

From: Erling Sorensen  
Sent: Tuesday, 20 August 2019 3:17 PM  
To: [REDACTED]  
Subject: [REDACTED] FY19 result and thoughts/questions

Hi [REDACTED]

Well done and thank you to you and your team for delivering a robust FY19 result.

I have a couple of questions/thoughts which I would be grateful if you could please respond to.

1) I note we have ~\$100m available to deploy, that our loan originations increased by some 33% in FY19 and that we still only service a very small portion of the addressable market in both Australia and NZ.

What is it we consider the greatest hurdle to our growth: (a) capital at reasonable cost to fund the growth or (b) originating enough suitable / desirable loans?

2) Can you please explain / describe the current funding arrangements in place, and in particular why these can not be exchanged and/or complimented with more favourable arrangements sooner?

3) Our growth at the top line appears not to be finding its way through to the bottom line as efficiently as I would think we would have expected? Would you be able to provide some insight to whether we are facing some margin pressure, cost inflation or other obstacles/challenges? And also describe what we are doing to solve for this?

4) I note there is an intention to seek to increase the NED payment pool by 50%. I wanted you to know that I am vehemently against this and think it is a very poor signal to be sending and a discomfoting path that we are seeking to embark on by doing so. The Board is in my opinion very well remunerated as it is and I do not believe it would have any negative impact to our business should the NED payment pool be maintained at current level, nor do I believe that any positive impact / value will be added by increasing the NED payment pool. Please do not go down this path and become another (bloated) corporate using shareholders funds for non-value add purposes.

5) I have read through the remuneration report and note that it, in my opinion, appears it, like many others, is too complex, not specific and may result in cash payments without knowing if what was done to achieve the cash payment delivered the actual objective, which in most instances can only be truly measured over time.

Therefore, in my opinion, the incentive scheme appears not to be as effective, nor as aligned with investors, as it could be.

Of course I believe bonuses should be paid for services rendered. In my experience, executive teams in companies that are not listed, bonuses are nearly always the result of

past performance, but this is rarely the case for ASX-listed companies. Instead, complicated and opaque scorecards are used to determine both a short-term incentive and a long-term incentive. These are then 'paid' to executives based on equally complex, and often flawed, vesting conditions.

Quite frankly, I believe that many management teams, most likely place little value on the long-term portion of their remuneration, given the difficulty in understanding the structure of the reward and the risks associated with its vesting. This in itself is staggering given the cost of these schemes to shareholders.

It is, in my opinion, quite possible that high base salaries and short-term incentives – often with large cash components – are now used to compensate executives for the risk that their long-term incentives do not vest. I believe this is a key matter that our board should be considering.

In my opinion, the STI/LTI structures are complex with hard to understand hurdles and vesting conditions, short-term weighted, asymmetrical and not aligned with shareholders given their high proportion of cash.

I would like to put to you and your director colleagues, five attributes that I believe should be included in the creation of an alternative incentive structure for consideration.

Listed below are these five attributes along with examples of how they could be applied:

1. Simple and transparent

Replace short-term incentives and long-term incentives with a single bonus scheme, let's call it an Executive Incentive Plan (EIP). The EIP is a payment in shares (after paying income tax on the bonus amount). This eliminates short-term cash bonuses, makes the system easier for management to understand, and minimises the number of remuneration structures on which shareholders vote. Structured well, management are appropriately rewarded only for good long-term decisions.

2. Long-term focused

EIP shares purchased are to be placed in trust for at least three years, but preferably five years (even if that exceeds the executive's employment term). Ideally, the term should align with [REDACTED]'s natural capital investment cycle.

The ills of poorly executed corporate strategy often only manifest themselves years later and then often only with the benefit of fresh eyes. It is only fair that departing management share in the fruits (or problems) of their long-term decisions after they leave [REDACTED].

3. Symmetrical

The EIP awards are free of ALL vesting requirements. Bonuses are paid for services rendered and are therefore already earned. Future vesting hurdles, which are unnecessarily complex and less important when the awards are used to buy shares (see point 4 below), should be abolished.

4. Aligned with shareholders' interests

The after-tax bonus amount is invested in shares in [REDACTED], not paid in cash. These shares are

purchased on market rather than being issued by [REDACTED].

These shares will rank equally with all paid-up shares in issue – they will carry votes, receive dividends and, importantly, their value will rise and fall with the market. Great decisions, robust corporate strategy that is well executed and thoughtful allocation of capital will likely see [REDACTED]'s share price rise, and along with it the value of this award. Conversely, poor decisions, or badly executed corporate strategy, will likely see [REDACTED]'s share price fall and along with it, the value of this award. Consequently, despite the award being free of vesting hurdles, outcomes will still be aligned shareholders' interests.

Its simplicity will save significant costs (tax consultants and accountants tasked with approving and monitoring complicated schemes, and the Board and management in discussing the outcomes) currently borne by shareholders.

#### 5. Quantum and fairness

Addressing the structure of an EIP award of course remains the responsibility of [REDACTED]'s board. Having the awards 'paid' in shares alleviates some of the risks around poorly constructed KPIs used to arrive at EIP award amounts, but it of course does not eliminate them.

I hope the above can be considered.

Thank you very much in advance for your time and your usual attention to my questions, comments and concerns. I look forward to hearing from you by return in response to the matters raised above.

Kind regards  
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