

Police & Nurses Limited
ACN 087 651 876

Notice of Annual General Meeting 2021

Notice is given that the Annual General Meeting (**AGM** or **Meeting**) of the members of Police & Nurses Limited (ACN 087 651 876) (**PNL** or **Company**) will be held virtually (online) commencing at 12:00 noon (AWST) (3:00pm (AEDT)) on Wednesday, 27 October 2021 (**Notice of Meeting** or **Notice**).

General Business

Discussion of the 2021 Annual Report

To receive and consider the Annual Report of the Company for the year ended 30 June 2021 which includes the Financial Report, the Directors' Report and the Auditor's Report.

Resolution 1 – Election of Director; re-election of Ms Louise Clarke

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

“That Ms Louise Clarke, being eligible, be re-elected as a Director of Police & Nurses Limited.”

Resolution 2 – Changes to the Constitution; to clarify MCI (Mutual Capital Instrument) provisions, consistent with the Company's ongoing commitment to the Principles of Mutuality

PNL is proposing a number of minor amendments to the MCI provisions which were approved by members at the 2020 Annual General Meeting. These amendments are required to ensure that PNL is able to issue MCIs which can meet the requirements of the Australian Prudential Regulation Authority (APRA) for Common Equity Tier 1 Capital (**CET1**). MCIs which meet the CET1 requirements are known as 'MEIs' (Mutual Equity Interests). It is very important for PNL to have the ability to issue MEIs, to ensure capital flexibility as an authorised deposit-taking institution (**ADI**).

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 and signed by the Chairman for the purposes of identification.”

Resolution 3 - Directors' Remuneration; to increase the aggregate director remuneration pool to \$747,572, in alignment with market data, and following three years without change

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

“That for the purposes of Rule 17.1 of the Constitution, the members approve that an amount of \$747,572 (per annum) inclusive of superannuation be fixed for the Directors' combined remuneration, for the period commencing 28 October 2021 until such time as a different amount is approved by members. The amount is to be divided amongst the Directors in line with market practice and in such a manner as they determine.”

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.



Verran Fehlberg
Company Secretary
Police & Nurses Limited
21 September 2021

Information for Members

Participating in the Meeting online

By participating in the Meeting online you will be able to:

- hear and see the Chair and CEO addresses and their presentations;
- speak and verbally ask questions in situations where a participant has a right to speak and ask questions while the Meeting is in progress; and
- vote online during the Meeting.

Methods of voting

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

- by attending the virtual Meeting and voting online during the Meeting;
- if a company, by appointing a corporate representative to vote online during the Meeting;
- by appointing a proxy to attend the Meeting and vote online on behalf of the member; or
- by casting a direct vote prior to the Meeting.

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

Attending virtually

A shareholding member may attend online and vote at the virtual AGM.

Appointment of corporate representative

A shareholding member that is a company may appoint an individual to both attend and vote online 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 13 25 77 (P&N Bank customers) or 1300 228 228 (bcu customers) 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 online 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 either need to complete and sign the attached Voting Form as instructed on the form and if you are receiving the notice of meeting by mail, return it to the Company in the enclosed reply paid envelope or appoint your proxy online as instructed on the form. To be valid, an appointment of proxy must be received no later than 12:00 noon (AWST) (3:00pm (AEDT)) on Monday 25 October 2021.

If you have received this Notice electronically and wish to submit a hard copy Voting Form to appoint a proxy, please contact the Company on 13 25 77 (P&N Bank customers) or 1300 228 228 (bcu customers) 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 12:00 noon (AWST) (3:00pm (AEDT)) on Monday 25 October 2021.

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 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 12:00 noon (AWST) (3:00pm (AEDT)) on Monday 25 October 2021. Please return your Voting Form in the enclosed reply paid envelope. If you have received this Notice electronically and wish to cast a direct vote using a hard copy Voting Form, please contact the Company on 13 25 77 (P&N Bank customers) or 1300 228 228 (bcu customers) and request a copy of the Voting Form.

