



**Annual Review**  
2018

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# ME awards.



**Canstar's Outstanding Value  
Transaction Account**



**Canstar's Outstanding Value  
Savings Account**



**Canstar's Outstanding Value  
Low Fee Credit Card**



**Mozo's Experts Choice Award  
SMSF Term Deposit**



**Mozo's Experts Choice Award  
Regular Saver**



**Mozo's Expert Choice Award  
Australia's Best Bank**



**Mozo's Experts Choice Award  
Term Deposit**



**Money magazine's Best of the  
Best Everyday Account**



**Money magazine's Money  
Minder of the Year**

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**Every Australian  
deserves to get  
the most out of  
their money.  
We're here to  
help them do it.**

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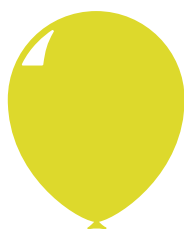
01.

# Financial highlights.



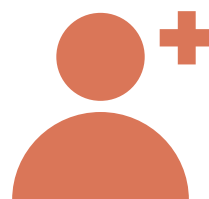
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Underlying net profit after tax (NPAT) was **\$96.5 million, an increase of 13%** on the previous financial year, and return on equity (ROE) was **8.1%**.



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Net interest margin (NIM) increased by **12 basis points to 1.62%**.



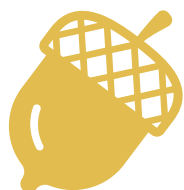
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Customer numbers increased by **13% to 474,000.**



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Total assets grew by **7% to \$28.3 billion.**



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Customer deposits grew by **17% to \$14.8 billion\***, continuing the ongoing diversification of the funding profile.

\*Including Everyday Transaction Account offset balances of \$0.8 billion



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ME was the **fastest growing retail deposit taker** in the country.

# 02.

## Message from the Chairman and the CEO.

### Another strong year helping more Australians get ahead.

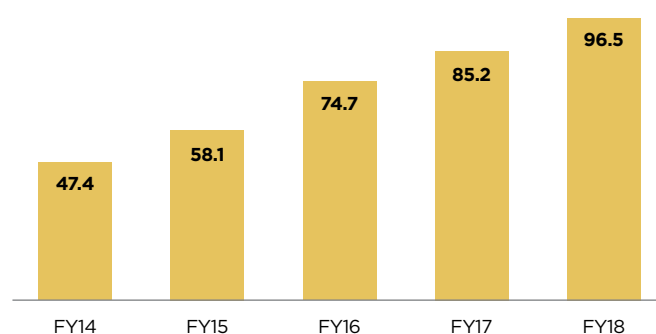
At ME, we believe it is vitally important to give consumers the option to bank with an organisation aligned with their interests, particularly in the current environment. ME was originally created by member-owned industry super funds to be a fairer home loan lender, and although our product range has since expanded, our benefits still go back to the industry super funds who own us – the very same ones that look after the retirement savings of more than seven million Australians.

For ME, success is about growing our business so we can continue to offer more ways for Australians to benefit from an alternative kind of bank. That's why we are so pleased to report on another successful year, with the bank maintaining its long-term track record of strong year-on-year growth.

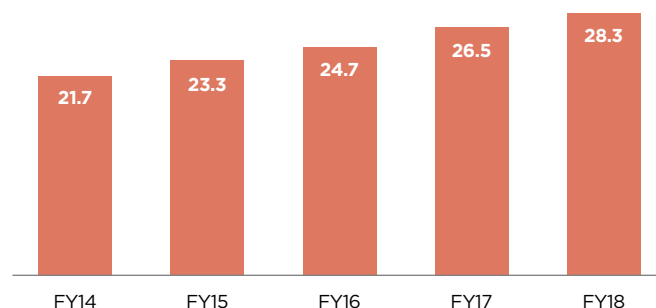
Full-year underlying net profit after tax (NPAT) was \$96.5 million, up 13% from the previous year. Profit growth was driven largely by a higher net interest margin of 1.62%, up 12 basis points from the previous year, combined with a 7% growth in total assets to \$28.3 billion. NPAT has grown at an annual compound rate of 19% since 30 June 2014.

ME also grew its customer base during FY18. The bank's home loan portfolio grew at 1.3 times the industry average, increasing our market share from 1.44% to 1.46%. ME's deposits grew even faster at 4.8 times the industry average – providing improvements to the quality of ME's funding profile while ensuring consistently high rates of return for customers. As a consequence, ME hit its full-year customer target in the third quarter of the year – four months ahead of schedule. At year end we counted more than 474,000 Australians as customers, up 13% on the previous year, and fast closing on the half million-mark.

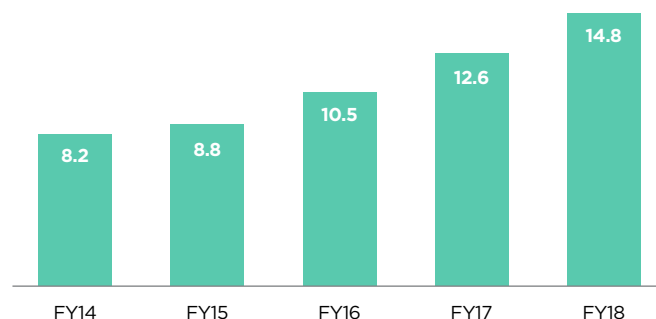
In other key measures, ME delivered an underlying return on equity (ROE) of 8.1%, which met the bank's expected target, while the cost-to-income ratio increased 100 basis points to 64.5%. The fall in underlying return on equity reflects the additional capital raised following the industry-wide downgrade by Standard & Poor's in May 2017, while the higher cost-to-income ratio was the result of a conscious decision by management to reinvest in the business by accelerating amortisation of legacy software assets ahead of the migration to a new cards (debit and credit) platform in 2019.



Underlying net profit after tax (\$m)



Total assets (\$bn)



Customer deposits (\$bn)

ME's strong growth was achieved despite the challenging operating environment because of our consistently competitive pricing positions across products and our growing reputation as a genuine alternative to other banks. ME finished the year with a net promoter score of 34, the third highest in the banking industry, and 11 awards won during the year from Mozo, Canstar and Money magazine.

It's been three years since ME overhauled its technology systems, a strategy that continues to deliver new digital products and services to customers. During the year we launched a new website, upgraded our internet banking service and mobile app, and launched an instant messaging channel for customers. We have a significant program of digital work in the pipeline and our customers can expect more product and service improvements in FY19.

Our close working relationships with industry super fund and union stakeholders remain an important part of our growth story. The Member Benefits Program, which offers eligible fund and union members special rates on bank products, accounted for more than a tenth of the bank's total home loan settlements in FY18 and to date has assisted over 6,000 Australians buy a home. ME's financial wellness program Ed is the cornerstone of our Employer Engagement Program and was delivered at 360 workplaces across the country, allowing us to build financial literacy and reach new customers.

We continue to nurture a culture that consistently puts the financial and emotional wellbeing of Australians front and centre, demonstrated by our dedicated commitment to supporting marriage equality and raising money for breast cancer research.

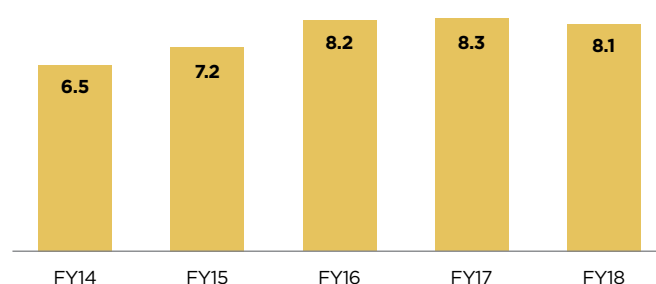
The long-term interests of ME's customers and shareholders are well served by our principled approach to banking. These principles will remain bedrocks of our belief system and will fuel our continued growth well into the future, particularly at a time when trust in financial institutions is at a low ebb.



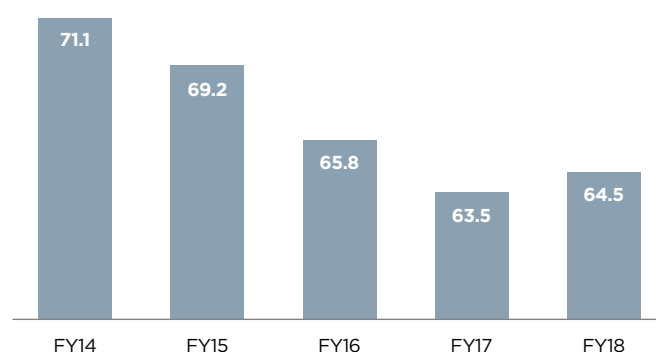
**Ken Hodgson**  
Chairman



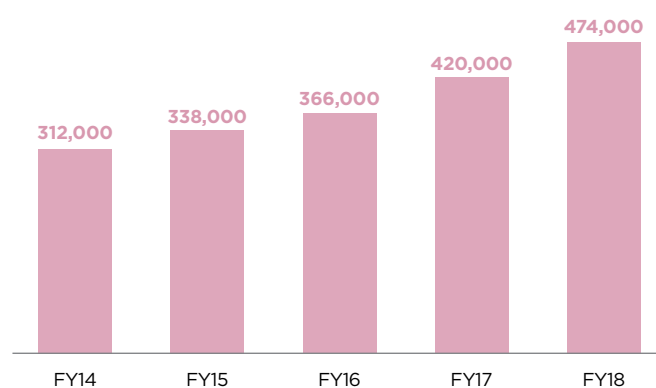
**Jamie McPhee**  
Chief Executive Officer



Return on equity (%)



Cost-to-income ratio (%)



Customer numbers

# 03. About ME.

## OVERVIEW

**Every Australian deserves to get the most out of their money. We're here to help them do it.**

ME was established in 1994, under the masthead Super Members Home Loans, 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. It is regulated by the Australian Prudential Regulation Authority (APRA) and like all banks, customers' deposits of up to \$250,000 are protected by the Government Guarantee.

Today that means giving them ways to get more from their savings, pay less on their loans and cut down on fees through ME's suite of personal banking products including home loans, transaction and savings accounts, credit cards, personal loans and term deposits. ME also has an online school of money called 'Ed' to equip Australians with a tool to spend more wisely and save smarter.

The bank's benefits go back to the 26 industry super funds that own it, which are listed on the right.



Figure 1 The 26 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. The bank offers these products through a variety of channels, including online and over the phone.

