

The year of

re

Annual Review

2016

ME AWARDS

2016



Money Magazine
Cheapest Credit Card Bank
Bank Category Account



Mozo Experts
Choice Awards
Australia's Best Bank



Mozo Experts
Choice Awards

- Savings Bank of the Year
- Online Savings Account - Best value Savings Account - ongoing Bonus Rate
- Everyday Transaction Account - Best Value Fee Free Bank Account
- Term Deposit - Best Value Term Deposit - Short, Medium & Long Term
- Business Term Deposit - Best Value SMSF Term Deposit - Short, Medium and Long Term
- Business Online Savings Account - Best Value SMSF Savings Account - Base Rate



Financial Review
Smart Investor
Blue Ribbon Award
Best savings account



Financial Review
Smart Investor
Blue Ribbon Award
Online bank of the year

CONTENTS

01 MESSAGE FROM THE CHAIRMAN AND CEO	2
02 ABOUT ME	4
03 2016 PERFORMANCE	7
04 PRIORITIES	16
05 GOVERNANCE	21
06 PEOPLE	35
07 COMMUNITY	41
08 ENVIRONMENT	43
09 KEY FINANCIAL INFORMATION	45

01

MESSAGE FROM THE CHAIRMAN AND CEO

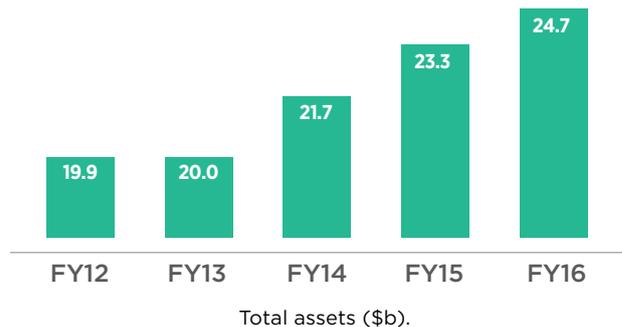
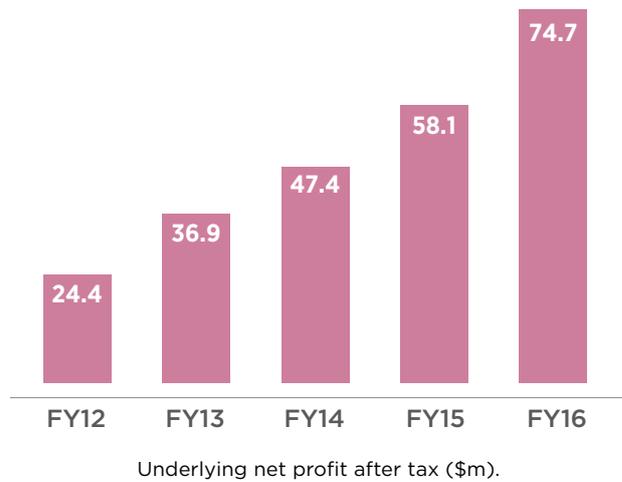
ME achieved success on many fronts this year, maintaining its long-term growth path fuelled by improved systems and processes, increased digital capability and a deeper relationship with our industry super fund and union partners.

ME's financial performance was strong, with underlying earnings (NPAT) up 29% on the prior year to \$74.7 million, largely driven by a 6% increase in ME's total assets to \$24.7 billion, with home loan portfolio growth in line with market growth. Our home loan settlements of \$2.6 billion in the second half of the year was a record for the Bank and an indicator of the momentum ME is bringing into FY17.

ME's cost-to-income ratio, a key measure of operational efficiency, was down 270 basis points to 65.8%, return on equity increased 80 basis points to 8.2% and customer numbers were up 8% to 365,520 – the last driven by growth in key products, including home loans, savings accounts, the Everyday Transaction Account, and credit cards.

It was a year that saw us build on the increased capabilities afforded by our technology transformation, with the release of a range of fresh, innovative and competitively priced products, including the 'Frank' co-branded credit card, a new Everyday Transaction Account card called Buck, and a new Online Savings Account.

Our aim of providing a great service experience to customers was supported by the launch of our new mobile banking app. More than 60,000 customers have downloaded the app since launch, which has paved the way for our next initiative – to streamline superannuation and banking balances on a single-view platform to boost industry fund members' engagement with their superannuation.



As part of our mandate to help Australians get ahead, we also launched our financial wellness program Ed. The program helps employers improve employee engagement and productivity, and take-up has been impressive, with 13 funds and over 500 employers launching Ed in their workplaces.

Our Member Benefits Program, which capitalises on our unique relationship with the industry super fund and union network, grew to a record participation of 106 industry super funds and unions, and is currently generating 11% of ME's home loan settlements.

Our success hasn't gone unnoticed. Earlier this year, we were crowned 'Australia's Best Bank' by Mozo's 2016 Experts Choice Awards and we won 'Online Bank of the Year' and 'Best Savings Account' at the AFR Smart Investor's 2016 Blue Ribbon Awards.

ME continues to build on its recent technology transformation project and the next three years will see a further commitment to winning new customers. Our strategy is underpinned by three focus areas: the creation of a highly efficient home loan business; the delivery of a simplified banking experience for customers; and fully leveraging the unique opportunities afforded by our industry super fund ownership.

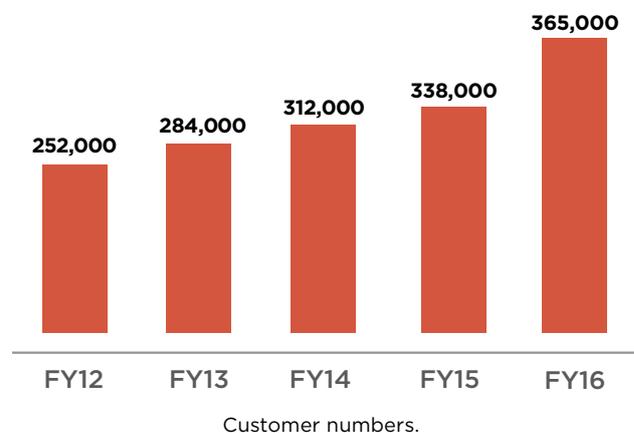
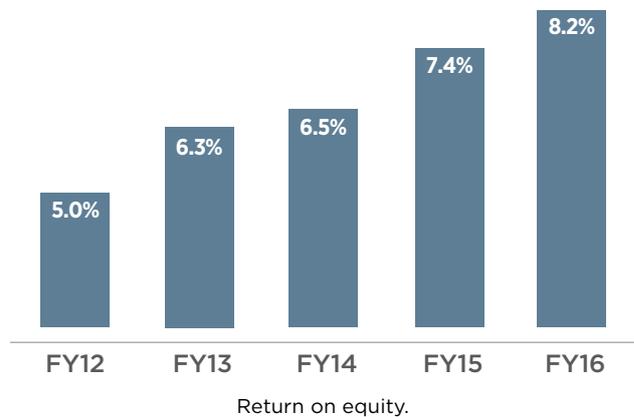
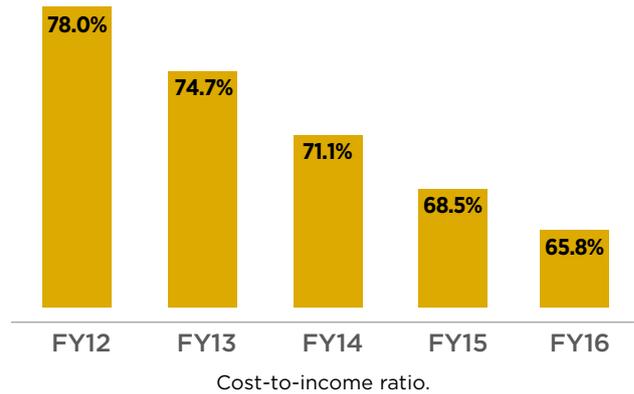
ME's performance over the past year confirms the Bank's growth strategy is on track and we will continue to focus on providing financial and strategic value to our industry super fund shareholders and the broader stakeholder network.



Ken Hodgson
Chairman



Jamie McPhee
Chief Executive Officer



02

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 full range of banking products and services to everyday Australians. We are regulated by the Australian Prudential Regulation Authority (APRA) and like all banks, our customers' deposits are protected by the Government Guarantee up to \$250,000.

ME's purpose is still to help all Australians get ahead. Today, that means giving them ways to get more from their savings, pay less on loans and cut down on fees through our suite of personal banking products including home loans, transaction and savings accounts, credit cards, personal loans and term deposits. We also have an online school of money called Ed, to equip Australians with the tools to spend wiser and save smarter.

Our benefits go back to the 29 industry super funds that own us, which are listed on the right.



Figure 1 - The 29 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. We are committed to providing products that enable people to meet their financial goals, including achieving their dream of owning a home.

We distribute these products through a variety of channels designed to meet the needs of the customer. Customers can open products online and over the phone. The Bank also has over 70 Mobile Lenders who specialise in home loans and visit customers at a time and place convenient to the customer. ME also distributes its home loans through a national network of mortgage brokers and aggregators.

Personal banking products

- Home and investment property loans
- Credit cards
- Personal loans
- Transaction accounts
- Cash management accounts
- Online savings accounts and term deposits.

Business products

- 11am account
- Term deposits
- Electronic certificates of deposit
- Business online savings accounts
- Cash notice account.

Servicing customers

- Australian-based national customer contact centre
- Internet banking
- Mobile app
- Broker network.

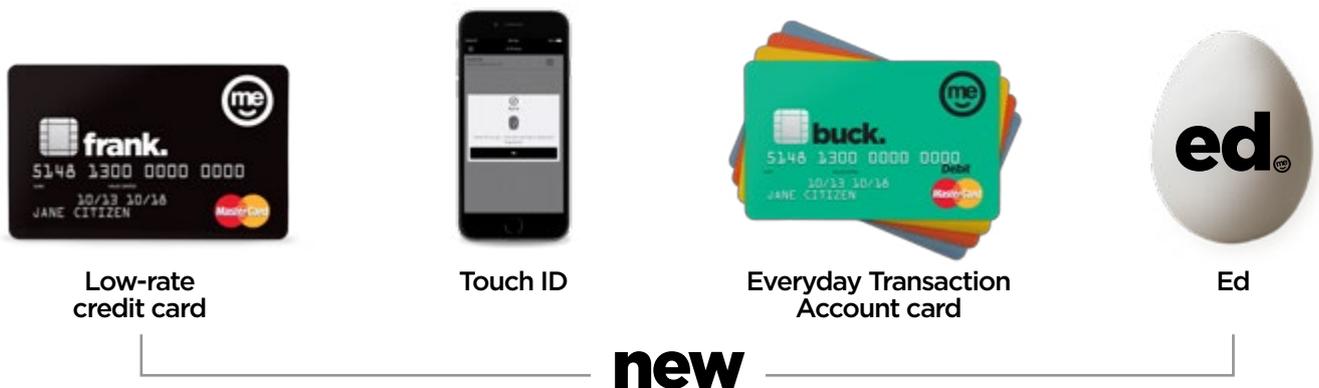


Figure 2 - ME's new products in FY16.

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 we offer a suite of banking products and services to meet the needs of our varied customer base.

For customers looking to purchase their own homes, our core home loan products offer competitive rates. For customers who are looking to save and invest as they transition to retirement, we offer a competitive range of retail deposit products and innovative cash solutions in conjunction with industry super funds.

Over the last financial year, ME grew its customer base by 8%, from 338,000 at the end of June 2015 to over 365,000 in June 2016 (refer to Figure 3 below). This growth is reflective of the breadth and competitiveness of the ME product offering.

