

ANNUAL REVIEW

2014-15



Defence Bank

WELCOME TO THE DEFENCE BANK ANNUAL REVIEW 2014-15

This Annual Review contains extracts from our 2014-2015 Annual Financial Report, along with the Chairman's and Managing Director 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 2014-2015 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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CHAIRMAN'S REPORT



"The year to June 2015 was a particularly busy and successful one for Defence Bank with some very important developments on several fronts. Our focus has been on continually seeking opportunities that will benefit our members."

Overview

I am delighted to welcome you to the 2014-15 Annual Review. It has been quite a challenging year but the dedication that our staff, management team and Board have put in has paid off. As one of the largest Mutual Banks with over 90,000 members, our foremost objective has been to deliver value and service to our members.

We have continued to strengthen the financial base of the business with strong growth in our assets. Currently we have \$1.6 billion in assets under management and this is supported by a Net profit of \$8.7 million. Continued growth enables the Bank to invest in new products and services for our members. A pleasing aspect for this year has been the growth in our residential mortgage portfolio of 13% – which is approximately double the industry average. By doing so we are enabling more of our members to achieve their dream of owning their own home and attaining financial security.

Prudent Management

As Defence Bank is owned by and operates solely on behalf of its members, corporate governance and the ability for the Board and management to guide growth diligently and judiciously is of major importance. The Board comprises a highly experienced team of Directors with a diversity of backgrounds that enables the bank to draw upon a wealth of expertise. Strategies and directions have been developed by the Board and Executive Team to ensure the financial success and growth of the Bank. As Chairman I can assure members that the Board remains committed to continually improving Defence Bank. We remain unequivocally committed to the task of ensuring that our members benefit from the services offered, financial products provided and opportunities presented.

Future Aims

Our aim is to strengthen the presence of Defence Bank among not only existing members but families, friends and allied groups to the Australian Defence Force (ADF). Our bank is a unique bank that understands the needs of the ADF. We speak with a language our members understand. This is our strength, one that we believe has tangible value. By directly engaging with our members we gain a better understanding of their needs to develop products with a focus on technology that suits the changing requirements of our membership. Our newest branch at the Willows Shopping Centre provides a glimpse into the future of banking.

Community Support

We remain committed to supporting our members and the ADF community and we actively support a range of family, sporting and community events – Christmas Treats, the K-Series and the Salvation Army Sallyman Trucks.

The Defence Bank Foundation continues to support wounded, injured and disadvantaged serving and former members of the ADF. The Defence Bank Foundation will continue to support the Young Diggers Dog Squad to rescue and train Assistance Dogs to support people living with Post-Traumatic Stress Disorder (PTSD). Last financial year our charitable and sponsorship commitment was in excess of \$600,000.

Summary

Within the banking fraternity Defence Bank continues to provide its members highly competitive products and exceptional levels of personal service. The ongoing high levels of member satisfaction rates of over 80%, for 4 years running, are a tribute to dedicated work of our staff that are the engine room of our bank. I would like to thank them for their hard work and tireless commitment. I would also like to thank the Board, our Managing Director and CEO Jon Linehan and our staff for their unwavering focus on growing the business for the benefit of our members. Their focus towards the future sets the direction for the business. The strategies they develop enable the business to constantly move forward and meet these new goals.

To our members, I would like to reconfirm our commitment to ensuring that the bank is focused toward their financial needs by providing the right products, services and importantly the right advice to help them attain their financial goals.

Thank you all for your ongoing support.

A handwritten signature in dark ink, appearing to read 'Paul Mulraney'.

Paul Mulraney, CSC
Chairman of the Board

MANAGING DIRECTOR & CEO'S REPORT



"As a member-owned Bank, our focus is on the unique financial needs of our ADF members. The profits that we make go back to benefit them through enhanced products and services."

Overview

The end of year financial result for Defence Bank was extremely pleasing with an after tax profit of \$8.7 million. This provides us with the funds to reinvest back into the Bank, to enhance products and services for our members whilst ensuring our level of profit funds the growth of the business. During the year we have grown our regulatory capital to 16.3%. Our asset growth has continued to exceed the industry average. The total of Defence Bank's on-balance sheet assets grew by 9.7% bringing our assets under management to \$1.6 billion.

