

## Information Pack for the 2020 Annual General Meeting of Northern Inland Credit Union Limited

All Members are invited to attend NICU's Annual General Meeting which is to be held Tuesday 3 November 2020, at 9.00am. The well-being of NICU Members is our priority, and in light of the uncertainty around restrictions on gatherings, this year's AGM is being held electronically.

Reports which would normally be delivered at the AGM are included in this Information Pack.

**To attend electronically:** please email the Company Secretary at [compliance@nicu.com.au](mailto:compliance@nicu.com.au) or telephone the Company Secretary on 6763 5111 to provide your email address and Membership number. We will email you a link to allow you to attend the meeting online.

**To vote on resolutions:** you will be able to record your vote during the meeting when attending online. Alternatively, a proxy voting form allows you to vote in advance, instead. A proxy voting form, will also be emailed to Members who have advised that they are attending the AGM online, against the possibility they experience ant telecommunications difficulties which might inhibit their voting at the AGM. Request a copy from the Company Secretary (6763 5111).

### Explanatory Memorandum

#### 1. Receipt of Annual Report

A copy of the annual report for 2020 is available [here](#) from 7 October 2020. You can also access a copy from NICU's website at [www.nicu.com.au/disclosures/annual](http://www.nicu.com.au/disclosures/annual) financial reports, or request a copy by contacting the Company Secretary (6763 5111).

#### 2. Appointment of Directors

Of NICU's 9 directors, 2 retired in 2019: Mr John Cooke on 5 November 2019, and Mr Charles McCarthy on 31 December 2019. The Board took the decision to continue to operate with 7 directors only. The size of NICU's Board is in keeping with industry practice having regard to renewal and succession strategies.

**2a. To re-elect Mr Graham Russell Goodman as Director:** director of NICU since 2016.

Experience: Current Chair of Audit Committee and member of Marketing, Board Risk and Remuneration & Executive Committees; director of Northern Inland Investment Group Pty Ltd; Fellow Member of the Australasian Credit Union Institute.

Occupation: Retired Financial Controller.

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd.

Mr Goodman retires by rotation in accordance with the Constitution, and being eligible, offers himself for re-election. The matter is put to the Members to consider and, if thought fit, to pass the resolution: *That Graham Goodman be appointed director.*

The Board supports the appointment of Graham Russell Goodman as Director of NICU.

**2b. To re-elect Mr Barry Edward Pratten as Director:** director of NICU since 1993.

Experience: Current Deputy Chair of Board; Chair of Marketing Committee member of Remuneration & Executive Committee; director of Northern Inland Investment Group Pty Ltd; Member of the Australasian Credit Union Institute.

Occupation: Grazier.

Interest in Shares: 1 Ordinary Share in Northern Inland Credit Union Ltd.

Mr Pratten retires by rotation in accordance with the Constitution, and being eligible, offers himself for re-election. The matter is put to the Members to consider and, if thought fit, to pass the resolution: *That Barry Pratten be appointed director.*

The Board supports the appointment of Barry Edward Pratten as Director of NICU.

#### 3. Directors Remuneration

Any change to the aggregate remuneration of the NICU directors must be approved by general meeting of Members. The Members at the AGM in 2018 approved annual aggregate remuneration of directors at a total amount of \$244,689. No increase to total aggregate remuneration of directors was sought in 2019.

Further, in 2019, 2 of NICU's Board of directors retired, being Mr John Cooke and Mr Charles McCarthy. Having regard to changes of appointment, and the reduction in numbers of directors, the remuneration expenditure was reduced to \$200,645 by Board resolution for 2020.

In 2020 the directors seek Member approval to an increase in the annual aggregate remuneration of directors for 2020/2021. The increase for 2021 is by CPI only (1.5%) based on the revised and reduced expenditure for Board remuneration in 2020, and amounts to a total of \$203,654 or an additional \$3,009.

This continues to represent a saving of \$41,035 since 2018.

Incremental increases for CPI only and notably less than award increases, and assists NICU to maintaining alignment with current remuneration practices of credit unions of similar size and achieving equivalent performance standards as NICU, whilst having regard to the current economic environment.

NICU's Board seeks that the resolution is passed.

