brand mark that was modern, strong, innovative, secure and appropriate for a bank in the digital era. A positioning line was developed as a compelling external expression of 'Get Ahead'.



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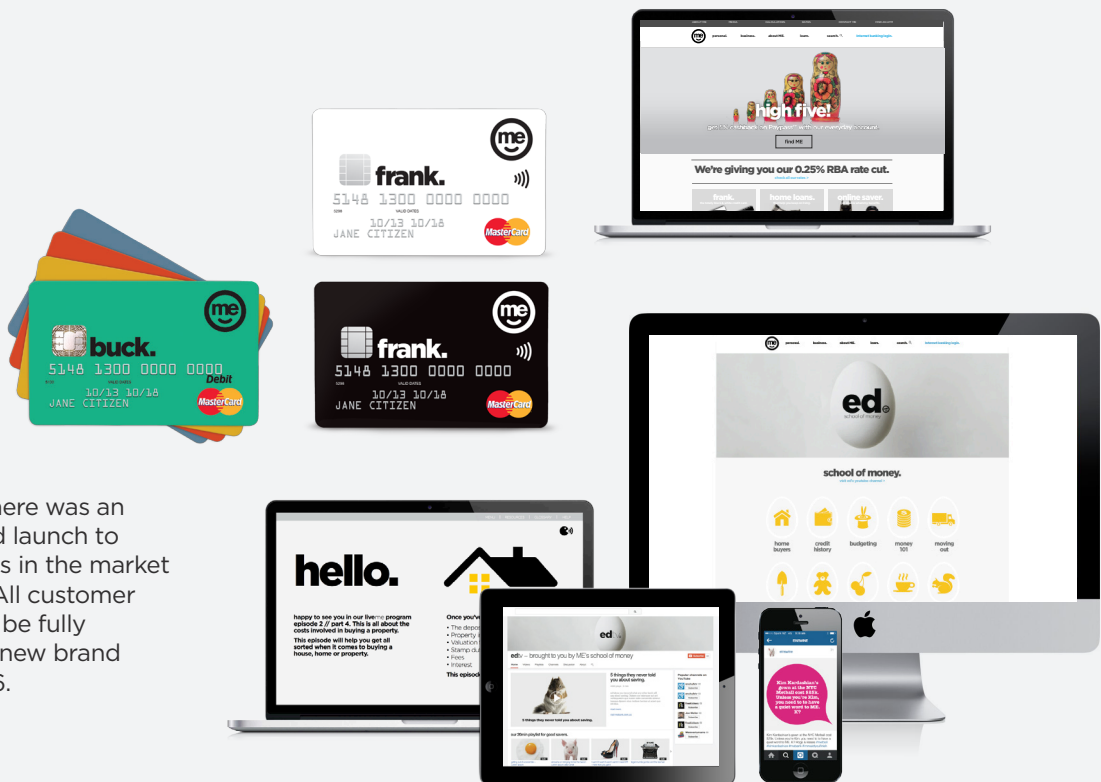
Our new tagline

make the most of 



### New mobile app

With more than a third of Australians now interacting with their bank via smartphone or tablet, the usability of banking apps has never been more important. Based on our new brand, we developed our new app to be more modern and easier to use, and to have features customers have been asking for. Our long-term plan for the app is to display super accounts alongside bank accounts, which will help keep super top of mind with ME's ISF member customers.



In September, there was an integrated brand launch to create awareness in the market of the new ME. All customer touchpoints will be fully migrated to the new brand throughout FY16.



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# 04

## PRIORITIES

### OUR STRATEGY

#### Objectives

ME's core objective is to provide long-term strategic and financial value to our shareholders and the broader ISF, union and employer network. Financial value will be achieved through growth in lending, supported by increased deposits and customer numbers, without a commensurate increase in costs as we derive productivity gains from our new technology platform. Strategic value will come from providing products and services that assist ISFs to retain and increase members and funds under management, and that enable enhanced engagement with members. Central to our approach will be continuing to provide exclusive offers to our partner networks, including products and services that will help their members get ahead financially.

#### Building blocks for success

Long-term financial and strategic value will be underpinned by three building blocks.



## 1. Increased connection with ISF network

Through our ownership structure, ME has a unique relationship with ISFs. These relationships will be leveraged through the following initiatives in 2016 to build value for ME and our network partners.



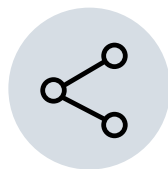
### Member benefits program

This program was established in August 2014 and is designed exclusively for ISF and union members, providing a broad range of exclusive offers that are market leading. Offers are sent directly to members and are updated quarterly.



### Co-branded cards

In October 2015 ME launched a new low-rate co-branded credit card, 'frank'. The initial launch included three of our key shareholders: AustralianSuper, Hostplus and Cbus. For the latter two funds, the card also features the card owner's fund membership details. More funds will launch the co-branded credit card throughout FY16.



### Network data strategy

The member benefits program and co-branded card initiatives will provide data that will be a critical capability and differentiator in today's market. Behavioural data provides member insights and ownership and use of data will be a significant asset for ISFs in competing against the retail funds.



### Super transaction account

ME is building a transaction banking product that can be integrated into superannuation to provide pension phase members with an option to leave money inside super in a tax efficient environment while still having access to it through a debit card.

## 2. Enhancing the customer experience

A compelling customer experience is a prerequisite for winning and retaining customers in a homogenised and mature market. ME put two fundamental building blocks in place in 2015 that underpin our ability to achieve this ambition: a brand and values relaunch and the completion of our 5-year, \$90-million technology transformation program.

Four major work streams scheduled for FY16 will focus on enhancing customer experience, including:



### Products and origination

We have a road map of product enhancements and origination improvements that will increase our ability to attract and on-board customers.



