

DEFENCE BANK ANNUAL REVIEW 2016-2017



Defence Bank

DEFENCE BANK ANNUAL REVIEW

2016-2017

THIS ANNUAL REVIEW CONTAINS EXTRACTS FROM OUR 2016-2017 ANNUAL FINANCIAL REPORT, ALONG WITH THE CHAIR'S REPORT AND HIGHLIGHTS OF OPERATIONS OVER THE PAST YEAR.

Should you require more details of Defence Bank's financial position, a full copy of the 2016-2017 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

TABLE OF CONTENTS

CHAIR'S REPORT	3
CEO'S REPORT	5
YEAR AT A GLANCE.....	7
BRANCH OF THE FUTURE.....	8
MEMBERS	9
COMMUNITY	10
FOUNDATION	11
CORPORATE GOVERNANCE	12
BOARD OF DIRECTORS.....	13
FINANCIAL EXTRACT	14



CHAIR'S REPORT



OVERVIEW

As Chair of Defence Bank, I am pleased to welcome you to the 2016-2017 Annual Review.

Whilst it is true that each year presents its own set of unique opportunities, it is fair to say that the last 12 months have for the financial sector, and especially for banks, been particularly challenging. Ensuring compliance with legislation such as the Common Reporting Standard, which requires we identify and report on members who may be subject to foreign tax, increased APRA reporting requirements associated with issues such as levels of investment lending and the like, place an ever-increasing administrative burden on the Bank.

Despite factors such as these and the seemingly ever-present market turbulence, we have continued to grow the Bank's financial base and produce sound financial outcomes. We have grown to over \$2.0 billion in assets under management, achieved significant increases in our home loan portfolio, which grew by 15.8%, exceeded APRA's minimum liquidity and capital requirements and generated a net profit of \$9.4 million whilst simultaneously reducing operating expenses (as a percentage of assets).

As a mutual we will reinvest this net profit back into the business to further enhance our product offerings and service delivery channels to better serve you, our members.

PHILOSOPHY

Here at Defence Bank we don't consider you shareholders or customers, but as members in the truest sense of the word. Defence Bank is in its forty third year of operation and still adheres to its original mandate of providing members of the Defence Community, primarily those of the Armed Forces (both serving and former service personnel) and the Department of Defence and their families, with a comprehensive range of competitively priced financial products and services. Before introducing a new product or service we ensure its design will complement our current suite of products, all of which have been tailored to meet the unique requirements of members of the Defence Community.

Defence Bank has a proud history of philanthropic support. In March 2012 we established The Defence Bank Foundation, an independent charity whose primary mission is to assist wounded, injured and ill serving and former Australian Defence Force (ADF) members and their families.

An example of this support is since 2014, the Foundation has sponsored the training of more than 200 companion dogs to assist current and former serving Defence personnel and their families living with Post-traumatic Stress Disorder (PTSD).

UPDATES

I am proud to announce that in June of this year, after undergoing an extensive tender process, Defence Bank was successfully re-appointed as one of the three panel lenders authorised on behalf of the Commonwealth to make Defence Home Ownership Assistance Scheme (DHOAS) loans to qualifying serving and former members of the ADF.

We have, in recent years continued to grow our DHOAS loan portfolio and would like to think that we achieved this as a consequence of the high degree of emphasis we place on delivering excellent service to you, our members. I would personally like to thank on behalf of Defence Bank, the Department of Veterans' Affairs who administer the DHOAS Scheme and the Directorate of Relocations and Housing who manage the DHOAS Contract on behalf of the Commonwealth for their ongoing support.

HUMAN RESOURCES

In July, Jon Linehan, the Bank's previous Managing Director & CEO departed after leading the Bank through an 11 year period of stable growth. On behalf of the Board, I would like to thank Jon for his contribution.

I would also take this opportunity to formally welcome Director Commodore Ian Murray who was appointed in November 2016. Commodore Murray has been a Defence Bank member since 1999 and is also a member of the Director General Logistics Systems in the Australian Defence Force and the immediate past Chair of the Navy Canteens Board.

CHAIR'S REPORT

FUTURE AIMS

In line with the Bank's values, your Board will continue to ensure that we operate in a prudentially sound, legislatively compliant and most importantly of all, an open and transparent manner, and in doing so, ensure our members are dealt with fairly and equitably.

