



Defence
Bank

CPS 511 – Remuneration disclosure.

Owner: Chief People Officer
Effective date: 30 June 2025

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Defence Bank Limited ABN 57 087 651 385 | AFSL/Australian Credit Licence 234582



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Overview.

In accordance with the disclosure requirements under APRA Prudential Standard CPS 511 – Remuneration, the following is an overview of Defence Bank’s remuneration framework and practices.

Role of the Board.

1. The Board of Defence Bank has a Governance & Remuneration Committee (Committee) whose objective is to:
 - a) Review and make recommendations to the Board on the remuneration of Executives (as defined in the Remuneration Policy), including the amount of their remuneration;
 - b) Periodically review the Bank’s remuneration framework to ensure that it remains current and appropriate for its intended purpose; and
 - c) Should the need arise; review the severance provisions applicable to Executives and the Chief Executive Officer (CEO).
2. The Committee’s responsibilities are outlined in the Committee Charter. The Committee assesses its performance and the fulfilment of its responsibilities under the Charter on an annual basis. Further to this process, the Committee is regularly subject to an independently facilitated performance review.
3. For the purposes of this disclosure, senior managers include the Chief Executive Officer (CEO) and the Executive leadership team. During the financial year there were seven employees within this group. There are no employee’s outside of the CEO and Executive leadership team that are considered ‘senior managers’ as defined in paragraph 20(t) of CPS 511.

Committee composition and meetings.

4. The Governance and Remuneration Committee comprises of a minimum of three Non-Executive Directors. The composition of the Committee is confirmed annually by the Board.
5. During the 2024/2025 financial year, the Committee held five meetings.
6. Other attendees at the Governance & Remuneration Committee meetings include the CEO, Chief People Officer (CPO) and the Company Secretary.
7. The Company Secretary acts as Secretary of the Governance & Remuneration Committee, and is responsible, in conjunction with the Chair, for the preparation and circulation of the agenda and supporting documentation to Committee members before each meeting.
8. The Chair of the Committee ensures that the Company Secretary maintains complete records and files of meetings and reviewing activities.

Board reporting requirements.

9. The Chair of the Governance and Remuneration Committee reports to the Board at the next Board meeting about those activities or decisions that should be brought to the attention of the Board.
10. The Company Secretary ensures that minutes of each meeting are circulated to all Directors at the Board meeting which follows the meeting of the Committee.

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11. The Chair of the Committee reports to the Chair of any other Board Committee, at the earliest possible time any matters that in the opinion of the Committee should be brought to the attention of that Board Committee.

Remuneration outcomes.

12. The Committee reviews and makes recommendations to the Board relating to
 - a) The Defence Bank remuneration framework including the remuneration policy;
 - b) The amount and structure of total remuneration package for Directors;
 - c) The total remuneration package of the CEO including fixed and variance remuneration components and other entitlements as detailed in the CEO's contract of employment; and
 - d) The CEO recommendations relating to the total remuneration package and incentive plans for Executives to ensure that they are consistent with the bank's remuneration policy.
13. Any recommendations made by the Committee to the Board in relation to Defence Bank's remuneration framework and policy, must be approved by the Board in order to come into effect.

Remuneration framework.

Guiding remuneration principles.

14. Defence Bank is committed to a remuneration framework and practices that enable it to:
 - a) attract and retain high quality employees to conceive, plan and execute Defence Bank's strategy and operations;
 - b) appropriately compensate employees for their contribution, whether positive or negative to Defence Bank;
 - c) motivate its employees to excel and be high performance leaders that support sustainable performance and the long-term soundness of Defence Bank;
 - d) ensure reasonable levels of transparency, equity, consistency and proportionality across Defence Bank; and
 - e) provide a flexible and competitive remuneration structure to recognise the range of roles and demands, and individual talent.
15. The framework supports the prevention and management of conduct risk and promotes effective management of both financial and non-financial risks by expressly requiring employee and executive behaviours to support these aims, and requiring that variable remuneration be reduced or cancelled if an individual fails to achieve these aims.

Remuneration policy.

16. The purpose of the Bank's remuneration policy is to:
 - a) demonstrate a clear relationship between bank performance, individual performance and remuneration;

- b) apply demanding key short term and long-term performance indicators;
- c) apply an appropriate balance between fixed and variable remuneration;
- d) ensure that the structure of the remuneration of risk and financial control employees, including any performance-based components, does not compromise the independence of these employees in carrying out their functions;
- e) limit future termination payments to amounts required under applicable statute; and
- f) ensure Executives have some portion of their remuneration at risk, which may be a Short Term Incentive (STI) Plan and/or other entitlements.

Total fixed remuneration design.