### Make 'em smile

Core service improvements to get the basics right for our customer experience; short-term improvements to our digital ecosystems to improve success of electronic on-boarding and retention; strategic overhaul of our digital platforms (web, internet banking, mobile).



### Data foundations and insights

To support the required uplift in customer acquisition and retention, we're undertaking a strategic investment in our data and analytical capabilities.



### Continuous improvement

We will continue to invest in culture, talent, staff development and operational excellence.

### 3. Growth of the broker channel

Broker settlements for the year were \$2.2 billion, an increase of 83% on last year.

This growth has been achieved following the establishment of the broker offering in November 2011. The Bank has partnerships with 18 aggregator groups, with over 6,500 accredited brokers (refer to Figure 7 below). The Bank is confident that growth through this channel will continue strongly as new technology will enable improved service to be delivered.

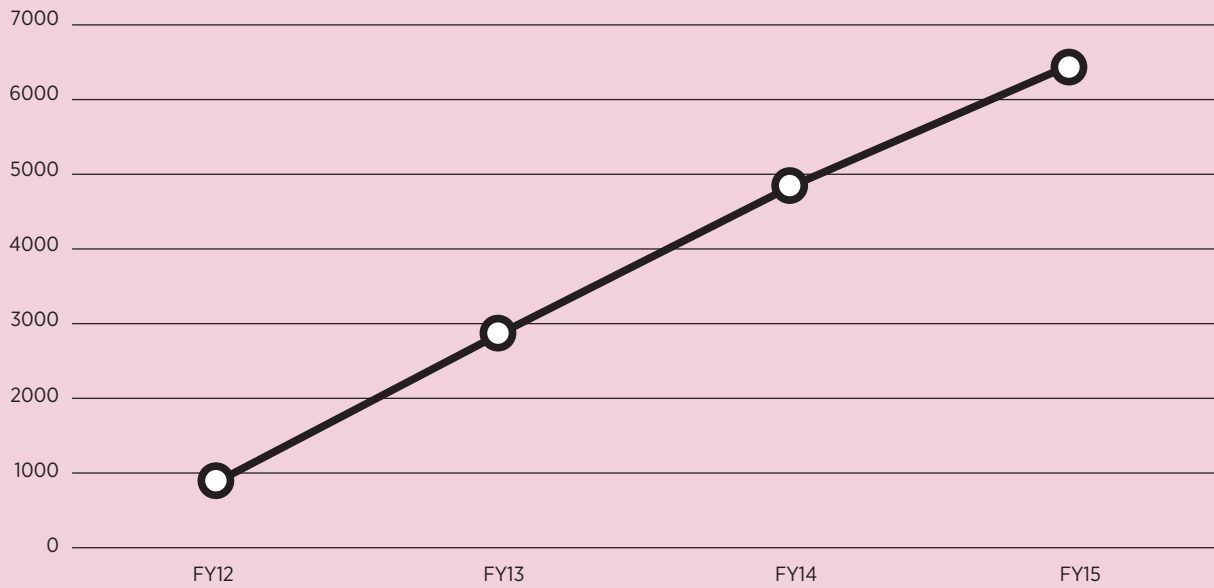


Figure 7 - Accredited brokers

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# 05

## RISK MANAGEMENT

### RISK APPETITE

The Bank has developed a Risk Management Framework (RMF) that allows it to assess and define a Risk Appetite Statement (RAS) to support the achievement of the business strategy. In December 2014 a comprehensive review of the RAS was performed to further mature risk appetite and embed risk tolerances into business decision making. The changes represent a more quantitative and measurable approach which is directly aligned with the Bank's strategy. Now included in the RAS are:

- Key drivers of each risk;
- Quantitative risk limits to clearly demonstrate how the risk is being monitored and managed; and
- Risk triggers to highlight what internal management triggers are in place to monitor and manage the risk.

The revised RMF and RAS have been benchmarked against industry peers and align to the requirements in APRA's Prudential Standard CPS 220 – Risk Management (effective 1 January 2015).

### RISK PROFILE

ME is a licensed Australian Bank with a BBB+ rating from Standard & Poor's and an A3 rating from Moody's (equivalent to an A- rating under Standard & Poor's criteria).

ME seeks a risk profile that meets the objectives of key stakeholders through balancing the growth of the business with the protection of its shareholders' funds, earnings, brand and reputation, its operating licence, and the interests of its customers.

ME operates in a highly regulated environment, which continues to become more prescriptive including recent additional requirements across capital, liquidity and lending practises. In addition, the implementation of Prudential Standard CPS 220 has raised the regulatory bar for enterprise risk management. The Bank has responded accordingly with significant investment in risk management resourcing, systems and overall capability.

This in turn enables the Bank to confidently identify and manage its material risks as required by CPS 220.

Some of the more significant (and presently identifiable) risks bearing upon the Bank are summarised to the right.

### **Data and Information Security**

Cyber risks are increasing across all industries and resources are being applied to manage the Bank's exposure to cyber theft and data breach risks in particular. Experts acknowledge that for organisations like ME it is not a matter of 'if' but 'when' we experience some kind of cyber event. Our approach, which is based on industry practice and regulatory expectations, is balanced between preventing and detecting such events, and being prepared to effectively respond to them.

### **Access to Capital**

The growth of ME depends on being able to access adequate capital as required. The fact that ME is owned by a number of ISFs helps to mitigate risks in this area, subject to ME continuing to perform to the satisfaction of those shareholders.

Other forms of capital are available to the Bank, which the Bank will seek to continue following the inaugural issue of Tier 2 capital under Basel III in FY15.

### **Stakeholder Engagement**

Effective and ongoing engagement with ISFs, unions and employer associations is critical to the successful execution of the Bank's strategy and ME's continued growth. Active collaboration with ISFs and other key stakeholders remains a top priority for the Bank.

