

2014 Communication on Progress

1. GENERAL INFORMATION

12 February 2015

To our stakeholders:

I am pleased to confirm that ME Bank reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption.

In this annual Communication on Progress, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to share this information with our stakeholders using our primary channels of communication.

Yours sincerely,

A handwritten signature in black ink that reads 'Jamie McPhee'.

Jamie McPhee
Chief Executive Officer

2. HUMAN RIGHTS PRINCIPLES

Assessment, policy and goals

ME Bank is committed to upholding the Universal Declaration of Human Rights and all other international standards relating to the protection of these rights. In addition to the measures in place to protect the human rights of our people relating to labour (see Labour Rights section of this document), ME Bank abides by all legislation relating to human rights protection in Australia, where ME Bank conducts all of its business. ME Bank is also committed to ensuring it partners with suppliers that demonstrate a proactive approach to economic, social and environmental responsibility, including the protection of human rights.

Implementation

United Nations Principles for Responsible Investment

ME Bank is a signatory to the United Nations Principles for Responsible Investment. As a professional services partner signatory, ME Bank acknowledges the relevance of environmental, social and governance issues within the investment sector, including the protection of human rights. Our participation in this initiative represents a commitment to providing and promoting services that support the implementation of the Principles by those within our business network, primarily our shareholding industry superannuation funds.

Dignity at Work Policy

Our Dignity at Work policy outlines our commitment to providing all employees with the opportunity to pursue excellence in their workplace endeavours in a caring, healthy and safe environment. Discrimination, harassment, vilification, bullying and workplace violence are not an acceptable part of the work culture at ME Bank.

All ME Bank employees are trained in our Dignity at Work policy. This training module must be completed annually. Our complaints resolution procedure outlines employee options for addressing unacceptable behaviour, including discrimination, harassment and bullying.

Diversity and Inclusion

ME Bank has developed a formal commitment to diversity and inclusion. This commitment defines what diversity and inclusion mean at ME Bank and explains why diversity and inclusion are important to us.

Supply Chain

When partnering with new suppliers, particularly those who conduct activities outside of Australia, ME Bank asks them to demonstrate their approach to a range of corporate responsibility indicators including human rights. We work with our existing suppliers on an ongoing basis to better understand their economic, social and environmental impacts and partner with them to build their capability in these areas.

Measurement of outcomes

During the reporting period, ME Bank has complied with its obligations under the United Nations Principles for Responsible Investment. It has also complied with all Australian legislation relating to human rights protection.

3. LABOUR PRINCIPLES

Assessment, policy and goals

ME Bank is committed to upholding the principles of the ILO core instruments in all our operations. As a wholly Australian owned and operated company, ME Bank complies with Australian laws and regulations relating to labour rights.

ME Bank is the first Australian banking organisation to enter into a formal partnership with a union to work collaboratively to solve business issues. ME Bank's partnership with the Finance Sector Union (FSU) recognises that management, employees and the union have a mutual interest in the ongoing success of the business and uses collaboration as an important means of achieving our business objectives while improving employee satisfaction and engagement. The partnership is a more sophisticated way to engage on business issues such as change, modernisation, productivity and employment terms and conditions and hinges on a shared understanding of, and working towards, agreed business objectives.

Implementation

Remuneration and Recognition Policy

ME Bank aims to provide recognition and rewards that attract, motivate and retain employees to achieve the ME Bank purpose and overall objectives within its risk framework. ME Bank uses a range of different remuneration elements to effectively reward employees. Any variable pay and performance-based components of remuneration are designed to encourage behaviour that supports ME Bank's long-term financial soundness and our risk management framework.

Work, Health and Safety Policy

ME Bank's Work, Health and Safety policy establishes the responsibilities of ME Bank employees, contractors, consultants and agency staff in relation to health and safety.

Primary responsibility for employee safety at ME Bank sits with our Chief Executive Officer who is committed to taking all reasonably practicable steps to ensure ME Bank complies with Work, Health and Safety Legislation in Australia and that appropriate mechanisms are provided to regularly monitor and report on health and safety performance. Employees are consulted on health and safety matters through elected Health and Safety Representatives at all our major workplaces and through our Workplace Health and Safety Committee.

Employee Assistance Policy and Procedure

ME Bank offers an Employee Assistance Program (EAP) to support employees in dealing with issues at home or work. The EAP is a voluntary professional and confidential counselling service provided for ME Bank employees to assist them in managing the demands of their job, personal issues and to increase employees' overall well-being.

Poor Performance and Behaviour Policy

The Poor Performance and Behaviour policy details the disciplinary procedures to be followed in the event of poor performance or behaviour by an employee. The policy supports ME Bank's cultural aspirations to be a values based, high performing organisation. ME Bank's approach to managing poor performance and behaviour is to provide a transparent process which is consistent with the principles of procedural fairness.

