



Annual Review.
2017

Contents.

| | | |
|-----|---|----|
| 01. | Financial highlights. | 3 |
| 02. | Message from the Chairman and CEO. | 4 |
| 03. | About ME. | 6 |
| 04. | FY17 Performance. | 9 |
| 05. | Priorities. | 20 |
| 06. | Governance. | 24 |
| 07. | People. | 40 |
| 08. | Community. | 50 |
| 09. | Environment. | 52 |
| 10. | Key financial information. | 54 |

01 FY17 financial highlights.



Underlying net profit after tax (NPAT) was **\$85.2 million**, an increase of 14% on the previous financial year.



Return on equity **increased by 10 basis points** to 8.3%, continuing the trend towards the medium-term target of 10%.



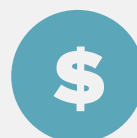
Customer numbers increased by 15% **420,000.**



Customer deposits grew by 20% to \$12.6 billion reflecting the ongoing diversification of the funding profile.



The Bank sold its employer banking portfolio to non-bank lender RedZed, allowing it **to focus on retail banking.**



Total assets grew by 7% to **\$26.5 billion.**

02

Message from the Chairman and CEO.

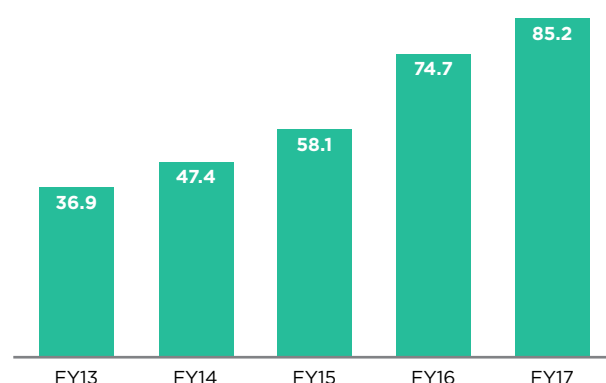
FY17 saw another strong performance from ME and continued ME's solid five-year run of growth, despite increased regulatory and competitive challenges.

ME's financial performance was strong, with underlying earnings (NPAT) up 14% on the prior year to \$85.2 million. This was driven by the Bank's record \$6.2 billion in home loan settlements, with the Bank's portfolio growth 1.6 times system, as well as growth across all other key products and nominal expense growth of 3%.

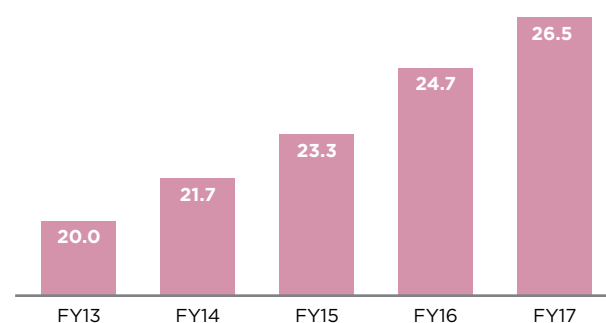
Capitalising on new application, credit assessment and origination systems which were deployed in FY16, the capacity and efficiency of credit card acquisitions was improved by 400% through FY17, while the online savings account loyalty product continued to be a highly cost-effective acquisition product. ME's total customer deposits increased by 20% to \$12.6 billion overall, a record high for the Bank.

ME's cost-to-income ratio, a measure of operational efficiency, reduced by 2.3% to 63.5%, return on equity increased 10 basis points to 8.3% and customer numbers were up 15% to 419,521. In addition, home loan customers now have an additional channel of choice after a new over-the-phone home loan application channel was established to augment the Bank's network of mobile lenders and mortgage brokers. This new channel is expected to grow strongly in the future.

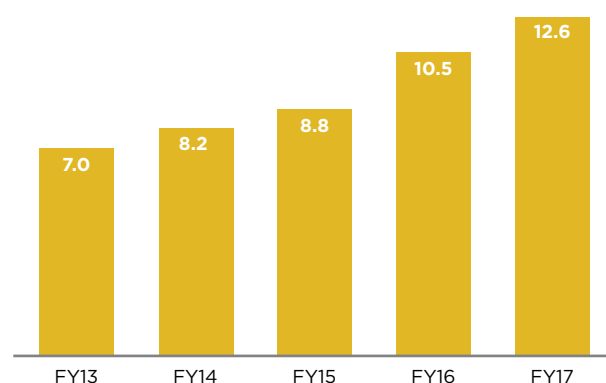
ME continued to invest in its systems and processes in FY17, further enhancing its ability to reach and service customers. The Bank continued to improve the customer experience by automating many of its home loan application processes, launching new internet banking, and rolling out mobile responsive online application forms. This has resulted in a reduction of cost per customer acquisition by 50%. FY18 will see ME launch a new responsive website as the Bank continues to cement its position as a digital bank.



Underlying net profit after tax (\$m).



Total assets (\$b).



Customer deposits (\$b).

Capitalising on its unique ownership structure, the Bank's commercial partnerships with its industry super fund owners continued to bear fruit. A record 123 industry super funds and unions participated in the Bank's Member Benefits Program, which now generates 13% of ME's home loan settlements. Also, for the first time, members of industry super funds who partner with ME can see their super and banking balances online together thanks to the launch of the 'Super and Banking Together' initiative. Seven funds now offer co-branded ME credit cards to their members while four funds are now offering their members the chance to enjoy superior retail-style returns on their cash investments through ME's Super Cash Management Account.

Brand awareness has increased to a record high of 55%, a 15 point increase since the brand was refreshed nearly two years ago.

In light of the macroprudential restrictions on home lending and the regulatory imbalances that continue to give the major banks a competitive advantage, ME had an excellent FY17. The next few years will see a renewed focus on strengthening systems and processes, broadening product offers, and automating each step in the home loan application process to better compete in an increasingly tech-savvy banking environment. The sale of ME's employer banking portfolio in FY17 to RedZed will also enable the Bank to focus exclusively on its six core retail banking products. Thank you also to departing directors, Garry Weaven and Anne De Salis, for their significant contributions to ME over several years.

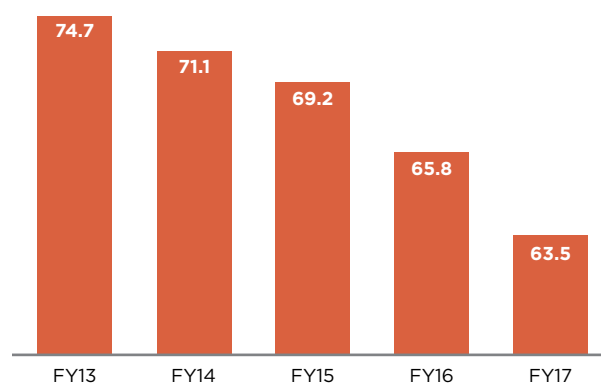
ME's achievements over the past year show the Bank is improving its ability to deliver on its core purpose to 'help all Australians get ahead'. The Bank will continue to focus on realising the opportunities afforded by its new technological advancements and unique partnership with its industry super fund owners as it grows its relevance and financial returns.



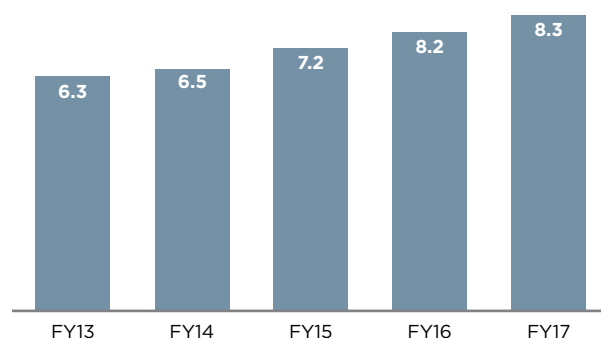
Ken Hodgson
Chairman



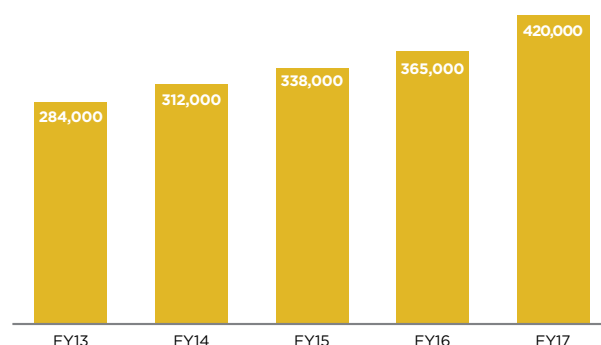
Jamie McPhee
Chief Executive Officer



Cost-to-income ratio (%).



Underlying return on equity (%).



Customer numbers (rounded).

03 About ME.

OVERVIEW

Every Australian deserves to get the most out of their money. ME is here to help them do it.

ME was established in 1994 as Super Members Home Loans (SMHL) to help everyday Australians achieve the dream of owning their own home. The Bank obtained its full banking licence in 2001 and today it provides more than home loans, offering a varied range of banking products and services to everyday Australians. ME is regulated by the Australian Prudential Regulation Authority (APRA) and as with all banks, customers' deposits up to \$250,000 are protected by the Government Guarantee.

ME's purpose is to help all Australians get ahead by enabling them to achieve their personal best and rail against financial anxiety. Today, that means giving them ways to get more from their savings, pay less on loans, and cut down on fees through a suite of personal banking products including home loans, personal loans, credit cards, transaction and savings accounts, and term deposits. The Bank also has an online school of money called 'Ed', to equip Australians with the tools to save smarter and spend more wisely.

ME's benefits go back to the 29 industry super funds that own it, which are listed on the right.



Figure 1 – The 29 industry super funds that own ME.

PRODUCTS AND SERVICES

ME's focus is on providing retail banking products to help Australians transact, save and borrow. It is committed to providing products that enable people to meet their financial goals, including achieving their dream of owning a home. It offers these products through a variety of channels, including online and over the phone.

The Bank has a team of over 50 Mobile Lenders who specialise in home loans and visit customers at a time and place convenient to them. ME also offers its home loans through a national network of mortgage brokers and aggregators as well as a new direct sales team, which accepts home loan applications over the phone. Credit card, transaction and deposit products can be opened online.



Personal banking products

- Home loans
- Personal loans
- Credit cards
- Transaction accounts
- Cash management accounts
- Online savings accounts
- Term deposits.



Business products

- 11am account
- Term deposits
- Electronic certificates of deposit
- Business online savings accounts
- Cash notice account.



Servicing customers

- Australia-based national customer contact centre
- Internet banking
- Mobile app.



Scroogify



Competitive variable home loans



Internet banking



Responsive apps

New

Figure 2 – ME's new offers in FY17.

CUSTOMERS

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

For customers looking to purchase their own homes, ME's core home loan products offer competitive rates. For customers who are looking to invest and save, either throughout their working lives or as they transition to retirement, ME offers a competitive range of retail deposit products and cash solutions in conjunction with industry super funds. Customers who are members of eligible industry super funds and unions can also access special rates through the Bank's Member Benefits Program.

Over the last financial year, ME grew its customer base by 15%, from 365,000 at 30 June 2016 to nearly 420,000 in June 2017 (refer to Figure 3 below). This growth is reflective of the breadth and competitiveness of the ME product offering.

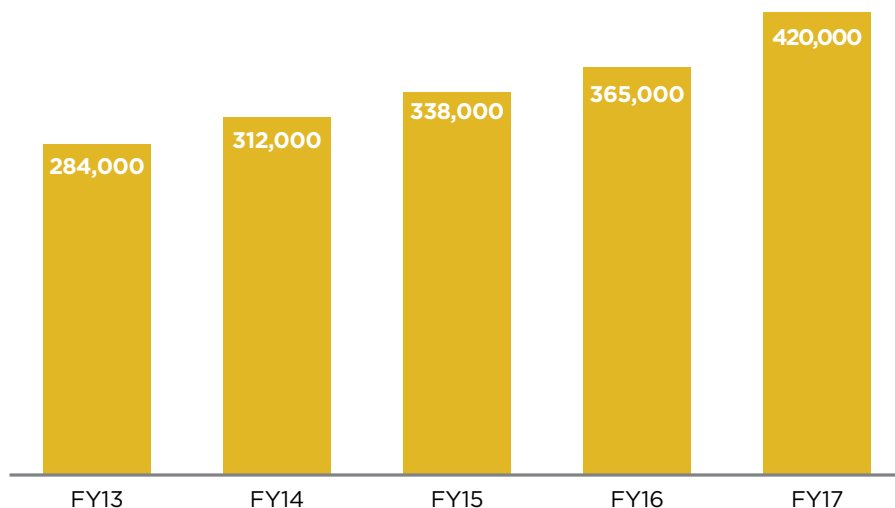


Figure 3 – Customer numbers.

04 FY17 performance.

FINANCIAL PERFORMANCE

ME's underlying NPAT was \$85.2 million for the year ended 30 June 2017, 14% up on the previous year, reflecting strong ongoing home loan growth and a lower cost-to-income ratio. ME's statutory profit after tax was \$61.9 million, down 19% on the previous year due to a number of one-off items (refer to Tables 1 and 2 below).

| KEY METRICS* | FY17 | FY16 | Change |
|---------------------------------------|---------|---------|---------|
| Profit - underlying (after tax) | \$85.2m | \$74.7m | 14% |
| Profit - statutory (after tax) | \$61.9m | \$76.8m | -19% |
| Underlying return on equity | 8.3% | 8.2% | +10bps |
| Net interest margin | 1.50% | 1.55% | -5bps |
| Cost-to-income | 63.5% | 65.8% | -230bps |
| Total on and off balance sheet assets | \$26.5b | \$24.7b | 7% |
| Lending assets on balance sheet | \$22.5b | \$19.5b | 15% |
| Customer deposits | \$12.6b | \$10.5b | 20% |

Table 1 – FY17 key financial metrics.

For the year ended 30 June 2017, the following reconciling differences between net profit after tax (underlying) and net profit after tax (statutory) existed:

RECONCILIATION OF STATUTORY PROFIT TO UNDERLYING PROFIT

| | FY17 (\$m) | FY16 (\$m) |
|--|-------------|-------------|
| Net profit after tax (underlying) | 85.2 | 74.7 |
| Loss on Employer Banking book sale after tax | (6.2) | - |
| (Loss)/gain on hedging instruments after tax | (7.3) | 2.1 |
| IT Partnerships after tax | (6.4) | - |
| Ultracs Decommissioning after tax | (3.4) | - |
| Net profit after tax (statutory) | 61.9 | 76.8 |

Table 2 – Reconciliation of statutory profit to underlying profit.

*As statutory profit includes realised and unrealised gains and losses on hedging instruments (primarily interest rate swaps) and a number of one-off items, ME uses underlying net profit after tax as its key profit measure.