### **Industry Risks**

There are a number of industry-wide risks that could impact the successful achievement of the Bank's strategy, including continued slow credit growth, increased competition in banking and the emergence of digital disrupters. Ultimately risks are inherent in all businesses, and not least in a young, innovative bank like ME. The challenge is not to shun such risks but continue to be aware of them and to manage them appropriately.

## **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 Audit and Governance Committee.

The Bank continues to invest in our Internal Audit approach and capability. A risk-based approach to Internal Audit continues to be applied, 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, via the co-sourced arrangement with PricewaterhouseCoopers which allows the Bank access to subject matter expertise across specialist areas.

# 06

## GOVERNANCE

### CORPORATE GOVERNANCE

ME'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 Constitution provides, amongst other matters, that directors may not hold office for more than three years without standing for re-election. Retiring directors are eligible for re-election during the year.

The Board has a diverse range of experience in banking and financial services as well as in other sectors. The experience of the Board members is set out to the right.



**Bernie Fraser - Chairman**  
Retired 5 February 2015

In addition to being Chair of the Board Mr Fraser was Chair of the Nominations Committee, and was a member of the People and Remuneration Committee.

He is a former Secretary to the Treasury and Governor of the Reserve Bank and a former 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 - Chairman**  
Chairman from 6 February 2015,  
Director since April 2000

Mr Weaven is Chair of the Nominations Committee and a member 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 The New Daily Pty Ltd. Mr Weaven's background includes periods as Chair of Pacific Hydro Pty Ltd and Assistant Secretary of the ACTU as well as Senior Consultant to Westpac Financial Services.



**Christine Christian - Non-Executive Director**

Director since November 2012

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

She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors during a career spanning more than 30 years, including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand. Her current directorships include UNICEF Australia, Chief Executive Women, Powerlinx Inc, State Library of Victoria Foundation Council, Directioneering Pty Ltd, Morgan Stanley Infrastructure Advisory Board and TAFE Review Board. She has held director positions with Business Information Industry Association - Asia and Middle East, the Melbourne International Comedy Festival and Private Media Pty Ltd.



**Greg Combet - Non-Executive Director**

Director since November 2014

Mr Combet is a member of the Audit and Governance Committee and the Risk and Compliance Committee.

He currently sits on the Board of IFM Investors (funds management) and is a consultant to, amongst others, the State of South Australia (economic restructuring post auto industry), and is a Principal Adviser to Industry Super Australia (strategy for Industry Super). Mr Combet held various cabinet, ministerial and parliamentary roles within the Australian Government from 2007 to 2013, including Minister for Industry and Innovation, Minister for Climate Change and Energy Efficiency, and Minister for Defence Personnel, Science and Materiel. Mr Combet was formerly Secretary of Australian Council of Trade Unions and a director of AustralianSuper.



**Anne De Salis - Non-Executive Director**

Director since May 2008

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 Super Consumers Centre and National Indigenous Pastoral Enterprises Board, and was a director of Funds SA until 30 June 2015.



**Sally Herman - Non-Executive Director**

Resigned 5 October 2015

Ms Herman was the Chair of the Audit and Governance Committee and Chair of the Risk and Compliance 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. During the year Ms Herman was also 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). During part of the year she was also a director of the Endeavour Foundation and the State Library of NSW Foundation Board.



**Ken Hodgson - Non-Executive Director**

Director since January 2012

Mr Hodgson is Chair of the People and Remuneration Committee and is a member of the Audit and Governance Committee and the Risk and Compliance Committee.

Mr Hodgson's experience includes 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.



**Justin Milne - Non-Executive Director**

Director since November 2012

Mr Milne is the Chair of the Technology Committee.

He is the Chairman of NetComm Wireless Ltd and the National Basketball League, and a non-executive director of Tabcorp Holdings Ltd, NBN Co Limited and MYOB Limited. He was a director of Basketball Australia and 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.



**Brian Pollock - Non-Executive Director**

Retired 6 November 2014

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

Mr Pollock has over 35 years' experience in superannuation, financial services and property investment. A former National President, he is one of only seven members to have been awarded National Life Membership of the Property Council of Australia.

## 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.

## 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 (ARGC) was replaced by two newly created Committees (Audit and Governance Committee and Risk and Compliance Committee) to comply with the APRA Prudential Standard CPS 510 effective from 1 January 2015. The Audit, Risk and Governance Committee's purpose was to provide an objective view of the effectiveness of ME'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 ME'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 was comprised of independent non-executive directors. During the period to 31 December 2014, the Committee was chaired by Ms Herman.

### **Audit and Governance Committee**

The Audit and Governance Committee was established on 1 January 2015 and its purpose is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the:

- Bank's financial and APRA reporting;
- internal control system;
- risk management framework; and
- internal and external audit functions.

The Committee is comprised of independent non-executive directors. Until her resignation, the Committee was chaired by Ms Herman.

### **Risk and Compliance Committee**

The Risk and Compliance Committee was established on 1 January 2015 and its purpose is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the:

- Bank's risk appetite statement;
- risk management strategy;
- risk management framework; and
- risk management (including compliance) function.

The Committee is comprised of independent non-executive directors. Until her resignation, the Committee was chaired by Ms Herman.



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## **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 succession planning (including the CEO) to meet the Bank's longer-term strategic goals; and to 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 (from 1 July 2014 to 5 February 2015) and Mr Hodgson (from 6 February 2015 to current).

## **Technology Committee**

The objective of the Technology Committee is to provide oversight to the Bank's Information Technology (IT) function including the 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 Committee is to make recommendations to the Board in respect of the appointment of new directors. It meets as needed, and met once during the period.

The Committee is comprised of independent non-executive directors, and two director representatives of the Bank's four largest shareholders. During the period, the Committee was chaired by Mr Fraser (from 1 July 2014 to 5 February 2015) and Mr Weaven (from 6 February 2015 to current).

