

Police Credit Union Ltd
Pillar III Remuneration Disclosures

Remuneration Governance

These disclosures have been prepared in accordance with the requirements of APS330 Public Disclosure. The role of the Board Remuneration and Governance Advisory Committee, is set out in a Charter approved by the Board and is mandated to oversee the remuneration of the PCU Group.

The members of the Board Remuneration and Governance Advisory Committee comprise non-executive directors, and its current composition is:

- A Zimmermann (Chairman)
- M Fisher (Deputy Chairman)
- P Alexander
- K Presser
- P Schar

The Committee is responsible for recommending to the Board for approval:

- development and annual review of the PCU Remuneration Policy,
- remuneration of the Chief Executive Officer and direct reports of the CEO, and
- remuneration of other persons whose activities may in the Committee's opinion affect the financial soundness of the Credit Union.

The Credit Union focuses on basic financial products, secured by adequate security, and ensures diversification of risk to ensure that material risks are mitigated to an acceptable level. As the Credit Union's Remuneration Policy limits performance-based remuneration 20% of total remuneration, there are no other employees not already covered in these disclosures, meeting the definition of material risk takers.

During the financial year, the Board Remuneration and Governance Advisory Committee met on three occasions. The committee comprises non-executive directors made up of the Chairman, Deputy Chairman and three other directors that include the Chairman of the Board Audit and Board Risk Committees.

Remuneration of the Board Remuneration and Governance Advisory Committee members, in aggregate, for the financial year ended 30 June 2019, amounted to \$358,302 (2018: \$337,046). This represents the remuneration, not only for duties on the Board Remuneration and Governance Advisory Committee, but total aggregate remuneration for Directors.

Design and Structure of Remuneration

The Board Remuneration and Governance Advisory Committee oversees the annual performance appraisals and remuneration of the CEO and those reporting directly to the CEO.

The key principle of the Remuneration Policy is to remunerate in a manner that considers experience, qualifications and individual performance, having regard to industry benchmarks. The policy seeks to:

- motivate executive and other managers to lead the business successfully and drive strong long-term organisational growth in line with the strategy and business objectives.
- drive successful organisational performance by incorporating an annual performance incentive and establish longer-term performance objectives.
- ensure transparency and fairness in remuneration policy and practices.
- deliver a balanced solution addressing all elements of total pay - base pay, incentive pay and benefits including appropriate superannuation arrangements and attraction and retention strategies.

During the past year, the Remuneration Policy was reviewed and amended to comply with the Banking Executive Accountability Regime and approved by the Board on 28 March 2019.

To ensure the independent oversight of the Risk and Financial Control personnel, comprising the Internal Auditor and Manager Finance, their remuneration is also overseen by the Board Remuneration and Governance Advisory Committee. Bonuses paid to these personnel are based on the performance of the business as a whole and for these persons; fixed salary comprises greater than 90% of total remuneration.

Risk Management Considerations

All staff take responsibility and are accountable for sound risk management, operational and financial control of the Credit Union within the Board approved Risk Management and Control Framework. The key risks that the Credit Union faces are Credit, Liquidity and Interest Rate Risk which together give rise to the need for adequate Capital to protect depositors. The Credit Union's Capital Adequacy Assessment Process evaluates the level of risk and the Strategic Plan is developed with reference to the level of risk, the Board's appetite for risk, and the need to maintain capital commensurate with the risks.

Staff position descriptions are formulated to achieve long-term organisational growth in line with strategy and business objectives and include an annual performance incentive. Key performance criteria in all position descriptions include the responsibility for risk management and compliance and individual performance is regularly measured against those criteria in performance appraisals.

The Credit Union's Risk Management Framework is reviewed annually and complies with Consolidated Prudential Standard CPS220.

Linking Performance with Remuneration

Key to individual performance criteria is responsibility and accountability for sound business practice and risk management aligned to strategy and business objectives that incorporate both financial and non-financial performance standards. Performance based pay, is utilised within remuneration structures, but limited to 15% of base salary and shall not exceed \$50,000.

The Board ultimately decides on the remuneration of the CEO and Executives, based on their direct accountability, responsibility for operational management, leadership, strategic direction and decision making for the Credit Union.

Remuneration packages include "at risk" performance-based remuneration payable with or without deferral. Payment of "at risk" remuneration is contingent to the achievement of agreed financial and non-financial performance standards. The Credit Union's financial benchmarks are set at the start of the financial year and may be subject to mid-year review by the Board. The Credit Union's long-term Strategic business benchmarks are underpinned by the need to maintain Capital at prudent levels that requires risks to be actively managed by ensuring these are identified, steps are taken to mitigate any risks and the level of residual risk is mitigated sufficiently through controls and diversification. Remuneration is based on performance and is aligned with prudent risk taking that is adjusted to reflect the outcome of business activities-and achievement across all areas of the Balanced Score Card and longer-term strategic goals.

The Credit Union has not made use of the option to defer performance-based remuneration. Remuneration Packages including "at-risk" remuneration is cash based. The fixed cash component of remuneration may be exchanged for an equivalent non-monetary benefit in the form of a company owned motor car.

Quantitative Disclosures of Remuneration for the year ended 30 June 2019

All Executive Management, Risk and Financial Control staff have an "at-risk" component of remuneration included in their packages. Variable and at-risk performance-based bonuses for the year were approved, amounting to \$138,000 in aggregate (June 2018: \$135,000).

There have been no sign-on awards or termination payments (other than accrued entitlements) made during the year. During the year and the prior year, no deferred remuneration was paid or outstanding at year-end.

Remuneration of senior managers within the scope of Prudential Standard APS330 Public Disclosure is reflected in the table below.

Executive Management and Risk and Financial Control Personnel	Number	2019	2018
		\$	\$
<i>Cash based</i>			
<i>Fixed remuneration</i>	10	2,037,887	1,833,598
<i>Variable remuneration</i>	10	138,000	135,000