

Police & Nurses Limited
ACN 087 651 876

Notice of Annual General Meeting 2020

Notice is given that the Annual General Meeting (**AGM**) of the members of Police & Nurses Limited (**Company**) will be held at River View Room 4, Level 2, Perth Convention and Entertainment Centre, 21 Mounts Bay Road, Perth WA 6000 commencing at 12 noon (AWST) on Wednesday, 18 November 2020.

General Business

Discussion of the 2020 Annual Report

To receive and consider the Annual Report of the Company for the year ended 30 June 2020 which includes the Financial Report, the Directors' Report and the Auditor's Report.

Results of the election of Directors

The results of the election of Directors will be announced.

Special Business

Resolution 1 – Amendment of the Constitution to allow the issue of Mutual Capital Instruments

To consider and, if thought fit, pass the following resolution as a special resolution:

“That, in accordance with section 167AJ of the *Corporations Act 2001* (Cth), the Constitution be amended by making the amendments contained in the document tabled at the AGM (other than the amendments which are the subject of Resolution 2, Resolution 3 and Resolution 4) and signed by the Chairman for the purposes of identification.”

Resolution 2 – Amendment of the Constitution to allow redemption of a member share without notice

To consider and, if thought fit, pass the following resolution as a special resolution regarding the circumstances when the Company may redeem a member's member share without notice to the member:

“That, in accordance with section 136(2) of the *Corporations Act 2001* (Cth), the Constitution be amended:

- (a) to include a new Subrule 4.3(7)(b) as follows: “the **company** considers (acting reasonably) that the **member** has used, or is reasonably likely to use, any account of the **member** to engage in fraud or criminal activity; or”; and
- (b) to renumber the existing Subrule 4.3(7)(b) as 4.3(7)(c).”

Resolution 3 – Amendment of the Constitution to require advance notice of certain adjournment motions

To consider and, if thought fit, pass the following resolution as a special resolution regarding the circumstances when motions to adjourn a general meeting of the Company may be moved:

“That, in accordance with section 136(2) of the *Corporations Act 2001* (Cth), the Constitution be amended:

- (a) to include a new clause A4-4(2) in Appendix 4 – “Standing Orders” as follows:

“A motion, or any other proposal, to adjourn a meeting (other than one relating to absence of a quorum) may not be moved by a **member** or **voting MCI holder** unless at least seven days' notice of the intention to move such motion or seek such a proposal has been given to the **company** in writing before the relevant meeting.”

(provided that if Resolution 1 above is not passed, the words “or **voting MCI holder**” will be excluded from the text to be inserted in new clause A4-4(2)); and

- (b) to renumber the existing text under clause A4-4 as clause A4-4(1).”

Resolution 4 - Amendment of the Constitution to promote election of directors with relevant skills, experience and competencies

To consider and, if thought fit, pass the following resolution as a special resolution regarding the skills, experience and competencies of individuals seeking to be appointed as a director of the Company:

"That, in accordance with section 136(2) of the *Corporations Act 2001* (Cth), the Constitution be amended:

- (a) to include a new Subrule 13.2(g) in relation to requirements to be met before an individual is eligible to act or to be appointed as a director:

"possesses (in the opinion of the **Nominations Committee**) the skills, experience and competencies which are necessary or desirable for a person seeking appointment or re-election as a **director**, being the skills, experience and competencies (if any) notified to the **Nominations Committee** in accordance with Rule 13.9."

And add the text "; and" after the existing Subrule 13.2 (f).

- (b) insert a new Rule 13.9 as follows:

Board skills, experience and competencies criteria

"Having regard to the consumer and regulatory demands on the **company**, the **board** may, from time to time as it sees fit, notify the **Nominations Committee** of any skills, experience or competencies (whether commercial, technical, banking or otherwise) which the **board** considers would be necessary or desirable for any person seeking appointment or re-election as a **director**, in order to ensure that the **board** has the mix of skills, experience or competencies that it considers necessary or desirable to adequately perform its functions."

- (c) amend clause A5-2(2) in Appendix 5 by creating a new paragraph (b), and including the text shown in underlining below, so that clause A5-2(2) reads as follows:

- (2) "The function of the **Nominations Committee** is to assess all persons, including an existing **director**, prior to appointment or election to determine:

- (a) their fitness and propriety to be and act as a director under the requirements of the **board's** policy on fitness and propriety of responsible officers; and
- (b) whether that person possesses the skills, experience and competencies (if any) notified to the **Nominations Committee** in accordance with Rule 13.9."

