

2012-2013 Annual Review



Defence Bank



Welcome to the Defence Bank 2012-2013 Annual Review

This Annual Review contains extracts from our 2012-2013 Annual Financial Report, along with the Chairman’s 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 2012-2013 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.

Contents

Chairman’s Report	3
CEO’s Report	4
Year at a Glance	5
Members	6
Our Community	7
Financial Extract	8
Corporate Governance	10
Board of Directors	11



Mark Richards

“Defence Bank’s performance throughout the 2012-13 financial year has once again been impressive...”

Chairman’s Report

Welcome to the Defence Bank 2012-13 Annual Review. In our second year as a bank, we’ve continued to build on our success. While we evolve and grow to meet the needs of existing and potential new members, we remain strongly committed to our principles of being a member-owned bank.

Defence Bank remains one of the largest mutual banks in Australia with \$1.5 billion in assets under management and 90,000 members. Defence Bank offers a full range of banking products and services to Australian Defence Force members and the wider Australian community. As an Authorised Deposit-taking Institution, Defence Bank operates within a strict prudential regulatory framework.

Defence Bank’s performance throughout the 2012-13 financial year has once again been impressive, even in the current climate of uncertainty in global financial markets. Again, we have delivered both a healthy and prudent surplus, further described by the CEO in his report on the following page and shown graphically on the ‘Year at a Glance’ page. The strength of our performance is due to the above industry average growth of our mortgage book, as well as a continuing commitment to efficiency. A culture of innovation continues to drive Defence Bank and this year we launched several new technology initiatives designed to make banking even easier for members.

Throughout the year, Defence Bank has actively supported the Defence community across a range of family, sporting and community events throughout Australia. To extend Defence Bank’s commitment to this community, we launched the Defence Bank Foundation. The Foundation is an independent, not-for-profit organisation that provides additional support to assist servicemen and women who have been physically or mentally wounded whilst serving their country. Further information about the Foundations activities this year is on the ‘Our Community’ page.

As Chairman, I can assure members that the Board remains committed to continuous improvements in its operation and in all aspects of the governance of Defence Bank. I would like to thank my fellow Directors for their support and contributions throughout the year.

I also thank the CEO, Executive Management Team, and all our staff for their commitment and dedication in achieving results that help build a stronger future for Defence Bank and its members.

Finally, and most importantly thanks to you, our members, for your continued support and patronage. As both owners and customers, you remain our most important priority.

Mark Richards
Chairman of the Board



Jon Linehan

“The continued success of Defence Bank is a tribute to the commitment to service excellence by our staff.”

CEO's Report

The Year in Review

Defence Bank's annual financial result for 2012-13 was a pleasing after tax profit of \$10.0m. As Defence Bank is a member-owned bank, these funds are re-invested back into Defence Bank to deliver new products and further enhance services for our members. Our assets also continue to grow, this year by 12.2% (on-balance sheet), which is well above the industry trend. This brings our total assets under management to \$1.5 billion.

With economic uncertainty in global markets we continue to ensure the long term stability of Defence Bank. We maintained capital at a healthy 15%, which is above our regulatory requirements. We also increased our reserves by 8.9%. In addition, we also engaged Standard & Poor's (S&P) to provide a corporate rating. S&P has issued Defence Bank a long term issuance credit rating of BBB+ (stable) and a short term issuance credit rating for the Bank of A-2. We also continue to manage margin pressure through careful and prudent cost management.

This year we significantly grew our mortgage book by 17.45%, which is more than triple the industry average.

Underlying our strong results were a number of significant achievements, which included:

- > A new low cost home loan, Flexi Saver was launched which offers loan portability and interest only repayments. This is yet another addition to the growing home loan portfolio designed to better service Defence Bank's members' home loan needs.
- > We maintain the largest branch network in the ADF, with 43 branches around Australia. We continually refresh our branches and this year we refurbished our Russell, Singleton and Kapooka branches.
- > During 2012-13, two of our products maintained their 5 Star ratings from Canstar. Our iSaver Account and Credit Card were both awarded a 5 star rating by Canstar for outstanding value to our members.
- > Our Retirement Savings Account (RSA) continues to gain popularity by offering guaranteed returns and no fees. These features have now made it the largest RSA product offered by a Mutual Bank in Australia.

Innovation

This year, Defence Bank launched Australia's first Video Call Centre. This new service allowed our members to talk face-to-face with a Member Service Officer from the convenience of their own home and at a time that suits the member. This service was especially

important for many of our members who are located in remote areas or overseas. Defence Bank continues to invest in and develop this new technology so we can better service our members.

We were also the first Mutual Bank in Australia to introduce Western Union Online Overseas Payments, enabling our members to conveniently send funds overseas via Online Banking.