OR

- **By pre-voting online:** Shareholding members may cast a direct vote online at the following website by following the instructions provided on the following website:
www.votingservices.com.au/PNL

If you submit a pre-Meeting direct vote using this method your vote must be cast no later than 12:00 noon (AWST) (3:00pm (AEDT)) on Monday 25 October 2021.

Meeting registration and participation

If you choose to participate in the Meeting online, registration will open at 9.00am (AWST) (12:00 noon (AEDT)) on Wednesday, 27 October 2021. To participate (including viewing only) in the Meeting online, you can log into the Meeting in the following ways:

- from your computer, by entering this URL in your browser: <https://web.lumiagm.com/312-180-807>; or
- from your mobile phone or device by either entering <https://web.lumiagm.com/312-180-807> in your browser.

Once you have selected one of the options above, you will need the following information to participate in the Meeting:

1. The meeting ID which is 312-180-807;
2. Your username, which is your member number as outlined on your voting form; and
3. Your password, which is your postcode.

Proxy holders should refer to the Lumi Online Meeting Guide (which is available on the Company's website) in advance of the Meeting for their password details – please contact Computershare if you experience any difficulties on +61 3 9415 4024. Additional information about the virtual Meeting, including technical requirements, how to vote and how to ask questions, is detailed in the Lumi Online Meeting Guide which is available on the Company's website at <https://www.pnbank.com.au/agm> or <https://www.bcu.com.au/agm>.

Technical difficulties

Technical difficulties may arise during the Meeting and the Chair has discretion as to whether and how the Meeting should proceed if a technical difficulty arises. In exercising their discretion, the Chair may have regard to the number of members impacted and the extent to which participation in the Meeting is affected. Where considered appropriate, the Chair may continue to hold the Meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions.

In the event of a technological failure that prevents members from having a reasonable opportunity to participate in the Meeting, the Company will provide an update on its website to communicate the details of any postponement or adjournment of the Meeting to members - see <https://www.pnbank.com.au/agm> or <https://www.bcu.com.au/agm>.

All resolutions will be by way of a poll

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.

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 2021 Annual Report

The Directors will present the 2021 Annual Report comprising the 2021 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 21 September 2021.

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 Director (Resolution 1)

Mr Edwin Bradley (Board Appointed Director) and Mr Alan Philp (Member Elected Director) are each retiring from the Board, and Ms Louise Clarke (Member Elected Director) retires by rotation and has nominated for re-election.

An election of a Director was necessary because Ms Louise Clarke and Mr Alan Philp, both being Member Elected Directors, are required to retire in accordance with Rule 13.6(3) of the Constitution that in summary requires that 1/3 of Member Elected Directors retire at each AGM. Consistent with the terms of the Constitution, the Board made a public call for candidates nominating for election as a Member Elected Director, highlighting relevant criteria. No applicable further nominations were received, other than from Ms Louise Clarke. In accordance with Rule 13.3 (and Rule A5-4 of Appendix 5) of the Constitution as there were no other candidates for the vacant position, the re-election of Ms Clarke is being put to members as an ordinary resolution rather than as a Director ballot.

Ms Louise Clarke has been considered and interviewed by the Nominations Committee which has determined that she is an appropriate candidate.

Ms Louise Clarke having completed her first three-year term as a Director is now eligible for re-election. The re-appointment of Ms Clarke as Director has the support of the full Board (Ms Clarke absenting) who have unanimously endorsed her re-election.

Ms Clarke provided the following statement in support of her re-election:

"I am currently a director on the Police & Nurses Limited board. I transitioned from the bcu bank board after the successful merger in November 2019.

I have over 30 years of business banking experience in the Financial Services sectors in Australia in high-calibre organisations including State Street Bank, Schroders Australia, and EY. I have experience as a non-executive director in Industry Associations and not-for-profit sectors.

My professional background is in banking, I have had full business unit responsibility including profit and loss, strategic planning and implementation, new business development, and significant operational experience. As a COO I had the responsibility to all regulatory bodies in Australia for a local banking operation.

