

# TUGUN & DISTRICT FINANCES LIMITED

## Explanatory Note: Director Remuneration Policy

### Background

Since the inception of the Community Bank (CB) model in the late 1990's, Bendigo Bank (BEN) always extolled the virtues of directorship of the CB company be based on a volunteer board of directors who share a passion and interest in the local community.

In the formative years of the CB model, volunteer directors enjoyed strong support and guidance from the franchise "partner" BEN on all matters pertaining to the CB campaign process, prospectus issue, company formation, capital raise, branch opening, in-person director education and most importantly direct local support from BEN Regional Managers & the CB Management Teams at regional, state and national levels.

In those early years, BEN as the trusted partner in the CB franchise, always provided pro-active guidance, support and a vested interest in the success of every franchisee. BEN had – and still have a very strong reliance on the CB franchise network to grow *their* customer base and a vehicle to promote and demonstrate *their* "point of difference" (POD) of feeding into the prosperity of communities – and not off it.

The first 20 years of the CB model included marketing support to CB companies from a Marketing Development Fund (MDF) which provided support to branches to promote the BEN brand, banking products & services, the POD and the local board's community engagement strategy. The MDF was particularly helpful in the early stages of development when the CB companies were striving to grow its banking business and customer base towards sustainable profitability.

BEN commenced withdrawal of the MDF financial support to all CB companies approximately 6 years ago and the program was completely concluded in the last 2 years.

The MDF funds were redirected to the national marketing and media campaigns to support brand recognition and in turn assisting the network at large.

### Philosophy

The current Tugun & District Finances Ltd (TDFL) board recognise and acknowledge the significant contributions made by the foundation steering committee, inaugural board of directors and all past directors who have served on the board since inception. Their selfless commitment to undertake the CB campaign process set the foundations of the fledgling company in the early years of operations will always be respected and admired.

Tugun was one of the first 4 Community Banks in Queensland in the early 2000's and this would not have been possible without the tireless work of those community champions who carved the CB path we walk down today.

A strong sense of community still exists across the CB network today but is now more than ever incumbent on the CB board of directors to operate in a largely "self-help" environment. There are several support structures that have changed or been removed in recent years including, a Regional Community Manager, a State Community Manager, State Community Banking team and Regional Collaborative Marketing Committee. Furthermore, the Regional Manager and Relationship Manager are located outside of the Gold Coast region and interstate and there is no local or state Community Bank Mentor representation. Due to these significant changes, there is limited direct interaction with BEN and lacking the support the Board previously relied on and enjoyed.

For many years TDFL has enjoyed a full complement of volunteer directors since inception of the company in 2002. The board has included a diverse mix of businesspeople, community champions and retired members of the local area, with sound skills and experience, that has served the board exceptionally well.

TDFL has for many years managed a board succession planning and director renewal process, with very few vacancies over the lifetime of the company, however with an ever-increasing burden on directors to devote

more and more time and expertise to board requirements, the current board is seeing signs of weakening director retention and recruitment becoming more difficult year on year.

In an ever-changing world of demands on individual's time, increased director workloads, adoption of change processes (internal & external), increased regulatory burdens & accountabilities, higher BEN and Community expectations and professionalism in board activities and governance. Add to that, huge advances (and challenges) in technology, these pressures are all combining to take their toll on existing directors and the board's ability to attract new directors.

Board Directors currently have a minimum monthly commitment of 20 hours to fulfill their duties and responsibilities, which is the equivalent of approximately 3 business days per month. This time must be found outside of their business and/or work commitments as well as impacting on their family and discretionary time. Furthermore, the company is committed to continuous learning and personal development in the spirit of best practice governance which means each director is required to undertake a minimum of 15 hours per year of Continuing Professional Development (CPD) to ensure they are always equipped with the most up to date knowledge and skills.

### **Proposal**

Taking the above facts into account, the board has collectively resolved to propose a Director Remuneration Policy (DRP) to retain quality board members and attract new members into the future.

