



Defence Bank

2013-2014
Annual Review

Welcome to the Defence Bank

2013-2014 Annual Review

This Annual Review contains extracts from our 2013-2014 Annual Financial 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 financial position, a full copy of the 2013-2014 Annual Financial Report can be obtained from our website at **defencebank.com.au** or by writing to the Company Secretary, Defence Bank Limited, PO Box 14537 Melbourne VIC 8001.

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Paul Mulraney

“Another year of strong performance in 2013-14 and commitment to the needs of our members...”



Chairman's Report

As Chairman, I am honoured to welcome you to the Defence Bank 2013-14 Annual Review. We have continued to build on our success with another year of strong performance. Defence Bank continues to evolve and grow to meet the needs of existing and potential members, whilst remaining strongly committed to our principles of being a member-owned bank.

Defence Bank is one of the largest mutual banks in Australia with \$1.5 billion in assets under management and 90,000 members. As a member-owned bank Defence Bank offers a full range of banking products and services to Australian Defence Force personnel and the wider Australian community. As an Authorised Deposit-taking Institution, Defence Bank operates within a strict prudential regulatory framework, which requires sound corporate governance. During 2013-14 the Board embarked upon a Board renewal process, which saw two long-serving Directors retire with a further three to retire by the 2016 Annual General Meeting. The Board has in place a transition plan to ensure that we identify suitable candidates to ensure that the Board has the balance of skills, competencies, experience and diversity required to maintain or increase the Board's effectiveness to best serve you, our members.

Defence Bank's performance has been solid throughout the 2013-14 financial year. We have delivered both a healthy and prudent surplus, further described by the CEO in his report on the following page and shown graphically on the 'Year at a Glance' page. The strength of our performance is once again due to the above industry average growth of our loans portfolio, as well as a continuing commitment to efficiency. A culture of innovation and adapting to the changing needs of members continues to drive Defence Bank. This year we launched our new branch design, a great example of integrating technology to deliver enhanced member service.

Throughout the year, Defence Bank has continued to actively support the Defence Community across a range of family, sporting and community events throughout Australia. We have also expanded the Defence Bank Foundation in order to provide support to the men and women of the Australian Defence Force who have been wounded physically or mentally, whilst serving their country. We are now a proud major sponsor of the Young Diggers Dog Squad Program and actively involved in fundraising activity to help rescue and train former shelter dogs as part of the program. Further information about the Foundation's activities this year is on the 'Our Community' page.

As Chairman, I can assure members that the Board remains committed to continuously improving its operations and all aspects of the governance of Defence Bank. I would like to thank my fellow Directors for their support and contributions throughout the year.

I also thank the CEO, Executive Management Team, and all our staff for their commitment and dedication in achieving results that contribute to building a stronger future for Defence Bank and its members.

Finally, Defence Bank's success is due to you, our members. Thank you for your continued support and patronage. As both owners and customers, you are our most important priority.

Paul Mulraney, CSC
Chairman of the Board



Jon Linehan

“Continued commitment to making banking easier for our members, is helping to drive success at Defence Bank.”

CEO's Report

The Year in Review

Defence Bank's annual financial result for 2013-14 was a pleasing after tax profit of \$8.4m. As a member-owned bank, these funds are re-invested back into Defence Bank to deliver new products and technologies to further enhance services for our members. Our assets continued to grow this year by 1.6% (on-balance sheet), bringing our total assets under management to \$1.5 billion.

With economic uncertainty continuing in global markets we have ensured the long term stability of Defence Bank, by growing capital to a healthy 16.2% which is above regulatory requirements. We also increased our reserves by 6.8% and continue to manage margin pressure through a combination of careful and prudent cost management.

This year we achieved strong 12% growth on our home loans portfolio which is double the industry average demonstrating Defence Bank's standing as the home lender of choice for Australian Defence Force members.

