

This report has been prepared to satisfy the Company's obligations under *APS 330* relating to remuneration disclosures for the year ended 30 June 2021.

## Bodies that oversee remuneration

The Governance and Remuneration Committee is responsible for overseeing the remuneration of Directors, senior managers and any other responsible persons as defined in *CPS 520 Fit and Proper*.

### Composition of Governance and Remuneration Committee

The Governance and Remuneration Committee is comprised of four independent non-executive Directors. The Committee meets four times a year and on such other occasions as deemed necessary by the Chairperson.

### Mandate of Governance and Remuneration Committee

The Governance and Remuneration Committee is primarily responsible for:

- Implementation of relevant Board renewal and Board performance evaluation policies.
- Conducting and reviewing fit and proper assessments of Directors and senior managers.
- Reviewing and making recommendations regarding Board remuneration.
- Overseeing performance evaluation and remuneration of senior managers.
- Administration and ongoing review of governance policies.

### Scope of remuneration policy

The Company's Remuneration Policy applies to:

- The Chief Executive Officer;
- Staff that report directly to the CEO;
- Other staff whose activities may affect the financial soundness of the LLL;
- Any service contracts between the LLL and an external body, whose primary role is to provide risk management, compliance, internal audit, financial control or actuarial control services to the Company;
- Any other person specified in *CPS 510*.

### Senior managers and material risk takers

The CEO, the Chief Financial Officer, the Chief Information Officer, Chief Operating Officer, Chief Risk Officer, Chief Transformation Officer and the Promotions Manager are considered to be 'senior managers' under *APS 330*. No other employees are considered to be 'material risk takers' under *APS 330*.

## Design and structure of remuneration process

The overall objective of the Remuneration Policy is to ensure that senior management personnel are remunerated in a manner which does not expose the Company to undue risk.

### Key features and objectives

The key objectives of the Remuneration Policy are to:

- Attract staff who are capable of supporting the risk management framework, long term stability and financial soundness of the Company.
- Attract and motivate staff who will drive the strategic and business objectives of the Company.
- Ensure transparency and fairness in the remuneration of staff.
- Ensure the independence of risk and financial control personnel as defined in *CPS 510*.

- Remunerate staff in a manner that does not expose the Company to undue risk.

Whilst the Remuneration Policy allows for fixed, variable or performance-based remuneration, LLL's business model and culture primarily supports the payment of fixed base salaries which are subject to annual review and primarily based on the achievement of long term performance objectives.

Fixed remuneration consists of base salary, compulsory superannuation benefits and fringe benefits. In determining fixed remuneration, the Committee considers qualifications, experience, responsibilities, individual performance, leadership, industry benchmarks and market relatives.

Any performance-based remuneration is required to be paid in cash and must support sound business principles and prudent risk-taking. Performance-based remuneration is dependent upon the achievement of agreed-upon performance standards and/or financial benchmarks as approved by the Committee. The Board has discretion to reduce performance-based remuneration if necessary to protect the financial soundness of the Company, or to respond to significant adverse unexpected or unintended consequences affecting the Company.

**Remuneration Policy review**

The Remuneration Policy has been reviewed, and no material changes were made during the year ended 30 June 2021.

**Independence of risk and financial control personnel**

The Remuneration Policy ensures that risk and financial control personnel are remunerated in a manner that does not compromise their independence by:

- Primarily providing fixed remuneration rather than performance-based remuneration.
- Ensuring oversight of performance-based remuneration by the Committee and the CEO where applicable.
- Assessing performance of risk and financial control personnel based on a variety of qualitative measures, as well as quantitative measures.

**Consideration of current and future risks in the remuneration process**

The table below provides an overview of the key risks that the Company considers when implementing remuneration measures.

| <b>Key risk</b>    | <b>Key measures</b>   |
|--------------------|---|
| Credit Risk        | Portfolio mix<br>Large exposures and credit concentrations<br>Arrears and defaults<br>Provisions and write offs                           |
| Interest Rate Risk | Net interest income   |
| Liquidity Risk     | Minimum Liquidity Holdings  |
| Capital Risk       | Capital Adequacy and ICAAP  |
| Operational Risk   | Compliance breaches<br>Risk incidents<br>Information system performance<br>Unplanned system downtime and business outages<br>Fraud losses |
| Strategic Risk     | Customer satisfaction<br>Staff satisfaction   |

|  |  |
|--|--|
|  | Growth of customer deposits and loan advances<br>Altruistic and charitable benefits provided |
|--|--|

The nature of these measures has not changed during the past year.

These measures are considered as part of performance review and review of remuneration for staff covered by the Remuneration Policy.

## Linking performance with remuneration

### Key performance metrics

Staff covered under the Remuneration Policy are assessed on a variety of qualitative and quantitative factors. These measures include those identified in the Key Risk table above.

Key performance indicators are designed to encourage prudent risk-taking, effective risk management, financial stability and delivery of strategic objectives.

### Linkage of remuneration to institution-wide and individual performance

Key performance measures are considered during the annual review of fixed remuneration of staff covered under the Remuneration Policy. Staff are assessed against institution-wide performance measures together with key performance measures they are individually responsible for influencing.

### Adjustment of remuneration in the event that performance metrics are weak

Weak performance metrics are considered by the Committee during the annual review of remuneration.

## Adjustment of remuneration for longer-term performance

The Company does not generally provide deferred remuneration or variable remuneration with vesting conditions. Longer-term performance is considered during the annual review of remuneration of staff covered under the Remuneration Policy.

## Forms of variable remuneration

The Company only provides remuneration in the form of cash payments, compulsory superannuation obligations and fringe benefits.

## Quantitative information

There were four meetings of the Governance and Remuneration Committee during the financial year. Total remuneration paid to members for work conducted as members of the Governance and Remuneration Committee was \$37,800 (2020: \$37,800).

No persons received performance based variable remuneration during the 2021 or 2020 financial years.

No guaranteed bonuses were awarded during the 2021 or 2020 financial years.

No sign-on awards were made during the 2021 or 2020 financial years.

No deferred remuneration was paid out during the 2021 or 2020 financial years. There was no outstanding deferred remuneration as at 30 June 2021 or 30 June 2020.

There were no adjustments of deferred remuneration during the 2021 or 2020 financial years. No exposures to implicit or explicit adjustments of deferred or retained remuneration existed as at 30 June 2021 or 30 June 2020.

The total remuneration for senior managers during the financial year was as follows:

| Remuneration – year ended 30 June 2021 | Unrestricted<br>\$ | Deferred<br>\$ |
|--|--------------------|----------------|
| <b>Fixed remuneration</b>              |                    |                |
| - Cash-based                           | 1,429,129          | -              |
| - Shares and share-linked instruments  | -                  | -              |
| - Other                                | -                  | -              |
| <b>Variable remuneration</b>           |                    |                |
| - Cash-based                           | -                  | -              |
| - Shares and share-linked instruments  | -                  | -              |
| - Other                                | -                  | -              |

| Remuneration – year ended 30 June 2020 | Unrestricted<br>\$ | Deferred<br>\$ |
|--|--------------------|----------------|
| <b>Fixed remuneration</b>              |                    |                |
| - Cash-based                           | 944,894            | -              |
| - Shares and share-linked instruments  | -                  | -              |
| - Other                                | -                  | -              |
| <b>Variable remuneration</b>           |                    |                |
| - Cash-based                           | -                  | -              |
| - Shares and share-linked instruments  | -                  | -              |
| - Other                                | -                  | -              |

Note: The number of senior managers increased from 4 to 7 during the year ended 30 June 2021.