

Remuneration Disclosures As At 30 June 2019 (updated annually)

Oversight of Remuneration

Remuneration is determined in accordance with the **Remuneration Policy of Cuscal Limited (the Policy)**.

This Policy sets out Cuscal's objectives and policies in relation to its remuneration arrangements, the structure of those arrangements, persons covered by the Policy and related matters.

The Board of Cuscal has appointed the **Board Governance & Remuneration Committee (the Committee)** to assist the Board to oversee, implement and review the Policy. The Committee consists of the Chairman of the Board as Committee Chair plus two other non-executive directors. The charter of the Committee requires that a majority of the Committee Members are Independent Directors.

Membership of the Committee and attendance at meetings during the year ended 30 June 2019 (FY 19) were:

Director	Number of Meetings Attended	Number of Meeting the Director was Eligible to Attend
W J Conn (Chairman) #	2	2
P Lahiff (Chairman) ##	3	3
M S Genovese	5	5
G Venardos*	2	3
S A Petering**	2	2

#W J Conn retired effective 12 November 2018.

P Lahiff appointed effective 12 November 2018

*G Venardos resigned effective 31 December 2018

**S A Petering appointed to Committee effective 10 April 2019

With the exception of Mr. M.S. Genovese, all members of the Committee are independent non-executive directors under *APRA Prudential Standard CPS 510 Governance*. Under CPS 510, Mr. M.S. Genovese is classified as non-independent non-executive director.

The total remuneration for the financial year of all Directors who were members of the Board Governance and Remuneration Committee during FY19 was \$426,700¹ (inclusive of superannuation).

The Policy covers the following classes of persons, as well as scheme rules for other staff:

- Responsible Persons (the equivalent of Senior Managers under CPS 510),
- Risk and Financial Control Personnel

The remuneration disclosures in this document cover only Responsible Persons during FY 19 and FY 18 comprising the following:

Responsible Persons	FY 18	FY 19
Managing Director	1	1
Chief Client Officer	1	1
Chief Financial Officer	1	1
Chief Information Officer	1	1
Chief Risk Officer	1	1
General Manager Shared Services	1	1
General Counsel & Company Secretary	1	1
Chief Executive Officer (subsidiary company 86 400)	1	1
Chief Information Officer (subsidiary company 86 400)	1	0

During FY 19 the Committee received external advice on the Remuneration Policy as it related to BEAR implementation.

¹ Total remuneration paid in FY19 includes all fees paid to each Committee Member.

Design and Structure of Remuneration Process

2.1 Objectives of Remuneration Policy

- (a) To attract, retain and engage competent and high performing employees.
- (b) To ensure Cuscal's remuneration practices are consistent with financial services industry practices and are sufficiently attractive in order to compete for talent.
- (c) To create a balance and a distinction between fixed remuneration (base salary) to remunerate day to day performance and variable remuneration (performance-based incentives) to reward achievement of outcomes of business activities.
- (d) To reward growth and performance while maintaining the stability and financial soundness of Cuscal.
- (e) In relation to variable or performance-based components of remuneration, to encourage behaviour that supports Cuscal's long term financial soundness and risk management framework.
- (f) To ensure the independence of Risk and Financial Control Personnel in the performance of their functions is not compromised.
- (g) To promote a culture and working environment that attracts and encourages staff who fit Cuscal's risk appetite.
- (h) Generally, to ensure Cuscal's remuneration arrangements are, and remain, compliant with corporate governance requirements, including requirements under CPS 510.

2.2 Key Features of Remuneration Policy

The fixed component of the remuneration of persons covered by the Policy consists of salary and superannuation benefits. In addition, some persons covered by the Policy receive remuneration in the form of fringe benefits. Such benefits and applicable FBT are funded from the person's base salary which is reduced accordingly.

All performance based remuneration takes the form of cash payments.

Each of the classes of persons subject to the Policy may qualify to receive variable or performance based components of remuneration under the structures outlined below; each structure has the following common features:

- Objectives and measures are set and adjusted annually for each financial year beginning 1 July.
- The objectives include the requirement that a "Corporate gateway" objective is achieved, unless otherwise approved by the Board.
- To qualify for performance based remuneration, the achievement of goals is mandatory. Generally, Cuscal adopts a balanced scorecard approach to measuring performance considering both organisational and individual performance against the following objectives:

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- Financial
 - Client outcomes and satisfaction
 - Risk management objectives
 - People and operational management
 - Personal stretch goal outcomes
 - The Board has the discretion to adjust the performance based components of a person covered by the Policy, if necessary:
 - To protect the financial soundness of Cuscal, or
 - To respond to significant adverse, unexpected or unintended consequences affecting Cuscal that had not been foreseen at the time of setting an executive's performance based components of remuneration.
 - One off extraordinary events that affects an individual's ability to achieve their objectives will be considered by the Committee following recommendations from the Managing Director to determine if discretionary payments are warranted.

