APS 330 FY17 Remuneration Disclosures

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

ME aims to provide rewards that attract, retain and motivate employees to achieve the Bank's purpose and overall objectives within its risk appetite and risk framework. The Reward Framework defines the Bank's overall philosophy, and encompasses elements beyond fixed and variable remuneration.

ME has implemented remuneration programs that endeavour to reflect the appropriate balance of individual, team and organisational performance, and that are market competitive. All remuneration programs are designed with a strong awareness of the need for prudent risk-taking, within ME's risk appetite.

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

Benchmarking

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 six 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 remuneration, including superannuation, levels and policy guidelines; ensure there is a robust and effective process for evaluating the performance of the Board, its committees and individual directors; assist the Board in relation to executive (including the CEO) succession planning to meet the Bank's longer term strategic goals; and provide a formal forum for communication between the Board and management on human resource matters. The Committee may make recommendations to the Board in connection with the fitness and propriety of directors.

Mr Ken Hodgson remained chair of the Committee during this year, which is comprised of independent non-executive directors. Mr Garry Weaven and Ms Anne de Salis were replaced on the Committee in late 2016 by Mr Justine Milne and Ms Elana Rubin. Mr Milne took leave of absence from 1 April and was replaced by Mr Combet.

Non-executive directors of the Company are remunerated by way of one base fee (inclusive of superannuation at 9.5% for the period). During the year, the Non-Executive Director Remuneration Policy provided 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 (pro-rated for the time spent on the Committee). For the year, the Chair received an additional $13,500 for his role, and the members $6,750 each.

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.

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 Committee and the Board Risk and Compliance Committee (RCC) before it is submitted to the Board for approval. It was last reviewed in October 2017. The RCC reviews the Policy to assist the Committee in respect of the management of risk through the application of 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 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 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.

Adjustments for risk management and ME Values

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 remuneration arrangements and adjustments for employees are approved by the CEO based on the recommendation and approval of the Executive Team with Board oversight.
- The total pool available for variable, STI, remuneration for employees (including the CEO and Executive team) participating in this program is approved by the Board.
- The design of any Sales Incentive programs is approved by the Committee.

Remuneration of senior managers and material risk takers

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 19 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.

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 and ME determines the target remuneration mix for each job type based on market competitive practices.

Fixed remuneration is made up of salary and superannuation contribution; variable remuneration is made up of short term incentives (STI), 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:

	What determines the remuneration outcome?	
Employee Group	**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 Gr. 9	CEO & Executive Review, based on market data	STI based on organisational and individual performance measures.
Employee Gr. 1 to 9	Enterprise Agreement	STI based on organisational and individual performance measures.
Sales Employee	Enterprise Agreement	Performance based sales incentive

Fixed remuneration

Fixed remuneration 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 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 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 the STI. These programs reward sales results achieved within the appropriate risk and values frameworks. The sales incentive programs are currently under review in light of the Australian Bankers' Association (ABA) Sedgwick review.

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 Risk Management Framework. One tool the Bank employs to manage risk when providing the opportunity for variable remuneration is the application of deferral to some STI, and in the case of the CEO, LTI amounts in accordance with the Remuneration Policy. Board approval is required prior to the release of any deferred incentive amounts.

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 results from the CEO 360° 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.

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 from the Executive 360º feedback, HowÜDoin? survey results and risk scorecard 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 retrenchment, retirement or death may be allocated a pro-rata payment based on their service and performance during the financial year.

Long-Term Incentives (LTI)

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 complement fixed pay and short term incentives providing a balance of reward for short-term business achievements and reward for growth in shareholder value and financial soundness in the medium- to long-term, 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 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 as two thirds of the total amount awarded, paid after the three year performance period, and one-third of the total amount awarded, deferred for a further 12 month period.

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

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 deferral threshold of a total STI of $30,000.

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 deferral threshold of a total STI of $30,000.

Employee STI – 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 during the financial year.

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.

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.

A termination payment was made to one Senior Manager during the year, totalling $72,573.

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. 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 the financial year is shown in the tables below:

Table 1: Total value of remuneration awards for FY17*

	Unrestricted	Deferred
Senior Managers:	$8,724,032	$1,342,090
Fixed remuneration	$6,542,456	
Variable remuneration**	$2,181,576	$1,342,090
Material Risk Takers	Nil	Nil

* All remuneration, including deferred amounts, is cash.
** Variable remuneration was paid to 19 Senior Managers.

Table 2: Value of released and outstanding deferred variable remuneration

	Deferred remuneration released as cash*	Outstanding deferred remuneration**
Senior Managers:	$660,045	$995,652

* Deferred remuneration released as cash comprises FY15 tranche 2 and FY16 tranche 1.

** Outstanding deferred remuneration has been reduced by forfeitures during FY17 (of which there were none) and includes total outstanding awards from FY16 (tranche 2) and FY17 (tranches 1 &2).

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