

Notice of **Annual General Meeting.**

By order of the Board, notice is hereby given that the 45th Annual General Meeting (AGM) of Defence Bank Limited ABN 57 087 651 385 (the “Company”) will be held for the first time as a Virtual Meeting via the following means:



Date.

The AGM will be held on
Monday, 23 November 2020.



Time.

Registration opens at **0930hrs** with the AGM commencing at **1000hrs** and expected to conclude by **1100hrs**.



Where.

The below link will become live at the opening of registration: **agmlive.link/defence20/**

Agenda.

- Item 1.** Notation of the 2019 AGM Minutes.
- Item 2.** Receive the Directors’ Report, the Financial Statements and the Auditors Report for the year ended 30 June 2020.
- Item 3.** Declaration of Board Appointment.
- Item 4.** Re-appointment of Fran Raymond (Ordinary Resolution #1).
- Item 5.** Constitutional Enhancements with respect to Mutual Capital Instruments (Special Resolution #2 - see attachment).
- Item 6.** Constitutional Enhancements allowing simplification of procedures (Special Resolution #3 - see attachment).
- Item 7.** Remuneration of Directors (Ordinary Resolution #4).



**Defence
Bank**

defencebank.com.au | 1800 033 139

Defence Bank Limited ABN 57 087 651 385 AFSL/Australian Credit Licence 234582.



Defence
Bank

Notice of **Annual General Meeting.**

Attending the virtual AGM and member questions.

We encourage all members to participate in the AGM virtually via the online platform at agmlive.link/defence20/. To do this you will need a desktop or mobile / tablet device with internet access. You will be able participate by viewing proceedings, voting, and asking questions, and speaking on motions as permitted by the Standing Orders. When you log onto the AGM platform on the morning of the AGM, you will need to provide your details (including member number and your personalised PIN that was either emailed to you, or sent to you by mail) to be verified as a member or proxyholder. Following this you will be given details as to how to vote and ask questions during the AGM.

Whilst there will be the opportunity to ask questions during the AGM via the online platform, we strongly encourage members to raise them in advance of the meeting. Details on how to submit questions is available at defencebank.com.au/2020agm, alternatively they can be sent to info@defencebank.com.au.

A detailed guide on how to participate virtually is set out in the Virtual Annual General Meeting Online Guide which is available at defencebank.com.au/2020agm. This Guide explains how you ensure your browser is compatible with the online platform, as well as a step-by-step guide to successfully log in and navigate the site.

Voting by Proxy.

If you cannot attend the 2020 Annual General Meeting, you are entitled to appoint a proxy to act on your behalf. Details on how to submit a proxy are available at defencebank.com.au/2020agm.

You should direct your proxy how to vote for any matter listed. If you do not direct your proxy how to vote, your proxy may vote as he or she sees fit. If you appoint the Chair as your proxy and do not direct her how to vote you authorise the Chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Director(s) for the Company.

The Chair of the Meeting intends to vote undirected proxies in favour of each item.



Annual Financial Report and Annual Review.

You can choose to receive a copy of the 'Annual Financial Report' and 'Annual Review', including Annual Financial Statements, Directors' Report and Auditors' Statement. This includes information about our financial performance, the efficiency with which we are managed, and the financial risks we are exposed to. If you do not choose to receive a copy, we are not required to send you one unless you ask. Copies may be obtained from or inspected at the Company's Registered Office, Level 5, 31 Queen Street, Melbourne VIC 3000 or via any of the Company's branches (subject to appropriate site access).

Please note these documents can also be downloaded from the Company's website: defencebank.com.au/about-us/annual-reports

If you are unable to download the documents, you may request for them to be sent to your attention via email or post by completing the attached form. Completed forms can be emailed to info@defencebank.com.au or sent via post to PO Box 14537, Melbourne VIC 8001.

Member number
(RIM).

Email or
postal address.

Standing election
(mark with an X)

☐

Yes.

☐

No, I would just like the FY20 Annual Reports.



**Defence
Bank**

Notice of **Annual General Meeting.**

Attachment to Notice of Annual General Meeting of Defence Bank Limited Modification of Constitution.

At Defence Bank, our internal management is governed by the *Corporations Act 2001* (the Corporations Act) and our Constitution. From time to time we review our Constitution to ensure that it reflects the changing needs of our members and the bank.

Following a recent review, we identified two modifications to enhance our Constitution, outlined below.

A document with all of the proposed changes has been published online at defencebank.com.au/2020agm. The **Modification 1 changes** are printed in **red**. The **Modification 2 changes** are printed in **blue**.

Modification 1 (Agenda item 5) - Mutual Capital Instrument.

Special Resolution: That the Constitution be modified by making the changes printed in red in the marked-up version of the Constitution that has been made available online at defencebank.com.au/2020agm, a printed copy of which will be signed by the Chair for the purposes of identification.

This document provides a summary of the proposed Modification 1 changes which are in **red** in the document at defencebank.com.au/2020agm.

Background.

Defence Bank is an 'authorised deposit-taking institution', or 'ADI' under the *Banking Act*, and is a mutual company (meaning it is owned by the members, to provide services to the members and each member has one vote).

As an ADI, the bank is supervised by the Australian Prudential Regulation Authority (APRA) which requires the bank to closely manage many kinds of risk, to promote the safety and security of the services we provide. Some of those requirements oblige the bank to hold at all times a minimum level of capital to ensure that depositors' funds are secure at all times.

In November 2017, the Federal Government published a review relating to the needs of mutual companies like Defence Bank.

