

# 1. LCU Board Charter: How We Govern

The Board's aim is to govern a well-managed, trusted, member-owned financial institution which provides quality products and services to improve the financial well-being of our members. The Board will act responsibly, honestly, fairly, diligently and in accordance with the law when it comes to our customers, our staff, and broader stakeholders.

## 1.1. Purpose and Role

The Board is responsible for:

- Setting the direction, strategies and financial objectives for LCU and overseeing management's implementation of these policies, strategies and financial objectives;
- Setting the risk appetite for LCU;
- Overseeing compliance with regulatory requirements, ethical standards and external commitments;
- Overseeing management, including appointing, and reviewing the performance of the General Manager;
- Monitoring and assess management's performance in achieving strategies and budgets approved by the Board;
- On a regular and continuing basis, reviewing succession planning for directors and management, and director and management development activities;
- Ensuring our governance and operations align to our core values as a mutual banking institution; and
- Ensuring the excellent reputation that LCU has enjoyed is protected through continued good governance and sound management practices.

In performing the responsibilities set out above, the Board will act at all times:

- To create and build sustainable value for member shareholders in accordance with the duties and obligations imposed upon them by the Constitution and the law; and
- With due regard to LCU's corporate responsibility objectives, and the importance of LCU's relationship with all stakeholders and the communities and environments in which LCU operates.

## 1.2. Powers

In addition to matters expressly required by law to be approved by the Board, powers specifically reserved for the Board are as follows:

- Appointment of the General Manager and Officers who report directly to the General Manager including the Assistant GM and R&CO, and determination of terms and conditions (including remuneration);
- Approval of the budget and strategic plan, at least annually;
- Significant changes to organisational structure and the appointment of senior officers;
- Making public statements which reflect significant issues of LCU policy or strategy; and
- Any changes to the discretions delegated by the Board;
- Any matters in excess of any discretions that it may have from time to time delegated to the GM, including in relation to credit transactions, market risk limits and expenditure.

## 1.3. Board Membership – Size and Composition

The Board must have a minimum of five directors at all times; a majority of whom should be independent non-executive directors, and all of whom must be Australian residents and members of LCU (see Section 3.5 for the definition of independence).

The Chairman must be an independent non-executive director, and a:

- Majority of directors present and eligible to vote at all Board meetings must be non-executive;
- The Chairman cannot have been the CEO at any time during the previous three years. If the position of CEO is unexpectedly vacated, the Chairman may serve as interim CEO. After a period of 90 days approval must be sought from APRA to allow this arrangement to continue;
- There must be at least one independent non-executive director who has financial expertise;
- No single individual or shareholder group should be able to exercise undue influence over the Board its policies or operations; and
- The performance and composition of the Board will be regularly reviewed by the Board and from time to time as part of this process the Board will assess its mix of skills using a skills matrix to ensure it has a good balance of skills including: strategy and commercial acumen, legal skills, risk and compliance experience, marketing or communications expertise, and more (see section 3.12 of this policy for the current LCU Board skills matrix).

## **1.4. Board Responsibilities & Individual Roles**

### **3.4.1 The Board**

#### **Strategy and Policy**

- Review and approve the proposed strategic plans for LCU;
- Approve and foster the corporate culture and values, and in particular the code of conduct;
- To foster ethical and responsible decision making and enhanced performance;
- Establish that appropriate policies on key issues, including exposure to risk, are in place and monitor compliance. A separate policy exists with regard to the formulation and review of policies and procedures;
- Approve major decisions and where appropriate make recommendations to Members via the General Meetings;
- Delegate appropriate authority to the GM;
- Determine whether LCU has adequate reporting systems and internal controls;
- Establish appropriate communication structures with industry stakeholders;
- Review Board's own processes and effectiveness; and
- Provide effective leadership and control in times of crisis.

#### **Risk Management**

- Establish the Risk Management Framework;
- Approve the Risk Appetite Statement and Risk Management Strategy;
- Approve and maintain oversight of the AML/CTF Program Part A and the Business Recovery Plan (Plan B); and
- Establish a sound risk culture.

#### **Budgeting and Planning**

- Approve the annual budget;
- Approve other major performance KPI's and goals; and
- Review performance against KPI's and goals, and where necessary, review corrective action plans.

#### **Regulatory Compliance**

- Review and, where appropriate, approve the determination of major changes in auditing and accounting principles;
- Select and recommend auditors to shareholders/members;

- Through the Board Audit Committee, oversee both the internal and external audit process and review the Committee's reports;
- Require that appropriate regulatory compliance systems are in place and monitor this compliance through the Board Audit Committee; and
- Determine that the accounts are in accordance with the relevant accounting standards.