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

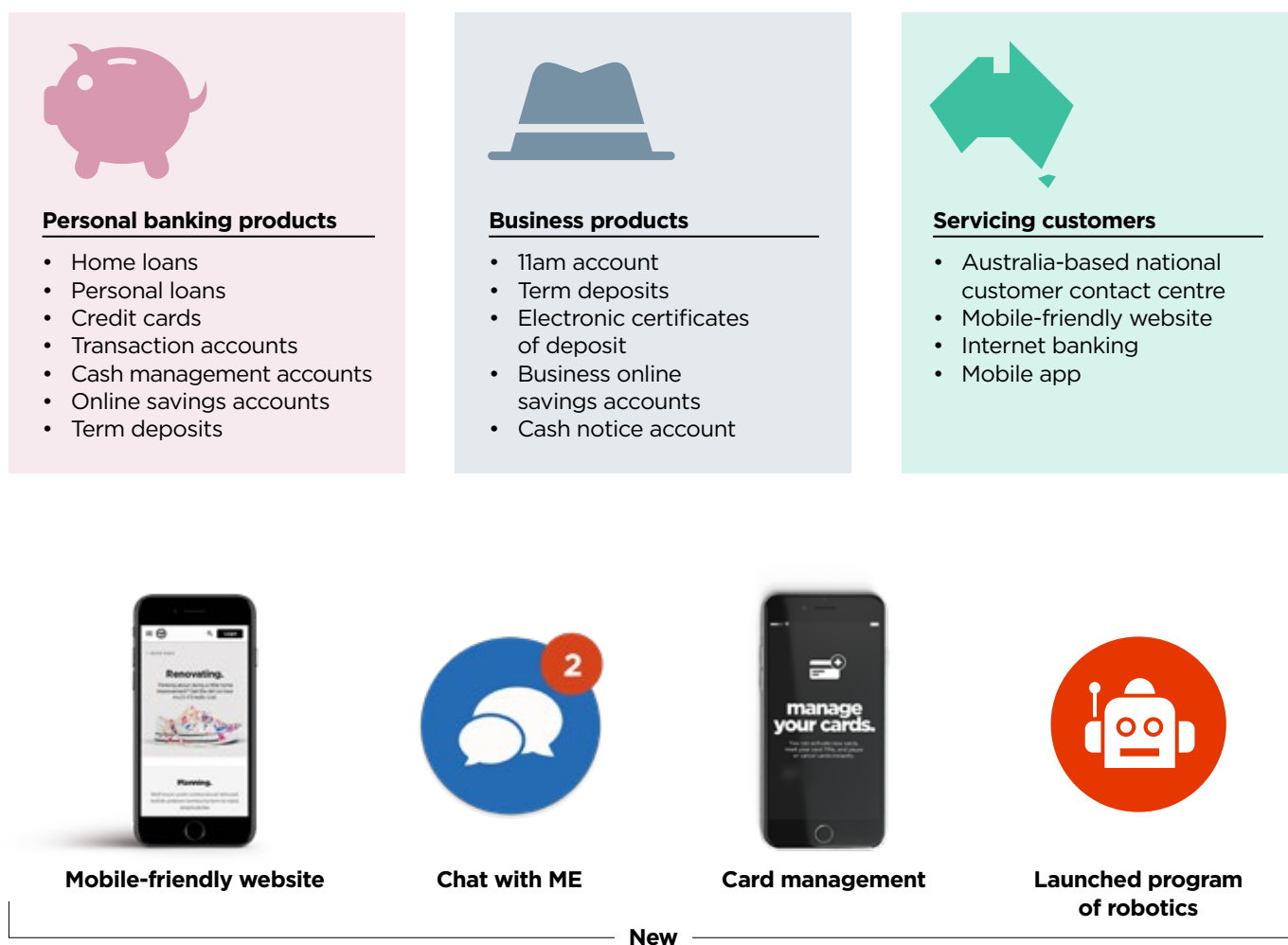


Figure 2 ME's new products and services in FY18

# 04.

## FY18 performance.

### FINANCIAL PERFORMANCE

**ME's underlying NPAT was \$96.5 million for the year ended 30 June 2018, 13% up on the previous year, reflecting strong ongoing home loan growth and a higher net interest margin. ME's statutory profit after tax was \$89.1 million, up 44% on the previous year, noting the impact of a number of non-recurring items on statutory profit (refer to Tables 1 and 2 below and to the right).**

Table 1 FY18 key financial metrics

Key Metrics	FY18	FY17	Change
Profit – underlying (after tax)	\$96.5m	\$85.2m	13%
Profit – statutory (after tax)*	\$89.1m	\$61.9m	44%
Return on equity	8.1%	8.3%	-20bps
Net interest margin	1.62%	1.50%	+12bps
Cost-to-income	64.5%	63.5%	+100bps
Total on and off balance sheet assets	\$28.3bn	\$26.5bn	7%
Lending assets on balance sheet	\$24.2bn	\$22.5bn	7%
Customer deposits	\$14.8bn	\$12.6bn	17%

\*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 NPAT as its key profit measure.

For the year ended 30 June 2018, the following reconciling differences between net profit after tax (underlying) and net profit after tax (statutory) existed:

Table 2 Reconciliation of statutory profit to underlying profit

#### Reconciliation of statutory profit to underlying profit

	FY18 (\$m)	FY17 (\$m)
Net profit after tax (underlying)	96.5	85.2
(Loss)/gain on hedging instruments after tax <sup>1</sup>	3.6	(7.3)
IT partnerships after tax <sup>2</sup>	0.1	(6.4)
Loss on employer banking book sale after tax <sup>3</sup>	(0.2)	(6.2)
Ultracs decommissioning after tax <sup>2</sup>	(3.4)	(3.4)
Systems and processes <sup>2</sup>	(7.5)	-
Net profit after tax (statutory)	89.1	61.9

<sup>1</sup> Loss reflects the amortisation of realised losses on interest rate swaps closed out following customers breaking their fixed home loan.

<sup>2</sup> Significant one-off cost and due to nature not regarded as part of net profit after tax (underlying).

<sup>3</sup> Not an operating item, so not included in net profit after tax (underlying).

### 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 in FY17. In FY18, there was a legal settlement claim which resulted in an after-tax loss of \$0.2 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 gains for the year ended 30 June 2018 represent a favourable movement in fair value of ME's interest rate basis swaps.

### IT partnerships

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

### Ultracs decommissioning

This represents the costs of decommissioning ME's legacy home loan system, Ultracs, as a result of the implementation of the new core banking system, T24.

### Systems and processes

This represents the work focused on improving the customer experience and driving productivity benefits in the bank's operations.

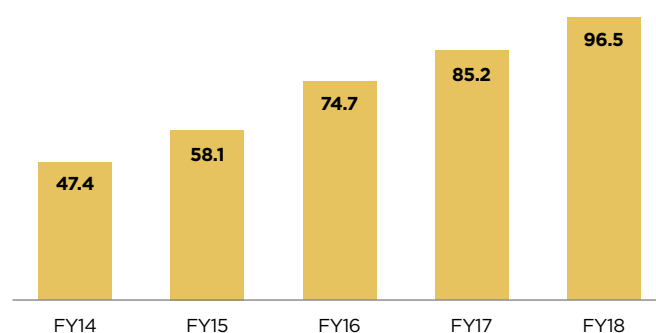


Figure 3 Underlying net profit after tax (\$m)

## Operational efficiency

The primary measure of operational efficiency is the cost-to-income ratio. In the past four years, this ratio has reduced from 71.1% to 64.5% (refer to Figure 4). Year-on-year, however, this ratio has increased by 1% primarily due to the accelerated amortisation of legacy software assets, including the Cadencie cards platform ahead of the migration to a new platform in 2019. Further improvement in efficiency remains a key focus. This will be achieved through economies of scale and appropriate investments, resulting in revenue growth exceeding expense growth.

In FY18, ME piloted a program of robotics as part of a business-wide strategy to drive operational efficiency and capitalise on automation. Read more about this on page 20.

## Balance sheet

The migration of loans from 'off-balance sheet' to 'on-balance sheet' is nearly complete (with a residual \$0.4 billion of off-balance sheet assets remaining as at 30 June 2018), with the aim for ME to originate loans from its own balance sheet moving forward, which has translated to a high proportion of revenue generated from net interest income over time. This is reflected in management fee income decreasing and net interest income increasing (refer to Figure 5). Net interest income increased 18% (or \$60.8 million) to \$397.1 million in FY18.

## Assets

Total assets under management (on and off-balance sheet) grew by 7% to \$28.3 billion in FY18, similar to the prior year's growth.

Total on-balance sheet assets grew by 8% from \$25.9 billion to \$27.9 billion and this growth was driven by increases in lending assets (loans and advances) of \$1.7 billion and cash and investment assets of \$0.3 billion.

Home loans remain a core focus, and account for 99% of all lending assets. In FY18, the bank settled over \$6.2 billion of new home loans. ME achieved respectable home loan book growth of 1.3 times system in FY18.

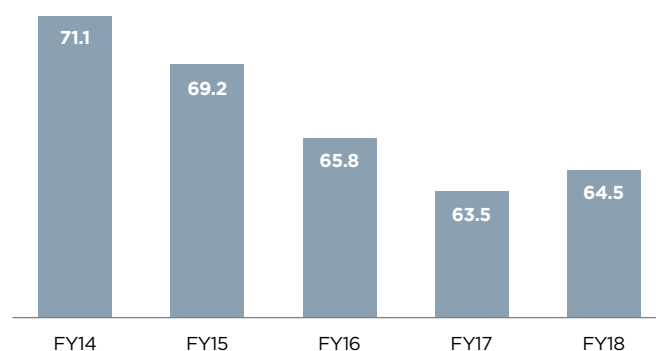


Figure 4 Cost-to-income ratio (%)

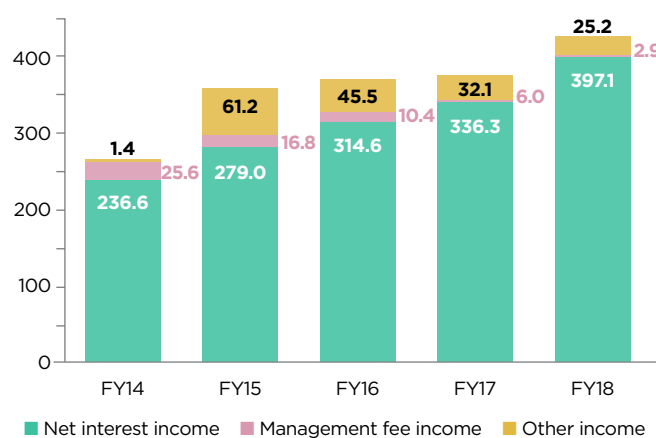


Figure 5 Revenue (\$m)

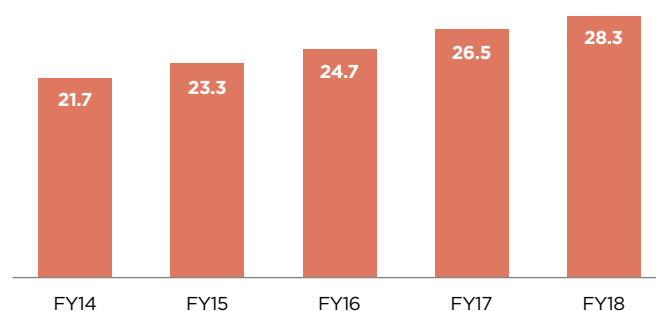


Figure 6 Total assets (\$bn)

## Funding

Customer deposits increased by 18% to \$14.8 billion in FY18 and now represent 57% of total funding. Wholesale funding remained stable at \$6.8 billion, representing 26% of total funding as at 30 June 2018.

Securitisation continues to be an important source of funding (refer to Figure 7), representing 17% of total funding. A new securitisation vehicle – SMHL Securitisation Fund 2017-1 – was launched in September 2017 with an issue size of \$1.5 billion at a margin of 98 basis points on the senior (AAA rated) tranche, which was 98% of the transaction.

## Capital management

The bank manages its capital in line with the requirements of APRA, and is mindful of the requirements of the rating agencies to at least maintain its credit rating.

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 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.

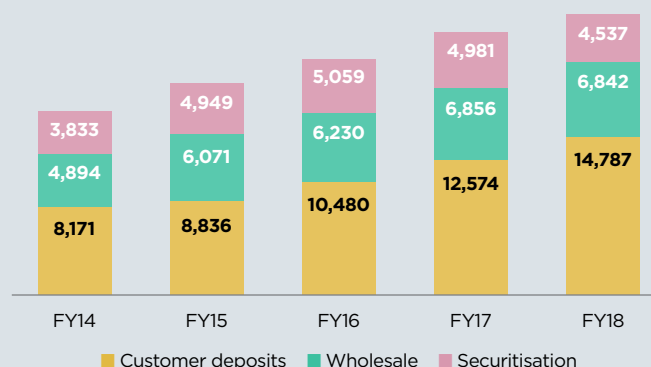


Figure 7 Funding mix (\$m)

### Capital adequacy ratio

The internal capital adequacy target minimum total capital ratio set by the board remained at 11.5% during the financial year ended 30 June 2018.

**Table 3** Capital adequacy ratios

Risk weighted capital adequacy ratios:	30-Jun-18 %	30-Jun-17 %
Tier 1		
Common Equity Tier 1	9.7	10.0
Additional Tier 1	2.0	-
Tier 2	3.4	4.0
<b>Total capital ratio</b>	<b>15.1</b>	<b>14.0</b>

On 19 July 2017, APRA released an information paper outlining its conclusions with respect to the quantum and timing of capital increases that will be required for Australian authorised deposit-taking institutions (ADIs) to achieve 'unquestionably strong' capital ratios. For ADIs such as ME (that do not use the internal ratings-based 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.

The 50 basis points increase in capital requirements is expected to apply across all three capital ratios i.e. Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratio, resulting in the board-approved minimum total capital ratio increasing from 11.5% to 12%. As at 30 June 2018, a 50 basis points increase in total capital requirements equated to approximately \$50 million.

On 14 February 2018, APRA released two discussion papers for consultation with ADIs on proposed revisions to the capital framework.

The first discussion paper related to proposed changes to the capital framework, which include:

- lower risk weights for low loan-to-value ratio (LVR) mortgage loans, and high risk weights for interest-only loans and loans for investment purposes than what apply under APRA's current framework
- amendments to the treatment of exposures to small-to-medium-sized enterprises (SMEs), including those secured by residential property under the standardised and internal ratings-based approaches
- constraints on ADIs' internal ratings-based methodology and use of their own parameter estimates for particular exposures, and an overall floor on risk-weighted assets relative to the standardised approach
- a single replacement methodology for the current advanced and standardised approaches to operational risk.

As at 30 June 2018, the potential impact on the proposed changes above would increase the group's risk-weighted assets by approximately \$125 million, thus reducing the group's capital by approximately 18 basis points.

