

DEFENCE BANK ANNUAL REVIEW

2015-2016



Defence Bank

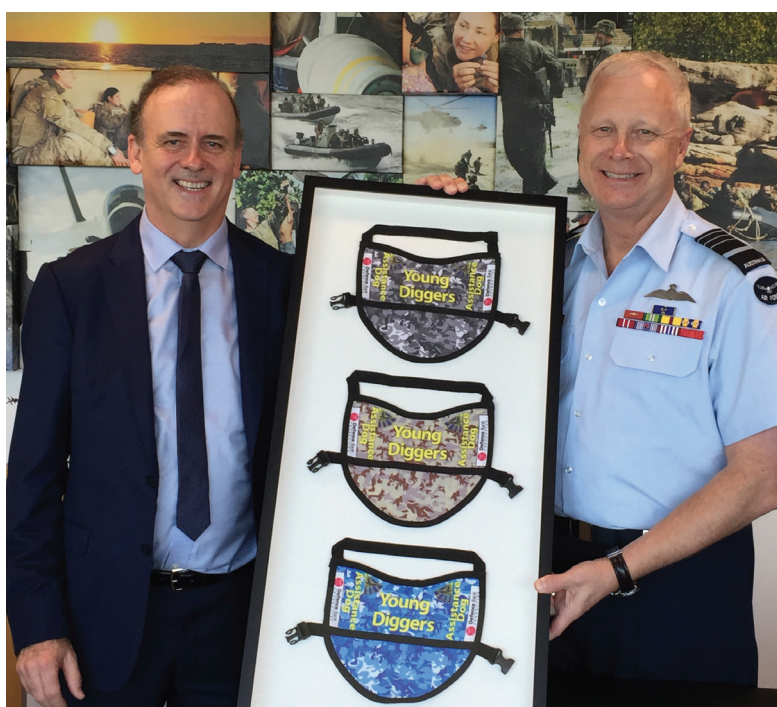
WELCOME TO THE DEFENCE BANK ANNUAL REVIEW 2015-2016

This Annual Review contains extracts from our 2015-2016 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 2015-2016 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



Overview

As Chairman of Defence Bank I am delighted to welcome you to the 2015-2016 Annual Review.

The past year has been an extremely challenging and rewarding time for Defence Bank; one that has seen our financial base continue to strengthen. Currently we have over \$1.8 billion in assets under management which is supported by a net profit of \$10 million. Our continued growth enables the Bank to invest in new product development and services to better enhance our members' banking experience.

The dedication and resilience of all our staff, management team and Board has ensured the core values of our business remain focused on delivering outstanding value and service to our members. A testament to their dedication is our continued growth in member satisfaction. For the fifth year running we have maintained satisfaction levels at over 80%.

Prudent Management

As a member owned bank that 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 Directors with a diverse range of experience and business backgrounds enabling the Bank to draw on a wealth of expertise. The Board works together with the Executive Team to develop strategy and direction 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 ensure that the Defence Community choose to belong to Defence Bank for their financial needs. We respect and value our role within the Defence Community and we are committed to strengthening our presence not only within our membership base but in the wider community.

Our role within the Defence Community enables us to speak in a language our members understand as well as offer products and services to suit the unique needs of our members throughout their lives. Our focus is on engaging with our member base to continually fulfill their needs now and into the future by offering the latest in technology and products. We see this strength as a tangible value that allows us to continue to grow and meet our members' needs.

Advancement and member experience continues to be a key motivator moving into the next 12 month period. The ever changing digital environment provides a driver for this change

and we are continually looking at ideas and processes to ensure our member experience remains seamless and relevant as technology advances.

Over the next 12 months we will continue to showcase our 'Branch of the Future' design as we incorporate a more member friendly experience into our whole branch network.

Summary

The last 12 months has seen some changes in the Board of Directors. In November 2015, Group Captain Callum Brown and Group Captain David Payne retired from the Board. Their substantial contribution to the Board over the years has been an integral part of our continued strong performance, growth and success. I would like to express my gratitude for their contributions and support over the years and wish them both all the best in the future.

Two new Board members were appointed in November 2015, Joan Fitzpatrick and Anne Myers both of whom bring a wealth of knowledge and expertise. Joan is an experienced company director, CEO and leader of business success with many years' commercial business experience at an executive level. Anne is a finance industry executive with extensive experience spanning retail banking, insurance, funds management and superannuation.

This year I announced my decision to retire from the Board as Chairman. I would like to take this opportunity to thank each and every one of our members for their support throughout my tenure as Chairman of the Board; it has been a privilege to serve as your Chairman. I am delighted to be succeeded in the Chair by Fran Raymond, initially appointed to the Board on 2 December 2010 and most recently re-elected to the Board on 24 November 2014.