We remain committed to ensuring that by virtue of our excellent quality of service, digital offerings, extensive access channels and Defence-centric product range that members of the Defence Community will choose to belong to Defence Bank. During the coming year we will remain member focused, increase our presence in DHOAS and grow our membership base.

We will continue to innovate in the digital space. Providing digital solutions remains a strong focus for the Bank to ensure that no matter where you find yourself in the world, banking with Defence Bank is seamless, convenient and hassle free.

SUMMARY

Thanks to you, our members, we have continued to grow and experienced a successful and profitable year. We appreciate both your ongoing support, and that of our staff who continue to show dedication and commitment to living the Bank's values.

I am privileged to lead such a successful and member focused organisation which is committed to supporting you. It is also a pleasure to lead such a diverse and progressive mutual Bank with over 35% female leadership at Board level.

Thank you for all your support and we look forward to another successful year.

A handwritten signature in black ink, appearing to read 'Fran Raymond', with a stylized, cursive script.

Fran Raymond

Chair of the Board

CEO'S REPORT



OVERVIEW

Welcome to the 2016-2017 Annual Review.

Our overarching goal in relation to the delivery of Defence Bank's products and services is that irrespective of how you choose to interact with us, be it online, by mobile device or face-to-face, is being able to deliver all of our products and services through your channel of choice.

As demonstrated by the introduction of Apple Pay and Samsung Pay and the redesign of our website we remain focused on delivering services utilising digital channels. However, we also understand the importance of being able to deal with a real person particularly in relation to major transactions such as obtaining a home loan. Those of you who frequent our branches may have visited one of the eight refurbished during the financial year in line with our 'Branch of the Future' concept. This brings the total number of branches completed to thirteen.

This exciting innovation, tailored to meet the specific needs of members most likely to attend their branch, employs an open floor plan which incorporates a number of zones dedicated to specific purposes. These include a community zone which displays a photo wall, an operational zone dedicated to member transactions and a classified zone to ensure member privacy. We've also included a brew zone where members can relax and enjoy a free coffee or tea whilst conducting their banking on one of our iPads, and at locations where members are likely to take their children, a kids zone, where they can play. We have also configured these branches in such a way that future technological enhancements can be deployed with minimal disruption. Member feedback has been highly positive.

As a mutual bank we comply with government regulation designed to ensure the stability of the Australian financial system. This, particularly in the context of a climate of low official interest rates, can place downward pressure on interest rate margins. Simply put, the interest rate margin is the difference between the cost of funds (interest on savings) and the income we generate on loans (loan interest rates). This margin represents the bulk of Defence Bank's income. A prime example of how this tension manifests itself is our DHOAS and non-DHOAS Premier home loans where, by offering extremely low, competitive interest rates to members we reduce the interest rate margin and hence, income. Against this background, Defence Bank's end of financial year results are particularly pleasing.

During the course of the financial year, we concurrently reduced operating expenses (as a percentage of assets) and achieved a net profit after tax of \$9.4 million, grew our home loans portfolio by 15.8%, our deposit base by 18% and increased assets under management to more than \$2.0 billion.

DEFENCE HOME OWNERSHIP ASSISTANCE SCHEME (DHOAS)

In line with our Chair Fran Raymond's sentiments I am also proud to confirm that Defence Bank was successfully re-appointed as one of three DHOAS panel lenders. During the course of the financial year we introduced our low interest rate DHOAS Premier Home Loan and Premier Home Loan designed to provide just the right balance between product features and interest rate. Based on the level of member takeup it appears that we have found the correct balance.

Over the course of the coming year we will remain focused on delivering an excellent standard of service and ensuring that our suite of DHOAS loans are comprehensive in terms of features, competitively priced and that obtaining a home loan is as simple and as painless as possible.

MEMBERS

The results from our 2016 Member Survey reflect that Defence Bank achieved a Member Satisfaction rating in excess of 80%, which places us at the forefront of the banking industry, in terms of customer satisfaction. Most pleasing was the substantial increase in the number of members who regard Defence Bank as their main financial institution.

We also achieved a Net Promoter Score of positive 24 which contrasts dramatically with the scores of the Big 4 banks which in 2017 ranged from minus 3.8 to minus 12.5. Essentially, a Net Promoter Score is based on the percentage of customers who when asked, would promote an organisation, less the percentage of customers who would not promote the organisation, are unhappy and likely to change service providers.