The second discussion paper related to APRA implementing a leverage ratio requirement for ADIs. The leverage ratio is a non-risk based measure of capital strength that is widely used internationally. A minimum leverage ratio of 3% was introduced under Basel III, and is intended to operate as a backstop to the risk-weighted capital framework. Although the risk-based capital measures remain the primary metric of capital adequacy, APRA has previously indicated its intention to implement a leverage ratio requirement in Australia. This approach was also recommended by the Financial System Inquiry in 2014.

APRA is proposing to apply a minimum requirement of 3% for ADIs under the standardised approach, and to implement the leverage ratio as a minimum requirement from July 2019. As at 30 June 2018, the estimated leverage ratio for the group was approximately 4%.

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On 14 August 2018, APRA released a discussion paper for industry consultation on potential approaches to adjust capital framework for ADIs to make capital ratios more transparent, comparable and flexible. Though Australia's capital framework is largely based on internationally agreed minimum standards set by the Basel Committee on Banking Supervision, APRA takes a more conservative approach to the definition of capital and the calculation of risk-weighted assets in some areas. Consequently, Australian ADIs typically have lower reported capital ratios than overseas peers with comparable capital strength.

The discussion paper released outlines two general approaches designed to aid ADIs in representing and communicating their capital strength:

1. Under one approach, ADIs would continue using existing definitions of capital and risk-weighted assets, but APRA would develop a methodology allowing them to improve the credibility and robustness of internationally comparable capital ratio disclosures.
2. Under a second approach, APRA would change the way ADIs calculate capital ratios to instead use more internationally harmonised definitions of capital and risk-weighted assets. To maintain the strength and risk-sensitivity of the capital framework, there would need to be corresponding increases in minimum ratio and/or capital buffer requirements.

APRA is open to considering these approaches independently or in combination, or indeed retaining its current methodology, and is seeking industry feedback on whether the benefits of the suggested approaches outweigh the regulatory burden and associated increase in complexity. Separately, the discussion paper proposes measures to make the capital framework more flexible in times of stress, including by increasing the size of regulatory capital buffers relative to minimum regulatory capital requirements.

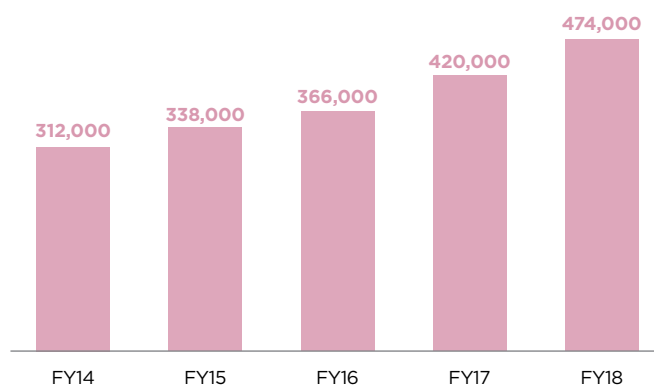
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# 05. Customers.

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

Over the last financial year, ME grew its customer base by 13% from 419,521 at 30 June 2017 to just over 474,000 at 30 June 2018 (refer to Figure 8). This growth is reflective of the breadth and competitiveness of the ME product offering.

For customers looking to purchase their own homes, ME's core home loan products offer competitive rates and features. ME offers two core deposit products – an online savings account, which pays a bonus interest rate to retail customers who meet the qualifying criteria, and term deposits which offer competitive rates. In FY18, ME significantly grew its term deposit base via clients who use wealth intermediaries. ME also offers operational and innovative cash solutions for various industry super funds.



**Figure 8** Customer numbers



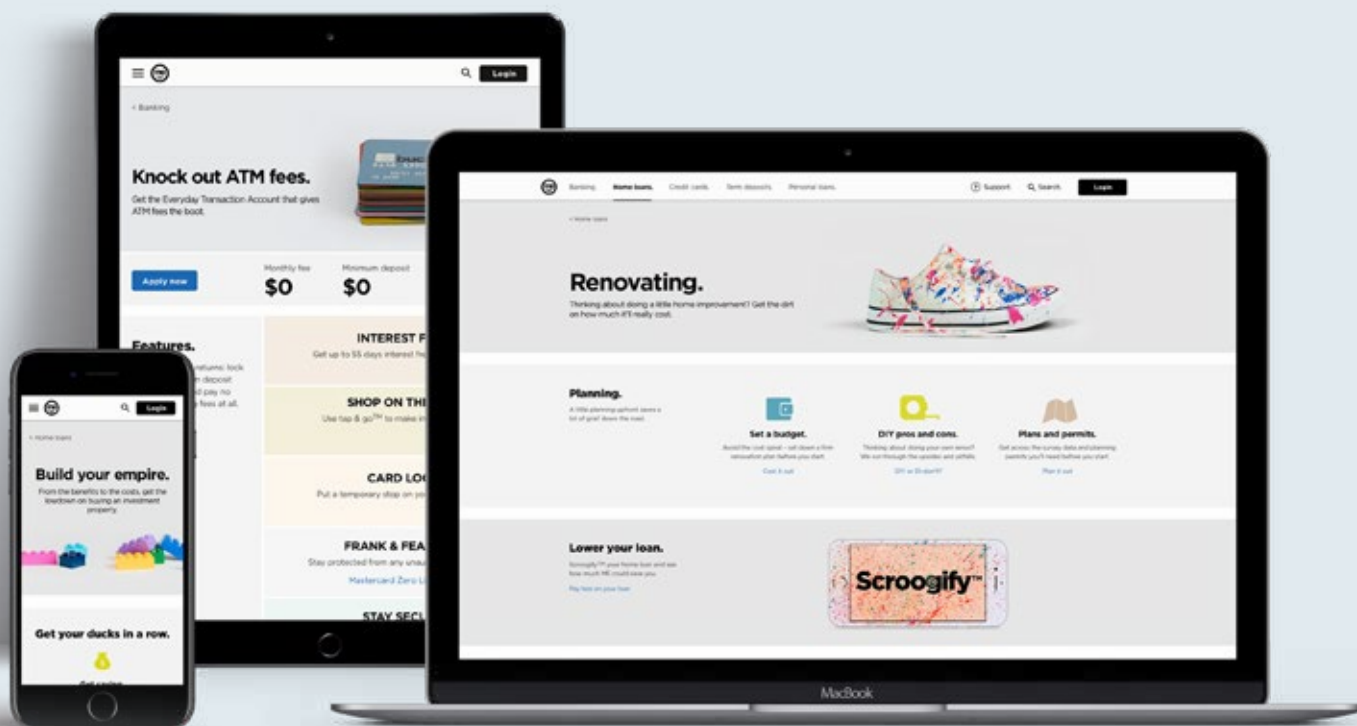
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## KEY CUSTOMER ACHIEVEMENTS

### 1. ME launches new mobile-friendly website

In mid-November 2017, ME launched a new mobile-optimised website. The new website fits automatically to every device – whether it is a mobile, tablet or desktop – making for a much smoother browsing experience. The new website has several additional features which deliver a better banking experience for customers:

- over 200 help articles to help address customers' queries while they're banking – customers can submit feedback on the articles, creating a feedback loop to help the bank improve the quality of information
- auto-predict search tools to help customers find information faster
- revamped product pages for the bank's entire product range
- microsites tailored to different types of customers – e.g. renovators, first home buyers, builders and pre-retirees – with information to help them make the most of their money
- calculators that work on every device, making it easier for customers to understand how the bank's products work.



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## 2. ME's financial wellness program gets six new modules

ME launched its Employer Engagement Program in 2015 in partnership with several industry super funds and unions. The program provides a mechanism for industry super funds and unions to engage both with employers and employees.

ME partners with industry super funds and unions to deliver its financial wellness program in over 360 workplaces across Australia. The strategic alignment between ME, industry super funds and unions has been enhanced through the focus on financial wellness, resulting in greater engagement between ME and its network partners.

ME has added six new modules to its financial education program, the Employer Engagement Program, to bring the total modules to 10. The new modules are:

- **Women and money**, designed to explain women's money hurdles and provides steps women can take to achieve financial independence
- **Money basics**, which deconstructs banking jargon and how interest rates affect our lives
- **Products**, which outlines the different types of bank accounts, credit cards and personal loans
- **Living with a home loan**, designed to educate home buyers about repaying and accessing funds in their home loan
- **Moving out**, which goes into the pros and cons of renting and buying as well as how to manage bills
- **Investing**, which outlines types of investments, different levels of investment risk and the relationship between risk and return.



**Women and money**



**Products**



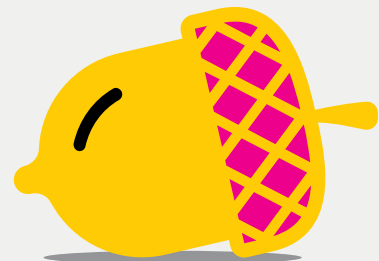
**Moving out**



**Money basics**



**Living with a home loan**



**Investing**

### 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, which was established in 2014, ME provides special offers, discounts and bonuses across the ME retail product suite for industry super fund and union members. While the program continues to deliver discount offers across ME's retail products, home loans remain the key product which reinforces the network's collective aspiration to help Australians create wealth via their two largest assets: their home and superannuation.

As of June 2018 the program had been promoted to over 600,000 Australians. Over 7,500 fund and union members have received a member benefit, with the program generating more than a tenth of ME's home loan settlements in FY18. The program has hit \$2 billion in home loan settlements, assisting over 6,000 members into a home and helping them save over \$720,000 in interest.

**More home. Less loan.**

As a member, you have access to ME's Member Benefits - a program designed to give you more from your banking. We're giving members an additional 0.05% p.a.<sup>2</sup> off the standard interest rate of a Flexible Home Loan with Member Package<sup>1</sup>.

Interested?  
Visit [mebank.com.au/benefits](http://mebank.com.au/benefits)  
before 31 October 2018.

A bank. Built for you. Supported by Industry SuperFunds

Home loan discount offer terms and conditions.  
1. Member Package annual fee of \$300 applies.  
2. Interest rate is interest as at 31-Jul-2018 and is subject to change. This rate includes an additional 0.05% p.a. discount off the applicable variable reference rate for a Flexible Home Loan with a Member Package when the primary loan interest is applied to a member's mortgage or investment property and interest. The discount is available to you as a member on new home loan applications received between 01-Apr-18 and 31-Oct-18 and settled by 31-Dec-18. The discount applies to interest on purchase of Flexible Home Loans with a Member Package and government or owner-occupied or owner-investing principal and interest repayments. It is not available for interest-only loans, interest-in-kind, top-up or variations of existing ME home loans.  
\*Offer is only available to those registered on ME's mobile banking manager. It is not available on applications made through an independent mortgage broker.  
Terms, conditions, fees and charges apply. Applications are subject to credit approval. Member Equity Bank Ltd ABN 76 070 867 079 (ME) is an Australian Credit Licence 220500, and is the provider of the credit products referred to above. ME, Level 26, 360 Elizabeth Street, Melbourne VIC, 3000, phone 13 61 62.

**More home. Less loan.**

**Go on, lighten your loan.**  
As a <affiliate name> member you could get a discount off the standard variable interest rate with a new ME Basic Home Loan.