Our strong results are a reflection of a number of significant achievements in 2013-14, these include:

- > Launch of a national team of Mobile Home Loan Consultants, to provide members and prospective new members more flexibility and accessibility to expert advice on our Home Loan products.
- > Continued rollout of our branch renewal program across Australia that included the launch of our newest branch design in Brindabella Park Canberra.
- > Expanding our product range with the launch of Defence Bank Super, a low cost Super product easily accessible through Defence Bank Online Banking.
- > Continuing to offer a range of great value and competitive products, once again recognised this year by a number of industry awards, including CANSTAR, Money Magazine and Mozo.

Service Innovation

As our members' needs change, we continue to adapt to meet them. This year, Defence Bank launched a new branch design at Brindabella Business Park in Canberra, integrating technology in order to deliver an enhanced level of service by our expert staff. The new look branch offers more advisory and personalised services for our members, iPads and free WiFi to encourage interaction and self-service in a very accessible and comfortable branch environment. Defence Bank remains committed to investing and developing new technology to better service our members and ultimately make banking easier.

Our Members

We are continuously developing new products and services for our members and this year we expanded our product range by introducing Defence Bank Super, a low cost Super product that can be easily accessed through Online Banking. We also continue to maintain the largest bank branch network in the Australian Defence Force to make us more accessible to our members across Australia. The success of Defence Bank is a tribute to service excellence by our staff and for the third year in a row, we achieved a member satisfaction rate of above 80% when we asked members about the quality of our service through our annual survey.

Community Support

Defence Bank has a long history of supporting ADF members and their communities. This year we continued to support a large number of major sporting events, community initiatives and family activities around Australia. Many of our staff participate in these events, demonstrating our commitment to actively supporting Defence communities at a grass roots level.

Throughout 2013-14, we supported Defence related charities by sponsoring, promoting and contributing donations totalling \$340,000. We also continued to expand the Defence Bank Foundation whose role it is to provide support to Australian servicemen and women who have been wounded physically or mentally, whilst serving their country. This year we became a proud major sponsor of the Young Diggers Dog Squad Program, driving fundraising activity which assists in the rescue and training of shelter dogs to become assistance dogs.

Our People

This year we achieved a record of 83.8% employee engagement, which places Defence Bank in the top quartile of employers.

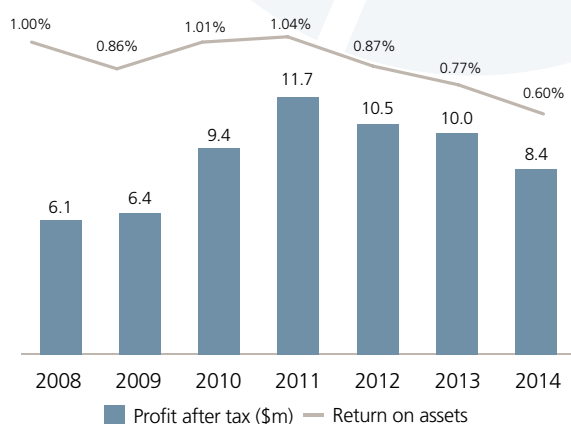
I thank our staff for their continued efforts, their focus and for their dedication throughout the year to help make banking easier for our members.

I would like to thank the Board on their achievements this year and finally, you, our members, for your ongoing support. I look forward to another successful year.

