MyState Limited

Remuneration Policy

Document Hierarchy

Title of document	Remuneration Policy
Version	5.3
Category of document	Board Policy
Applicable to	MyState Group
Approval Authority	Board Via Group People and Remuneration Committee
Responsible Executive	General Manager People and Culture
Approved	August 2020

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1. Preamble

This Policy applies to MyState Limited (MYS or the Company) and all Group Subsidiaries.

The Policy is compliant with applicable requirements of Australian Prudential Regulatory Authority (APRA) Standards and the Banking Executive Accountability Regime (BEAR).

Subject to this Policy, the Board has complete discretion over setting the remuneration of all applicable parties bound by this Policy, in addition to approving the payment of any eligible reward or incentive payment.

In the event that there is an inconsistency between this Policy and an existing employment agreement (including the plan rules of the Executive Long Term Incentive Plan), the employment agreement will prevail to the extent of the inconsistency subject to the APRA Standards, the BEAR and other applicable laws.

Objectives

The objectives of the MYS Remuneration Policy are to:

- encourage and maintain behaviour that supports the sustained performance and security of the Group;
- encourage the Executive Management Team to act honestly and diligently, and take accountability for the activities within their area of responsibility; and
- to reward Executive and Management efforts that deliver a good customer experience, increasing shareholder and customer value.

Remuneration and incentive programs are aligned with the company Vision, Mission, and Values to support staff efforts in delivering appropriate outcomes for customers. Developing the capability of leaders, to establish expectations and assess performance to promote the customer experience, supports the implementation of the policy.

The Policy is designed to balance the interests of stakeholders (including customers, shareholders and staff) and the financial security of MYS as a prudentially regulated business. This is evidenced by:

- Appropriately balanced measures of employee performance;
- Variable performance based pay for Executives and other eligible employees, including short and long-term incentive plans;
- Recognition and reward for strong performance linked to favourable customer outcomes and shareholder return;
- A considered balance between the capacity to pay and the need to pay to attract and retain capable staff at all levels. Remuneration and Incentive Programs will be assessed against comparable market data;
- Ensuring that the structure of remuneration of risk and financial control personnel, including performance based components, does not compromise the independence of these personnel in carrying out their functions;
- The exercise of Board discretion (subject to this Policy) in the assessment and clawback of incentives as an ultimate means to mitigate unintended consequences of variable pay and to preserve the interests of shareholders and customers; and
- Short-term and long-term incentive performance criteria being structured within the overall risk management framework of the Company.

2. Application and Parties Bound

- Non-Executive Directors;
- The Managing Director;
- Executives who report directly to the Managing Director;
- Persons whose primary role is risk management, compliance, financial or actuarial control; and
- Other persons for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the institution.

3. Non-Executive Directors

The Company's Non-Executive Directors receive only fees (including superannuation) for their services. These fees may be taken as Shares (fully paid ordinary share in MyState Limited) subject to prior shareholder approval, where required. The Non-Executive Directors are not entitled to receive any benefit on ceasing to hold office by retirement or resignation, other than superannuation.

4. Managing Director and Executives

Remuneration packages for the Managing Director and Executives are based on a notional Total Target Reward (TTR) which from time to time may comprise one or more of the following:

1. Total fixed reward (inclusive of superannuation and other benefits) (TFR);
2. Cash based short term incentives (STI); and
3. Equity based long term incentives (LTI).

The Managing Director’s remuneration package is determined by the Board of MYS on the advice of the Board's Group People and Remuneration Committee (GPC). At its discretion, the GPC will seek external advice on the appropriate level and structure of the Managing Director’s TTR.

The remuneration packages of the Executives are approved by the Board of MYS on the recommendations of GPC and the Managing Director. Similarly, the Managing Director may seek external advice on the appropriate level and structure of Executives' remuneration packages.

The remuneration of the Managing Director and Executive positions will be reviewed annually by the GPC. From time to time, the Board may determine that the review will include an independent market based assessment.

5. Senior Managers

Senior Managers comprise direct reports to members of the Group Executive. The remuneration packages of the Senior Managers are recommended by the relevant Executive within a framework and guidelines approved by the Managing Director and co-ordinated by the General Manager People and Culture.