#### 4. Special resolution: amending Constitution – Mutual Capital Instruments

This special resolution will amend NICU's Constitution to allow for the issue of Mutual Capital Instruments (MCIs). MCIs are a new bespoke type of share provided for by law, that can only be issued by mutual entities. MCIs allow mutual entities to raise capital without jeopardising their mutual status or structure. The ability to issue MCIs gives mutual entities access to a broader range of capital raising and investment options than they previously had, to help innovate, grow and compete.

NICU is a mutual entity as defined in the Corporations Act (each member has no more than 1 vote in general meeting for each capacity in which a person is a Member) and thus is eligible to issue MCIs. However, NICU's Constitution must first be amended to allow it to issue MCIs. This special resolution will amend NICU's Constitution to address the specific legal requirements for MCIs, by:

- stating that NICU is intended to be an MCI mutual entity;
- ensuring that rights attaching to MCIs or a class of MCIs can only be varied or cancelled by a special resolution of NICU and either:
  - a special resolution of all persons holding the same class of MCI; or
  - obtaining written consent of 75 per cent of the holders of the class of MCI;
- specifying that MCIs can only be issued as a fully paid share;
- stating that dividends in respect of the MCI are non-cumulative;
- setting out the rights attached to the MCI with respect to participation in surplus assets and profits.

Currently NICU is only able to issue Member shares. If the amendments are made it will also be able to issue MCIs. In addition to the matters described above the key features and rights of MCIs will be as summarised below:

- the terms of issue, including rights attaching to, MCIs will be as determined at the time by the board;
- NICU may issue different classes of MCIs with different rights;
- NICU may issue other types of securities on terms that they will or may convert to MCIs;
- MCIs may carry a right to dividends;
- MCIs may carry a right in the event of the winding-up of NICU to payment of their subscription price, but cannot otherwise carry any right to share in surplus assets – by default this payment can only be made after the subscription price on all Member shares has been paid, however classes of MCIs may be issued on terms that give them priority to payment of subscription price before Member shares and other MCIs;
- MCIs may carry a right to vote in general meeting and in the election of directors, but capped at 1 vote per MCI holder – if an MCI holder is also a Member that person cannot cast more than 1 vote in total;
- MCIs may carry rights that are preferred, equal, or deferred to the rights of Members and any other class of MCIs.

The amendments seek to provide the board with flexibility as to the terms of issue of MCIs to be best placed to address commercial and regulatory requirements for capital raising purposes. Whether or not MCIs carry any of the above permitted rights is a matter for the board to determine if and when it decides to issue MCIs.

At this time the board has no plans to issue any MCIs.

The special resolution will also make consequential amendments to the Constitution in recognition that NICU may have shareholders other than Members (i.e. MCI holders), and that MCI holders, not just Members, may be entitled to vote in general meetings and in the election of directors

Exemption from, and amendments to, the Demutualisation Approval Procedure Rules: NICU has Demutualisation Approval Procedure Rules (DAPRs) in its Constitution that were developed to ensure that proposals that might demutualise NICU could not proceed unless approved by a significant proportion of Members via a prescribed postal ballot process. Proposals that are contrary to the Principles of Mutuality contained in the Preamble to the Constitution trigger the DAPRs. The DAPRs and Principles of Mutuality were developed many years ago, before there was a legislative definition of a mutual entity.

Although the proposed amendments to the Constitution to allow for the issue of MCIs are not a demutualisation as generally understood and would not jeopardise NICU's status as a mutual entity, they would technically trigger the DAPRs as they are inconsistent with the Principles of Mutuality.

In recognition that many mutual entities have Constitutional rules similar to the DAPRs, the law permits NICU to amend its Constitution to allow for the issue of MCIs without complying with the DAPRs. Instead, the amendments can be made simply via a special resolution of Members in general meeting. However, this only applies if the amendments are made by 6 April 2022 and NICU only has 3 opportunities to make the changes during this time.

To ensure that the future issue of MCIs (or of securities that may convert to MCIs) will not itself trigger the DAPRs, the Constitutional amendments include consequential changes to both the DAPRs and the Principles of Mutuality to allow for such events. The amendments also address the possibility that the Corporations Act definition of MCIs may change in the future, by allowing shares, or securities convertible to shares, to be issued (or for the Constitution to be amended to allow for their issue) without triggering the DAPRs, so long as the shares meet the MCI conditions either in effect now, or at the time of the issue or conversion.