Loss on employer banking book sale

Effective 1 December 2016, ME sold its commercial loans and asset finance portfolios to RedZed Lending Solutions Pty Ltd. As a result of this sale, ME has recognised a loss on disposal after tax of \$6.2 million.

(Loss)/gain on hedging instruments

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 loss for the year ended 30 June 2017 represents the amortisation of realised losses on interest rate swaps closed out following customers breaking their fixed home loans.

IT partnerships

This represents the one-off transition costs of consolidating multiple service providers for IT infrastructure, application solutions and support services with our new partner, Capgemini.

Ultracs decommissioning

This represents the costs to date of starting to decommission ME's legacy system, Ultracs, as a result of the implementation of the new core banking system, T24.

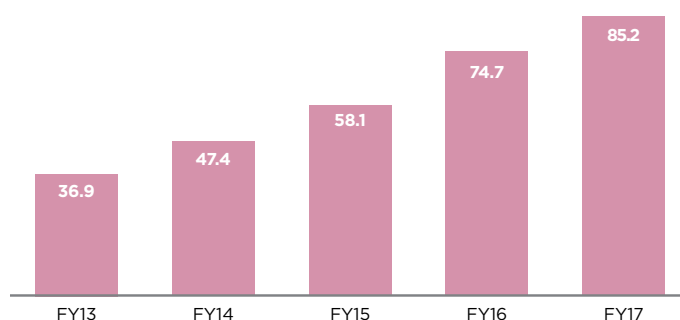


Figure 4 – Underlying net profit after tax (\$m).

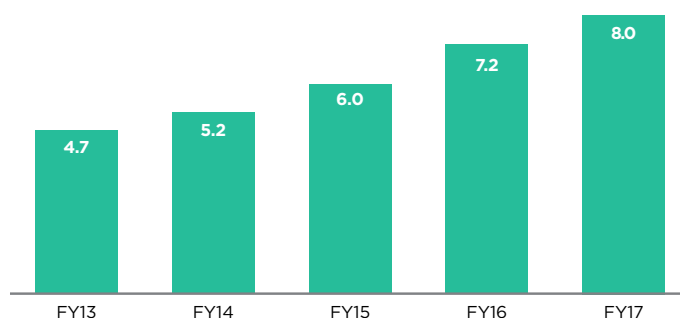


Figure 5 – Underlying earnings per share (\$).

Operational efficiency

The primary measure of operational efficiency is the underlying cost-to-income ratio. In the past four years, this ratio has reduced from 74.7% to 63.5% (refer to Figure 6), and further improvement in efficiency is a key focus. This will be achieved through economies of scale and appropriate 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 7 on the right). Net interest income increased 7% (or \$21.7 million) to \$336.3 million in FY17.

Assets

Total assets (on and off-balance sheet) grew by 7% to \$26.5 billion in FY17. This follows growth of 6% in the prior year.

Total on-balance sheet assets grew by 12% from \$23.2 billion to \$25.9 billion; this growth was driven by an increase in lending assets (loans and advances) of \$3.0 billion, partially offset by a decrease in cash and investment assets of \$0.2 billion.

Home loans remain a core focus, and account for 98% of all lending assets. In FY17, the Bank settled over 18,000 new home loans totalling \$6.2 billion.

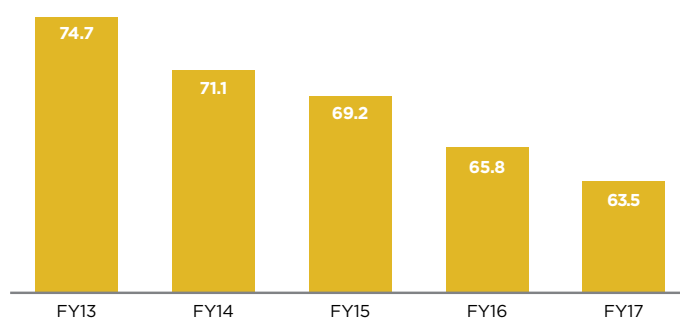


Figure 6 - Cost-to-income ratio (%).

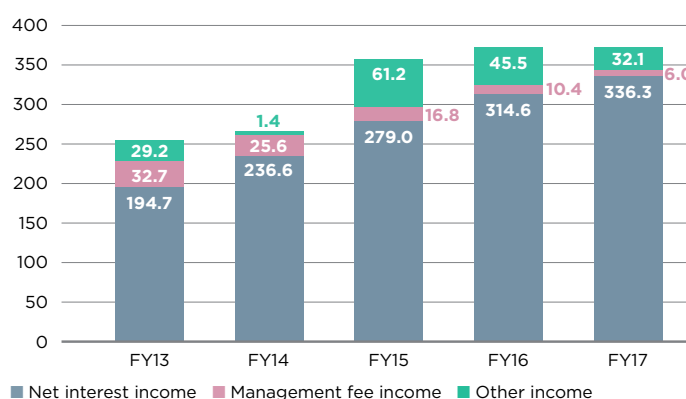


Figure 7 - Revenue (\$m).

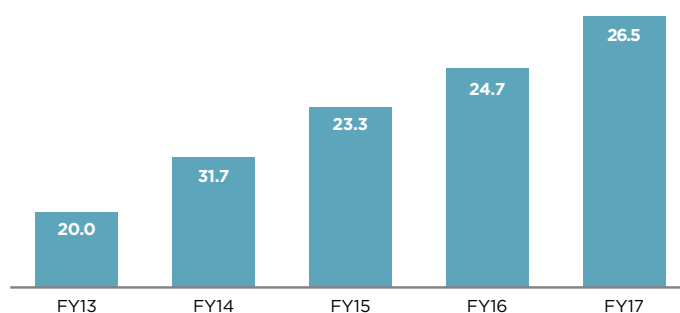


Figure 8 - Total assets (\$bn).

Funding

Customer deposits increased by 20% to \$12.6 billion in FY17 and now represents 52% of total funding. Wholesale funding increased 11% to \$6.9 billion, representing 28% of total funding as at 30 June 2017.

Securitisation continues to be an important source of funding (refer to Figure 9), representing 20% of total funding. During the year, a new securitisation vehicle was launched. SMHL Securitisation Fund 2016-1 was launched in October 2016 with an issue size of \$1.5 billion at a margin of 118 basis points on the senior (AAA rated) tranche, which was 92% of the transaction.

Capital management

The Bank manages its capital in line with the level of risk appetite that is appropriate for its business in compliance with the requirements of APRA, and the need to maintain credit ratings corresponding with the nature of the Bank's business.

Management has developed and employed systems and processes to identify and measure risks to ensure 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 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 Common Equity Tier 1 (CET1), 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.

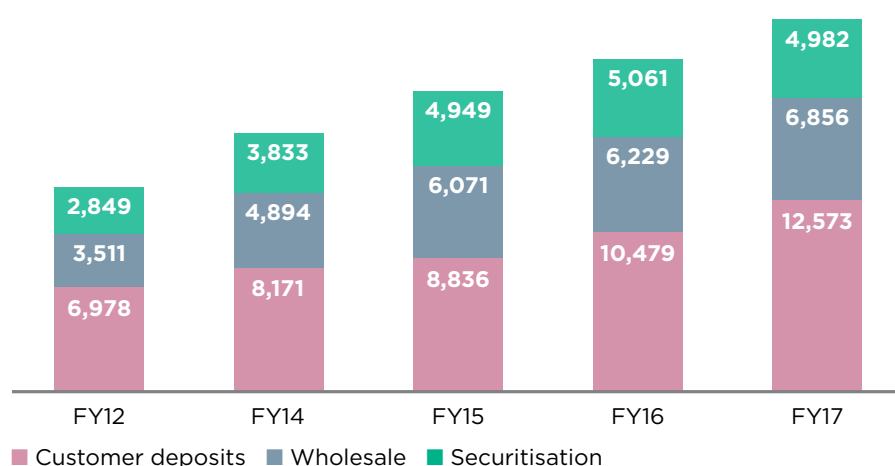


Figure 9 - Funding mix (\$m).

Capital adequacy ratio

The internal capital adequacy ratio set by the Board for total capital remained at 11.5% and CET1 remained at 9.5% during the financial year ended 30 June 2017.

In June 2017, the Bank issued 472,088 ordinary shares, raising \$40.0 million in capital.

RISK WEIGHTED CAPITAL ADEQUACY RATIOS

| | FY17 % | FY16 % |
|---------------------|--------|--------|
| CET 1 | 10.0 | 9.9 |
| Tier 1 | 10.0 | 9.9 |
| Tier 2 | 4.0 | 4.5 |
| Total capital ratio | 14.0 | 14.4 |

Table 3 – Capital adequacy ratios.

The 2014 Financial System Inquiry (FSI) endorsed the benefits of a strong and well capitalised banking system and recommended that APRA set capital standards such that capital ratios of authorised deposit-taking institutions (ADIs) are 'unquestionably strong'. The Australian Government subsequently endorsed this recommendation.

On 19 July 2017, APRA released an Information Paper outlining their conclusions with respect to the quantum and timing of capital increases that will be required for Australian ADIs to achieve 'unquestionably strong' capital ratios. For ADIs such as ME (that do not use the Internal Ratings Based (IRB) methodology for capital) the effective increase in capital requirements to meet the 'unquestionably strong' benchmark is expected to be around 50 basis points. All ADIs are expected to meet the new benchmarks by 1 January 2020.

APRA intends to release a discussion paper on proposed revisions to the capital framework, designed to establish capital requirements that will underpin ADIs having unquestionably strong capital ratios later in 2017. Subject to finalisation of the international reforms, this will outline the direction of APRA's implementation of the forthcoming Basel III changes to risk weights as well as measures to address Australian ADIs' structural concentration of exposures to residential mortgages.

The 50 basis points increase in capital requirements is expected to apply across all three capital ratios i.e. CET1, Tier 1 and Total capital ratio, likely to result in the Board-approved minimum total capital ratio increasing from 11.5% to 12%. APRA has indicated there will be a further consultation process on the specific mechanics of how the changes will be effected.

At 30 June 2017, a 50 basis points increase in total capital requirements equates to approximately \$50 million.

Credit ratings are important for funding the growth and profitability of ME. A higher credit rating provides access to greater capacity of funding and a reduced cost of funding.

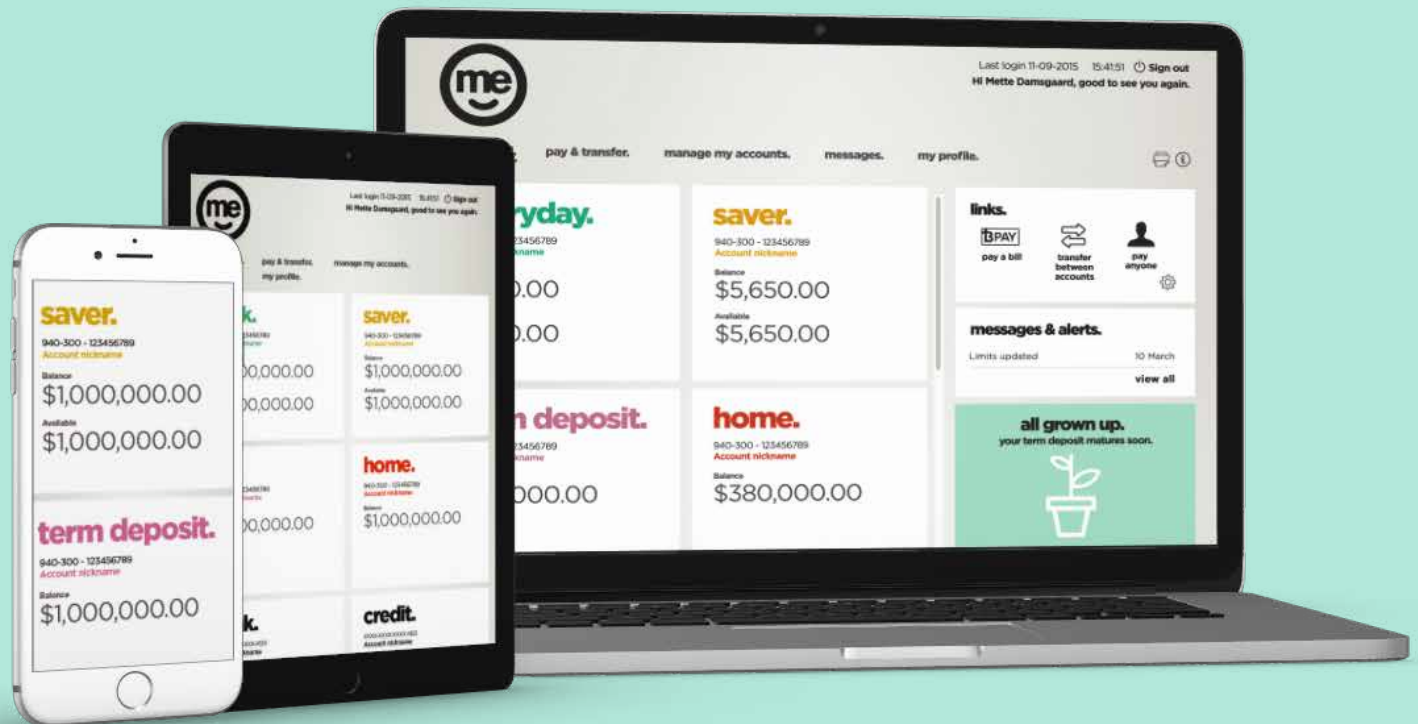
Following the Standard & Poor's (S&P) sector-wide downgrade of credit ratings on 22 May 2017, ME intends to increase the amount of capital held in order to maintain its BBB credit rating with S&P. This additional capital will also satisfy the proposed regulatory capital increases highlighted above.

The increase in capital is expected to comprise ordinary share capital and Additional Tier 1 capital (the latter subject to market conditions at the proposed time of issuance).