**Find out more**

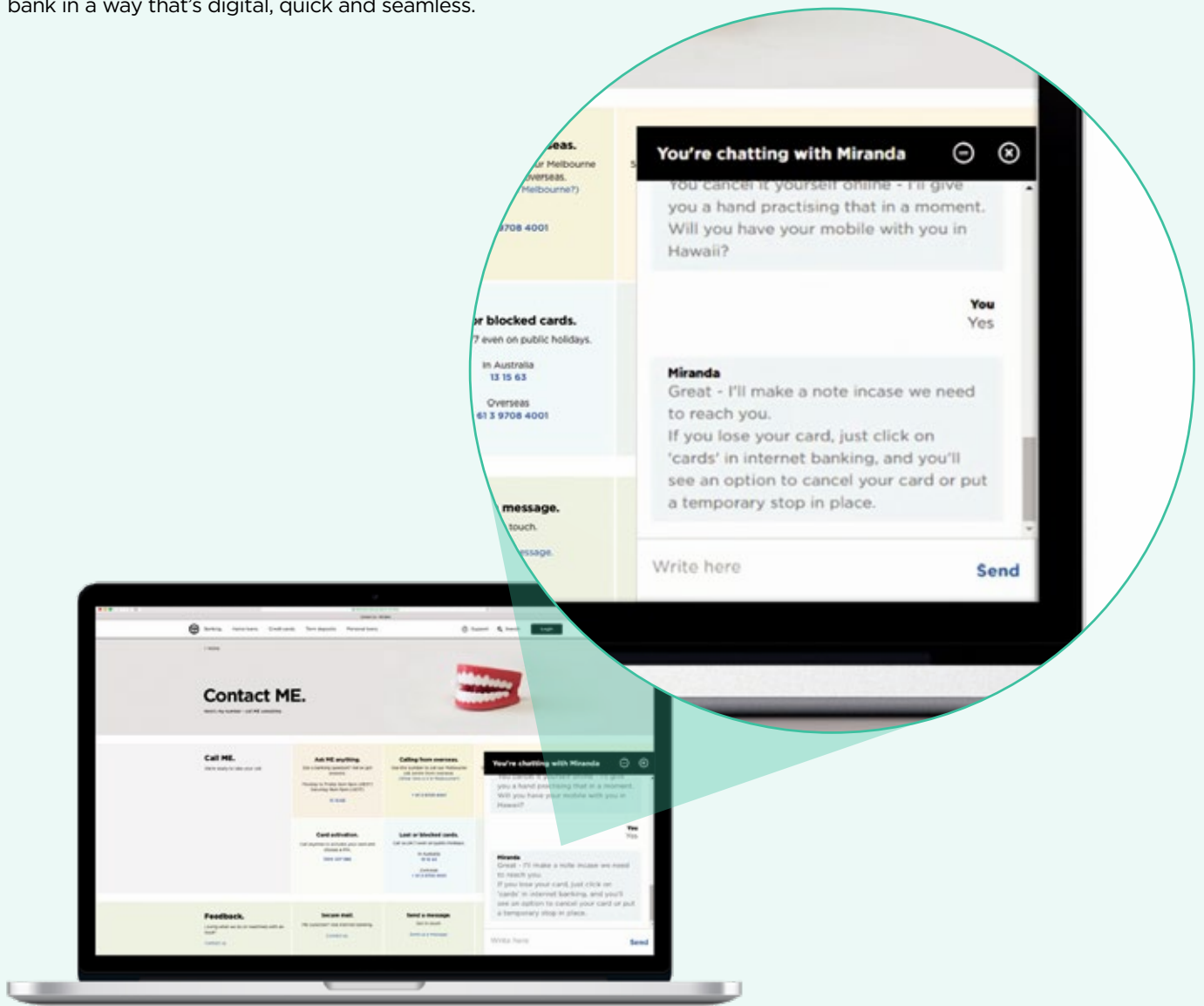
Apply through a ME mobile banking manager before 31 October 2018 and settle your loan by 31 December 2018. This offer is not available for investor or interest-only loans.

ME is a different kind of bank. We're completely owned by industry super funds - and just like those funds, we like to look after our own. That's why we have special offers for members, to help people like you get ahead.

A bank. Built for you. Supported by Industry SuperFunds

#### 4. ME launches 'Chat with ME' function

Towards the end of FY18, ME launched 'Chat with ME', a new instant messaging channel that enables customers to connect with ME consultants and receive an immediate response. The channel is an integral part of the bank's vision to put financial control in the hands of its customers. The function is integrated into the bank's servicing framework, which means customer details are automatically loaded when a chat starts and chat interaction history is stored against a customer's profile. As a result, ME's customers can now chat with the bank in a way that's digital, quick and seamless.



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## 5. Digital service improvements for customers

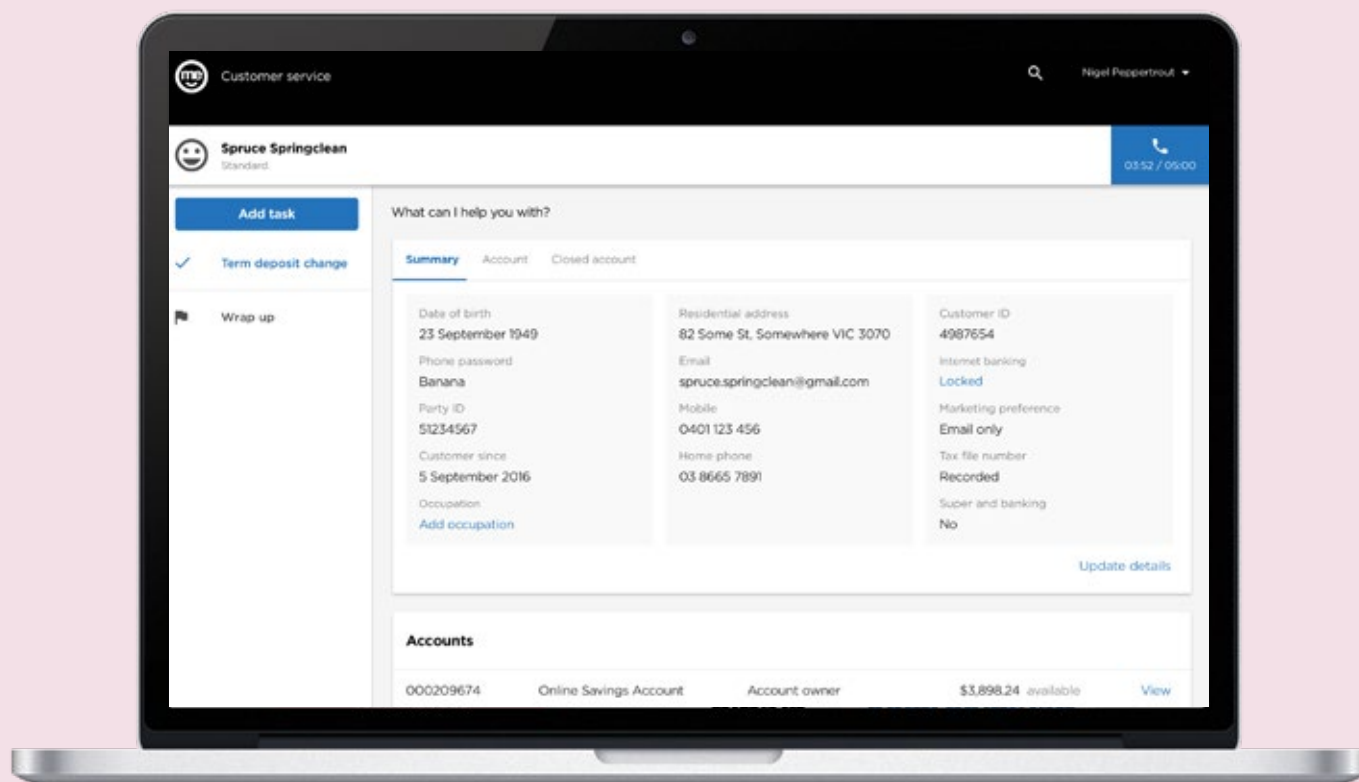
ME continues to invest in new technology as part of its roadmap towards providing 'best in market' banking services. FY18 achievements include:

- additional features launched in ME's banking app – the banking app has become one of the bank's most important customer channels and it continues to invest in new customer features. One of the newest features allows customers to activate, pause, stop, cancel and request a new card as well as change their PIN with the press of a button rather than via a phone call, saving customers' time. The new feature has been used over 80,000 times since being launched in February 2018. Face ID functionality is also now available for iPhone X users to unlock their mobile app in addition to Touch ID.
- significant upgrades to ME's internet banking – apart from the new 'Chat with ME' function, customers are now able to update their tax file number through internet banking.
- new dispute resolution service – suspicious card transactions can now be disputed over the phone instead of via a form-based process. The new service means customers can challenge dubious transactions immediately instead of having to wait.



## 6. ME launches robotics program

As part of a business-wide strategy to drive operational efficiency and capitalise on automation, ME piloted two bots in May 2018 by the names of 'Pablo' and 'Sheldon'. Pablo is responsible for sending customers interim statement requests and Sheldon processes middle payments, that is periodic progress payments for the different stages of construction as part of a construction loan. The two bots – which were built slightly differently, showcasing the bank's ability to use technology in customisable ways to suit business needs – have saved the bank many hours of manual administrative activity. ME plans to launch more bots in the upcoming financial year. Having established a successful proof of concept, ME will launch 200–300 more robots in FY19.



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## CUSTOMER PRIORITIES

At the heart of ME's growth is a focus on its customers and building market-leading customer journeys. The bank will prioritise features and functionality to ensure customers are receiving personalised services and the latest capabilities.

In the next three years, customer numbers are expected to increase by almost 30%. To enable this growth, significant effort is being directed to embedding and improving the bank's digital customer experience proposition and enhancing product functionality and offers.

### **Delivering customer centricity**

With increased competition and the rapid rise of technology, ME is determined to distinguish itself by focusing on building a frictionless customer service experience. To further deliver on the bank's customer promises, a hybrid segmentation model that considers both consumer behaviours and attitudes is being developed to inform individualised offerings.

### **Increasing organisational agility**

As the banking and technology landscapes continue to change rapidly, the bank will move toward delivering customer value through short, frequent release cycles – running a pipeline of improvements that are increasingly rolled out over Cloud technologies. Recruiting and developing talent will be key to driving this cultural shift.

### **Digital branch**

ME's internet banking will continue to be enhanced and positioned as the bank's 'digital branch'. Further features will be added to internet banking to deliver a strong digital customer experience and allow customers to self-serve via digital channels, reducing the need for phone calls or printed forms.

Further innovations in payment technologies and platforms will be considered to build greater ease and options for customers. In the next few years, ME will ensure that it is well positioned to implement open banking and the New Payments Platform. Work will commence on ensuring the bank's platforms are application programming interface (API)-friendly in order to take advantage of new mobile features and technologies as they arise.

### **Customer engagement**

The bank will personalise its interactions with customers by leveraging real-time information to assist in deciding the next best step for them, and putting customers in control of whether their interaction with the bank is online, over the phone or face-to-face.

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## INVESTING IN ME'S PRODUCTS



### Home loans

Home loans are core to ME's customer offering and make a substantial contribution to the overall profitability of the bank.

Loans originated through brokers are an important source of new home loans. The bank will continue to work on improving engagement and efficiency within the broker network, by introducing new and easier ways for brokers to interact with ME in a secure environment.

Further, ME will expand its channel of choice offering by providing customers with an option to apply for home loans online.

To provide an improved origination experience, ME will address known pain points in order to further improve the onboarding customer experience. The bank will invest in its existing home loan product proposition for first home buyers by considering things like the option of a family guarantee.



### Credit cards

Critical to ME's customer growth strategy is the development of a range of competitive credit card products enabled by the bank's new cards platform which is scheduled to go live in FY19. The expanded offering will enhance the bank's ability to acquire new customers and diversify the bank's revenue stream.

The focus for FY19 is bringing a new credit card to market – Boom. Central to Boom's offering is a market-leading cashback offer.

The bank will continue to develop further credit card propositions and features, including airline and other reward card offerings.



### Personal loans

The bank will develop its personal loan offering, with an expanded product range including secured loans and car loans, an enhanced customer-centric application process, streamlined servicing and a greater level of self-servicing via online channels. This will not only reduce origination and servicing costs, but extend this core product to a wider customer base.



### Deposits and savings – Everyday Transaction Account, Online Savings Account and term deposits

The bank will expand its set of retail deposit and savings products, streamline the customer experience for business customers, and enhance the digital experience for all deposit and savings customers.

With ME's financial wellness program Ed, coupled with youth and goal saver accounts, the bank will support young Australians to get ahead and build long-term relationships.

To boost the retirement and savings goals of its customers, ME will prioritise the introduction of a 'round up'-style feature on its savings products. This will allow customers to increase their savings with micro-deposits every time they spend via their Everyday Transaction Account.

ME will also investigate opportunities to offer a market-leading at-call business savings account. Paper forms for business accounts will be replaced with an automated origination process. By leveraging the advancement in robotics and automating the servicing tasks of retail products, ME will streamline the servicing of business accounts.



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## REMOVING FRICTION THROUGH OPERATIONAL EFFICIENCY

At the core of ME's business plan for the next three years is a relentless focus on customer experience. Investments which remove friction for customers and performance metrics will inform areas of opportunity and allow the bank to monitor its progress towards realising the benefit of improved efficiency.



### Driving innovation

In order to accelerate the delivery of its strategy, ME accesses emerging technologies and innovations through partnerships with aligned fintechs.

While there is the risk fintechs will disrupt elements of ME's business model, there's a wide-held belief that these partnerships will drive greater business value.

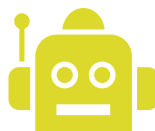
New entrants to the banking industry are taking advantage of the APRA restricted ADI licence, which will likely drive Australia's start-up banking sector. Open data and open banking present many opportunities, and ME is working towards an API layer to be able to deliver on the bank's frictionless banking vision. This will place financial control in the hands of its customers, using technology to help them save, spend and live smarter.

Regtech solutions are also on the rise, and ME is investigating new options and partnerships to help drive efficiencies in its regulatory and compliance program.