To be passed this special resolution requires the approval of at least 75% of the votes cast by Members.

Your directors unanimously support this special resolution and recommend that you vote FOR it.

## AGM 2020 Agenda

Tuesday 3 November 2020 at 9.00 am, online.

**1. Opening** of meeting and welcoming of guests: Mr Robert Studte, Chair

**2. Present** – as recorded by participant number in the online registration of attendees.

**3. Apologies** – as read by Mr Barry Pratten, Director.

**4. Minutes of Previous Meeting**

**5. Business arising from previous minutes**

**6. Correspondence**

**7. General Business:** for the convenience of Members, this year's reports are now included in this Information Pack. Please refer to the pages following the Agenda.

- **Directors Report** – as provided by Mr David Winnick, Director
- **Financial Report** – as provided by Mr Graham Goodman, Director

Please note that the Auditors Report as provided by PKF partners, is contained within the Annual Report for 2020.

**7.1. Receipt of the Annual Reports:** the Financial Report, Directors' Report and Auditor's Report for the year ended 30 June 2020.

**7.2. Appointment of Directors:** as introduced by Mr Geoff Harris. As the number of candidates is equal to or less than the number of positions to be filled, the election process has been discontinued. The General meeting votes on the appointment of the Director by separate ordinary resolution.

**a. To re-elect Mr Graham Russell Goodman as Director:** Mr Goodman retires by rotation in accordance with the Constitution, and being eligible, offers himself for re-election. To consider and, if thought fit, to pass the resolution: *That Graham Goodman be appointed director.*

**b. To re-elect Mr Barry Edward Pratten as Director:** Mr Pratten retires by rotation in accordance with the Constitution, and being eligible, offers himself for re-election. To consider and, if thought fit, to pass the resolution: *That Barry Pratten be appointed director.*

**7.3 Directors Remuneration:** to consider and, if thought fit, to pass the resolution: *That the aggregate amount of directors' remuneration for each calendar year, commencing with the 2021 calendar year, be approved at \$209,654 (1.5% indexation) inclusive of compulsory superannuation.*

**7.4 Special resolution:** to consider and, if thought fit, to pass the resolution: *That NICU's Constitution be amended to allow for the issue of mutual capital instruments (MCIs) by making the amendments marked-up in the copy of the Constitution which is tabled at the Meeting and signed by the Chair of the Meeting for the purposes of identification.*

**8. Meeting close.**

## Directors Report

The instructions I was given when asked to do this year's directors report was to try and emulate my last speech, where somehow, I tried to correlate a football dressing room with the challenges facing our industry.

With that in mind, I was reminded of the words of one of my favourite philosophers, the great HG Nelson, who often says that "too much sport is barely enough". In the context of our industry and more specifically, our Credit Union, it is appropriate to slightly amend the phrase to "too much change is barely enough".

As our staff are keenly aware, 2019/20 has continued its rate of change at a relentless, brutal and ever-increasing pace. I don't plan on going into too much detail about the changes, but I wanted to take the opportunity that this report allows me, to thank and acknowledge our staff, to whom the pain of the bulk of this change falls upon.

Each year, it is probable we all sit back and think to ourselves that the last year was unprecedented in terms of change, but it is not unrealistic to suggest that for our credit union, 2019/20 surely fits the bill. On a national level, we saw the fallout from the Royal Commission continue; an ever increasing compliance regime; a continued decline in interest rates and the margin squeeze it creates; and more competition from digital disruptors who are hell bent on taking a fair wedge of market share.

At a Northern Inland level, the all-consuming behemoth that is the transition from Ultradata to Temenos leads the charge. I hate to think about the number of staff hours put into this project over the year, but suggesting it is greater than 10,000 would have to be a safe bet. As if that wasn't enough, who could have predicted that one person getting sick in a market in China would lead to a global economic and health crisis, the impacts of which would be felt in our areas of representation, and cause the potential for a significant effect on our organisation.....