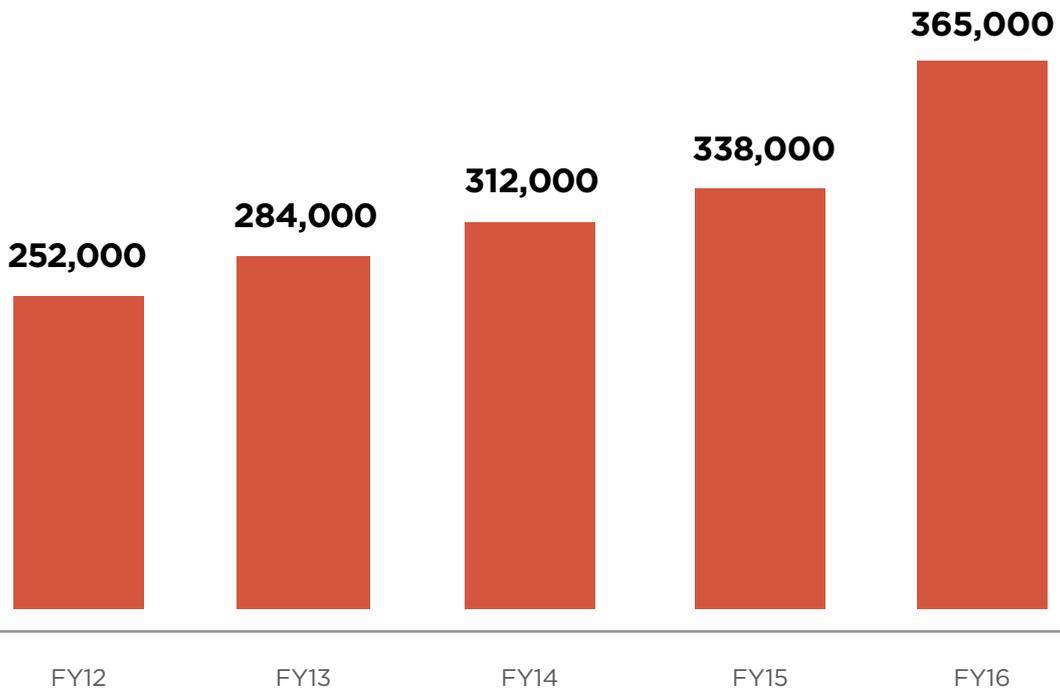


Figure 3 - Customer numbers.

03

2016 PERFORMANCE

OVERVIEW

The financial results for the full year represent strong growth on the previous year across all key metrics, as detailed in our corporate scorecard (refer to Table 1 for details).

Highlights for FY16 were:

Underlying net profit after tax (NPAT) was \$74.7 million, an increase of 29% on the previous financial year.

Return on equity increased by 80 basis points to 8.2%, continuing the trend towards the medium-term target of 10%.

Total assets grew by 6% to \$24.7 billion.

Customer deposits grew by 19%, reflecting the ongoing diversification of the funding profile.

Customer numbers increased by 8% to over 365,000 customers.

FINANCIAL PERFORMANCE

ME's underlying NPAT for the year ended 30 June 2016 was \$74.7 million, 29% up on the previous year, reflecting home loan portfolio growth and a stable net interest margin. ME's statutory profit after tax was \$76.8 million, down 1% on the previous year (refer to Tables 1 and 2).

Key metrics	Year ended 30-Jun-16	Year ended 30-Jun-15	Change
Profit - underlying (after tax)	\$74.7m	\$58.1m	29%
Profit - statutory (after tax)*	\$76.8m	\$77.8m	-1%
Return on equity	8.2%	7.4%	+80bps
Net interest margin	1.55%	1.53%	+2bps
Cost-to-income	65.8%	68.5%	-270bps
Total on and off balance sheet assets	\$24.7b	\$23.3b	6%
Lending assets on balance sheet	\$19.5b	\$17.8b	10%
Customer deposits	\$10.5b	\$8.8b	19%

Table 1 - FY16 key financial metrics.

* As statutory profit includes realised and unrealised gains and losses on hedging instruments (primarily interest rate swaps), ME uses underlying net profit after tax as its key profit measure.

Effective 1 July 2014, the Bank adopted hedge accounting with any mark to market movement of interest rate swaps from that date recognised in the cash flow hedge reserve in the equity section of the balance sheet. The 2015 statutory profit was favourably impacted by the reversal of unrealised losses on the hedge book from prior years of \$28.1 million (\$19.7 million after tax).

Reconciliation of statutory profit to underlying profit	Year ended 30-Jun-16 (\$m)	Year ended 30-Jun-15 (\$m)
Net profit after tax (underlying)	74.7	58.1*
Hedge revaluation gain/(loss)	2.1	19.7
Net profit after tax (statutory)	76.8	77.8

Table 2 - Reconciliation of statutory profit to underlying profit.

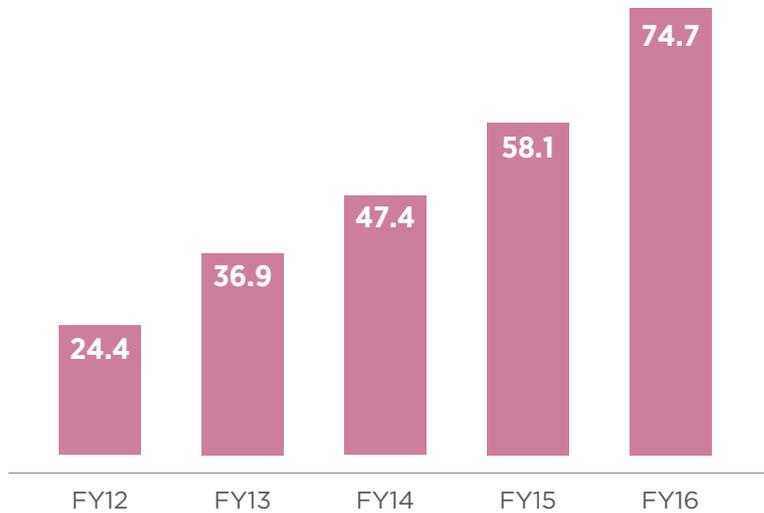


Figure 4 - Underlying net profit after tax (\$m).

* Underlying profit for 2015 has been restated from \$60.0 million due to amended recognition criteria with respect to certain fee income earned from loans and advances recognised in the financial years ended 30 June 2014 and 2015. Refer to section 9 Key Financial Information for further details.

OPERATIONAL EFFICIENCY

The primary measure of ME's operational efficiency is its cost-to-income ratio. In recent years, this ratio has improved from 78.0% to 65.8% (refer to Figure 5). Further reductions will be achieved through economies of scale and efficiency-enhancing investments, resulting in revenue growth exceeding expense growth.

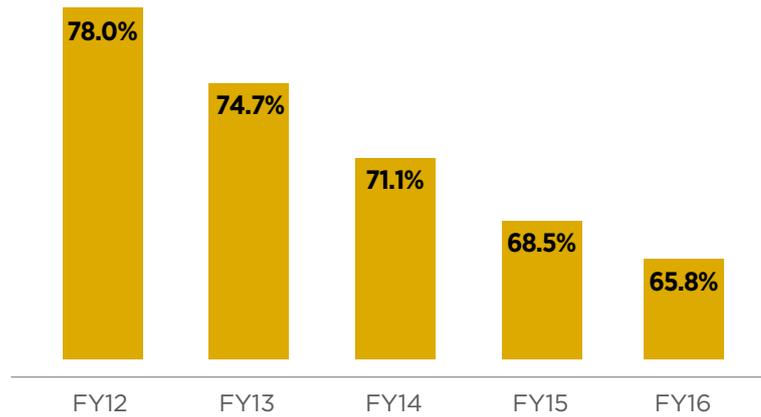


Figure 5 - Cost-to-income ratio.

BALANCE SHEET

The Bank commenced originating lending assets on balance sheet in July 2008 and this is reflected in the change in composition of revenue as management fee income is replaced by net interest income (see Figure 6). In 2016, net interest income increased by 13%, or \$35.6 million, to \$314.6 million. Other income is predominantly fee income; other income in 2014 included an unrealised loss on hedging instruments of \$27.5 million which reversed in 2015 (gain of \$28.1 million).

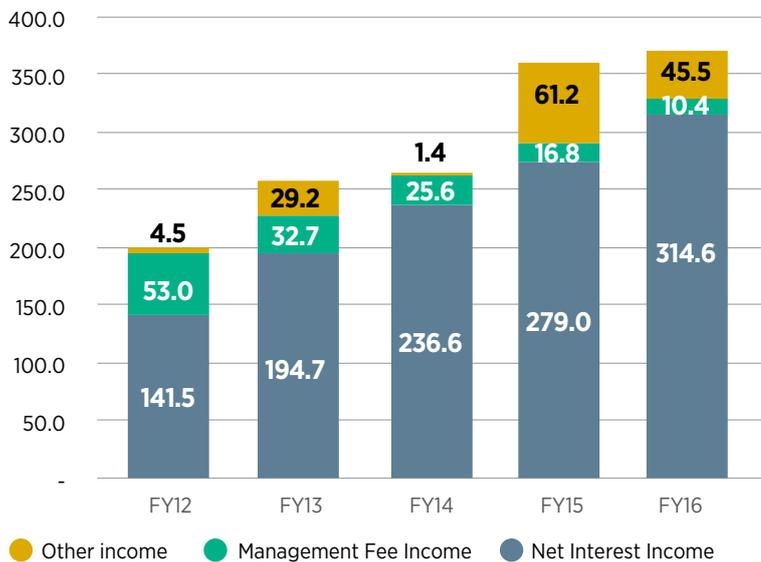


Figure 6 - Revenue (\$m).

ASSETS

Total assets grew by 6% to \$24.7 billion in FY16. This follows growth in the prior year of 7%.

Total on-balance sheet assets grew by 9% during the year, from \$21.2 billion to \$23.2 billion. This growth was driven predominantly by an increase in lending assets (loans and advances) of \$1.7 billion and an increase in investment assets of \$0.2 billion.

Home loans remain the core focus of the Bank, and account for 97% of all lending assets. In FY16, the Bank settled over 16,000 new home loans totalling \$4.6 billion.

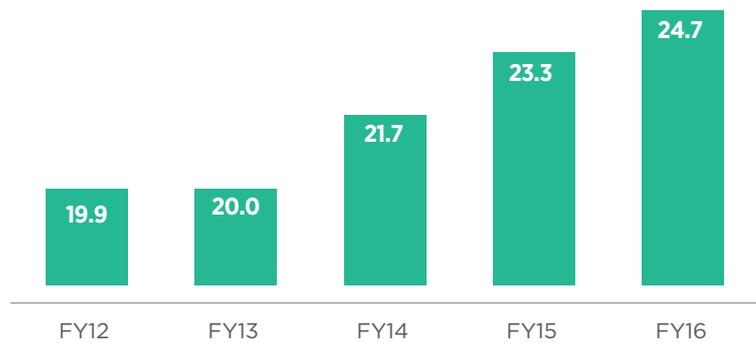


Figure 7 - Total assets (\$b).

FUNDING

Customer deposits increased 19% to \$10.5 billion over the year, representing 48% of total funding, while wholesale funding increased 3% to \$6.2 billion, representing 29% of total funding, as at 30 June 2016.

Securitisation continues to be an important source of funding (refer to Figure 8), representing 23% of total funding. In July 2015, the SMHL Series Securitisation Fund 2015-1 was launched and issued \$1.5 billion at a margin of 95 basis points on the most senior (AAA rated) tranche, which was 92% of the transaction.