Our Members

In addition to the new technologies we've introduced throughout the year, we're also always looking for ways to improve our existing products and services to provide members with better access to banking services wherever they are. To further enhance our Mobile Banking experience, we launched a Defence Bank App for iPhone and Android. We also continue to maintain the largest branch network in the Australian Defence Force. Our member satisfaction remains outstandingly positive, with our member survey showing an 88% satisfaction rate with the quality of service for two years running.

Community Support

Defence Bank is dedicated to giving back to our members and the community which has loyally supported us. This is what really sets us apart from other banks. Defence Bank remains consistently busy in the Defence community sponsoring major sporting events, community events and family activities right across Australia.

We also continue to support to our chosen charities, Salvation Army Red Shield Defence Services Sallyman trucks, Legacy and Defence Special Needs Support Group. Throughout 2012-13, we supported Defence related charities with sponsorship, donations and promotions totalling \$278,800.

Our People

The continued success of Defence Bank is a tribute to the commitment to service excellence by our staff. This year we achieved a record of 83.8% employee engagement, which places Defence Bank in the top quartile of employers. I thank our staff for their efforts and for their dedication throughout the year.

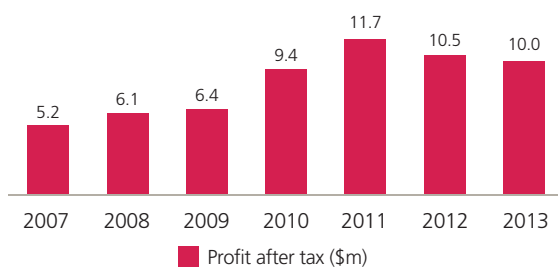
Finally I would like to thank you, our members, for your ongoing support and would like to congratulate the Board on their achievements this year. I look forward to another successful year ahead.

Jon Linehan
Chief Executive Officer

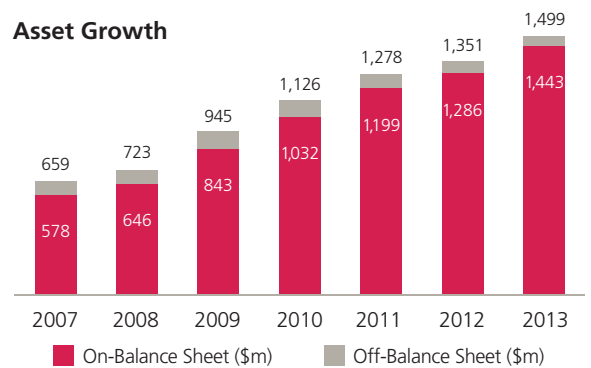


Year at a Glance

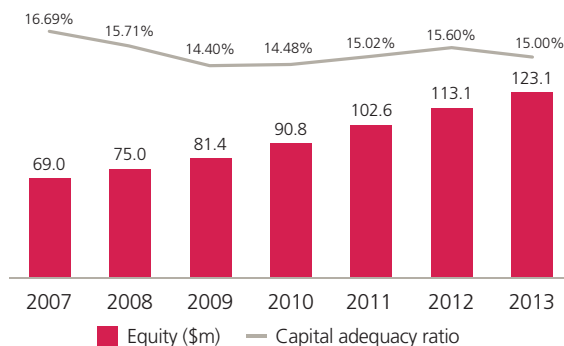
Profitability



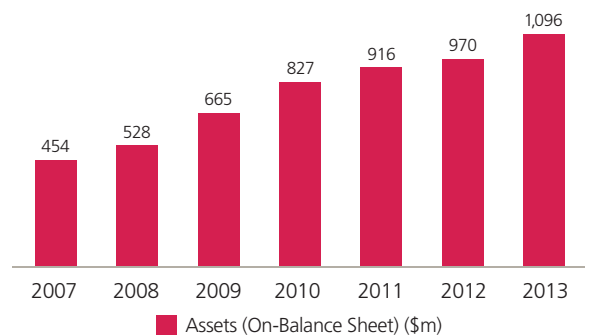
Asset Growth



Reserves



Members' Loans (On-Balance Sheet)



Growth

	2013	2012	Increase/ (Decrease)	Increase/ (Decrease)
	\$m	\$m	\$m	%
Total Assets (On- and Off-Balance Sheet)	1,498.9	1,351.1	147.8	10.9
Total Deposits	1,285.2	1,098.2	187.0	17.0
Equity	123.1	113.1	10.0	8.9
Members' Loans (On-Balance Sheet)	1,095.9	970.3	125.6	12.9
Members' Loans (Off-Balance Sheet)	55.8	65.4	(9.6)	(14.7)
Total Members' Loans (On- and Off-Balance Sheet)	1,151.7	1,035.7	116.0	11.2



Members

Product and Service Innovation

Enhancing the delivery of products and services to members was once again a key focus during the 2012-13 year. Defence Bank placed a strong emphasis on technology and has introduced several new initiatives to make banking easier for our members, many of whom are located in remote areas or overseas.