### **Key Personnel**

- Select, monitor, and if necessary, replace the GM. Selection and remuneration of executives reporting to the GM is by recommendation of the GM with approval of the Board; and
- Through the Board each year, evaluate the performance and set remuneration of the GM and those reporting to the GM.
- Approve bonus pool (if any) and payment criteria for employees, upon recommendation by GM.

### **Reporting to Members**

- Approve reports and major announcements to members; and
- Through the Chairman, plan General Meetings of members.

## **3.4.2 Individuals with a key governance role at LCU**

### **Chairman of the Board**

The Chairman is considered the "lead" Director who utilises their experience, skills and leadership abilities to facilitate the governance processes to ensure the Board provides leadership and vision to LCU:

- Chair Board and general meetings;
- Direct board discussions so there is an effective use of time and that critical issues are discussed;
- Be a spokesperson for LCU at general meetings and other forums;
- Be the major point of contact between the board and the GM;
- To be fully informed of current events by the GM on all matters which may be of interest to directors;
- Ensure that the board has the necessary information for effective decision making;
- Chair the GM's and direct reports to the GM evaluation processes; and
- Provide feedback and guidance to individual directors on performance and guide the ongoing development of the board as a whole and directors individually.

Further information about the role of the Chairman can be found under sections 3.3, 3.6, 3.10 and 3.13 (term limit and succession planning).

### **Board Committee Chairs**

Committee chairs are considered the "lead" director for their committee. They must utilise their experience, skills and leadership abilities to ensure their committee operates effectively. Their duties include:

- Organise and chair committee meetings;
- Direct committee discussions so there is an effective use of time and that critical issues are discussed;
- Report to the LCU Board, being a spokesperson for the committee at LCU board meetings;
- Interface with the board and the GM;
- To be fully informed of current events relevant to that committee;

- Ensure their committee has the necessary information for effective decision making; and
- Attend relevant external events.

Additional details can be found within terms of reference for particular committees.

### **External Auditor**

The LCU Board relies on the external auditor to provide an independent check on operations. The external auditor performs procedures and prepares and signs an audit opinion as to whether:

- The financial report gives a fair view of LCU's financial position; and
- The financial statements comply with the Australian Accounting Standards

They will inform LCU of any material errors, instances of fraud or illegal acts and material weaknesses relating to internal controls and accounting procedures that they identify.

In addition to the statutory financial reporting, they will report to the LCU Board and APRA on specific requirements that are prescribed in Prudential Standard APS 310.

They are also required to report to ASIC with regard to LCU's compliance with its AFS licence requirements.

### **General Manager**

The Board will rely on the GM to undertake the ongoing management of the day to-day business' affairs of LCU in accordance with the strategy, policy and programs approved by the Board and to report to the Board where appropriate. In addition to running the business of LCU, specific duties are located in the GM's position description. The GM acts as LCU's Privacy Officer and Internal Dispute Resolution Officer.

### **Assistant General Manager**

In relation to Governance, the Assistant GM's primary role is to ensure that the board processes and procedures run efficiently and effectively, to undertake secretariat duties, and to support the work of the GM as necessary, and to deputise for the GM at meetings when the GM is away. The Assistant GM has direct contact with the Board and is able to raise matters with the Chairman as he or she considers appropriate. The Assistant GM will be appointed with the approval of the Board through the Chairman and employment cannot be terminated without approval of the Board.

### **Risk and Compliance Officer**

The R&CO will act as part of LCU's second line of defence, with specific duties set out within the relevant job description. The R&CO will support the Board Risk Committee as needed and has a direct line of contact with the Chairman of the Board Risk Committee. An R&CO will be appointed with the approval of the Chairman and Chairman of the Board Risk Committee and employment cannot be terminated without that approval.

### **Internal Auditor**

LCU's internal auditor will provide a regular review of the adequacy and effectiveness of the financial and risk management framework of LCU. The results of this review will be reported to the Board Audit Committee.

## **1.5. Independence**

The test of independence of directors applied by LCU as prescribed in Australian Prudential Standard CPS 510, whereby "and 'independent director' is a non-executive director who is free from any business or other association – including those arising out of a substantial shareholding, involvement in past management or as a supplier, customer or adviser – that could materially interfere with the exercise of their independent judgement".