2.3 Risk & Financial Control Persons

One of the objectives of the Policy is to ensure the independence of Risk and Financial Control Personnel in a manner that does not compromise their independence in carrying out their risk and financial control functions.

This is achieved by ensuring that the base remuneration is sufficient to attract appropriately qualified and professional staff to these positions. The ability of this class of person to receive performance incentives under the Pay at Risk Program is primarily dependent upon meeting objectives that specifically relate to their roles and responsibilities in support functions. These objectives are not linked to any revenue generation/profit generation activities in other areas of the business.

Incentives payments for Cuscal employees are dependent on a minimum performance standard or gateway being achieved. Because of the nature of their roles, Risk and Financial Control have very limited capability to influence whether or not Cuscal meets that gateway.

2.4 Review of Remuneration Policy

In 2019 following advice from Ashurst and Korn Ferry, the Remuneration Policy was reviewed to include the obligations arising under the Banking Executive Accountability Regime set out in Part IIAA of the Banking Act 1959. The policy was amended to apply deferral to either the lesser of 10% of Actual Remuneration or 40% of Variable Remuneration and defer that amount for the period of 4

years for specific employees. If the grant value is lower than or equal to \$50,000, no deferral applies.

A transitional arrangement applies in FY19 to certain existing employees, who will be subject to BEAR requirements in the FY20 reporting period. Those employees have a deferred amount for 2 years for FY19 only.

2.5 86400 Performance Rights Plan

For the FY19 reporting period, certain employees were covered by the subsidiary company's remuneration policy and structure. The 86 400 policy largely replicates the Cuscal Remuneration Policy with the exception of a Share Performance Rights Plan.

Eligible employees may be offered performance rights in the subsidiary Company, 86 400 Holdings Pty Limited. The Share Performance Rights Plan is governed by the 86 400 Board and the Plan Committee and only applies to employees and directors associated with 86 400. Offers to participate in the Plan may be made to select employees at the Plan Committee's discretion. The number of Performance Rights to be granted is determined by the Plan Committee and the aggregate percentage of the issued capital of the Company represented by the rights allocations are currently capped. Allocations under the Plan will be preserved prior to 31 December 2021.

The Performance Rights will entitle a participant to a specific portion of the total number of shares on issue as at the vesting date. Performance Rights cannot be exercised (converted to shares) until they vest and certain exercise conditions (e.g. a minimum valuation floor) are met or waived by the Plan Committee. If the minimum valuation floor is not achieved, and / or exercise conditions are not waived, the Performance Rights will lapse unless the Plan Committee determines otherwise.

Performance Rights may lapse in certain circumstances, including where the participant is a "bad leaver" or has engaged in gross misconduct.

Remuneration Structures

Responsible Persons

The following remuneration structure applies.

3.1 Executive Incentive Plan (short term and deferral components)

The Executive Incentive Plan has two separate components which come together to ensure both short and long term objectives of Cuscal are met:

- a) The short term element establishes objectives and performance criteria for the short term (12 months) which are set and reviewed annually in line with Cuscal's short term business priorities.

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- b) The deferral element is established to ensure achievement of short term goals enhances the long term objectives of the organisation. Deferral is paid at the end of a four year period.

The guiding principle that establishes the Executive Incentive Plan is the achievement of performance criteria set between a threshold (minimum) and a target (maximum).

Payment under the Incentive Plan is dependent on the achievement of specific corporate performance objectives and measures set by the Cuscal Board.

A Leadership performance objective is established as a “gateway” measure. If the “gateway” performance measure is not achieved no incentive will be paid irrespective of achievement against other criteria.

If the “gateway” measure is achieved the STI reward may be increased proportionately to a cap of the Fixed Remuneration, subject to the achievement of other objectives against target performance criteria.

The Executive Incentive Plan structure is such that the actual incentive can vary depending on Cuscal’s actual performance over the relevant period and achievement of objectives.

If the threshold of any other measure is not met then no benefit accrues in respect of that measure. If the target is exceeded then the maximum opportunity applies in relation to that measure.