### Analytics

Advances in technology will enable the bank to continue improving core servicing for customers. Over the next few years, the bank will test and deploy technology such as voice biometrics ('my voice is my password') and automated chat bots. Voice analytics will also play a crucial role in understanding why customers are calling ME and how best to address their needs.



### Robotics (bots) and Pega servicing

The introduction of bots will, in many cases, reduce the time taken to process servicing tasks from several minutes to seconds. This will provide customers with faster, more consistent responses and will free up time for staff to focus on quality customer conversations. ME will continue to invest in enhancing and adding core servicing tasks through its Pega servicing platform to improve its processes.



### IT platforms

By shifting core IT services to the Cloud, ME can deliver a more scalable IT platform to grow with the bank. The bank will investigate ways to leverage Cloud computing to better deliver core services to staff and customers, and avoid the need for costly onsite hosting and hardware.

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# 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 as well as fostering a positive and engaging high performance culture, which encourages values-based leadership to enable the execution of the bank's strategy and to create 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 Corporate Governance 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.

The bank's Corporate Governance Statement outlines the key components of ME's corporate governance framework, which provides guidance for the board, executives and employees. It defines their respective roles, responsibilities and the conduct expected of them. The framework establishes the structure through which the bank sets its objectives and ensures 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 2018, the board comprised seven independent directors. Justin Milne has indicated his intention not to seek re-election when his term concludes at the annual general meeting (AGM) in October 2018.

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
<ul style="list-style-type: none"><li>• Commitment to the bank's values</li><li>• Willingness to embrace change and resolve dilemmas</li><li>• Ability to confront and defuse political interference so that it does not prevent sound decision-making</li><li>• Ability to focus on the big picture and strategic context of decisions</li><li>• Capacity to build harmonious, productive working relationships</li><li>• Confidence to express views openly at all levels</li><li>• Strong desire to see the management team develop and succeed</li><li>• Ability to focus on the process by which results are achieved as well as the results themselves</li><li>• Ability to consider various alternatives when faced with complex situations</li><li>• Desire to contribute to long-term success as opposed to short-term expediency</li></ul>	<ul style="list-style-type: none"><li>• Retail banking</li><li>• Superannuation</li><li>• Industrial relations</li><li>• Human resource management</li><li>• Sales</li><li>• Marketing and branding</li><li>• Accounting and finance</li><li>• Risk management and controls</li><li>• IT</li><li>• Digital</li><li>• Governance</li><li>• Communications</li><li>• Auditing</li><li>• Compliance</li></ul>

Figure 9 Criteria for ME board directors

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**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**

Director since January 2012  
Chairman since January 2016

In addition to his role as Chairman of the board, Ken is the Chair of the People and Remuneration Committee and the Nominations Committee. He is also a member of the Audit and Governance Committee and the Investments and Partnerships Strategy Committee. 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. Prior to joining the board, Ken worked for AGL Energy Ltd as Group General Manager, Retail Energy.



**Christine Christian  
Non-Executive Director**

Director since November 2012

Christine is the Chair of the Risk and Compliance Committee and a member of the Audit and Governance Committee. Christine is an independent company director; her current directorships include FlexiGroup Ltd, State Library of Victoria, Lonsec Financial Group, Kirwood Capital and Victorian Managed Insurance Authority. She is a council member of La Trobe University and has more than 30 years' experience in senior executive roles in Australia and overseas, primarily in the credit risk, financial services and global business publishing sectors – including 14 years as CEO of Dun & Bradstreet Australia and New Zealand, Chairman of Dun & Bradstreet Consumer Credit Services and Executive Director of Dun & Bradstreet India.



**Justin Milne  
Non-Executive Director**

Director since November 2012  
Justin returned from a leave of absence on 1 November 2017

Justin has been a member of the Digital Committee since his return from leave of absence. He is the Chairman of the Australian Broadcasting Corporation (ABC) and Chair of MYOB Group Ltd and NetComm Wireless Ltd. He is a non-executive director of Tabcorp Holdings Ltd and NBN Co Ltd and has served in senior executive roles, including as Group Managing Director at Telstra where he 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.



**Greg Combet**  
**Non-Executive Director**

Director since November 2014

Greg is the Chair of the Investments and Partnerships Strategy Committee and a member of the People and Remuneration Committee, Risk and Compliance Committee (from 6 December 2017) and Digital Committee (to 31 October 2017). He is Deputy Chair of Industry Super Australia Pty Ltd, Deputy Chair of IFM Investors and Director of Greg Combet Pty Ltd. He also holds a number of consultancy and advisory roles. Greg held various cabinet, ministerial and parliamentary roles within the Australian Government from 2007 to 2013, including as Minister for Industry and Innovation, Minister for Climate Change and Energy Efficiency, and Minister for Defence Personnel, Science and Material. He was formerly Secretary of the Australian Council of Trade Unions (ACTU) and a director of AustralianSuper. During the year, he was a patron of the Black Lung Victims Group.



**Elana Rubin**  
**Non-Executive Director**

Director since October 2016

Elana is a member of the Digital Committee, the People and Remuneration Committee and the Investments and Partnerships Strategy Committee. She is currently a director of Mirvac Group, Afterpay Touch Group, Transurban Queensland, Victorian Funds Management Corporation, Victorian Managed Insurance Authority, RGA Reinsurance Company of Australia, and Slater and Gordon. Elana 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 as well as director of TAL, MLC Life and SecondBite.



**Cheryl Bart AO**  
**Non-Executive Director**

Director since July 2016

Cheryl is Chair of the Digital Committee and is a member of the Risk and Compliance Committee. She is currently a non-executive director of SG Fleet Group Ltd, Audio Pixels Holding Ltd, Invictus Games Sydney 2018 and Powering Australian Renewables Fund. She is also a trustee/director of the Prince's Charities Australia. Cheryl 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 ABC.



**John Nesbitt**  
**Non-Executive Director**

Director since February 2017

John is Chair of the Audit and Governance Committee as well as a member of the Risk and Compliance Committee and the Investments and Partnerships Strategy Committee. John is Chairman of AMP Capital Holdings Limited. He is a member of Genpact Advisory Council and an external member of the Managed Investment Schemes Compliance Committee. John has broader financial services experience through his roles as CEO of Suncorp Banking and Wealth, and before that, Chief Financial Officer (CFO) of Suncorp. He has previously been Chair of the Perpetual Superannuation Board and has had memberships at a number of other management and industry representative boards.

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## 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 independent non-executive 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 the ME 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, on the other hand, sets out the roles and responsibilities of the board and describes those matters expressly reserved for the board, as outlined below, and those delegated to management:

- 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
- supporting the CEO in nurturing staff and developing succession plans
- 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
- approving the remuneration framework
- performing other such functions as prescribed by law or assigned to the board.

The Board Charter, which is reviewed annually, and the ME Constitution are available on the ME corporate website [mebank.com.au](http://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, monitored and managed. 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 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.

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## CHAIRMAN AND COMPANY SECRETARY'S DUTIES

The Chairman is elected from the independent non-executive 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 between the board and its committees and between the directors and management, as well managing 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 a 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. An external independent recruitment firm may be engaged as part of the process of recruiting and evaluating suitable candidates for appointment as a director.

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 affirm to 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 recognises the importance of directors bringing independent judgement to all board decisions. In board deliberations, directors are expected to be free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement. The directors regularly confer without management present.

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## PERFORMANCE AND 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, the Audit and Governance Committee, Digital Committee and People and Remuneration Committee was undertaken in FY18. The outcomes of the questionnaires were collated and the results were reported to the relevant committee and the board. The Nominations Committee and the Investments and Partnerships Strategy 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 FY18, but is having an external evaluation undertaken in the first half of FY19.

## 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 are embedded in the culture and programs across the organisation. During the year, the board approved a new Diversity and Inclusion Policy. For more information about this, please refer to the People section on page 40.

## DELEGATED AUTHORITY

The ME 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 purpose of each committee and the roles and responsibilities delegated to each committee are captured in the charter of each of the six established committees.

The board has established an Audit and Governance Committee, a Risk and Compliance Committee, a People and Remuneration Committee, a Digital Committee, an Investments and Partnerships Strategy 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 stipulates that the committee acts in an advisory capacity to the board or exercises a delegated authority. The board committee charters are available on the ME corporate website [mebank.com.au](http://mebank.com.au)

The diagram to the right shows the current committees of the board. From time to time, the board may form other committees or request directors to undertake specific duties.



## ME BOARD AND COMMITTEE STRUCTURE

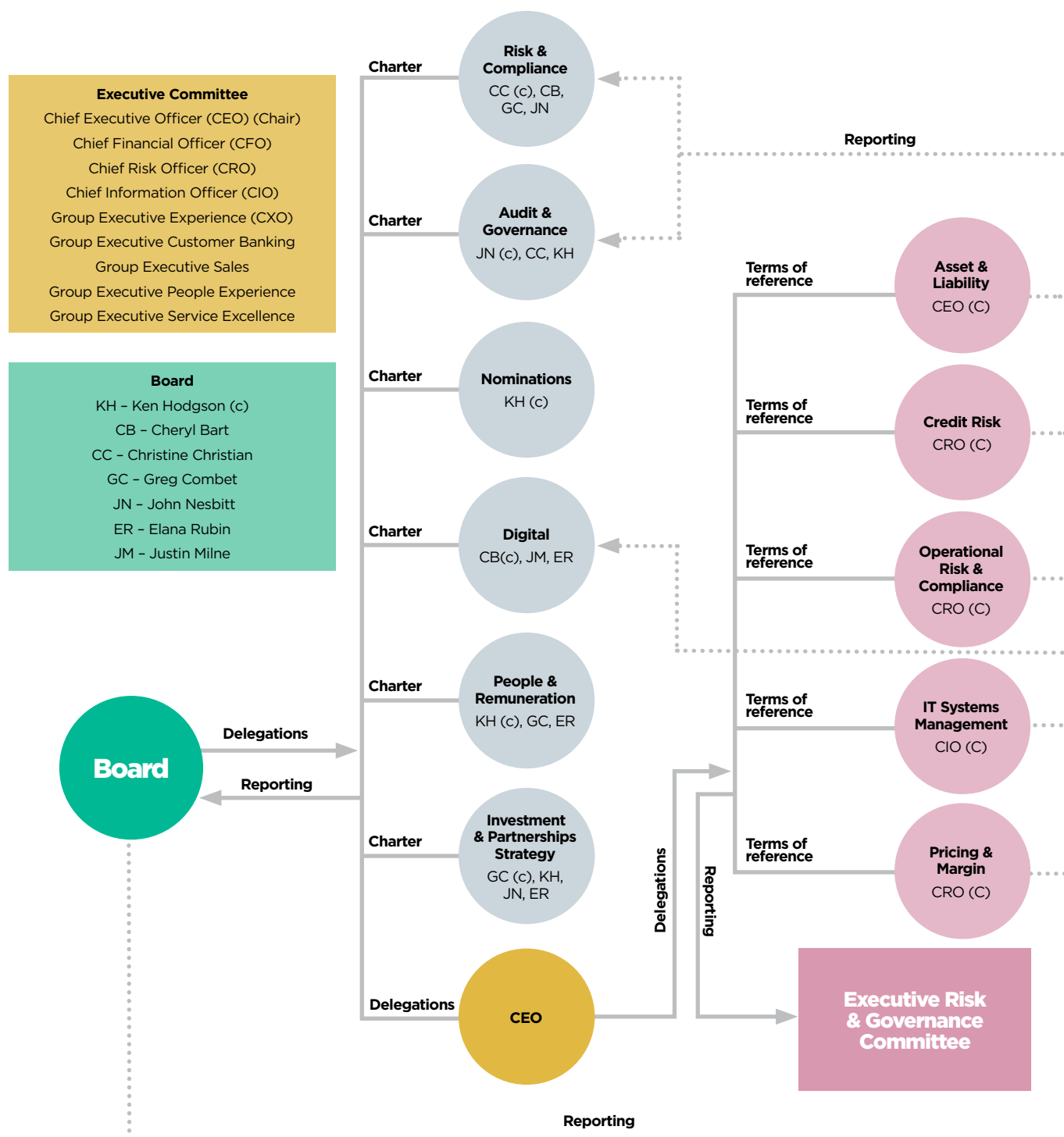


Figure 10 ME board and committees structure as at August 2018

The Executive Committee, Asset and Liability Committee, Credit Risk Committee, Operational Risk and Compliance Committee, IT Systems Committee, Executive Risk and Governance Committee, and the Pricing and Margin

Committee are not board committees, but sit beneath the CEO to implement board-approved strategies and policies, and manage risk for ME.

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## ROLE OF THE CEO

The CEO is responsible for the leadership and management of the ME Group (being ME and its wholly owned subsidiary ME Portfolio Management Limited). 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 AND 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 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 wishes to make a 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.

