Introduction

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

Remuneration Framework

ME aims to provide remuneration to attract, motivate and retain employees to achieve the Bank's purpose and overall objectives within its risk appetite and risk framework. The Reward Framework focuses on the Bank's overall reward philosophy and intent, and encompasses reward elements beyond remuneration. The Bank's Remuneration Framework, that is, how fixed pay and variable pay elements are combined to reward performance and reflect the balance of individual, team and organisational performance, and be market competitive, is a sub-set of the Reward Framework and during FY16 remained in line with previous years.

ME designs remuneration programs for each of the remuneration elements to reward performance and to reflect the balance of individual, team and organisational performance that is market competitive. All remuneration programs are designed with a strong awareness of the need for prudent risk-taking, within ME's risk appetite.

ME uses a range of different remuneration elements to effectively reward employees. The Bank considers market competitive practices to determine which, and how, remuneration elements are used for different jobs.

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 to provide 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 (Committee). During the year the Committee met five times.

The Committee's purpose is to make recommendations in respect of the Bank's Remuneration Policy and program; make recommendations in respect of the remuneration arrangements for the CEO and other specified employees or group of employees whose roles may affect the financial soundness of the Bank; monitor compensation, including superannuation, levels and policy guidelines; ensuring there is a robust and effective process for evaluating the performance of the Board, its committees and individual directors; assisting the Board in relation to executive (including the CEO) succession planning to meet the Bank's longer term strategic goals; and providing a formal forum for communication between the Board and management on human resource matters. The Committee may make recommendations to the Board in connection with the fitness and propriety of directors.

Mr Ken Hodgson remained chair of the Committee during this year, which is comprised of independent non-executive directors, being Ms Anne de Salis and Mr Garry Weaven during this year.

Non-executive directors of the Company are remunerated by way of one base fee (inclusive of superannuation at 9.5% for the period). The Non-Executive Director Remuneration Policy provides for the fee to be approximately half the median level of non-executive director fees paid by Bendigo Adelaide Bank and Bank of Queensland. The Committee members receive, in addition to their base director fees, additional remuneration for their participation in the Committee as compensation for the additional responsibilities and workload. For the year, the Chair received an additional $13,500 for his role, and the members $6,750 each.

Remuneration Policy

The Remuneration Policy (Policy) is the overarching tool by which the Bank's remuneration is governed. The Policy is reviewed at least annually by both the PRC and the Board Risk and Compliance Committee (RCC) before it is submitted to the Board for approval. It was last reviewed in November 2016. The review considered updates to the Australian Prudential Regulation Authority (APRA) standards and an amendment letter related to APS 330 received from APRA in July 2015. No edits were required as the Policy already reflected the standards and amendment letter contents. The RCC reviews the Policy to assist the Committee in respect of the management of risk throughout the Policy.

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

The Policy provides for a remuneration program - as part of total reward - to attract, motivate and retain employees to achieve the Bank's purpose and overall objectives within its risk appetite and risk framework.

Remuneration includes fixed and variable components, with a strong awareness of the need for prudent risk-taking, within ME's risk appetite, particularly when providing the opportunity for variable pay. Accordingly, the Policy provides for deferral and clawback on variable pay, effective for payments on or after 1 July 2013.

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

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

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

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

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

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

<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.

For ME, Senior Managers are those people, excluding the non-executive directors and the external auditor, holding Responsible Person positions, in accordance with the Bank's Fit and Proper Policy. The Fit and Proper Policy defines a Responsible Person Position as:

- a director of ME or any subsidiary of ME ("ME company"); or
- any senior manager of any ME company (as determined in accordance with the policy);

- an Auditor who provides any report in relation to ME that is required to be prepared under the Banking Act or Reporting Standards under the Financial Sector (Collection of Data) Act 2001;
- a person who performs activities for an ME company where those activities may materially affect the whole or a substantial part, of the business of ME or its financial standing, either directly or indirectly, and includes any person determined to be a Responsible Person by APRA in accordance with its powers under CPS 520, and as notified in writing to ME.

During the year, there were 21 Senior Managers.

Material risk takers are those people whose activities may, in the Committee's opinion, affect the financial soundness of the Bank. During the year, the Bank did not have any material risk takers.

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

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

Managing risk and Variable Pay

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

Remuneration mix

The remuneration mix for a job is the combination of Fixed Pay and Variable Pay for that job. ME determines the target remuneration mix for each job type based on market competitive practices.

Role type	Fixed pay	Short-term incentive	Long-term incentive
CEO	Board review	CEO Incentive	Board discretion
Executive	Board review	Executive Incentive	-
Leadership Group[1,2]	CEO & Executive review	Annual Bonus	-
Above threshold[1]	Enterprise Agreement	Annual Bonus	-
Below threshold[1]	Enterprise Agreement	Annual Bonus	-
Sales roles[1]	Enterprise Agreement	Sales Incentive	-

[1]Employees in sales roles who participate in any sales incentive are not eligible to participate in the Annual Bonus.
[2] The Leadership group consists of employees directly reporting to a Group Executive whose remuneration is above the Enterprise Agreement threshold.

Fixed pay

Fixed pay consists of salary (including packaged items) and superannuation contributions. It reflects the market competitive value of the skills, expertise and experience required to successfully fulfil the requirements of a job at ME. The Bank's target fixed pay position is the median of the financial services market. Fixed pay reviews are conducted annually and adjustments are in accordance with the 2016 Enterprise Agreement.

