

APS 330 PUBLIC DISCLOSURE REMUNERATION DISCLOSURE – 30 JUNE 2020

Basis of Preparation

Members Banking Group Limited (RACQ Bank) Remuneration Disclosure is effective as at 30 June 2020.

The Remuneration Disclosure is prepared in accordance with the Australian Prudential Regulation Authority (APRA) Prudential Standard APS 330 *Public Disclosure* (APS 330), effective 1 July 2018, paragraph 21 to 22 and Attachment G. The Remuneration Disclosure has been prepared on a Level 2 basis comprising Club Finance Holdings Limited (CFH), an authorised non-operating holding company (NOHC) and its wholly owned subsidiaries, Members Banking Group Limited (RACQ Bank) and RACQ Financial Planning Pty Ltd (RACQ FP). CFH's ultimate parent entity is The Royal Automobile Club of Queensland Limited (RACQ or RACQ Group).

Qualitative Disclosures

- (a) The Group Remuneration and Nomination Committee (the committee) is responsible for overseeing the remuneration policies and practices of RACQ Bank. The committee discharges this responsibility by conducting regular reviews of the RACQ Group Remuneration Policy, and making recommendations to the RACQ Bank and CFH Board (the board) including:
- making annual recommendations to the board on the remuneration of the Group Executive Bank and the direct executive reports of the Group Executive Bank;
 - making annual recommendations to the board on the approval and subsequent payment of variable reward applicable to the bank executives of RACQ Bank; and
 - reviewing the methodologies adopted in determining the remuneration of all employees of RACQ Bank, including the responsible persons of RACQ Bank and CFH, material risk-takers and any other persons whose activities may, in the committee's opinion, affect the financial soundness of RACQ Bank.

The committee operates in accordance with the Group Remuneration and Nomination Committee Charter that outlines the committee's roles, responsibilities and terms of operation. The committee is comprised of a minimum of three non-executive directors and meets at least three times a year and as required. At the effective date of this disclosure, the committee comprised of three non-executive directors.

The committee has the option of engaging independent advisors when it considers it necessary to discharge its role and responsibilities. For the 2020 financial year, the committee received external advice from:

- Guerdon Associates, in relation to industry benchmarking for the remuneration of the Group Executive Bank;
- PwC, in relation to a review of the RACQ remuneration framework including variable reward for employees and executives; and
- Willis Towers Watson, in relation to remuneration practices of mutual organisations operating in comparative foreign jurisdictions.

For the purposes of the Remuneration Disclosure, "Senior Managers" have been identified as the Bank's and CFH's responsible persons in accordance with APRA Prudential Standard CPS 510 *Governance*. During the 2020 financial year there were 11 roles within this group which include:

- Group Executive Bank (position title changed from Chief Executive Officer Bank during FY20)
- Chief Operations Officer Bank
- Head of Product, Partnerships and Bank Experience
- Head of Bank Finance
- Head of Risk Bank
- General Manager Sales and Distribution Bank
- General Manager Financial Planning
- Club Finance Holdings Chief Executive Officer
- Club Finance Holdings Chief Financial Officer
- Club Finance Holdings Chief Risk Officer
- Head of Internal Audit

There are no other employees, other than those designated as senior managers above, who are considered material risk-takers in accordance with APS 330.

- (b) The objective of the Group Remuneration Policy is to provide market competitive remuneration while ensuring alignment with RACQ member interests and the RACQ Group's values, business strategy and talent requirements.

The key features of the policy are to provide assurance that remuneration decisions:

- are aligned to RACQ Bank's vision and strategies
- support a prudent approach to risk management and long-term financial soundness of the bank
- ensure that the independence of risk and compliance personnel in the performance of their functions is not compromised
- aid the attraction and retention of talented people
- provide equity, consistency and transparency
- are market relevant and affordable
- comply with corporate governance requirements.

The Group Remuneration Policy is reviewed at least every three years by the committee and no material changes were made during the 2020 financial year. The current remuneration policy was approved by the board in September 2018 and applies to all employees of RACQ and its subsidiaries.

The remuneration structures for key finance and risk employees has been designed as to not introduce potential conflicts of interest or compromise the independence of the function. The remuneration of Senior Managers within financial, risk and compliance roles reflect individual performance only, and are excluded from group incentive targets to ensure that obligations are not compromised by financial incentives. Incentive payments made to other financial, risk and compliance employees that exceed 20% of fixed annual reward are to be approved by the RACQ Group CEO and reported to the committee and board.

