

# 2011-2012 Annual Review



**Defence** Bank



# Welcome to the Defence Bank 2011-2012 Annual Review

This Annual Review contains extracts from our 2011-2012 Annual Report, along with the Chairman's and CEO's Reports and highlights of operations over the past year.

Should you require more details of Defence Bank's operations, a full copy of the 2011-2012 Annual Report can be obtained from our website at **[defencebank.com.au](http://defencebank.com.au)** or by writing to the Company Secretary, Defence Bank Limited, PO Box 14537 Melbourne VIC 8001.

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# Mark Richards

“The strength of Defence Bank is evident.  
We are one of Australia’s largest mutuals...”

## Chairman’s Report

Welcome to our first Annual Review, a slightly different way of reporting to you, our members. More detailed financial reporting is still available to you via our website. More significantly though, this is our first report as Defence Bank. This change, overwhelmingly supported by members, has been the most significant in our 37 year history. Building on the success of Defcredit, we are continuing to evolve to meet the needs of existing and prospective members. Of course, we are unwavering in our commitment to remain member-owned.

The strength of Defence Bank is evident. We are one of Australia’s largest mutuals with \$1.35 billion in assets under management, 90,000 members and 235 staff providing the full range of personal banking products and services. As an Authorised Deposit-taking Institution, Defence Bank operates within a strict prudential regulatory framework.

In the 2011/12 financial year, we have again performed solidly despite persistent economic uncertainty across the world influencing local markets. This year’s result is a healthy and prudent surplus, further described by the CEO in his report and shown graphically on the “Year at a Glance” page. Our performance can largely be attributed to strong deposit and lending growth, an ongoing commitment to efficiency and a culture of innovation. During the year, one of the key products of this culture was the subject of an industry award for innovation – and well done to all those involved in its conception and development.

We continue to be engaged with the Defence community across a range of local and national charitable, sporting and other activities. To provide further depth to these efforts we have now established the Defence Bank Foundation. We intend that the Foundation will take a leading role in philanthropic activities over the years to come.

Members may be assured that the Board remains committed to continuous improvement in its operation, and in all aspects of the governance of Defence Bank. To this end, I am grateful for the support and wisdom of my fellow Directors.

I also thank the CEO, Executive Management Team, and all our staff for their commitment and dedication in producing results of which they can be justly proud.

Finally, and most importantly thanks to you, our members, for your continued support and patronage. As both owners and customers, you remain our reason for being.

**Mark Richards**  
Chairman of the Board



(L-R) Mark Richards, Chairman of the Board Defence Bank, Jon Linehan, Chief Executive Officer Defence Bank and Chief of the Defence Force, General David Hurley, AC, DSC.





# Jon Linehan

"We are committed to making a difference for every member through service and excellence."

## CEO's Report

### The Year in Review

The annual financial result for Defence Bank in 2011/12 was extremely pleasing with an after tax profit of \$10.5m. This provides us with the funds to reinvest back into Defence Bank, to enhance products and services for our members whilst ensuring our level of profit sustains the growth of our business. Our assets have continued to grow steadily; averaging 15.2% per annum since 2006 bringing our assets under management to a total of \$1.35 billion.

We are conscious that these results were achieved against the backdrop of economic uncertainty and in a highly competitive banking environment and see this as a key indicator that our strategy is right to ensure the long term financial strength and stability of Defence Bank. In the current environment and with continued margin pressure, we have also been carefully and prudently managing our costs.

This year we became a member-owned bank. This ensures we are able to remain relevant in the current banking environment, while offering the security and stability that comes with belonging to a bank.

Underlying our strong results were a number of significant achievements, which included:

- > A new low-cost DHOAS home loan, DHOAS Saver was launched to complement our suite of products available through the highly successful Defence Home Ownership Assistance Scheme (DHOAS). Through this program, Defence Bank has proudly helped many Defence families buy their own home.
- > We introduced a new low-cost everyday account, Salary Saver, specifically designed for Defence Pay.
- > During 2011/12, four of our products received 5 Star ratings from Canstar. Our iSaver Account, Personal Loans, Car Loans and Credit Cards were all awarded a 5 star rating by Canstar for outstanding value to our members.
- > Our Retirement Savings Account (RSA), offering "guaranteed returns and no fees", continued to gain popularity and is now one of the largest RSAs in the market.

### Innovation

In October 2011, the Defence Bank Retirement Savings Account (RSA) was awarded the 2011 Abacus Innovation Award for "an innovative alternative to traditional superannuation and pension vehicles." Abacus is the key industry body for the customer-

owned banking industry; credit unions, mutual banks and mutual building societies.