It was decided that mutual companies should be permitted to offer a new kind of investment called a 'mutual capital instrument' or **MCI**. An MCI would be issued to a new investor. It is like a share in the bank, but does not give the investor any voting rights. Instead, the investor would receive an ongoing payment in the form of dividends, until the bank repays the amount invested.

Under the rules for issuing MCIs, the MCI holder's rights to receive a dividend can be suspended or cancelled by the mutual that issues it. This can happen if there is heightened risk in the market, or if the mutual needs to save its funds to manage risks to its members.

Why make this change now?

The bank does not have any current need for additional resources and does not plan to issue any MCI in the foreseeable future.

In common with many other mutual ADIs, our Constitution includes special provisions (called the **demutualisation procedure**) so that members get a say before any transaction which would mean we are no longer a mutual.

The demutualisation procedure is designed so that members are really sure that they want to approve a demutualisation, and require a lot of work. To make sure these provisions will always be effective, they have been drafted so that they can sometimes be activated by a proposal which would not lead to a demutualisation.

When the government made the new law that allowed MCIs, they recognised that the required amendments to the constitution would be subject to the demutualisation procedure even though it is not a demutualisation. In recognition of this fact the government gave mutual companies a period of 3 years to change their Constitutions to allow the issue of MCIs, without having to follow a demutualisation procedure.

To be eligible for this concessional approach the change to the Constitution has to relate only to the issue of MCIs, and must not mean that the mutual ceases to be a mutual.

This is the last regular AGM which will allow the bank to change its Constitution to issue MCIs, and the bank, like many other mutuals, wishes to make the change in case it is needed in future.



**Defence
Bank**

Notice of **Annual General Meeting.**

What will change?

Under the first resolution, the Constitution will be changed to allow the bank to issue MCIs. The bank will still be a mutual ADI, and there is no change to the principles of mutuality on which the bank has always been based.

The exact terms on which an MCI can be issued would be decided at the time of issue.

The main changes to the Constitution have the effects described below:

- The bank can issue MCIs. The rights of an MCI Holder will be set out in the terms on which the MCI is issued. However:
 - The MCI Holder must pay the whole issue price before receiving an interest.
 - The MCI Holder will not have voting rights at a general meeting.
 - The MCI Holder will be entitled to receive the return of their investment and also dividends from profits generated by the bank at a rate agreed in the issue terms.
 - The bank will have the right to suspend dividends. The bank will regularly consider whether it can resume dividends to an MCI Holder. If there is more than one MCI issued on different terms, the bank can suspend or reduce dividends on one MCI while another MCI continues to receive dividends.
 - Even if dividends resume, the MCI Holder will have no right to receive any dividends for the period of suspension.
 - Beyond repayment of their investment and dividends, the MCI Holder will not have a right to share in the capital or the reserves of the bank if the bank is ever wound up.
- There are restrictions on whether an MCI can be transferred by the owner. Some transfers will require the bank's consent. For example, if the proposed purchaser is a foreign entity, the bank must assess whether this would give us any new obligations.
- Changes to the rights of MCI Holders under the Constitution can only be made through a special resolution of members, and a special resolution of the MCI Holders whose rights would be affected.
- All MCIs must be redeemed before a change can be made to the Constitution so that the bank is no longer a mutual or cannot issue MCIs.

The Board and management of the bank recommend that these changes be made, so that the bank will have the flexibility to issue MCIs if that becomes necessary in the future.

Modification 2 (Agenda item 6) **- Simplification of procedures.**

Special Resolution: That the Constitution be modified by making the changes printed in blue in the marked-up version of the Constitution that has been made available online at defencebank.com.au/2020agm, a printed copy of which will be signed by the Chair for the purposes of identification.

This document provides a summary of the proposed Modification 2 changes, which are in **blue** in the document at defencebank.com.au/2020agm.

Background.

A recent review of the Constitution identified some areas where its requirements make it harder than is necessary to maintain the register of members. Changing these provisions now will help the bank provide great service to members in a more efficient way.

Why make this change now?

As the bank was already proposing changes to the constitution to deal with MCIs it was considered appropriate, for reasons of efficiency, to also deal with the following simplifications to the constitution at the same time.

What will change?

Many of the changes are in Rule 4 'Termination of Membership'. The changes will:

- allow the Board to delegate its power to redeem a member share if all of the member's accounts have become inactive, and align the process with the way that our modern computer systems operate.
- give the bank a new power to remove one or more of the people from a joint membership, where some of the joint member accounts have become inactive.
- allow the bank to redeem duplicate member shares, if a person holds more than one member share for any reason. This change is to facilitate easier compliance with regulatory requirements related to having a 'single view of customer' for the purpose of the Financial Claims Scheme as well as enhancing the member experience when transacting via our smartphone banking app (in each case, the affected members will be notified in advance and have a chance to object).
- give the bank a new power to cancel a membership created through suspected fraud, without giving notice to the person that is recorded as a member as a result of the fraud - this helps the bank satisfy obligations under anti-money laundering laws.

It is also proposed to change notice provisions in Rule 1. Our members in the Australian Defence Force move frequently, and sending messages through the post is slow and expensive, and can be unreliable. Changes to rule 1.5 will mean that the bank can usually notify members by sending a message to their last known electronic address (email or mobile phone). The law may still require some messages to be sent to a physical address unless the member has specifically nominated an electronic address.

Other Modification 2 changes correct grammar and numbering. An amendment to Rule 5 is for consistency with changes made to Rules 3 and 6, and confirms that the subscription price for a member share will usually not be paid up front. This is consistent with the requirements of other mutuals.

The Board and management of the bank recommend that these changes be made to promote efficiency.

Defence Bank Limited.

ABN 57 087 651 385
29 October 2020