This year Defence Bank celebrates our 40th year of supporting the financial needs of our members. This has enabled us to gain a deeper understanding and the ability to respond to the changing needs of the Defence community. We have continued to help our members achieve their home ownership dreams. The Defence Home Ownership Assistance Scheme (DHOAS) program has continued to grow strongly and reinforces the 13% increase within our on book residential mortgage lending growth.

We also continue to support the wider Australian Defence Force (ADF) community through various sponsorships and the Defence Bank Foundation which have totalled over \$600,000. In the past financial year, Defence Bank contributed over \$330,000 to the Foundation, the primary beneficiary of whom is the Young Diggers Dog Squad.

Branches

Defence Bank remains committed to providing excellent service to its members through the largest network of branches in the ADF. We continued to showcase the Bank's 'Branch of the Future' design, incorporating interactive technology and tailored member experience zones in our new East Sale, Bourke Street (Melbourne) and Willows Shopping Centre (Townsville) branches.

Innovation

The Bank continues to place a strong emphasis on improving the banking experience for our members whilst offering great value and competitive products, such as the Essentials Home Loan and the Ultimate Home Loan Package, which were introduced during the financial year.

In September 2014 there was also an undertaking to open up Defence Bank Retirement Savings Account with online functionality. This year we have introduced further new products to our portfolio to appeal and cater to various member sectors at differing stages of their lives. In addition to this we have continued to update Defence Bank apps and online experiences.

Member Experience

Staying close in touch with our members empowers us to respond to their changing requirements quickly and efficiently. Over the last 12 months we have been developing leading edge communication tools and products to make things easier and more efficient for our members, including:-

- **Video Call App:** Responding to the needs of our members we are the first bank in Australia to provide a face-to-face banking online experience regardless of location via our Video Call App. Now our members can speak to a real person that understands their needs and can help them, regardless of where they are.
- **Online and Social Media:** In the past year we have established a social media presence through both Facebook and Twitter, providing us with a new way to update, communicate and engage with our members.

Industry Recognition

The Bank's products continue to offer great value to members and this has been recognised once again this year with a number of industry awards. The Bank was awarded CANSTAR 5 Star Ratings for outstanding value in respect of its New Car and Used Car Loans as well as its Deposit Account.

Our People

The continued success of Defence Bank can only be achieved with a motivated and committed workforce. We have maintained staff engagement in excess of 80% for three consecutive years. I thank our staff for their dedication and effort over the past twelve months.

Also I would like to acknowledge the contribution of my fellow Directors to the success of the Bank.

To our members, thank you for your ongoing support. We are committed to enhancing and protecting your financial wellbeing.

