



APS 330 Remuneration Disclosures.

In accordance with requirements of Prudential Standard APS 330 – Public Disclosure (Attachment G), the following is an overview of Defence Bank’s remuneration policy and practices.

1.1 Overview.

The Board of Defence Bank has established a Governance & Remuneration Committee whose objective is to:

- i. Review and make recommendations to the Board on the remuneration of the Board and Executive Management, including the amount of their remuneration;
- ii. To periodically review the remuneration structure to ensure that it remains current and appropriate for its intended purpose; and,
- iii. Should the need arise; review the severance provisions applicable to Senior Managers.

The Committee comprises three non-executive Directors and is confirmed annually by the Board.

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:

- i. Referencing appropriate external remuneration benchmark information;
- ii. Aligning with comparable organisations, in particular customer owned banks, within the financial services industry;
- iii. Ensuring the level of remuneration is clearly and measurably linked to performance of the Defence Bank; and
- iv. Aligning remuneration practices to the long term interests of the Bank’s members.

The Committee 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). The Committee currently contributes information to and receives information from the McGuirk Management Consultants Remuneration Survey.

For the purpose of this disclosure, senior managers includes the Chief Executive Officer (CEO) and the executive leadership team. During the financial year there were 11 employees within this group. There are no employee’s outside of the CEO and executive leadership team that are considered ‘material risk takers’ as defined in paragraph 22(b) of APS 330.

1.2 Remuneration policy.

The objectives of the Defence Bank remuneration policy is to:

- i. Apply demanding key short term and long term performance indicators;
- ii. Demonstrate a clear relationship between individual performance and remunerations;
- iii. Apply an appropriate balance between fixed and variable remuneration;
- iv. Limit future termination payments to amounts required under applicable statutes.

To achieve these objectives the Remuneration Policy for senior managers of Defence Bank allows for a remuneration structure comprising total fixed remuneration (TFR), short term incentives (STI) and long term incentives (LTI). All senior managers, with the exception of the Chief Risk Officer, are entitled to receive performance based remuneration.

Base salary.

The Defence Bank remuneration policy allows for a level of base salary for senior managers that:

- i. Appropriately compensates senior managers for their contribution to Defence Bank; and,
- ii. Provides a flexible and competitive remuneration structure that is:
 - a. referenced to appropriate benchmarks;
 - b. reflects financial service industry best practice; and,
 - c. is designed to meet the specific requirements of Defence Bank so as to attract, motivate and retain highly skilled senior management.

STI.

The Defence Bank remuneration policy allows for senior managers to have some portion of remuneration at risk as a STI. STI target payments are conservatively set, when expressed as a percentage of base salary in any given year.

LTI.

The Defence Bank remuneration policy allows for senior managers to have some portion of remuneration at risk as an LTI; however, Defence Bank does not currently have in place any LTI plans for senior managers.

The Governance & Remuneration Committee reviews the Defence Bank Remuneration Policy on an annual basis. A new Remuneration Policy was approved in June 2019 to ensure compliance with the Banking Act 1959, Part IIAA - The Banking Executive Accountability Regime (BEAR).

The material changes were:

- i. Review of the eligibility criteria for senior manager's TFR review
- ii. New eligibility gateways for participation in the STI plan as outlined below
- iii. Review of the maximum amount that is available in accordance with the STI plan
- iv. Review of the service conditions for STI payments and circumstances where a payment might be reduced.
- v. Introduction of new deferral conditions to ensure compliance with BEAR, where the deferral amount will be deferred for a period of four years from the date of eligibility, this included new clawback provisions.

1.3 Performance based remuneration.

The performance based component of remuneration (i.e. STI) for senior managers is based on a matrix of bank performance and individual performance. Bank performance is assessed by reference to objectives set as part of the annual Strategic Plan. The objectives are based on a balanced scorecard approach and include measures that cover financial performance, growth, member experience and employee experience. Together these objectives measure the key Credit, Market, Liquidity and Capital risks that the bank is exposed to. Performance against these objectives is assessed collectively thereby ensuring that any assessment of performance is balanced.

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. Individual performance is assessed against any performance objectives established for each senior manager as part of the performance framework.

The amount of STI paid in any year is based on an assessment of bank performance and individual performance and assigns a STI payment as a percentage of TFR. The matrix allows for STI payments to be reduced to zero where both bank and individual performance is rated as underperforming.

Payments of STI for all senior managers are subject to approval by the Governance & Remuneration Committee. The Governance & Remuneration committee has made no changes during the financial year to the structure of Bank performance objectives or how they are weighted against individual performance in assessing STI payments.

Quantitative disclosures per APS 330 for the financial year ended:

	June 2019	June 2018
Number of meetings of the Governance & Remuneration Committee	7**	1
Number of variable remuneration payments	7	7
Number and total guaranteed bonuses award during the financial year	\$303,146	\$425,048
Number of sign on bonuses made during the financial year	Nil	Nil
Number and total termination payments made during the financial year	Nil	\$533,046
Total amount of deferred remuneration outstanding*	Nil	\$786,656
- Cash	Nil	Nil
- Shares and share linked	Nil	Nil
- Other	Nil	Nil
Total amount of deferred remuneration paid	Nil	Nil
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments*	Nil	Nil

*excludes accrual of statutory leave entitlements

** combined meetings of Governance and Remuneration

Table 18A of APS 330: Total value of remuneration awards for senior managers and material risk takers for the financial year ended:

	Unrestricted		Deferred*	
	June 2019	June 2018	June 2019	June 2018
Fixed remuneration				
Cash-based	\$2,930,656	\$2,407,182	\$38,203	\$276,721
Shares and Share linked instruments	Nil	Nil	Nil	Nil
Other	Nil	Nil	Nil	Nil
Variable remuneration				
Cash-based	\$303,146	\$425,048	Nil	Nil
Shares and Share linked instruments	Nil	Nil	Nil	Nil
Other	Nil	Nil	Nil	Nil

*Excludes accrual of statutory leave entitlements