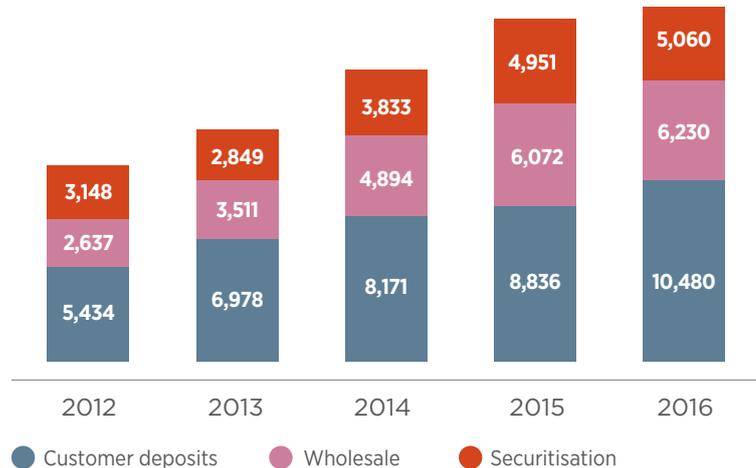


Figure 8 - Funding mix (\$m).

CAPITAL MANAGEMENT

The Bank manages its capital recognising the expectations of shareholders, the requirements of APRA and the need to maintain credit ratings commensurate with the nature of the Bank's business. The capital of the Bank is the sum of Tier 1 and Tier 2 capital, net of all specified deductions and amortisation, subject to the limits that apply under APRA Prudential Standard (APS) 111 'Capital Adequacy: Measurement of Capital'.

Management has developed and employed systems and processes to identify and measure risks to ensure that the Bank is appropriately capitalised. In managing its capital, the Bank is committed to increasing the internal generation of capital proportional to 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 ensure that 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.

Capital adequacy ratio

The internal capital adequacy ratio set by the Board remained at 11.5% during the financial year ended 30 June 2016.

In December 2015, the Bank issued 423,191 ordinary shares, raising \$37.9 million in capital.

	FY16 %	FY15 %
Risk-weighted capital adequacy ratios:		
Tier 1	9.9	9.8
Tier 2	4.5	5.0
Total capital ratio	14.4	14.8

Table 3 - Capital adequacy ratios.

At 30 June 2016, the Bank also had pre-committed ordinary share capital from its existing shareholders of \$109 million. This pre-committed capital can be called and drawn down within five business days.

OTHER ACHIEVEMENTS

1. Brand campaign increased awareness by 28%

ME launched a new external brand campaign, showcasing the Bank's new brand identity for the first time. To date, the campaign spans across TV, outdoor, radio, online and social media and has resulted in a 10 point increase in prompted awareness from 40% to 50%, surpassing our initial campaign target of 45% prompted awareness.

The brand campaign was highly effective, generating an increase in prompted awareness of 4.77% for every \$1 million dollars spent, higher than other banks' campaigns tested in the same period. Additionally, key brand associations with ME increased positively - particularly around being regarded as 'a bank on the rise' - which is an indicator of momentum and a predictor of market share gain.



2. ME's Member Benefits Program grows

The Member Benefits Program is 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, ME provides a banking alternative for industry super fund and union members, where members can access special offers, discounts and bonuses across the ME retail product suite. This program taps into ME's unique access to industry super fund members, and as of June 2016, the program had been promoted to over 600,000 Australians.

In its first 12 months, participation in the Member Benefits Program grew from 7 to 20 funds and from 9 to 86 unions - resulting in a record 106 funds and unions participating in the program. Over 3,000 fund and union members have received a member benefit, with the Member Benefits Program currently generating 11% of ME's home loan settlements.

me

A bank built for you.

Did you know that ME is a bank built to help Australians get ahead?
And as a member of a union you're able to access exclusive benefits and special offers via our Member Benefits Program.

More for union members.
In the past, members have enjoyed:

- discounts on home loans
- cash back on credit cards
- bonuses on term deposits

And the great news? We refresh our member offers regularly.

What are you waiting for?
Take a look at what's available to you right now at mebank.com.au/union

Terms, conditions, fees and charges apply. Applications for credit are subject to approval. This is general information only and you should consider if these products are right for you. Members Equity Bank Ltd ABN 56 CVO 887 676 Australia Credit Licence 229500. 215200/GENERIC-OTHER/06M/13

get more house.
discount¹ Basic Home Loan rate
3.99%
variable rate for new owner occupiers max. 80% LVR
4.00%
comparison rate²
Get a 0.50% p.a. discount off the Basic Home Loan variable reference rate. Available on new owner occupied mortgages with a max. 80% LVR. Apply between 7 March - 30 June 2016 and settle by 30 September 2016.
[find out more](#)

get more karma.
\$50
to fund breast cancer research

ME is a different kind of bank. We were created by industry super funds - that's why we're always looking to help out members like yourself with special offers that go above and beyond.

Looking to get more? Get in touch with ME.
[find out more](#)

Refinance to a ME variable rate Flexible Home Loan with a Member Package¹ and you could receive

0.10% p.a. extra discount

off the rate just because you're a union member.

apply between 11 July and 2 October 2016

[find out more](#)

¹ a Member Package annual fee of \$395 applies. Credit criteria, terms, conditions, fees and charges apply. Credit provided by Members Equity Bank Ltd Australian Credit Licence 229500.

3. Launch of co-branded credit cards

The first Frank&co co-branded credit card campaigns were launched to members of AustralianSuper, CareSuper, Cbus and Hostplus. ME's low credit card rate of 9.99% – 9% lower than the market median – allowed members to save thousands of dollars in interest. ME received more than 1,400 applications for the co-branded credit cards. The campaign is an important ongoing source of customer acquisition for the Bank and provides valuable cross-sell opportunities.

It also provides value to our industry super fund shareholders by boosting their brand awareness with their members and providing them with a reason to engage with their members.



4. New Buck card launched

The new Everyday Transaction Account card, Buck, was launched in September 2015 and forms the basis of the co-branded default membership card for industry super funds. The card can be issued with a fund's logo and member's super fund account number, and acts as a membership card. It can also be activated as a transaction account debit card with no account-keeping fees or ATM fees. Buck also forms the basis of our network data strategy, where behavioural data can be shared with the funds to enable them to better engage with their members.



5. Ed - new financial education tool

ME launched its Employer Engagement Proposition in partnership with several industry super funds. At the heart of the Employer Engagement Proposition is a financial wellness program called Ed, which is a broad-based financial education tool that can help increase employee engagement and retention, and gives industry funds another way to build stronger relationships with employers.

Ed includes 30 educational episodes covering everything members need to know about money - home buying, budgeting, money basics, managing debt, moving out, living with a home loan, understanding credit reports, and investing among them. Ed replaced our Building Financial Confidence program and is part of ME's commitment to help Australians get ahead.

The Employer Engagement Proposition can be individually tailored to suit each workplace and its employees' different life stages, and can be delivered online or face-to-face. It has been launched with 13 funds and presented to over 500 employers, with Ed attracting over 2,500 users and 4,000 sessions.



04

PRIORITIES

Our purpose is to help all Australians get ahead.

We will do this by building an experience that helps customers achieve their personal best, thus growing the bank to relevance – one million customers*.

STRATEGIC PRIORITIES

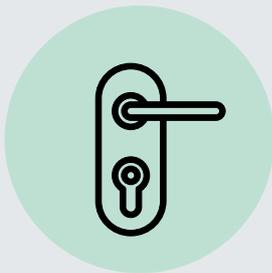
Business objectives

ME's core objective is to provide long-term strategic and financial value to our shareholders. Financial value will be achieved through growth in lending, supported by increased deposits and customer numbers, while we continue to improve our operational efficiency.

Strategic value will come from providing products and services that assist our shareholders retain and increase members and funds under management, and that will enable enhanced engagement with members. Central to our approach will be continuing to provide exclusive offers to our partner networks, including products and services that will help members get ahead financially.

Building blocks for success

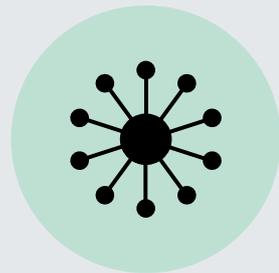
Long-term financial and strategic value will be underpinned by the three building blocks below.



Creating a highly efficient home loan business



Delivering a frictionless banking experience



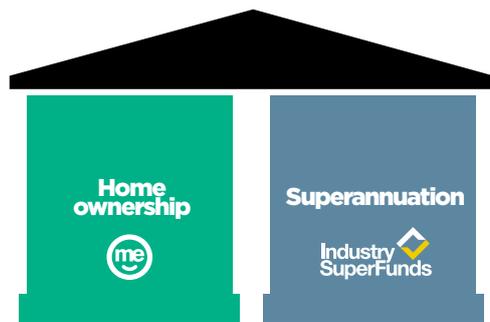
Leveraging the industry super fund network

1. Creating a highly efficient home loan business

Our purpose is to help all Australians get ahead. For more than 85% of Australians, their wealth is stored in their home and superannuation, and for that reason, ME will digitise and automate each stage in the process to provide a competitive and efficient mortgage process.

* We aim to grow to 500,000 customers by FY19.

85%
of Australians
wealth = home + super



Our purpose.

HELPING ALL AUSTRALIANS GET AHEAD

We will continue to automate and streamline the end-to-end home loan application process, including credit assessment, valuations and settlements – with the aim of providing same-day approval on 50% of our home loan applications by FY19.

Through the following initiatives in FY17, we will focus on building core digital capability to enable online mortgage applications and efficient mortgage processing. We will also commence decommissioning Ultracs – our legacy core banking platform.



Retail experience

Based on customer demand, ME's home loan application channels will continue to expand from our current face-to-face mobile banker model to include two new channels: phone and online applications.



Broker experience

By making it easier for brokers to interact with ME in a secure environment, we will improve engagement and efficiency for the broker network.



Automated credit assessment

We will enhance the quality and speed of home loan assessments using scalable, automated and integrated decision infrastructure.



Streamline processes

We will improve the processes and change management activities for our credit operations and settlements teams, which will in turn improve efficiencies and people capability as well as enable new digital processes to be implemented more effectively.



Lifecycle management

By improving how we manage our communication with customers, we will give them content that's more relevant to their situation and life stage.

2. Delivering a frictionless banking experience

We will put greater financial control in the hands of our customers, using technology to help them spend, save and live smarter.

Our customers will experience us as hyper-personalised and frictionless, as we provide financial coaching and a range of intuitive, self-service banking functions. The customer experience we are building is summarised below:



We're hyper-personalised.

We'll guide customers through

We start with one simple question: 'what would customers like to do?'

We then tailor the experience.

Tell us once

We never ask customers to give us information they've already provided.

We keep customers informed

We send customers alerts every step of the way, so they always know how their budget's tracking, when their pay hits their account or the status of their home loan application.



We're banking in an instant.

We're banking on the spot

Customers can top up their home loan or roll over their term deposit in minutes using internet banking.

We make it easy to self-serve online

We've made it easy for customers to do regular tasks online, anytime.

We're a yes (or no) on the spot

We do a comprehensive assessment and use the latest techniques to make sure we take everything into account.



We're frictionless.

We're here with help when customers need it

We're a digital bank. But that doesn't mean that we're absent. Our banking experts are never far away. Customers will be able to click to chat – or call, if that's what they prefer.

Our products are simple

Our banking works in the customer's favour, so they earn the most interest on their savings and pay the least on their debt.

We're paperless

Everything is electronic – right down to the customer's e-signature. If they need to prove their identity, customers can take a picture of their licence and send it through to us.

