

# **APS330 Remuneration Disclosures**

Year ended 30<sup>th</sup> June 2020

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# 1 Qualitative disclosures

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## 1.1 Introduction

The following remuneration disclosures have been prepared in line with the prudential standard APS 330 Public Disclosure (APS 330) and Members Equity Bank Limited (ME or the Bank) Board of Directors (Board) approved remuneration policy. The Australian Prudential Regulatory Authority's (APRA's) prudential disclosures require that all Authorised Deposit-taking Institutions (ADIs) meet the minimum requirements for public disclosure of qualitative and quantitative information concerning their remuneration practices.

This prudential disclosure is separate to the existing Remuneration Report requirements which cover only Key Management Personnel (KMP). This quantitative information relates to senior managers and material risk takers (if applicable) of ME for the financial year ended 30 June 2020.

## 1.2 Remuneration governance

The ME Board has in place a People and Remuneration Committee (Committee). The Committee is comprised of three independent non-executive directors; Ms Deborah Kiers (Chair) who replaced Ms Cheryl Bart on 3<sup>rd</sup> August 2020, Mr James Evans and Mr Peter Everingham. During the year the Committee met six times. Ms Elana Rubin retired from ME in June 2020 and was replaced temporarily as Chair by Mr James Evans through July 2020.

The 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 group of employees whose roles may affect the financial soundness of the Bank;
- 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 Committee may make recommendations to the Board in connection with the fitness and propriety of responsible persons.

Non-executive directors of the Company are remunerated by way of one base fee (inclusive of superannuation at 9.5% for the period). The Committee members receive, in addition to their base director fees, additional remuneration for their participation in the Committee as compensation for the additional responsibilities and workload (pro-rated for the time spent on the Committee). For the year, the Board of directors received total payments of \$961,168 inclusive of superannuation.

The Committee may, in determining appropriate levels of Senior Manager remuneration, engage an external consultant to provide independent advice, to ensure that the compensation is set competitively compared to the market. During the period the Committee did not engage any consultants.

The Remuneration Policy (Policy) is the overarching tool by which the Bank's remuneration is governed. The Policy is reviewed at least annually by the Committee and approved by the Board. It was reviewed in June 2020 and has been approved with effect from 24 June 2020.

The Policy applies to all permanent ME employees. Some sections of the Policy apply only to the designated job types noted in those sections. The Policy does not apply to responsible auditors, non-executive directors or service contracts with third parties, which are dealt with under the Bank's Risk Management Framework.

Remuneration includes fixed and variable components, with a strong awareness of the need for prudent risk-taking, within ME's risk appetite, particularly when providing the opportunity for variable pay.

Any variable pay and performance-based components of remuneration are designed to encourage behaviour that supports ME's long-term financial soundness and the Risk Management Framework.

The Policy provides the governance framework ME uses to structure remuneration programs and to determine and adjust remuneration. It addresses such matters as approval authorities, adjustments for risk management and the Bank's values, adjustments for business activities and outcomes, adjustments for financial soundness or unexpected outcomes, the approach to deferral elements in remuneration (including malus and clawback), and special remuneration arrangements during recruitment. It identifies a number of designated job types – such as Responsible Persons for the purposes of prudential standard CPS520 – Fit and Proper, risk and financial control personnel, and material risk takers (of which the Bank currently has none) – for which special arrangements may need to be made to ensure their reward is focussed on the right behaviours to support ME's financial soundness.

Senior managers for the purpose of this disclosure include the Chief Executive Officer (CEO), the Executive management team (KMP reported in the Remuneration Report), Accountable Persons (APs) (as per the Banking Executive Accountability Regime (BEAR)), and Responsible Persons (RPs) (as per the Remuneration Policy). A 'Senior Manager' refers to each responsible person included in an ADI's Remuneration Policy under paragraph 59(a) of Prudential Standard CPS 510 Governance (CPS 510). During the financial year ending 30 June 2020, there were 21 employees within this group (for 2019 there were 22).

Material risk takers are defined persons included in an ADI's Remuneration Policy under paragraph 59(c) of CPS 510 as all other persons for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the regulated institution. Based on this definition, there are no employees that are considered material risk takers.

One person received a sign on payment of \$50,000 during the financial year on completion of probation.

Two people received termination payments during the financial year totalling \$483,255.

### 1.3 Remuneration design and structure

At ME, we believe in helping all Australians get ahead. For our people, this means providing them with a remuneration package that is attractive, fair and transparent. Our variable remuneration plan is designed to motivate and reward our people for the delivery of enterprise objectives, which are set with ambition in mind. We believe strongly in our purpose and values, and our remuneration design ensures the level of conduct and behaviours we expect of our people.