Short-Term Incentives (STI)

Short-term incentives reflect the relative performance of an employee within his or her job at the Bank and the overall performance of the organisation. It is the main mechanism the Bank uses to reward and differentiate individual performance. The STI opportunity that is available is linked to the size of the role the individual performs. The main STI program at the Bank is the Annual Bonus, which is a cash based program. The Board retains 100% discretion over the payment of any STI.

The Annual Bonus encompasses most employees. Where appropriate, the Board approves an Annual Bonus pool that reflects the performance of the Bank.

Sales Incentive Programs are provided for sales-focused employees instead of the Annual Bonus. These programs reward sales results achieved within the appropriate risk and values frameworks.

The Bank did not make any guaranteed bonus arrangements or pay any guaranteed bonuses during the year.

CEO and Executive incentives are determined based on performance indicators selected and approved by the Board.

STI evaluation approach

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.

The Board retains 100% discretion over the payment of any STI.

CEO
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.

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

Leadership Contribution (10%): The results from the CEO 360^{o} feedback and Board input and employee engagement as measured by the HowÜDoin? survey results have been used in the evaluation of performance against this measure.

Executives
Corporate Scorecard (50%): The Corporate Scorecard is a shared accountability of each executive and is therefore applied equally.

Business Unit/ Individual Goals (30%): 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 Contribution (20%): Contribution to the Program of Work, results from the Executive 360^{o} feedback, and employee engagement as measured by the HowÜDoin? survey results have been used in the evaluation of performance against this measure.

Employees
Incentives are allocated to employees based on individual performance. 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 retrenchment, retirement or death may be allocated a pro-rata payment based on their service and performance during the financial year.

Deferral
The Remuneration Policy provides for deferral and was applicable to payments made during the year.

For staff - excluding the CEO, Executives and staff on sales incentive programs - the Policy provides for the deferral of variable pay in excess of a threshold (set in the Policy). The deferral provides for 50% of the amount above the threshold to be payable immediately, with 25% deferred for 1 year and 25% deferred for 2 years. No staff exceeded the threshold, thus deferral was not applied to staff.

Executive (excluding CEO) STI comprises a maximum STI of 40% of Total Fixed Reward with a deferred component payable 50% in the year of award, and 25% payable in each of the second and third years following the year of award, subject to a threshold of a total STI of $30,000.

CEO STI comprises a maximum STI of 50% of Total Fixed Reward with a deferred component payable 50% in the year of award, and 25% payable in each of the second and third years following the year of award, subject to a threshold of a total STI of $30,000.

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

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

<u>Long Term Incentives (LTI)</u>

A Long-Term Incentive reflects the relative performance of an employee against the objectives and targets for their job over a period of greater than 12 months. Long-Term Incentives are designed to drive and reward long-term growth and long-term financial soundness and as such are subject to long-term performance conditions. Long-Term Incentives are designed to reward those employees who have the greatest influence on the long-term sustainability and performance of the organisation.

An LTI arrangement is in place for the CEO only. The LTI is a cash-based program, and the Board retains 100% discretion over the payment of any LTI.

The CEO LTI arrangement in place for the period provides for a percentage of the CEO's fixed salary to be made available to be paid on a deferred basis as an LTI in respect of each year over a 3 year period which concluded on 30 June 2016. The arrangement took into account a number of internal and external measures, and a significant element relating to Board discretion.

The date of entitlement for the payment of any LTI was1 July 2016 for two thirds of the total LTI amount, and 1 July 2017 for the remaining third of the total LTI payment. Any LTI will only be payable after the approval of the audited financial statements for the relevant period, i.e., to 30 June 2016 and to 30 June 2017.

If the CEO resigns from ME between 1 July 2016 and 1 July 2017, he will only be entitled to the component of the LTI payment payable on 1 July 2017 at the Board's discretion and if the circumstances that gave rise to the award are still relevant at 1 July 2017.

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. One termination payment was made to a Senior Manager during the year, totalling $348,982. Sign on benefits also require the Board's approval. One sign on benefit was approved or made during the year. ME does not provide guaranteed bonus payments and as such none were made during the year.

The aggregate compensation made to the Senior Managers is shown in the tables below:

Table 1: Total value of remuneration awards for 2016 financial year*

	Unrestricted	Deferred
Senior Managers:	$7,918,479	$604,875
Fixed remuneration	$ 6,631,159	
Variable remuneration**	$ 1,287,320	$604,875
Material Risk Takers	Nil	Nil

* All remuneration, including deferred amounts, is cash.
** Variable remuneration was paid to 18 Senior Managers.

Table 2: Value of released and outstanding deferred variable remuneration

	Deferred remuneration released as cash	Outstanding deferred remuneration*
Senior Managers:	$381,325	$858,185

* Outstanding deferred remuneration has been reduced by forfeitures during FY16 and includes total outstanding awards from FY14 and FY15.

Table 3: Total value of remuneration awards for 2015 financial year*

	Unrestricted	Deferred
Senior Managers:	$7,328,545	$556,620
Fixed remuneration	$5,932,880	
Variable remuneration**	$1,395,665	$556,620
Material Risk Takers:	Nil	Nil

* All remuneration, including deferred amounts, is cash.
** Variable remuneration was paid to 16 Senior Managers.