## **1.6. Behaviours – Board Conduct**

### **Responsibilities of Board and Management to be clear**

- Directors have a responsibility to provide guidance to management during Board meetings and to monitor the management of LCU;
- Directors have agreed the division of responsibility between management and the Board. These are contained in Sections 3.1, 3.3 and 3.5 of this document, and are stipulated by regulations and guidance including APRA CPS 510.
- Directors receive reports of progress against budget, other management reports and regular control reports on a monthly and quarterly basis.

### **Directors must disclose their interest where there is a potential conflict regarding any contracts or the holding of an office**

- It is a requirement at law that directors inform the Board on an ongoing basis of any interest they have in any contracts of the holding or of an office that may represent a potential conflict of interest;
- The obligation is on directors to inform the Board at any time and at the first meeting after the person becomes aware of the relevant facts that may lead to any potential conflict; and
- At the first Board meeting after the Annual General Meeting, the Secretary will seek to verify and update the currency of directors' declarations.

### **Directors should use the regular Board meetings as the appropriate forum for discussion of all relevant issues**

- Board papers are made available in advance of meetings and directors should feel free to seek additional information via the Chair if further clarification is needed prior to a Board meeting;
- As a general rule, the appropriate place for all discussions of Board matters to take place is in the scheduled Board meetings; and
- It is the obligation of the Chairman to ensure that Board meetings are conducted in such a way that all questions and points of view can be adequately raised and addressed.

### **Commitment of directors not to undermine fellow directors once a decision has been made**

- It is an obligation of the Chairman to ensure that adequate discussion takes place on issues within Board meetings;
- It is usual practice at LCU to make decisions on a consensus basis, but from time to time majority votes will determine the outcome of a Board discussion; and
- Directors' views may therefore vary from the majority but information on voting pattern and discussion of why views are held must remain confidential.
- Directors will respect majority decisions and act with discretion and professionalism as guided below should they disagree with a decision so as not to harm LCU's reputation.

Where disagreement occurs, every effort should be made to resolve the issue. Once decisions have been made, however, all directors are expected to support the decision even though they may not have individually voted for it. Where a director feels so strongly about a matter of principle that they are unable to support publicly a decision of the Board, the director may consider:

- Making the extent of the dissent and its possible consequences clear to the Board as a means of seeking to influence the decision;

- Asking for additional legal, accounting or other professional advice relevant to the issue;
- Asking that the decision be postponed to the next meeting to allow time for further consideration and informal discussion;
- Tabling a statement of dissent and asking that it be minuted;
- Writing to the Chairman, or all members of the Board; asking that the letter be filed with the minutes; and
- If necessary, giving notice of resignation.

### **Directors resigning on a matter of principle**

Directors who take the serious step of resignation on a matter of principle should consider whether their reasons require them to inform members or the regulator. In deciding whether or not to make public a director's reasons for resigning and composing any resignation statement, a director should have regard to the following:

- A director is under a duty not to disclose confidential information so as to risk damage to the reputation of LCU. However, this duty needs to be balanced with a director's duty to act bona fide in the interests of LCU and, in certain circumstances, it may be proper for the director to inform members of his/her view of a particular proposal, transaction or corporate strategy; and
- The reputation of the credit union, of fellow directors and LCU staff.

It is strongly recommended that legal advice be obtained before taking such steps.

## **1.7. Meetings**

- The LCU Board meets up to 12 times per year at times agreed by the Board.
- Board meeting papers will be distributed to directors at least one week prior to each Board meeting to enable directors to read the papers and properly prepare for meetings.
- Draft minutes of each Board meeting shall be prepared by an appropriate person promptly following the meeting and distributed to the Board within ten days. The draft minutes shall be tabled at the next Board meeting for review, corrections and adoption by the Board.

## **1.8. Board Committees**

The Board has established board committees for the purpose of overseeing critical functions.

However, while some duties and analysis may be delegated to board committees, the Board remains ultimately responsible for ensuring that duties are performed.

Board committees must report to the Board when convenient after relevant meetings.

A director may sit on more than one committee provided there is no material conflict of interest through such participation.

The Board has established the following Committees, each with Terms of Reference which are reviewed at least annually. The current Committees are:

- Board Audit Committee (see terms of reference at Appendix 1)
- Board Risk Committee (see terms of reference at Appendix 2)
- Remuneration and Nominations Committee (see terms of reference at Appendix 3)
- Budget Committee (see terms of reference at Appendix 4)
- Innovation Committee (see terms of reference at Appendix 6)

## **1.9. Board Evaluation**

The Board will undertake an annual performance evaluation of itself, the method of which it determines as appropriate. The annual performance assessment will include elements of review of the Board's performance as a whole and individual director contribution. In order

to obtain value from the process and encourage improvement, the evaluation mechanism might change each year.