During my tenure on boards, I have always acted with honesty and integrity. At the forefront of my decision-making is how decisions will serve or impact the members, clients and stakeholders.

I have a degree in Business from the University of Technology NSW and continue to educate myself through numerous courses at the Australian Institute of Company Directors. I have a passion for leadership and have attained accreditation as an executive coach. I work with individuals and teams to make them better leaders.

I live in the hinterland of Port Macquarie where I operate a beef cattle and farm stay business. I am actively involved in local projects in my area and have a strong personal belief in giving back to the community. Living and working in a rural community I understand the challenges and needs of small communities.

The skills and knowledge I have from the banking sector and living in a rural community will ensure that I contribute to the growth and sustainability of PN and bcu whilst protecting the interest of members and other stakeholders."

3. Explanatory Note 3 – changes to the Constitution to clarify MCI (Mutual Capital Instrument) provisions (Resolution 2)

Introduction

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, a special resolution is required, which means 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 for the reasons outlined below.

To assist members, a copy of the Constitution showing all of the changes proposed to be made pursuant to Resolution 2 is available to members on request by telephoning the Company on 13 25 77 (P&N Bank customers) or 1300 228 228 (bcu customers). It is also available online, and will be made available for inspection in connection with the AGM. To view the proposed amendments to 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.

Proposed amendments

At the 2020 AGM, members voted in favour of amending the Constitution to allow the Company to issue "mutual capital instruments" (**MCIs**) as an additional source of capital to support growth. Introducing MCIs into the Constitution (and issuing MCIs) has not and will not result in a demutualisation of the Company, and the Company remains fully committed to the Principles of Mutuality.

As a reminder, the MCI amendments were part of a broader initiative of the customer-owned banking industry, supported by the Federal Government, to enable mutual entities (such as the Company) to be able to raise equity capital without risking their mutual status.

This year, the Board is proposing a number of further MCI-related amendments to the Constitution to ensure that the Company is able to issue MCIs which can meet the requirements of the Australian Prudential Regulation Authority (**APRA**) for Common Equity Tier 1 Capital (**CET1**). MCIs which meet the CET1 requirements are known as 'MEIs' (Mutual Equity Interests). It is very important for the Company to have the ability to issue MEIs, to ensure capital flexibility as an authorised deposit-taking institution (**ADI**).

The table below sets out the proposed changes to the Constitution, together with the reasons for the changes and the effect of the changes if Resolution 2 is approved by members at the AGM. Please note that minor changes, for example, cross references, typographical errors and clarifications, have not been included in the table but a full set of all proposed

changes can be viewed online or by requesting a copy of the proposed amendments to the Constitution (as set out above).

No.	This column sets out the proposed changes to the Constitution.	This column sets out the reason for the changes and the effect of the proposed changes if members vote in favour of Resolution 2 and it is passed at the AGM.
1.	<p>Subrule 1.1. Definitions of the Constitution is amended by the insertion of the underlined words and deletion of the strikethrough words to read:</p> <p><u>MCI</u> (short for “mutual capital instrument”) means: (a) a share in the company as described in Appendix 3 Division 2; and (b) <u>includes</u> a mutual equity interest.”</p>	<p>This proposed change has been made to standardise terminology and for consistency. These changes make it clear that if an MEI is issued by the Company, it will be issued in the form of an MCI.</p>
2.	<p>Subrule 5.2. of the Constitution is amended by the insertion of the underlined words and deletion of the strikethrough words to read:</p> <p>“The board may exercise the company’s power to issue shares or mutual equity interests MCIs to the exclusion of the general meeting.”</p>	<p>This proposed change has been made to standardise terminology and for consistency. These changes make it clear that the Company may issue MCIs. The reference to “mutual equity interests” has been replaced with MCIs, as “mutual equity interests” would be issued in the form of MCIs.</p>
3.	<p>Rule 5.4 of the Constitution is deleted in its entirety.</p>	<p>This proposed change removes the right of the Board to unilaterally repurchase MEIs (because this would not be permitted by APRA). The remainder of the Rule is not required, because “mutual equity interests” would be issued in the form of MCIs, and the Constitution otherwise permits the issuance of MCIs by the Company.</p>
4.	<p>Rule 6.1 of the Constitution does not apply to MCIs so the words “<i>This Rule does not apply to MCIs</i>” will be inserted below the heading of Rule 6.1.</p>	<p>This proposed change has been made for clarity, as the provisions of Rule 6.1 do not apply to MCIs.</p>