CEO'S REPORT

PEOPLE

It would be impossible to achieve the degree of success mentioned earlier without an engaged, motivated and skilled workforce. In order to assess the level of engagement and commitment to corporate values and risk and controls in relation to legislative compliance, we conduct annual staff surveys. Our most recent Risk and Control Compliance survey result, up 4% from the previous year, was 76%. The benchmark necessary to demonstrate confidence that risks are owned and controls are effectively operated is 70% or more.

I am also pleased to advise that for the fifth consecutive year, Defence Bank achieved a staff engagement score of over 80% which again places us at the forefront of the banking industry this time in terms of staff satisfaction. I would like to thank all our staff for their efforts and commitment over the past 12 months; it is your hard work that ensures the Bank's continued success.

EMPLOYER OF CHOICE

Defence Bank was awarded the prestigious Employer of Choice (<1000 employees) Award at the 2016 Australian HR Awards. We are honoured to have received this coveted award following an extensive review process. The awards panel received hundreds of entrants for the various awards in 2016 and we were named as one of eight finalists in August before being announced as the category winner for 2016. Special mention to our People and Culture team for their efforts and thanks to the entire Defence Bank team for helping to make us one of the best places to work in Australia!

SUMMARY

Another successful year! I would like to take this opportunity to thank Defence Bank's Board, management and staff for making Defence Bank an ongoing success and a great place to work. Most of all, I would like to thank you, our loyal members without whom the Bank would not exist.



Garry Prout

Chief Executive Officer - Acting

DEFENCE BANK EXECUTIVE MANAGEMENT TEAM

An Executive Management Team comprising of the following people who oversee the day-to-day operations and ongoing development of Defence Bank:

Garry Prout, Chief Executive Officer - Acting

Mano Simos, Chief Risk Officer

Dean Barton, Chief Financial Officer

Ian Brown, Chief Information Officer

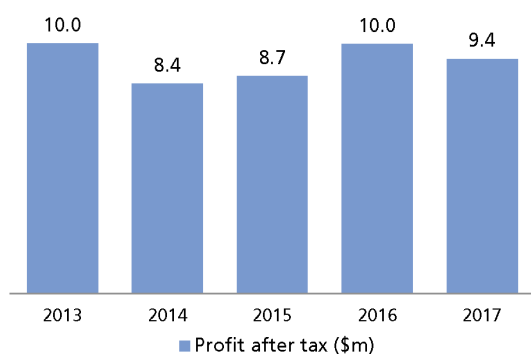
Kristen Bugeja, Executive Manager - People & Culture

Dean Talbot, Executive Manager - Retail

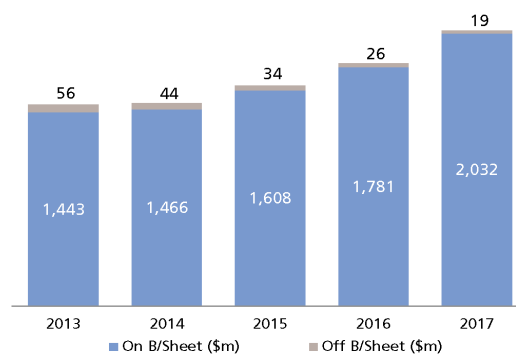
Celia Cannavan, Executive Manager - Lending