KEY ACHIEVEMENTS

1. ME upgrades internet banking

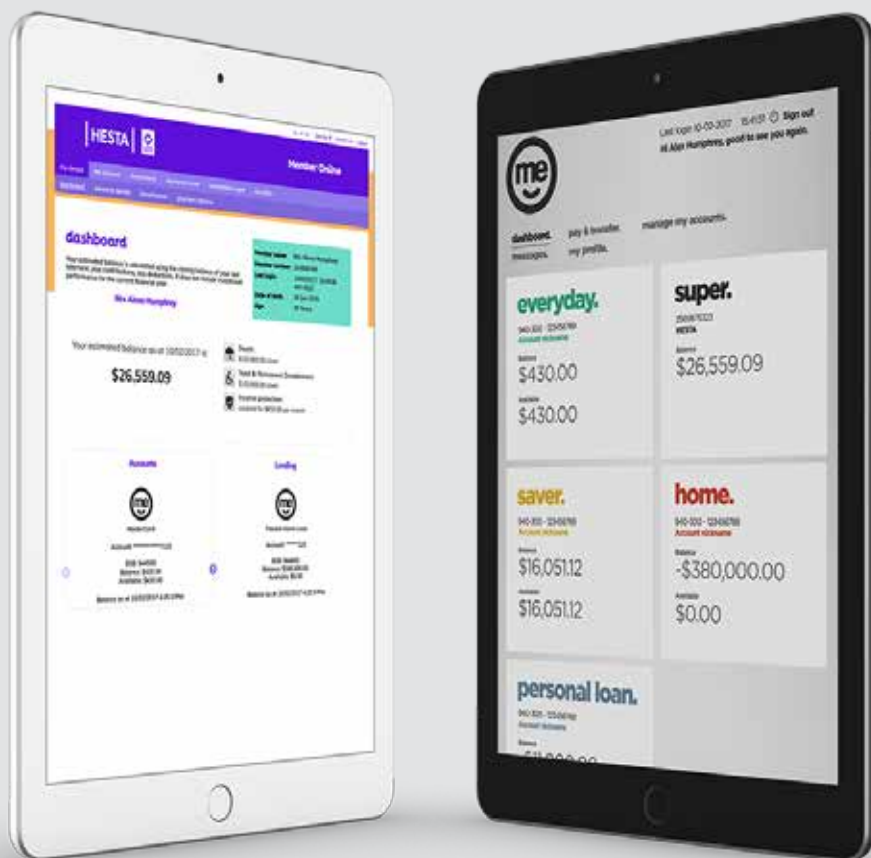
ME launched its new internet banking in late October 2016. The new service has an improved look and feel, and makes it simpler for customers to do regular banking tasks through better layout and functionality. The new platform is responsive and adapts to any device – computer, tablet or smartphone. The technology underpinning the new platform has enabled ME to incorporate features that it was unable to previously, such as Super and Banking Together, screen sharing – which allows ME staff to view customers' internet banking screens in real time – and an uplift in the Bank's card activation process.



2. Bringing super and banking together

For the first time, members of industry super funds who partner with ME can see their super and banking balances beside each other thanks to infrastructure built by Link Group in conjunction with the Bank. Members of participating funds can see their super and bank balances, which will be displayed both on ME's mobile and internet banking platforms and on their fund account page. ME launched the first 'Super and Banking Together' initiative with HESTA, and will progressively make the service available to other industry super funds administered by Link Group. This includes 20 of ME's shareholders representing millions of Australians.

Super and Banking Together is a key component of ME's strategy to capitalise on its unique ownership structure. The initiative will help make superannuation as front-of-mind for ME's customers as their everyday banking, will improve the relationship between funds and their members, and will provide members a more informed view of their personal financial position so they feel empowered to take control over their finances.



3. ME's Member Benefits Program hits record home loan settlements

The Member Benefits Program continues to be one of the key ways ME capitalises on its unique relationship with the industry super fund and union network to acquire customers. Through the Member Benefits Program, ME provides special offers, discounts and bonuses across the ME retail product suite for industry super fund and union members.

As of June 2017, a record 29 industry super funds and 94 unions had participated in the program, with the program having been promoted to over 600,000 Australians. Over 6,000 fund and union members have received a member benefit, with the Member Benefits Program generating 13% of ME's home loan settlements. The program has hit \$1.6 billion in home loan settlements, assisting over 5,200 members into a home and helping them save over \$620,000 a year in interest.



4. More funds launch co-branded credit cards

Building on the launch of Frank&co co-branded credit card campaigns with members of AustralianSuper, CareSuper, Cbus and Hostplus, ME has launched Frank&co credit card campaigns with members of MTAA Super, Media Super and First Super – bringing the total number of funds using Frank&co co-branded credit cards to seven.

The credit card allows members to reduce their interest repayments due to its preferential variable rate on purchases, which is 2% better than the equivalent rate for non-members and 9% lower than the market median.

The campaign is an important ongoing source of customer acquisition for the Bank and provides valuable cross-sell opportunities. It also provides value to the Bank's industry super fund shareholders by boosting their brand awareness with their members and providing them with a reason to engage with their members.

5. Super CMA gets three new super fund partners

Members of AustralianSuper, Cbus and Hostplus now have a chance to enjoy superior retail-style returns on their cash investments, following ME's launch of its Super Cash Management Account (Super CMA) initiative with these three funds, bringing the total number of funds using this product to four. The Super CMA is a high-interest savings account for super funds that holds beneficiary funds under an individual trust structure, as opposed to the standard pooled investment structure implemented by funds. Customer deposits of up to \$250,000 are protected by the Government Guarantee and ME is offering one of the highest interest rates in the market.

6. ME's direct sales team goes nationwide

ME customers now have a third channel through which to apply for a home loan: over the phone. Having commenced as a pilot across limited postcodes, ME's direct sales team started accepting over-the-phone home loan applications nationwide from new and existing customers in March 2017. This channel complements ME's existing network and broker channels and provides an alternative for customers who prefer the phone to a face-to-face experience.

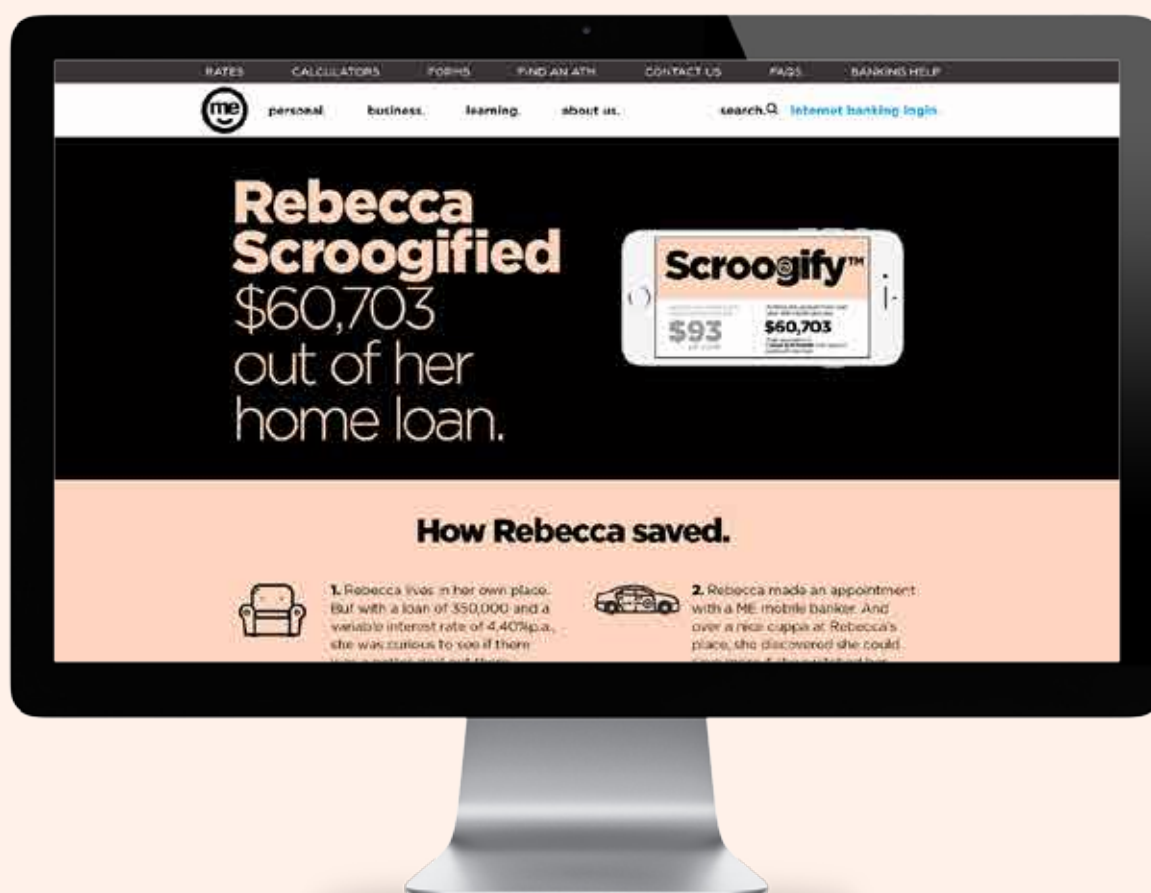
Today, over 30% of new enquirers elect to apply for their home loan over the phone.



7. ME helps customers 'scroogify' their home loan

ME launched a new calculator called Scroogify™ in March 2017 that shows customers how much they could save over the life of their loan, in both time and money, if they switched their existing home loan to ME. The tool highlights how much borrowers, 77% of whom are with a major bank, are overpaying on their home loan and encourages them to refinance with ME.

In just three months, the Scroogify™ tool has attracted over 63,000 homeowners and showed them how they could save, on average, more than \$40,000 over the life of their loan.



8. ME automates more systems and processes

Over the course of FY17, ME rolled out automated home loan valuations to assist in the faster processing of applications. In January 2017, automated credit assessments on home loans also became a reality. This is a significant step in building a highly efficient mortgage business. The proportion of loans assessed automatically will increase over time as the new system is enhanced to include more complex home loans. Automated credit decisioning was implemented for credit cards earlier last year, resulting in the Bank:

- going from processing 1,000 credit card applications a month to over 5,000 a month
- issuing letters of offer to customers within 24 hours – saving members four days' wait time
- saving one day's wait time on unconditional approval for auto-approved applications.

9. ME's brand awareness hits record high

ME's brand awareness hit a record high of 55% in July 2017, up 15 percentage points since the Bank's brand refresh was implemented in 2015. Key brand indicators such as consideration held at 12% from the previous year and familiarity held at 13%.



05 Priorities.

THE BANK'S CORE PURPOSE

To help all Australians get ahead by enabling them to achieve their personal best and rail against financial anxiety.



Customer focus

Create pathways to home ownership

- Design an end-to-end online home loan application that delivers an "instant" decision
- Assist first home buyers with access to family guarantees, competitive pricing and flexible policy
- Provide a superior service to brokers so that they can deliver a great service for customers, ensuring ME:
 - is easy to work with
 - delivers quicker decisions
 - keeps them informed each step of the way

Design frictionless banking experiences that deliver on the Bank's customer promises

- Develop simple and transparent products with no tricks buried in terms and conditions
- Deliver a consistently high standard of customer service
- Create error-free self-serve digital banking experiences through the mobile app, Super and Banking Together, and increased capabilities in internet banking

Leverage the power of the network for mutual benefit

- Access cash via the Super CMA, providing competitively priced retail funding
- Increase member penetration by offering good value products and services via the Member Benefits Program
- Deliver a single view of wealth by displaying super and banking side by side
- Provide industry super funds with behavioural data to assist in member retention



People focus

- Build an employer brand that attracts great talent
- Create an entrepreneurial, 'free thinking' culture that challenges and improves on all the Bank does for the benefit of the customer
- Enable effective strategic leadership at all levels – equip ME's employees with the skills to adapt and thrive in a digital world



Financial target

ROE 10%



Foundations

- Regulatory obligations
- Operational efficiency
- Data

1. CREATE PATHWAYS TO HOME OWNERSHIP

The vision

ME's purpose is to help all Australians get ahead. For more than 85% of Australians, their wealth is stored in their home and superannuation. Given the importance of accessing a home loan for purchasing property, ME will digitise and automate each stage in the application process to ensure applying for a mortgage is efficient, thus providing a seamless home loan application process.

The Bank will develop additional phone and online channels and operational processes to create an efficient end-to-end mortgage process – one that can aid lead management and satisfy customer demand by providing simple applications, fast assessments and seamless processes to settlement.

Priorities

ME will focus on building core digital capability to enable online mortgage applications and efficient mortgage processing from application to settlement. It will continue decommissioning Ultracs, its legacy core banking platform.



Expanded home loan application channels

In response to customer demand, ME's home loan application channels will come to encompass not only the face-to-face experience and phone applications but online applications too.



Broker experience

The Bank will continue to work on improving engagement and efficiency within the broker network by devising new ways to make it easier for brokers to interact with ME in a secure environment.



Streamlining of processes

Improving the processes and change management activities for the Bank's credit operations and settlements teams will improve efficiencies and people capability.



Digitisation of processes

The Bank will issue letters of offer electronically, where customers can accept the offer instantly using a digital signature.



Automated conveyancing

A scalable automated conveyancing process will provide a faster settlements process, improving the customer experience.



Self-servicing in home loans

The Bank will reduce service costs by enabling customers to use internet banking to manage their loans and do activities such as applying for loan top-ups, changing their repayments, and fixing their interest rates.



Lifecycle management

By improving how it manages its communications to customers – from lead generation through to application tracking, retention and selling a complementary product – the Bank will provide its customers with information that's relevant to their situation and life-stage.

2. DESIGN FRICTIONLESS BANKING EXPERIENCES THAT DELIVER ON THE BANK'S CUSTOMER PROMISES

The vision

ME's vision is to put financial control in the hands of its customers, using technology to help them save, spend and live smarter.

The Bank's customers will experience it as hyper-personalised and frictionless, as it provides financial coaching and lightning fast banking.

Priorities

The introduction of the new Pega 7 servicing interface, co-browse and click-to-chat support ME's dual focus on providing customers with great service and increased productivity through process optimisation.



Digitisation of the customer experience

The Bank will introduce click-to-chat across more services, giving customers greater online access and increasing efficiencies by enabling consultants to service multiple customers at the same time. It will also be launching a new responsive website, making it easier for customers to find what they need on the device of their choice.



24/7 digital branch

Internet banking will become ME's 'digital branch'; things customers would previously contact the Bank's call centre for will be done online. Customers can self-service and communicate with ME purely through its digital channels – no calls, no printed forms. The Bank will continue to develop its mobile app to provide quick, seamless transactions and additional functionality.



Digitisation of the workforce

The automation of manual, repetitive tasks will be a priority for the Bank and will allow it to free up capacity to focus on more strategic activities. ME will use workforce data to transform the call centre into an insights centre, driving better business decisions and ultimately improving the customer experience.



Digital customer engagement

The Bank will personalise its interactions with customers by leveraging real-time information to help them decide what the next best step for them is. It will do this online, where it will produce content that is as relevant to customers as possible, and over the phone, where it will provide a more customised service.

3. LEVERAGE THE POWER OF THE NETWORK FOR MUTUAL BENEFIT

The vision

ME's vision is to capitalise on the unique opportunity afforded by its industry super fund partnership network for their and the Bank's benefit.

By capitalising on its relationship ME can reach its target of 500,000 bank customers much earlier than if it relied on the retail channel alone, with that opportunity set to increase significantly in subsequent years.



Member Benefits Program (MBP)

Constantly reinforces that "members get more with ME".

ME's MBP provides members of industry super funds and unions with exclusive banking offers throughout the year. The program grants ME access to a unique, low-cost acquisition channel and gives affiliates the ability to offer an exclusive, tangible benefit to members.