- (d) amend the text of clause A5-3(8) in Appendix 5 dealing with the nomination procedure for directors by including the text shown in underlining below:

"Only if the **Nominations Committee** determines that a person nominated to be a **candidate** meets the requirements of the **board's** policy on fitness and propriety for responsible officers and possesses the skills, experience and competencies (if any) notified to the **Nominations Committee** in accordance with Rule 13.9, does that person become a **candidate**. The **Nominations Committee** shall advise each person nominated to be a candidate of its decision about that person and it shall advise the returning officer of the name/s of the candidate/s."

Resolution 5 – Change of Auditor

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, subject to the consent of the Australian Securities and Investment Commission to the resignation of the current auditor, Grant Thornton Audit Pty Ltd, being qualified to act as auditor of the Company and having consented to so act, be appointed as the auditor of the Company with effect from the conclusion of the AGM, and the directors be authorised to agree the remuneration."

Other Business

Discussion of positioning paper regarding director remuneration

To consider and discuss the positioning paper regarding director remuneration. A copy of this paper is included in pages 9 and 10 under the "Information for Members" section of these Notice of Meeting materials. No resolution is proposed in relation to this item of other business.

Other questions or comments

In accordance with section 250S(1) of the *Corporations Act 2001* (Cth), members are invited to ask questions about or make comments on the management of the Company.



Ms Jennifer A Handz
Company Secretary
Police & Nurses Limited
30 September 2020

Information for Members

Methods of voting

A shareholding member may vote in any of the following ways:

- by attending the meeting in person and voting;
- if a company, by appointing a corporate representative who will vote at the meeting;
- by appointing a proxy to attend and vote on behalf of the member; or
- by casting a direct vote.

Each of these methods is explained briefly below. You can only vote by one method.

Attending in person

A shareholding member may attend and vote at the AGM in person.

Appointment of corporate representative

A shareholding member that is a company may appoint an individual to attend and vote on behalf of the company on the resolutions proposed at the AGM. A corporate representative does not need to be a member of the Company. Any shareholding member that is a company and wishes to appoint a corporate representative should contact the Company on 08 9219 7545 and request a copy of the form required for this purpose.

Voting by proxy

A shareholding member (who is entitled to attend and vote at the AGM) may appoint a proxy to vote on the resolutions proposed at the AGM. A proxy does not need to be a member of the Company. A member that is entitled to cast two or more votes (by holding two or more shares in different capacities) may appoint two proxies and may specify the number of votes each proxy is appointed to exercise.

If you wish to appoint a proxy, you need to complete and sign the attached Voting Form as instructed on the form.

To be valid, an appointment of proxy must be received no later than 12 noon (AWST) on Monday, 16 November 2020. Please return your Voting Form to the Company in the enclosed reply paid envelope with the **green** strip.

If you have received this notice of AGM electronically and wish to submit a hard copy Voting Form to appoint a proxy, please contact the Company on 08 9219 7545 and request a copy of the Voting Form.

Direct voting

In accordance with Rule 12.7 of the Company's Constitution, the Directors have determined that at the AGM, a shareholding member who is entitled to attend and vote on a resolution at the AGM is entitled to cast a direct vote in respect of that resolution.

Shareholding members may vote directly on resolutions to be considered at the meeting at any time between the date of this Notice of Meeting and 12 noon (AWST) on Monday, 16 November 2020.

If you cast a direct vote you are voting directly and are not appointing a third party, such as a proxy, to act on your behalf. The Company's Direct Voting Regulations govern direct voting, and a copy of them is available online. Members who are P&N Bank customers should go to www.pnbank.com.au and members who are bcu customers should go to www.bcu.com.au. By submitting a direct vote, you agree to be bound by the Company's Direct Voting Regulations.

If you wish to cast a direct vote, you may do this either:

- By using the hard copy Voting Form: if you wish to cast a direct vote using the hard copy Voting Form, you need to complete and sign the attached Voting Form as instructed on the form. For your direct vote to be valid, your Voting Form must be received no later than 12 noon (AWST) on Monday, 16 November 2020. Please return your Voting Form in the enclosed reply paid envelope with the **green** strip. If you have received this notice of AGM electronically and wish to cast a direct vote using a hard copy Voting Form, please contact the Company on 08 9219 7545 and request a copy of the Voting Form.