In closing I would like to thank the Board, in particular our Managing Director and CEO Jon Linehan for his unwavering support, dedication and tireless commitment throughout my tenure. 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. It has been an honour and privilege to serve on the Board that has included so many fantastic individuals.

Thank you for all your support

A handwritten signature in black ink, reading 'Paul Mulraney'.

Paul Mulraney, CSC
Chairman of the Board

MANAGING DIRECTOR & CEO'S REPORT



Overview

Defence Bank's end of financial year result was extremely pleasing with an after tax profit of \$10 million. These funds are reinvested back into the Bank to deliver new products and technologies to further enhance services for our members. Our asset growth has continued to exceed at double the industry average with our assets under management reaching \$1.8 billion.

Branches

In November 2015 our 'Branch of the Future' design at East Sale was officially opened by Chief of Air Force Leo Davies AO, CSC. The open plan layout has been designed to incorporate a more personal banking experience. Each member zone has been structured to allow members the ability to come into the branch and build a meaningful relationship with our staff members.

The 'Branch of the Future' concept will continue to roll out through our branch network throughout the next 12 months and we look forward to seeing our members in branch.

Innovation

Our continual review of our product offering ensures members are provided with the best possible products and services. During the year our portfolio expanded to include the Everyday Access account. The Everyday Access account offers members a transaction account with increased flexibility and lower fees for their day-to-day banking needs and the response from members has been extremely positive so far.

The ever changing technological environment provides a driver for change as we learn to grow and adapt to our members' needs. The introduction of our redi2Pay app utilises Visa payWave technology to allow members the use of their Android device to tap and pay for purchases up to \$100. In addition to making payments redi2Pay also allows members the capability to check their nominated account balance.

Member Experience

Our ability to consistently maintain a close relationship with our member network allows us to continually grow with our members and adapt to their needs now and into the future. The strength of our member advocacy is measured through the Net Promoter Score (NPS) in our annual member survey. Our drive to offer improvement in customer experiences saw a sizeable lift in our NPS to +24.

We are acutely aware of the geographical disbursement of many of our members and have continued to place a focus on the importance of improving members' banking experience. Of particular focus over the last 12 months was the online experience for our members. We implemented upgrades to our Online Banking Platform and Native App.

In addition to this we officially launched our Video Call app

in August 2015, allowing members in remote locations access to a dedicated member service officer from a location that is convenient for them. To complement the Video Call app we have recently launched web chat capability via our website. This allows us another avenue to establish a personal banking relationship with our members even when they don't have access to a branch.

Community Support

Our ongoing commitment to supporting our members and the Australian Defence Force (ADF) community is displayed in the range of family, sporting and community events we continued to support throughout the year – Christmas Treats, the K-Series and the Rugby 7s Tournament.

The Defence Bank Foundation continues to support wounded, injured and disadvantaged serving and ex-serving members of the ADF. Our sponsorship agreement with the Young Diggers Dog Squad officially concluded on 30 June 2016. As we move into the new financial year we wish the Young Diggers Dog Squad continued success and thank them for a successful partnership over the last two year period.

Moving forward, we remain dedicated to offering ongoing support to the rehabilitation of serving and ex-serving ADF Members living with Post-traumatic Stress Disorders (PTSD). Our next mission brief in the new financial year is launching our new partnership with Defence Community Dogs.

Our People

For the fourth consecutive year we have achieved a staff engagement rate of over 80%. This is a reflection on the motivated, committed and supportive workplace provided at Defence Bank. I would like to take the opportunity to thank each and every staff member who makes Defence Bank the organisation it is today.

In closing, I would like to take the opportunity to thank the Board for their contribution over the past year, in particular Chairman of the Board Paul Mulraney, CSC for the outstanding contribution he has made to Defence Bank during his tenure as Chairman of the Board. Paul will be stepping down as Chairman of the Board in late 2016 with Fran Raymond taking up the position of Chair.

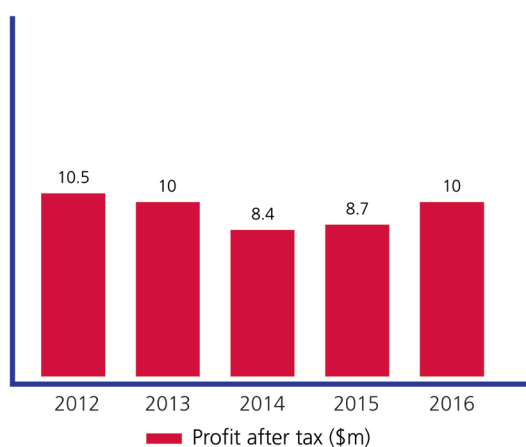
To our members, I would like to thank you for your ongoing support. We are committed to ensuring that the Bank is focused on your financial needs by providing the right products, services and importantly the right advice to help you attain your financial goals.