The DRP is not designed to be a wage or full compensation for a director's time, efforts and expertise devoted to their responsibilities, moreover it is proposed that this modest remuneration component is aimed at recognition for the role that directors play commensurate to their board responsibilities, as well as the business & community acumen they bring to TDFL.

In 2023 the board agreed to explore the national CB network landscape to gain insight into what information was available and this due diligence culminated in a "Board Remuneration Paper – August 2023". This document was a comprehensive review of all data available from BEN, the CB network (current & historic) other CB board annual reports, as well as prior detailed information sourced by the board.

The national trend of CB boards remunerating their directors has steadily increased to now more than 50%, as the financial maturing of the CB companies consolidates and the level of sophistication builds in the boards.

The TDFL business has grown markedly since its inception and below is a snapshot of the strong financial position the company currently enjoys:

<b>Year</b>	<b>Revenue</b>	<b>Net Profit Before Tax (NPBT)</b>	<b>Balance Sheet</b>
2007	578,000	29,000	293,000
2010	758,000	151,000	417,000
2015	808,000	48,000	429,000
2020	930,000	114,000	702,000
<b>2023</b>	<b>2,070,000</b>	<b>442,000</b>	<b>1,050,000</b>

In addition to an extremely sound and robust financial position, the company has consistently paid healthy fully franked dividends to its shareholders, maintained a generous community funding and contributions program – totalling more than \$2.5m since inception, made healthy contributions to the BEN Community Enterprise Foundation (CEF) which currently holds more than \$500,000 in reserve for future community projects and initiatives.

TDFL pays its staff the maximum allowable under BEN's secondment arrangement and contributes to their functions, events, and social activities as and when possible.

Director Remuneration Policy updated 17 June 2024

TDFL are about to embark on \$250,000+ in branch renovations, to modernise the look of the branch and its fittings & fixtures. This will create a more functional branch for the staff as well enhancing the customer experience, including technology and security upgrades as required. Local builders, tradespeople and suppliers will undertake the majority of these renovations, again demonstrating our commitment to supporting local business.

TDFL supports local businesses wherever possible within its capabilities for local procurement processes, business networking and promotional opportunities as another means of creating a prosperous local economy.

### Proposed Remuneration Structure

Positions	Annual Remuneration
10 Directors per current TDFL Constitution	54,000
Average remuneration per director per annum	5,400

### Proposed Remuneration Criteria

The following requirements will be applied to receive the suggested remuneration distribution:

- Director's remuneration will commence from and after a minimum of 12 months as a board director has been served.
- Tenure can also include time served as a board committee member (unbroken or broken period).
- Directors must attend a minimum of (75%) of board / committee meetings to be eligible for payment.
- Committee Chairs must attend a minimum of (75%) of committee meetings to be eligible for payment.
- Directors must attend a minimum of 3 community partner activities per year (event, function, award ceremony, business networking, fundraising activity, sports day, business luncheon, etc).
- Directors are required to attend the AGM and/or EGM if held (unless due to extenuating circumstances).
- The overall DRP to be reviewed yearly when the annual financial reports are completed and the funds set for the coming 12-month period.
- DRP should only be paid after consideration of Shareholder Dividends, Community Contributions, Staff Remuneration and General Operating expenses are fulfilled.
- Remuneration total not to exceed 25% of NPBT or the scaled fees (per above table) – whichever is the lesser.
- Annual CPI increase to be applied at the time of the yearly review.
- Directors may choose to contribute part / all of their remuneration to a charity group of their choice.
- Other factors as determined by the board from time to time forming part of this DRP policy.

### Summary

The TDFL board have given due consideration to introducing the DRP and believe the circumstances and current operating conditions are now right to recognise the increased onus on directors to be modestly compensated for their contributions and their responsibilities to all stakeholders and seek endorsement from shareholders.