OR

- By voting online: Shareholding members may cast a direct vote online at the following website by following the instructions provided on the following website:
<https://investorcentre.linkmarketservices.com.au/voting/PNL>

If you submit a direct vote using this method your vote must be cast no later than 12 noon (AWST) on Monday, 16 November 2020. Note only direct voting is available online.

All resolutions will be by way of a poll (rather than show of hands)

The Chair intends to demand a poll on each of the resolutions proposed at the AGM. Each resolution considered at the

AGM will therefore be conducted by a poll, rather than on a show of hands. The Chair considers voting by poll to be in the interests of the members as a whole and is a way to ensure the views of as many shareholding members as possible are represented at the meeting.

Results of the election of Directors

In compliance with Appendix 5 of the Constitution, the election of Directors will be held by a secret ballot of shareholding members. A ballot form and election information accompanies this Notice of Meeting. The results of the ballot will be announced at the AGM.

Explanatory Notes

These explanatory notes are designed to give members important information known to the Company. This information is relevant to a consideration of the items of business, and should be considered when deciding how to vote on a relevant resolution in the Notice of Meeting.

Explanatory Notes - General Business

1. Explanatory Note 1 - Discussion of the 2020 Annual Report

The Directors will present the 2020 Annual Report comprising the 2020 Financial Report, Directors' Report and the Auditor's Report at the meeting. These can be viewed on the Company's websites at www.pnbank.com.au (for members who are P&N Bank customers) and www.bcu.com.au (for members who are bcu customers) from 8 October 2020.

As a member you are not required to approve these reports. However, the Chair will allow a reasonable opportunity for members to ask questions or make comments in relation to the reports and the management of the Company.

2. Explanatory Note 2 – Election of Directors

An election of Directors was necessary because, consistently with the terms of the Constitution, the Board determined that it was appropriate, given the existing size of the Board and the skills mix of the existing Board, for two Board seats to be filled, and there were subsequently three candidates for these two positions.

Explanatory Notes - Special Business

Introduction to amendments to the Constitution

The Constitution is a contract between the Company (as a legal entity) and its members and directors. It sets out a series of rules which govern how the Company conducts its internal affairs.

For an amendment to the Constitution to be passed, at least 75% of the votes cast by members entitled to vote must be in favour of the proposed resolution.

It is proposed that the Constitution be amended as outlined in the Explanatory Notes below. The reasons for the proposed amendments are set out below.

To assist members, a copy of the Constitution showing the changes resulting from Resolutions 1, 2, 3 and 4 is available to members on request by telephoning the Company on 08 9219 7545. It is also available online and will be made available for inspection at the AGM. To view the Constitution online, members who are P&N Bank customers should go to www.pnbank.com.au and members who are bcu customers should go to www.bcu.com.au.

3. Explanatory Note 3 – Amendment of the Constitution to allow the issue of Mutual Capital Instruments (Resolution 1)

Enabling a mutual entity (such as the Company) to issue "mutual capital instruments" (MCI), is an initiative of the customer owned banking industry, supported by the Federal Government, and already adopted by some mutual entities. While the ability to issue MCIs would be recognised in the Constitution if this resolution is passed by members, an issue of MCIs would only be undertaken by the Board at a future time if it was in the interests of the Company to do so. Whilst the Company has no specific present intention to issue MCIs, the ability to raise equity capital going forward, without foregoing its mutual status, would provide the Company with access to a broader range of capital raising and investment options to advance the interests of members. There is only a limited window of time to amend the Constitution to enable the issue of MCIs.

The *Treasury Laws Amendment (Mutual Reforms) Act 2019* (Cth), which commenced on 6 April 2019, amended the *Corporations Act 2001* (Cth) (**Corporations Act**) to, among other things:

- define a "mutual entity" as a company registered under the Corporations Act whose constitution provides that each member has no more than one vote for each capacity in which the person is a member;
- permit mutual entities registered as public companies under the Corporations Act to issue equity capital, called "mutual capital instruments" or "MCIs", without risking their mutual structure or status, subject to meeting certain requirements in their constitutions; and
- provide a special procedure to allow eligible mutual entities to amend their constitutions to take advantage of the reforms.