A handwritten signature in black ink, appearing to read 'Jon Linehan'.

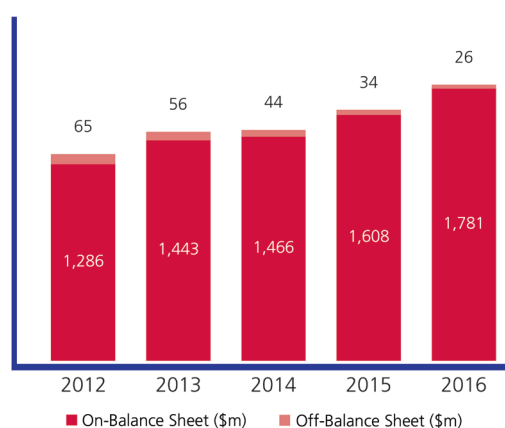
Jon Linehan
Managing Director and CEO

YEAR AT A GLANCE

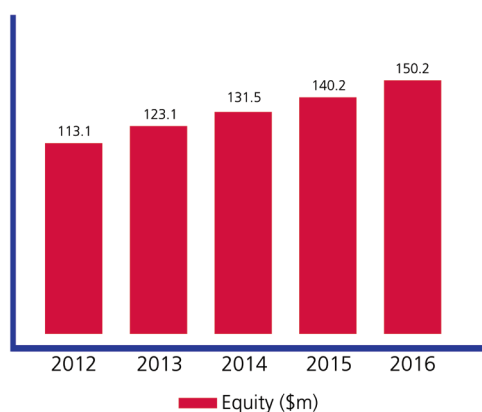
Profitability



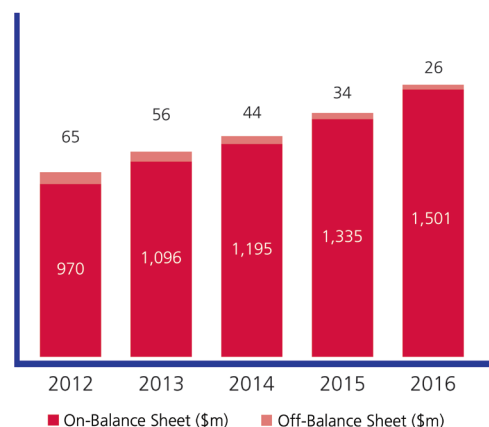
Asset



Reserves



Loans



Growth	2016	2015	Increase/(Decrease)	Increase/(Decrease)
	\$m	\$m	\$m	%
Assets (on balance sheet)	1,780.5	1,608.5	172.0	10.8
Deposits	1,468.0	1,450.0	18.0	1.3
Equity	150.2	140.2	10.0	7.1
Members' loans	1,501.4	1,335.3	166.1	12.4
Securitised housing loans (off-balance sheet)	26.0	33.9	(7.9)	(23.2)
Total loans (on and off-balance sheet)	1,527.5	1,369.2	158.3	11.3

DEFENCE BANK MEMBERS

Product and Service Innovation

Defence Bank recognises the transient nature of life in the Australian Defence Force (ADF) and the geographical disbursement of many of our members. We have continued to focus on the development of products and services to enhance their experience. Our ability to consistently maintain a close relationship with our member network allows us to continually grow with our members and adapt with their demands.

Defence Bank continues to place a strong emphasis on innovation and technological development which saw the launch of our updated Online Banking page in October 2015. All of the existing features and functions used in Online Banking remained, however the new user interface is much simpler to navigate and makes everyday banking easier. We also upgraded our Internet lending portal to allow convenient and efficient lodgement of online loan applications.

Our Video Call app was officially launched in August 2015 allowing customers a secure way to handle all banking enquiries. The Video Call app was developed to allow face-to-face contact with our dedicated member service team from a location that's convenient to each individual member, giving our members the ability to establish a personal banking relationship even when they don't have access to a branch. The Bank also introduced web chat functionality to further complement the video and voice call centre communication channels.

Our members are at the forefront of everything we do and as such we have continued to focus on the development of products and services that enhance their experience. Based on feedback from our members the Bank introduced the Everyday Access account. The Everyday Access account offers members a transactional account with increased flexibility and lower fees for their day-to-day banking needs. This account is designed to 'reward' those members who direct credit \$1500 or more (such as a salary credit) per calendar month to this account. The account has been well received by our membership base

and provides greater flexibility for our members to access their funds through a range of options to suit their lifestyle.

Our presence on Social Media continues to gain momentum allowing additional 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, the most significant of which was the relocation and upgrade of our East Sale branch. This contemporary space is our "Branch of the Future" design, providing a personalised banking experience with spaces for everyday banking needs, a kids zone, along with 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 2015-2016, Defence Bank welcomed 4,264 new members, a 4.95% increase on the previous year.