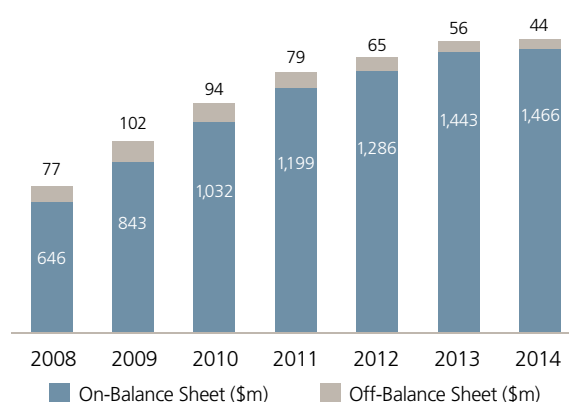
Jon Linehan
Chief Executive Officer

Year at a Glance

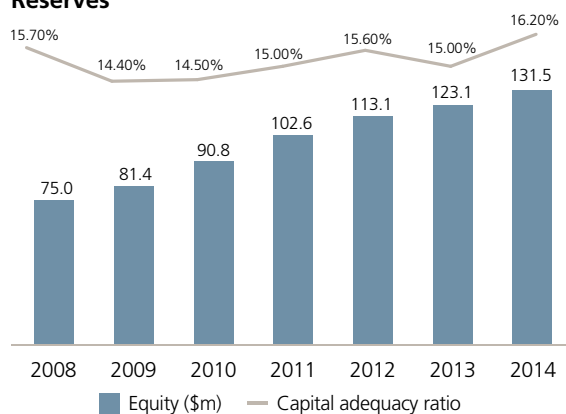
Profitability



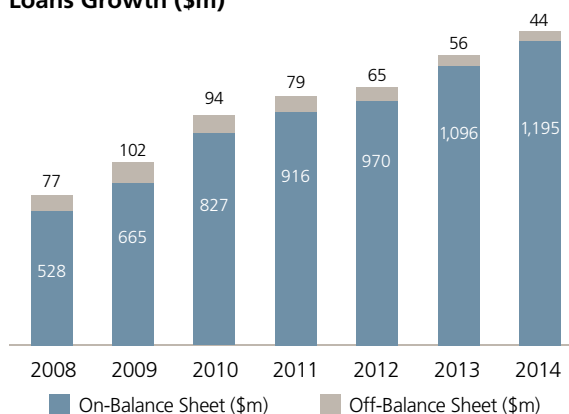
Asset Growth (\$m)



Reserves



Loans Growth (\$m)



Growth

| | 2014 | 2013 | Increase/ (Decrease) | Increase/ (Decrease) |
|---|--------|--------|-------------------------|-------------------------|
| | \$m | \$m | \$m | % |
| Assets (on balance sheet) | 1465.8 | 1443.1 | 22.7 | 1.6 |
| Deposits | 1316.8 | 1285.2 | 31.6 | 2.5 |
| Equity | 131.5 | 123.1 | 8.4 | 6.8 |
| Members' Loans | 1194.6 | 1095.9 | 98.7 | 9.0 |
| Securitised Housing Loans (Off-Balance Sheet) | 43.6 | 55.8 | (12.0) | (21.5) |
| Total Loans (On- and Off-Balance Sheet) | 1238.2 | 1151.7 | 87.0 | 7.6 |



Members

Product and Service Innovation

This year we continued to place a strong emphasis on meeting the needs of our members and offering great value, through initiatives like the evolution of our branch network, the introduction of Mobile Home Loan Consultants and adding to our competitive range of products.

We launched our new style branch at Brindabella Business Park in Canberra, designed to integrate technology with an enhanced level of service. Members visiting the branch will find a friendly open space where they can use our iPads or their own device with our free WiFi to self serve, as well as receiving personalised advice from our expert branch staff. We also expanded our product range with the launch of Defence Bank Super, a low cost Super product that is easily accessible through Online Banking with balances displayed alongside the member's other Defence Bank account information making it easier to manage. To provide members more flexibility and accessibility to expert advice on our competitive Home Loan products, we introduced a national team of Mobile Home Loan Consultants. This is another example of how we are continually focused on making banking easier for our members at every life stage.

For the third year in a row we achieved a member satisfaction rating of over 80%, when we asked members about the quality of our service through our annual member survey. This demonstrates our continued focus on delivering service excellence across all our channels – Branch, Contact Centre, Online Banking and Mobile Banking.

Membership

Continuing to grow our membership base is important. It helps Defence Bank keep our product and service offering competitive. In the financial year 2013-14, 4,568 new members joined Defence Bank, a 26% improvement on the previous year.

Industry Recognition

Our products continue to offer great value to our members and this has been recognised again this year with a number of industry awards. We were awarded CANSTAR 5 Star Ratings for outstanding value on our True Blue Credit Card and iSaver Account. Our new Car Loan won the Money Magazine 'Best of the Best Award' in the category 'Cheapest New Car Loans – Bank'. Plus our True Blue Credit Card won two Mozo Experts Choice 'Highly Commended' Awards in the category of 'Low Rate Credit Card' and 'Balance Transfer Credit Card'.





