Introduction

Pursuant to its obligations under Australian Prudential Regulation Authority (APRA) Prudential Standard *APS330 – Public Disclosure,* Members Equity Bank Limited (ME or the Bank) makes the following remuneration disclosures.

Reward Framework

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

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

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

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

<u>Benchmarking</u>

Given the external environment in which ME operates, we benchmark remuneration against the financial services industry. We do this by comparing our remuneration to the market using information from remuneration market benchmarking surveys conducted by professional, independent benchmarking organisations.

To make comparisons to this market ME needs to understand the relativity between jobs at ME and jobs in the external market. ME uses a job evaluation system to understand the size of a job. The size of the job reflects the skills, knowledge and experience required to successfully perform a job as well as the complexity and accountability required by the job. Jobs of similar sizes are organised into job grades.

Jobs at ME are compared to similar sized jobs in the financial services market using remuneration market benchmarking surveys. Based on this comparison, fixed pay ranges are established around the market median for each job grade. This provides the capacity to have someone's pay reflect the match of his or her skills to the requirements of the job and provides ME with the capacity to pay above median where external market pressures or unique internal needs require this.

People and Remuneration Committee

The ME Board has in place a People and Remuneration Committee (the **Committee**). During the FY19 financial year (**FY19**), the Committee met five times.

The Committee's purpose is to provide counsel, guidance and oversight of strategic people, culture and remuneration matters – including strategies, polices and frameworks – which have an enterprise impact and support the Bank in achieving its short and long term business objectives while meeting its social licence to operate.

In working towards this purpose, the Committee makes recommendations in respect of the Bank's culture, capability and engagement, recruitment practices and ongoing performance management, organisational structure and job design, diversity and inclusion, workplace and employee relations, workplace health and safety, remuneration and governance. The Committee may make recommendations to the Board in connection with the fitness and propriety of directors.

Ms Elana Rubin was appointed Chair of the Committee during FY19. The Committee is comprised of three independent non-executive directors, with Mr James Evans and Mr Peter Everingham also appointed to the Committee in FY19.

Non-executive directors of the Company (excluding the Chairman) are remunerated by way of one base fee (inclusive of the "Superannuation Guarantee Contribution" payment). The base fee for the Chairman will be two times the director base fee.

During FY19, the Non-Executive Director Remuneration Policy provided for the fee to be up to 60% the median level of non-executive director fees paid by Bendigo Adelaide Bank and Bank of Queensland.

In addition to their base director fees, Committee members receive additional remuneration for their participation in the Committee as compensation for the additional responsibilities and workload (pro-rated for the time spent on the Committee) of 7.5% of the base fee, and Committee Chairs received an additional 15% of the base fee. For FY19, this represented $7,100 for each Committee member and $14,200 for each Committee Chair.

The Committee may, in determining appropriate levels of Senior Manager remuneration, engage an external consultant to provide independent advice, to ensure that the compensation is set competitively compared to the market. During FY19, the Committee did not engage any such consultants.

Remuneration Policy

The Remuneration Policy (the **Policy**) is the overarching tool by which remuneration of the Bank's employees is governed. The Policy is reviewed at least annually by the Committee and approved by the Board. It was reviewed in August 2019 and has been approved with effect from 1 August 2019 to reflect additional obligations under the Banking Executive Accountability Regime (BEAR).

The RCC is also responsible for recommending the risk metric to be included in ME's corporate scorecard, which sets the performance metrics for ME management, against which the maximum short term incentive (STI) opportunity is assessed. Each Group Executive also has an individual scorecard which includes risk metrics, against which their potential STI opportunity is assessed.

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

The Policy provides for a remuneration program – as part of total reward – to motivate and retain employees for the delivery of enterprise objectives within the Bank's risk appetite and RMF.

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

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

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

<u>Adjustments for risk management and ME Values</u>

The Policy provides for variable pay to be adjusted to reflect the individual's demonstration of the ME values and compliance with the RMF, as determined through the performance assessment process. In addition, if an employee has responsibility for a team, then decisions over their variable pay will be impacted by the entire team's demonstration of the ME values and compliance with the RMF.

