



Remunerations Disclosures in accordance with requirements of Attachment E of Prudential Standard *APS 330 – Public Disclosure*

## Overview

The Board of Defence Bank has established a 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 and the Managing Director and Chief Executive Officer (MD&CEO).

The Committee comprises 3 non executive directors and is confirmed annually by the Board. In most cases the three non-executive directors on the committee would comprise the Board Chair, the Risk and Compliance Committee Chair and the Audit Committee Chair.

The Defence Bank Remuneration Committee may make use of external consultants in undertaking its role. Currently, the committee contributes information to and receives information from the McGuirk Management Consultants Remuneration Survey.

Senior managers for the purpose of this disclosure include the MD&CEO and the executive management team. During the financial year there were 11 employees within this group. There are no employee's outside of the MD&CEO and executive management group that are considered material risk takers as defined in paragraph 21(b) of *APS 330*.

## 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 basic salary, 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.

### Basic salary

The Defence Bank remuneration policy allows for a level of basic 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.

#### Other entitlements

Three Defence Bank senior managers have provisions in their employment contracts for the payment of deferred compensation on the cessation of their employment. The entitlements are disclosed as deferred remuneration in the quantitative disclosures below.

#### 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 basic 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 Remuneration Committee reviews the Defence Bank remuneration policy on an annual basis. No material changes were made to the policy in the past financial year.

### **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 and risk, internal business processes, customer & stakeholder satisfaction and organisational capacity. Together these objectives measure the key Credit, Market, Liquidity and Capital risks that the bank is exposed to. The objectives are deliberately designed to be 'competing' (i.e. Asset growth vs credit losses vs return) and performance against these objectives is assessed collectively thereby ensuring that any assessment of performance is balanced across these competing objectives.

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

The amount of STI paid in any year is based on a matrix established within the remuneration policy that assesses bank performance, measured against key metrics established in the strategic plan and individual performance, measured against each senior manager's personal performance objectives and assigns a STI payment as a percentage of basic salary. 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 Remuneration Committee.

All payments of STI are made in cash and given the conservative amount of STI payments vis-a-vis basic salary and the holistic manner in which performance objectives that give rise to STI payments are assessed deferral and vesting arrangements do not apply.

The 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 2017	June 2016
Number of meetings of the Remuneration Committee	1	2
Number of variable remuneration payments	8	7
Number and total guaranteed bonuses award during the financial year	\$527,500	\$522,000
Number of sign on bonuses made during the financial year	Nil	Nil
Number and total termination payments made during the financial year	\$167,870	Nil
Total amount of deferred remuneration outstanding*		
- Cash	\$645,224	\$622,040
- 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

**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 2017	June 2016	June 2017	June 2016
<b>Fixed remuneration</b>				
Cash-based	\$2,788,614	\$2,678,652	\$23,184	\$54,862
Shares and Share linked instruments	Nil	Nil	Nil	Nil
Other	Nil	Nil	Nil	Nil
<b>Variable remuneration</b>				
Cash-based	\$527,500	\$522,000	Nil	Nil
Shares and Share linked instruments	Nil	Nil	Nil	Nil
Other	Nil	Nil	Nil	Nil

\*Excludes accrual of statutory leave entitlements