### Our Members

Identifying how we can enhance our service to members is always a focus. During the past year, we have introduced a number of initiatives focussed on providing members with better access to banking services wherever they are. We extended our Contact Centre hours to 8am to 8pm Monday to Friday, introduced Mobile Banking, continued to enhance our online experience for members and we remain dedicated to maintaining the largest branch network in the Australian Defence Force.

### Community Support

Defence Bank is dedicated to giving back to our members and the community which has loyally supported us. This is what really sets us apart from the other banks. Defence Bank remains consistently busy in the Defence community sponsoring major sporting events, community events and family activities right across Australia.

In addition, through staff fundraising efforts and Defence Bank contributions, \$40,000 was donated to the Defence Special Needs Support Group. We also continue to provide a strong level of support to Legacy Australia and the Salvation Army Defence Services. In total, Defence Bank contributed over \$315,000 in sponsorship monies during 2011/12.

### Our People

The success and continued outstanding performance of Defence Bank can only be achieved with a motivated and dedicated workforce. Our employee engagement of 81.1% places Defence Bank in the top quartile of employers. I thank our staff for their efforts and for their dedication to making a difference for every member through service and excellence.

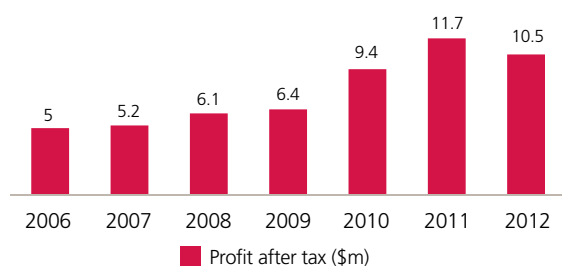
Finally I would like to thank you, our members, for your ongoing support and trust and congratulate the Board on another successful year. I look forward to an exciting and successful year ahead.

**Jon Linehan**  
Chief Executive Officer

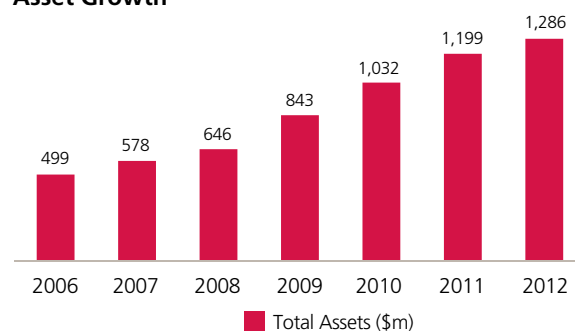


## Year at a Glance

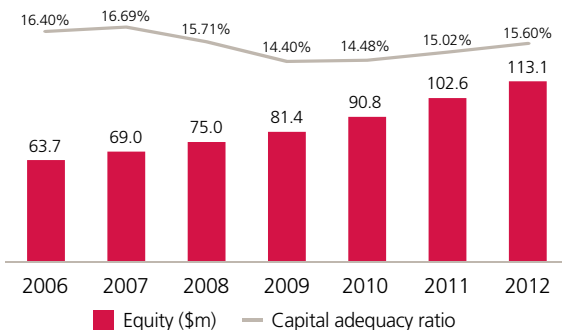
### Profitability



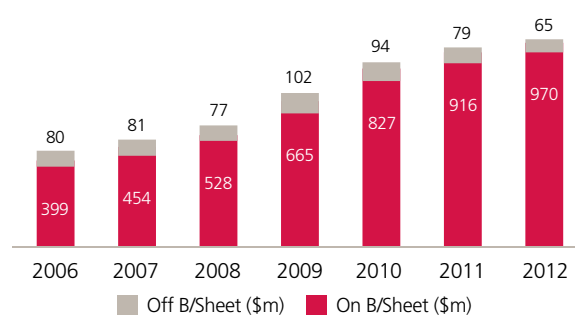
### Asset Growth



### Reserves



### Loans Growth



### Growth

	2012	2011	Increase/ (Decrease)	Increase/ (Decrease)
	\$m	\$m	\$m	%
Total Assets	1,285.7	1,198.8	86.9	7.2
Total Deposits	1,098.2	1,012.2	85.9	8.5
Equity	113.1	102.6	10.5	10.2
Members' Loans	970.3	915.9	54.3	5.9
Securitised Housing Loans (Off-Balance Sheet)	65.4	79.2	(13.8)	(17.4)
Total Loans (On- and Off-Balance Sheet)	1,035.7	995.2	40.5	4.1



# Members

## Name Change

During 2011/12, our members strongly supported a special resolution to change our name from Defence Force Credit Union (Defcredit) to Defence Bank. This was a significant decision which will allow Defence Bank to remain a relevant and progressive organisation for our members. Defence Bank will, of course, remain member-owned and operate for the benefit of our members.