Freedom of Association and the Financial Sector Union

ME Bank's collective agreement contains a range of facilitative provisions including recognition of the role of union delegates as critical to building union capability. ME Bank provides financial assistance towards a Finance Sector Union (FSU) membership or a Professional Association fee. Employees receive a contribution to a professional membership to receive ongoing professional development; the FSU for support or training purposes; or an association useful for the development of working relationships.

Collective Bargaining

ME Bank's enterprise agreement provides the cornerstone for ME Bank and its employees to create a workplace culture in accordance with our commitments regarding labour rights.

ME Bank worked closely with our partner the Finance Sector Union (FSU) to develop the most recent ME Bank Enterprise Agreement in 2013. In negotiating this agreement we worked together with the FSU, guided by our partnership principles and a shared commitment to our business objectives. All ME Bank employees had the opportunity to contribute to creating the agreement by submitting ideas and feedback. The draft agreement went to an employee vote. The agreement was voted in and subsequently approved by the Fair Work Commission. The agreement covers all ME Bank employees. It has formally been in operation from 30 July 2013 and will remain in place for three years.

The agreement covers:

- Employment categories
- Hours of work
- Job grading and remuneration
- Performance development and reward
- Leave
- Workers compensation and make up pay
- Redundancy, redeployment & retrenchment
- Termination of employment
- Workplace diversity and flexibility
- ME Bank/FSU Partnership
- Workplace change
- Dispute resolution
- Work, health and safety
- Training and development

Supply Chain

When partnering with new suppliers, particularly those who conduct activities outside of Australia, ME Bank asks them to demonstrate their approach to a range of corporate responsibility indicators including labour rights. We work with our existing suppliers on an ongoing basis to better understand their economic, social and environmental impacts and partner with them to build their capability in these areas.

Measurement of outcomes

Workforce Profile

At the end of June 2014 ME Bank had 809 permanent employees and 79 contractors. Our 12 month rolling average workforce turnover for the year was 15 per cent.

Work, Health and Safety

This year we continued to embed Keep ME Safe - our workplace health and safety management system. All managers attend training in Keep ME Safe which covers our Workplace Health and Safety

policies, supporting procedures and tools. In 2014 our lost time injury frequency rate was 0.68 which compares favourably with the industry rate of 1.2 (source: SafeWork Australia).

Diversity Metrics

Our female/male ratio for employees is shown in the table below.

Female/Male ratio	<i>% Female</i>	<i>% Male</i>
All staff	51	49
Leadership Group/Managers	45	55
	<i>Number Female</i>	<i>Number Male</i>
Executive (including CEO)	4	5
Board (including Chairman)	3	5

The number of ME Bank employees utilising parental leave in 2014 is shown in the table below.

	Primary Carer's Leave		Secondary Carer's Leave	
	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>
All employees	43	7	1	5

4. ENVIRONMENTAL PRINCIPLES

Assessment, policy and goals

ME Bank is committed to upholding the principles of environmental stewardship. 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.

In 2011 ME Bank developed a policy statement on climate change and our response to this challenge. We understand that climate change is a significant issue for our shareholders, our community and our business. As such, ME Bank has committed to managing its own carbon emissions through the development of a carbon and resource reduction strategy.

ME Bank prefers to partner with suppliers that demonstrate a proactive approach to economic, social and environmental responsibility. Our expectations of, and how we work with, our suppliers with regard to environmental management is outlined in ME Bank's Procurement Policy.

Implementation

Resource Reduction

ME Bank has measured the environmental impact of its operations - our major impacts are in energy and paper use. We have initiatives underway to reduce our consumption in these areas.

Our head office in Melbourne, where the majority of our people are located, received a Green Star rating of 5 stars from the Green Building Council of Australia in April 2013. Our green star accommodation has provided significant environmental benefits, including reduced electricity consumption, largely due to improved heating, cooling and lighting efficiencies. In 2014 ME Bank renovated two additional floors in our head office, also with a Green Star rating of 5 stars.

Supply Chain

ME Bank has updated its Procurement Policy to describe how we assess the performance of potential new suppliers 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. The Bank also manages the use and disposal of goods and services to minimise social and environmental impacts.

We work with our existing suppliers on an ongoing basis to better understand their economic, social and environmental impacts and partner with them to build their capability in these areas.

In 2014 ME Bank became a member of ECO-Buy, a non-profit membership program for organisations to access sustainable procurement expertise, resources and peer networks, in order to build our sustainable supply chain expertise.