Default membership card

Embeds ME in the member's on-boarding experience with a fund.

The default membership card performs a dual purpose; acting as both a ME transaction account debit card and a fund membership card, while providing members with access to relevant offers and incentives. While the card provides ME with access to new customers, it also keeps industry super funds front of mind – and front of wallet – every time a member conducts a transaction.



Co-branded credit cards

Offers members a compelling alternative to the big four banks.

ME's co-branded credit card provides members with a variable purchase rate that is lower than the general market rate, reinforcing that members get more with ME. The card has the fund's logo on the front and the fund member's industry super fund membership number on the back. The card grants ME access to a unique, low-cost acquisition channel and gives funds the ability to offer an exclusive low-rate credit card offer to members. Funds also get to increase their brand awareness among members who use the co-branded credit card.



Super CMA

Reduces cost of funds by virtue of the Bank's unique ownership structure.

The Super CMA is a high-interest savings account that holds beneficiary funds under an individual trust structure, as opposed to the standard investment structure implemented by funds. This initiative grants ME access to lower-cost, more stable funding and allows funds to offer their members a high interest rate on account balances. Having launched three new products in FY17, bringing the total number to four, the focus in FY18 is marketing these products to fund members and working with several funds who have expressed interest in this product.



Data as a strategic asset

Leverages super and banking data by virtue of the Bank's unique ownership structure.

By using rich reserves of raw transactional data, ME can help funds better understand their members and predict member behaviour throughout their lives.



Employer Engagement Proposition

Grows the Bank's customer base by leveraging network relationships.

The Employer Engagement Proposition (EEP) helps industry super funds engage with employers. The EEP offers employers access to the Bank's financial wellness program, Ed, as well as its suite of treasury products. The initiative helps ME increase its engagement with funds and, in turn, assists the funds in increasing their engagement with employers while providing ME with scalable access to employees.



Super and Banking Together

Creates stickiness with members and customers.

Super and Banking Together displays a member's super account balance on the ME banking platform and ME account balances on the fund's account page, allowing super to become as front of mind as everyday banking. The initiative helps ME increase its engagement with funds and helps funds win and retain members as well as increase their members' engagement with their super.

06 Governance.

CORPORATE GOVERNANCE

ME is committed to fulfilling its corporate governance obligations and responsibilities in the best interests of the Bank and its shareholders.

The Bank believes that good corporate governance is based on a set of values and behaviours that underpin day-to-day activities; provide transparency and fair dealing; and promote financial stability and healthy economic growth that can deliver better outcomes for the Bank's customers and help all Australians get ahead.

In performing its role, ME's Board is committed to a high standard of corporate governance practice and fostering a positive and engaging high performance culture, which encourages values-based leadership to enable the execution of the Bank's strategy and creates a diverse and inclusive workplace.

The Bank's approach to corporate governance is cognisant of a range of principles and frameworks, including the ASX Corporate Governance Council Principles and Recommendations, and APRA Prudential Standards. The Board is conscious that best practice in the area of corporate governance is continuously evolving, and will continue to anticipate and respond to further corporate governance developments.

This Corporate Governance Statement outlines the key components of ME's Corporate Governance Framework, which provides guidance for the Board, Executives and employees. It defines the respective roles, responsibilities and the conduct expected of them. The framework establishes the structure through which the Bank sets its objectives, as well as ensuring strategic guidance of the Bank, the effective monitoring of the ongoing performance of management by the Board, and the Board's accountability to the Bank and its shareholders.

BOARD

ME is committed to ensuring that the composition of the Board continues to include Directors who bring an appropriate mix of skills, experience and diversity to Board decision-making.

As of 30 June 2017, the Board comprised seven independent Directors. The appointment of Ms Elana Rubin to the Board as of 4 October 2016, and Mr John Nesbitt to the Board as of 2 February 2017 filled the casual vacancies arising following the retirement of Ms Anne De Salis on 14 November 2016 and of Mr Garry Weaven on 31 December 2016.

The Bank seeks to have a Board that has the right mix of individuals with relevant attributes, skills, knowledge and experience, with the overall collective competence to deal with the Bank's current and emerging issues and effectively review the performance of management. These criteria are summarised to the right.

| Attributes | Skills, knowledge and experience |
|---|---|
| Commitment to the Bank's values | Retail banking Superannuation |
| Willingness to embrace change and resolve dilemmas | Industrial relations Human resource management |
| Ability to confront and defuse political interference so that it does not prevent sound decision-making | Sales Marketing and branding Accounting and finance Risk management and controls IT |
| Ability to focus on the big picture and strategic context of decisions | Digital Governance Communications Auditing Compliance |
| Capacity to build harmonious, productive working relationships | |
| Confidence to express views openly at all levels | |
| Strong desire to see the management team develop and succeed | |
| Ability to focus on the process by which results are achieved as well as the results themselves | |
| Ability to consider various alternatives when faced with complex situations | |
| Desire to contribute to long-term success as opposed to short-term expediency | |

Table 4 – Criteria for ME Board Directors.

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.



Ken Hodgson
Chairman
Non-Executive Director

Director since January 2012
Chairman since January 2016

In addition to his role as Chairman of the Board, Mr Hodgson is the Chair of the People and Remuneration Committee and the Nominations Committee. During the year, he was also a member of the Audit and Governance Committee and the Risk and Compliance Committee (from 1 July 2016 to 5 April 2017 for the latter). He is a Director of Hydro Tasmania and spent 28 years working at Westpac and National Australia Bank in their retail banking divisions – including as General Manager Consumer Financial Services at Westpac and as General Manager Personal Financial Services at National Australia Bank.



Justin Milne
Non-Executive Director

Director since November 2012

Mr Milne is on a leave of absence from 1 April 2017 to 31 October 2017.

Mr Milne was the Chair of the Digital Committee (from 1 July 2016 to 31 March 2017) and a member of the People and Remuneration Committee (from 1 January 2017 to 31 March 2017), until his leave of absence commenced in April 2017. He is the Chairman of the ABC and Chair of Myob Ltd and NetComm Wireless. He is a Non-Executive Director of Tabcorp Holdings Ltd, NBN Co and SMS Management and Technology. He has served in senior executive roles, as Group Managing Director at Telstra, and was responsible for BigPond Broadband and Telstra's media businesses. Prior to Telstra, he was the CEO of OzEmail and the Microsoft Network. He is currently President of the Leichhardt Rowing Club.



Christine Christian
Non-Executive Director

Director since November 2012

During the year Ms Christian was the Chair of the Audit and Governance Committee (from 1 July 2016 to 7 June 2017), and Chair of the Risk and Compliance Committee. Ms Christian is currently Chairman of Kirwood Capital Group and is an Independent Company Director; her current directorships include FlexiGroup Ltd, Powerlinx Inc, State Library of Victoria, Lonsec Financial Group and Victorian Managed Insurance Authority. She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors – including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand.



Greg Combet
Non-Executive Director

Director since November 2014

Mr Combet is a member of the People and Remuneration Committee and Digital Committee (from 6 April 2017) and during the year was a member of the Audit and Governance Committee and Risk and Compliance Committee (from 1 July 2016 to 5 April 2017). He is Deputy Chair of Industry Super Australia Pty Ltd, a Director of IFM Investors and Greg Combet Pty Ltd. He also holds a number of consultancy roles. Mr Combet held various cabinet, ministerial and parliamentary roles within the Australian Government from 2007 to 2013 and was formerly Secretary of the Australian Council of Trade Unions (ACTU) and a Director of AustralianSuper. He is Patron of the Black Lung Victims Group.



Cheryl Bart AO
Non-Executive Director
Director since July 2016

Ms Bart is Chair of the Digital Committee (from 1 April 2017) and is a member of the Risk and Compliance Committee. She is currently a Non-Executive Director of SG Fleet Ltd, Audio Pixels Holding Ltd, Football Federation Australia and Ted X Sydney, and is Trustee of Prince's Trust Australia. She has a diverse director portfolio background, chairing both committees and boards across the utilities, funds management, auto-finance and leasing, broadcasting, technology and infrastructure sectors. Previous non-executive directorships include ANZ Trustees Ltd, Environment Protection Authority, South Australian Film Corporation and Australian Broadcasting Corporation.



Elana Rubin
Non-Executive Director
Director since October 2016

Ms Rubin is a member of the Digital Committee and People and Remuneration Committee (as from 1 January 2017). She is currently a Director of Mirvac Group, Afterpay Touch Group, Transurban Queensland, Victorian Funds Management Corporation, LaunchVic and Victorian Managed Insurance Authority. Ms Rubin has over 20 years' experience as a non-executive director on private, government and not-for-profit boards, and is a member of several advisory boards in investment, property and public policy. Previous non-executive directorships include Chair of AustralianSuper, Director of TAL, MLC Life and Administrator, and SecondBite.



John Nesbitt
Non-Executive Director
Director since February 2017

Mr Nesbitt is Chair of the Audit and Governance Committee (from 8 June 2017) and a member of the Risk and Compliance Committee (from 5 April 2017). Mr Nesbitt has lengthy banking and broader financial services experience through his roles at Suncorp as CEO of Suncorp Banking and Wealth, and before that, Chief Financial Officer (CFO) of Suncorp. From 28 July 2017, Mr Nesbitt was appointed Chairman of AMP Capital Funds Management Limited and AMP Investment Services Pty Limited and has previously been Chair of the Perpetual Superannuation Board. He has had memberships of a number of other management and industry representative boards.

Directors retired during the year.



Garry Weaven
Non-Executive Director
Retired December 2016

Mr Weaven was 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 and IFM Investors, and is a Director of the New Daily. Mr Weaven's background includes periods as Chairman of Pacific Hydro, Assistant Secretary of the ACTU and Senior Consultant to Westpac Financial Services.



Anne De Salis
Non-Executive Director
Retired November 2016

Ms De Salis was a member of the People and Remuneration Committee and Digital Committee. She was a Director of Super Consumers Centre and National Indigenous Pastoral Enterprises Board during the year. Ms De Salis has a diverse career spanning the public and private sectors, with considerable experience in financial services, and has held senior executive/director positions with AMP, MBF Australia, the Commonwealth Treasury and the Office of the Prime Minister, Rt Hon Paul Keating.

BOARD RESPONSIBILITIES

The Bank has laid solid foundations for the management and oversight of its operations and administration, including clear guidelines on who the Board comprises; well understood delineations on the roles of Chairman, Company Secretary and CEO; and clear enunciation of the Board's priorities.

The composition of the Board is determined in accordance with the Bank's Constitution and the following guidelines:

- The Board maintains a majority of Non-Executive Independent Directors
- The Board comprises Directors with an appropriate range of qualifications and experience.
- In accordance with the Board Renewal Policy, the Directors are rotated through the mechanisms contained in ME's Constitution, which require a third of Directors to retire in each year, with a three-year Rotation Period for each Director. Directors retiring by rotation may stand for re-appointment. This process is used to periodically review and recommend changes in the composition of the Board.

The Board's authority level is described in ME's Constitution and in the Bank's Authorities and Delegations Policy. The Board Charter sets out the roles and responsibilities of the Board and describes those matters expressly reserved for the Board and those delegated to management. The Board Charter, which is reviewed annually, and the Constitution are available on the ME corporate website mebank.com.au

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, with due regard to the interests of other stakeholders. The Board has overall responsibility for overseeing the effective management and control of the Bank and supervising management's conduct within a control and authority framework, which is designed to enable risk to be prudently and effectively assessed and monitored. The role of the Board is to approve strategic direction, guide and monitor management in achieving its strategic plans, and oversee good governance practice.

The Board Charter outlines the roles and responsibilities of the Board.

This involves:

- Appointing and, if necessary, removing the CEO
- Reviewing and approving the Business Plan and budget
- Providing strategic direction to the Bank by engaging with the CEO in the development and oversight of the execution of the Business Plan and budget
- Monitoring performance against the Business Plan and budget and reviewing that performance with the CEO
- Setting the Bank's risk appetite and ensuring the Bank has in place an appropriate risk management framework and processes that support that appetite and within which management must operate
- Approving any major corporate initiatives

- Ensuring that management decisions are consistent with delegated authorities and the interests of shareholders
- Overseeing the integrity of the Bank's accounting and corporate reporting, including the external audit
- Monitoring the effectiveness of the Bank's governance practices
- Assisting the CEO in creating the desired staff culture
- Fostering an environment of innovation and deep customer understanding
- Ensuring the Bank's shareholders are provided with the appropriate information in a timely manner
- Overseeing the appointment, and when necessary, replacement of other senior executives
- Supporting the CEO in nurturing staff and developing succession plans
- Approving the remuneration framework
- Performing such other functions as are prescribed by law or are assigned to the Board.

The Board meets at least 11 times a year and follows meeting protocols designed to ensure all Directors are appropriately informed and properly consider all agenda items.

CHAIRMAN & COMPANY SECRETARY'S DUTIES

The Chairman is elected from the Non-Executive Independent Directors. The responsibilities of the Chairman are set out in the Board Charter.

The Company Secretary is appointed by the Board. The Company Secretary attends Board and Board Committee meetings and is responsible for providing Directors with advice on corporate governance and other issues affecting the functioning and operations of the Board. The Company Secretary is responsible for monitoring compliance with the Board's procedures and implementing the governance framework to give practical effect to the Board's decisions. The Company Secretary is also responsible for facilitating good information flows within the Board and its Committees and between the Directors and management, as well as the induction of new Directors and the ongoing professional development of Directors.

BOARD COMPOSITION

The Board is conscious of the need to ensure proper processes are in place to deal with succession issues at Board level. The Board believes succession and renewal planning should be managed over the medium to longer term, and that the length of service of each Director is appropriately balanced. The current Directors possess an appropriate mix of skills, experience, expertise and diversity to enable the Board to discharge its responsibilities and deliver the Bank's strategic priorities.

The Board has established a Nominations Committee, with responsibilities which include identifying new Directors from time to time. As part of the process of recruiting and evaluating suitable candidates for appointment as a Director, an external independent recruitment firm may be engaged.

Furthermore, before any letter of appointment is issued to a new Director, enquiries, reference checks, checks of bankruptcy and criminal records, and validation of other records are carried out to satisfy the Board that the person is of sound character and has the relevant attributes desired by the Board to be a Director of ME. In addition, Directors must satisfy any other requirements as set out in, or made in accordance with, the Fit and Proper Requirements in the Fit and Proper Policy.

INDEPENDENCE

The Board of ME recognises the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business, relationship or circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement, having regard to the best interests of the Bank and its customers as a whole.