## Product and Service Innovation

Enhancing the delivery of products and services to members was once again a key focus during the 2011/12 year. Introducing new technology to make banking easier is at the forefront of improving our services, with the introduction of Mobile Banking and continuous improvements to our Online Banking.

In addition to improving access to banking services through new technologies, Defence Bank recognises that many members want to speak to a real person when managing their finances. So, we extended our Contact Centre hours to 8am to 8pm, Monday to Friday, allowing members to talk to a Defence Bank staff member wherever they are located. For members who prefer the convenience of banking on base, we remain committed to providing excellent service to our members through our 44 branches; the largest branch network in the Australian Defence Force. Throughout the year, we have been busy refreshing all our branches around Australia as part of the Defence Bank rebranding process.

Our commitment to continuous product improvement resulted in the introduction of a number of new products during the year including a new low-cost everyday account, Salary Saver, and a new Defence Home Ownership Assistance Scheme (DHOAS) loan product, DHOAS Saver. The new DHOAS product was added to the already extensive and popular range of DHOAS loans available from Defence Bank.

## Membership

Continuing to grow our membership base is important. It helps Defence Bank keep our product and service offering competitive. In 2012, over 4,500 new members joined Defence Bank.

## Industry Recognition

Whilst we are continuously developing new products for our members, we don't forget about ensuring that our existing products are the best for our members. As a result, four of our products received 5 Star ratings from Canstar. Our iSaver Account, Personal Loans, Car Loans and Credit Cards were all awarded a 5 star rating by Canstar for outstanding value to our members.



The Defence Bank Retirement Savings Account (RSA) also received an award during the past year, winning the 2011/12 Abacus Innovation Award. Abacus is the key industry body for the customer-owned banking industry; credit unions, mutual banks and mutual building societies. Whilst we continue to successfully promote this product through SBS television and major Defence publications, our RSA has proven to be very popular making it one of the largest RSA products offered by a mutual financial organisation in Australia.







## Our Community

We're a part of your community. Always.

At Defence Bank, we believe that the Defence community is an integral part of our business. We are owned by our members, and therefore consider that contributing back to the community we serve is the right thing to do. It is also our point of difference; setting us apart from all other banks in the Defence community.

Throughout 2011/12, our staff members around Australia were constantly busy supporting Defence Community Organisation (DCO) days, Open Days, Welcome Home parades and Christmas Treats. We also supported numerous Defence community and sporting events through donations and sponsorships both at local levels and through major sponsorships for national competitions.

We have also chosen to support three major charities within the Defence community:

### > **Salvation Army Red Shield Defence Services (Sallyman Trucks)**

Defence Bank is proud to support the Salvation Army Red Shield Defence Services Sallyman Trucks across Australia. The trucks, operated by Salvation Army workers, distribute hot and cold drinks and food, as well as physical and moral support to soldiers while deployed or on exercise. The tradition of the Sallyman Truck began in the Boer War in 1899 and is still going strong, thanks to the ongoing support of the Salvation Army – a service that is greatly appreciated by soldiers around Australia.

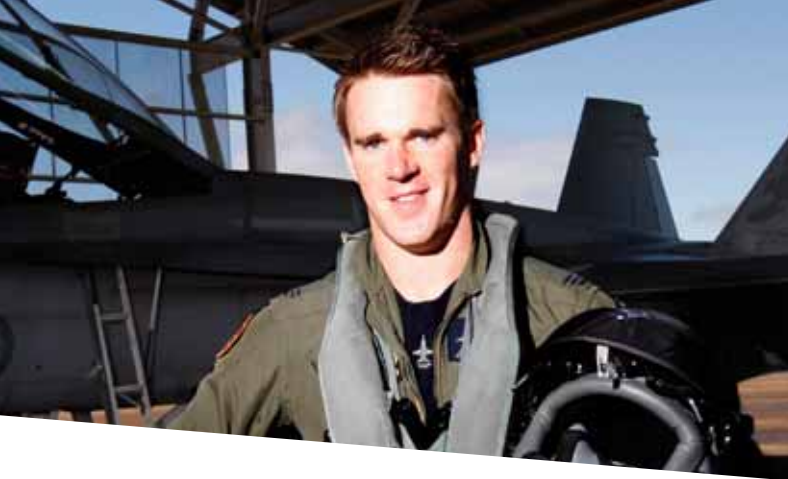
### > **Defence Special Needs Support Group (DSNSG)**

We've enjoyed a long relationship with the Defence Special Needs Support Group (DSNSG), who do amazing work with families that have loved ones requiring special care or assistance. Through education and support programs, the DSNSG helps these families and those in their care, who suffer mental or physical disabilities. Over the years, Defence Bank has provided substantial donations to support the DSNSG's great work, and 2012 was no different. This year we presented the organisation with a cheque for \$40,000.