Measurement of outcomes

Resource reduction

In the 2014 financial year ME Bank produced almost 2,895 tonnes of greenhouse gas (GHG) emissions from its operations including electricity use in offices, our vehicle fleet and employee air travel. This is a decrease of almost 2 per cent from the previous year, which was primarily achieved from a reduction in vehicle fleet emissions.

The largest source of GHG emissions for ME Bank is electricity use in our offices which accounts for more than half of our total emissions. During the year we conducted an energy audit for our head office

in Melbourne which identified opportunities to further reduce electricity use. In the 2014 financial year ME Bank's mobile banking vehicle fleet saved more than 100 kilolitres of fuel compared to from the previous year. We have set a target for the 2015 financial year to achieve further reductions in our fuel use.

In the 2014 financial year ME Bank used 106 tonnes of paper. Of this, 30 per cent was used in our offices and 70 per cent was used for printed material for customer product information, banking activities such as application forms and marketing material. In our offices, overall paper use decreased by more than 16 per cent this year. There was also a significant reduction in the number of sheets of paper used per employee.

This decrease in paper use is due to our technology transformation program which has digitised and streamlined the processes involved in customer applications and opening new accounts. We expect to see our office paper use continue to decline in coming years as more of our processes are digitised.

We source environmentally responsible paper where possible. We use office paper that is 100 per cent Australian made, certified carbon neutral and accredited by the Australian Forestry Standard, a non-profit organisation promoting responsible forestry practices throughout the entire supply chain.

More details about ME Bank's resource over the past year use can be found in its 2014 Annual Review available at www.mebank.com.au

Supply Chain

In 2014, ME Bank again requested information on all potential suppliers' economic, social and environmental impacts and incorporated this information into its decision making process when selecting suppliers. We also incorporated an assessment of the sustainability and environmental policies and performance of our existing business critical and material suppliers as part of our annual due diligence process.

5. ANTI-CORRUPTION PRINCIPLES

Assessment, policy and goals

ME Bank is committed to the protection of its employees and customers and to maintaining the integrity of the Bank's operations and reputation. To this end, we have policies and systems in place to protect against corruption, fraud, crime or serious misconduct within the Bank.

ME Bank is committed to complying with all relevant Australian legislation and codes to prevent corruption. ME Bank complies with Australia's *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

ME Bank has a number of policies and procedures to prevent instances of corruption and these are reviewed and updated every year.

Implementation

Code of Conduct

The ME Bank Code of Conduct sets ethical standards for employees to adopt and advocate. The code of conduct establishes mandatory behaviour in the areas of conflicts of interest, personal transactions and abiding by the law.

Conflicts of Interest Policy

This policy provides guidelines to the ME Bank Board, management and employees on managing potential conflicts of interest.

Fraud, Crime and Serious Misconduct Policy

This policy outlines the responsibilities of ME Bank employees in regards to fraudulent/criminal acts and acts of serious misconduct and the possible consequences of committing such acts and supports ME Bank's cultural aspirations to be a values based, high performing organisation.

Gifts Policy

As part of managing actual, perceived or potential conflicts of interest, this policy provides guidance for the acceptance, non-acceptance and reporting of gifts and benefits by ME Bank employees. The policy is also intended to reduce the actual or perceived risk that the acceptance of a gift or benefit might influence or appear to influence an employee.

'Speak Up' program

A 'Speak Up' program was established in 2010 to support employees to report actual or suspected instances of fraud, crime or serious misconduct. All employees are trained in the policy as part of their induction program.

Suspicious Matter Reporting

Relevant ME Bank employees undertake annual training in Suspicious Matter Reporting. This training course advises employees on how to identify a suspicious matter and the appropriate actions regarding suspicions. If ME Bank forms a suspicion when dealing with a customer on a matter that may relate to an offence, tax evasion or proceeds of crime, ME Bank must complete a suspicious matter report. Offences include money laundering, terrorism financing, operating under a false identity or an offence under a Commonwealth, State or Territory law.

Business Customer Identification and Verification Policies and Procedures

In compliance with Australia's *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*, ME Bank has implemented Business Customer Identification and Verification Policies and Procedures. The

laws are intended to reduce the risk of Australian businesses being misused for the purposes of money laundering or terrorism financing. They also aim to meet the needs of law enforcement agencies for information about possible criminal activity and terrorism.

Measurement of outcomes

During the reporting period, ME Bank complied with both the *Anti-Money Laundering and Counter-Terrorism Financing Act* and with the suspicious matter reporting requirements of the Australian Transaction Reports and Analysis Centre.

ME Bank will continue to review and update its policies and procedures annually.

During the 2014 financial year there was one instance of internal fraud reported. This was promptly dealt with according to the requirements of the Fraud, Crime and Serious Misconduct Policy and the Poor Performance and Behaviour Policy.