Leave the data gathering to us

No scrambling around for bank statements and pay slips – we collect the information so customers don't have to.



We're a financial coach.

We're focused on helping customers get ahead

We are creating 'Nudge', an automated budgeting tool that lets customers see a complete view of all their bank accounts – including accounts that aren't with ME. Customers can set up goals and we'll create a budget for them based on what people like them are likely to spend on, with key categories.

We're a Fitbit for finances

Once customers have established their budget, we send them regular 'nudges' to help them stay on track.

We're here to demystify banking

We've created Ed, an online financial education program with entertaining bite-sized videos on everything from budgeting and buying a home, to getting on top of debt.

3. Leveraging the industry super fund network

Our vision is to leverage the unique opportunity afforded by our industry super fund ownership to further build on the Bank's customer acquisition strategy. By leveraging the network, ME could reach half a million customers a year earlier than if we relied on the retail channel alone.

In FY17, our relationship with the industry super fund network will focus on the three key areas below:



Increasing member engagement

The product pipeline for FY17 includes the creation of Super and Banking Together (an integrated single view of super and banking balances for the joint member base of industry super funds and ME as referenced in the figure below) and the co-branded membership card, which doubles as a Buck debit card for an Everyday Transaction Account.



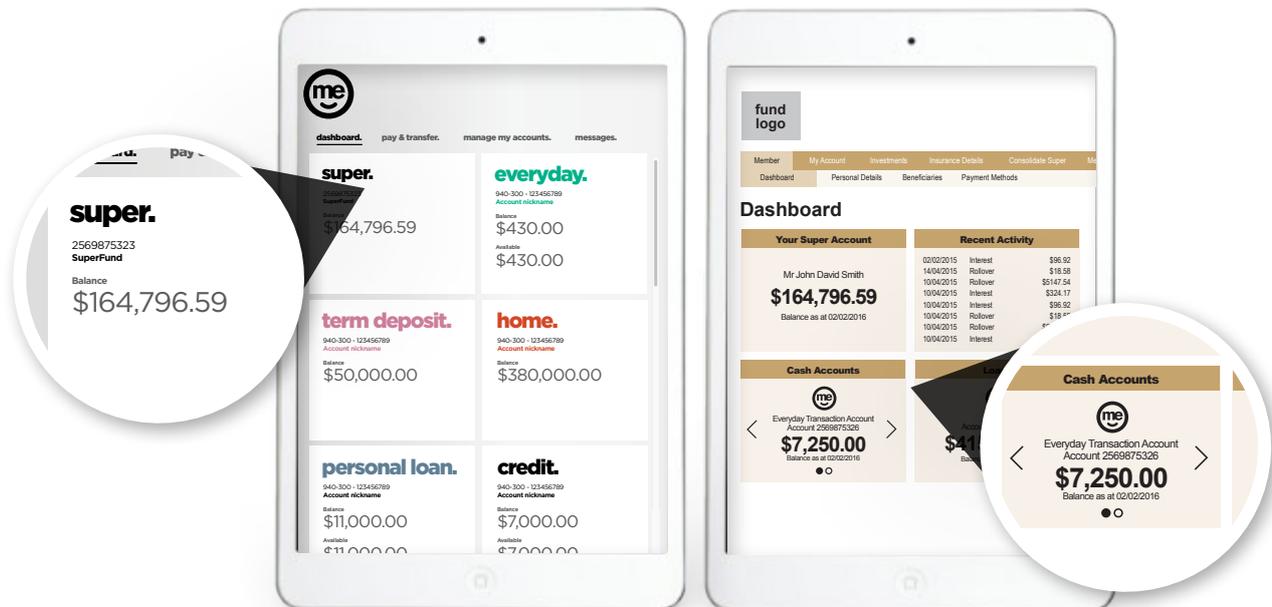
Creating products to give the Bank 'low-cost' access to funding

To address the issue of all-time low interest rates and diminishing returns available on wholesale cash investments for industry super funds, ME has developed the Super Cash Management Account, with fund members getting a retail-style return on their cash investments.



Product innovation

ME will work with interested industry super funds to commercialise shared equity loans for their members, which will help non-home owners into the property market, as well as develop and market an equity release product to members in retirement – one way that home-owning retirees can reduce their income gap, and fund capital expenditure such as housing maintenance or improvements, or large purchases like white goods and cars.

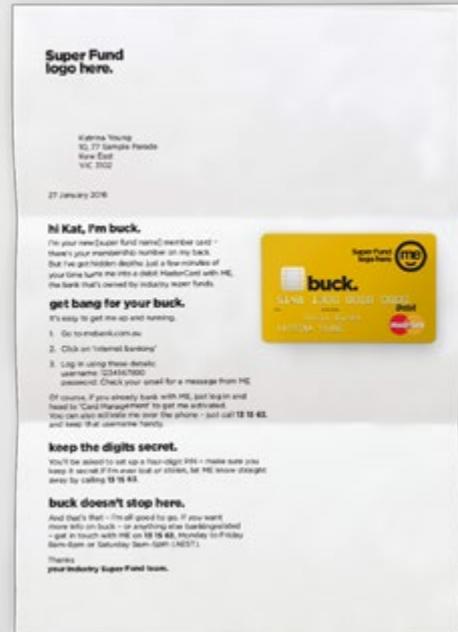


Co-branded membership card

ME is creating a new membership card that doubles as a Buck debit card for an Everyday Transaction Account (ETA). When a fund member gets their co-branded membership card, they'll be asked to activate their ETA online - and once it's activated they can start using it in minutes. The first co-branded cards will be rolled out in FY17, with the aim of bringing new funds on board for each quarter of FY18.

Here's a snapshot of the customer onboarding process:

01



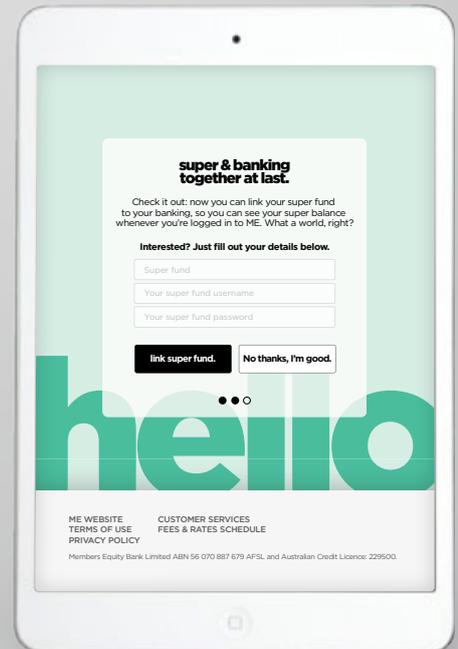
Kat, an ISF member, receives her new member card.

02



Kat logs into internet banking and takes a photo of her ID to verify her identity.

03



Kat's asked if she wants to link her super balance to her ME account so she can see it in internet banking.

05

GOVERNANCE

CORPORATE GOVERNANCE

ME is committed to fulfilling its corporate governance obligations and responsibilities in the best interests of the Bank and its shareholders. We believe 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 our customers and help all Australians get ahead.

In performing its role, ME's Board is committed to a high standard of corporate governance practice and fostering a culture of compliance which values ethical behaviour, personal and corporate integrity, accountability and respect for others.

Our approach to corporate governance takes account of a range of principles and frameworks including the ASX Corporate Governance Council 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.

This 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, as well as ensuring 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 2016, the Board comprised six independent Directors. Mr Ken Hodgson was appointed Chairman as of 1 January 2016. The appointment of Ms Cheryl Bart to the Board as of 1 July 2016 fills the casual vacancy arising following the resignation of Ms Sally Herman on 5 October 2015.

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 on the following page.

Attributes

- Commitment to the Bank's values
- Willingness to embrace change and resolve dilemmas
- Ability to confront and defuse political interference so that it does not prevent sound decision-making
- Ability to focus on the big picture and strategic context of decisions
- Capacity to build harmonious, productive working relationships
- Confidence to express views openly at all levels
- Strong desire to see the management team develop and succeed
- Ability to focus on the process by which results are achieved as well as the results themselves
- Ability to consider various alternatives when faced with complex situations
- Desire to contribute to long-term success as opposed to short-term expediency

Skills, knowledge and experience

- Retail banking
- Superannuation
- Industrial relations
- Human resource management
- Sales
- Marketing and branding
- Accounting and finance
- Risk management and controls
- IT
- Digital
- Governance
- Communications
- Auditing
- Compliance

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.

Table 4 - Board skills matrix.



Ken Hodgson – Chairman

Director since January 2012
Chairman since January 2016

In addition to his role as Chairman of the Board, Mr Hodgson is the Chair of the People and Remuneration Committee and the Nominations Committee. During the year, he was also a member of the Audit and Governance Committee and the Risk and Compliance 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.



Anne De Salis – Non-Executive Director

Director since May 2008

Ms De Salis is a member of the People and Remuneration Committee and Digital Committee. She is currently a Director of Superannuation Consumers' Centre and National Indigenous Pastoral Enterprises Board. She has a diverse career spanning the public and private sectors, with considerable experience in financial services, and has held senior executive/director positions with AMP, MBF Australia, the Commonwealth Treasury and the Office of the Prime Minister, Rt Hon Paul Keating.



Christine Christian – Non-Executive Director

Director since November 2012

Ms Christian was appointed the Chair of the Audit and Governance Committee and Chair of the Risk and Compliance Committee following Ms Herman's resignation. Ms Christian was also a member of the Digital Committee until November 2015. Ms Christian is an Independent Company Director; her current directorships include Powerlinx, Inc., State Library of Victoria, Sherpa Systems Pty Ltd, Lonsec Financial Group and Victorian Managed Insurance Authority. She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors – including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand.



Garry Weaven – Non-Executive Director

Director since April 2000
Chairman from February 2015 to December 2015

Mr Weaven is a member of the People and Remuneration Committee. He is the Chairman of Industry Super Holdings Pty Ltd (ISH) and other entities in the ISH Group, including IFM Holdings Pty Ltd and IFM Investors Pty Ltd, and is a Director of the New Daily Pty Ltd. Mr Weaven's background includes periods as Chairman of Pacific Hydro, Assistant Secretary of the Australian Council of Trade Unions (ACTU) and Senior Consultant to Westpac Financial Services.



Justin Milne – Non-Executive Director

Director since November 2012

Mr Milne is the Chair of the Digital Committee. He is the Chairman of NetComm Wireless Ltd and MYOB Ltd, a Non-Executive Director of Tabcorp Holdings Ltd, NBN Co, SMS Management and Technology Ltd and he is also President of Leichardt Rowing Club. He was also a Group Managing Director at Telstra and was responsible for BigPond Broadband and Telstra's media businesses. Prior to Telstra, he was the CEO of OzEmail and the Microsoft Network.

The Board was expanded on 1 July 2016 by the appointment of Cheryl Bart AO, whose experience is set out below.



Cheryl Bart AO – Non-Executive Director

Director since July 2016

Ms Bart is a member of the Risk and Compliance Committee and Digital Committee. She is currently a Non-Executive Director of SG Fleet Ltd, Audio Pixels Holdings Ltd, Football Federation Australia and Ted X Sydney, and is Trustee of the Prince's Charities Australia. She 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, Environment Protection Authority, Spark Infrastructure Ltd, SA Power, South Australian Film Corporation and Australian Broadcasting Corporation.