We reward and recognise those who have impact over and above expectations, who have the customer at the centre of all they do, who contribute to our culture and ensure responsible risk management. Our Executive team and People and Remuneration Committee provide oversight and input to the design and implementation of remuneration plans

The following guiding principles are the foundation of the Bank's remuneration and reward approach.

Total reward at ME will ...	Because it will...
Support the strategy	Encourage performance and behaviours that contribute to the overall achievement of the long-term business strategy of ME  Link reward to the generation of sustainable value for the organisation and its shareholders
Align to our Values	Encourage performance and behaviour consistent with the values and culture of ME
Be fair	Attract, motivate and retain high performers by providing reward that is market competitive
Be transparent	Be structured in reward 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 reward for performance, reflecting individual, team and organisational performance
Embed risk awareness and good governance	Encourage prudent risk-taking within ME's risk appetite  Encourage behaviours that support the Risk Management Framework  Encourage actions clearly focused on ME's long-term financial soundness

The remuneration mix for a job is the combination of fixed and variable remuneration, and ME determines the target remuneration mix for each job type based on market competitive practices.

Fixed remuneration is made up of salary and superannuation contribution; variable remuneration is made up of short-term incentives (STI) and in the case of the CEO also a long term incentive (LTI).

The following tables summaries the remuneration elements and the key determinants of reward for each:

Employee Group	What determines the remuneration outcome?	
	Fixed Remuneration	Variable Remuneration
<b>CEO</b>	Board Review, based on market data	STI based on organisational and individual performance measures.  LTI based on organisational performance measures.
<b>Executive</b>	CEO & Board Review, based on market data	STI based on organisational and individual performance measures.
<b>Employee Above Job Grade 9</b>	CEO & Executive Review, based on market data	STI based on organisational and individual performance measures.
<b>Employee Job Grades 1 to 9</b>	Enterprise Agreement	STI based on organisational and individual performance measures.
<b>Sales/Mortgage Distribution Employees<sup>†</sup></b>	Enterprise Agreement	STI based on Individual balanced scorecard.

<sup>†</sup> ME have implemented the recommendations of the Australian Banking Association 'Review of Retail Banking Remuneration', completed by Stephen Sedgwick AO. Employees formerly categorised as Sales, have been moved to an annual STI aligned to the enterprise approach, combined with an individual balanced scorecard effective from 1 July 2019.

## 1.4 Remuneration and risk

ME understands the importance of prudent risk-taking within ME's risk appetite. Any variable remuneration and performance-based components of remuneration are designed to encourage behaviour that supports ME's long-term financial soundness and the Risk Management Framework. One tool the Bank employs to manage risk when providing the opportunity for variable remuneration is the application of deferral to some STI, and in the case of the CEO, LTI amounts in accordance with the Remuneration Policy. Board approval is required prior to the release of any deferred incentive amounts.

The Remuneration Policy provides for variable pay to be adjusted to reflect the individual's demonstration of the ME values and compliance with the Risk Management Framework (RMF), as determined through the performance assessment process. In addition, if the individual leads a team, their variable pay may be adjusted to reflect the team's demonstration of the ME values and compliance with the RMF. Key risks are taken into account when implementing remuneration mixes and program design are largely operational in nature, i.e. risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory compliance risk.

ME has a range of policies and related governance documents in place to assist in the management and oversight of remuneration practices to support sound risk management.

In line with these documents, the following approvals are required:

- The remuneration mix for the CEO, the Executive team and all ME employees is approved by the Board after consideration of the recommendations of the Committee.
- Fixed and variable pay arrangements and adjustments for the CEO and Executive Team are approved by the Board.
- Fixed and variable remuneration arrangements and adjustments for employees are approved by the CEO based on the recommendation and approval of the Executive Team with Board oversight.
- The total pool available for variable, STI, remuneration for employees (including the CEO and Executive team) participating in this program is approved by the Board.

## 1.5 Linking remuneration and performance

ME provides variable, performance based, remuneration by way of Short-Term Incentive (STI) and Long-Term incentives (LTI). Both STI and LTI provide cash-based payments. There are no shares or equity based rewards.

The Board retains full discretion over the payment of any variable remuneration and approves the performance measures used to determine the value of this remuneration.

The Corporate Scorecard comprising of customer, financial, employee and risk metrics and individual performance outcomes are used to determine STI payments.

In the case of variable remuneration payments, the Remuneration Policy provides for the consideration of longer-term performance and the deferral of part of some payments, and this was applicable to payments made during the year. The BEAR requirements for deferral for Accountable Persons was applied.

Executive STI comprises a maximum STI of 40% of Total Fixed Reward with a deferred component payable 60% in the year of award, and 40% payable 4 years following the year of award.

