

Explanatory Statement

Agenda Item 3

Reports

As required by the Corporations Act, the Financial Report, Directors' Report and Auditor's Report for the year ended 30 June 2023 will be laid before the meeting. Copies of the Reports are available on the Qudos Bank website at: <https://www.qudosbank.com.au/about-us/corporate-information/> or by calling 1300 747 747.

Agenda Item 4

Directors

Andrew Leithhead and Joe Dicks retire as Directors by rotation and meeting the eligibility criteria set out in article 12.8 of the Constitution, stand for re-election as Directors under article 12.6 of the Constitution.

As the number of eligible candidates is equal to the number of positions to be filled, in accordance with Schedule 2 of the Constitution, the Directors shall be elected by separate resolutions at the annual general meeting.

Directors unanimously support these resolutions and recommend that you vote FOR the resolutions. The Chair intends to vote all undirected proxies in favour of the resolutions.

A profile for each candidate is set out below.



JOE DICKS

BCom, GradDipAcct, CA, GAICD

Service:

- » Director since 2020
- » Qudos Bank Customer since 2018

Additional Roles:

- » Chair of the Audit Committee
- » Member of the People & Remuneration Committee

Memberships:

- » Member, Australian Institute of Chartered Accountants
- » Member, Australian Institute of Company Directors
- » Chair, Campus Living Villages Group
- » Director, Nido Education Pty Ltd

Background

Joe Dicks has spent most of his professional life advising businesses on how to improve performance. His career spans corporate advisory, business restructuring, profit improvement and risk & governance. In the latter years of his professional career, he specialised in forensic accounting and providing accounting expert court testimony. He is a Chartered Accountant and Member of the Australian Institute of Company Directors.

Joe commenced his career as a non-executive director 20 years ago, becoming a founding director of Uniting AgeWell (Victoria and Tasmania). Since then, he has served on numerous boards and as chair on several of their audit and risk committees. He is currently the Chairman of Campus Living Villages Limited and a non-executive director on two other boards.



ANDREW LEITHHEAD

BCom, GAICD, FFin, JP

Service:

- » Director since 2017
- » Qudos Bank Customer since 1970's

Additional Roles:

- » Chair of the Risk Committee
- » Member of the Audit Committee
- » Member of the Distribution, Infrastructure & Technology Committee

Memberships:

- » Member, Australian Institute of Company Directors
- » Director, LLL Australia
- » Director, P.T Management Services Pty Ltd
- » Non-Executive Director of the Australian Racing Drivers' Club

Background

Andrew Leithhead's career has spanned many financial services disciplines, including investment portfolio management, stockbroking, investment banking, equity and debt capital markets and commercial banking (including digital transformation) in Australia and in the US.

Andrew has held senior leadership positions in large, multi-national companies and smaller, local businesses, including ANZ Banking Group, KPMG, Barclays Bank Group, Gilbert & Tobin Lawyers and Meares & Phillips. His experience as a director includes ANZ Equities, LINWAR Securities, The Scots College and KPMG Corporate Finance (Australia) and as Chair of the Australian Racing Drivers' Club (which operates Sydney Motorsport Park).

Agenda Item 5

Directors' Remuneration

As there have been no changes made to their remuneration structure since 2016, the Board is seeking Member approval to increase Directors' fees. Since 2016, the remuneration gap against the Bank's industry peers has continued to widen, creating a risk that the Bank may not be able to attract and retain Directors who are both sufficiently qualified and experienced to govern a large mutual bank.

The proposed resolutions will see Directors' fees increase from \$45,000 per annum to \$75,527 per annum (+\$30,527). At the same time, it is proposed that the allowance currently paid to the Chair will be decreased from 90% to 80%.

Whilst the payment of a 25% allowance for the Deputy Chair and Chairs of the Audit and Risk Committees remains unchanged, it is proposed that this allowance be extended to the Chairs of all Board Committees.

Note that as the changes are proposed to take effect from 01 October 2023, the minimum statutory Superannuation Guarantee Rate (SGR) to be applied is 11%. SGR is scheduled to increase by 0.5% to 11.5% in 2024, up to a maximum of 12% in 2025.

Directors unanimously support the proposed resolutions and recommend that Members vote FOR the resolutions. The Chair intends to vote all undirected proxies in favour of the resolutions.