Greg Combet AM – Non-Executive Director

Director since November 2014

Mr Combet is a member of the Audit and Governance Committee and Risk and Compliance Committee. He is a Director of IFM Investors Pty Ltd and Greg Combet Pty Ltd, and a consultant to Industry Super Australia, amongst others. Mr Combet held various cabinet, ministerial and parliamentary roles within the Australian Government from 2007 to 2013 and was formerly Secretary of the ACTU and a director of AustralianSuper.

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 addition, each Director must satisfy the Board's Fit and Proper Policy (which requires that a number of external checks are undertaken at appointment and on an ongoing basis).

The Constitution provides, among other matters, that Directors may not hold office for more than three years without standing for re-election. Retiring Directors are eligible for re-election.

The Board's authority level is described in ME's Constitution and in the Bank's Authorities and Delegations Policy. The Board Charter sets out the roles and responsibilities of the Board and describes those matters expressly reserved for the Board and those delegated to management. The Board Charter, which is reviewed annually, and the Constitution are available on our corporate website www.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 and monitored. 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 Charter outlines the roles and responsibilities of the Board. This involves:

- Appointing and, if necessary, removing the CEO
- Reviewing and approving the Business Plan and budget
- Providing strategic direction to ME 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
- Forming a view about the risk culture of the organisation and providing direction on any actions the Board believes are necessary to ensure alignment between the risk culture and ME's risk appetite
- Setting ME's risk appetite and ensuring that ME has in place an appropriate risk management framework and processes which 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 ME's accounting and corporate reporting, including the external audit
- Assisting the CEO in creating the desired staff culture
- Fostering an environment of innovation and deep customer understanding
- Supporting the CEO in nurturing staff and developing succession plans
- Approving the remuneration framework
- Ensuring ME's shareholders are provided with the appropriate information in a timely manner
- Performing such other functions as are prescribed by law or assigned to the Board.

The Board meets regularly and follows meeting protocols designed to ensure that all Directors are appropriately informed and properly consider all agenda items.

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 within the Board and its Committees and between the Directors and management as well as 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 that 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. As part of the process of recruiting and evaluating suitable candidates for appointment as a Director, an external independent recruitment firm may be engaged.

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 satisfy 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 of ME recognises the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement, having regard to the best interests of the Bank and its stakeholders as a whole.

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. The Nominations Committee did not undertake an evaluation for FY16. A self-evaluation of performance of each of the Risk and Compliance Committee and People and Remuneration Committee was undertaken in February 2016. A self-evaluation of the performance of each of the Audit and Governance Committee and Digital Committee was undertaken in March 2016. The outcomes of the questionnaires were collated and the results were reported to the relevant Committee and the Board.

The Board self-evaluation was conducted in April 2016, with the results discussed at the May meeting. The Chairman also conducted one-on-one discussions with all Directors.

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. Our values contain a strong connection to diversity and inclusion, which are embedded in the culture and programs across the organisation. The Board's People and Remuneration Committee is overseeing the development of a plan for the Bank based on the principle of having 'an agenda of more than gender'. In 2016, in alignment with the Business Plan, ME will review and implement an updated action plan for diversity and inclusion at ME.

DELEGATED AUTHORITY

The 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 roles and responsibilities delegated to the Board Committees are captured in the Charters of each of the five established Committees.

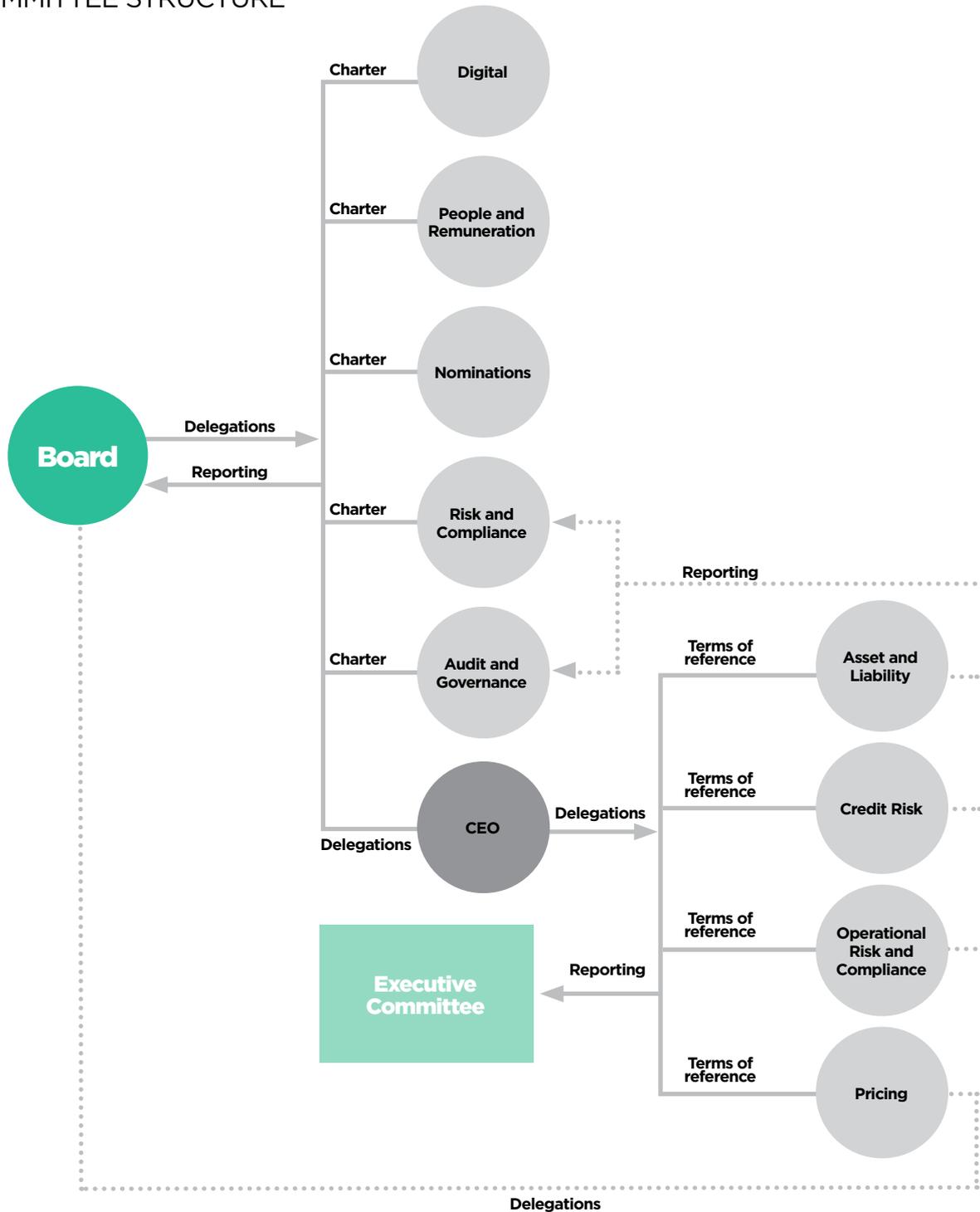
The Board has established an Audit and Governance Committee, a Risk and Compliance Committee, a People and Remuneration Committee, a Digital Committee and a Nominations Committee to assist with the execution of its responsibilities.

All Directors have a standing invitation to attend Committee meetings where there is no conflict of interest. The Charter for each of the Committees provides that they act in an advisory capacity to the Board or exercise a delegated authority. The purpose of each Committee is set out in the respective Committee Charters, which are available on our corporate website www.mebank.com.au.

The diagram on 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.

The Executive Committee, Asset and Liability Committee, Credit Risk Committee, Operational Risk and Compliance Committee and the Pricing Committee are not Board Committees, but sit beneath the CEO to implement Board-approved strategies, policies and management of risk for ME.

ME BOARD AND COMMITTEE STRUCTURE



The Authorities and Delegations Policy, approved by the Board, governs the relevant authorities and delegations for the operation of ME, including appropriate escalation and reporting to the Board.

ROLE OF THE CEO

The CEO is responsible for the leadership and management of the ME Group. 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 for 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 Board also continues to actively listen to the needs of its employees through the annual howÜdoin? employee engagement survey.

CONFLICTS OF INTEREST

Directors have a duty not to 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 and 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 that 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 2016 Annual Financial Report.

The Charter of the Audit and Governance Committee provides that it assists 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, and at least one member of the Committee shall have 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 Charter is available on our corporate website www.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.

The Board has delegated responsibility to the Audit and Governance Committee for ensuring that ME has in place, and that ME employees are aware of, policies and procedures for ME employees to submit in a confidential manner information about accounting, internal control, compliance, audit and other matters about which the employee has concerns.

In addition to this open communication, ME has established the Speak Up Policy to give 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 if the person wishes to make the report anonymously.

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. Our external auditor is Deloitte Touche Tohmatsu and 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 annual general meeting (AGM) and is available to answer shareholder questions about the conduct of the audit and 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 to be prepared, 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.

As in past years, PricewaterhouseCoopers (PwC) was commissioned to prepare a valuation of ME as at 30 June 2016. Copies of the valuation are made available to all shareholders.

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.

We diligently release financial information, including our Business Plan, Valuation, half and full-year financial results and APRA regulatory disclosures. 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 and is generally held in November. Shareholders are encouraged to attend and actively participate in our AGM; those who are unable to attend the AGM are able to lodge their proxies through a number of channels.

Our corporate website www.mebank.com.au provides detailed information about our business and operations. Details of ME's Board Members and Executive team can be found here. Information about our 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.

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 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 our management of all material risks, to help ensure we meet both our 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 our 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 our 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 risks, the relative distribution of risk exposures, and develop and apply meaningful risk appetite limits for our 21 operational risk classes
- Monitor our risk exposures to our risk limits and provide relevant reporting and insight, for management, Board and regulators
- Ensure clear accountability for the key controls on which we rely to operate an effective business and meet our regulatory and contractual obligations
- Ensure adequate and effective business continuity and disaster recovery 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.

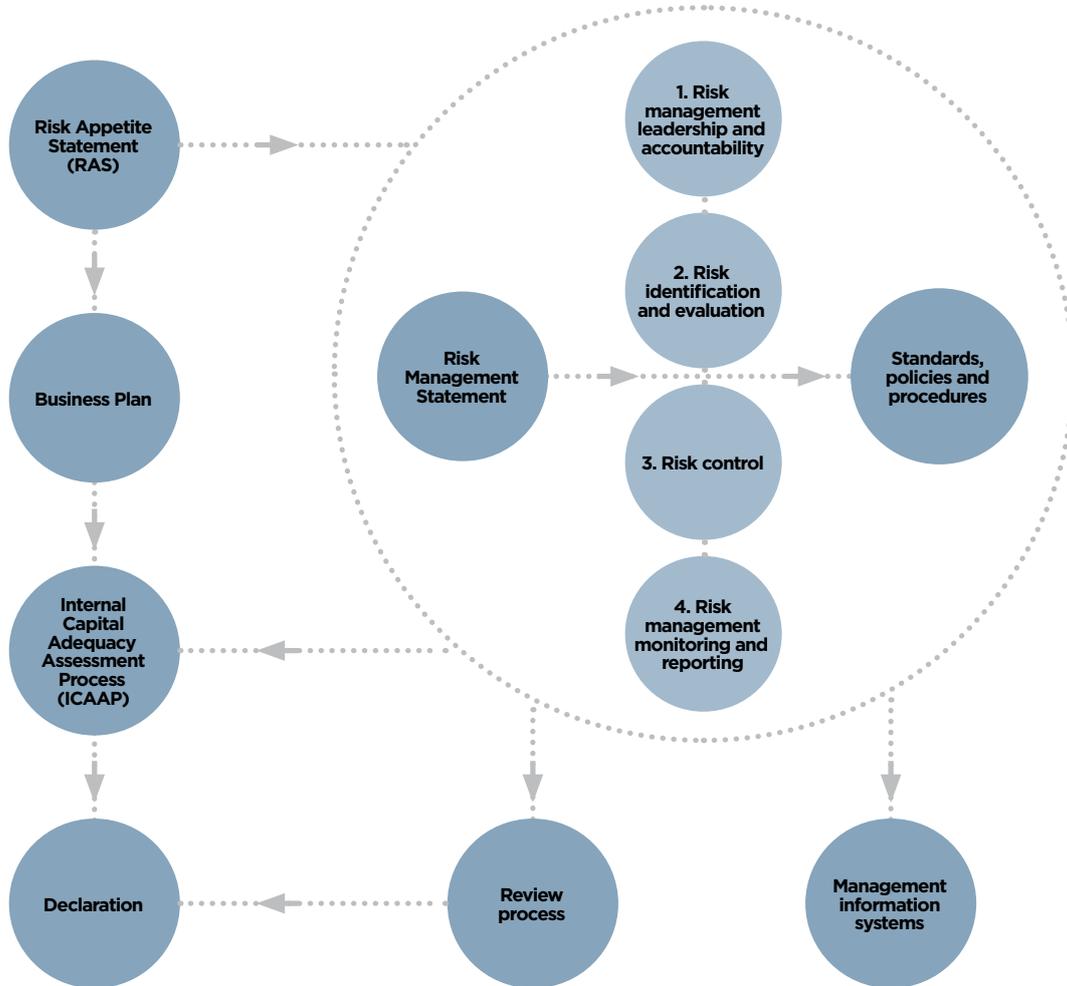
The Risk Management Framework is a living document which is updated as required.

