



CPS 511 Remuneration Disclosure

Introduction

- This disclosure is pursuant to APRA Prudential Standard CPS 511 – Remuneration and outlines the remuneration governance, practices and policy of Community First Credit Union Limited trading as Community First Bank (CFB).
- As a customer-owned bank, CFB is committed to supporting the financial wellbeing of our members as customers and the communities we operate. Guided by the principles of the Customer Owned Banking Code of Practice, CFB place members as customers at the centre of our decision-making and provides the foundation for CFB to meet the requirements of CPS 511.

Remuneration Governance

- The Board Corporate Governance and Remuneration Committee (CGRC) oversees compliance with the prudential standard on remuneration and Board policies affecting the remuneration of relevant personnel.

The Committee is made up of a subset of the Board Corporate Governance Committee and comprises four members being the Chair, two independent non-executive Directors of the Board and the Chief Executive Officer (CEO). However, the CEO is not part of the remuneration body and only makes recommendations to the Board CGRC on payments to relevant personnel.

- No external consultant was used in the remuneration process. However, reference to current market and industry remuneration standards is used for comparison purposes only.
- The Remuneration Policy is applicable to all staff employed by CFB.

Remuneration Framework

- The key features of the remuneration process include a focus on attracting, developing and retaining the appropriate level of talent for the organisation to achieve its goals, which include risk management.

Individuals are assigned key metrics at the beginning of each year and assessed against corporate and individual goals at year end.

Accordingly, competitive market salaries may at times be supported by small bonus payments. However, the lack of large reward schemes outside of the fixed portion of individuals remuneration and an inclusion of risk measures on individual performance objectives create an environment where there is no incentive for unnecessary risk-taking.

- The Board reviewed and approved the BP20 Remuneration policy during the year.
- The Executive Management team and Risk and Finance personnel are remunerated based on a fixed market-based salary with performance metrics tied to a balance between individual and corporate performance and risk management criteria. There is no capacity for these personnel to be paid significant bonuses and their position descriptions focus their attention on providing adequate risk and control frameworks for the organisation to operate within.

Remuneration Policy

- CFB has established BP20 Remuneration policy to ensure that CFB complies with the prudential standard CPS 511 Remuneration. In particular, to ensure that CFB's remuneration framework:
 - aligns with the business plan, strategic objectives and risk management framework;
 - promotes effective management of both financial and non-financial risks, sustainable performance and long-term soundness; and
 - supports the prevention and mitigation of conduct risk.
- CFB uses a risk management framework, linked to its governance framework to identify, monitor and manage key risks in the organisation from a top-down corporate perspective and bottom-up operational perspective with input from all key stakeholders. Accordingly, all management personnel have a combination of corporate and individual performance and risk metrics they are measured against.

The elements of the risk management framework include a strategic plan that determines the objectives of the organisation, a risk appetite and tolerance statement that determines boundaries for controlled risk-taking, Board and Management policies that allow or prohibit certain activities, internal capital adequacy assessment processes and risk management systems, registers and assessment and reporting processes that measure and monitor the organisation's need for capital at any time. The traditional "three lines of defence" of assurance and internal control review are used to monitor the performance of the risk and governance frameworks.

The risk management policy groups key risks in the following categories:

1. Financial risk
 - a. Liquidity risk
 - b. Credit risk
 - c. Interest rate and margin risk (Market risk)
 - d. Capital management
2. Regulatory and compliance risk
3. Reputation risk
4. Strategic and sovereign risk
5. Operational risk
 - a. People
 - b. Processes
 - c. Information Technology systems (including data risk and information technology security risk)

- The nature and type of the key measures used to take account of the key risks include:
 1. Financial risk
 - a. Liquidity risk: the High Quality Liquid Asset (HQLA) and non-HQLA ratios.
 - b. Credit risk: levels of arrears and bad debts written off and compliance with credit policies and exposure limits.
 - c. Interest rate and margin risk: the target Net Interest Margin (NIM), Values at Risk (VaR), sensitivity analysis and earnings at risk measures.
 - d. Capital management: Budget profitability and growth measures.
 2. Regulatory and compliance risk: compliance with all relevant legislation.
 3. Reputation risk: the management of any adverse brand implications in the market.
 4. Strategic and sovereign risk: the achievement of the strategic plan objectives, performance of any outsourced suppliers and the organisation's ability to make independent decisions.
 5. Operational risk: the number and magnitude of any operational incident(s).
- These measures affect remuneration through individual management accountability for some or, in the case of the CEO, all of the exposures to risk the organisation may face at any time.

However, as a financial institution, CFB must take accepted and calculated risks in order to achieve its goals and management are remunerated for their ability to manage the impact of the external environment that impacts the organisation and the choices they make to respond to the achievement of the corporate goals.

- These measures have not changed substantially in the financial year as they are integrated into the corporate strategic plan and risk management framework, including the risk appetite statement. The only changes generally relate to budgetary changes that consider the environment in which CFB operates and the CFB's strategic initiatives or any specific goal the Board sets for the CEO.
- Management performance is linked with levels of remuneration through the setting of goals and performance criteria established within the annual budget or changes in the strategic plan. However, there is no capacity for any individual to earn significant levels of variable remuneration over their fixed compensation
- The main performance metrics include the achievement of the organisation's two main strategic themes of budget profitability and controlled growth in total assets. In addition, specific individual department goals or initiatives are aligned to these themes such as sales results, controlling costs or managing risks.
- Each selected manager's remuneration review is linked to market salaries and the achievement of a combination of corporate goals and specific individual department goals or initiatives. However, any bonus payment is minor relative to their fixed remuneration.
- As the total remuneration for any individual is a combination of market salaries (fixed remuneration) and variable remuneration, any adjustment to remuneration for under target performance only applies to the variable component of the remuneration. Similarly, variable remuneration is only paid after the successful achievement of any goal or initiative and is minor.

- As the corporate goals reflect a balance of lead and lag performance indicators across a number of performance areas and risk measures reported in the risk appetite statement, the possibility of any adverse future impact is reduced. Therefore, there is no vesting of variable remuneration.
- CFB has a minor variable-based performance bonus below the threshold for deferred remuneration under FAR. The bonus is only paid after the achievement of a goal. There are no “clawback” arrangements applicable.
- As CFB is not a listed entity and has no capacity for equity based remuneration, it only pays cash based remuneration in the form of market linked fixed remuneration and minor variable based performance bonuses.
- All members of staff are covered by either an Enterprise Agreement or contract that provide the basis for cash based remuneration only.
- The Board Corporate Governance and Remuneration, as a sub-committee of the Board Corporate Governance Committee met once in the last financial year.
- The members of the Committee are all independent Directors and do not receive any additional remuneration for this meeting.
- Each year a remuneration report submission is tabled to the Board allowing all Directors an opportunity to input into the Board Corporate Governance and Remuneration Committee review of the annual salary review process. This meeting served as a final input before the final Board recommendation and approval.
- The Chair of Board Audit and Risk Committee together with the Chair Board Corporate Governance and Remuneration Committee will discuss whether there have been any significant and material non-financial risk issues against the pre-determined metrics / measures that should be taken into account in terms of variable compensation as presented in the annual remuneration report.