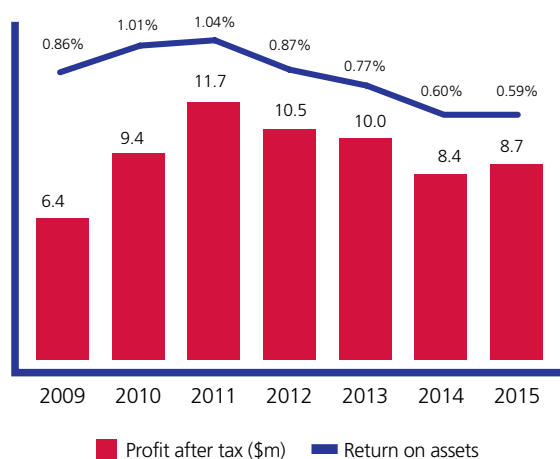


Jon Linehan
Managing Director and CEO

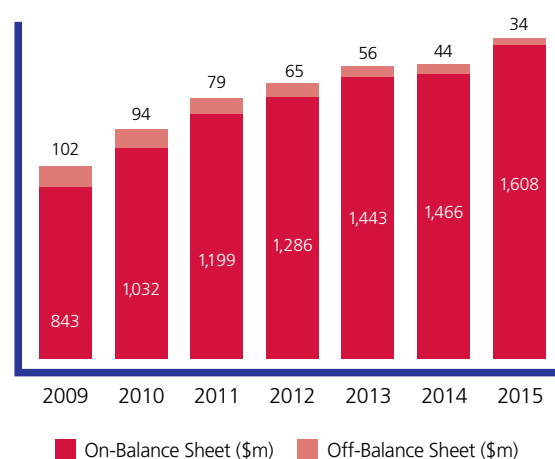
YEAR AT A GLANCE



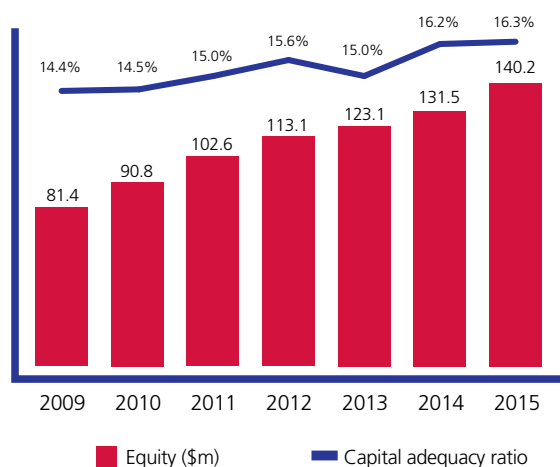
Profitability



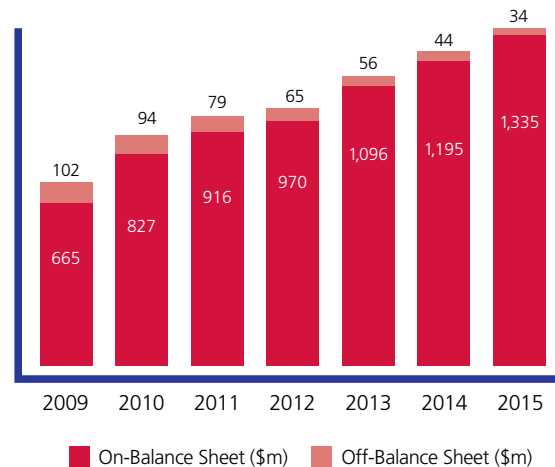
Asset Growth (\$m)



Reserves



Loans Growth (\$m)



Growth	2015	2014	Increase/(Decrease)	Increase/(Decrease)
	\$m	\$m	\$m	%
Assets (on balance sheet)	1,608.5	1,465.8	142.7	9.7
Deposits	1,450.0	1,316.8	133.2	10.1
Equity	140.2	131.5	8.7	6.6
Members' loans	1,335.3	1,194.6	140.7	11.8
Securitised housing loans (off-balance sheet)	33.9	43.6	(9.7)	(22.2)
Total loans (on and off-balance sheet)	1,369.2	1,238.2	131.0	10.6

DEFENCE BANK MEMBERS

Product and Service Innovation

Our members are at the centre of everything we do and as such we have continued to focus on the development of products and services that enhance their experience. We encourage members to save to help secure their financial future and have introduced new products, such as our Essentials Home Loan and Ultimate Package. These products have been well received by our membership base and provide greater flexibility for our members to choose the loan that best suits them and their lifestyle.

With a significant portion of all banking transactions occurring online or via mobile devices, we place a strong emphasis on innovation and technological advancement. We have introduced a number of new initiatives to make everyday banking easier for our members, a large number of whom are located in remote areas or overseas.

Throughout the year we launched our Video Call App, an app giving members a face-to-face banking experience regardless of their location. This is an industry first and is yet to be replicated by any other bank in Australia. We also released Smartphone Banking, an upgrade to our existing Mobile Banking app, to provide easier banking on the go. We have also established a social media presence as another means to engage and communicate with our members. We are continually improving our ability to serve and connect with our members – both face-to-face and via new technologies.

We are committed to providing our members with the highest level of service and Defence Bank maintains the largest branch network in the ADF. During the financial year we upgraded a number of our branches, as well as opening our new branch at the Willows Shopping Centre. This contemporary space is our “Branch of the Future” design, providing a personalised banking experience with spaces for everyday banking needs and a kids club, through to private spaces to discuss more complex matters.

Membership

Defence Bank exists to help our members achieve financial security in a profitable and sustainable way and the continued growth of our membership base is important. It helps us to keep our product and service offering competitive. In the financial year 2014-15, Defence Bank welcomed 4,480 new members, a 7.5% increase on the previous year.



Industry Recognition

Whilst we are continually developing new products and services, we are always working to ensure our existing products offer the best value for our members and we have again been recognised with a number of industry awards:

CANSTAR 5 Star Rating – Outstanding Value New Car and Used Car Loans and Outstanding Value Deposit Account. Money Magazine ‘Best of the Best Award’ in the category of ‘Cheapest New Car Loan – Bank’.