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## 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, 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 AND 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 FY18 Annual Financial Report.

The charter of the Audit and Governance Committee provides for it to assist 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, with at least one member of the committee having 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 Audit and Governance Committee's charter is available on the ME corporate website [mebank.com.au](http://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.

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## 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 AGM and is available to answer shareholder questions about the conduct of the audit as well as the preparation and content of the auditor's report.

As part of the approval of the financial statements, the board will receive certification from the CEO and CFO 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 provide for and comply with all relevant accounting standards.

## ACCOUNTABILITY

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 AND 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.

During FY18, the board also established a Shareholder and Key Stakeholder Engagement Group, which is a bi-annual forum for nominated shareholders and stakeholder representatives to meet with the Chairman, other directors and senior management to discuss relevant matters.

The bank diligently releases financial information, including its annual Business Plan, valuation, half and full-year financial results and APRA regulatory disclosures to its shareholders. 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. 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](http://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 here. 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.

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## 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 risk – 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 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.

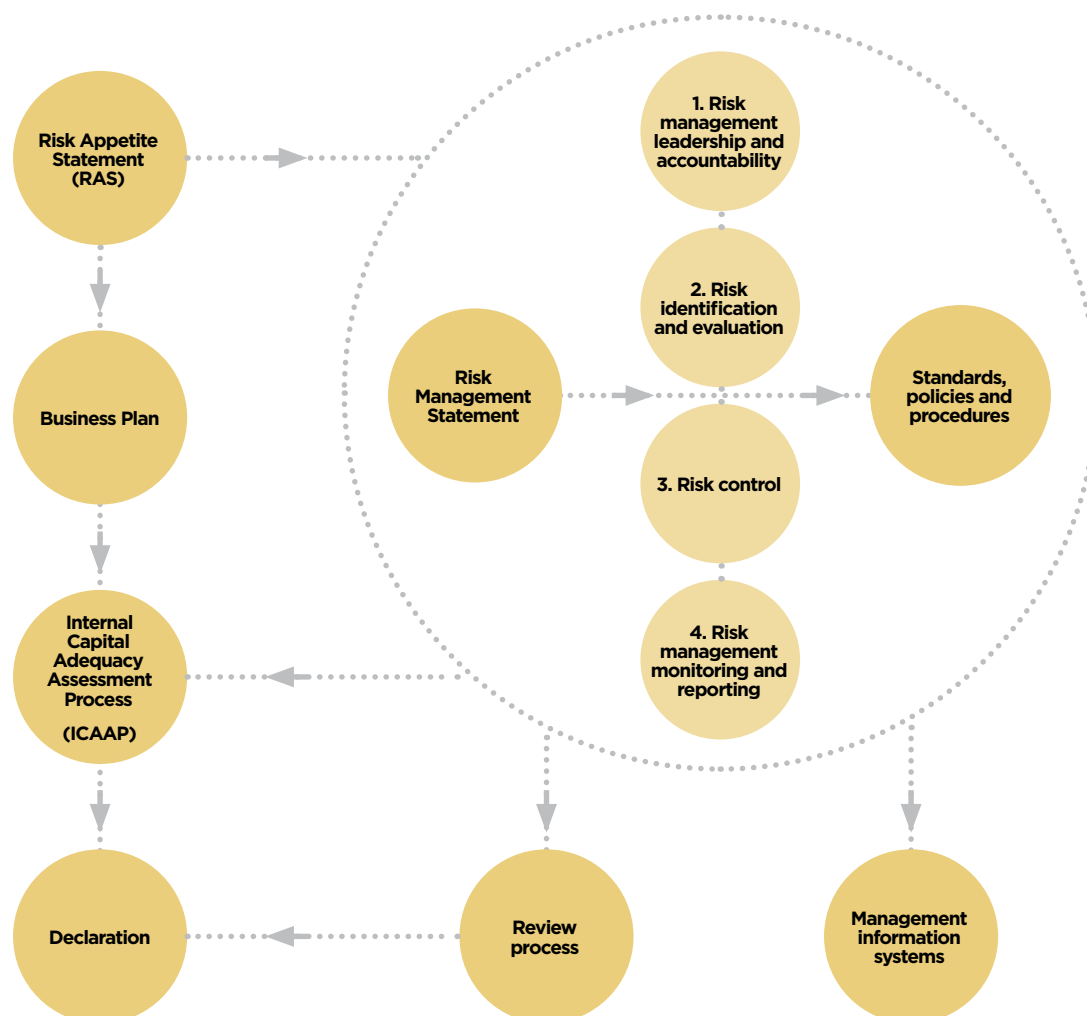
The framework supports a 'three lines of defence' governance model, which is reflected across roles and responsibilities, management and board committee structures, decision-making and reporting.

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 oversee implementation of these policies and the underlying risk management frameworks as well as set appropriate risk parameters and control limits:

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

Additionally, these committees ensure management monitor and promote compliance within the limits set in the board-approved Risk Appetite Statement.



**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 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](http://mebank.com.au)

**Table 4** Remuneration of key management personnel

Key management personnel	Company	
	FY18 (\$)	FY17 (\$)
Short-term benefits	4,760,697	5,277,125
Other long-term benefits	836,416	1,205,959
Termination benefits	821,719	-
<b>Total key management personnel compensation</b>	<b>6,418,832</b>	<b>6,483,084</b>

**Table 5** Board schedule of fees (fees are inclusive of superannuation)

BOARD SCHEDULE OF FEES	FY18 (\$)	FY17 (\$)
<b>Chair of the board</b>	189,000	168,000
<b>Member of the board</b>	94,500	84,000
<b>Audit and Governance Committee</b>		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
<b>Risk and Compliance Committee</b>		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
<b>People and Remuneration Committee</b>		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
<b>Digital Committee (formerly Technology Committee)</b>		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
<b>Investment and Partnerships Strategy Committee</b>		
Chair of the committee	14,200	-
Committee member	7,100	-

**Table 6** The remuneration paid to each director

**Fixed remuneration details**

The remuneration paid to each director is set out below:

Director	Committee membership	FY18 (\$)	FY17 (\$)
<b>K Hodgson</b>	Chair of the board (appointed 1 January 2016)	189,000	168,000
	Member of the board	-	-
	Audit & Governance Committee	7,100	6,750
	Risk & Compliance Committee (ceased 5 April 2017)	-	5,140
	Chair, People & Remuneration Committee	14,200	13,500
	Investment & Partnerships Strategy Committee (appointed 2 April 2018)	1,200	-
		<b>211,500</b>	<b>193,390</b>
<b>C Bart</b>	Member of the board	94,500	84,000
	Risk & Compliance Committee	7,100	6,750
	Chair, Digital Committee	14,200	3,219
	Digital Committee (ceased 5 April 2017)	-	5,140
		<b>115,800</b>	<b>99,109</b>
<b>C Christian</b>	Member of the board	94,500	84,000
	Chair, Audit & Governance Committee	-	13,059
	Audit & Governance Committee	7,100	441
	Chair, Risk & Compliance Committee	14,200	13,500
		<b>115,800</b>	<b>111,000</b>
<b>G Combet</b>	Member of the board	94,500	84,000
	Audit & Governance Committee (ceased 5 April 2017)	-	5,140
	Risk & Compliance Committee (appointed 6 December 2017)	4,042	5,140
	People & Remuneration Committee (appointed 6 April 2017)	7,100	1,610
	Digital Committee (appointed 6 April 2017)	2,349	1,610
	Chair, Investment & Partnerships Strategy Committee (appointed 2 April 2018)	3,386	-
		<b>111,377</b>	<b>97,500</b>
<b>A De Salis</b>	Member of the board (ceased 14 November 2016)	-	31,015
	People & Remuneration Committee (ceased 14 November 2016)	-	2,492
	Digital Committee (ceased 14 November 2016)	-	2,492
		<b>-</b>	<b>35,999</b>



**Fixed remuneration details (continued)**

Director	Committee membership	FY18 (\$)	FY17 (\$)
<b>J Milne</b>	Member of the board	62,879	64,615
	Chair, Digital Committee (ceased 6 April 2017)	-	10,385
	People & Remuneration Committee (ceased 31 March 2017)	-	1,817
	Digital Committee (appointed 1 November 2017)	4,724	-
		<b>67,603</b>	<b>76,817</b>
<b>J Nesbitt</b>	Member of the board	94,500	34,569
	Risk & Compliance Committee	7,100	2,778
	Chair, Audit & Governance Committee	14,200	883
	Audit & Governance Committee (ceased 5 April 2017)	-	1,670
	Investment & Partnerships Strategy Committee (appointed 2 April 2018)	1,200	-
		<b>117,000</b>	<b>39,900</b>
<b>E Rubin</b>	Member of the board	94,500	62,677
	People & Remuneration Committee	7,100	3,375
	Digital Committee	7,100	3,375
	Investment & Partnerships Strategy Committee (appointed 2 April 2018)	1,200	-
		<b>109,900</b>	<b>69,427</b>
<b>G Weaven</b>	Chair of the board (ceased 31 December 2015)	-	-
	Member of the board (ceased 31 December 2016)	-	45,231
	Chair, People and Remuneration Committee (ceased 31 December 2016)	-	3,635
		<b>-</b>	<b>48,866</b>
<b>Total directors compensation</b>		<b>848,980</b>	<b>772,008</b>

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# 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 ensures delivery on our core purpose to ‘help all Australians get ahead’.**

### OUR TALENT PURPOSE

We believe that to truly deliver on our core purpose of helping all Australians get ahead, we need to start with our own environment – because when our talent thrives, ME customers have greater experiences that move them towards a better financial future.



**Figure 12** ME's talent purpose

In FY18, ME implemented a number of initiatives aimed at ensuring its people continue to thrive:

- launched a digital Careers Hub that enables employees to access a range of resources to watch, read and reflect on, with each resource designed to help them get in the driver's seat and direct their own career
- relaunched a suite of personal effectiveness development offerings aligned to the value of Stay Hungry
- launched the bank's first Diversity and Inclusion Policy and created two employee affinity groups – ProudlyME and Women at ME
- ratified its Workplace Agreement in partnership with employees and the Finance Sector Union (FSU).

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## '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, advocacy, pride and commitment.

In May 2018, 92% of ME's employees took the opportunity to complete the survey, contributing valuable feedback about the bank's performance as an employer. The FY18 employee engagement score increased significantly from 60% to 68%.

ME's continued commitment to enhancing its systems and processes to deliver great customer and employee experiences was reflected in the survey, with a 100% increase in favourable responses from the previous survey. ME's growth trajectory was also positively reflected through employee belief and confidence in the bank's future, including the quality of service delivered to customers, with a positive 15% uplift from FY17.

ME employees also expressed a powerful feeling of belonging and belief in the bank's commitment to creating diverse teams.

Feedback on areas for improvement and focus indicates that increased opportunities for innovation to flourish, along with a focus on leadership capability and a culture of belonging, will continue to positively influence staff engagement and advocacy.



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## VALUES

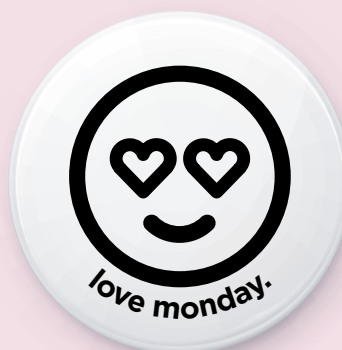
Throughout FY18, the bank continued to focus on embedding its values into the way people work at ME. The bank uses its values – Love Monday, Have a Swing, Ride the Subway, Stay Hungry and Go to the Moon – to guide its decision-making. A key initiative launched during the year was a set of new tools to support clearer alignment and assessment of values-based behaviour in performance discussions and outcomes.