This year we launched our Video Call Centre, which enables our members to talk face-to-face with a Member Service Officer from the convenience of their own home and at a time that suits them. After the success of Mobile Banking, we launched a Defence Bank App for iPhone and Android. These Apps offer our members the ability to be able to bank on the move. We also further enhanced our Online Banking by partnering with Western Union Business Solutions to offer our members Online Overseas Payments, which enabled our members to conveniently send money overseas via Online Banking. While we continue to introduce new technology, we also remain committed to providing excellent service to our members via our 43 branches; the largest branch network in the Australian Defence Force.

We have continued to improve our product range by introducing a new home loan, Flexi Saver, to our extensive home loan portfolio. The Flexi Saver Home Loan features low interest, portability and interest only repayment options.

Membership

Continuing to grow our membership base is important. It helps Defence Bank keep our product and service offering competitive. In 2013, 3,629 new members joined Defence Bank.

Industry Recognition

Whilst we are continuously developing new products for our members, we always ensure that our existing products offer the best value for our members. As a result, two of our products received 5 Star ratings from Canstar. Our iSaver Account and Credit Cards were both awarded a 5 star rating by Canstar for outstanding value to our members.



In addition, Defence Bank was a finalist in the Best Mutual Bank category of the 2013 Australian Lending Awards. This is confirmation of Defence Banks' industry leading status in areas of member service, product range and competitive interest rates.





Our Community

We're a part of your community. Always.

At Defence Bank, we believe that the Defence community is an integral part of our business. Our members own us, and contributing back to the community we serve is the right thing to do. It is also our point of difference; setting us apart from all other banks in the Defence community.

Throughout 2012-13, our staff members around Australia were constantly busy supporting Defence Community Organisation (DCO) days, Open Days, Welcome Home parades and Christmas Treats. We also supported numerous Defence community and sporting events through donations and sponsorships both at local levels and through major sponsorships for national competitions.

We have also chosen to support three major charities within the Defence community:

> **Salvation Army Red Shield Defence Services Sallyman Trucks**

Defence Bank is proud to support the Salvation Army Red Shield Defence Services Sallyman Trucks across Australia. The trucks, operated by Salvation Army workers, distribute hot and cold drinks and food, as well as physical and moral support to soldiers while deployed or on exercise.

> **Defence Special Needs Support Group (DSNSG)**

Through education and support programs, the Defence Special Needs Support Group (DSNSG) helps families and those in

their care, who suffer mental or physical disabilities.

Defence Bank has supported DSNSG's great work for over 9 years, during this time we've made substantial donations totalling more than \$630,000.

> **Legacy**

Defence Bank is a proud supporter of numerous Legacy activities at branch, state and national levels. This includes sponsoring major Legacy fundraising events, such as the Defence Charity Ball, held annually in Brisbane, the North Queensland Defence Charity Ball and the National Legacy Conference.

The Defence Bank Foundation

Defence Bank is dedicated to giving back to the Defence community by supporting Defence charities, community events and family activities. However, we recognised that there was also a need to provide additional support to assist servicemen and women who have been physically or mentally wounded whilst serving their country. To meet this need, the Defence Bank Foundation was established in 2012 as an independent, not-for-profit organisation. The activities of the Defence Bank Foundation aim to complement and enhance the support already provided to current and ex-serving personnel and families by the Australian Defence Force (ADF) and other major charities who support the Defence community. One such example is the Foundation's support of the Soldier Recovery Centre (SRC) based at Gallipoli Barracks, Enoggera.





Financial Extract

Statement of Financial Position (as at 30 June 2013)

	2013 \$000	2012 \$000
Assets		
Cash and cash equivalents	165,247	43,682
Investments	172,599	261,121
Equity investments	1,639	1,639
Trade and other receivables	2,153	2,957
Loans and advances	1,095,864	970,280
Property, plant and equipment	2,386	2,953
Current tax assets	-	102
Deferred tax assets	1,958	1,821
Intangible assets	487	454
Other assets	787	673
Total Assets	1,443,120	1,285,682
Liabilities		
Borrowings	15,000	55,000
Deposits	1,285,163	1,098,151
Trade and other payables	15,267	15,575
Current tax liabilities	500	-
Provisions	4,094	3,881
Total Liabilities	1,320,024	1,172,607
Net assets	123,096	113,075
Equity		
Share capital	810	772
Reserves	122,286	112,303
Total Equity	123,096	113,075