The General Manager People and Culture may seek external advice on the appropriate level and structure of Senior Manager remuneration. Any change to remuneration for any employee, or any remuneration package for a new employee, is to be approved by a manager at least one level above the reporting manager.

Remuneration packages at this level are based on Total Employee Reward (TER) comprising:

1. Total fixed reward (inclusive of superannuation and salary sacrifice) (TFR); and
2. Cash based short term incentives (STI).

6. Remuneration of Risk and Financial Control Personnel

The Company recognises that for risk and control personnel receiving performance based remuneration there is a need to mitigate against the risk of their compromised independence. A number of measures may be used to mitigate this risk:

- Prudent setting of potential rewards for performance based remuneration;
- Board discretion regarding the payment of any incentives;
- Board clawback provision in the event of policy breach specific to STIs;
- Gateways aligned to values and behaviours of MYS such as reputational, risk and compliance requirements;
- A balanced scorecard approach using both non-financial as well as financial metrics; and
- Specific incentives.

7. Structure of Remuneration

Short Term Incentive (STI)

The STI is calculated as a percentage of the TFR and is payable annually in respect of each financial year as cash and/or superannuation contributions. As a general guide, the maximum STI, as determined by the Board from time to time, is expressed as a percentage of TFR.

Payment of STI is conditional upon the achievement of pre-determined performance criteria tailored to the respective role.

Each year, the GPC sets the Key Performance Indicators (KPIs) for the Managing Director who, in turn, sets KPIs for Executives, subject to approval of the Board following a recommendation from the GPC. The GPC selects performance objectives which provide a robust link between Executive reward and the key drivers of long term shareholder value. The KPIs are measures relating to Company and personal performance accountabilities and include financial, strategic, operational, cultural, risk and compliance, customer and stakeholder measures. The measures are chosen and weighted to best align the individual’s reward to the KPIs of the Company and its overall long term performance.

Following the end of the financial year, the GPC assesses the performance of the Managing Director against the KPIs for the financial year.

Following the end of the financial year, the Managing Director assesses the performance of the Executives against their KPIs for the financial year. Based upon those assessments, a recommendation for each Executive is made to the GPC as to the STI payment. The GPC recommends the STI payments to be made to the Executives.

The STI decisions of the GPC in relation to the Managing Director and Executives are then submitted for approval by the Board. Approval of a STI to the Managing Director or Executives is at the complete discretion of the Board.

The Managing Director recommends the aggregate STI payments for Senior Managers to GPC for approval. STI KPI's and individual STI payments for Senior Managers are approved by the Managing Director. Payment of a STI to a Senior Manager is at the complete discretion of the Company.

Any decision for an STI reward can be reviewed by the GPC and the Board on the basis of new information, and on the basis of a reassessment of any information on which the decision was originally made. If the results on which any STI reward was based are subsequently found by the Board to have been the subject of deliberate management misstatement, error, misrepresentation or act or omission, in each case which the GPC or the Board (acting reasonably) considers would have resulted in the KPIs not being satisfied or there is otherwise a reward decision incorrectly made, the Board may require repayment of the whole or any part of the relevant STI, in addition to taking any other disciplinary actions.

Payment of a STI to the Managing Director, an Executive or Senior Manager who is an accountable person is subject to the Board being satisfied that payment may be made under the BEAR.

Executive Long Term Incentive Plan (ELTIP)

The ELTIP was established by the Board to encourage the Executive Management Team, comprising the Managing Director and participating Executives, by allowing them to be rewarded with Shares for helping to create long term value for the Company's shareholders. To achieve this aim, participating Executives are allocated fully paid ordinary Shares in the Company without payment on their part, only if performance criteria specified by the Board are satisfied in a set performance period.

Each year, an offer may be made to individual members of the Executive Management Team as determined by the Board. The maximum value of an offer to an individual member is determined as a percentage of their TFR. Maximum percentages used for the Managing Director and participating Executives will be determined by the Board from time to time. The maximum value of the offer is converted into a number of fully paid ordinary Shares based upon the Volume Weighted Average Price (VWAP) of Shares calculated over the period of twenty (20) trading days to 30 June in the year in which the offer is made. The number of Shares is then nominally fixed.