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

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

- The remuneration arrangements for the CEO and the Executive team, together with the framework for all ME employees, is approved by the Board after considering the recommendations of the Committee.
- Fixed and variable pay arrangements and adjustments for the CEO and Executive Team are approved by the Board.
- Fixed remuneration arrangements and adjustments for all other employees are approved by the Group Executive responsible for those employees, in line with the Bank's Authorities and Delegations Policy.
- Variable remuneration arrangements and adjustments for all other employees are approved by the CEO, based on the recommendation and approval of the Executive Team, with Board oversight.
- The total pool available to employees (including the CEO and Executive team) participating in the annual bonus program is approved by the Board.

<u>Remuneration of senior managers and material risk takers</u>

The details and aggregate remuneration of senior managers (Senior Managers) and material risk takers (as applicable) are set out in Table 1 below.

The Fit and Proper Policy defines the ME senior manager as a person (other than a director) who:

1. makes, or participates in making, decisions that affect the whole, or a substantial part, of ME's business; or
2. has the capacity to affect significantly ME's financial standing; or
3. may materially affect the whole, or a substantial part, of ME's business or its financial standing through their responsibility for:
    a. enforcing policies and implementing strategies approved by the ME Board; or
    b. the development and implementation of systems that identify, assess, manage or monitor risks in relation to ME's business; or
    c. monitoring the appropriateness, adequacy and effectiveness of risk management systems; or
4. performs activities for a subsidiary of ME where those activities may materially affect the whole, or a substantial part, of ME's business or its financial standing, either directly or indirectly.

During the year, there were 22 Senior Managers.

Material risk takers are those employees for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the Bank. During the year, the Bank did not have any material risk takers.

Risk and financial control personnel

Risk and financial control personnel are not treated differently under the Policy, as fixed pay is the major component of their remuneration, with any at risk – or variable – pay being dependent on overall Bank outcomes, rather than outcomes of any areas to which they provide control services.

Remuneration mix

Remuneration mix

The remuneration mix for a job is the combination of fixed and variable remuneration (unless employed on maximum term contract), and ME determines the target remuneration mix for each job type based on market competitive practices.

Fixed remuneration is made up of base pay (including packaged items and superannuation contribution; variable remuneration is made up of short term incentives (STI), sales incentives for relevant employees, and in the case of the CEO also a long term incentive (LTI).

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

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

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

Fixed remuneration

Fixed remuneration consists of base pay (including packaged items) and superannuation contributions. It takes into account an individual's roles, responsibilities, experience and skills, and reflects the market competitive value of the skills, expertise and experience required to successfully fulfil the requirements of a job at ME. The Bank's target fixed remuneration position is the median of the financial services market. Fixed remuneration reviews are conducted annually and adjustments are in accordance with the Enterprise Agreement and review guidelines approved by the Committee.

Variable Remuneration

ME provides variable, performance based, remuneration by way of STI and long term incentives (LTI). Both STI and LTI provide cash based payments, and no share or equity based rewards.

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

The Corporate Scorecard used to determine STI payments comprises financial, customer growth and risk based measures.

Sales Incentive Programs are provided for sales-focused employees instead of a STI. These programs reward results achieved against a balanced scorecard within the appropriate risk and values frameworks. The sales incentives program has been removed and all sales-focused employees participated in the enterprise STI from 1 July 2019 in line with Sedgwick recommendation implementation.

Managing Risk and Variable Remuneration

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

Short-Term Incentives (STI)

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

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

Determining STI payments

All elements of the Bank's balanced Corporate Scorecard will be considered in determining the opportunity to participate in an STI, with appropriate weighting given to the more strategically important measures. For the key measures a minimum level of performance must be achieved before an STI opportunity arises. The Corporate Scorecard measures are set by the Board at a challenging, but achievable, level.

CEO STI and Performance Measures

Corporate Scorecard (70%): The Corporate Scorecard is a shared accountability of each executive, including the CEO. As the CEO has responsibility for the leading the organisation to meet the targets in the Corporate Scorecard, a 70% weighting is applied to this measure.

Growth & Productivity (20%): Delivery of the Program of Work success measures as reported through quarterly Board progress updates**.**

Leadership Contribution (10%): The Board input and employee engagement as measured by the HowÜDoin? survey results have been used in the evaluation of performance against this measure. The overall achievement of Risk KPIs for the enterprise has been considered.

Executive STI and Performance Measures

Corporate Scorecard (60%): The Corporate Scorecard is a shared accountability of each executive and is therefore applied equally.