The following Management Committees have been established to assist the Board and its Committees to oversee implementation of these policies and the underlying risk management frameworks as well as setting appropriate risk parameters and control limits:

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

Additionally, these Committees ensure management monitor, limit, and promote compliance with the limits set within the Board-approved Risk Appetite Statement.

RISK MANAGEMENT FRAMEWORK



In order to demonstrate that we have met APRA requirements around risk management, the Chair of the Board and the Chair of the Risk and Compliance Committee annually provide a Risk Management Declaration regarding the Bank's compliance with the prudential standards and processes to identify and manage our material risks. All management attestations are reviewed by the CEO, who puts forward a recommendation to the Risk and Compliance Committee that management do not believe there are any material gaps in our compliance with the requirements of the CPS 220 attestation.

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 have 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 www.mebank.com.au.

	Company	
	FY16 \$	FY15 \$
Key management personnel		
Short-term benefits	5,530,611	5,009,353
Other long-term benefits	-	210,880
Termination benefits	-	-
Total key management personnel compensation	5,530,611	5,220,233

Table 5 - Remuneration of key management personnel.

Board schedule of fees		
	FY16 \$	FY15 \$
Chair of the Board	168,000	168,000
Member of the Board	84,000	84,000
Audit and Governance Committee (established on 1 January 2015)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
Risk and Compliance Committee (established on 1 January 2015)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
People and Remuneration Committee		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
Digital Committee (formerly Technology Committee)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750

Table 6 - Board schedule of fees. All fees are inclusive of superannuation.

The remuneration paid to each Director is set out below:			
Fixed remuneration details			
Director	Membership	FY16 \$	FY15 \$
K Hodgson	Chair of the Board (appointed 1 January 2016)	84,000	-
	Member of the Board	42,000	80,622
	Audit, Risk and Governance Committee (abolished on 31 December 2014)	-	4,712
	Audit & Governance Committee	6,750	3,115
	Risk & Compliance Committee	6,750	3,115
	Chair, People and Remuneration Committee	13,500	4,985
	People and Remuneration Committee	-	2,322
		153,000	98,871
C Christian	Member of the Board	84,000	80,711
	Chair, Audit & Governance Committee (appointed 12 November 2015)	8,671	-
	Chair, Risk & Compliance Committee (appointed 12 November 2015)	8,671	-
	Audit, Risk and Governance Committee (abolished on 31 December 2014)	-	4,712
	Audit & Governance Committee (ceased 12 November 2015)	2,414	3,115
	Risk & Compliance Committee (ceased 12 November 2015)	2,414	3,115
	Technology Committee (ceased 12 November 2015)	2,414	6,481
		108,586	98,134
G Combet	Member of the Board	84,000	51,145
	Audit, Risk and Governance Committee (abolished on 31 December 2014)	-	1,346
	Audit & Governance Committee	6,750	3,115
	Risk & Compliance Committee	6,750	3,115
		97,500	58,721
A De Salis	Member of the Board	84,000	80,679
	People and Remuneration Committee	6,750	6,481
	Digital Committee	6,750	6,481
		97,500	93,641
B Fraser	Chair of the Board (retired on 5 February 2015)	-	104,760
	People and Remuneration Committee	-	4,211
		-	108,971
S Herman	Member of the Board (resigned 5 October 2015)	21,323	80,744
	Chair, Audit, Risk and Governance Committee (abolished on 31 December 2014)	-	9,423
	Chair, Audit & Governance Committee	3,427	6,231
	Chair, Risk & Compliance Committee	3,427	6,231
		28,177	102,629
J Milne	Member of the Board	84,000	80,678
	Chair, Digital Committee	13,500	12,962
		97,500	93,640
B Pollock	Member of the Board	-	29,895
	Audit, Risk and Governance Committee (abolished on 31 December 2014)	-	3,365
	People and Remuneration Committee	-	2,404
		-	35,664
G Weaven	Chair of the Board (ceased 31 December 2015)	84,000	62,330
	Member of the Board	42,000	51,545
	Chair, People and Remuneration Committee	-	5,476
	People and Remuneration Committee	6,750	2,812
		132,750	122,163
Total Directors' compensation		715,012	812,434

Table 7 - The remuneration paid to each Director.

06

PEOPLE

At ME we're committed to creating a unique, values-based and high performing culture. We recognise that our people are critical to our success.

We strive to ensure our people are committed to our organisational purpose to 'help all Australians get ahead' and have commenced a cultural movement to continually strive for accountability, execution and commitment to overall organisational success.

'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, recommendation, pride and commitment.

This year, 86% of ME's employees took the opportunity to complete the survey, contributing valuable feedback about our performance as an employer. The 2016 employee engagement score remained steady at 53%, in line with the 2015 result.

ME employees told us that we're moving in the right direction in many of the key areas we focused on after last year's results - including Growth and Development as well as Feedback and Recognition. ME employees also continue to feel connected to the Bank's brand and values, their teams and their managers.

Feedback on areas for improvement from across the business tells us that we need to continue to focus on enhancing systems and processes to enable us to achieve success in the coming years. As a result, ongoing investment in improving our systems and processes, and providing clear direction of our vision and how we'll achieve our goals, will be a key focus for the next 12 months.

BRINGING OUR VALUES TO LIFE

In 2016, the Bank focused on embedding our new values - Go to the Moon, Love Monday, Ride the Subway, Stay Hungry and Have a Swing - into the Performance Partnering, Development and Recruitment people processes. Guidelines have been provided to all employees on actions and behaviours that would demonstrate living each of our values.



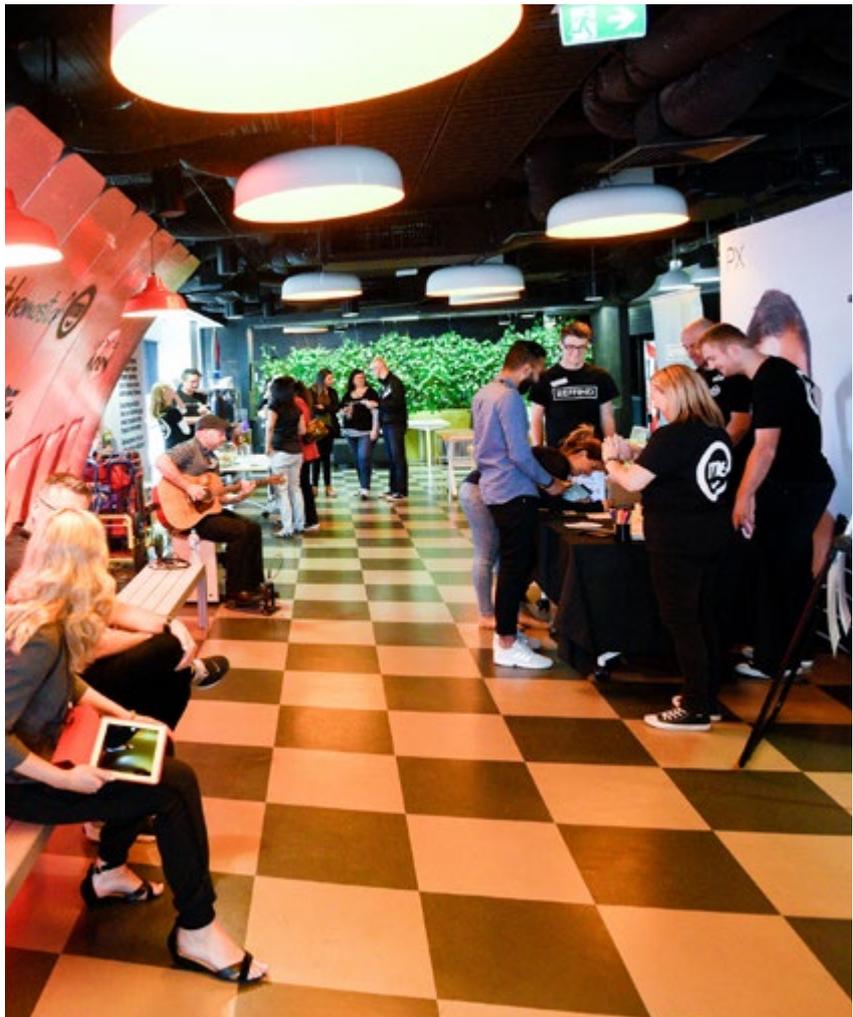
A roadmap to launch and fully embed ME's Competency Framework into all people processes in 2017 has been completed. The Competency Framework is fully aligned with our values, ensuring we incorporate our values into all that we do at ME.

DEVELOPING OUR PEOPLE

Our Learning and Development offerings are designed to equip our employees with the knowledge and skills so that ME can help all Australians get ahead. In FY16 we continued to offer a number of blended learning programs. We focused on leadership, job readiness, systems and continuous improvement. Further, a new and improved suite of risk and compliance e-learning modules have been rolled out across the organisation.

Across ME, we participated in a three-month pilot with Lynda.com and have seen an impressive take-up of micro-learning and 'on demand' training opportunities. Over 470 of our employees participated in 310 hours of learning. Microsoft software skills and presentation skills were among the highest ranking courses, with new skills being accessed by our people every day.

The 2016 ME Internal Careersfest was an idea born out of the 2015 howÜdoïn? engagement survey action planning. The overall objectives of the Careersfest were to promote individual ownership of career development by providing employees the tools and development for growth; to build our internal talent pools; and to create ME ambassadors in support of our employee value proposition. Over 450 people attended the Careersfest, participating in the various activities on offer. The feedback has been overwhelmingly positive, with the general sentiment being that people are feeling enthusiastic about career opportunities at ME.



DEVELOPING OUR FRONTLINE TEAMS

With a focus on our core sales business in 2016, our Learning and Development team redesigned our on-boarding experience to ensure all sales professionals in the Retail and Broker teams were equipped with the skills and knowledge to deliver on targets. We will continue to refine our programs to ensure they remain a pivotal launchpad for getting ME to the moon. People Experience also worked with the Service Excellence team to create an on-boarding experience for new roles in the Originations team, while also delivering Pega 7 training to the entire Originations team, which will significantly improve our time-to-loan application approvals.