## **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 Committees. As the Nominations Committee met only once during the period, it did not undertake an evaluation. While no formal evaluation was undertaken for the ARGC as it ceased on 31 December 2014, the members provided observations to the Risk and Compliance Committee at the February 2015 meeting.

## REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

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

For ME, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of that entity.

ME 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...
<b>Support the strategy</b>	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.
<b>Align to our values</b>	Encourage performance and behaviours that are consistent with the Bank's values and culture.
<b>Be fair</b>	Attract, motivate and retain high performers by providing remuneration that is market competitive.
<b>Be transparent</b>	Be structured in remuneration programs that are clearly defined, simple to understand and clearly communicated.
<b>Differentiate performance</b>	Motivate employees to be high performers who deliver strong sustainable results by differentiating remuneration for performance, reflecting individual, team and organisational performance.
<b>Embed risk awareness and good governance</b>	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 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. 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 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 three 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 a base fee (inclusive of the Superannuation Guarantee Charge payment, at 9.50% 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 key management personnel and directors is shown in the following tables.

	Company	
	2015 \$	2014 \$
<b>Key management personnel</b>		
Short-term benefits	5,009,353	4,299,062
Other long-term benefits	210,880	421,760
Termination benefits	-	1,437,208
Total key management personnel compensation	5,220,233	6,158,030

Table 4 – Remuneration of key management personnel

<b>Board schedule of fees</b>		
	<b>2015 \$*</b>	<b>2014 \$</b>
<b>Chair of the Board</b>	168,000	155,456
<b>Member of the Board</b>	84,000	77,727
<b>Audit and Governance Committee</b>		
Chair of the committee	13,500	-
Committee member	6,750	-
<b>Risk and Compliance Committee</b>		
Chair of the committee	13,500	-
Committee member	6,750	-
<b>People and Remuneration Committee</b>		
Chair of the committee	13,500	12,500
Committee member	6,750	6,250
<b>Technology Committee</b>		
Chair of the committee	13,500	12,500
Committee member	6,750	6,250

\*2015 Board fees took effect 1 January 2015

<b>The remuneration paid to each director is set out below: Fixed remuneration details</b>			
<b>Director</b>	<b>Committee membership</b>	<b>2015 \$</b>	<b>2014 \$</b>
B Fraser	Chair of the Board (retired on 5 February 2015)	104,760	155,456
	People and Remuneration Committee	4,211	6,250
		<b>108,971</b>	<b>161,706</b>
C Christian	Member of the Board	80,711	77,727
	Audit, Risk and Governance Committee	4,712	8,750
	Audit and Governance Committee	3,115	-
	Risk and Compliance Committee	3,115	-
	Technology Committee	6,481	6,250
	<b>98,134</b>	<b>92,727</b>	
G Combet	Member of the Board (appointed on 7 November 2014)	51,145	-
	Audit, Risk and Governance Committee	1,346	-
	Audit and Governance Committee	3,115	-
	Risk and Compliance Committee	3,115	-
	<b>58,721</b>	<b>-</b>	
A De Salis	Member of the Board	80,679	77,727
	People and Remuneration Committee	6,481	6,250
	Technology Committee	6,481	6,250
	<b>93,641</b>	<b>90,227</b>	
S Herman	Member of the Board (resigned on 5 October 2015)	80,744	77,727
	Chair, Audit, Risk and Governance Committee	9,423	17,500
	Chair, Audit and Governance Committee	6,231	-
	Chair, Risk and Compliance Committee	6,231	-
		<b>102,629</b>	<b>95,227</b>
K Hodgson	Member of the Board	80,622	77,727
	Audit, Risk and Governance Committee	4,712	8,750
	Audit and Governance Committee	3,115	-
	Risk and Compliance Committee	3,115	-
	Chair, People and Remuneration Committee	7,307	-
		<b>98,871</b>	<b>86,477</b>
J Milne	Member of the Board	80,678	77,727
	Chair, Technology Committee	12,962	12,500
		<b>93,640</b>	<b>90,227</b>
B Pollock	Member of the Board (retired on 6 November 2014)	29,895	77,727
	Audit, Risk and Governance Committee	3,365	8,750
	People and Remuneration Committee	2,404	6,250
	<b>35,664</b>	<b>92,727</b>	
G Weaven	Chair of the Board (appointed on 6 February 2015)	62,330	-
	Member of the Board	51,545	77,727
	Chair, People and Remuneration Committee	8,288	12,500
		<b>122,163</b>	<b>90,227</b>
<b>Total directors compensation</b>		<b>812,434</b>	<b>799,545</b>

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# 07

## PEOPLE

**At ME we're committed to creating a unique, values-based and high-performing culture. We recognise that our people are critical to our success. We are currently undertaking a significant cultural transformation to reinforce alignment to our organisational purpose to 'help all Australians get ahead'. In 2015 ME launched a unique set of organisational values that bring this to life for all of our people.**

### EMPLOYEE OPINION SURVEY

Each year, ME 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.

This year's survey results continued to see high participation with over 80% of employees responding to the survey. With the significant change taking place at ME some shift in engagement was anticipated and overall engagement declined to 53%.

However, ME's employees continue to feel connected to our organisational goals and objectives, are passionate about the people they work with, and remain positive about the organisation's commitments to flexibility and diversity. There is much activity across the organisation to understand the team's feedback and put regular and positive actions in place to address and seek improvement in overall organisational pride, commitment and satisfaction.

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## VALUES

Because we're determined to be a different kind of bank we need values that help us get there.

Our people are embracing the new values and we are confident that they will help us deliver on our commitment to our customers and deliver outstanding business performance.

### Our new values:



#### Go to the Moon.

Don't be afraid to fail. Get out there, get amongst it, be brave, break new ground, do things differently and change the world.