In order for the number of Shares as fixed to vest, certain performance criteria must be satisfied within a predetermined performance period. Both the performance criteria, and the performance period are set by the Board, at its absolute discretion. The Board has, for the time being, set the three financial years commencing with the beginning of the financial year in which an offer is made under the plan as the performance period, with relative Total Shareholder Return (TSR) and Statutory Return on Equity (ROE) as the performance criteria. With respect to the TSR component, this will be measured against the performance of the S&P/ASX 300 Index. The Board has the discretion to change this benchmark group from time to time, in accordance with its discretion in the Plan Rules. With respect to the ROE component, the Board has the discretion to adjust for one off items.

At the end of the performance period, or as soon as possible after, the Board will determine at its complete discretion the number of Shares in respect of which the Managing Director and participating Executive may be entitled under the terms of the relevant offer and ELTIP rules.

For offers made on or after 1 July 2018, the Board has also set a period of five years from commencement of the performance period before making an allocation of Shares to an Executive who meets or partially meets the performance criteria, creating a deferral period of a further two years between the conclusion of the performance period and the allocation of Shares.

On accepting an ELTIP offer made by MYS, participating Executive are required to not hedge their economic exposure to any allocated non-vested entitlement. Failure to comply with this directive will constitute a breach of duty and may result in forfeiture of the offer and/or dismissal.

Any reward that may be payable to the Managing Director and participating Executive on satisfaction of the performance criteria under any ELTIP offer is subject to reassessment and possible forfeiture, during the further deferral period, if the results on which the ELTIP reward was based, are subsequently found to have been the subject of deliberate management misstatement. In addition where a participating Executive is also an accountable person under the BEAR, the payment of Shares to the Executive will be subject to the Board's positive assessment that their accountability obligations have been met. The payment and allocation of Shares may be reduced or cancelled to the extent that the Board determines the accountability obligations have not been met.

Vesting of Shares to the Managing Director and eligible Executive is at the complete discretion of the Board. The ELTIP rules provide for an independent Trustee to act at the direction of the Company, and the Trustee may acquire and hold Shares on behalf of Executives that have received an allocation of Shares. The participating Executive cannot transfer or dispose of Shares which have vested to them until the time specified in the ELTIP rules. A direction to the Trustee to allocate Shares to each eligible Executive will be made in accordance with their entitlement under the relevant offer and ELTIP rules.

Any Shares to be allocated to the Managing Director under this Plan require shareholder approval in accordance with ASX Listing Rules.

Commencement of employment during a financial year

Where an Executive commences employment with the Company post 1 July in a given year, the following conditions will apply in respect of ELTIP:

- Upon recommendation by the Managing Director, and if deemed eligible by the Board, the Executive shall receive a pro rata offer for that year, unless that person commences employment between 1 April and 30 June in which case they shall not be entitled to receive an offer for that financial year; and

- Calculations for ELTIP entitlements in terms of the 20 day VWAP, must be consistent with the offers for that year, irrespective of the date that an employee commences or to whom an offer to participate is made.

Cessation of employment

On separation from the Company, ELTIP Shares will be released only if the separation is due to a Qualifying Reason[1] or is at the initiation of the Company without cause. If this separation occurs within the three year performance period, subject to this Policy Shares will be allocated on a pro-rata basis, following the completion of each applicable performance period and applicable performance assessment. Where an ELTIP participant ceases employment with MYS during a performance period, the offer will be assessed by the Board at the end of the performance period along with all other participants subject to meeting the 12 month employment hurdle that applies to any ELTIP offer.

[1] *A Qualifying Reason as defined by the ELTIP Plan Rules, is death, total and permanent disability, retirement at normal retirement age, redundancy or other such reason as determined by the Board in its absolute discretion may determine.*

The allocation of Shares to any ELTIP participant where the Executive is an accountable person is subject to the BEAR. Shares will not be vested for ELTIP participants to the extent it would cause the Company to contravene its obligations under the BEAR.

Entitlement to dividend income on Shares

During the period that allocated Shares for a participating Executive are held by the Trustee, the participating Executive is entitled to receive the income arising from dividend payments on those Shares and to have the Trustee exercise the voting rights on those Shares in accordance with their instructions.