ME BOARD & COMMITTEE STRUCTURE

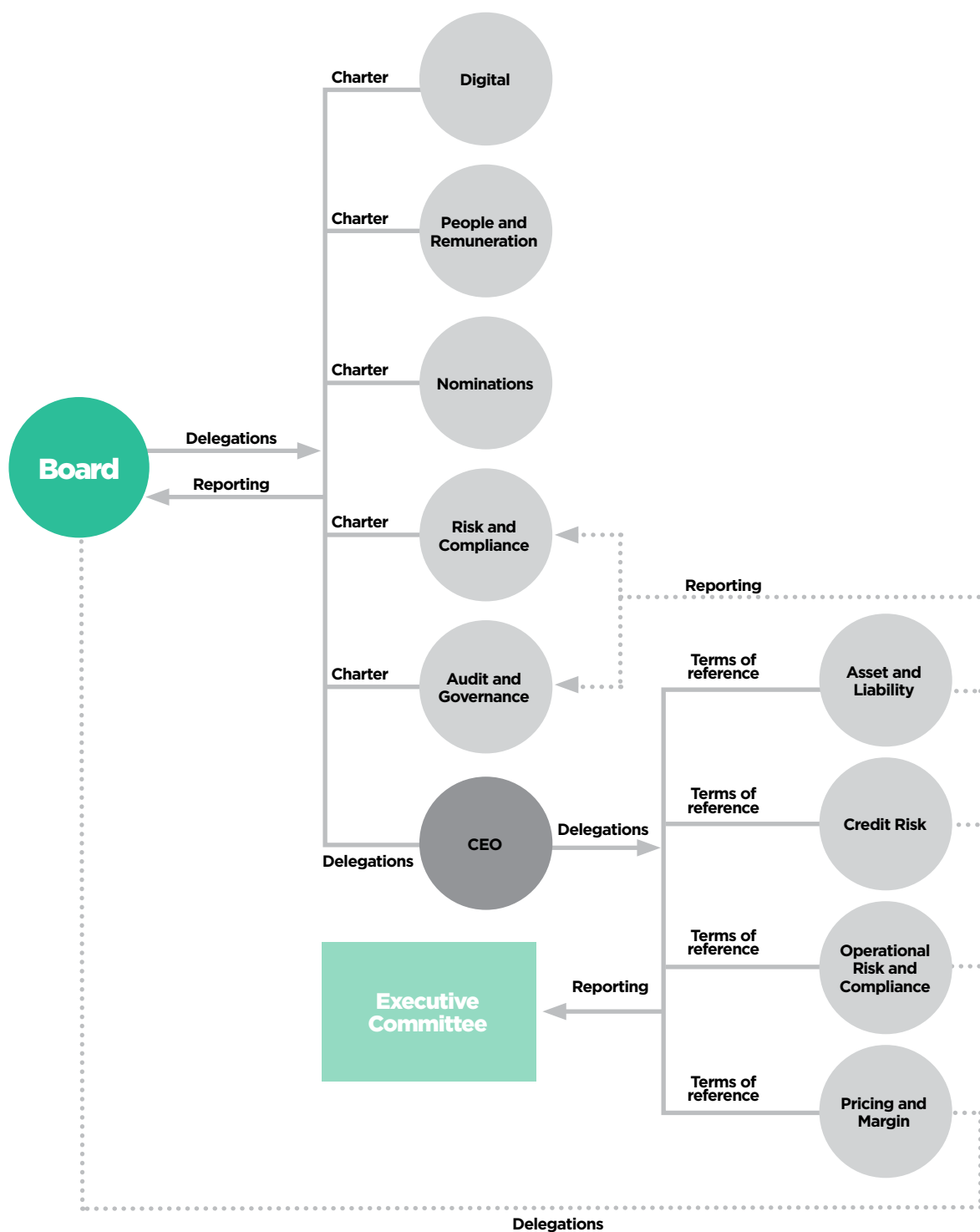


Figure 10 – ME Board and Committees structure as at 30 June 2017.

PERFORMANCE & EVALUATION

The Board and its Committees carry out regular evaluations. A program is in place for the annual self-evaluation of performance by the Board and each of its Committees. A self-evaluation of the performance of the Risk and Compliance Committee and the Audit and Governance Committee was undertaken in FY17. The outcomes of the questionnaires were collated and the results were reported to the relevant Committee and the Board. A self-evaluation of the performance of the People and Remuneration Committee and the Digital Committee was not completed in FY17 due to changes in composition of the Committees, with the departures of Ms De Salis and Mr Weaven. The Nominations Committee did not undertake an evaluation.

The Chairman conducted one-on-one discussions with all Directors. The Board did not conduct a self-evaluation during FY17, but will conduct an external evaluation in FY18.

DIVERSITY

ME is a values-based organisation committed to creating an inclusive culture that embraces and values diversity. ME's approach encompasses both diversity and inclusion, as ME believes they are inextricably linked. ME's values contain a strong connection to diversity and inclusion, which are embedded in the culture and programs across the organisation. The Board's People and Remuneration Committee is overseeing the development of a plan for the Bank based on the principle of having 'an agenda of more than gender'. For more information about this, refer to the People section on page 47.

DELEGATED AUTHORITY

The Constitution and the Board Charter enable the Board to give delegations to Board Committees, the CEO and the Executive team. Matters reserved for the Board include decisions about ME's strategy, major projects and transactions, and the appointment and dismissal of the CEO. The roles and responsibilities delegated to the Board Committees are captured in the Charters of each of the five established Committees.

The Board has established an Audit and Governance Committee, a Risk and Compliance Committee, a People and Remuneration Committee, a Digital Committee and a Nominations Committee to assist with the execution of its responsibilities.

All Directors have a standing invitation to attend Committee meetings where there is no conflict of interest. The Charter for each of the Committees provides it acts in an advisory capacity to the Board or exercises a delegated authority. The purpose of each Committee is set out in the respective Committee Charter.

Figure 10 shows the current Committees of the Board. From time to time, the Board may form other Committees or request Directors to undertake specific duties.

The Executive Committee, Asset and Liability Committee, Credit Risk Committee, Operational Risk and Compliance Committee and the Pricing and Margin Committee are not Board Committees, but sit beneath the CEO to implement Board-approved strategies, policies and management of risk for ME. The Board Committee Charters are available on the ME corporate website mebank.com.au.

ROLE OF THE CEO

The CEO is responsible for the leadership and management of the ME Group. The Board delegates the responsibility for the execution and administration of operations to the CEO, and this includes responsibility for implementing ME's strategic direction and managing ME's day-to-day operations. The scope, and specific limits, of the authority delegated to the CEO and the Executive team are clearly documented. These delegations balance effective oversight with appropriate empowerment and accountability of management.

INDUCTION OF NEW DIRECTORS AND ONGOING DEVELOPMENT

New Directors are provided with a letter of appointment and participate in a comprehensive induction program covering ME's financial, strategic, operational and risk management position. Appointees are provided with an information pack including governance policies and business information, and receive presentations on ME's business functions by key members of the Executive and senior management teams.

All Directors are expected to maintain the skills required to carry out their obligations to the Bank. On an ongoing basis, Directors are provided with papers, presentations and briefings on a range of topics relevant to the Bank's business activities.

CODE OF CONDUCT & PRINCIPLES FOR DOING BUSINESS

The Board recognises the importance of being an inclusive employer and the value of a safe, fair and respectful workplace where there is no room for intolerance. ME is a place where teamwork is valued and diversity is celebrated. The Board is committed to embracing diversity and creating an environment where everyone can reach their full potential across the organisation.

ME has a Code of Conduct which provides an ethical and legal framework for all Directors, employees and contractors. The Code of Conduct sets out a number of overarching principles of ethical behaviour which are set out under the following headings:

- Integrity
- Respect
- Be Your Best
- Live Our Values.

Training about the Code of Conduct is part of the induction process for all new ME employees. It is also a requirement that ME employees complete regular online refresher training about the Code of Conduct.

As a values-based organisation, ME believes in free and open communication on even the most difficult of issues. ME's values of Love Monday, Have a Swing, Ride the Subway, Stay Hungry and Go to the Moon allow for all employees to feel confident they may, in good faith, raise concerns internally.

The Code of Conduct provides a mechanism to enable employees to report actual or suspected breaches, including through the Speak Up Policy. The Speak Up Policy gives ME employees an avenue for speaking up regarding actual or suspected inappropriate conduct or activities. This includes instances where the employee is reluctant to, or it would be inappropriate to, follow a standard notification process or if the person wishes to make the report anonymously.

The Board has delegated responsibility to the Audit and Governance Committee for ensuring ME has in place, and that ME employees are aware of, policies and procedures for ME employees to submit information about accounting, internal control, compliance, audit and other matters about which the employee has concerns in a confidential manner.

The Board also continues to actively listen to the needs of its employees through the annual HowÜDoin? employee engagement survey.

CONFLICTS OF INTEREST

Directors have a duty to not place themselves in a position which gives rise to a real or substantial possibility of conflict of interest or duty in relation to any matter which is or is likely to be brought before the Board. All Directors are required to disclose any actual, potential or perceived conflicts of interest prior to their appointment and on an ongoing basis. Directors are required to keep these disclosures to the Board up-to-date through formal standing notices.

The Bank's Conflicts of Interest Policy and Board Disclosure of Interests and Handling Conflicts of Interest Procedures set out disclosure obligations and procedures to be followed by Directors in the event of a conflict or potential conflict of interest or duty.

The ME Board is responsible for ensuring the Bank's conflicts of interest systems and controls are appropriately designed and effectively implemented across the Bank.

FIT AND PROPER PERSON ASSESSMENT

ME has a Board-approved Fit and Proper Policy that meets the requirements of APRA Prudential Standards. The fitness and propriety of all Directors and any senior manager of any ME company is assessed annually against a variety of criteria outlined in the Policy.

BOARD AUDIT & GOVERNANCE COMMITTEE

The Board is ultimately responsible for the sound and prudent management of the Bank, including oversight of ME's Risk Management Framework, which governs the way ME manages risks arising in its operations. In discharging its responsibilities, the Board places reasonable reliance on the recommendations and advice from the Audit and Governance Committee, external advisers and management. The Audit and Governance Committee maintains direct, unfettered access to the Bank's external auditor, internal auditor, management and heads of risk management functions. Details of the number of Audit and Governance Committee meetings held during the year, and attendance at those meetings, are set out in the Directors' Report, which forms part of the FY17 Annual Financial Report.

The Charter of the Audit and Governance Committee assists the Board in fulfilling its corporate governance and oversight responsibilities by monitoring ME's internal control system, Risk Management Framework and internal and external audit functions to maintain the integrity of financial reporting.

Under its Charter, the Audit and Governance Committee must have at least three members, the majority being independent Non-Executive Directors. The Charter also requires that all members have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting-related financial management expertise. The Charter is reviewed and updated annually.

The Charter includes the authority and powers, responsibilities, duties and composition of the Committee. The Charter is available on the ME corporate website mebank.com.au.

The Chair of the Audit and Governance Committee reports to the Board on the Committee's proceedings and all matters relevant to the Committee's duties and responsibilities. Minutes of meetings are included in the papers for subsequent Board meetings.

EXTERNAL AUDITOR

The role of the external auditor is to provide an independent opinion that the Bank's financial reports are true and fair, and comply with applicable regulations. ME's external auditor is Deloitte Touche Tohmatsu, who has been engaged since March 2007. Under the Bank's Auditor Independence Policy, the audit engagement partner rotates every five years. The Audit and Governance Committee is responsible for making recommendations to the Board on the selection, appointment, evaluation and removal of the Bank's external auditor.

The external auditor must refuse to accept engagements involving non-audit services under which the auditor assumes the role of management, becomes an advocate for the ME Group, or offers services that could be reviewed as part of the audit.

The external auditor attends the Bank's annual general meeting (AGM) and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

ACCOUNTABILITY

As part of the approval of the financial statements, the Board will receive certification from the CEO, CFO and CRO that the financial records of the Bank have been properly maintained to provide for a true and fair view of the Bank's financial position and performance, and that the financial statements and notes comply with all relevant accounting standards.

ME has a Prudential Disclosures Policy, which provides for the Bank to meet its obligations to make public disclosures that reflect the scope and complexity of the Bank's operations (including the sophistication of its risk management systems and processes) and that are appropriate, accurate, high quality and timely. The disclosures are intended to provide information that contributes to the transparency of financial markets and enhances market discipline.

The Audit and Governance Charter requires the Committee to review the effectiveness of ME's financial reporting. Communications about the half and full-year financial results are approved by the Board before they are published.

SHAREHOLDER COMMUNICATION & PARTICIPATION

ME recognises the importance of keeping its shareholders fully informed and has an established Network Engagement Framework, which provides pathways for two-way communication between the Bank, the Board and shareholders, including quarterly CEO updates and financial presentations.

The Bank diligently releases financial information, including its Business Plan, valuation, half and full-year financial results and APRA regulatory disclosures to its shareholders, and more broadly as required. In the first instance, shareholders receive information in electronic format with an option to receive printed material.

The AGM provides an important opportunity for engaging and communicating with shareholders and is generally held in November each year. Shareholders are encouraged to attend and actively participate in the Bank's AGM; those who are unable to attend the AGM are able to lodge their proxies through a number of channels. ME's corporate website mebank.com.au provides detailed information about the Bank's business and operations. Details of ME's Board Members and Executive team can be found there. Information about ME's corporate governance is also available and includes the ME Constitution, Board and Board Committee Charters, Annual Review and an extensive list of other policies that support corporate governance.

RISK MANAGEMENT

The Board has a Risk Management Framework to support the identification and management of all material risks across the Bank. A strong internal controls system ensures all controls are appropriately designed and implemented to help the Bank operate within the risk appetite settings approved by the Board. A standardised, integrated and risk-based assurance program provides line-of-sight across ME's management of all material risks, to help ensure the Bank meets both its regulatory obligations and business objectives.

The Risk Management Framework is centred on a unifying Risk Management Statement, signed by the CEO, which outlines why good risk management is a critical enabler of the Bank's corporate objectives. Four risk management standards support the risk management policies, processes, guidelines, tools and practices that enable ME to meet stakeholder expectations.

Collectively, these elements of ME's framework:

- Allow the Board to establish and monitor risk appetite limits that reflect organisational strategy and good governance
- Measure – across highly quantifiable risk classes such as credit, market, and liquidity risk – the risk capacity of the organisation, and apply meaningful risk tolerances

- Measure – across more qualitative risk classes, specifically operational risks – the relative distribution of risk exposures, and develop and apply meaningful risk appetite limits for ME's 21 operational risk classes
- Monitor the Bank's risk exposures to its risk limits and provide relevant reporting and insight, for both management/Board and regulators
- Ensure clear accountability for the key controls on which the Bank relies to operate an effective business and meet its regulatory and contractual obligations
- Ensure adequate and effective business continuity and disaster recovery capabilities are in place, and regularly tested
- Support the development of new or enhanced products and services, and the projects that deliver them
- Provide insight for the Board on the risk culture of the organisation
- Assist the organisation make better risk-based decisions to achieve its purpose and business objectives.