#### Love Monday

Love what you do and put yourself in the game every day. Bring your whole self to work and be present every second, give a damn about every single aspect of what you do.



#### Ride the Subway

Get out there and see the real world, see what our customers see, what they want, what they dream of, hope for, aspire to. Get into their kitchen and feel that heat.



#### Stay Hungry

Keep looking, keep learning, keep growing. Look outside and inside and make sure you know what's going on in our world and the whole world.



#### Have a Swing

Just get going. Don't hesitate, make things happen, make every day count. Push yourself to do more than you've ever done before.

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## FINANCE SECTOR UNION PARTNERSHIP

We are the first Australian bank to enter into a formal partnership with a union to work collaboratively to solve business issues. ME'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.

Under the partnership, ME and the FSU have built a consultative workplace relations framework that is a more sophisticated way to engage on business issues such as change, modernisation, productivity and employment terms and conditions, hinging on a shared understanding of agreed business objectives.

## DEVELOPING OUR PEOPLE

Our Learning and Development program is aligned to our capability model which establishes the skills, knowledge and behaviours that employees need to pursue opportunities for growth and career progression.

We recognise that the job readiness of our new employees is critical to their own and overall organisational success. All new employees commence with a Corporate Induction program in which the CEO personally welcomes each employee, provides insight into the history of ME, sets a clear vision of how we will Go to the Moon and gives context to each individual's role in that journey.

The Enterprise Learning team designs and delivers blended learning programs to support the 70:20:10 learning framework – a mix of face-to-face and virtual learning programs followed by on-the-job experiences, along with mentoring and/or coaching for greater job competency.

In 2015 the Enterprise Learning team delivered 42 job-ready programs to 611 employees over a cumulative total of 290 training days. Employees also completed 14,669 compliance-based certifications designed to keep the Bank, our customers and our employees safe.

## DEVELOPMENT DURING TRANSFORMATION

A blended learning solution was designed to support the Transformation program across the business in 2015. The solution was deployed in a number of phases to ensure that the business would be ready to embrace the necessary changes to product, processes and technology.

The following delivery methods were utilised:

- Online e-learning modules and gamification
- Exhibitions/demonstrations on the job
- Face-to-face classroom and virtual classrooms
- Mentoring post face-to-face workshops
- Social learning through Yammer

At the 2015 'LearnX Impacts Awards' ME won the Gold Award for the Best eLearning Model Blended. This award recognised and promoted the best talent and best work connected to the projects across the world of learning.



Post transformation our commitment to the development of our people is to ensure we design and uplift capabilities that align to the future requirements of the business and provide individual challenge, stimulation and career satisfaction.

## WORKPLACE HEALTH AND SAFETY

ME continues to be committed to providing a safe and healthy workplace for our employees, contractors and visitors. Employees are consulted on health and safety matters through Health and Safety Representatives at all our major workplaces and through our Health and Safety Committee. In 2015, ME continued to refine and update policies, procedures and tools so they are accessible and easy for everyone to use.

A common Health and Safety benchmark is Lost Time Injury Frequency Rate (LTIFR) which measures the number of lost time injuries per million hours worked. ME's LTIFR for this year is 0.0, which compares favourably to the industry rate of 1.2 (source: SafeWork Australia).

### Workplace Profile FY15

Number of employees	
Permanent	933
Contractors	49
Workforce turnover (12-month rolling average)	19.3%
Absenteeism days/FTE (includes personal, compassionate and workers compensation leave)	8.2

Table 5 - Workplace profile

### Gender Diversity FY15

Female/Male	
Non-managerial employees	
Female	50%
Male	50%
Managers	
Female	34%
Male	66%
Executive (including CEO)	
Female	3
Male	6
Board (including Chairman)	
Female	3
Male	4

Table 6 - Gender diversity

In FY15 we have seen a slight reduction in gender diversity and balance at the Manager level; future attraction strategies will be mindful of this and encourage a diversity lens be applied to internal and external applicants and promotions.

### Utilisation of Parental Leave FY15

Female/Male	
Primary carer's leave	
Female	41
Male	8
Secondary carer's leave	
Female	0
Male	7

Table 7 - Number of employees utilising parental leave



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## 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. 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 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 appointed Jamie to the position of Chief Executive Officer in February 2010. Jamie joined ME 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 an Executive Director of the merged company.



### ANTHONY ABOUT

#### Chief Change Officer

As Chief Change Officer, Anthony leads our 'Ellen' team, which is charged with helping to make changes that will ultimately take ME to the moon: 1,000,000 customers by 2020 and \$8b in home loan settlements by 2017. The Ellen team are a band of dedicated change agents who focus on business planning and prioritisation, change, continuous improvement and making sure everything we do at ME is taking us closer to the moon.

#### About Anthony

Anthony joined ME 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 Master Black Belt certification in the Lean Six Sigma methodology.



### 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 Finance Sector Union 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 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 Board member 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 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.



## GARY DICKSON

### Chief Financial Officer

As Chief Financial Officer, Gary is primarily responsible for monthly management, regulatory and external reporting, the annual budgeting process, capital and liquidity management, funding, investor relations, procurement and legal services.

### About Gary

Gary joined ME in February 2013. Before joining ME, Gary worked in a variety of finance roles in both listed and unlisted corporate environments. He was previously the Chief Financial Officer for AXA Australia from 2007 to 2012 and has 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.



## MARK GAY

### Chief Information Officer

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

### About Mark

Mark joined ME from GE Capital where he held senior technology roles both locally and globally, including the Global Head of Technology Process, Chief Technology Officer for Asia Pacific, and director of FastWorks, Quality and Strategic Programs for their Australian operation.



## HELENE GORDON

### Group Executive, People Experience

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

### About Helene

Helene joined ME in September 2015 and she has extensive strategic and operational Human Resources leadership experience in retail and distribution, telecommunications, property and professional services. Helene was previously the Head of People for NAB Retail, and has led HR and change teams at Foodworks, Coles Myer and Stockland.