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



Statement of Profit or Loss and other Comprehensive Income (for the financial year ended 30 June 2013)

	2013 \$000	2012 \$000
Income		
Interest income	79,361	87,099
Interest expense	(42,452)	(50,614)
Net interest income	36,909	36,485
Other income	12,756	13,578
Total Income	49,665	50,063
Expenses		
Personnel expenses	17,980	17,359
Depreciation and amortisation expense	1,072	1,218
Impairment losses on loans and advances	237	487
Other expenses	16,101	16,321
Total Expenses	35,390	35,385
Profit before income tax	14,275	14,678
Income tax expense	4,254	4,184
Profit for the year from continuing operations	10,021	10,494
Other comprehensive income	-	-
Total comprehensive income	10,021	10,494

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 eight independent non-executive Directors, all of whom were elected by members or appointed by the Board. The Chief Executive Officer and the Chief Financial Officer of Defence Bank act as Secretaries to the Board. This appointment carries no entitlement to a vote on Board matters. Directors are elected for a term of three years, commencing at the end of the Annual General Meeting, at which their election 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.

Experienced and Balanced Board

The Board comprises Directors with a wide range of experience and business backgrounds. Most current Directors are serving, or have served, in the Australian Defence Force or were employed in the Department of Defence. 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 at 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 four standing committees of the Board are:

> Executive Committee

This committee assists the Board in the development of recommendations regarding issues of corporate governance, senior executive management and policy.

> Audit, Risk and Compliance Committee

This committee assists the Board in fulfilling its responsibilities relating to Defence Bank's accounting, statutory (under APRA, ASIC and AUSTRAC) and financial reporting, external and internal audit activities and overall compliance and risk management practices.

> 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, including the amount of their remuneration.

From time to time, committees are established to facilitate Board consideration of a particular issue.

Executive Management Team

Jon Linehan, Chief Executive Officer
Dean Barton, Chief Financial Officer
Ian Brown, Chief Information Officer
Kristen Bugeja, Executive Manager – People and Culture
Leanne Kyle, Executive Manager – Marketing (resigned 28 March 2013)
Garry Prout, Executive Manager – Retail
Andrew Sciberras, Executive Manager – Lending
Mano Simos, Chief Risk Officer (appointed 7 October 2013)



Board of Directors



**Colonel
Mark Derry RICHARDS, Ret'd**

DipMgt, MDefStud, FAICD, MIPAA, MAMI, psc (Chair of the Board and Chair of the Executive Committee)

Initially elected to the Board on 6 November 2001. Most recently re-elected to the Board on 22 November 2010.



**Lieutenant Colonel
Craig Duncan MADDEN**

BA, MMgt, DipMilEng, FAICD, MAMI, psc (Board Proctor)

Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 28 November 2011.



**Colonel
Paul MULRANEY, CSC, Ret'd**

BCom, MSc (Def Studies), CPA, MAICD, FAIM, MAMI, psc (Deputy 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 22 November 2010.



Ms Frances Helen RAYMOND

BCom, MBA, FCA, AFAIM, FAICD, MAMI, GDPPM (Chair of the Audit, Risk and Compliance Committee (ARCC))

Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 28 November 2011.



**Group Captain
David Cyril PAYNE, Ret'd**

BEc (ANU), MSc (USAFIT), GradDipStratStud, Dip Tpt, FAICD, FAMI, jssc, psc

Initially appointed to the Board on 6 May 1988. Most recently re-elected to the Board on 26 November 2012.



Mr Bruce Andrew MURPHY

BSc, MCom, PGD, CAIA, GAICD

Initially appointed to the Board on 5 May 2012. Most recently appointed to the Board on 25 November 2012.



Mr Alan Ronald HANDS

DipBus (Acct), DipPur/MM, M Bus (LOG), CPA, MAICD, AFAMI

Initially elected to the Board on 22 November 1993. Most recently re-elected to the Board on 22 November 2010.



**Group Captain
Callum Soutar BROWN**

BA, MBA, DBA, MDefStud, FAICD, AFAIM, MAHRI, MAMI, psc

Initially elected to the Board on 25 November 1996. Most recently re-elected to the Board on 26 November 2012.

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 43 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 \$1.5 billion in assets under management, Defence Bank is one of Australia's larger member-owned banks.

We're here to help

It's easy and convenient to contact us.

Here's how:



1800 033 139, 8am to 8pm AEST weekdays



defencebank.com.au



Visit your local Defence Bank branch



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

(AGM13)



Defence Bank