### > **Legacy**

As a financial institution that serves the Defence community we're dedicated to supporting not only Defence personnel, but their families and loved ones as well. Defence Bank is a proud supporter of numerous Legacy activities at branch, state and national levels. This includes sponsoring major Legacy fundraising events, such as the Defence Charity Ball, held annually in Brisbane, and the North Queensland Defence Charity Ball, held annually in Townsville.





# Financial Extract

## Statement of Financial Position (as at 30 June 2012)

	2012 \$000	2011 \$000
<b>Assets</b>		
Cash and cash equivalents	43,682	94,612
Investments	261,121	177,245
Financial assets available for sale	1,639	1,626
Trade and other receivables	2,957	3,622
Loans and advances	970,280	915,938
Property, plant and equipment	2,953	2,302
Current tax assets	102	-
Deferred tax assets	1,821	2,181
Intangible assets	454	529
Other assets	673	727
	<b>1,285,682</b>	<b>1,198,782</b>
<b>Liabilities</b>		
Borrowings	55,000	62,265
Deposits	1,098,151	1,012,216
Trade and other payables	15,575	15,951
Current tax liabilities	-	2,224
Provisions	3,881	3,545
	<b>1,172,607</b>	<b>1,096,201</b>
	<b>113,075</b>	<b>102,581</b>
<b>Equity</b>		
Share capital	772	719
Reserves	112,303	101,862
Retained earnings	-	-
	<b>113,075</b>	<b>102,581</b>

The Statement of Financial Position has been extracted from the Audited Annual Report. This extract has not been separately audited.





## Statement of Comprehensive Income (for the financial year ended 30 June 2012)

	2012 \$000	2011 \$000
<b>Income</b>		
Interest income	87,099	82,842
Interest expense	(50,614)	(46,162)
Net interest income	36,485	36,680
Other income	13,578	13,038
	<b>50,063</b>	<b>49,718</b>
<b>Expenses</b>		
Employee benefits expense	17,359	16,029
Depreciation and amortisation expense	1,218	959
Impairment losses on loans and advances	487	489
Other expenses	16,321	15,810
	<b>35,385</b>	<b>33,287</b>
<b>Profit before income tax</b>	<b>14,678</b>	<b>16,431</b>
Income tax expense	4,184	4,685
Profit for the year from continuing operations	10,494	11,746
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>10,494</b>	<b>11,746</b>

The Statement of Comprehensive Income has been extracted from the Audited Annual Report. This extract has not been separately audited.



# Corporate Governance

## Company Structure and Regulation

Defence Bank is a public company limited by shares (members' shares) under the Corporations Act 2001, administered by the Australian Securities and Investments Commission (ASIC). Defence Bank is also an Authorised Deposit-taking Institution regulated under the Federal regime and subject to Prudential Standards, issued by the Australian Prudential Regulation Authority (APRA).

## Size and Composition of the Board

Defence Bank's Board currently consists of eight independent non-executive Directors, all of whom were elected by members or appointed by the Board. The Chief Executive Officer and the Chief Financial Officer of Defence Bank act as Secretaries to the Board. This appointment carries no entitlement to a vote on Board matters. Directors are generally elected for a term of three years, commencing at the end of the Annual General Meeting, at which his or her election is announced and ending at the end of the third Annual General Meeting after his or her election. At the end of their term, Directors may offer themselves for re-election.

## Experienced and Balanced Board

The Board comprises Directors with a wide range of experience and business backgrounds. Most current Directors are serving, or have served, in the Australian Defence Force or were employed in the Department of Defence. All Directors also have extensive academic and commercial qualifications and experience to enable them to undertake their role as Directors. Details of Directors' qualifications are shown at page 11. In addition, Directors are required to undertake continuing professional development activities to maintain and improve their knowledge and skills necessary for the performance of their duties and responsibilities.

## Effective Committee Structure

The Board conducts its business with the assistance of a well defined and effective committee structure. The five standing committees of the Board are:

### > Executive Committee

This committee assists the Board in the development of recommendations regarding issues of corporate governance, senior executive management and policy.