The framework supports a Three Lines of Defence governance model, which is reflected across roles and responsibilities, management and Board Committee structures, decision-making and reporting.

The Risk Management Framework is a living document which is updated as required.

The following Management Committees have been established to assist the Board and its Committees to oversee implementation of these policies and the underlying risk management frameworks as well as setting appropriate risk parameters and control limits:

- Credit Risk Committee
- Asset and Liability Committee
- Operational Risk and Compliance Committee.

Additionally, these Committees ensure management monitor, limit and promote compliance with the limits set within the Board-approved Risk Appetite Statement.

RISK MANAGEMENT FRAMEWORK

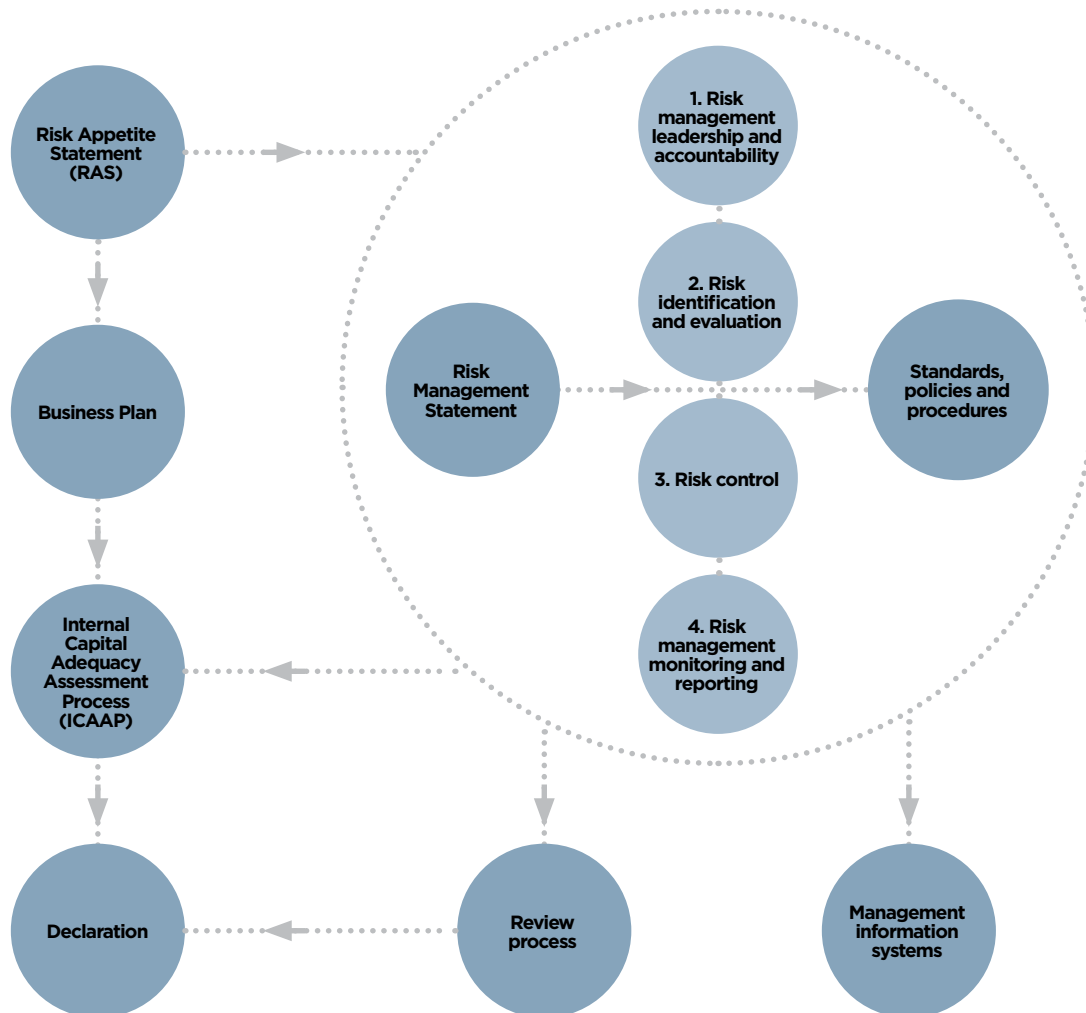


Figure 11 – ME's Risk Management Framework.

In order to demonstrate that the Bank has met APRA requirements around risk management, the Chair of the Board and the Chair of the Risk and Compliance Committee provide a Risk Management Declaration annually regarding the Bank's compliance with the prudential standards and processes to identify and manage its material risks. Management follows a process, based on input from all Executives, to develop a recommendation for the Board regarding the Risk Management Declaration.

ME's internal audit function provides assurance to the Audit and Governance Committee on the effectiveness of ME's Risk Management Framework and on the adequacy and effectiveness of the system of internal controls. The internal audit function is independent of the external auditor and carries out audits under an annual plan approved by the Audit and Governance Committee. The internal audit team makes an independent appraisal of the adequacy and effectiveness of ME's risk management and internal control

systems to provide assurance to the Audit and Governance Committee and the Board. The head of internal audit has direct access to the Chair of the Audit and Governance Committee and the internal audit team has unrestricted access to management and the right to seek information and explanations.

REMUNERATION

The People and Remuneration Committee assists the Board by ensuring that ME has coherent remuneration policies and practices that fairly and responsibly reward individuals in regard to performance, risk appetite and risk framework. The remuneration policies and practices enable ME to attract, motivate and retain Executives and Directors who will create value and support ME in achieving its purpose and overall objectives. The Committee has a formal Charter that is reviewed annually. A copy of the Charter is available on the ME corporate website mebank.com.au.

| KEY MANAGEMENT PERSONNEL | Company | |
|--|------------------|------------------|
| | FY17 \$ | FY16 \$ |
| Short term benefits | 5,277,125 | 5,615,316 |
| Other long term benefits | 1,205,959 | 935,235 |
| Termination benefits | - | 309,405 |
| Total key management personnel compensation | 6,483,084 | 6,859,956 |

Table 5 – Remuneration of key management personnel.

| BOARD SCHEDULE OF FEES | FY17 \$ | FY16 \$ |
|--|---------|---------|
| Chair of the Board | 168,000 | 168,000 |
| Member of the Board | 84,000 | 84,000 |
| Audit and Governance Committee | | |
| Chair of the committee | 13,500 | 13,500 |
| Committee member | 6,750 | 6,750 |
| Risk and Compliance Committee | | |
| Chair of the committee | 13,500 | 13,500 |
| Committee member | 6,750 | 6,750 |
| People and Remuneration Committee | | |
| Chair of the committee | 13,500 | 13,500 |
| Committee member | 6,750 | 6,750 |
| Digital Committee | | |
| Chair of the committee | 13,500 | 13,500 |
| Committee member | 6,750 | 6,750 |

Table 6 – Board schedule of fees - fees are inclusive of superannuation.

The remuneration paid to each director is set out below:

| FIXED REMUNERATION DETAILS | | | |
|----------------------------|---|----------------|----------------|
| Director | Committee membership | FY17 \$ | FY16 \$ |
| K Hodgson | Chair of the Board (appointed 1 January 2016) | 168,000 | 84,000 |
| | Member of the Board | - | 42,000 |
| | Audit & Governance Committee | 6,750 | 6,750 |
| | Risk & Compliance Committee (ceased 5 April 2017) | 5140 | 6,750 |
| | Chair, People & Remuneration Committee | 13,500 | 13,500 |
| | | 193,390 | 153,000 |
| C Bart | Member of the Board | 84,000 | - |
| | Risk & Compliance Committee | 6,750 | - |
| | Chair, Digital Committee (appointed 6 April 2017) | 3,219 | - |
| | Digital Committee (ceased 5 April 2017) | 5,140 | - |
| | | 99,109 | - |
| C Christian | Member of the Board | 84,000 | 84,000 |
| | Chair, Audit & Governance Committee (ceased 7 June 2017) | 13,059 | 8,671 |
| | Audit & Governance Committee (appointed 8 June 2017) | 441 | 2,414 |
| | Chair, Risk & Compliance Committee | 13,500 | 8,671 |
| | Risk & Compliance Committee (ceased 12 November 2015) | - | 2,414 |
| | Technology Committee (ceased 12 November 2015) | - | 2,414 |
| | | 111,000 | 108,584 |
| G Combet | Member of the Board | 84,000 | 84,000 |
| | Audit & Governance Committee (ceased 5 April 2017) | 5,140 | 6,750 |
| | Risk & Compliance Committee (ceased 5 April 2017) | 5,140 | 6,750 |
| | People & Remuneration Committee (appointed 6 April 2017) | 1,610 | - |
| | Digital Committee (appointed 6 April 2017) | 1,610 | - |
| | | 97,500 | 97,500 |
| A De Salis | Member of the Board (ceased 14 November 2016) | 31,015 | 84,000 |
| | People & Remuneration Committee (ceased 14 November 2016) | 2,492 | 6,750 |
| | Digital Committee (ceased 14 November 2016) | 2,492 | 6,750 |
| | | 35,999 | 97,500 |

| FIXED REMUNERATION DETAILS (continued) | | | |
|--|--|----------------|----------------|
| J Milne* | Member of the Board | 64,615 | 84,000 |
| | Chair, Digital Committee | 10,385 | 13,500 |
| | People & Remuneration Committee (appointed 1 January 2017) | 1,817 | - |
| | | 76,817 | 97,500 |
| J Nesbitt | Member of the Board | 34,569 | - |
| | Risk & Compliance Committee (appointed 5 April 2017) | 2,778 | - |
| | Chair, Audit & Governance Committee (appointed 8 June 2017) | 883 | - |
| | Audit & Governance Committee (ceased 7 June 2017) | 1,670 | - |
| | | 39,900 | - |
| E Rubin | Member of the Board | 62,677 | - |
| | People & Remuneration Committee (appointed 1 January 2017) | 3,375 | - |
| | Digital Committee (appointed 1 January 2017) | 3,375 | - |
| | | 69,427 | - |
| G Weaven | Chair of the Board (ceased 31 December 2015) | - | 84,000 |
| | Member of the Board (ceased 31 December 2016) | 45,231 | 42,000 |
| | Chair, People and Remuneration Committee (ceased 31 December 2016) | 3,635 | 6,750 |
| | | 48,866 | 132,750 |
| Total directors compensation | | 772,008 | 686,834 |

Table 7 – The remuneration paid to each Director.

*Leave of absence from 1 April 2017-31 October 2017.

07 People.

ME remains committed to building a unique, values-based and high performing culture, one that recognises that its people are critical to its success and allows it to 'help all Australians get ahead'.

In FY17, ME commenced and completed a number of major initiatives that aim to ensure its People Experience unit enables everybody at ME to 'Go to The Moon':

- Implemented an enterprise people platform, 'Workday', which provides a seamless, end-to-end employee experience, a single system for the Bank's people data and reporting, and improved efficiency and risk management with workflow and decision support.
- Launched a Capability Model, designed to provide the behavioural indicators demonstrating the underlying knowledge, skills, behavioural attributes and attitudes that are needed for employees to perform effectively in their role.
- Launched AssistÜ, a team that provides ME employees and managers a single point of contact for human resources-related matters.
- Added additional leave provisions for employees who may experience family violence. This was not only about providing additional support to those who may need it, but also about increasing awareness and education among the Bank's employees.





'HOWÜDOIN?' EMPLOYEE OPINION SURVEY

Each year, ME conducts an employee opinion survey to measure the engagement of staff and gain insight into how people feel about working at ME. The overall employee engagement score measures elements of motivation, recommendation, pride and commitment.

This year, 84% of ME's employees took the opportunity to complete the survey, contributing valuable feedback about the Bank's performance as an employer. The FY17 employee engagement score increased from 53% to 60%, taking ME closer to its goal of exceeding a 70% employee engagement score.

ME employees expressed that the Bank is moving in the right direction in many of the key areas the Bank focused on after last year's results – including growth and development, communication, and autonomy. ME employees also continue to feel connected to the Bank's brand and values, their teams and their managers.

Feedback on areas for improvement from across the business tells ME that it needs to continue to focus on enhancing systems and processes to enable it to achieve success in the coming years. As a result, the Bank will focus on ongoing investment in improving its systems and processes, and providing clear direction of its vision and how it'll achieve its goals in the next 12 months and beyond.

VALUES

Throughout FY17, the Bank continued to focus on embedding its values into the way people work at ME. The Bank uses its values – Love Monday, Have a Swing, Ride the Subway, Stay Hungry and Go to the Moon – to guide its decision making, in Performance Partnering conversations, when recognising teams' wins, and throughout talent recruitment processes.

ME has extended the alignment of its values to its development processes with the launch of a fully integrated Capability Model. The Capability Model comprises a set of 10 core capabilities that are anchored to the Bank's values and specify the leadership behaviours required to meet strategic objectives. They are described at four leadership levels and outline the pathway that the Bank's employees progress through as they develop and grow at ME.



GROWTH & DEVELOPMENT

In FY17, ME ran its second annual ME Careersfest – designed to help all employees navigate their career at ME. The idea was borne out of the 2015 howÜdoin? engagement survey.

Over 450 employees attended the Careersfest, which showcased a series of 20-minute power talks, a unique virtual reality experience, curated development content on tablets and 'The Stay Hungry Hub' that provided coaching support around the recently launched Capability Model.

The feedback was overwhelmingly positive, with the general sentiment being that people are feeling enthusiastic about career opportunities at ME. The Careersfest initiative has been a strong contributor to increasing the satisfaction with the growth and development elements of the employee opinion survey. Careersfest has also been a contributing factor to increased internal mobility; 44% of ME's vacancies in FY17 were filled by internal employees.

A performance-based bonus is also awarded to each eligible ME employee, recognising the hard work and efforts of each person who works at the Bank.



DEVELOPING LEADERS

ME recognises the important role leaders across the Bank play in creating an engaging and motivating environment for its teams. To help its people build the core skills needed to be effective leaders, the Bank is creating a two-tier Leadership Development Framework. The approach delineates the needs of leaders who manage teams and those who lead the business. A curriculum has been developed to incorporate a blended design that takes into consideration individual preferences, formal workshops, masterclasses and performance support activity.

In FY17, 60 of the Bank's service excellence business leaders gathered for a leadership development day to continue their professional development journey that commenced in October 2016. The workshop primarily focused on reflections of the year that had passed, discussions around FY18 business and leadership challenges, and investment in leadership development centred on the topic of emotional intelligence. The leadership development of service excellence business leaders will continue to be a focus throughout FY18 through a structured program that is designed to lift their capabilities.