YEAR AT A GLANCE

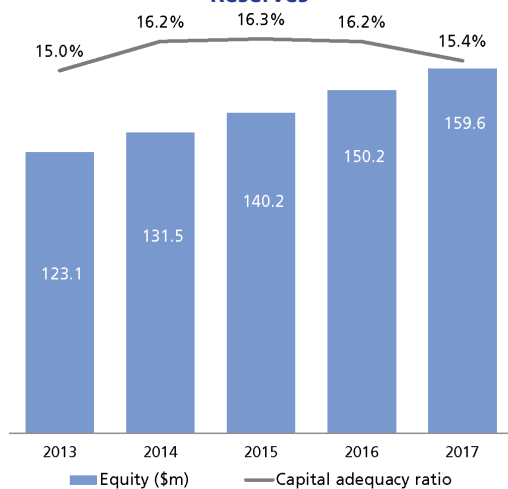
Profitability



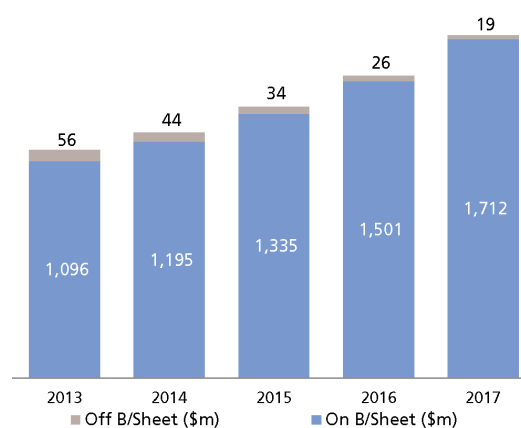
Assets



Reserves



Loans



Growth	2017	2016	Increase/(Decrease)	Increase/(Decrease)
	\$m	\$m	\$m	%
Assets (on balance sheet)	2,031.5	1,780.5	251.0	14.1
Deposits	1,741.1	1,475.1	266.0	18.0
Equity	159.6	150.2	9.4	6.3
Members' loans	1,711.7	1,501.4	210.3	14.0
Securitised housing loans (off-balance sheet)	19.0	26.0	(7.0)	(27.0)
Total loans (on and off-balance sheet)	1,730.7	1,527.4	203.3	13.3

BRANCH OF THE FUTURE

At Defence Bank we remain committed to providing our members with the highest level of service and the best quality products we can. We continually listen to our members and implement ways to improve their banking experience. Our top level services are now complimented by the newly refurbished and upgraded branches.

Our 'Branch of the Future' design was launched at East Sale with resounding success. Since then we have progressively rolled it out across our Townsville, Amberley, Enoggera, Duntroon, Russell, Canungra, Albatross and Kapooka Branches. We will continue with this program of modernisation until our entire retail branch network is complete.

Defence Bank is proud to present a new style of Branch banking, with interactive spaces and a continual focus on products.



DEFENCE BANK MEMBERS

PRODUCT AND SERVICE INNOVATION

Defence Bank wants you to reach your financial goals, for over 40 years serving our members has been the purpose of the bank. We have continued to develop products that enhance your banking experience. From day-to-day banking to purchasing a home, we are with you every step of the way.

Based on member surveys, in branch conversations and feedback provided by our members, we made many changes to our products and services. We abolished various fees and charges to save you money and improve your banking experience. We introduced new products and improved existing products at your request.

We launched the DHOAS Premier Home Loan and the Premier Low Rate Home Loan, low rate products packed with benefits. Along with all our other loans, they assist our members to own their dream home sooner.

We introduced the Teen Saver, Cadet Saver and Reservist Saver accounts. These accounts were created to meet the requirements of their namesakes. The Teen Saver and Cadet Saver accounts offer flexible access and encourage savings growth. The Reservist Saver has its origin from our popular transactional accounts, but the added bonus of fee free banking when a minimum deposit of only \$200 per calendar month is credited to the account.

Digital advancements in the banking sector allow us to provide secure and efficient service to our members. In January, online loan contracting was launched to enable members away from home or on deployment to arrange finance. Apple Pay, Android Pay, an upgrade to our website and Online Banking, now make accessing your accounts and transacting a breeze. With Apple Pay, Android Pay and Samsung Pay, Defence Bank are well placed to grow further in the digital age of banking.

This past year our presence on social media continues to gain momentum. Our growth in this ever expanding medium has increased by over 60%. Actively engaging and managing our digital profile has allowed us to continually improve our ability to connect with our members and communicate with them in new ways by utilising these platforms and new technologies.

MEMBERSHIP BASE

Defence Bank exists for our members. We strive to help our members reach their financial goals while maintaining our continued growth and stability. All our profits are re-invested into the bank to lower rates and assist us in keeping our product and service offering competitive.



DEFENCE BANK COMMUNITY

COMMUNITY

At Defence Bank, we are part of your community. You'll see Defence Bank staff attending Defence Community Organisation days, Welcome Home Parades and Christmas Treats. You'll see us at schools talking to your children about the importance of savings. We help your sporting teams in any way we can, sponsoring uniforms, supplying water bottles and cheering them on from the sidelines. We champion your community events, sponsoring the Army Art events, Walk to Work days and the Kapooka K-Series. We are committed to supporting the Defence Community in every way that we can.



DEFENCE BANK FOUNDATION

DEFENCE BANK FOUNDATION

The Defence Bank Foundation is an independent charity to support wounded, injured and ill current and ex-serving ADF members and their families.

The primary beneficiary in 2016-2017 was the Defence Community Dogs (DCD) Program which supports veterans living with PTSD.