For the avoidance of doubt, for ELTIP offers made after 1 July 2018, the Company will not direct the Trustee to allocate the Shares to the participating Executive's account during the specified 2 year deferral period. The 2 year deferral period commences after the end of the relevant performance period. During this period, such participants have no entitlement to any dividends or voting rights in respect of the Shares.

8. Banking Executive Accountability Regime

MyState accountable persons are registered with APRA. Each accountable person has an agreed accountability statement that sets out the accountabilities relevant to their role in relation to BEAR. Each accountability statement is endorsed by the Board and approved by APRA. Any entitlement to variable remuneration will be subject to deferral, reduction or forfeiture under the BEAR even if performance criteria have been met.

Variable remuneration

Variable remuneration for purposes of the BEAR is so much of an accountable person's total remuneration as is conditional on the achievement of objectives. Where an accountable person’s role is within a broader group, variable remuneration may be apportioned such that only the portion related to the ADI business is subject to deferral. Variable remuneration is subject to modification by APRA as it can specify by written notice to the Company and Subsidiaries that remuneration of a particular kind of an accountable person is or is not variable remuneration.

The BEAR requires authorised deposit-taking institutions (including the Company) to defer payment of a minimum amount of variable remuneration for a minimum period of 4 years. The requirement for variable remuneration to be deferred does not apply if the amount that would be deferred is less than $50,000.

The deferral period is subject to extension as determined by the Board or reduction as determined by the Board and approved by APRA. At the end of the applicable deferral period, any entitlement to deferred variable remuneration will be assessed against each individual meeting their accountable person obligations. If an accountable person fails to comply with his or her accountability obligations, their deferred variable remuneration will reduced by an amount that is proportionate to the failure or may be cancelled, as determined by the Board.

9. Managing Director Minimum Shareholding Requirement

A Minimum Shareholding Requirement (MSR), in the absence of approval from the Board to the contrary, will apply to the Managing Director.

The MSR will be 50% of TFR and must be achieved within 4 years of appointment.

Any Shares issued into deferral, from the 2018 ELTIP Offer onwards, will be recognised for the purposes of Executive MSR.

The Shares in MYS (ASX code: MYS) may be held directly or indirectly, and may include Shares obtained prior to commencement of employment and/or Shares acquired through ELTIP or any other scheme. This includes Shares vested and allocated but still held in trust, but excludes any allocated Shares which have not yet vested.

10. Non-Executive Director Minimum Shareholding Requirement

Non-Executive Directors, in the absence of approval from the Board to the contrary, are required to acquire and maintain, directly or indirectly, Shares in MYS to the equivalent of one year's pre-tax base Director's fee. The Non-Executive Director MSR must be achieved within four years of their appointment or the date of implementation of this policy, whichever is the latter.

11. Basis of Employment

The policy of the Company is to:

- Engage the Managing Director on terms approved by the Board;
- Employ Executives on terms recommended by the Managing Director and approved by the Board;
- Provide a termination payment, as detailed in relevant employment agreements, with a maximum termination payment of 6 months TFR; and
- Where the termination is initiated by the Company, STI and LTI entitlements, are assessed in accordance with the Remuneration Policy, and may be paid for any pro-rata period of a year up to the termination date.

12. Remuneration Governance

The GPC exercises governance over this Policy on behalf of the Company's Board. The GPC Charter defines the primary responsibility of the Committee as follows:

"The role of the GPC is to assist the Board in fulfilling its responsibilities with respect to remuneration governance and provide oversight to support the company in achieving its human resource goals.

This includes the development of people management practices which assist MyState to sustain a workforce with strong cultural attributes, the capability to achieve strategic priorities and meet its legal and regulatory requirements."

END

Version Control

Version Number	Date Approved	Brief Description	Change Author	Approver
5.0	16/08/2018	Policy Review	GM People & Culture	Board
5.1	20/06/2019	Commencement of the BEAR, alignment of ETLIP and BEAR provisions, deferral of STI, and other updates.	GM People & Culture	Board
5.2	16/07/2020	Alignment of parties bound to CPS 510	GM People & Culture	Board
5.3	21/08/2020	Minor amendments for clarity	GM People & Culture	Board