DEVELOPING OUR LEADERS

A new leadership development program was designed in 2016 to hone the coaching capability of ME's people leaders to manage for performance and development. This program - known as 'Sirius' i.e. the brightest star in the night sky - was delivered to 180 people leaders.

The program involved a 12-week learning journey which included:

- A range of pre-workshop activities in the form of video presentations, the delivery of case studies and personal reflections as well as the creation of Yammer groups
- Full day face-to-face workshops
- Post-workshop Learning Circles, designed for leaders to meet with their peers to share their experiences and practise the new skills gained in the workshop.

In the 2016 howÜdoin? survey results, we saw increases in the Growth and Development and Feedback and Recognition factors, with the rollout of Sirius contributing, in part, to this positive change.

FINANCE SECTOR UNION PARTNERSHIP

ME's partnership with the Finance Sector Union (FSU) is a mutually beneficial one that has been in place for five years. The intent of the partnership is to build a relationship that demonstrates collaboration, trust and cooperation across all areas of the Bank that enables the Bank's employees to better serve our customers and deliver on our customer promises.

Through our partnership, we are committed to developing a healthy employer-employee relationship within ME, 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 ability for employees to achieve an appropriate level of work-life balance is vital to this goal.

ME has a strong and rich heritage of equity and goodwill, which has been instilled through our industry super fund ownership structure, and we want to honour that legacy while being an effective contributor to the prosperity of our shareholders and their members.

WORKPLACE HEALTH AND SAFETY

ME is continually committed to providing a safe and healthy workplace for our employees, contractors and visitors. Employees are consulted on health and safety matters through the Health and Safety Committee, which is made up of health and safety representatives across our workplaces. In 2016, ME continued to evolve its policies, procedures and tools as well as its communication of these initiatives to employees.

In addition, a Health and Wellbeing Program has been designed, with implementation scheduled for 2017. The program is designed to encourage preventative and proactive management of health and wellbeing. In 2016, ME continues to maintain a 0.0 Lost Time Injury Frequency Rate (LTIFR) – comparing favourably to industry benchmarks. This rate measures the number of lost time injuries per million hours worked.

Workplace Profile FY16

Number of employees	1,010
Permanent	964
Contractors	46
Workforce turnover (12-month rolling average)	17.25%
Absenteeism days/FTE (includes personal, compassionate and workers' compensation leave)	9.18

Table 8 - Workplace profile.

DIVERSITY AND INCLUSION

2016 saw the formation of Women in DiversiTy, a group focused on how ME can become an employer of choice for women working in the technology and digital spaces. The group has set out to increase the current percentage of women participating in digital and technology roles in ME from 20% to 25%.

In 2017, ME will conduct a diversity analysis to give the Bank a greater understanding into diversity challenges and opportunities to develop a detailed and robust Diversity and Inclusion Strategy that is not limited to gender diversity.

Gender Diversity FY16

Female/Male	
Non-managerial employees	
Female	49%
Male	51%
Managers	
Female	31%
Male	69%
Executive (including CEO)	
Female	3
Male	6
Board (including Chairman)	
Female	3
Male	4

From the 2015-16 public report form submitted by Members Equity Bank Limited to the Workplace Gender Equality Agency.

Table 9 - Gender diversity.

Utilisation of Parental Leave FY16

Female/Male	
Primary carer's leave	
Female	45
Male	7
Secondary carer's leave	
Female	0
Male	7

From the 2015-16 public report form submitted by Members Equity Bank Limited to the Workplace Gender Equality Agency.

Table 10 - Number of employees utilising parental leave.

EXECUTIVE TEAM



JAMIE MCPHEE
Chief Executive Officer

Jamie has been CEO of ME since early 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 stakeholders (the industry super funds, unions and their employer associations) to help align ME's interests and foster an understanding of each other's goals and directions.

About Jamie

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



ANTHONY ABOUT
Chief Change Officer

Anthony is a passionate advocate for business improvement. As Chief Change Officer, he's responsible for looking after 'Ellen' - the ME business unit which focuses on helping ME make the changes necessary to support its growth ambitions.

About Anthony

Before ME, Anthony was at GE Capital for 15 years where he held various senior roles across sales, project management, collections, customer service and operations leadership. Anthony also spent two years as a full-time Six Sigma Black Belt, later successfully gaining Master Black Belt certification in the Lean Six Sigma methodology.



ANGELA MIDDLETON
Group Executive, Sales

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).

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 early 2013 and is primarily 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.



REBECCA JAMES
Chief Marketing Officer

Rebecca joined ME in early 2014 as the Bank's inaugural Chief Marketing Officer, and has since been busy reshaping the ME brand, simplifying products and step-changing ME's customer experience.

About Rebecca

Rebecca has more than 20 years' experience in marketing and advertising - including as Managing Director of multi-award winning customer experience agency Lavender, whose clients included Westpac, BT Financial Group, American Express, Qantas, Telstra, Coles, IKEA and Microsoft.



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.

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.



MARK GAY
Chief Information Officer

Mark joined ME in January 2015. As Chief Information Officer, Mark is accountable for the development, management and monitoring of ME's information technology function.

About Mark

Before joining ME, Mark was at GE Capital Group in a number of senior roles, including as Director of FastWorks, Lean & Strategic Program Delivery and Chief Technology Officer for Asia Pacific. Mark has also held executive positions with Australian Air Express and TAFE.



CRAIG RALSTON
**Group Executive,
Service Excellence**

Craig joined ME in February 2015. As Group Executive, Service Excellence, Craig is accountable for the delivery of service outcomes to our customers. He is responsible for designing, improving, and implementing processes to deliver seamless service to ME's customers.

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.



HELENE GORDON
**Group Executive,
People Experience**

Helene joined the ME team in September 2015. As Group Executive, People Experience, Helene is responsible for all things 'People'. Helene's main focus is to help ME further embed its values while identifying the capabilities the Bank needs to grow and succeed.

About Helene

Prior to joining ME, Helene was the Head of People for Retail Banking at NAB. She has also held a variety of senior HR and general management roles in the retail, telecommunications and property sectors across a range of leading national and global organisations.

07

COMMUNITY

At ME we are committed to contributing to the community. We believe that our long-term success depends on the wellbeing of the communities in which we operate.



MOTHER'S DAY CLASSIC

This year ME celebrated its 12th year as the major sponsor of the Women in Super Mother's Day Classic, a national fun run and walk that raises funds for breast cancer research. Held in 96 locations across Australia, it's our biggest community sponsorship event of the year.

In 2016, the event raised \$3 million for the National Breast Cancer Foundation. More than \$30 million has been raised for breast cancer research since the event began in 1998.

ME also supports the event by producing and selling the official Mother's Day Classic bandana, which has raised over \$100,000 for the National Breast Cancer Foundation over the last five years.

The Mother's Day Classic is strongly supported by ME employees and their families, with hundreds taking part across Australia each year.

ME PINK DEBIT MASTERCARD®

This year we continued our longstanding association with the National Breast Cancer Foundation through ME's 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 - resulting in more than \$700,000 being donated towards breast cancer research.

INDUSTRY SUPPORT - HESTA AWARDS

ME is the major sponsor of the HESTA Awards Program, which recognises, celebrates and promotes the achievement of those working in nursing, primary health care, early childhood education, aged care and the community sector. ME provides the entire prize pool for the awards, which is shared among the winners to support their vital community programs and initiatives.



GIVING BACK

ME's Giving Back program provides our employees with the opportunity to make regular donations from their pay to a group of eight community partners. In the 2016 financial year, employees donated nearly \$15,000 to our community partners - a figure which was matched by ME. Our 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 (APHEDA), Redkite, and the World Animal Protection.



GOOD RETURN

ME partners with Good Return to provide our employees with an innovative way to positively impact the lives of those living in poverty in developing countries. Good Return is a social enterprise that seeks to enable people living in poverty in the Asia Pacific region to grow their income and change their lives sustainably through the delivery of microfinance, financial literacy and livelihood development programs that ensure long-term benefits to families and their communities.

ME employees contribute by 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.



MOVEMBER

Once again this year, our employees participated in Movember, the initiative to raise funds and awareness for men's health issues. Movember is close to the hearts (and lips) of many ME employees, and this year was no different.

During the month of November, a team of 35 ME employees grew a 'mo' as part of the MO team or committed to a physical exercise program as part of the MOVE team to raise funds for men's health.

One of our more creative Mo Bros grew his 'mo' in the shape of the ME logo and won the Australian award for 'Best Mo of the Banking Industry'. We raised \$8,500, which Movember donated to our community partners beyondblue and the Prostate Cancer Foundation of Australia.

08

ENVIRONMENT

Reducing our impact on the environment is a core part of ME's commitment to responsible business. We understand that our environmental impact extends beyond our own operations to include the products and services we provide and procure, as well as the investment decisions we make.

Our head office in Melbourne Central Tower, where the majority of our people are located, has a 5-star 'Green Star - Office Interiors v1.1' rating. The building that ME sits in has a 5-star assisted NABERS Energy Rating and a 3-star NABERS Water Rating. Our green star accommodation has provided significant environmental benefits, including reduced electricity consumption, largely due to improved heating, cooling and lighting efficiencies.

RESOURCE USE

In FY16 ME produced 1,928 tonnes of greenhouse gas (GHG) emissions from its operations, including electricity use in offices, vehicle fleet usage and employee air travel (see figure 9 below). This is a decrease of 6.2% from the previous year, which was achieved from a reduction in emissions from electricity use and air travel.

The largest source of GHG emissions for ME is electricity use in our offices, which accounts for 57.8% of our total emissions. In FY16, ME reduced its electricity usage by 110.0 tonnes CO₂-e and employee air travel by 27.2 tonnes CO₂-e.

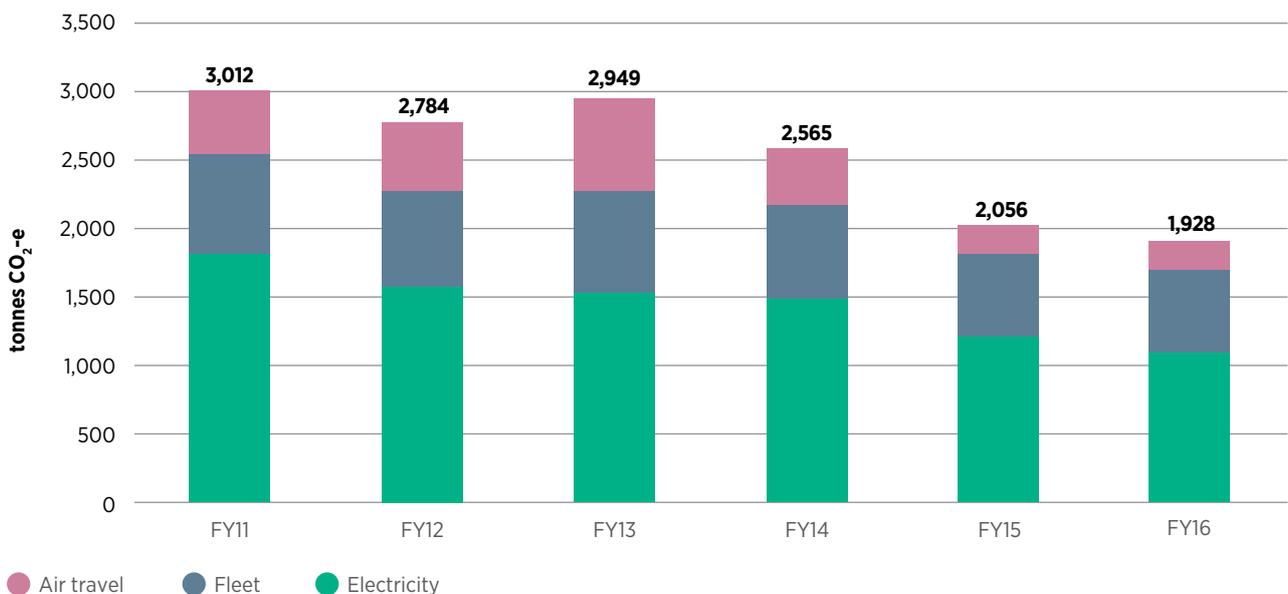


Figure 9 - Total greenhouse gas emissions (tonnes CO₂-e).