3.2 Features of the Executive Incentive Program

- Participation in the Executive Incentive Program is by written invitation.
- The Board has discretion to adjust the performance-based components of the remuneration of participants in line with its responsibilities under the Policy.
- In the event that there is any significant change in the operations of Cuscal such as to fundamentally alter the intended effect of the stated performance measures, the Board may make such adjustment as it deems necessary in order to ensure the program incentivises performance.
- The Board may terminate, suspend or alter the Executive Incentive Program in whole or in part, but such action will not affect the then accrued rights of the participant.
- In the event that objectives and performance criteria are not achieved, any payments are at the discretion of the Board.
- The Committee reviews the Managing Directors’ recommendation of performance for each Responsible Persons covered by the Executive Incentive Plan.

Performance Alignment, Risk & Performance Incentives

Fundamentally the Policy seeks a balance between:

- ensuring that Cuscal can attract and retain appropriately qualified, competent, professionals and high performing employees, and

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- rewarding growth and performance that enhances long term shareholder value while maintaining the stability and financial soundness of Cuscal.

The risk under the Policy is that if the alignment of these fundamental aims becomes delinked and performance incentives skew behaviours and financial results in a way where the benefit accruing to some employees may have a detrimental effect on long term shareholder value. This risk may manifest itself in the following areas:

- Strategic risk –where performance incentives drive the undertaking initiatives that do not align with enhanced shareholder value,
- Financial risk – where performance incentives drive activities where the level of financial reward is not commensurate with the level of risk,
- Reputational risk – where performance incentives drive activities, or dealing with counterparties with the potential to damage the entity’s reputation, and
- Non-Financial or Operational risk – where performance incentives drive activities into areas where the entity does not usually operate.

The Policy contains a series of checks and balances that operate to ensure the fundamental aims of the Policy do not become delinked.

The Board, through the Board Governance and Remuneration Committee, has the ability to vary the performance based component of any persons subject to the Policy to protect the financial soundness of Cuscal and/or to reflect changed or unforeseen circumstances affecting Cuscal.

The number of positions subject to the Policy is relatively small and the participation under the Policy is by invitation. The review of the Policy by the Committee enables it to review the positions covered by the Policy.

No person subject to the Policy can receive a performance based payment based on a financial metric alone. In every case qualification for a performance incentive requires meeting non-financial goals where performance is judged by the employee’s head of department and their divisional manager with further oversight by People and Culture and the Managing Director. Goal setting at Cuscal ensures that there is an alignment between the goals approved by the Board in the annual Corporate Plan and the goals set for persons covered by the Policy. After approval of the Corporate Plan, goals are cascaded down the organisation.

Furthermore, no person can qualify for a performance incentive unless Cuscal as a whole meet its “Corporate gateway” targets, unless specifically approved by the Board. Both these factors work to align individual performance to Cuscal performance and to shareholder value.

Performance related payments are all deferred until after the audit for the financial year has been completed and the result for that financial year determined.

Quantitative Disclosures

The following information is provided only in respect of Cuscal employees who fall within the definition of "senior manager" and "material risk taker" as defined in CPS 510 and detailed above.

Cuscal generally pays variable remuneration amounts in respect to a financial year in the September following the June year end. Accordingly, any variable remuneration amounts disclosed as paid or vested are referable to individual performance and Cuscal's overall performance for the years end 30 June 2018 and 30 June 2019 respectively. There were no ex post explicit or implicit adjustments of deferred remuneration in the reporting period.

Financial Years Ending	30 June 2018		30 June 2019	
	Senior Managers and Material Risk Takers	Amount (\$000's)	Senior Managers and Material Risk Takers	Amount (\$000's)
Recipients of variable remuneration	9	1,534	8	2,277
Guaranteed bonus	Nil	Nil	Nil	Nil
Sign on awards	Nil	Nil	Nil	Nil
Severance payments	Nil	Nil	Nil	Nil

Financial Years Ending	30 June 2018		30 June 2019	
	Unrestricted \$000's	Deferred \$000's	Unrestricted \$000's	Deferred \$000's
Remuneration of Senior Managers and Material Risk Takers				
Fixed remuneration (including superannuation)				
• Cash-based	4,024	Nil	3,971	Nil
• Shares and share-linked instruments	Nil	Nil	Nil	Nil
• Other	Nil	Nil	Nil	Nil
	4,024	Nil	3,971	Nil
Variable remuneration				
• Cash-based	1,054	460	1,336	934
• Shares and share-linked instruments	Nil	Nil	Nil	7
• Other	Nil	Nil	Nil	Nil
	1,054	460	1,336	941