Throughout all this, our staff have performed at their usual, outstanding level. In a time where there are equally important, but conflicting priorities, and all sorts of external and internal pressures, it would be understandable if the rhetorical ball was dropped. Such uncertainty creates the perfect conditions for things not going to plan. It is therefore incredibly pleasing to see that despite all the things going on, our staff have stoically knuckled down and got on with the job but at the same time, have not forgotten the bigger picture and continued to provide amazing customer service to our Members. This focus on our Members has seen us once again achieve first class customer satisfaction results, which is no mean feat given everything going on. An organisation can occasionally get too internally focussed and forget what the key part of the business is. Without the customer, a business has nothing; and for NICU it is so pleasing for your Board to see that our staff have not lost that focus.

No amount of words can truly convey your Boards' thanks to our staff for the way they have conducted themselves over the past year. The Board sees the work you do, notices the effort you put in and is consistently impressed with the results you generate. We have fantastic staff who are the heart and soul of our organisation. The last 12 months have been incredibly difficult for you (and let's hope there is light at the end of the tunnel) and your Board recognises that. Your Board is very proud of what you have achieved in the last year and we hope you feel the same way.

On behalf of the Board, I thank our members for their continued support of the organisation. Our purpose is to serve the community and we are pleased that our members see that we have a place in that community for their banking needs. Our credit union needs to continue to grow, so we would ask our members that if they like being part of NICU, tell others about it! Help us allow new Members experience what has lead you to speak so favourably of us.

The Board recognises that change can also impact on our Members and we are doing all we can to minimise this. Please rest assured that your organisation is doing all it can to make change as smooth as possible for you and that our staff are here to help you through this.

Who knows what 2020/21 will bring us. There are plenty of "unknown unknowns" as Donald Rumsfeld once remarked. That said, if the last year has taught us anything, it is that our credit union has the people, skills and tenacity to get through it. Your board is privileged to lead such an organisation and we gain much confidence knowing that the last 12 months will see the credit union emerge stronger, improved and ready to begin the next chapter of our journey.

David Winnick  
Director  
NICU Ltd.

NICU's external auditors have issued an unqualified report for the year ending 30<sup>th</sup> June 2020 which amounted to a trading profit of \$1,265,374. The Board commends this result given the net interest revenue fell below budget forecasts due to subdued lending as a result of unprecedented conditions: ongoing drought, bushfires, the COVID-19 pandemic, and the exceptionally low interest rate environment. This was offset by reductions to rates on the liabilities side of the balance sheet in the form of reduced margins for new investments and on rollovers for existing investments.

Pleasingly, operating expenses were well below budget which also assisted in providing a net surplus well above budget.

NICU's net interest margin returned a creditable 2.55%, representing the return on our interest-earning assets such as home loans after deducting for the cost of funding these assets (ie deposits). In addition, and well above prudential requirements, NICU's capital adequacy ratio was 19.83%, making NICU among the best performing mutual institutions in Australia.

Other significant performance results included an increase in total assets by 13.3% to \$355.2 million, with a return on asset of 0.37%. Total loan balances grew by 6.54% to reach \$258.9 million. Member deposits also grew by 13.59% to \$303.9 million. This is a reflection of the trust Members have in NICU, looking to NICU to provide for all their financial and banking needs.

The Board commends management and staff for their diligence and hard work throughout the challenging year, and expresses its appreciation to both the Internal and External Audit firms for their untiring efforts. Both audit firms, PKF and Northcorp Chartered Accountants, prepare detailed audit plans for NICU to review prior to each audit year. The annual report illustrates the depth that external auditors examine in detail (23 activities) in order to perform their professional work, whilst the current Northcorp Internal Audit plan identifies 83 activities with 34 of those dedicated to prudential compliance and responsible lending obligations.

Your directors devote many hours each year to ensuring NICU meets its regulatory obligations, and that staff are focused on achieving NICU's strategic objectives. All efforts revolve around NICU's values of trust and respect, transparent communication, and effective teamwork, focused on providing our Members reliable services and sustainable results. We look forward to continuing to meet our Members' needs and expectations.

Graham Goodman  
Director and Chair of the Audit Committee  
NICU Ltd.