Growth & Productivity (20%): The achievement against each of the business unit scorecard measures and the relative importance of each measure has been considered in determining the evaluation of performance against this measure.

Leadership & Culture (20%): The results of the HowÜDoin? survey results for the business unit and Risk KPIs for the Business Unit have been used to assess the Leadership and Culture contribution.

Employees

The pool for STI payments is based on the ME performance against the Corporate Scorecard, and individual payments are allocated to employees based on individual performance against KPIs set for the financial year. Employees with higher performance ratings receive higher incentive payments relative to their peers. Some employees do not receive an incentive due to their performance. Incentive amounts are provided on a pro-rata basis for those who have not worked the full year but who have worked at least 3 months in the year, or work part time. Employees who leave during the year due to redundancy, retrenchment, retirement or death or impairment may be allocated a pro-rata payment based on their service and performance during the relevant financial year.

Long-Term Incentives (LTI)

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

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

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

If the CEO resigns from ME he will only be entitled to consideration for payment of the deferred component of any LTI payment awarded, at the Board's discretion.

Deferral of Variable Remuneration

In the case of variable remuneration payments, the Policy provides for the consideration of longer term performance and the deferral of part of some payments, and this was applicable to payments made during the year.

Due to the timing of the payment decision related to the FY19 performance period, the 1 July 2019 Policy is applied to this. The BEAR requirements for deferral for Accountable Persons will apply. The CEO STI comprises a maximum STI of 50% of Total Fixed Reward with a deferred component payable 60% in the year of award, and 40% payable 4 years following the year of award.

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

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

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

Other Remuneration and Employment Arrangements

Contracts with employees provide for notice periods, which, depending on the level of seniority of the employee, generally range from 2 weeks to 5 weeks, and up to 6 months for some very senior employees. All employment contracts permit the Bank to terminate for misconduct.

Upon termination, a person will receive their statutory entitlements of accrued annual and long service leave, as well as accrued superannuation benefits and payment in lieu of applicable notice periods (except in some cases of termination for serious misconduct). Termination payments and settlements (other than in relation to statutory entitlements) or retention benefits require approval of the CEO.

Termination payment totalling $158,288 was made to one Senior Manager during the year.

Sign-on benefits can only be made within a delegated limit or with the Board's approval. One sign-on benefit was approved and made during the year to the value of $20,000. ME does not provide guaranteed bonus payments and as such none were made during the year.

Variable and Deferred Remuneration Paid in the Financial Year

The detail of fixed, variable and deferred remuneration paid to the Senior Managers during FY19 is shown in Table 1 and Table 2. There were no material risk takers designated for FY19:

Table 1: Total value of remuneration awards

	FY19		FY18	
	Unrestricted	Deferred	Unrestricted	Deferred
Senior Managers:				
Total	**$8,370,661**	**$482,512**	**$6,797,102**	**$631,300**
Fixed remuneration[1]	$6,756,992	Nil	$5,903,056	Nil
Cash	$6,260,924	Nil	$5,398,917	Nil
Other	$496,068	Nil	$504,139	Nil
Variable remuneration[2]	$1,613,669	$482,512	$894,046	$631,300
Material Risk Takers	Nil	Nil	Nil	Nil

[1] Represents actual fixed remuneration received, including, salary sacrificed benefits and employer superannuation contributions (Cash) and leave entitlements (Other).

[2] All variable remuneration is cash based and relates to amounts awarded for the financial year reported.

Table 2: Value of released and outstanding deferred variable remuneration

	FY19		FY18	
	Deferred remuneration released as cash[3]	Outstanding deferred remuneration[4]	Deferred remuneration released as cash	Outstanding deferred remuneration
Senior Managers:	$659,600	$798,162	$682,045	$1,698,407

[3] Deferred remuneration released as cash comprises deferred components from FY17 and FY18. All amounts were subject to review under the Policy and several reductions were made to the deferred remuneration released during FY19.

[4] Includes balance of total deferred awards from FY18 and FY19.

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

All deferred remuneration payments released during the financial year were subject to review under the provisions of the Policy. The Board made the decision to vary the amount to be released for four individuals related to FY17 and FY18 deferred amounts by $14,627.50 and reduce payments for FY19 for 3 Executives by a total of $248,766.