

## REGULATORY DISCLOSURE ANNUAL REMUNERATION INFORMATION MEMBERS BANKING GROUP LIMITED

### Basis of Preparation

Members Banking Group Limited (RACQ Bank) Remuneration Disclosure is effective as at 30 June 2018.

This disclosure is prepared in accordance with the Australian Prudential Regulation Authority (APRA) Prudential Standard (APS) 330 Public Disclosure, effective July 2018 paragraph 21 to 22 and Attachment G. This disclosure has been prepared on a level 2 basis for the group comprising Club Finance Holdings Limited (CFH) and its wholly owned subsidiaries, Members Banking Group Limited (RACQ Bank) and RACQ Financial Planning Pty Ltd (RACQ FP). CFH is a majority owned subsidiary of The Royal Automobile Club of Queensland Limited (RACQ or RACQ Group).

### Qualitative Disclosures

- (a) The Group Remuneration and Nomination Committee<sup>1</sup> (the committee) is responsible for overseeing the remuneration policies and practices of RACQ Bank. The committee discharges this responsibility by conducting regular reviews of and, making recommendations to the RACQ Bank Board on the RACQ Group Remuneration Policy including:
- making annual recommendations to the board on the remuneration of the Chief Executive Officer Bank (CEO Bank)
  - making annual recommendation to the board on the approval of 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 the bank, including the direct reports of the CEO Bank, responsible persons of the bank and CFH and any other persons whose activities may, in the committee's opinion, affect the financial soundness of the bank.

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

The committee has the option of engaging independent advisors when the committee considers it necessary to discharging its role and responsibilities. For the 2017/18 financial year, the committee engaged third-party provider, Godfrey Remuneration Group, to undertake a remuneration benchmarking review for the Club Finance Holdings Chief Executive Officer, Club Finance Holdings Chief Financial Officer, Club Finance Holdings Chief Risk Officer and CEO Bank. Management also engaged third-party provider, Korn Ferry Hay Group to undertake a review of the remuneration grading of the CEO Bank's direct reports during the year.

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<sup>1</sup> Name changed from 'Group Governance and Remuneration Committee' to 'Group Remuneration and Nomination Committee' on 21 November 2017.

For the purposes of this disclosure, senior managers have been identified as per the Fit and Proper classification in accordance with Prudential Standard CPS 510 Governance. During the 2017/18 financial year there were ten roles within this group which include:

- Chief Executive Officer Bank
- Chief Operations Officer Bank
- Chief Financial Officer Bank
- Chief Risk Officer Bank
- General Manager Sales & 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 as material risk-takers in accordance with APS 330.

- (b) The Group Remuneration Policy is considered an important component in attracting and retaining people who have the necessary skills for the effective and prudent operation of the bank. The Group Remuneration Policy is designed 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 2018 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 of risk and compliance employees is determined through the job evaluation process. Key risk and compliance personnel are excluded from group incentive targets to ensure that obligations are not compromised by financial incentives.

- (c) As detailed in the Group Remuneration Policy, total reward at RACQ consists of both a fixed component (fixed annual reward) and an at-risk variable component (variable reward) 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 and behaviours. All variable reward payments are at the discretion of the board. There have been no significant changes since the last reporting period.

### **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, number of 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 CEO Bank and direct reports. Variable reward for the CEO Bank and direct reports are subject to partial deferral of up to 4 years. 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 have resulted in 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 six times. The committee chair was remunerated for the role, except during the period the chair was also chairman of an RACQ Group entity board. The total remuneration paid for the role of committee chair for 2017/18 was \$9,829.46 (inclusive of superannuation). Committee members were also remunerated for their roles. There was one exception, being that the committee member who was also RACQ chairman during the period 23 November 2017 to 30 June 2018 did not receive additional remuneration for services as a committee member during that period. During 2017/18, the aggregate remuneration paid to committee members (other than the chair) for their services on the committee was \$31,492.53 (inclusive of superannuation).
- (h) The table below represents the number of senior managers who received variable remuneration during the financial year.

	2018		2017	
	No of Employee	Total	No of Employee	Total
Short Term Incentive Scheme (STI)	7	\$520,489	7	\$411,184
Long Term Incentive Scheme (LTI)	1	\$71,280	-	-
Retention Incentive	-	-	3	\$350,913
Termination Payments	3	\$520,008	1	\$187,385

There were no other “guaranteed bonuses”<sup>2</sup> or sign-on awards made to senior managers during the year.

- (i) No deferred remuneration was paid out during the 2017/18 financial year (2016/17: \$230,450). The total deferred cash-based remuneration outstanding as at 30 June 2018 was \$71,280 (2016/17 \$Nil).
- (j) The table below represents the total remuneration of those that held a senior manager position during the year.

	2018			2017		
	Unreserved	Deferred	Total	Unreserved	Deferred	Total
Fixed cash-based	\$2,938,372	-	\$2,938,372	\$2,324,201	-	\$2,234,201
Variable cash-based	\$1,040,497	71,280	\$1,111,777	\$949,481	-	\$949,481

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

<sup>2</sup>RACQ uses the term variable reward, not bonuses as per the APS standard.