MCI's are a bespoke type of share which can be issued by mutual entities which are public companies which don't have voting shares (other than any MCI's) quoted on a prescribed financial market, and which are not registered entities under the *Australian Charities and Not-for-profits Commission Act 2012* (Cth). Certain provisions must also be included in the company's constitution, including a statement that it is intended to be an "MCI mutual entity".

The special procedure for amendment of the constitution allows a mutual entity to pass an "MCI amendment resolution" – being a resolution to amend the constitution for one or more of the following purposes and for no other purpose:

- to include a statement that the entity is intended to be an "MCI mutual entity" for the purposes of the Corporations Act;
- to provide for the entity to issue MCI's;
- to provide for the rights and obligations attached to MCI's; and
- to make changes that are incidental or ancillary to the purposes specified above.

If notice of the resolution is given in accordance with section 249L(1)(c) of the Corporations Act, the meeting is held by 6 April 2022, and no more than 2 MCI amendment resolutions have been considered at previous meetings of the entity's members, the resolution if passed will take effect as a special resolution despite anything (including any further requirements for a modification of the constitution to take effect) in the entity's constitution.

The Company is proposing to take advantage of these reforms by making certain amendments to its Constitution, to enable the Company to issue MCI's in the future.

The proposed amendments to the Constitution to be considered in Resolution 1 are summarised below.

Provision of Constitution	Summary of proposed amendment
Preamble – Principles of Mutuality	Amendment to Principle 17 to clarify that MCI's are separate from "additional shares" for the purposes of the Principles. New Principle 28 to confirm that the Company is intended to be an "MCI mutual entity" and that holders of MCI's may only receive dividends and participate in surplus assets in that capacity to the extent permitted by the Constitution, the Corporations Act, APRA prudential standards and the terms of issue of the MCI's.
Rule 1.1 – Definitions	Inclusion of a definition of "Corporations Act". In addition, references throughout the Constitution to "Corporations Law" have been updated to refer to the "Corporations Act", and section references updated where required. Definition of "general meeting" amended to include any voting MCI holders. Inclusion of definitions of "MCI" and "MCI holder". Definition of "member" amended to clarify that it does not include a person entered in the register of members solely in respect of an MCI. Definition of "member elected director" amended. Definition of "subscription price" amended. Inclusion of a definition of "voting MCI holder".
Rule 1.5 – Notices	Inclusion of a new Rule 1.5(2)(c) covering the giving of notices to MCI holders.
New Rule 1.7 – Intention to be an MCI mutual entity	Inclusion of a new Rule to confirm that the Company is intended to be an "MCI mutual entity" for the purposes of the Corporations Act.
Rule 5.1 – Classes of Equity	Amended to give the Company the power to issue MCI's as well as member shares.
Rule 5.2 – Board Power to Issue Equity	Amended to allow the board to exercise the Company's power to issue MCI's.
Rule 7.1 – Payment of dividends	Amended to refer to board resolutions to pay dividends on MCI's to be effective only upon approval of the general meeting, if the terms of issue so require.
Rule 7.2 – Differential Dividends	Amended to provide an ability for the board to determine different dividends (in amount and method of payment) to different MCI holders in a class (subject to the terms of issue).

Provision of Constitution	Summary of proposed amendment
Rule 8.1 – Share certificates	Inclusion of a new Rule 8.1(2) in relation to the Company issuing share certificates to holders of MCIs.
Division 9 – Transfer of Shares	<p>Rules 9.1 (Form of Share Transfer), 9.3(2)(g) (Registration of Share Transfer) and 9.4 (Powers of Attorney) amended to include references to an “MCI holder” alongside existing references to a “member”.</p> <p>Inclusion of a new Rule 9.6 to clarify that, subject to the Corporations Act, Division 9 will not apply to transfers of MCIs effected through a “licensed clearing and settlement facility” to the extent provided in their terms of issue.</p>
Division 10 – Transmission of Shares	Rules 10.2 (Transmission of Shares on Death), 10.3 (Transmission of Shares on Bankruptcy) and 10.4 (Transmission of Shares on Mental Incapacity) amended to include references to an “MCI holder” alongside existing references to a “member”.
Division 11 – Holding General Meetings and Division 12 – Voting at General Meetings	<p>Amended to change references to “members’ meetings” to “general meetings”.</p> <p>Addition of references to “voting MCI holders” alongside references to “members”.</p>
New Rule 12.8 – Voting MCI Holders	Inclusion of a new Rule clarifying that a person who is both a “member” (i.e. holds a member share) and a voting MCI holder will have one vote in each of those capacities.
Rule 13.3 – Appointment by Members – Election	Amended to include a reference to voting MCI holders alongside members appointing a person to be a “member elected director”.
Rule 17.2 – Travelling Expenses and Insurance	Amended to change reference to “members’ meetings” to “general meetings”.
Appendix 2 (Common Bond), paragraph A2-2 – Common Bond – Body Corporate	Previous reference to body corporates holding mutual equity interests removed since no longer required.
Appendix 3, Division1 – Member Shares	<p>Paragraph A3-3 (Voting Rights) amended to change references to “members’ meeting” to “general meeting”.</p> <p>Paragraph A3-3(2)(b) (Voting Rights) amended to remove an incorrect implication that members may hold more than one share in the same capacity in which they are a member.</p>