**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 in January 2014 and has more than 20 years' experience in marketing and advertising, commencing at American Express before joining 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.



**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 also a key contributor to ME's strategic direction during a period of rapid growth and transformation.

**About Angela**

Prior to her Group Executive role at ME, Angela enjoyed leadership roles at National Australia Bank as Lending Services - Head of Business and senior management positions at Citibank and Australian Finance Group.



**CRAIG RALSTON**

**Group Executive,  
Service Excellence**

As Group Executive, Service Excellence, Craig is accountable for the delivery of service outcomes to our customers, in line with ME's value proposition. He is responsible for designing, improving and implementing the processes used to deliver our products and services to our customers, helping to ensure their initial and ongoing ME experience is consistent and seamless.

**About Craig**

Craig joined ME in February 2015 and he has over 20 years' experience in the financial services industry, the majority of which was at Bendigo and Adelaide Bank. Craig's experience includes retail sales, product and project management, operations, technology and strategy.

# 08 COMMUNITY

At ME we are committed to contributing to the community. We believe that our long-term success depends on the wellbeing of the communities in which we operate.



## MOTHER'S DAY CLASSIC

This year ME celebrated its 11th year as the major sponsor of the Women in Super's Mother's Day Classic, a national fun run and walk that raises funds for breast cancer research. Held in over 100 locations across Australia, the Mother's Day Classic is our biggest community and sponsorship event of the year. In 2015 the event raised \$3.1 million for the National Breast Cancer Foundation. More than \$25 million has been raised for breast cancer research since the event began in 1998.

ME also supports the event by producing and selling the official Mother's Day Classic bandana. Over the last four years, proceeds from the sale of the bandanas have raised more than \$90,000 for the National Breast Cancer Foundation.

The Mother's Day Classic is well supported by ME employees and their families. This year, ME had 220 members join the registered team and many other employees volunteered on the day.

## ME EVERYDAY TRANSACTION ACCOUNT WITH PINK DEBIT MASTERCARD®

This year we continued our association with the National Breast Cancer Foundation through offering the Pink Debit MasterCard®. Since May 2011, ME has donated one cent to the National Breast Cancer Foundation for every purchase made by customers using their pink card. In May this year, ME ran a promotion to donate \$50 to the National Breast Cancer Foundation for every Pink Everyday Transaction Account opened. This promotion raised over \$50,000 for breast cancer research.

Since 2005, ME has contributed more than \$1.8 million to breast cancer research through the Pink Debit MasterCard®, Mother's Day Classic sponsorship, fundraising and employee donations.

## THE ME CENTRE AND RICHMOND FOOTBALL CLUB

This is the final year of our five-year 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 Centre. The 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 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 that directly supports their industry and provides an opportunity to continue the initiative that led to their award nomination.



## GIVING BACK

ME's Giving Back program provides our employees with the opportunity to make regular donations through their pay to a group of eight community partners. In the 2015 financial year employees donated nearly \$18,000 to our community partners, which was matched by ME. At the end of June 2015, 8% 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 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 employees contribute by funding a microfinance loan for an individual through Good Return. For every employee who funds a loan, ME makes a donation to Good Return to run financial literacy programs.



## MOVEMBER

This year our employees once again participated in Movember, the initiative to raise funds and awareness for men's health issues. During the month of November, a team of ME employees took part by growing a 'mo' and raising funds for men's health. We raised \$8,000, which, through Movember, was donated to our community partners Beyond Blue and the Prostate Cancer Foundation of Australia.



## NATURAL DISASTER RELIEF

In April 2015 a devastating 7.8 magnitude earthquake struck Nepal's capital city of Kathmandu. Thousands of people were killed and many more injured. Hundreds of thousands more were made homeless, with entire villages flattened by the earthquake. ME made a donation of \$20,000 to the Australian Red Cross Nepal Earthquake Appeal to provide humanitarian relief to the people of Nepal following this natural disaster.

# 09

## ENVIRONMENT

Reducing our impact on the environment is a core part of ME's commitment to responsible business. We understand that our environmental impact extends beyond our own operations to include the products and services we provide and procure, as well as the investment decisions we make.

Our head office in Melbourne, where the majority of our people are located, received a Green Star rating of 5 stars from the Green Building Council of Australia in 2013. Our green star accommodation has provided significant environmental benefits, including reduced electricity consumption, largely due to improved heating, cooling and lighting efficiencies.

### RESOURCE USE

In the 2015 financial year ME produced 2,056 tonnes of greenhouse gas (GHG) emissions from its operations, including electricity use in offices, vehicle fleet usage and employee air travel (see figure 8 below). This is a decrease of nearly 20% from the previous year, which was achieved from a reduction in emissions from air travel, vehicle fleet and electricity use.

The largest source of GHG emissions for ME is electricity use in our offices, which accounts for more than half of our total emissions. In the 2015 financial year ME reduced its employee air travel, resulting in a reduction of 124 tonnes in greenhouse gas emissions. In 2015, ME's mobile banking vehicle fleet again saved more than 100 kilolitres of fuel compared to the previous year.