	FY11	FY12	FY13	FY14	FY15	FY16
Air Travel	472.58	508.71	688.14	374.00	249.80	222.60
Fleet	726.67	704.29	734.34	679.80	580.00	589.20
Electricity	1812.44	1571.41	1526.34	1511.00	1226.44	1116.40
Total	3011.69	2784.41	2948.82	2564.80	2056.24	1928.20

Table 11 – Yearly comparison of total greenhouse gas emissions (tonnes CO₂-e).

PAPER USE

In FY16, ME used 18.2 tonnes of paper. ME's overall paper use decreased by 15.7% this year, down from 21.6 tonnes in FY15. This continues the trend of the past few years where ME is significantly reducing the paper we use in our operations, as we digitise and streamline processes involved in customer applications and opening new accounts.

RESPONSIBLE PROCUREMENT

ME works closely with a wide range of suppliers in the day-to-day operation of our business. In line with our commitment to corporate responsibility, we prefer to partner with suppliers that demonstrate a proactive approach to economic, social and environmental responsibility.

When sourcing new suppliers, ME regularly assesses performance across a range of corporate responsibility indicators in the areas of governance, environmental management, health and safety, workplace policies and human rights, supply chain management and community impact. We also manage the use and disposal of goods and services to minimise social and environmental impacts. We endeavour to work with our existing suppliers on an ongoing basis to better understand their economic, social and environmental impacts.

09

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 2016. 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.

Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2016		
	Consolidated	
	FY16	FY15
	\$'000	\$'000
Interest and similar income	1,221,621	1,231,890
Interest and similar expense	(907,035)	(952,841)
Net interest income	314,586	279,049
Funds management fee income	10,354	16,805
Other operating income	45,533	61,206
Total net operating income	370,473	357,060
Expenses		
Operating expenses	233,845	220,206
Impairment losses	14,144	16,150
Project expenses	15,012	12,333
Total operating expenses	263,001	248,689
Profit before income tax	107,472	108,371
Income tax expense	30,640	30,548
Profit for the year	76,832	77,823
Other comprehensive income		
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 on available-for-sale financial assets, net of tax	(2,010)	(1,359)
Cash flow hedges - effective portion of changes in fair values, net of tax	(4,413)	(54,335)
Total comprehensive income for the year	70,409	22,129

Table 12 - Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2016.

Statement of financial position as at 30 June 2016			
		Consolidated	
	Note	FY16	FY15
		\$'000	\$'000
Assets			
Cash and cash equivalents		440,054	360,902
Investments	4	3,064,159	2,904,722
Derivatives		4,661	15,452
Trade and other receivables		5,516	4,345
Loans and advances	5	19,534,241	17,763,317
Investment in controlled entities		-	-
Plant and equipment		29,829	34,244
Intangible assets		83,620	76,771
Deferred tax assets		32,893	35,882
Other assets		8,422	8,098
Total assets		23,203,395	21,203,733
Liabilities			
Amounts due to other financial institutions		-	2,620
Deposits and other borrowings	6	21,770,305	19,859,255
Derivatives		87,851	100,040
Trade and other payables		20,081	28,021
Current tax liabilities		-	826
Provisions		26,446	23,011
Subordinated debt		332,760	332,344
Total liabilities		22,237,443	20,346,117
Net assets		965,952	857,616
Equity			
Issued capital		767,922	729,995
Reserves		(37,181)	(31,709)
Retained earnings		235,211	159,330
Total equity		965,952	857,616
Book value per share		\$91.35	\$84.49

Table 13 – Statement of financial position as at 30 June 2016.

Statement of changes in equity for the financial year ended 30 June 2016

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 2014	699,995	86,471	15,079	6,604	-	808,149
Adjustment due to restatement	-	(2,662)	-	-	-	(2,662)
Balance at 1 July 2014 (restated)	699,995	83,809	15,079	6,604	-	805,487
Issue of share capital	30,000	-	-	-	-	30,000
Transfer to/(from) general reserve for credit losses	-	(2,302)	2,302	-	-	-
Other comprehensive income for the year	-	-	-	(1,359)	(54,335)	(55,694)
Profit for the year	-	77,823	-	-	-	77,823
Balance at 30 June 2015	729,995	159,330	17,381	5,245	(54,335)	857,616
Balance at 1 July 2015	729,995	159,330	17,381	5,245	(54,335)	857,616
Issue of share capital	37,927	-	-	-	-	37,927
Transfer to/(from) general reserve for credit losses	-	(951)	951	-	-	-
Other comprehensive income for the year	-	-	-	(2,010)	(4,413)	(6,423)
Profit for the year	-	76,832	-	-	-	76,832
Balance at 30 June 2016	767,922	235,211	18,332	3,235	(58,748)	965,952

Table 14 – Statement of changes in equity for the financial year ended 30 June 2016.

NOTES TO THE KEY FINANCIAL INFORMATION

For the financial year ended 30 June 2016

1. Review of operating results

ME recorded an after-tax statutory profit of \$76.8 million for the financial year ended 30 June 2016 compared to \$77.8 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 \$314.6 million from \$279.0 million in the previous financial year and funds management fee income decreased to \$10.4 million from \$16.8 million in the previous financial year, reflecting the migration of home loans from off-balance sheet to on-balance sheet.

Other operating income has been impacted by the movement in the fair value of derivative positions.

Total operating expenses increased to \$263.0 million from \$248.7 million in the previous financial year. Staff and related costs increased 1%, with the number of employees (including contractors) increasing from 982 to 1,010. General administrative costs increased by 5%, mainly due to an increase in marketing and promotional activity and an increase in the Program of Work, the program of investment to build future capability to deliver on our strategic priorities.

Impairment losses for the year were \$14.1 million compared to \$16.2 million in the previous financial year. At 30 June 2016, the loss provisions balance was \$24.6 million, including \$6.1 million of specific provisions, compared to \$22.4 million (\$5.7 million of specific provisions) at 30 June 2015. The loss provisions balance represents 0.1258% of the total lending portfolio, which is unchanged from the prior year.

Total assets at 30 June 2016 were \$23.2 billion, an increase from \$21.2 billion at 30 June 2015. Loans and advances have increased to \$19.5 billion at 30 June 2016 from \$17.8 billion at 30 June 2015. The growth in loans and advances comprises approximately 93% new business and 7% from assets migrating from off-balance sheet to on-balance sheet. Intangible assets have increased mainly due to capitalisation of costs associated with the Program of Work.

The increase in total assets has been funded by liabilities increasing to \$22.2 billion from \$20.3 billion. Retail deposits increased from \$3.4 billion to \$4.1 billion. The online savings account and the term deposit maturity gap pricing strategy have been instrumental in the growth of retail deposits. Advised and corporate deposits grew from \$3.8 billion to \$4.7 billion. One new securitisation trust was established during the year, which increased the issuance of mortgage backed securities.

A total of \$38 million of paid up capital was injected by the shareholders in the year ended 30 June 2016.

2. Subsequent events

There are no matters or circumstances occurring subsequent to the end of the financial year that have significantly affected, or may significantly affect, the operations of the ME Group, the results of those operations, or the state of affairs of the entity in future financial years.

3. Restatement of comparatives

The Group has amended its recognition criteria with respect to certain fee income earned from loans and advances recognised in the financial years ended 30 June 2014 and 30 June 2015. The amended accounting treatment results in the recognition of that fee income in the period in which the service is performed which is not necessarily the period in which the fee income is received in cash.

As a result of the amended accounting treatment, comparatives for the financial year ended 30 June 2015 were changed as follows:

- Interest and similar income were increased by \$5.2 million
- Other operating income was reduced by \$7.9 million
- Income tax expense was reduced by \$0.8 million
- Loans and advances were reduced by \$6.5 million
- Deferred tax assets were increased by \$1.9 million
- Retained earnings were reduced by \$4.6 million.

	FY16 \$'000	FY15 \$'000
4 Investments		
At fair value:		
Available-for-sale investments		
Treasury notes and semi-government securities	360,965	597,657
Bank bills	990,915	767,835
Corporate fixed rate notes	25,529	98,734
Corporate floating rate notes	1,677,490	1,426,203
Mortgage backed securities	9,260	14,293
	3,064,159	2,904,722
5 Loans and advances		
Credit cards	151,609	121,402
Personal loans	217,371	226,987
Residential home loans	18,996,001	17,167,909
Commercial loans	112,874	135,966
Asset finance	88,453	148,025
	19,566,308	17,800,289
Less:		
Unearned asset finance income	(7,454)	(14,562)
Allowance for impairment losses	(24,613)	(22,410)
	19,534,241	17,763,317
Movement in allowance for impairment of loans and advances		
Balance at the beginning of the year	22,410	17,236
Amounts written off as uncollectible during the year	(16,516)	(13,375)
Amounts recovered during the year	4,979	2,698
Allowance for Impairment losses recognised during the year	13,740	15,851
Balance at the end of the year	24,613	22,410
Individual impairment	6,127	5,723
Collective impairment	18,486	16,687
	24,613	22,410

Table 15 – Investments, loans and advances for the financial year ended 30 June 2016.

	FY16 \$'000	FY15 \$'000
6 Deposits and other borrowings		
Unsecured – at amortised cost		
Retail customer deposits	4,126,619	3,355,806
Business customer deposits	1,159,179	1,231,222
Superannuation banking deposits	507,071	426,929
Advised and corporate deposits	4,686,747	3,821,953
Institutional borrowings	4,762,236	4,528,279
Treasury borrowings	539,250	544,392
Medium term notes ⁱ	928,368	998,279
Other borrowings	-	986
	16,709,470	14,907,846
Secured – at amortised cost		
Mortgage-backed securities ⁱⁱ	5,060,835	4,951,409
Total deposits and other borrowings	21,770,305	19,859,255

Table 16 – Deposits and other borrowings for the financial year ended 30 June 2016.

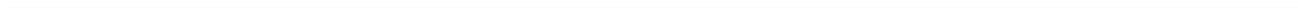
ⁱ Of the \$925,000,000 floating rate notes:

- \$325,000,000 is due in the first half of the 2017 financial year;
- \$100,000,000 is due in the second half of the 2017 financial year;
- \$250,000,000 is due in the first half of the 2018 financial year; and
- \$250,000,000 is due in the second half of the 2018 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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CONTACT ME

National Customer Contact Centre **13 15 63**

Open Monday to Friday 8am-8pm
and Saturday 9am-5pm (AEST)

mebank.com.au

Postal address

ME
GPO Box 1345
Melbourne VIC 3001

Gary Dickson

Chief Financial Officer, ME

T. 03 9708 4242

M. 0417 378 847

E. gary.dickson@mebank.com.au

Matthew Read

Head of Public Relations, ME

T. 03 9708 3334

M. 0432 130 338

E. matthew.read@mebank.com.au