- (c) As detailed in the Group Remuneration Policy, total reward at RACQ consists of both a fixed component (fixed annual reward), an at-risk variable component (variable reward) which may be deferred and employee benefits:



Fixed Annual Reward

Fixed compensation consists of base salary, including any applicable salary sacrifice arrangements that relate to employee benefits including motor vehicles, leave entitlements, notional allowances and employer contributions to superannuation funds.

Compensation levels are reviewed annually by the committee through a process that considers individual and overall performance of the bank and the markets in which it operates.

RACQ group uses the Korn Ferry Hay Group system of job evaluation to score the value of all positions.

All employees are paid a fixed sum of remuneration according to individual competence and performance and on a designated remuneration band. Typically, employees are paid between the minimum and mid-point of the remuneration band with the mid-point indicating an expected standard for a person who has the required level of knowledge, skills and experience to successfully meet the job requirements.

Variable Reward

Employees have the opportunity to participate in various variable pay arrangements. Variable reward is directly linked to the achievement of key business outcomes at the group, bank and individual level and may include a deferred component.

Taking into account the expected value of remuneration awards, the performance related elements of pay make up a modest proportion of the total remuneration package for non-executive staff. All variable reward applicable to bank staff are realised as a cash payment.

Performance measures are specifically designed to support the achievement of the group's business strategy which are measured and reviewed on a regular basis against both financial and non-financial metrics. Any variable reward scheme payments are conditional on meeting role responsibilities and meeting expectations in relation to RACQ's values, behaviours and Group Risk Management Framework. All variable reward payments are at the discretion of the board. In FY20, a conduct-based modifier was introduced (for the FY20 incentive payable in October 2020) and applied to variable reward outcomes to ensure remuneration is impacted by risk and compliance behaviours.

Employee Benefits

Employees may also have additional benefits arising from their employment relationship with RACQ, including additional 0.5% superannuation, executive medicals, salary continuance and employee discounts.

- (d) The determination of variable reward is a discretionary process based on various performance metrics both financial and non-financial. Non-financial metrics include member satisfaction, staff engagement, operational and risk measures and the progress in relation to strategic projects. Financial metrics include key ratios, growth targets and member relationship and productivity measures. The bank adopts as policy the use of discretion against some measures to assess performance, whilst applying set targets to others. As such, the board retains discretion to vary the variable reward to reflect the achievement of the performance metrics.
- (e)/(f) During the year RACQ Bank approved a variable reward scheme for all salaried staff, including the Group Executive Bank and direct reports. Variable reward for the Group Executive Bank and certain direct reports (Chief Operations Officer and General Managers) are subject to partial deferral of up to four years. This supports the achievement of longer-term strategic objectives, protects the financial and reputational soundness of the RACQ Bank and serves to support retention of Senior Managers. Prior to the release of deferred incentives, the board will consider if any instances have arisen during the deferred period which would require the deferred incentive to be withheld such as:
- any instances of financial misconduct not limited to but including theft, embezzlement or fraud
 - actions resulting in bank financial or performance misstatements
 - significant legal, regulatory, and/or policy non-compliance
 - actions that are inconsistent with RACQ's Group Risk Management Framework
 - actions that have resulted in or permitted a commercial loss.

The board has the discretion to withhold up to 100% of the total unpaid deferred portion.

Quantitative Disclosures

- (g) During the year, the committee met five times. The committee members received remuneration for their services on the committee in the 2020 financial year of \$39,975 (inclusive of superannuation) in aggregate.
- (h) The table below represents the number of senior managers who received variable remuneration during the financial year:

	2020	
	No of employees	Total (\$)
Short Term Incentive Scheme (STI)	13	629,128
Long Term Incentive Scheme (LTI)	3	261,296
Termination payments	1	929,866

There were no other “*guaranteed bonuses*”¹ or sign-on awards made to senior managers during the year.

- (i) Deferred remuneration of \$261,296 was paid during the 2020 financial year. The total deferred cash-based remuneration outstanding as at 30 June 2020 was \$844,063.
- (j) The table below represents the total remuneration awarded during the 2020 financial year to those that held a senior manager position:

	2020		
	Unreserved (\$)	Deferred (\$)	Total (\$)
Fixed cash-based	4,245,649	-	4,245,649
Variable cash-based	629,128	201,425	830,553

- (k) There are no deferred or retained remuneration exposures subject to implicit or explicit adjustments for senior managers as required under APS 330.

¹ RACQ uses the term *variable reward*, not *bonuses* as per APS 330.