The Board has the authority to adjust down, including adjusting to zero, any deferred amounts to protect the financial soundness of ME or respond to significant unexpected or unintended consequences that were not foreseen by the Board. The Board also has the authority to adjust the deferred amounts to reflect the outcomes of ME's business activities, the risk related to ME's business activities taking into account, where relevant, the cost of the associated capital, and given the time necessary for outcomes of those business activities to be reliably measured. Adjustments may also be made if it is determined that the employee (or their team in the case of managers) has not demonstrated the ME values and compliance with the Risk Management Framework.

Deferral was applied to variable pay awarded during this financial year. This deferral is detailed in Table 1.

## **1.6 Forms of variable remuneration**

### Short-Term Incentives (STI)

Short-term incentives reflect the relative performance of an employee within his or her job at ME 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 is the Annual Short-Term Incentive, which is a cash based program.

Most permanent employees are eligible to be considered for an STI payment, and the Board approves an Annual STI pool that reflects the performance of the ME against the Corporate Scorecard.

### Long-Term Incentives (LTI)

An LTI arrangement is in place for the CEO only. The LTI is a cash-based program, and the Board retains absolute discretion over the payment of any LTI. The CEO LTI arrangement in place for the reporting period provides for a percentage of the CEO's fixed remuneration to be made available as award, subject to the assessment of performance against several internal and external measures after a three-year performance period.

Any award to be made under the LTI is paid based on the deferral requirements within the Remuneration Policy.

Any payment to be made under the LTI arrangements will only be paid after the approval of the audited financial statements for the financial period immediately preceding the LTI payment being determined.

CEO resignation from ME reduces entitlement to consideration for payment of the deferred component of any LTI payment already awarded, at the Board's discretion.

## 2 Quantitative disclosures

The following quantitative disclosures are provided in accordance with Prudential Standard APS 330: Public Disclosures.

### 2.1 Senior Manager remuneration awards during the year

The Senior Managers comprise all members of the executive committee and other roles identified under the Responsible Persons Policy. There were 13 current senior managers as at the end of the reporting period. There were five retired and three former employees that historically filled Senior Manager roles.

### 2.2 Fixed, Variable and Deferred Remuneration Paid in the Financial Year

The detail of fixed, variable and deferred remuneration paid to the Senior Managers during FY20 is shown in Table 1 and Table 2. There were no material risk takers designated for FY20:

Table 1: Total number and value of remuneration awards

	FY20		FY19	
	Unrestricted	Deferred	Unrestricted	Deferred
<b>Senior Managers:</b>	<b>21</b>	<b>5</b>	<b>22</b>	<b>7</b>
<b>Total</b>	<b>\$6,316,275</b>	<b>\$244,000</b>	<b>\$8,370,661</b>	<b>\$776,512</b>
<b>Fixed remuneration<sup>1</sup></b>	\$5,570,450	Nil	\$6,756,992	Nil
<b>Cash</b>	\$5,281,353	Nil	\$6,260,924	Nil
<b>Other</b>	\$289,097	Nil	\$496,068	Nil
<b>Variable remuneration<sup>2</sup></b>	\$745,825	\$244,000	\$1,613,669	\$482,512
<b>Variable remuneration Adj<sup>3</sup></b>			\$735,000	\$294,000
<b>Material Risk Takers</b>	Nil	Nil	Nil	Nil

<sup>1</sup> Represents actual fixed remuneration received, including, salary sacrificed benefits and leave entitlements (Cash) and employer superannuation contributions (Other).

<sup>2</sup> All variable remuneration is cash based and relates to amounts awarded for the financial year reported

<sup>3</sup> Adjustment to FY19 variable remuneration to reflect a Board approved adjustment to the FY16 to FY19 LTI for the CEO.

## 2.3 Deferred Remuneration Paid and Accrued during the Financial Year

Deferred remuneration from prior periods was released to six Senior Managers during the year and deferred remuneration for future periods was accrued for eight Senior Managers.

**Table 2: Value of released and outstanding deferred variable remuneration**

	FY20		FY19	
	Deferred remuneration released as cash <sup>3</sup>	Outstanding deferred remuneration <sup>4</sup>	Deferred remuneration released as cash <sup>3</sup>	Outstanding deferred remuneration <sup>4</sup>
<b>Senior Managers:</b>	\$154,788	\$442,112	\$622,288	\$1,092,162

<sup>3</sup> Deferred remuneration released as cash comprises deferred components from FY18. All amounts were subject to review under the Policy and two reductions were made to the deferred remuneration released during FY20.

<sup>4</sup> Includes balance of total deferred awards from FY19 and FY20. There is an adjustment to FY19 outstanding remuneration as described in table 1.

All remuneration payments were made in cash or as other remuneration benefits; no equity or share linked payments or instruments were granted.

All deferred remuneration payments released during the financial year were subject to review under the provisions of the Policy. The Board made the decision to vary the amount to be released for two individuals related to FY18 deferred amounts by \$34,363.