The evaluation will:

- Assess the performance of the Board in line with this Charter, and against and broader aims embodied in this governance document;
- Ensure directors are able to be forthcoming with comments and encourages feedback (e.g. via an anonymous online survey);
- Be shared with the full board so as all directors are aware of any performance issues that may arise;
- Consider the goals and objectives of the Board for the future;
- From time-to-time will include assessment of board composition and size (using for example a skills matrix); and
- Result in improvements to the Board Charter as necessary or desirable.

### **1.10. Professional Development**

Directors are required to bring a desired mix of skills to the board. As noted above, from time to time the board will consider its mix of skills via assessment through a skills matrix.

For existing directors, LCU commits to providing of ongoing education and professional development so that directors can always add value to and make a worthy contribution to the decision making processes of the Board. Directors are required to update their knowledge and skills, and register their training with LCU (via the Assistant GM or other delegated person – see below). Directors’ activities in this regard will be considered by the Chairman during the Board review process.

Selection of development activities is a matter for determination by the individual director, aligned to their current stage of development, and as necessary in consultation with the Chairman.

The Board has a budget to support ongoing director development. This covers (but is not limited to) skills development, professional development, governance and representation responsibilities.

The Assistant GM will maintain a Register of Training, Education and Professional Development. For courses and in-house training that do not have recognised Continuing Professional Development points, hours in the training register will be allocated on the basis of the duration of the course or presentation. For example:

- a one day course – 7 hours
- a half day course – 4 hours
- guest presentation at a Board meeting – 1 hour

Hours include pre course knowledge development, post course assignment work and general preparation and reading.

### **1.11. Board Succession Planning**

The Board, after taking into considering any additional expertise that is required on the Board, invites prospective directors to serve as associate directors. This is a ‘director in training’ program. Associate directors attend Board meetings by invitation and are encouraged to participate in discussion. They are also invited to join board sub-committees.

Associate directors are appointed for a one year term which is renewable at the discretion of the Board. Associate directors do not have a vote. Their remuneration is set by the Board subject to conditions set by the Board. Associate director remuneration does not form part of the Directors fees pool which is approved by Members at a General Meeting. If a casual

vacancy occurs on the Board one of these associate directors might be invited by the Board to serve as director until the following Annual General Meeting.

### **1.12. Board Renewal Policy**

APRA Prudential Standard CPS510 requires LCU to have in place a formal policy on board renewal. This policy details how the Board intends to renew itself in order to remain open to new ideas and independent thinking.

LCU's Board is renewed through the following processes:

- Annual review of directors as outlined at section 3.9;
- Appointment of new directors: this is outlined at section 3.11;
- Retirement and re-election of directors: directors must retire by rotation at the end of the third AGM after the AGM at which the individual director's appointment was announced. The retiring director may be eligible for re-election. Prior to each AGM the Board will assess the performance and fitness and propriety of each director due to stand for re-election to determine if the Board will recommend to the members that they vote in favour of the re-election, or otherwise of each such director;
- Induction and continuing development: this is outlined at sections 3.10 and 3.11; and
- Maximum tenure: the Board of LCU has determined that a maximum tenure will not be set for director service as LCU actively adopts a policy of Board renewal encompassing the annual review of directors' performance, a program of director development and Board succession planning. The Board will however, aim to consider -from time to time - the average director tenure across the LCU board in conjunction with director tenure statistics as available (such as those held by the industry body).

### **1.13. Participation & attendance**

It is expected that directors will spend significant hours on credit union related business including development as outlined above. The need will vary with the level of expertise of the director and current issues facing LCU. As a guide this could exceed 100/120 hours pa or approximately 8/10 hours per month.

Whilst recognising that absence from Board and sub-committee meetings may be from time to time unavoidable, directors are expected to have a good attendance record. As a guide 75% attendance rate is desirable, but personal circumstances will be a factor. It must be noted however that the Constitution provides that the office of director automatically becomes vacant if the director is absent from 3 consecutive meetings of the Board without leave being granted.

Subject to the democratic process provided to the members in the Constitution, directors are expected to serve the Board for at least a full term of 3 years unless personal or professional reasons make this impractical.

It is LCU practice to rotate the position of Chairman after a three year term and each director should be prepared to fill that position in due course. The outgoing Chairman serves as Deputy Chairman for the following twelve months. There after the incoming Chairman takes on the role of Deputy Chairman for the two years prior to election as Chairman. These issues are subject to annual election/confirmation by the Board.