No.	This column sets out the proposed changes to the Constitution.	This column sets out the reason for the changes and the effect of the proposed changes if members vote in favour of Resolution 2 and it is passed at the AGM.
5.	<p>Subrule 7.1(1) of the Constitution is amended by the insertion of the underlined words and deletion of the strikethrough words to read:</p> <p>“The board may determine that the company pay a dividend on shares and <u>or mutual equity interests MCIs</u> to which a right to participate in dividends attaches and may determine:</p> <p>(a) the amount of the dividend;</p> <p>(b) the time for payment of the dividend; and</p> <p>(c) the method of payment of the dividend.</p> <p>The method of payment may include the payment of cash, the issue of securities and the transfer of assets, <u>except in the case of dividends paid in respect of MCIs which may only be paid in cash.</u> Where the company pays the dividend other than in cash, the board may fix the value of any securities issued or assets transferred.”</p> <p>Subrule 7.1(2) of the Constitution is amended by the deletion of the strikethrough words to read:</p> <p>If the terms of issue for a share or a mutual equity interest require the general meeting’s approval to any calculation or payment of a dividend on the share or mutual equity interest, the board’s determination under Subrule (1) is effective only if the general meeting approves the dividend before the time for payment of the dividend arrives. The general meeting may not vary the board’s determination.</p>	<p>This proposed change restricts any dividends declared in respect of an MCI to be paid in cash only.</p> <p>The other proposed change is to standardise terminology and for consistency.</p>
6.	<p>Rule 7.2 of the Constitution should not be applicable to MCIs so the words “<i>This Rule does not apply to MCIs</i>” are inserted below the heading of Rule 7.2, and the words “or mutual equity interests” and “or MCI Holders” are deleted from Rule 7.2.</p>	<p>This proposed change has been made as MCIs would not carry differential dividends and if payable, they must be paid in cash.</p>
7.	<p>Clause A2-2 of Appendix 2 (Common Bond) of the Constitution is amended by the insertion of the underlined words and deletion of the strikethrough words to read:</p> <p>“A body corporate is eligible to be a member of the company and includes a body corporate that holds a mutual equity interest MCI and a body corporate member of another ADI that transferred its business and members to the company under the Financial Sector (Transfers of Business) Act 1999 (Cth).”</p>	<p>This proposed change has been made to standardise terminology and for consistency.</p>