Provision of Constitution	Summary of proposed amendment
New Appendix 3, Division 2 - MCIs	<p>Inclusion of a new Division 2 (MCIs) in Appendix 3, in order to:</p> <ul style="list-style-type: none"> • provide for the issue of MCIs or instruments convertible into MCIs; • provide that the subscription price for an MCI, or an instrument convertible into an MCI, is to be determined by the Board; • provide that each MCI must be issued as a fully paid share (this is a requirement under the Corporations Act); • provide that any dividends in respect of an MCI are non-cumulative (this is a requirement under the Corporations Act); • provide that the terms of issue of MCIs will be determined by the Board, subject to the Constitution, the Corporations Act and applicable prudential standards; • provide that subject to the terms of issue, an MCI holder is entitled to claim in the surplus assets and profits of the Company in a winding-up after all senior claims have been satisfied, that the MCI holder's claim ranks equally and proportionately with the claims of other MCI holders and members, and that the amount of the MCI holder's claim cannot exceed the subscription price for the MCI; • provide that subject to the Corporations Act, the Board may determine that the terms of the MCIs contain such terms the Board considers necessary or desirable for the MCIs to be considered regulatory capital under applicable prudential standards; • provide that the rights attached to MCIs or any class of MCIs may only be varied or cancelled by special resolution of the Company and by either a special resolution passed at a class meeting of the relevant class of MCI holders or the written consent of MCI holders holding at least 75% of the MCIs of the relevant class (this is a requirement under the Corporations Act); • provide that any variation of rights attached to MCIs which constitute "Common Equity Tier 1 Capital" (as defined by APRA) may require prior approval of APRA; • provide that except as provided by the rules of a "licensed clearing and settlement facility" (see above), a person becomes registered as an MCI holder upon entry into the register of members; and • provide that a resolution of the Company that would result in it ceasing to be an "MCI mutual entity" can only take effect if either there are no MCIs on issue or the resolution provides for each MCI to be cancelled before the Company ceases to be an MCI mutual entity.
Appendix 4 (Standing Orders), paragraph A4-3(3) (Speakers)	Addition of a reference to "voting MCI holders" alongside the reference to "members".
Appendix 5 – Election of Member Directors	Paragraphs A5-1 (Election), A5-3 (Nominations), A5-4 (Proceeding with Election), A5-5 (Appointment of Returning Officers), A5-8 (Election Voting Procedures), A5-9 (Postal Vote) and A5-11 (Procedures After Close of the Ballot) amended to include references to "voting MCI holder" alongside references to "members".
Appendix 6 – Demutualisation Approval Procedure Rules	Paragraphs A6-1(1)(2) and (3) (When the Demutualisation Approval Procedure Rules Apply) amended to clarify that the issue, redemption or buy-back of MCIs will not trigger the demutualisation provisions in the Constitution, and that the "takeover" type triggers in paragraphs A6-1(1)(3)(b) and (c) are not met by persons acquiring MCIs.
Commentary	Some additional commentary has been included in the Constitution to assist an understanding of the document.

4. Explanatory Note 4 – Further amendment of the Constitution to allow redemption of a member share without notice (Resolution 2)

Subrule 4.3(7) of the Constitution currently provides that the Company may redeem a member share in certain circumstances without notice to the member. It is proposed to add a further circumstance where notice is not required for redemption. This circumstance relates to when the Company considers (acting reasonably) that the member has used an account of the member to engage in fraud or criminal activity or is reasonably likely to do so.

