

Introduction

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

Remuneration Framework

ME Bank 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 is a sub-set of the Reward Framework.

ME Bank 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 Bank's risk appetite.

ME Bank 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 Bank will ...	Because it will...
Support the strategy	Encourage performance and behaviours that contribute to the overall achievement of the Bank's long-term business strategy. Link reward to the generation of sustainable value for the organisation and its shareholders
Align to our Values	Encourage performance and behaviour that is consistent with the Values and culture of ME Bank
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 Bank's risk appetite Encourage behaviours that support the Risk Management Framework Encourage actions clearly focused on ME Bank's long-term financial soundness

Benchmarking

Given the external environment in which ME Bank 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 Bank needs to understand the relativity between jobs at ME Bank and jobs in the external market. ME Bank uses a job evaluation system to understand the size of a job. The size of the job reflects the skills 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 Bank 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 Bank with the capacity to pay above median where external market pressures or unique internal needs require this.

People and Remuneration Committee

The ME Bank 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 Garry Weaven is the chair of the Committee, which is comprised of independent non-executive directors, being Ms Anne de Salis and Messrs Bernie Fraser and Brian Pollock during this year.

Non-executive directors of the Company are remunerated by way of one base fee (inclusive of the Superannuation Guarantee Charge payment, at 9.25% 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 \$12,500 for his role, and the members \$6,250 each.

Remuneration Policy

The Bank has a Remuneration Policy (Policy) approved by the Board, which is reviewed annually. It was reviewed by the Committee in November 2013, when it was amended to reflect the creation of the ME Bank Reward Framework. The Policy was simplified to focus on approval responsibilities and addressing APRA requirements. The updated Policy was approved by the Board in December 2013.

The Policy applies to all permanent ME Bank 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 Bank'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 Bank's long-term financial soundness and the Risk Management Framework.

The Policy provides the governance framework ME Bank 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 risk and financial control personnel - to which special arrangements may need to be made.

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 Bank, 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 Bank or any subsidiary of ME Bank ("ME Bank company"); or
- any senior manager of any ME Bank company (as determined in accordance with the policy);
- an Auditor who provides any report in relation to ME Bank 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 Bank company where those activities may materially affect the whole or a substantial part, of the business of ME Bank 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 Bank.

During the year there were 20 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 Bank understands the importance of prudent risk-taking within ME Bank's risk appetite. Any Variable Pay and performance-based components of remuneration are designed to encourage behaviour that supports ME Bank'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 Bank 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	-

¹Employees 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 Bank. 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 2013 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.

Strategic Priorities and Enablers (20%): Delivery of the Strategic Priorities and Enablers success measures as reported through monthly Board Report.

Leadership Contribution (10%): The results from the CEO 360° feedback and Board input are 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%): The results from the Executive 360° feedback, Vibe survey and contribution to the Strategic Priorities and Enablers 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 for the first time 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.

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.

The Board has the authority to adjust down, including adjusting to zero, any deferred amounts to protect the financial soundness of ME Bank 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 Bank's business activities, the risk related to ME Bank'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 Bank Values and compliance with the Risk Management Framework.

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

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 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 concluding 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 will be 1 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 Bank 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. Sign on benefits also require the Board's approval. No sign on benefits were approved or made during the year. Three termination payments were made to Senior Managers during the year, totalling \$1,437,208.

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

Table 1: Total value of remuneration awards for 2014 financial year*

	Total Value	Unrestricted	Deferred
Senior Managers:	\$6,517,862	\$6,517,862	
Fixed remuneration	\$5,689,846	\$5,689,846	Nil
Variable remuneration**	\$828,016	\$828,016	\$433,500
Material Risk Takers	Nil	Nil	Nil

*All remuneration is cash based.

** Variable remuneration was paid to 15 Senior Managers.

Table 2: Total value of remuneration awards for 2013 financial year*

	Total Value	Unrestricted	Deferred
Senior Managers:	\$5,613,443		
Fixed remuneration	\$5,189,553	\$5,189,553	Nil
Variable remuneration**	\$423,890	Nil	Nil
Material Risk Takers	Nil	Nil	Nil

*All remuneration is cash based.

** Variable remuneration was paid to 15 Senior Managers.