Two marquee events that were held over the course of FY17 also signify the new approach to leadership development:

Values Immersion Day

Held in November 2016, the Values Immersion Day provided an opportunity for ME to further embed its values by supporting business leaders in conducting their first values rating conversations of FY17. It was also an opportunity for business leaders to spend time working collaboratively and building relationships with peers.

Business Leaders Day

Held in May 2017, the Business Leaders Day aimed to provide clarity around the expectations of the roles of senior leaders. The focus of the day was building an Enterprise Leadership Mindset grounded in trust, co-creation and collaboration across the Bank. Leaders came away from the day with individual commitments to personally change their routines and behaviours to support the Bank's transition to an enterprise leadership model. Following on from Business Leaders Day, the Bank's business leaders have met again to share their progress against their commitments and to learn from each other's progress.



DEVELOPING EXECUTIVE LEADERSHIP

In addition to the aforementioned sessions, the Executive team worked through a 90-day program focused on building trust and operating as enterprise leaders rather than business unit leaders. At the end of the first 90-day sprint, there were increased positive perceptions across collaboration, trust and leadership effectiveness.

DEVELOPING THE BANK'S RISK CULTURE

The Bank enlisted its risk and legal teams to refresh and update its suite of mandatory compliance-related eLearning courses. Working with industry partners Deakin Prime, 12 risk and compliance online learning modules (eLearns) were redesigned and developed. In addition, the Bank has reconfigured its learning management system so it can have better transparency and control over course completion data and, over time, develop insights around its risk curriculum.

FINANCE SECTOR UNION PARTNERSHIP

Formed in 2011, the partnership between the Bank and the Finance Sector Union (FSU) is a collaborative and mutually beneficial one that recognises that ME, its employees and the FSU have a shared interest in the ongoing viability of the business. The intent of the partnership is to build a relationship which demonstrates collaboration, trust and cooperation across all areas of the Bank and that enables the Bank's employees to better serve its customers and deliver on its customer promises.

Through its ongoing partnership, ME continues its commitment to developing a healthy employer-employee relationship within the Bank, which in turn fosters a supportive, productive and challenging work environment in which all employees are treated with dignity and respect and are valued for their individual and team contributions.

The partnership continues to provide ME with the opportunity to work collaboratively toward common goals based on shared business objectives and principles grounded in fairness, openness and collective benefit.

WORKPLACE HEALTH AND SAFETY

ME is committed to providing a safe and healthy environment for its employees, contractors and visitors. The Bank's active consultation with employees through the Health and Safety Committee, and its network of health and safety employee representatives across its workplaces, aims to ensure that workplace issues can be readily raised and addressed, with its processes ensuring early incident reporting. Keep ME Safe, the Bank's occupational health and safety management system, supports the timely identification and management of preventable health and safety risks, and addresses issues across the organisation.

In FY17, ME rolled out a range of health and wellbeing activities under its 'Happy.Healthy.ME' program, designed to encourage preventative and proactive management of health and wellbeing in the Bank's workplaces. The Bank also continues to work towards implementing strategies that reduce the Return to Work (RTW) timeframe after an employee has sustained an occupational injury.

| WORKPLACE PROFILE | FY17 | FY16 |
|----------------------------|--------------|--------------|
| Number of employees | 1,136 | 1,010 |
| Permanent | 1,009 | 964 |
| Contractor* | 127 | 46 |

Table 8 – Workplace profile.

DIVERSITY AND INCLUSION

Consistent with its aspirations and values, ME has embarked on a process to formalise and to further promote and develop diversity and inclusion within the organisation. This kicked off in FY17 with some employee focus groups, via an externally facilitated process, to highlight a range of issues and opportunities for the Bank to tackle. Further development of more formal initiatives and activities arising from this work will be undertaken in the coming year.

In the meantime, ME continues to promote and support a range of business and employee-initiated activities that promote and support diversity and inclusion in its workplaces. These activities have included:

- Sponsorship and support of industry groups and forums such as Women in Super, Women in Risk, and Women in Diversity group, all designed to promote and develop the career opportunities for women in these professions
- ME-branded presence at Melbourne's Midsumma festival to celebrate and support the LGBTI community
- Engagement with an external agency to look at developing and promoting opportunities for mothers returning to the workforce
- Workplace celebrations that recognise cultural and religious celebrations from some of the various communities that make up ME's workforce, such as the celebration of the Hindu festival Diwali which took place in October 2016.

GENDER DIVERSITY IN FY17*

| Non-managerial employees | |
|----------------------------|-----|
| Female | 51% |
| Male | 49% |
| Business leaders | |
| Female | 41% |
| Male | 59% |
| Executive (including CEO) | |
| Female | 33% |
| Male | 67% |
| Board (including Chairman) | |
| Female | 43% |
| Male | 57% |

Table 9 – Gender diversity.

UTILISATION OF PARENTAL LEAVE IN FY17*

| Primary carer's leave | |
|-------------------------|----|
| Female | 31 |
| Male | 0 |
| Secondary carer's leave | |
| Female | 3 |
| Male | 5 |

Table 10 – Number of employees utilising parental leave.

* From the 2016-17 public report form submitted by Members Equity Bank Limited to the Workplace Gender Equality Agency

EXECUTIVE TEAM

**Jamie McPhee**

Chief Executive Officer

Jamie has been CEO of ME since February 2010, working with the Board and Executive team to develop, implement and lead ME's business strategy.

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

About Jamie

Before ME, Jamie was Managing Director of Adelaide Bank when it merged with Bendigo Bank in November 2007 and was appointed Executive Director of the merged company. He then went on to hold the position of Chief Executive, Partner Advised Banking.

**Anthony Aboud**

Chief Change Officer

Anthony is a passionate advocate for business improvement. As Chief Change Officer, he's responsible for looking after 'Ellen' – the ME business unit which focuses on helping ME make the changes necessary to support its growth ambitions.

About Anthony

Before ME, Anthony was at GE Capital for 15 years where he held various senior roles across sales, project management, collections, customer service and operations leadership. Anthony also spent two years as a full-time Six Sigma Black Belt, later successfully gaining Master Black Belt certification in the Lean Six Sigma methodology.

**Angela Middleton**

Group Executive, Sales

Angela is responsible for driving sales growth and increasing customer take-up through a national multi-distribution channel including retail sales, broker sales and direct sales. Angela is also responsible for managing the relationships between ME and its stakeholders (the industry super funds, unions and affiliated associations).

About Angela

Angela joined ME from NAB, where she was the Head of Lending Services – Retail and Broker. Prior to this, she held senior management positions at Citibank and the Australian Finance Group.

**Gary Dickson**

Chief Financial Officer

Gary has been Chief Financial Officer at ME since early 2013 and is primarily responsible for monthly management, regulatory and external reporting; the annual budgeting and financial planning processes; funding and capital management; investor relations; procurement; and legal services.

About Gary

Before joining ME, Gary worked in a variety of finance roles in both listed and unlisted corporate environments, including as Chief Financial Officer of AXA Australia for five years. Prior to that, Gary held senior financial roles at Portfolio Partners, Commonwealth Bank, Colonial First State and PricewaterhouseCoopers.

**Rebecca James**

Chief Marketing Officer

Resigned August 2017

Rebecca joined ME in early 2014 as the Bank's inaugural Chief Marketing Officer. She reshaped the ME brand, simplified products and step-changed ME's customer experience.

About Rebecca

Rebecca has more than 20 years' experience in marketing and advertising – including as Managing Director of multi-award winning customer experience agency Lavender, whose clients included Westpac, BT Financial Group, American Express, Qantas, Telstra, Coles, IKEA and Microsoft.

**Carlo Cataldo**

Chief Risk Officer

Carlo joined ME in July 2014. As Chief Risk Officer, Carlo is accountable for the oversight of the Bank's credit, market and operational risks that arise from ME's activities.

About Carlo

With over 20 years in risk management prior to ME, Carlo was consulting via his own advisory company and spent almost 13 years with GE Capital. Carlo's time at GE included six years as the consumer Chief Risk Officer and two years as the Responsible Lending Leader, which included lobbying for further changes to the Privacy Act to support access to credit and more comprehensive credit reporting.

**Mark Gay**

Chief Information Officer

Mark joined ME in January 2015. As Chief Information Officer, Mark is accountable for the development, management and monitoring of ME's information technology function.

About Mark

Before joining ME, Mark was at GE Capital Group in a number of senior roles, including as Director of FastWorks, Lean & Strategic Program Delivery and Chief Technology Officer for Asia Pacific. Mark has also held executive positions with Australian Air Express and TAFE.

**Craig Ralston**

Group Executive, Service Excellence

Craig joined ME in February 2015. As Group Executive, Service Excellence, Craig is accountable for the delivery of service outcomes to ME's customers. He is responsible for designing, improving, and implementing processes to deliver seamless service to ME's customers.

About Craig

Craig has over 20 years' experience in the financial services industry – the majority of which was at Bendigo and Adelaide Bank. Craig's experience spans across retail sales, operations, technology, product and project management, and strategy.

**Ingrid Purcell**

Acting Group Executive,
People Experience

Ingrid joined ME in 2014 as the Brand and Digital Director and was appointed to the ME Executive team in May 2017 as the Acting Group Executive, People Experience. Ingrid is responsible for all things 'people' and is focused on helping ME transform its people experience while identifying the capabilities the Bank needs to grow and succeed in the digital era.

About Ingrid

Prior to joining ME, Ingrid led large teams working as a Business Director at creative digital agencies in London and Sydney. Ingrid has worked with a range of companies across the financial services, fast-moving consumer goods (FMCG) and technology industries, helping to create and implement digital brand transformation.

08 Community.



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

MOTHER'S DAY CLASSIC

This year ME celebrated its 13th year as the major sponsor of Women in Super's Mother's Day Classic, a national fun run and walk that raises funds for breast cancer research. 2017 marked the Mother's Day Classic's 20th anniversary, with a total of \$30.4 million having been raised for the National Breast Cancer Foundation since the event began in 1998.

Held in every capital city and 84 metropolitan and regional locations across Australia, it's ME's biggest community sponsorship event of the year.

Over the years, through internal fundraising and on-the-day giveaways, ME has raised over \$130,000 for the Mother's Day Classic. In addition to this, the event is strongly supported by ME employees. At the 2017 event, ME was awarded the 'Largest Company Team Award' with over 300 employees and their families registered in the ME Mother's Day Classic team.

ME PINK DEBIT MASTERCARD®

This year ME continued its longstanding association with the National Breast Cancer Foundation through ME's pink debit Mastercard®. Since May 2011, ME has donated one cent to the National Breast Cancer Foundation for every transaction made by customers using the pink card - resulting in more than \$750,000 being donated towards breast cancer research.

| HESTA |

INDUSTRY SUPPORT - HESTA AWARDS

ME is the major sponsor of the HESTA Awards Program, which recognises, celebrates and promotes the achievement of those working in nursing, primary health care, early childhood education, aged care and the community sector. ME provides the entire prize pool for the awards, which is shared among the winners to support their vital community programs and initiatives.



GIVING BACK

ME's Giving Back program provides the Bank's employees with the opportunity to make regular donations from their pre-tax pay to a group of eight community partners. In FY17, employees donated nearly \$6,500 to ME's community partners – a figure which was matched by the Bank.

ME's current Giving Back community partners are: the National Breast Cancer Foundation, the Prostate Cancer Foundation of Australia, beyondblue, Mission Australia, The Smith Family, Australian People for Health, Education and Development Abroad (APHEDA), Redkite, and the World Animal Protection.



PUBLIC SUPPORT FOR MARRIAGE EQUALITY

ME has adopted a public position on supporting marriage equality by joining the corporate campaign run by the Australian Marriage Equality and signing a letter calling for marriage equality to be legislated by the Australian Parliament.



GOOD RETURN

ME partners with Good Return to provide employees with an innovative way to positively impact the lives of those living in poverty in developing countries.

Good Return is a social enterprise whose mission is to enable people living in poverty in the Asia Pacific region to grow their income and change their lives sustainably. It does this through the delivery of microfinance, financial literacy and livelihood development programs that ensure long-term benefits to families and their communities.

The Good Return loan platform was launched in 2010 to offer small loans to people living in poverty to help them build or grow an income. The online platform enables lenders to provide small loans to people in Cambodia, the Philippines, Fiji and Tonga and offers them the opportunity to donate, relend or withdraw their funds once the loan is repaid. Such loans translate into income growth, improved livelihoods, and an end to the cycle of poverty.

ME employees can contribute by becoming a lender and funding a microfinance loan for an individual through Good Return. For every employee who funds a loan, ME makes a donation to Good Return that goes towards the development of financial literacy programs.

09 Environment.

Reducing its impact on the environment is a core part of ME's commitment to responsible business. The Bank understands that its environmental impact extends beyond its own operations to include the products and services it provides and procures, as well as the investment decisions it makes.

ME's head office in Melbourne Central Tower, where the majority of its people are located, has a 5-star 'Green Star - Office Interiors v1.1' rating. The building that ME sits in has a 5-star assisted NABERS Energy Rating and a 2.5-star NABERS Water Rating. The Bank's green star accommodation has provided significant environmental benefits, including reduced electricity consumption, largely due to improved heating, cooling and lighting efficiencies.

RESOURCE USE

In FY17, ME produced 1,894 tonnes of greenhouse gas (GHG) emissions from its operations, including electricity use in offices, vehicle fleet usage and employee air travel (see figure 12 below). This is a decrease of 1.7% from the previous year, which was achieved from a reduction in emissions from electricity use and vehicle fleet usage.

The largest source of GHG emissions for ME is electricity use in its offices, which accounts for 55.8% of the Bank's total emissions. In FY17, ME reduced its electricity usage by 59.2 tonnes carbon dioxide equivalent (CO₂-e) and vehicle fleet usage by 19.3 tonnes CO₂-e.