- 17. Defence Bank will seek to apply best practice for similar sized companies within the financial services industry while recognising the mutual nature of its operations. This will include:
 - a) referencing appropriate external remuneration benchmarks;
 - b) aligning with comparable organisations, in particular customer owned banks, within the financial services industry;
 - c) ensuring the level of remuneration is clearly and measurably linked to performance of the Defence Bank; and
 - d) aligning remuneration practices to the long-term interests of the Bank's members, the effective management of financial and non-financial risks, and Defence Bank's long-term soundness.
- 18. Defence Bank contributes information to and receives information from the Financial Institutions Remuneration Group Inc (FIRG) and the McGuirk Management Consultants Remuneration Survey.
- 19. Defence Bank pays each Executive an amount called Total Fixed Remuneration (TFR) to compensate them for their contribution to Defence Bank.
- 20. On an annual basis, and in accordance with the review cycle as outlined in the Bank's remuneration policy, the Committee will review the total remuneration package of the CEO and the Executives including STI payments, and other entitlements as detailed in their respective contract of employments.
- 21. In reviewing TFR, the Committee and the Board will consider individual performance and comparative remuneration in similar sized companies within the financial services industry (including receipt of benchmark information from independent external remuneration sources).
- 22. The Committee will:
 - a) Provide a recommendation to the Board for any changes to the CEO's remuneration package.
 - b) Consider the CEO's proposal for Executive remuneration including the appropriate level of remuneration and incentive payments in relation to Executives to ensure they are consistent with the remuneration policy.
- 23. The remuneration policy outlines that to be eligible for a total fixed remuneration review, Executives are required to:

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- a) achieved satisfactory performance on all agreed risk and compliance gateways;
- b) achieved satisfactory completion on companywide training requirements applicable to their role; and
- c) not be on formal performance management during the performance period.

Variable remuneration design.

- 24. All Executives are eligible to participate in Defence Bank's Short Term Incentive (STI) Plan.
- 25. The performance based component of remuneration is designed to recognise the individual's contribution to annual Key Performance Indicators (KPIs) while fostering behaviour that supports:
 - a) the long-term financial soundness of Defence Bank; and
 - b) the risk management framework of Defence Bank.
- 26. The performance of Executives is assessed against both bank performance and individual performance.
- 27. Bank performance outcomes are based on a balanced scorecard that measures 4 key areas: financial metrics, growth, member experience and employee experience. Executive performance against these objectives is assessed collectively thereby ensuring that any assessment is balanced.
- 28. Key Performance Indicators (KPIs) for the Executive align to:
 - a) The Defence Bank Strategic Plan 2025-2027
 - b) The financial soundness of the bank to ensure sustainable performance outcomes.
- 29. The Committee, and then the Board approve both the scorecard and specific KPIs for the financial year. as well as the performance outcomes at the completion of the performance year.
- 30. The CEO and each Executive's performance is reviewed each year in conjunction with the Defence Bank performance framework, and their agreed individual KPIs.
- 31. Defence Bank does not have in place any long term incentive (LTI) plans for Executives.

Eligibility gateways.

- 32. Before an individual employee becomes eligible for consideration for an STI payment, all Gateways for risk and compliance, strategy, individual performance and training must be met.
- 33. An individual's risk and compliance conduct is assessed to align to the risk management framework of Defence Bank including:
 - a) demonstrating, leading and embedding a positive risk culture at all times;
 - b) operating within agreed risk appetite tolerances;
 - c) no material breaches;
 - d) fostering a balanced approach to identification and remediation of risks;
 - e) upholding sound risk and compliance practices; and
 - f) maintaining positive relationships with Regulators.

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34. The amount of STI payable in respect of any financial year is based on an assessment of bank performance and individual performance and assigns a STI payment as a percentage of TFR.
35. The matrix allows for STI payments to be reduced to zero where both bank and individual performance is rated as underperforming.
36. Awards of STI for all Executives are subject to approval by the Governance & Remuneration Committee.
37. During the 30 June 2025 financial year:
 - a) the Governance & Remuneration Committee and the Board made no material changes to the structure of Bank performance objectives or how they are weighted against individual performance in assessing STI payments.
 - b) The Committee and the Board made no downward adjustments to STI payments (including those deferred) as a result of conduct risk, or any circumstances or behaviours as outlined in the Malus clause of the Bank's Remuneration Policy.

Deferral requirements.

38. To ensure compliance with FAR, Defence Bank has a deferral plan in place should the amount of STI to be deferred for an Executive exceeds the prescribed minimum deferral amount. Defence Bank may defer or place conditions on the payment of any STI as it considers appropriate or as may be required by law.

Board discretion.

39. The Board, in its absolute discretion in approving an STI payment, may adjust the amount of the STI payment downwards or upwards where it considers it necessary to:
 - a) protect the financial soundness of Defence Bank;
 - b) respond to significant unexpected or unintended consequences; or
 - c) recognise outstanding performance that warrants additional compensation.

Consequence management policy.

40. In addition to the Malus clause outlined in the Remuneration Policy, the Bank also has a Consequence Management policy that outlines the framework that is applied in the event of a material breach or misconduct.
41. All Executives undertake regular professional development and training to support the prevention and mitigation of conduct risk.

Review of the remuneration framework.

42. The Committee reviews the Bank's remuneration framework including the Remuneration Policy and practices on an annual basis.
43. The Board approves the final Remuneration Policy on an annual basis.

Document information.

Effective from	30 June 2025
Owner	Kristen Bugeja, Chief People Officer
Approver	Governance & Remuneration Committee Board of Directors
Related documents	Key documents that relate to this Disclosure: • Governance & Remuneration Charter • Policy 15 – Remuneration • Remuneration, Reward & Benefits Policy • Consequence Management Policy

Document history.

Version.	Date.	Amended by.	Details of amendment.
#1	01/10/2025	Kristen Bugeja	First disclosure under CPS 511.