### > Audit, Risk and Compliance Committee

This committee assists the Board in fulfilling its responsibilities relating to Defence Bank's accounting, statutory (under APRA, ASIC and AUSTRAC) and financial reporting, external and internal audit activities and overall compliance and risk management practices.

### > Nominations Committee

This committee is established under Defence Bank's Constitution in order to provide assurance to members that candidates that are nominated for service on the Board are fit, proper and suitable to become Directors.

### > Remuneration Committee

This committee is established to review and make recommendations to the Board on the remuneration of Directors and Executives, including the amount of their remuneration. From time to time, committees are established to facilitate Board consideration of a particular issue.

### > Policy and Constitution Review Committee

This committee has been established to review and make recommendations to the Board in relation to the Constitution and Policies of Defence Bank.

## Executive Management Team

Jon Linehan, Chief Executive Officer  
 Dean Barton, Chief Financial Officer  
 Ian Brown, Chief Information Officer  
 Kristen Bugeja, Executive Manager – Human Resources  
 Leanne Kyle, Executive Manager – Marketing  
 Garry Prout, Executive Manager – Retail  
 Andrew Sciberras, Executive Manager – Lending



## Board of Directors



**Colonel  
Mark Derry RICHARDS**

DipMgt, MDefStud, FAICD, MIPAA, MAMI, psc (Chairman of the Board and Chairman of the Executive Committee)

Initially elected to the Board on 6 November 2001. Most recently re-elected to the Board on 22 November 2010.



**Lieutenant Colonel  
Craig Duncan MADDEN**

BA, MMgt, DipMilEng, FAICD, MAMI, psc (Board Proctor)

Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 28 November 2011.



**Colonel  
Paul MULRANEY, CSC, Ret'd**

BCom, MSc (Def Studies), CPA, MAICD, FAIM, MAMI, psc (Deputy Chairman of the Board and Chairman of the Remuneration Committee)

Initially elected to the Board on 23 November 1998. Most recently re-elected to the Board on 22 November 2010.



**Ms Frances Helen RAYMOND**

BCom, MBA, FCA, AFAIM, FAICD, MAMI, GDPPM

Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 28 November 2011.



**Group Captain  
David Cyril PAYNE, Ret'd**

BEC (ANU), MSc (USAFIT), GradDipStratStud, DipTpt, FAICD, FAMI, jssc, psc (Chairman of Policy and Constitution Review Committee)

Initially appointed to the Board on 6 May 1988. Most recently re-appointed to the Board on 26 September 2011.



**Major-General  
Michael Peter John O'BRIEN Ret'd**

MDA, BSc (Mil), AdvDipProjMgt, DipMilStud, FAICD, FAMI, psc, qtc, acdss

Initially elected to the Board on 24 June 1985. Most recently re-elected to the Board on 23 November 2009. Retired from the Board 26 September 2011.



**Mr Alan Ronald HANDS**

DipBus (Acct), DipPur/MM, M Bus (LOG), CPA, MAICD, AFAMI (Chairman of the Audit, Risk and Compliance Committee)

Initially elected to the Board on 22 November 1993. Most recently re-elected to the Board on 22 November 2010.



**Mr Bruce Andrew MURPHY**

BSc, MCom, PGD, CAIA

Appointed to the Board on 5 May 2012.



**Group Captain  
Callum Soutar BROWN**

BA, MBA, DBA, MDefStud, FAICD, AFAIM, MAHRI, MAMI, psc

Initially elected to the Board on 25 November 1996. Most recently re-elected to the Board on 23 November 2009.



# About Defence Bank

Defence Bank commenced operations in March 1975 as Defence Force Credit Union Limited (Defcredit) before changing its name to Defence Bank in 2012. Our original charter was to assist Australian Defence Force personnel manage their money at a cost that is fair and equitable.

Unlike many other financial institutions, Defence Bank doesn't exist to make profits for shareholders. We're here to focus on your financial needs, rather than being driven to make profits for shareholders. We re-invest our profits back into the bank to make sure we give you the service and competitive products you deserve.

Defence Bank offers financial products and services to not only the Defence Force, but the broader community as well. With more than 90,000 members and more than \$1.35 billion in assets under management, Defence Bank is one of Australia's larger member-owned banks.

## We're here to help

It's easy and convenient to contact us.  
Here's how:



**1800 033 139**, 8am to 8pm AEST weekdays



**defencebank.com.au**



Visit your local Defence Bank branch



**info@defencebank.com.au**

### **Defence Bank Limited**

ABN 57 087 651 385

AFSL/Australian Credit Licence 234582

Head Office, Level 5, 31 Queen Street

Melbourne VIC 3000

(AGM12)



# Defence Bank