No.	This column sets out the proposed changes to the Constitution.	This column sets out the reason for the changes and the effect of the proposed changes if members vote in favour of Resolution 2 and it is passed at the AGM.
8.	<p>Clause A3-4(3) of Appendix 3 (Shares) of the Constitution is amended by the insertion of the underlined words to read:</p> <p>“The entitlements of holders of member shares to dividends are subject to any preferred entitlement to dividends that holders of any other class of shares (<u>other than MCIs</u>) may have.”</p>	<p>This proposed change is made because MCIs should not have any preferred entitlement to dividends over holders of member shares.</p>
9.	<p>Clause A3-5(1) of Appendix 3 (Shares) of the Constitution is amended by the insertion of the underlined words to read:</p> <p>“(b) if any assets remain after the payments in paragraph (a) – to any surplus assets of the company, <u>subject to clause A3-11(2).</u>”</p>	<p>This proposed change is made because MCI holders may have an entitlement to surplus assets of the Company in the unlikely event of a winding up of the Company. Where the holder of an MCI is entitled to claim any surplus assets of the Company on a winding up, that claim would only be satisfied after (fully paid) members shares have been repaid. The entitlement of MCI holders would be limited to the subscription price paid on the MCI, and members would share in any remainder of surplus assets after MCI holders have been paid their subscription price.</p>
10.	<p>Clause A3-5(4) of Appendix 3 (Shares) of the Constitution is amended by the insertion of the underlined words to read:</p> <p>“The entitlements of holders of member shares to payment on winding-up are subject to any preferred entitlements to payments on winding-up that holders of any other class of shares (<u>but excluding the holder of an MCI</u>) may have.”</p>	<p>This proposed change has been made in order to align Clause A3-5(4) of the Constitution with regulatory requirements for MEIs.</p> <p>The effect of this proposed change is as described in 9 above.</p>
11.	<p>Clause A3-11(2) of in Appendix 3 (Shares) of the Constitution is amended by the insertion of the underlined words and deletion of the strikethrough words in A3-11(2):</p> <p>“Unless specified otherwise in the terms of issue of an MCI, an MCI holder is entitled to a claim on the surplus assets and profits of the company in a winding-up of the company after all senior claims, <u>including the aggregate subscription price paid for any member share</u>, have been satisfied and:</p> <p>(a) the MCI holder’s claim ranks equally and proportionately with the claims of all other MCI holders and members; and</p> <p>(b) the amount of the MCI holder’s claim cannot exceed the subscription price of the MCI.”</p>	<p>This proposed change has been made in order to align Clause A3-11(2) of the Constitution with regulatory requirements for MEIs.</p> <p>The effect of this proposed change is as described in 9 above.</p>

4. Explanatory Note 4 - Directors' Remuneration (Resolution 3)

With this resolution the Board is seeking member approval to increase the aggregate director remuneration pool to \$747,572 (per annum) inclusive of superannuation.

Background

Members may recollect that the last increase to the Board's remuneration was in 2018 and that at last year's AGM (at the end of the 2019/20 financial year) the Board decided not to seek approval from members for an increase to the Director remuneration pool. This was despite noting that the pool was lagging those of our peers and that our Directors were remunerated below market. This decision was taken against a backdrop of an economic environment driven by the COVID-19 pandemic, which negatively impacted 2019/20 net profitability. As set out in the 2021 Annual Report (incorporating the 2021 Financial Report) the Board is pleased that the Bank's financial performance has bounced back, despite the broader environment remaining very challenging.

The practice of our Company is to remunerate our Directors around the 50th percentile of the market for remuneration within the comparative financial services sector. Independent data has confirmed that for the last five years Director remuneration has consistently lagged this remuneration benchmark and by extension like competitors by a significant amount. This issue has been exacerbated following the merger with bcu, and the Board's decision not to seek an increase in either 2019 or 2020.

In 2021, the Board commissioned an independent remuneration consultant (**Korn Ferry**) to undertake an objective remuneration assessment. That assessment concluded that the Director remuneration pool was currently below the average of our peer group. This has been further validated by recent specific benchmarking to comparable Member Owned Banks. The Board considered this, and decided that in alignment with the Company's practice of remuneration, a move closer towards the 50th percentile of the market for remuneration within the comparative financial services sector was appropriate.

This resolution seeks an increase of \$61,097 to the total Directors' remuneration pool last approved by members in 2018. This represents an 8.9% increase, after three years without a change to the pool. This change would position us closer to, but still modestly below, the 50th percentile level within our peer group. Further context of the evolving role of the Board is presented as follows.

Role of the Board

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 members for performance. In a challenging environment where Member Owned Banks are rapidly consolidating and in order to remain sustainable and competitive we need to be able to attract directors with the skills, dedication and mindset to guide the Bank as it seeks to create short and long term benefits and value for our members.

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 are 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 depositor's 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, customer preferences changing towards digital service delivery, the burgeoning regulatory and risk impacts unfolding in the financial services sector, economic conditions and the increasing level of personal accountability imposed on Directors, including by pending changes to the Banking Executive Accountability Regime.

To enable the Board to effectively fulfil their 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 be equipped, on terms acceptable within the market, to attract and retain Directors with the necessary level of skills and capability to support the Company's operations, development, growth and sustainability.