DEFENCE BANK COMMUNITY



We are part of the Defence community and are committed to supporting organisations that assist Defence personnel and their families. We are owned by our members and believe that giving back to the communities we serve is important.

Throughout 2014-15, our staff members across Australia supported a range of activities including Defence Community Organisation (DCO) days, Welcome Home Parades and Christmas Treats. From Legacy to the K-Series and the Salvation Army Sallyman Trucks, we have also been active supporters of a variety of Defence community and sporting events, providing sponsorship and donations both locally and at major national event level. We remain committed to supporting the Defence community into the future.



Defence Bank
FOUNDATION

Defence Bank Foundation

Established in 2012, the Defence Bank Foundation is an independent charity established to help injured, wounded and disadvantaged serving and former ADF members. The primary beneficiary of the Foundation is the Young Diggers Dog Squad. Young Diggers is a volunteer based organisation providing a range of mental health and support programs to assist serving and ex-serving ADF personnel and their families.

The Young Diggers Dog Squad train rescued and abandoned dogs to become Assistance Dogs who support the rehabilitation of those dealing with wounds, illness or injury, including Post-Traumatic Stress Disorders (PTSD). This program helps more than just the individual. The Dog Squad training also helps Defence families to better cope with the effects of PTSD by providing an understanding support network.

How to Donate

The Foundation's fundraising activities assist with the rescue and extensive training of these dogs as part of the Dog Squad program.

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



FINANCIAL EXTRACT

Consolidated Statement of Financial Position (as at 30 June 2015)	2015	2014
	\$000	\$000
Assets		
Cash and cash equivalents	67,755	67,221
Investments	195,304	193,725
Equity investments	1,639	1,639
Trade and other receivables	1,611	1,713
Loans and advances	1,335,277	1,194,596
Property, plant and equipment	2,376	2,132
Current tax assets	876	1,450
Deferred tax assets	2,110	2,031
Intangible assets	696	567
Other assets	826	776
Total Assets	1,608,470	1,465,850
Liabilities		
Deposits	1,450,025	1,316,788
Trade and other payables	13,715	13,320
Provisions	4,518	4,273
Total Liabilities	1,468,258	1,334,381
Net Assets	140,212	131,469
Equity		
Share capital	880	847
Reserves	139,332	130,622
Total Equity	140,212	131,469

The Consolidated 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 2015)	2015	2014
	\$000	\$000
Income		
Interest income	75,407	75,021
Interest expense	(35,023)	(37,565)
Net interest income	40,384	37,456
Other income	9,863	11,205
Total Income	50,247	48,661
Expenses		
Personnel expenses	19,198	18,837
Depreciation and amortisation expense	978	1,021
Impairment losses on loans and advances	209	319
Other expenses	17,454	16,637
Total Expenses	37,839	36,814
Profit before income tax	12,408	11,847
Income tax expense	3,665	3,474
Profit for the year from continuing operations	8,743	8,373
Other comprehensive income	-	-
Total comprehensive income	8,743	8,373

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 and one Executive Director appointed by the Board. The Company Secretary 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.

Non-Executive Directors are elected or appointed for a term of three years, commencing at the end of the Annual General Meeting, at which their election or appointment 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 subject to the Board Policies on the maximum tenure for individual Directors.

The Managing Director and CEO is appointed to the Board as an Executive Director with the term of the appointment being determined by the Non-Executive Directors of the Board.

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. 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 risk and compliance 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, other committees may be established to facilitate Board consideration of a particular issue.

Executive Management Team

Jon Linehan	Managing Director & Chief Executive Officer
Dean Barton	Chief Financial Officer
Ian Brown	Chief Information Officer
Garry Prout	Chief Operating Officer
Mano Simos	Chief Risk Officer
Kristen Bugeja	Executive Manager – People and Culture
Damian Babij	Executive Manager – Marketing
Andrew Sciberras	Executive Manager – Lending
Dean Talbot	Executive Manager – Retail

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 24 November 2014.



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 24 November 2014.



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 elected 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 and Board Proctor)

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), DipTpt, 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.



Jon Michael LINEHAN

BEC(Hons), MCom, LLB, FAICD, MAMI, SA Fin (Managing Director and Chief Executive Officer)

Initially appointed to the Board on 30 January 2015.

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

For more information about any of our products and services, or for a no obligation free quote:



1800 033 139 (8am to 8pm AEST weekdays)



visit your local Defence Bank branch



defencebank.com.au



info@defencebank.com.au

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