Our Community

At Defence Bank, we believe that the Defence Community is an integral part of our business and we have a long history of supporting ADF members and their communities.

Once again, throughout 2013-14, our staff members around Australia were 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 supported Defence related charities and sponsorships with donations and promotions totalling \$340,000 and we will remain committed to supporting the Defence Community.

The Defence Bank Foundation

The Defence Bank Foundation provides support to Australian servicemen and women who have been wounded physically or mentally, whilst serving their country. In 2013-14 we continued to expand the Foundation and we are now a proud major sponsor of the Young Diggers Dog Squad Program. The Dog Squad provides Assistance Dogs to help serving and ex-serving ADF personnel and their families to better cope with recovery from a wound, illness or injury, including combat stress. Defence Bank Foundation's fundraising activity is helping rescue and extensively train former shelter dogs to become Assistance Dogs as part of the Dog Squad program and we will remain committed to raising funds for this very important program throughout the next year.



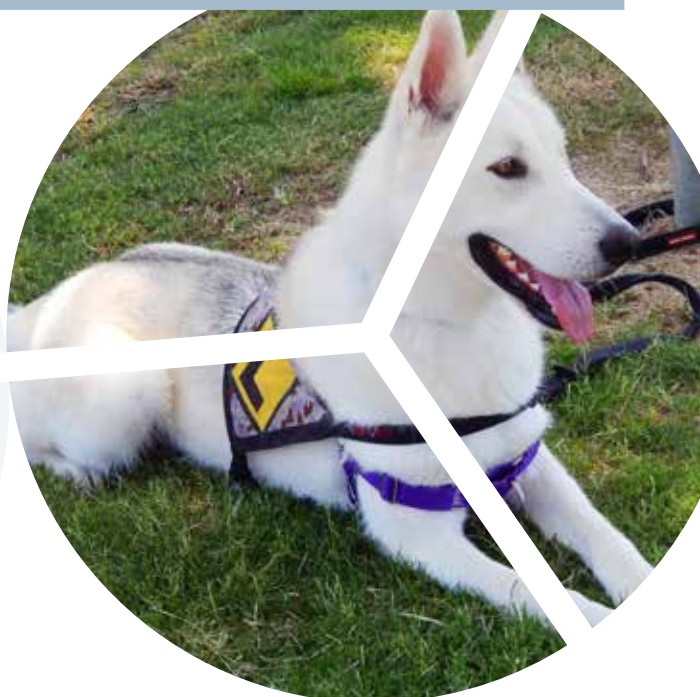
How to Donate

The Defence Bank Foundation was launched in early 2014 and is already providing support for practical projects where funding will make a real impact and achieve a meaningful result for individuals, their families and the Defence Community.

To make a donation, go to defencebankfoundation.com.au or visit a branch today. Donations over \$2.00 are Tax Deductable.



Defence Bank
FOUNDATION



Financial Extract

Consolidated Statement of Financial Position (as at 30 June 2014)

| | 2014 \$000 | 2013 \$000 |
|-------------------------------|------------------|------------------|
| Assets | | |
| Cash and cash equivalents | 67,221 | 165,247 |
| Investments | 193,725 | 172,599 |
| Equity investments | 1,639 | 1,639 |
| Trade and other receivables | 1,713 | 2,153 |
| Loans and advances | 1,194,596 | 1,095,864 |
| Property, plant and equipment | 2,132 | 2,386 |
| Current tax assets | 1,450 | - |
| Deferred tax assets | 2,031 | 1,958 |
| Intangible assets | 567 | 487 |
| Other assets | 776 | 787 |
| Total Assets | 1,465,850 | 1,443,120 |
| Liabilities | | |
| Borrowings | - | 15,000 |
| Deposits | 1,316,788 | 1,285,163 |
| Trade and other payables | 13,320 | 15,267 |
| Current tax liabilities | - | 500 |
| Provisions | 4,273 | 4,094 |
| Total Liabilities | 1,334,381 | 1,320,024 |
| Net Assets | 131,469 | 123,096 |
| Equity | | |
| Share capital | 847 | 810 |
| Reserves | 130,622 | 122,286 |
| Retained earnings | - | - |
| Total Equity | 131,469 | 123,096 |