In the absence of this amendment, the Constitution requires the Company to give the member 14 days' notice of the redemption, and the member may request that the redemption is considered by the Board.

The Board is of the view that the Company must be able to move quickly to close an account and redeem a member's share where it suspects that an account is being, or may be, used to engage in fraud or criminal activity.

A resolution was previously proposed at the Company's 2018 Annual General Meeting to allow redemption without notice merely where the Company suspects that the member has used an account of the member to engage in fraud or criminal activity or is reasonably likely to do so. Feedback from members in relation to that resolution was that the proposed wording was too subjective and could result in a member's share being unfairly redeemed on the grounds of an ill-founded suspicion of criminal activity or fraud. For these reasons, an objective formulation is now proposed in Resolution 2, requiring the Company to act reasonably in forming the view that the account has been or is reasonably likely to be so used.

The full text of Subrule 4.3(7) (in which the proposed new paragraph (b) is shown for clarity in underlining), is set out below:

- “4.3(7) The **company** may redeem a **member's member share** without notice to the **member** where:
- (a) the **member** is in default of any payment obligation to the **company** for a continuous period exceeding 90 days;
 - (b) the **company** considers (acting reasonably) that the **member** has used, or is reasonably likely to use, any account of the **member** to engage in fraud or criminal activity; or
 - (c) the **company** has written off or accepted a compromise in respect of monies owing by the **member** and there have been no transactions on any account of the **member** (other than to reflect the write off or compromise) for a period of 90 days after the write off or compromise.”

5. Explanatory Note 5 – Further amendment of the Constitution to require advance notice of certain adjournment motions (Resolution 3)

Appendix 4 sets out the “standing orders” for the conduct of debate at general meetings of the Company and are given effect pursuant to Subrule 11.3(4) of the Constitution.

The Board is of the view that the opportunity for potential disruption to general meetings should be reduced, and therefore seek approval of members to insert in Appendix 4 a requirement that motions to adjourn a meeting must be given to the Company in writing at least 7 days before the relevant meeting.

The proposal is to insert the following text into Appendix 4 (as clause A4-4(2)):

“A motion, or any other proposal, to adjourn a meeting (other than one relating to absence of a quorum) may not be moved by a **member** or **voting MCI holder** unless at least seven days' notice of the intention to move such motion or seek such a proposal has been given to the **company** in writing before the relevant meeting.”

The existing text in A4-4 will be renumbered as clause A4-4(1).

6. Explanatory Note 6 - Further amendment of the Constitution to promote election of directors with relevant skills, experience and competencies (Resolution 4)

Resolution 4 sets out a series of four amendments which are designed to ensure that the Board of the Company has the requisite skills, experience and competencies it needs to operate the business of the Company.

The existing role of the Nominations Committee is to determine whether a person is “fit and proper” according to the Board's Fit and Proper Policy which is based on the criteria set out in the APRA prudential standard “CPS 520”. However, an individual seeking election to the Board may satisfy the Fit and Proper Policy, but may not possess the skills, experience or competencies which the Board considers necessary or desirable for the performance by the Board of its functions.

Resolution 4 seeks to provide a constitutional basis for:

- the Board to set the skills, experience or competencies it needs or wants in an incoming or re-elected director;
- the Nominations Committee to assess the skills, experience or competencies of a person seeking to be appointed or re-elected as a director; and
- the Board to decline to admit a person as a candidate for election as a director of the Company on the basis of a lack of specified skills, experience or competencies.

The Constitution of the Company specifies a maximum Board size of 10 people, and so it is important that any vacant

position is filled with persons having the required skills, experience or competencies.

7. Explanatory Note 7 – Change of Auditor (Resolution 5)

The current external auditors of the Company, PricewaterhouseCoopers (**PwC**), have held that position since 1998. Predecessor firms of PwC conducted the audit from 1990.

The Audit Committee of the Board has recently undertaken a review of the internal and external audit function of the Company in order to seek to determine the most cost-effective appointments to those roles.

Following completion of that review, the Board has approved the appointment of PwC as internal auditors of the Company. However, for that appointment to take effect, PwC must cease in their role as external auditors. Consequently, the Board has also approved that a resolution be put to members for the appointment of Grant Thornton Audit Pty Ltd (**Grant Thornton**) as external auditor.