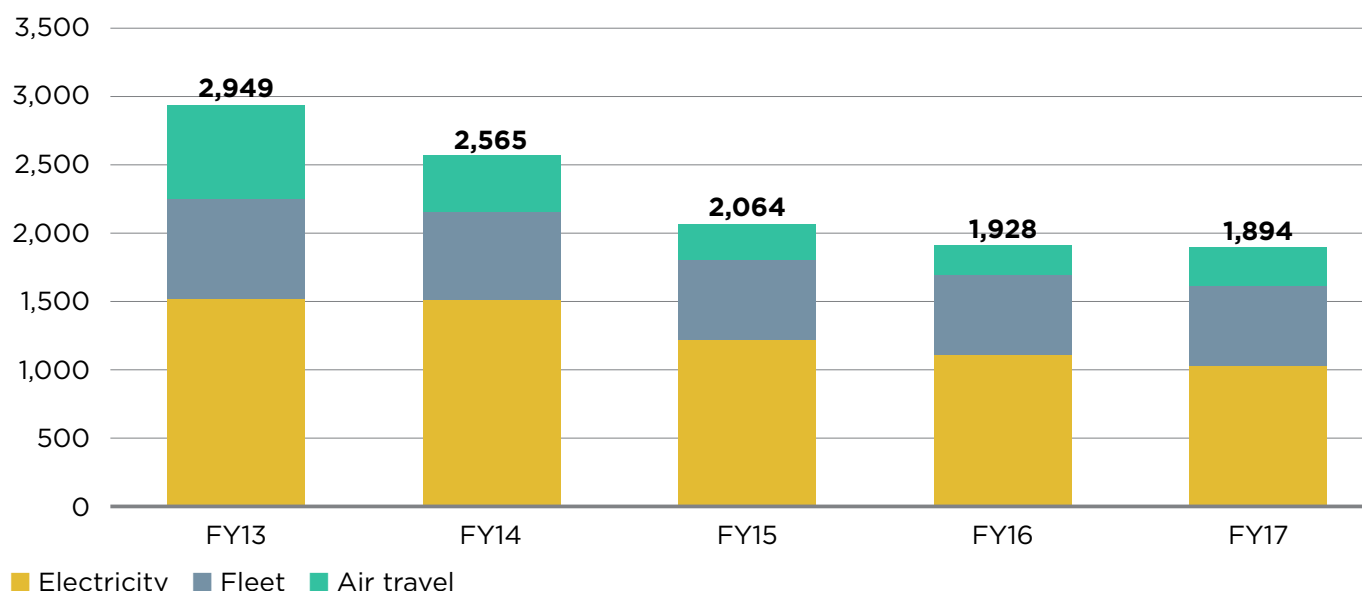


Figure 12 - Total greenhouse gas emissions (tonnes CO₂-e).

| | FY13 | FY14 | FY15 | FY16 | FY17 |
|--------------|----------------|----------------|----------------|----------------|----------------|
| Air Travel | 688.14 | 374.00 | 249.80 | 222.60 | 266.90 |
| Fleet | 734.34 | 679.80 | 587.30 | 589.20 | 569.90 |
| Electricity | 1526.34 | 1511.00 | 1226.44 | 1116.40 | 1057.20 |
| Total | 2948.82 | 2564.80 | 2063.54 | 1928.20 | 1894.00 |

Table 11 – Yearly comparison of total greenhouse gas emissions (tonnes CO₂-e).

PAPER USE

In FY17, ME used 18.8 tonnes of paper. ME's overall paper use increased by 3.3% this year, up from 18.2 tonnes in FY16, due to a 15% increase in customer numbers, which in turn increased the paper documentation that was dispatched to them. The increase in paper use was only a fifth of the increase in the Bank's customers as the Bank continues to digitise and streamline processes involved in customer applications and opening new accounts.

RESPONSIBLE PROCUREMENT

ME works closely with a wide range of suppliers in the day-to-day operation of its business. In line with its commitment to corporate responsibility, it prefers to partner with suppliers that demonstrate a proactive approach to economic, social and environmental responsibility.

When sourcing new suppliers, ME regularly 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. The Bank also manages the use and disposal of goods and services to minimise social and environmental impacts. It endeavours to work with its existing suppliers on an ongoing basis to better understand their economic, social and environmental impacts.

10 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 2017.

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.

Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2017

| | Consolidated | |
|--|----------------|----------------|
| | FY17 \$'000 | FY16 \$'000 |
| Interest and similar income | 1,161,628 | 1,221,621 |
| Interest and similar expense | (825,302) | (907,035) |
| Net interest income | 336,326 | 314,586 |
| Funds management fee income | 5,925 | 10,354 |
| Other operating income | 32,124 | 45,533 |
| Total net operating income | 374,402 | 370,473 |
| Expenses | | |
| Operating expenses | 231,085 | 233,845 |
| Impairment losses | 13,773 | 14,144 |
| Project expenses | 32,393 | 15,012 |
| Loss on sale of commercial loans and asset finance portfolios | 8,902 | - |
| Total operating expenses | 286,153 | 263,001 |
| Profit before income tax | 88,249 | 107,472 |
| Income tax expense | 26,393 | 30,640 |
| Profit for the year | 61,856 | 76,832 |
| Other comprehensive income | | |
| Items that will not be reclassified subsequently to profit or loss | - | - |
| Items that may be reclassified subsequently to profit or loss | | |
| Net fair value gain on available-for-sale financial assets, net of tax | (513) | (2,010) |
| Cash flow hedges - effective portion of changes in fair values, net of tax | 45,361 | (4,413) |
| Total comprehensive income for the year | 106,704 | 70,409 |

Table 12 - Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2017.

Statement of financial position as at 30 June 2017

| | | Consolidated | |
|-------------------------------|------|-------------------|-------------------|
| | Note | FY17 \$'000 | FY16 \$'000 |
| Assets | | | |
| Cash and cash equivalents | | 312,646 | 440,054 |
| Investments | 3 | 2,981,442 | 3,064,159 |
| Derivatives | | 11,331 | 4,661 |
| Trade and other receivables | | 6,005 | 5,516 |
| Loans and advances | 4 | 22,503,585 | 19,534,241 |
| Plant and equipment | | 8,330 | 29,829 |
| Intangible assets | | 89,336 | 83,620 |
| Deferred tax assets | | 14,557 | 32,893 |
| Other assets | | 8,969 | 8,422 |
| Total assets | | 25,936,201 | 23,203,395 |
| Liabilities | | | |
| Deposits and other borrowings | 5 | 24,410,231 | 21,770,305 |
| Derivatives | | 26,927 | 87,851 |
| Trade and other payables | | 25,721 | 20,081 |
| Current tax liabilities | | 949 | - |
| Provisions | | 26,482 | 26,446 |
| Subordinated debt | | 333,236 | 332,760 |
| Total liabilities | | 24,823,546 | 22,237,443 |
| Net assets | | 1,112,655 | 965,952 |
| Equity | | | |
| Issued capital | | 807,921 | 767,922 |
| Reserves | | 6,792 | (37,181) |
| Retained earnings | | 297,942 | 235,211 |
| Total equity | | 1,112,655 | 965,952 |
| Book value per share | | \$100.73 | \$91.35 |

Table 13 – Statement of financial position as at 30 June 2017.

Statement of changes in equity for the financial year ended 30 June 2017

| Consolidated | | | | | | |
|--|--------------------------|-----------------------------|---|--|-----------------------------------|------------------|
| | Issued capital \$'000 | Retained earnings \$'000 | General reserve for credit losses \$'000 | Investment revaluation reserve \$'000 | Cash flow hedge reserve \$'000 | Total \$'000 |
| Balance at 1 July 2015 | 729,995 | 159,330 | 17,381 | 5,245 | (54,335) | 857,616 |
| Issue of share capital | 37,927 | - | - | - | - | 37,927 |
| Transfer to/(from) general reserve for credit losses | - | (951) | 951 | - | - | - |
| Other comprehensive income for the year | - | - | - | (2,010) | (4,413) | (6,423) |
| Profit for the year | - | 76,832 | - | - | - | 76,832 |
| Balance at 30 June 2016 | 767,922 | 235,211 | 18,332 | 3,235 | (58,748) | 965,952 |
| Balance at 1 July 2016 | 767,922 | 235,211 | 18,332 | 3,235 | (58,748) | 965,952 |
| Issue of share capital | 39,999 | - | - | - | - | 39,999 |
| Transfer to/(from) general reserve for credit losses | - | 875 | (875) | - | - | - |
| Other comprehensive income for the year | - | - | - | (513) | 45,361 | 44,848 |
| Profit for the year | - | 61,856 | - | - | - | 61,856 |
| Balance at 30 June 2017 | 807,921 | 297,942 | 17,457 | 2,722 | (13,387) | 1,112,655 |

Table 14 – Statement of changes in equity for the financial year ended 30 June 2017.

NOTES FOR THE KEY FINANCIAL INFORMATION

For the financial year ended 30 June 2017

1. Review of operating results

ME recorded an after-tax statutory profit of \$61.9 million for the financial year ended 30 June 2017 compared to \$76.8 million in the previous financial year. Statutory profit includes gains / (losses) on hedging instruments (primarily interest rate swaps) and a number of one-off items. ME uses underlying net profit after tax as its key profit measure. Refer to page 9 for further details, including a reconciliation of statutory profit to underlying profit. The Bank has produced a strong result with year-on-year growth in most key financial metrics.

Net interest income increased to \$336.3 million from \$314.6 million in the previous financial year reflecting growth in the home loan portfolio and funds management fee income decreased to \$6.0 million from \$10.4 million in the previous financial year, reflecting the migration of home loans from off-balance sheet to on-balance sheet.

Other operating income has decreased due to a reduction in rental income as a result of the employer banking book sale and due to the realised and unrealised losses on investments held for the purpose of APRA's Liquidity Coverage Ratio.

Total expenses increased to \$286.2 million from \$263.0 million in the previous financial year. Staff and related cost increases were in line with the comparative period. General administrative costs increased by 4%, mainly due to the increase in system-related costs but partially offset by a decrease in marketing and promotional activity. Project expenses increased \$17.4 million and included the one-off transition costs of consolidating multiple service providers for IT infrastructure, application solutions and support services with a new partner, Capgemini. The loss on sale of the commercial loans and asset finance portfolios was also recognised in total expenses (\$8.9 million).

Impairment losses for the year were \$13.8 million compared to \$14.1 million in the previous financial year, mainly due to lower provisioning expense. At 30 June 2017, the loss provisions balance was \$25.6 million, including \$4.8 million of specific provisions (representing 0.11% of the total lending portfolio), compared to \$24.6 million (\$6.1 million of specific provisions) at 30 June 2016.

Total assets at 30 June 2017 were \$25.9 billion, an increase of 11.6% from \$23.2 billion at 30 June 2016. Loans and advances have increased by 15.4% to \$22.5 billion at 30 June 2017 from \$19.5 billion at 30 June 2016. The growth in loans and advances comprises approximately 91% new business and 9% migration of loans from off-balance sheet to on balance sheet. Intangible assets have increased mainly due to capitalisation of costs associated with projects.

The increase in total assets has been funded by liabilities increasing to \$24.8 billion from \$22.2 billion at 30 June 2016. Retail deposits increased to \$5.7 billion from \$4.1 billion at 30 June 2016. Growth in retail deposits continues to be driven through the success of the online savings account and the evolution of the Bank's term deposits strategy as ME transitioned to the Liquidity Coverage Ratio (LCR) regime in January 2017 and prepares for the Net Stable Funding Ratio (NSFR). The growth in medium-term notes from \$0.9 billion to \$1.3 billion was due to the issuance of new medium-term notes during the year. One new securitisation trust was established during the year, raising \$1.5 billion of mortgage-backed securities.

A total of \$40 million of paid up capital was injected by the shareholders in the year ended 30 June 2017.

2. Subsequent events

There are no matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

| | FY17 \$'000 | FY16 \$'000 |
|---|-------------------|-------------------|
| 3 Investments | | |
| At fair value | | |
| Available-for-sale investments | | |
| Treasury notes and semi-government securities | 493,690 | 360,965 |
| Bank bills | 235,359 | 990,915 |
| Corporate fixed rate notes | - | 25,529 |
| Corporate floating rate notes | 1,060,009 | 1,677,490 |
| Mortgage backed securities | 99,234 | 9,260 |
| | 1,888,292 | 3,064,159 |
| Investments held for trading | | |
| Government securities | 1,093,150 | - |
| | 2,981,442 | 3,064,159 |
| 4 Loans and advances | | |
| Credit cards | 164,767 | 151,609 |
| Personal loans | 194,092 | 217,371 |
| Residential home loans | 22,170,326 | 18,996,001 |
| Commercial loans | - | 112,874 |
| Asset finance | - | 88,453 |
| | 22,529,185 | 19,566,308 |
| Less | | |
| Unearned asset finance income | - | (7,454) |
| Allowance for impairment losses | (25,600) | (24,613) |
| | 22,503,585 | 19,534,241 |
| Movement in allowance for impairment of loans and advances | | |
| Balance at the beginning of the year | 24,613 | 22,410 |
| Amounts written off as uncollectible during the year | (14,995) | (16,516) |
| Amounts recovered during the year | 2,646 | 4,979 |
| Allowance for Impairment losses recognised during the year | 13,336 | 13,740 |
| Balance at the end of the year | 25,600 | 24,613 |
| Individual impairment | 4,766 | 6,127 |
| Collective impairment | 20,834 | 18,486 |
| | 25,600 | 24,613 |

Table 15 – Investments, loans and advances for the financial year ended 30 June 2017.

| | FY17 \$'000 | FY16 \$'000 |
|--|-------------------|-------------------|
| 5 Deposits and other borrowings | | |
| Unsecured - at amortised cost | | |
| Retail customer deposits | 5,707,514 | 4,126,619 |
| Business customer deposits | 1,342,619 | 1,159,179 |
| Superannuation banking deposits | 564,776 | 507,071 |
| Advised and corporate deposits | 4,958,411 | 4,686,747 |
| Institutional borrowings | 4,882,307 | 4,762,236 |
| Treasury borrowings | 716,954 | 539,250 |
| Medium term notes (i) | 1,255,855 | 928,368 |
| Other borrowings | 1 | - |
| | 19,428,437 | 16,709,470 |
| Secured - at amortised cost | | |
| Mortgage backed securities (ii) | 4,981,794 | 5,060,835 |
| Total deposits and other borrowings | 24,410,231 | 21,770,305 |

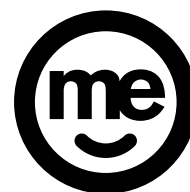
Table 16 – Deposits and other borrowings for the financial year ended 30 June 2017.

- ⁱ Medium term notes include interest payable and deferred expenses directly attributable to their issuance, with a face value of \$1,250,000,000.

Of the \$1,250,000,000 floating rate notes:

- \$350,000,000 is due in the first half of the 2018 financial year;
 - \$350,000,000 is due in the second half of the 2018 financial year;
 - \$350,000,000 is due in the first half of the 2020 financial year; and
 - \$200,000,000 is due in the second half of the 2020 financial year.
- ⁱⁱ Mortgage-backed securities relate to securities issued by securitisation trusts where the group has assessed that it retains substantially all the risks and rewards of ownership and continues to control the transferred assets. The holders of these securities have recourse only to the assets in the relevant securitisation trusts.

Notes.



CONTACT ME

National Customer Contact Centre

13 15 63

Open Monday to Friday 8am–8pm
and Saturday 9am–5pm (AEST)

mebank.com.au

Postal address

ME
GPO Box 1345
Melbourne VIC 3001

Gary Dickson

Chief Financial Officer, ME

T. 03 9708 4242

M. 0417 378 847

E. gary.dickson@mebank.com.au

Matthew Read

Head of Public Relations, ME

T. 03 9708 3334

M. 0432 130 338

E. matthew.read@mebank.com.au