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

Consolidated Statement of Profit or Loss and other Comprehensive Income (for the financial year ended 30 June 2014)

| | 2014 \$000 | 2013 \$000 |
|--|---------------|---------------|
| Income | | |
| Interest income | 75,021 | 79,361 |
| Interest expense | (37,565) | (42,452) |
| Net interest income | 37,456 | 36,909 |
| Other income | 11,205 | 12,756 |
| Total Income | 48,661 | 49,665 |
| Expenses | | |
| Personnel expenses | 18,837 | 17,980 |
| Depreciation and amortisation expense | 1,021 | 1,072 |
| Impairment losses on loans and advances | 319 | 237 |
| Other expenses | 16,637 | 16,101 |
| Total Expenses | 36,814 | 35,390 |
| Profit before income tax | 11,847 | 14,275 |
| Income tax expense | 3,474 | 4,254 |
| Profit for the year from continuing operations | 8,373 | 10,021 |
| Other comprehensive income | - | - |
| Total comprehensive income | 8,373 | 10,021 |

The Statement of Profit or Loss and other Comprehensive Income has been extracted from the audited Annual Financial 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 Banking Act 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 seven 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 elected for a term of three years, commencing at the end of the Annual General Meeting, at which their election is announced and generally concludes at the end of the third Annual General Meeting after their 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 on 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.

> Risk and Compliance Committee

This committee assists the Board in fulfilling its responsibilities relating to Defence Bank's overall compliance and risk management practices.

> Audit Committee

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

> 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.

From time to time, committees are established to facilitate Board consideration of a particular issue.

Executive Management Team

Jon Linehan, Chief Executive Officer
Dean Barton, Chief Financial Officer
Ian Brown, Chief Information Officer
Kristen Bugeja, Executive Manager – People and Culture
Garry Prout, Executive Manager – Retail
Andrew Sciberras, Executive Manager – Lending
Mano Simos, Chief Risk Officer

Board of Directors



**Colonel (Retired)
Paul MULRANEY, CSC**

BCom, MSc (Def Studies), CPA, FAICD, FAIM, MAMI, psc (Chair of the Board and Chair of the Executive Committee)

Initially elected to the Board on 23 November 1998. Most recently re-elected to the Board on 24 November 2013.



**Lieutenant Colonel
Craig Duncan MADDEN**

BA, MMgt, DipMilEng, FAICD, MAMI, psc (Deputy Chair of the Board and Chair of the Remuneration Committee)

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



Ms Frances Helen RAYMOND

BCom, MBA, FCA, AFAIM, FAICD, MAMI, GDPPM, FSAA (Chair of the Audit Committee)

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



Mr Bruce Andrew MURPHY

BSc, MCom, PGD, CAIA, GAICD (Chair of the Risk and Compliance Committee)

Initially appointed to the Board on 5 May 2012. Most recently appointed to the Board on 24 November 2013.



**Group Captain
Callum Soutar BROWN**

BA, MBA, DBA, MDefStud, FAICD, AFAIM, MAHRI, MAMI, psc (Chair of the Defence Bank Foundation)

Initially elected to the Board on 25 November 1996. Most recently re-elected to the Board on 26 November 2012.



**Group Captain (Retired)
David Cyril PAYNE**

BEC (ANU), MSc (USAFIT), Dip Tpt, GradDipStratStud, FAICD, FAMI, jssc, psc

Initially appointed to the Board on 6 May 1988. Most recently re-elected to the Board on 26 November 2012.



**Lieutenant
Peter John MASON**

DipAppSc, GradDipCompStud, MACS(snr), SF Fin, MAICD, RANR

Initially elected to the Board on 24 November 2013.

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. Today, Defence Bank has 40 branches around Australia.

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 \$1.5 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

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Defence Bank