Grant Thornton has consented in writing to its appointment under section 328A of the Corporations Act and a member of the Company has, as required by section 328B of the Corporations Act, given notice of nomination of Grant Thornton as auditor. A copy of that notice accompanies this Notice of Annual General Meeting.

Further, PwC has applied to the Australian Securities and Investments Commission (**ASIC**) for consent to their resignation as auditor, in accordance with section 329 of the Corporations Act. As at the date of this Notice, ASIC's consent has not yet been received. If consent is not received, PwC will remain as external auditor.

Under section 327B of the Corporations Act, an ordinary resolution of members is required to effect the appointment of Grant Thornton as the new external auditor of the Company. Subject to Resolution 5 being passed at the AGM and to ASIC giving the consent referred to above, Grant Thornton's appointment will take effect from the conclusion of the AGM.

Explanatory Notes - Other Business

Positioning paper regarding director remuneration

The current economic environment driven by the COVID-19 pandemic has led to challenges for many of our Members, as well as negatively impacting our 2019/20 net profitability. Our Board has therefore taken a conservative and responsible approach to many issues facing the business including remuneration levels.

Notwithstanding the increased and more complex workload of our Board, Executive, and all staff in coping with various unforeseen challenges, as at the end of the 2019/20 financial year the Board has decided upon the following approach to remuneration:

- no management salary increases (most staff are covered by an Enterprise Agreement which has no scope for discretion);
- no management or staff incentive payments; and
- no increase to the Director remuneration pool.

It needs to be borne in mind that although Company policy is to remunerate our people at around mid market, in many instances we fall short of this target, particularly for Directors when independent data confirms that for the last 5 years Board remuneration has consistently lagged like competitors by a significant amount. This issue has been compounded by the merger with bcu, and the Board's decision not to seek an increase last year, or this year.

The end result is that Directors are paid well below market. This is not a desirable situation in a challenging environment where Member Owned Banks are rapidly consolidating in order to remain sustainable and competitive and where we aim to build an organisation that creates short and long term benefits and value for our Members.

The Board has a key role in providing strategic guidance for the Company and its subsidiary entities and effective oversight of management, while being ultimately accountable to the Members for performance.

In fulfilling its role, the Board at all times pursues excellence in governance standards which is an expectation of the recent Royal Commission and demanded by our regulator, the Australian Prudential Regulation Authority (**APRA**).

The Board is responsible for acting in Members' best interests at all times and its functions include, but are not limited to:

- maintaining appropriate capital levels and protecting depositors' balances;
- debating and approving the strategic direction of the Company;
- approving the Company's annual budget, targets and financial statements, and monitoring financial performance against budget and forecasts;
- establishing a framework for the effectiveness of risk management of the Company, with appropriate reporting, oversight and internal controls;
- monitoring the effectiveness of the governance framework to ensure that the Company conducts its affairs with the highest degree of integrity;
- ensuring that the Company complies with its obligations under applicable laws and regulatory guidelines, which are becoming more onerous; and

- overseeing and governing the Company's culture and climate.

The nature of the Directors' role is growing steadily more complex and time consuming, the primary drivers being the national expansion of the business, the burgeoning regulatory and risk impacts unfolding in the financial services sector, economic conditions and the increasing level of personal accountability imposed on Directors by the Financial Accountability Regime.

To enable the Board to effectively fulfil its responsibilities and meet the expectations of Members, regulators, employees and other key stakeholders, each Director appointed to the Board must be able to demonstrate the relevant credentials and experience to enable them to maintain adequate oversight and understanding of the Company's strategies and performance. We therefore must attract and retain Directors with the necessary level of skills and capability.

Although it is not our intent to formally request an increase to our Director remuneration pool at this Annual General Meeting, Members should be aware that the current pool of \$686,474 is a minimum of \$110,000 below mid market. The Board will look to deal with this issue once economic conditions allow.

30 September 2020

Police & Nurses Limited
Level 6
556 Wellington Street
Perth WA 6000

Dear Directors,

Nomination of auditor

In accordance with s328B(1) of the *Corporations Act 2001* (Cth) I, Patrick Jodas, being a member of Police & Nurses Limited (**Company**), hereby nominate Grant Thornton Audit Pty Ltd for appointment as auditor of the Company.

Yours sincerely,



Patrick Jodas
Chief Financial Officer
Police & Nurses Limited