Background

Members may recollect that a resolution to increase Director remuneration and to move to an aggregated Board remuneration pool was not passed at the 2022 AGM. Feedback from Members was that the proposed resolution and explanation were too complicated.

Accordingly, the Board has resolved to seek Member approval to adjust the fee for each Director to the mid-point of our peer group, while retaining the current remuneration structure and leaving Committee attendance fees unchanged.

If passed, the resolutions will decrease the allowance paid to the Chair from 90% to 80%. It will leave the allowance paid to the Deputy Chair, Chair of the Audit Committee and the Chair of the Risk Committee unchanged at 25% and extend the 25% allowance to the Chairs of other Board Committees to reflect their additional duties.

The Board is committed to balancing the need to adequately remunerate Directors with the Bank's principles of mutuality; to attract and maintain appropriately experienced Directors, encourage enhanced performance by the Bank and offer the highest level of service to Members. The Bank's aim is to remunerate Directors at the mid-point of comparable financial institutions in keeping with those principles.

In setting the proposed Directors fees, the Board has considered several surveys of our peers: the Non-Executive Directors Survey conducted by the Financial Institutions Remuneration Group published in March 2023, the 2023 Mutual Board Remuneration Survey Report published by McGuirk Management Consultants Pty Ltd and the 2023 Customer Owned Banking Non-Executive Director Survey conducted by Aon Advisory Australia Pty Ltd and the Customer Owned Banking Association.

All surveys indicate that Qudos Bank's Director remuneration is in the bottom 25% of comparable financial institutions. While the current Board has strong experience and expertise to oversee the affairs of the Bank, if this imbalance is not rectified there is a risk that we will not be able to attract and retain high quality Directors in the future.

The Board has overseen strong performance in the 2022/2023 financial year as set out in our Annual Report, while maintaining very competitive products and services for our customers, culminating in Qudos Bank once again being awarded Customer Owned Bank of the Year by Canstar and Mozo.

Since 2016, the Board has continued to strengthen risk and governance frameworks, further enhance products and services and give back to our Members, people and the planet. Some of these initiatives are summarised below:

- Completed a comprehensive Board renewal process to implement tenure limits approved by Members and ensure that the Board has the necessary skills and experience for the effective and prudent operations of the Bank.
- Conducted a review and refresh of our purpose, identity and strategic direction.
- Restructured Board Committees to further embed the Bank's commitment to our purpose, Members and employees.
- Commissioned several independent third-party reviews to uplift the Bank's risk and governance frameworks.
- Implemented a new lending origination system and electronic signing of loan documents to improve customer experience, increase efficiencies and reduce paper usage.
- Launched various improvements to the Bank's payments, online and mobile banking platforms to provide customers with faster, easier and safer ways to transact.
- Proactively engaged with home loan customers by providing assistance during COVID and more recently customers nearing the end of their fixed-rate home loan terms among rising interest rates.
- Commenced major projects to better engage with our Members and renew our commitment to good Environment, Social and Governance practices, including achieving Climate Active accreditation as a carbon neutral organisation.

Role of the Board

The Qudos Bank Board has the final responsibility for the sound and prudential management of the Bank, ensuring its strength and security for Members now and into the future. It is responsible for the governance, strategic direction and effective oversight of management of the Bank and is accountable to Members for the Bank's performance.

The Board is also responsible for establishing and maintaining a sound risk management culture throughout the Bank. It ensures that the Bank has in place an appropriate risk management framework (for both financial and non-financial risk) and sets the risk appetite within which the Board expects management to operate.

The Board is dedicated to fulfilling these duties in a lawful and professional manner, and with the utmost integrity and objectivity. As such, the Board actively pursues best practice governance processes in keeping with community expectations and its regulator, the Australian Prudential Regulation Authority (APRA).

The personal liabilities held by Directors are significant, including the accountability obligations established by the Banking Executive Accountability Regime overseen by APRA.

Since the last remuneration change in 2016, the workload, complexity and expectations faced by Australian Boards has increased significantly, especially in the world of banking. The sector has been the subject of a Royal Commission, increasing regulation, increasing instances and severity of cybercrime and fraud.

To remain sustainable and competitive the Bank needs to continue to attract and retain Directors with the skills, capability and commitment to navigate and oversee the increasing variety and number of challenges faced by the Bank and to pursue the sustainable creation, protection and return of value to Members.