The Women at ME group Going to the Moon



ME's marketing team Riding the Subway with the bank's sales team



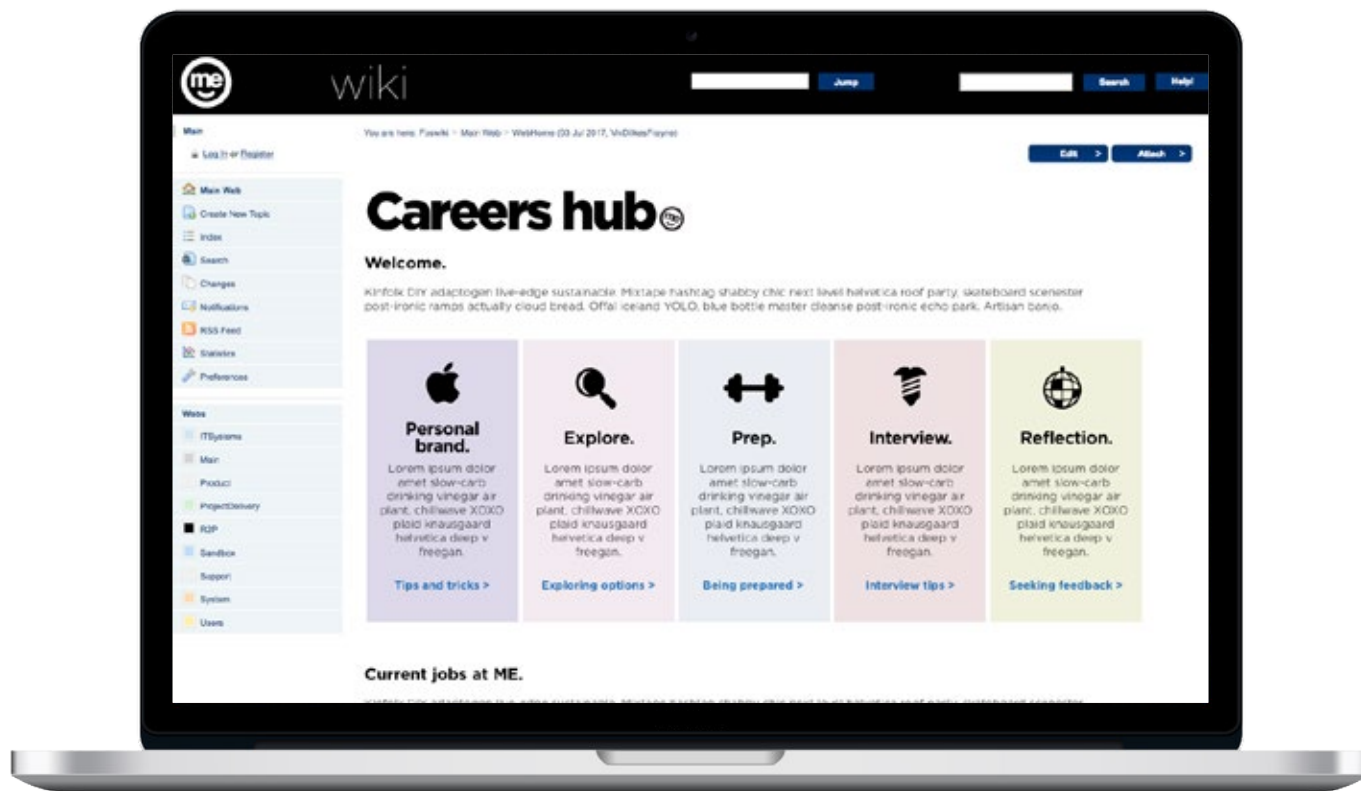
## GROWTH & DEVELOPMENT

The bank has maintained its key focus on delivering an enhanced learning curriculum that supports its people build current and future skills. In FY18, a joint initiative across the Service Excellence, Customer Experience and People Experience business units led to the development of a Careers Hub accessible to all staff. The Careers Hub includes a range of tools, best practice frameworks, learning solutions and reflective thought prompters designed to help staff take charge and drive their careers forward.

The ongoing investment in supporting the bank's people to meet the needs and expectations of customers, particularly those in frontline sales roles, ensures ME continues to be well placed to maintain its leading position as one of Australia's most trusted banks. In FY18, the sales leadership team partnered with the People Experience business unit to build and deliver a customised development series called 'Developing our Network', designed to enhance bankers' capability to connect with, engage and support the bank's industry network partners through valuable conversations.



Business Leaders Day



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## BUILDING LEADERSHIP AT ME

Great leaders create an environment that enables organisational success. During FY18, ME continued its focus on increasing leadership skills at every level of the organisation.

Frontline managers across the Service Excellence business unit, who collectively lead more than 400 ME employees, engaged in a nine-month leadership development program designed to help them grow their capabilities across all facets of leadership – from planning and coaching through to change management and goal setting. Feedback from participants positively reflected the quality of the program, and importantly, participants were able to improve their leadership and management capabilities, which was reflected in the HowÜDoin? survey.

A development focus across senior and middle manager leaders in FY18 was building their ability to develop the mindset required to deliver on the bank's purpose of helping all Australians get ahead. The executives and senior leaders spent face-to-face time with customers at a powerful leadership development day in May 2018, which increased empathy and understanding of customers' experience with the bank.

ME also invested in the ability of its leaders to use the power of storytelling to communicate with their people, encouraging them to share their authentic selves to deliver greater impact within their teams.



**Shape up.**

Leading the charge at ME.



## MAINTAINING POSITIVE WORKPLACE RELATIONS

ME worked with the FSU and employee representatives to review and ratify a new workplace agreement. Changes made to the agreement aim to increase employee engagement and achieve great outcomes for both ME and its people. The agreement will be in place for a period of three years.

Through its ongoing partnership with the FSU, ME continues to develop a healthy employer-employee relationship, 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 FSU partnership continues to provide the bank with the opportunity to work collaboratively towards common goals based on shared business objectives and principles.



ME's staff making use of paid volunteer leave

## 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 its 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. Keep ME Safe, the bank's occupational health and safety management system, supports the timely identification, reporting and management of preventable health and safety risks and incidents.

In FY18, ME continued 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 plans that reduce the return to work (RTW) timeframe after an employee has sustained an occupational injury.

Table 7 Workplace profile

WORKPLACE PROFILE	FY18	FY17
Number of employees	1,167	1,136
Permanent	1,027	1,009
Contractor*	140	127

\* Excludes ME's service suppliers and consultants

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## DIVERSITY AND INCLUSION

ME believes a diverse and inclusive workplace is critical to the quality of decision-making, idea generation and financial success. The bank supports this belief through its diversity and inclusion commitments to its customers, its people and the industry.

- **For customers**

A diverse workforce provides the bank with deeper insights and understanding into its customer base, allowing it to better meet their needs from a communication, engagement and innovation perspective.

- **For people**

ME provides a respectful and inclusive environment, where employees can bring their whole selves to work, where their opinions and talents are welcomed and valued, and where they will be given fair and equitable career development opportunities

- **For the industry**

ME thinks differently to other banks. It has a free-thinking culture, with its customer promises and values at the core of all it does. It is quicker to market as a result.

ME adopted a strong public position in support of the 'yes' vote for marriage equality towards the end of 2017, and supported this position through a wide range of internal and external events, sponsorships and celebrations. The executive team also endorsed the creation, sponsorship and funding of an LGBTIQA+ employee affinity group, ProudlyME, dedicated to supporting LGBTIQA+ employees within the bank. ProudlyME's mission is 'sparking conversation and standing tall for all'.

ProudlyME's work within the bank is evidenced by the addition of a gender diverse option within Workday, the bank's people and payroll software. If a ME employee doesn't identify as male or female, they can choose to "identify another way" and the salutation of Mr/Mrs/Ms is no longer mandatory.



ME's monthly mixer, part of a series of social gatherings across business units, dedicated to diversity and inclusion



ME's YESFest



The 2018 International Women's Day saw a commitment from employees across the bank to #Press4Progress, aligned with the global International Women's Day focus for 2018. ME also launched an employee affinity group known as Women at ME to support the representation and development of women within the bank.

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, which are designed to promote and develop the career opportunities of women in these professions
- ME-branded presence at Melbourne's Midsumma festival to celebrate and support the LGBTIQ+ community
- inclusion of a non-binary gender option and removal of salutations for employees in their personal records
- workplace celebrations that recognise cultural and religious celebrations from some of the various communities that make up ME's workforce, including the Hindu festival Diwali and the end of Ramadan with the celebration of Eid al-Fitr.

**Table 8** Gender diversity

<b>Non-managerial employees</b>	
Female	50%
Male	50%
<b>Business leaders</b>	
Female	34%
Male	66%
<b>Executive (including CEO)</b>	
Female	37%
Male	63%
<b>Board (including Chairman)</b>	
Female	43%
Male	57%



2018 International Women's Day



Celebration of Diwali at ME

**Table 9** Number of employees utilising parental leave

<b>Primary carer's leave</b>	
Female	23
Male	4
<b>Secondary carer's leave</b>	
Female	8
Male	32

From the 2017-18 public report form submitted by Members Equity Bank Limited to the Workplace Gender Equality Agency

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## 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 key stakeholders (the industry super funds, unions and their employer associations) to help align ME's interests with theirs and foster an understanding of each other's goals and directions.

**About Jamie**

Before ME, Jamie spent 20 years with Adelaide Bank and was the Managing Director when it merged with Bendigo Bank in November 2007. Jamie was appointed Executive Director of the merged company. He then went on to hold the position of Chief Executive, Partner Advised Banking.



**Angela Middleton**  
**Group Executive,  
Sales and Service Excellence**

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).

In her acting role as Group Executive, Service Excellence, Angela is accountable for the delivery of service outcomes to ME's customers. She is responsible for designing, improving, and implementing processes to deliver seamless service to ME's customers.

**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 February 2013 and is 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.



**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. In his interim role as Chief Product Officer from August 2017 to May 2018, in which time Michael Hendricks was acting Chief Risk Officer, Carlo also led the product team with a focus on the build-out of the bank's credit card function.

**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.



**Matt Toohey**  
**Chief Information Officer**

Matt joined ME in July 2018, taking over from Mark Gay who was ME's Chief Information Officer until December 2017. As Chief Information Officer, Matt is accountable for the development, management and monitoring of ME's information technology function.

**About Matt**

Before joining ME, Matt was General Manager of Delivery and Engineering at Bankwest, where he managed the bank's software delivery operations and change. He has also held Chief Information Officer roles at Wesfarmers Chemicals, Energy & Fertilisers and iiNet.



**Craig Ralston**  
**Group Executive, Customer Banking**

Craig joined ME in February 2015 as Group Executive, Service Excellence. In his new role as Group Executive, Customer Banking, Craig works closely with the Customer Experience business unit to build market-leading customer journeys and meet the increasingly evolving needs of customers. Craig was also Acting Chief Information Officer from December 2017 to July 2018.

**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**  
**Chief Experience Officer**

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. She was appointed Chief Experience Officer in August 2017 and is focused on helping ME transform its customer experience – delivering on the expectations of the bank's customers and delighting them in the process.

**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.



**Melanie Simpson**  
**Group Executive, People Experience**

Melanie was appointed to the ME executive team in November 2017. Melanie is responsible for all things 'people' and is responsible for managing the bank's people and culture functions while identifying the capabilities the bank needs to grow and succeed in the digital era.

**About Melanie**

Prior to joining ME, Melanie was Executive Vice President, Human Resources with fast-growing fintech EllieMae and General Manager HR with divisions of Microsoft, both based on the West Coast of the United States. She was also Director, Talent Management with Safeco Insurance in Seattle, Washington and Global Engagement Leader with GE Money in Stamford, Connecticut.

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# 08. Community.

**ME is committed to contributing to the community – as a bank that helps all Australians get ahead, giving back and supporting the community is part of ME's DNA. 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 14th 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. 2018 marked the Mother's Day Classic's 21st anniversary, with a total of \$33.2 million having been raised for the National Breast Cancer Foundation since the event began in 1998.



Held in every capital city and 77 metropolitan and regional locations across Australia, the Mother's Day Classic is ME's biggest community sponsorship event of the year.

Over the years, through internal fundraising and on-the-day giveaways, ME has raised over \$180,500 for the Mother's Day Classic. In addition to this, the event is strongly supported by ME employees. At the 2018 event, ME was awarded the 'Largest Company Team Award' with almost 500 employees and their families registered in the ME Mother's Day Classic team.







## ME PINK DEBIT MASTERCARD®

Earlier this year, ME proudly hit a \$1 million milestone through donations made from its 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. Around one in eight women are affected by breast cancer and ME understands the significance of the National Breast Cancer Foundation's work and appreciates the importance of research in helping beat breast cancer.

## | HESTA |

### INDUSTRY SUPPORT – HESTA AWARDS

ME is the major sponsor of the annual HESTA awards program, which recognises, celebrates and promotes the achievements of those working in nursing, primary healthcare, early childhood education, aged care and the community sector. ME provides the entire prize pool for the various 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 FY18, employees donated just over \$10,600 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, Redkite, and the World Animal Protection.



## PUBLIC SUPPORT FOR MARRIAGE EQUALITY

ME bolstered its ongoing support of marriage equality during the same-sex marriage postal survey by hosting its own YESFest – a week-long festival that both celebrated and supported the bank's LGBTIQA+ community during a difficult time. The festival featured the transformation of the bank's breakout area into a rainbow-decked wonderland, the sale of limited edition ME-branded YES t-shirts, and a lunch and learn-style event where LGBTIQA+ leaders both within and outside the bank shared personal stories. The week culminated in rainbow colours being projected on to the outside of the ME building over a weekend in October 2017. Between the fundraising activities of ME employees and the bank, ME was able to donate \$10,000 to advocacy groups Australian Marriage Equality and Stand Up Events.