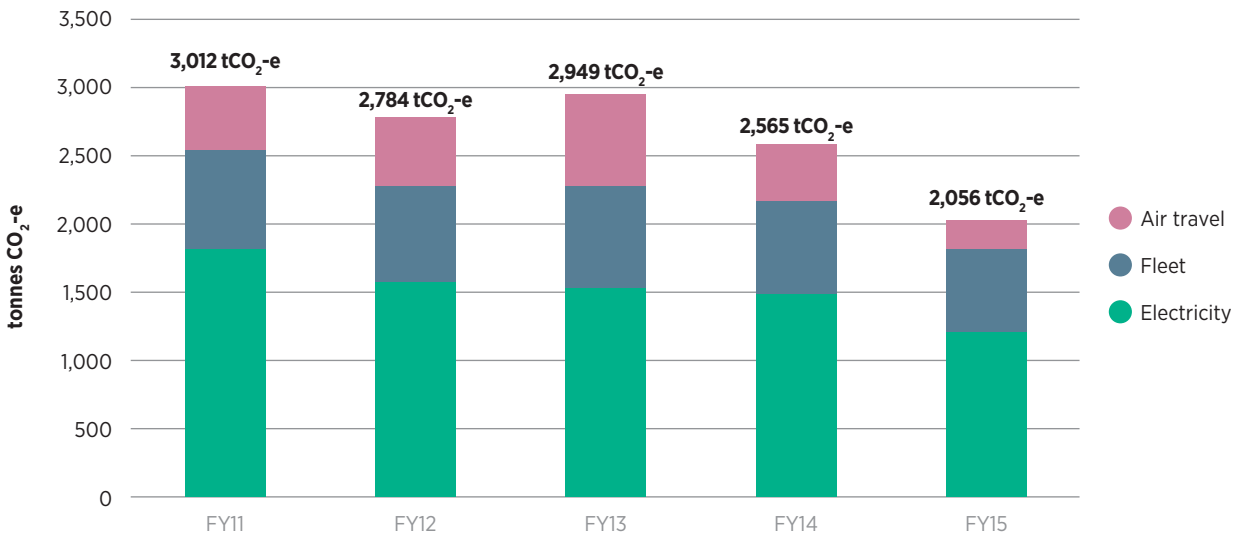


Figure 8 - Total greenhouse gas emissions (tonnes CO<sub>2</sub>-e)

## PAPER USE

In the 2015 financial year ME used 22 tonnes of paper. Of this, more than 70% was used in our offices and 30% was used for printed material for customer product information, banking activities such as application forms and marketing material. ME's overall paper use decreased this year, down from 106 tonnes in the 2014 financial year. This continues the trend of the past few years where ME is significantly reducing the paper we use in our operations.

In our offices, paper use decreased by more than 50% this year (see table 8 below). This is due to completion of the technology transformation program ME has undertaken over the past few years 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 the paper we use in our offices is 100% Australian made, certified carbon neutral and accredited by the Australian Forestry Standard, a non-profit organisation promoting responsible forestry practices throughout the entire supply chain.

FY15	FY14	FY13
15.4 tonnes	32.3 tonnes	38.6 tonnes
3,604 A4 sheets/FTE	7,296 A4 sheets/FTE	9,416 A4 sheets/FTE

Table 8 - Internal paper use

## RESPONSIBLE PROCUREMENT

ME 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 that demonstrate a proactive approach to economic, social and environmental responsibility.

When sourcing new suppliers, ME 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.

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## KEY FINANCIAL INFORMATION

The Key Financial Information has been derived from the Annual Financial Report of Members Equity Bank Limited (ME) for the year ended 30 June 2015. 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.

<b>Statement of profit or loss for the financial year ended 30 June 2015</b>		
	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest and similar income	1,226,699	1,033,757
Interest and similar expense	(952,841)	(797,185)
<b>Net interest income</b>	<b>273,858</b>	<b>236,572</b>
Funds management fee income	16,805	25,612
Other operating income	69,112	1,447
<b>Total net operating income</b>	<b>359,775</b>	<b>263,631</b>
<b>Expenses</b>		
Operating expenses	220,206	196,754
Impairment losses	16,150	14,301
Project expenses	12,333	13,689
<b>Total operating expenses</b>	<b>248,689</b>	<b>224,744</b>
<b>Profit before income tax</b>	<b>111,086</b>	<b>38,887</b>
Income tax expense	31,363	10,722
<b>Profit for the year</b>	<b>79,723</b>	<b>28,165</b>



<b>Statement of financial position as at 30 June 2015</b>			
		<b>Consolidated</b>	
	<b>Note</b>	<b>2015 \$'000</b>	<b>2014 \$'000</b>
<b>Assets</b>			
Cash and cash equivalents		360,902	360,414
Investments	3	2,904,722	2,461,801
Derivatives		15,452	10,019
Trade and other receivables		4,345	8,255
Loans and advances	4	17,769,834	14,916,724
Investment in controlled entities		-	-
Plant and equipment		34,244	35,602
Intangible assets		76,771	58,192
Deferred tax assets		33,927	19,336
Other assets		8,098	5,113
<b>Total assets</b>		<b>21,208,295</b>	<b>17,875,456</b>
<b>Liabilities</b>			
Amounts due to other financial institutions		2,620	30,897
Deposits and other borrowings	5	19,859,255	16,897,526
Derivatives		100,040	39,271
Trade and other payables		28,021	29,996
Current tax liabilities		826	12,343
Provisions		23,011	24,371
Subordinated debt		332,344	32,903
<b>Total liabilities</b>		<b>20,346,117</b>	<b>17,067,307</b>
<b>Net assets</b>		<b>862,178</b>	<b>808,149</b>
<b>Equity</b>			
Issued capital		729,995	699,995
Reserves		(31,709)	21,683
Retained earnings		163,892	86,471
<b>Total equity</b>		<b>862,178</b>	<b>808,149</b>
<b>Book value per share</b>		<b>\$84.94</b>	<b>\$82.51</b>

