

Defence Bank Limited
ACN 087 651 385
(Defence Bank)

Explanatory Statement

This Explanatory Statement relates to the resolutions to be considered at the Annual General Meeting of Defence Bank to be held on 25 November 2026 (**Notice**), and should be read together with the Notice, as this Explanatory Statement contains important information relevant to the proposed resolutions.

Each of Resolution 5 and Resolution 6 described below is proposed as a special resolution. Under section 136(2) of the *Corporations Act 2001* (Cth) (**Corporations Act**), a company may only modify or repeal its constitution, or a provision of its constitution, by special resolution; that is, a resolution passed by at least 75% of the votes cast by members entitled to vote on the resolution.

1. Resolution 5 - Amendment to the Constitution

The Board has resolved to propose amendments to the Constitution for the members' approval, to reflect three changes to Defence Bank's governance arrangements. These changes are separate from the correction of a drafting error, which is addressed by Resolution 6 described below. The proposed amendments are:

- (a) changing the maximum period a director may serve, and permitting the board to extend that period by up to a further 12 months in exceptional circumstances, so as to align with the Australian Prudential Regulation Authority's (**APRA**) draft prudential standard on governance;
- (b) removing the existing Rule 13.2(6), which permits an extended tenure for the chair of the board and provides a skills/experience-based exemption from the tenure limits, so that any extension of a director's tenure beyond 12 years is addressed solely under the new Rule 13.2(6) exceptional circumstances mechanism described in this Explanatory Statement;
- (c) changing the quorum required for board meetings to 50% of directors then in office, and excluding directors on approved leave or who are incapacitated from that calculation; and
- (d) clarifying that, for the purposes of calling for nominations of directors, an advertisement may be given at Defence Bank's registered office.

Change to maximum director tenure

The Constitution currently applies different cumulative service limits to directors depending on when they were, or are, in office: 15 years for service between 2014 and 2017, 12 years for service between 2018 and 2025, and 9 years for service from and after 2025. The Board is proposing that this transitional structure, which has now been substantially overtaken by the passage of time, be replaced with a single, ongoing limit of 12 years of cumulative service as a director.

The Board is also proposing that the board be given the power to extend this 12-year limit by up to a further 12 months for a particular director (up to a maximum of 13 years of cumulative service), where the board unanimously determines that exceptional circumstances require it to do so. This is achieved by the new Rule 13.2(6), which operates as a specific modification of the 12-year limit in Rules 13.2(3) and 13.2(4), rather than as a disapplication of those rules, so that the 13-year ceiling itself remains binding once the board has resolved to extend a particular director's tenure. As described further below, the new Rule 13.2(6) will be the sole mechanism by which a director's tenure may extend beyond 12 years, following the removal of the existing Rule 13.2(6).

The Board considers this change appropriate to align Defence Bank's director tenure arrangements with APRA's draft prudential standard on governance, which proposes a maximum tenure for directors of 12 years, subject to limited exceptions.

Removal of existing tenure exemptions

The Constitution currently permits a person to continue as a director beyond the applicable tenure limit if they hold the office of chair of the board, or if they are the sole subject of a unanimous board resolution recognising particular skills and experience. The Board is proposing that the current Rule 13.2(6) be removed in its entirety, so that any extension of a director's tenure beyond 12 years is addressed solely through the new Rule 13.2(6) exceptional circumstances mechanism described above.

The Board is seeking to align Defence Bank's director tenure arrangements with APRA's draft prudential standard on governance. APRA's draft standard does not itself provide that a longer tenure should be permitted for a chair, or for a director with particular skills and experience, other than to the extent that such skills and experience might themselves constitute exceptional circumstances for the purposes of an extension under the new Rule 13.2(6). Removing the current Rule 13.2(6) therefore avoids maintaining a separate, broader basis for extended tenure that sits outside, and is not required by, the APRA standard the Board is seeking to align with.

Change to Board quorum

The Constitution currently fixes the quorum for a board meeting at 4 directors while the board has 7 or fewer directors, increasing to 5 directors if the board has 8 or more directors. The Board is proposing that the quorum instead be set at 50% of the directors then in office (rounded up to the nearest whole number), and that any director who is on board-approved leave, or who is incapacitated due to ill health or other unforeseen circumstances, be excluded from that calculation for the relevant meeting.

The Board considers that a proportionate quorum requirement, rather than a fixed number of directors, will allow the board to continue to function effectively where one or more directors are unable to participate in a meeting due to leave or incapacity, while continuing to require the engagement of a substantial proportion of the board's serving directors in board decision-making.

Clarification of the method of advertising a call for nominations

Appendix 3 of the Constitution currently permits the board to give notice calling for nominations of directors by advertisement "at the mutual's offices" or in newspapers, in addition to the methods of giving notice allowed under Rule 1.5. The Board is proposing that this be clarified to refer to advertisement at Defence Bank's registered office, to remove any ambiguity as to which of Defence Bank's offices may be used for this purpose.

Full text of the proposed amendments

The full text of the Constitution as proposed to be amended, showing all changes described above, is set out at defencebank.com.au/2026agm.

2. Resolution 6 - Correction of Appendix 3 Timetable

Separately from the amendments described above, the Board has identified a drafting error in the table in Appendix 3 (Election of Directors) of the Constitution which sets out the timetable for the election of directors by members. The row of that table dealing with the "Closure of the ballot" step currently states, in the time column, "At least 21 days before ballot papers sent". Read together with the surrounding steps in the timetable (under which ballot papers are sent to members at least 21 days before the AGM, and the closure of the ballot necessarily occurs after ballot papers have been sent, not before), this cannot be correct.

The Board is therefore proposing, by special resolution, that this row of the table be corrected so that the time period for the closure of the ballot reads "At least 14 days after ballot papers sent". This is a correction of a drafting error only, and does not otherwise affect the operation of Appendix 3 or the election timetable. Although this correction is not a substantive change, it nonetheless amends the Constitution and so must be approved by special resolution under section 136(2) of the Corporations Act, in the same way as Resolution 5.

3. Opinion of HWLE Lawyers

HWLE Lawyers has reviewed the proposed amendments to the Constitution described in this Explanatory Statement and the proposed correction to the table in Appendix 3, and has confirmed to the Board that:

- (a) the proposed amendments and the proposed correction may be validly made to the Constitution by the members passing Resolution 5 and Resolution 6 respectively, each as a special resolution, in accordance with section 136(2) of the Corporations Act and Defence Bank's Constitution;
- (b) the proposed amendments in Resolution 5 are not inconsistent with the Corporations Act, the *Banking Act 1959* (Cth) or Defence Bank's status as a mutual entity and authorised deposit-taking institution; and
- (c) the proposed correction in Resolution 6 corrects a drafting error in the current text of the Constitution and does not have any other substantive effect on the operation of Appendix 3.

This opinion addresses the validity of the process for amending the Constitution and does not constitute advice on the commercial merits of the proposed changes, on which the Board has separately formed its own view as set out below.

Board recommendation

The Board unanimously recommends that members vote in favour of Resolution 5 and Resolution 6.