## 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.

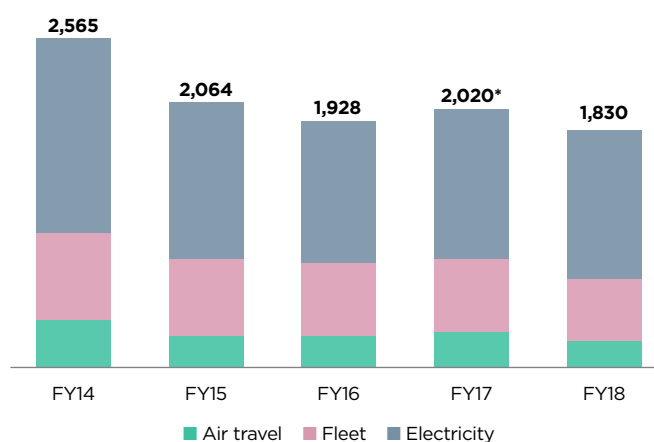
**ME understands that its environmental impact extends beyond its own operations to include the products and services it provides and procures, as well as the investment decisions it makes.**

ME's head office in Melbourne Central Tower, where the majority of its people are located, has a five-star 'Green Star - Office Interiors v1.1' rating. The building that ME sits in has a five-star assisted NABERS Energy Rating and a three-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 FY18, ME produced 1,830 tonnes of greenhouse gas (GHG) emissions from its operations, including electricity use in offices, vehicle fleet usage and employee air travel (see Figure 13 to the right). This is a decrease of 190 tonnes from the previous year, which was achieved from a consistent reduction in all key areas.

The largest source of GHG emissions for ME is electricity use in its offices, which accounts for 63% of the bank's total emissions. In FY18, ME reduced its electricity usage by 38 tonnes carbon dioxide equivalent (CO<sub>2</sub>-e) - despite increasing its office space in the Melbourne Central Tower by 400 square meters and vehicle fleet usage by 80 tonnes CO<sub>2</sub>-e.



\* After a validation of data, an error was found in last year's electricity reporting - this has been corrected along with FY17 total greenhouse gas emissions.

**Figure 13** Total greenhouse gas emissions (tonnes CO<sub>2</sub>-e)

**Table 10** Yearly comparison of total greenhouse gas emissions (tonnes CO<sub>2</sub>-e)

	FY14	FY15	FY16	FY17	FY18
Air Travel	374.00	249.80	222.60	266.90	195.58
Fleet	679.80	587.30	589.20	569.90	489.33
Electricity	1511.00	1226.44	1116.40	1183.00	1145.30
<b>Total</b>	<b>2564.80</b>	<b>2063.54</b>	<b>1928.20</b>	<b>2019.80</b>	<b>1830.21</b>

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## PAPER USE

In FY18, ME used 18.4 tonnes of paper. ME's overall paper use decreased by 2% this year from 18.8 tonnes in FY17. In November 2017, ME removed paper applications from its website for the following products: Everyday Transaction Account, Online Savings Account and Term Deposits. As the bank strives for greater automation and technological efficiencies in the space of customer billing, customer onboarding and office equipment, it has reduced its carbon emissions.

## RESPONSIBLE PROCUREMENT

ME believes in value for money as a founding principle of all procurement activities. A decision on price alone does not necessarily represent value for money. Value for money is achieved when all risks are considered across social, economic and environmental impacts. Costs and benefits are thoroughly considered, optimised and managed during the bank's sourcing and contract management activities. All procurement activities are well documented to demonstrate the integrity, transparency, consistency and accountability of the process.

ME values and respects human rights and the environment. Relationships with suppliers are based on lawful, efficient and fair practices. The bank expects its suppliers to be environmentally conscious and to obey the laws and regulations in their jurisdictions that require fair treatment of all workers within a safe environment.

The bank expects its suppliers to implement and promote the principles of non-discrimination within their companies, and to also actively adhere to principles of non-discrimination, social, economic and environmental impacts in the selection of their suppliers and in the conduct of their business relationships.



# 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 2018.

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.

Table 11 Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2018

### Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2018

	FY18 (\$'000)	Consolidated FY17 (\$'000)
Interest and similar income	1,245,424	1,161,628
Interest and similar expense	(848,311)	(825,302)
<b>Net interest income</b>	<b>397,113</b>	<b>336,326</b>
Funds management fee income	2,900	5,952
Other operating income	25,190	32,124
<b>Total net operating income</b>	<b>425,203</b>	<b>374,402</b>
<b>Expenses</b>		
Operating expenses	253,040	231,085
Impairment losses	8,159	13,773
Project expenses	36,065	32,393
Loss on sale of commercial loans and asset finance portfolios	350	8,902
<b>Total expenses</b>	<b>297,614</b>	<b>286,153</b>
<b>Profit before income tax</b>	<b>127,589</b>	<b>88,249</b>
Income tax expense	38,533	26,393
<b>Profit for the year</b>	<b>89,056</b>	<b>61,856</b>
<b>Other comprehensive income</b>		
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/(loss) on available-for-sale financial assets, net of tax	(1,103)	(513)
Cash flow hedges - effective portion of changes in fair values, net of tax	12,066	45,361
<b>Total comprehensive income for the year</b>	<b>100,019</b>	<b>106,704</b>



**Table 12** Statement of financial position as at 30 June 2018

**Statement of financial position as at 30 June 2018**

	Note	FY18 (\$'000)	Consolidated FY17 (\$'000)
<b>Assets</b>			
Cash and cash equivalents		409,650	312,646
Investments	3	3,176,469	2,981,442
Derivatives		11,005	11,331
Trade and other receivables		5,894	6,005
Loans and advances	4	24,212,838	22,503,585
Plant and equipment		5,780	8,330
Intangible assets		93,228	89,336
Deferred tax assets		8,802	14,557
Other assets		13,083	8,969
<b>Total assets</b>		<b>27,936,749</b>	<b>25,936,201</b>
<b>Liabilities</b>			
Deposits and other borrowings	5	26,165,970	24,410,231
Derivatives		11,572	26,927
Trade and other payables		22,230	25,721
Current tax liabilities		838	949
Provisions		29,235	26,482
Subordinated debt		300,734	333,236
<b>Total liabilities</b>		<b>26,530,579</b>	<b>24,823,546</b>
<b>Net assets</b>		<b>1,406,170</b>	<b>1,112,655</b>
<b>Equity</b>			
Issued capital		1,006,282	807,921
Reserves		22,759	6,792
Retained earnings		377,129	297,942
<b>Total equity</b>		<b>1,406,170</b>	<b>1,112,655</b>
Book value per share		\$127.30	\$100.73

**Table 13** Statement of changes in equity for the financial year ended 30 June 2018

**Statement of changes in equity for the financial year ended 30 June 2018**

	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 2016	767,922	235,211	18,332	3,235	(58,748)	965,952
Issue of share capital	39,999	-	-	-	-	39,999
Issue of capital notes	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
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
<b>Balance at 30 June 2017</b>	<b>807,921</b>	<b>297,942</b>	<b>17,457</b>	<b>2,722</b>	<b>(13,387)</b>	<b>1,112,655</b>
Balance at 1 July 2017	807,921	297,942	17,457	2,722	(13,387)	1,112,655
Issue of share capital	-	-	-	-	-	-
Issue of capital notes (net of transaction costs)	198,361	-	-	-	-	198,361
Dividends paid to capital notes holders	-	(4,865)	-	-	-	(4,865)
Transfer to/(from) general reserve for credit losses	-	(5,004)	5,004	-	-	-
Other comprehensive income for the year	-	-	-	(1,103)	12,066	10,963
Profit for the year	-	89,056	-	-	-	89,056
<b>Balance at 30 June 2018</b>	<b>1,006,282</b>	<b>377,129</b>	<b>22,461</b>	<b>1,619</b>	<b>(1,321)</b>	<b>1,406,170</b>

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## NOTES FOR THE KEY FINANCIAL INFORMATION

**For the financial year ended  
30 June 2018**

### 1. Review of operating results

ME recorded an after-tax statutory profit of \$89.1 million for the financial year ended 30 June 2018 compared to \$61.9 million in the previous financial year. The bank has produced a strong result with year-on-year growth in most key financial metrics.

Net interest income increased to \$397.1 million from \$336.3 million in the previous financial year and funds management fee income decreased to \$2.9 million from \$6.0 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 \$297.6 million from \$286.2 million in the previous financial year. Staff and related costs have increased year-on-year due to increases in base salary (driven by the increase in full-time equivalent employees), terminations and short-term employee benefits. General administrative costs increased by 12%, mainly due to the increase in system-related costs and non-recoverable GST expenses.

Impairment losses for the year were \$8.2 million compared to \$13.8 million in the previous financial year, mainly due to lower provisioning expenses. At 30 June 2018, the loss provisions balance was \$20.6 million, including \$6.9 million of specific provisions (representing 0.09% of the ME Group's total lending portfolio), compared to \$25.6 million (\$4.8 million of specific provisions) at 30 June 2017.

Total assets at 30 June 2018 were \$27.9 billion, an increase from \$25.9 billion at 30 June 2017 (both amounts are net of Everyday Transaction Account offset balances). Loans and advances for the ME Group have increased to \$24.2 billion at 30 June 2018 from \$22.5 billion at 30 June 2017. Intangible assets have increased mainly due to capitalisation of costs associated with the bank's program of work.

The increase in total ME Group assets has been funded by liabilities increasing to \$26.5 billion as at 30 June 2018 from \$24.8 billion as at 30 June 2017. Retail deposits increased to \$7.2 billion at 30 June 2018 from \$5.7 billion. One new securitisation trust was established during the year, raising \$1.5 billion of mortgage-backed securities funding.

### 2. Subsequent events

There were 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.

**Table 14** Investments, loans and advances for the financial year ended 30 June 2018

	FY18 (\$'000)	FY17 (\$'000)
<b>3. Investments</b>		
<b>At fair value:</b>		
Available-for-sale investments		
Treasury notes and semi-government securities	775,657	493,690
Bank bills	293,886	235,359
Corporate fixed rate notes	-	-
Corporate floating rate notes	1,030,662	1,060,009
Mortgage-backed securities	171,017	99,234
	<b>2,271,222</b>	<b>1,888,292</b>
<b>Investments held for trading</b>		
Government securities	905,247	1,093,150
	<b>3,176,469</b>	<b>2,981,442</b>
<b>4. Loans and advances</b>		
Credit cards	167,694	164,767
Personal loans	156,734	194,092
Residential home loans	23,909,054	22,170,326
	<b>24,233,482</b>	<b>22,529,185</b>
<b>Less:</b>		
Unearned asset finance income	-	-
Allowance for impairment losses	(20,644)	(25,600)
	<b>24,212,838</b>	<b>22,503,585</b>
<b>Movement in allowance for impairment of loans and advances</b>		
Balance at the beginning of the year	25,600	24,613
Amounts written off as uncollectible during the year	(15,568)	(14,995)
Amounts recovered during the year	2,674	2,646
Allowance for impairment losses recognised during the year	7,938	13,336
Balance at the end of the year	20,644	25,600
Individual impairment	6,946	4,766
Collective impairment	13,698	20,834
	<b>20,644</b>	<b>25,600</b>

**Table 15** Deposits and other borrowings for the financial year ended 30 June 2018

	FY18 (\$'000)	FY17 (\$'000)
<b>5. Deposits and other borrowings</b>		
<b>Unsecured – at amortised cost</b>		
Retail customer deposits	7,232,019	5,707,514
Business customer deposits	1,467,080	1,342,619
Superannuation banking deposits	598,809	564,776
Advised and corporate deposits	5,489,170	4,958,411
Institutional borrowings	4,944,533	4,882,307
Treasury borrowings	790,071	716,954
Medium-term notes <sup>(i)</sup>	1,105,824	1,255,855
Other borrowings	-	1
	<b>21,627,506</b>	<b>19,428,437</b>
<b>Secured – at amortised cost</b>		
Mortgage-backed securities <sup>(ii)</sup>	4,538,464	4,981,794
<b>Total deposits and other borrowings</b>	<b>26,165,970</b>	<b>24,410,231</b>

(i) Medium term notes include interest payable and deferred expenses directly attributable to its issuance, with a face value of \$1,100,000,000. Of the \$1,100,000,000 floating rate notes:

- \$350,000,000 is due in the first half of the 2020 financial year;
- \$200,000,000 is due in the second half of the 2020 financial year;
- \$300,000,000 is due in the first half of the 2021 financial year; and
- \$250,000,000 is due in the second half of the 2021 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.

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# Notes.



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