DCD manages a program which rescues abandoned dogs and trains them to support veterans suffering from PTSD. Each dog is carefully assessed before being accepted into the program and is then trained to the level of Advanced Companion Therapy Dog. At present, most of the dogs in the program are trained at the Bathurst Correctional Centre with the assistance of trainers and inmates, under the guidance of Steve Austin, one of Australia's leading Dog Trainers. Each dog will be in the training program for at least six months.

Once the dog has been trained to an advanced level, they are then partnered with a suitable veteran. The cost to train the dogs is significant and the full cost is paid for by the Defence Bank Foundation. Upon graduation, dogs are given to the veterans at no cost to the veteran or the family.

HOW TO DONATE

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



Defence Bank
F O U N D A T I O N



**DEFENCE
COMMUNITY
DOGS**



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 *Banking Act 1959* 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 Company 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.

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 13. 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 assists 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.

DEFENCE BANK BOARD OF DIRECTORS



Ms Fran RAYMOND

BCom, MBA, FCA,
FAICD, GDPPM, FSAA

Initially appointed to
the Board in December
2010. Most recently
re-elected to the Board
in November 2014.



**Lieutenant Colonel
Craig MADDEN**

BA, MMgt (Defence
Studies), GradCert
Applied Engr Practice,
FAICD, psc

Initially elected to the
Board in November
2005. Most recently
re-elected to the Board
in November 2014.



Mr Bruce MURPHY

BSc, MCom, PGD, CAIA,
GAICD

Initially appointed to
the Board in May 2012.
Most recently elected to
the Board in November
2016.



Ms Anne MYERS

MBA, AGSM, GAICD

Initially appointed to
the Board in November
2015.



Ms Joan FITZPATRICK

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

Initially appointed to
the Board in November
2015.



**Lieutenant
Peter MASON**

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

Initially elected to the
Board in November
2013. Most recently
elected to the Board
in November 2016



**Commodore
Ian MURRAY**

BA, GradDipHRM,
MDefStud, MA, MBA,
GAICD, CAHRI, FCILT,
psc

Initially elected to the
Board in November
2016.

FINANCIAL EXTRACT

Consolidated Statement of Financial Position (as at 30 June)	2017	2016
	\$000	\$000
Assets		
Cash and cash equivalents	94,102	92,062
Investments	215,556	178,895
Equity investments	1,639	1,639
Trade and other receivables	575	759
Loans and advances	1,711,714	1,501,451
Property, plant and equipment	4,134	2,326
Deferred tax assets	2,485	2,202
Intangible assets	641	539
Other assets	682	627
Total Assets	2,031,528	1,780,500
Liabilities		
Borrowings	122,892	146,862
Deposits	1,741,142	1,475,187
Trade and other payables	2,492	2,981
Current tax liabilities	180	384
Provisions	5,198	4,872
Total Liabilities	1,871,904	1,630,286
Net Assets	159,624	150,214
Equity		
Share capital	943	907
Reserves	158,681	149,307
Retained earnings	-	-
Total Equity	159,624	150,214

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

FINANCIAL EXTRACT

Consolidated Statement of Profit or Loss and other Comprehensive Income (for the financial year ended 30 June)	2017	2016
	\$000	\$000
Income		
Interest income	75,376	74,588
Interest expense	(33,671)	(33,318)
Net interest income	41,705	41,270
Other income	8,581	9,242
Total Income	50,286	50,512
Expenses		
Personnel expenses	19,829	18,749
Depreciation and amortisation expense	1,100	1,082
Impairment losses on loans and advances	383	166
Other expenses	15,798	16,086
Total Expenses	37,110	36,083
Profit before income tax	13,176	14,429
Income tax expense	3,766	4,427
Profit for the year from continuing operations	9,410	10,002
Other comprehensive income	-	-
Total comprehensive income	9,410	10,002

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.

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 the largest Defence based branch network in Australia.

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

As an Australian operated bank, Defence Bank offers financial products and services to all Australians, not only people in the Defence Force and the Defence Community. With more than \$2 billion in assets under management, Defence Bank is one of Australia's larger member owned banks and we grow larger and stronger everyday.

WE'RE HERE TO HELP

For more information about any of our products and services, contact us today:

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

 **visit your local Defence Bank branch**

 **defencebank.com.au**

 **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

AR17 (10/17)



Defence Bank