DEFENCE BANK COMMUNITY

Our members are at the forefront of everything we do and we acknowledge that supporting them goes further than providing financial products and services, but in also helping strengthen the Australian Defence Force (ADF) community. We take pride in being able to support our members and the Defence Community.

Throughout 2015-2016, our staff members across Australia supported a range of activities including Defence Community Organisation (DCO) days, Welcome Home Parades and Christmas Treats. From the Defence Bank Foundation to the K-Series, 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 has made a tremendous difference to the lives of soldiers living with Post-traumatic Stress Disorder (PTSD) through our affiliation and support of the Young Diggers Dog Squad.

Since June 2014, we have supported the Young Diggers Dog Squad via a two year sponsorship arrangement. Throughout this period, over 2,000 people who needed a dog to assist them and their families in living with their PTSD rehabilitation received a Young Diggers Dog. Our contribution has both saved and positively changed the lives of many, which is something we are extremely proud of and hold close to our hearts as an active and supportive organisation within the Defence Community.

Whilst it has been an amazing journey, all good things must come to an end and the Defence Bank Foundation's sponsorship agreement officially concluded on 30 June 2016.

We move into the new financial year wishing the Young Diggers Dog Squad program continued success and we also wish to reaffirm our ongoing support of programs assisting serving and ex-serving ADF personnel living with PTSD, and support of such initiatives will remain at the forefront of the Bank and the Foundation values. Our next mission brief is launching our new partnership with Defence Community Dogs in the new financial year.

How to Donate

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



FINANCIAL EXTRACT

Consolidated Statement of Financial Position (as at 30 June)	2016	2015
	\$000	\$000
Assets		
Cash and cash equivalents	91,990	67,755
Investments	177,812	195,304
Equity investments	1,639	1,639
Trade and other receivables	1,922	1,611
Loans and advances	1,501,443	1,335,277
Property, plant and equipment	2,326	2,376
Deferred tax assets	2,202	2,110
Intangible assets	539	696
Other assets	627	826
Total Assets	1,780,500	1,607,594
Liabilities		
Borrowings	146,034	-
Deposits	1,468,361	1,450,025
Trade and other payables	10,635	11,949
Current tax liabilities	384	890
Provisions	4,872	4,518
Total Liabilities	1,630,286	1,467,382
Net Assets	150,214	140,212
Equity		
Share capital	907	880
Reserves	149,307	139,332
Retained earnings	-	-
Total Equity	150,214	140,212

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)	2016	2015
	\$000	\$000
Income		
Interest income	77,047	75,407
Interest expense	(33,318)	(35,023)
Net interest income	43,729	40,384
Other income	9,242	9,863
Total Income	52,971	50,247
Expenses		
Personnel expenses	18,749	19,198
Depreciation and amortisation expense	1,082	978
Impairment losses on loans and advances	166	209
Other expenses	18,545	17,454
Total Expenses	38,542	37,839
Profit before income tax	14,429	12,408
Income tax expense	4,427	3,665
Profit for the year from continuing operations	10,002	8,743
Other comprehensive income	-	-
Total comprehensive income	10,002	8,743

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. The Chief Risk Officer and the Chief Financial Officer of Defence Bank act as Secretaries to the Board. These appointments carry 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. A number of 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:

- **Governance Committee**

This committee replaced the Executive Committee to enable a best practice approach to corporate governance by assisting the Board in the development of recommendations on any changes to governance practices, processes for the evaluation of Board Committees and individual Director performance and review and development of Board Governance 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
Damian Babij	Executive Manager – Marketing
Dean Talbot	Executive Manager – Retail
Paula Scher	Executive Manager – People and Culture

BOARD OF DIRECTORS



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

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

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



**Ms Frances Helen
RAYMOND**

BCom, MBA, FCA, FAICD, GDPPM, FSAA (Chair of the Audit Committee and Deputy Chair of the Board)

Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 24 November 2014.



**Lieutenant Colonel
Craig Duncan
MADDEN**

BA, MMgt, DipMilEng, FAID, psc

Initially elected to the Board on 28 November 2005. 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.



Ms Anne MYERS

MBA, AGSM, GAICD

Initially appointed to the Board on 23 November 2015.



Ms Joan FITZPATRICK

BA (Hons) LLB, ANZIIF Fellow, CIP, GAICD

Initially appointed to the Board on 23 November 2015.



**Lieutenant
Peter John MASON**

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

Initially elected to the Board on 24 November 2013.



Jon Michael LINEHAN

BEC(Hons), MCom, LLB, FAICD, 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 39 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 \$1.8 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



Video call app

Defence Bank Limited

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Defence Bank