**Statement of changes in equity  
for the financial year ended 30 June 2015**

**Consolidated**

	<b>Issued capital \$'000</b>	<b>Retained Earnings \$'000</b>	<b>General reserve for credit losses \$'000</b>	<b>Investment revaluation reserve \$'000</b>	<b>Cash flow hedge reserve \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2013	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
<b>Balance at 30 June 2014</b>	<b>699,995</b>	<b>86,471</b>	<b>15,079</b>	<b>6,604</b>	<b>-</b>	<b>808,149</b>
Balance at 1 July 2014	699,995	86,471	15,079	6,604	-	808,149
Issue of share capital	30,000	-	-	-	-	30,000
Transfer to/(from) general reserve for credit losses	-	(2,302)	2,302	-	-	-
Other comprehensive income for the year	-	-	-	(1,359)	(54,335)	(55,694)
Profit for the year	-	79,723	-	-	-	79,723
<b>Balance at 30 June 2015</b>	<b>729,995</b>	<b>163,892</b>	<b>17,381</b>	<b>5,245</b>	<b>(54,335)</b>	<b>862,178</b>

## NOTES TO THE KEY FINANCIAL INFORMATION

### For the financial year ended 30 June 2015

#### 1 Review of operating results

ME recorded an after-tax statutory profit of \$79.7 million for the financial year ended 30 June 2015 compared to \$28.2 million in the previous financial year. The Bank has produced a strong result against most financial targets set for the year. Home loan sales volumes continue to be strong with year-on-year growth of 22%.

Net interest income increased to \$273.9 million from \$236.6 million in the previous financial year and funds management fee income decreased to \$16.8 million from \$25.6 million in the previous financial year, reflecting the migration of home loans from off balance sheet to on balance sheet.

Other operating income has been favourably impacted by the reversal of unrealised swap losses from prior years of \$28.1 million (\$19.7 million after tax).

Operating expenses increased to \$220.2 million from \$196.8 million in the previous financial year. Staff and related costs increased 6% with the number of employees (including contractors) increasing from 888 to 982. General administrative costs increased by 15% mainly due to an increase in marketing and promotional activity, an increase in system-related costs and an increase in the amortisation of deferred origination costs.

Impairment losses for the year were \$16.2 million compared to \$14.3 million in the previous financial year, mainly due to growth in the home loan portfolio. At 30 June 2015, the loss provisions balance was \$22.4 million, including \$5.7 million of specific provisions (representing 0.1259% of the total lending portfolio) compared to \$17.2 million (\$1.4 million of specific provisions) at 30 June 2014. Total assets at 30 June 2015 were \$21.2 billion, an increase from \$17.9 billion at 30 June 2014. Loans and advances have increased to \$17.8 billion at 30 June 2015 from \$14.9 billion at 30 June 2014. The growth in loans and advances is split approximately into 83% new business and 17% migration from off balance sheet to on balance sheet. Intangible assets have increased mainly due to capitalisation of costs associated with the Transformation project.

The increase in total assets has been funded by liabilities increasing to \$20.3 billion from \$17.1 billion. The growth in advised and corporate deposits and institutional borrowings is attributable to products such as the Cash Notice Account which has now grown to \$1.9 billion since being launched. Two new securitisation trusts were established during the year, which increased the issuance of mortgage-backed securities.

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 three-month bank bill swap rate. The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.

A total of \$30 million of paid-up capital was injected by the shareholders in the year ended 30 June 2015.

#### 2 Subsequent events

The Bank priced its first public offering of prime residential mortgage-backed securities for 2015 via SMHL Series Securitisation Fund 2015-1. The issue settled on 30 July 2015 and had a final volume of \$1.5 billion.

Other than the matter noted above, there are no other matters or circumstances occurring subsequent to 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 entity in future financial years.

	2015 \$'000	2014 \$'000
<b>3 Investments</b>		
<b>At fair value:</b>		
<b>Available-for-sale investments</b>		
Treasury notes and semi-government securities	597,657	796,612
Bank bills	767,835	367,651
Corporate fixed-rate notes	98,734	256,749
Corporate floating-rate notes	1,426,203	1,015,447
Mortgage-backed securities	14,293	25,342
	2,904,722	2,461,801
<b>4 Loans and advances</b>		
Credit cards	121,402	120,734
Personal loans	228,456	219,426
Residential home loans	17,172,957	14,264,993
Commercial loans	135,966	146,949
Asset finance	148,025	205,253
	17,806,806	14,957,355
<b>Less:</b>		
Unearned asset finance income	(14,562)	(23,395)
Allowance for impairment losses	(22,410)	(17,236)
	17,769,834	14,916,724
<b>Movement in allowance for impairment of loans and advances</b>		
Balance at the beginning of the year	17,236	12,852
Amounts written off as uncollectible during the year	(13,375)	(11,825)
Amounts recovered during the year	2,698	2,098
Allowance for impairment losses recognised during the year	15,851	14,111
	22,410	17,236
Individual impairment	5,723	1,372
Collective impairment	16,687	15,864
	22,410	17,236

	2015 \$'000	2014 \$'000
<b>5 Deposits and other borrowings</b>		
<b>Unsecured – at amortised cost</b>		
Retail customer deposits	3,355,806	3,127,333
Business customer deposits	1,231,222	1,252,246
Superannuation banking deposits	426,929	420,968
Advised and corporate deposits	3,821,953	3,370,461
Institutional borrowings	4,528,279	3,528,000
Treasury borrowings	544,392	550,035
Medium term notes <sup>i</sup>	998,279	813,932
Other borrowings	986	1,634
	14,907,846	13,064,609
<b>Secured – at amortised cost</b>		
Mortgage-backed securities <sup>ii</sup>	4,951,409	3,832,917
<b>Total deposits and other borrowings</b>	<b>19,859,255</b>	<b>16,897,526</b>

<sup>i</sup> Of the \$995,000,000 floating rate notes:

- \$20,000,000 is due in the first half of the the 2016 financial year;
- \$200,000,000 is due in the second half of the 2016 financial year;
- \$325,000,000 is due in the first half of the 2017 financial year;
- \$200,000,000 is due in the first half of the 2018 financial year; and
- \$250,000,000 is due in the second half of the 2018 financial year.

<sup>ii</sup> 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.





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