

Inaugural Modern Slavery statement.

under the *Modern Slavery Act 2018* (Cth)

Reporting period 01 July 2022 – 30 June 2023



Defence
Bank

Defence Bank Limited
ABN 57 087 651 385

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Inaugural Modern Slavery Statement *under the Modern Slavery Act 2018 (Cth).*

This Modern Slavery Statement was approved by the Board of Defence Bank Limited as the principal governing body on 26 November 2023.

Pursuant to the requirements of the *Modern Slavery Act 2018 (Cth)*, the contents of this Statement have been reviewed and confirmed as accurate by a duly authorised person.

This statement is signed by Bruce Murphy in his role as the Chair of Defence Bank on 27 November 2023.



Signature

Bruce Murphy, Chair of Defence Bank
Name / Position

27 November 2023
Date

Reporting requirement #1: The reporting entity.

The reporting entity is **Defence Bank Limited** (ABN 57 087 651 385) (referred to throughout this Statement as “Defence Bank”, “we” and “our”).

This is our first modern slavery statement under the *Modern Slavery Act 2018* (“the Act”). The 2022-2023 Financial Year was the first reporting period since the commencement of the Act where Defence Bank reached the annual revenue threshold under the Act and became a reporting entity.

It is anticipated that Defence Bank will remain a reporting entity in the foreseeable future, and we plan to continually develop and improve a formal modern slavery response framework for long-term implementation.

Reporting requirement #2: Defence Bank’s structure, operations and supply chains

Defence Bank is an Australian financial services provider that commenced operations in March 1975 as Defence Force Credit Union Limited (Defcredit). Our name changed to Defence Bank in 2012. Today, we have the most branches of any bank at Australian Defence Force bases all over Australia.

As a member-owned bank, Defence Bank doesn’t exist to make profits for shareholders. Our focus is on the financial needs of our customers. All profits are re-invested back into the Bank to maximise the service and competitive products we offer. Our customer base is comprised not only of members of the Australian Defence Force, but also the general public.

The principal governing body of Defence Bank is a Board of Directors. Two senior Australian Defence Force personnel serve on the Board. This governance requirement sets us apart as unique in Australia’s banking sector.

Defence Bank wholly owns the entity - **DBL Funding Trust No. 1**, which is the corporate structure through which we facilitate Residential Mortgage-Backed Securitisation (RMBS) transactions.

Our operations.

Defence Bank offers the following range of financial services and products:

- **Loans:** Personal loans, car loans, home loans and home loan offset accounts.
- **Saving and investments:** everyday banking, online savings accounts, term deposits, retirement savings.
- **Cards:** Credit cards, debit cards and digital wallet.
- **Insurance:** general insurance, home and contents insurance, motor vehicle insurance, landlord insurance, barrack room insurance, travel insurance and health insurance.
- **Travel:** Cash passport, foreign currency exchange, telegraphic money transfers

We had a total of 78,412 individual members bank with us during the reporting period, with almost 6,000 new members who joined us over the year.

Defence Bank’s headquarters are in Melbourne. We operate branches across 32 locations, including many of Australia’s Defence Bases:

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NSW	ACT	QLD	VIC	NT	SA	WA
Garden Island	ADFA	Amberley	Bandiana	Darwin	Edinburgh	HMAS Stirling
HMAS Albatross	Brindabella	Canungra	East Sale	Robertson Barracks		Swanbourne
Kapooka	RMC Duntroon	Enoggera	HMAS Cerberus	Tindal		
Singleton	Russell	Lavarack	Puckapunyal			
Holsworthy		Townsville	Victoria Barracks			
Richmond		Willows	Watsonia			
Albatross						
Wagga						

The Defence Bank team consisted of 217 Full-time Equivalent employees during the reporting period. Our staff are employed in a variety of roles such as customer facing positions at our branches, administration, professional services, and executive team members.

We actively employ spouses or partners of defence force members, particularly at the branches that are located onsite at defence force bases, as means of support defence force families. More than 40% of our total customer-facing team having a family connection to the Australian Defence Force. Our employees understand that our defence-force members lead a life like no other and use this knowledge to best support their banking needs.

Our supply chains (including investments).

Defence Bank engaged with a total of 314 direct (first tier) suppliers during the reporting period. These companies from which we procure products and services operate across the following industry categories:

- Computer, IT, and software providers.
- Office maintenance and furniture suppliers.
- Education providers.
- Financial services.
- Office catering suppliers.
- Hotel and restaurant suppliers.
- Insurance providers.
- Membership organisations.
- Business, consulting, legal and professional service providers.
- Cleaning services.
- Post and telecommunication providers.
- Printing, advertising, and media services.
- Real estate services.
- Government services.
- Promotional and marketing suppliers.
- Loan settlement and mortgage brokering services.

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All but six (6) of our direct suppliers are based in Australia. First-tier international supply chains include **computer-related and software suppliers** in the USA (2), the Netherlands (1), Israel (1) and Ireland (2).

Our single owned and controlled entity, DBL **Funding Trust No. 1**, also engages with a small number of external suppliers to facilitate its Residential Mortgage-Backed Securitization (RMBS) transactions.

All investments held by Defence Bank are in Australian entities, Australian branches of leading foreign financial entities, or Australian/State government investment bodies.

Reporting requirement #3: Potential areas of modern slavery risks.

At this early stage of modern slavery reporting, we recognise the importance of comprehensively examining and analysing our supply chains and core operational activities to identify areas of potentially elevated modern slavery risk.

We have utilised the proprietary technology and methodology of external consultants to provide us with an initial baseline for identifying and assessing modern slavery risk (discussed further below).

Identified risks in our supply chains.

Based on an industry-category focused analysis of our actual procurement spend data, the following industry categories were identified as areas of potentially elevated risk exposure:

- Australian Business, Insurance and Financial services.
- Australian Computer services.
- Australian Printed Media services.
- Australian Garments and Apparel products.

A brief description in relation to the potential nature of identified modern slavery risk for each of these industry categories is set out below.

Australian Business, Insurance and Financial Services and Australian Computer Services.

These industries present potentially elevated supply chain risk due to their relatively high reliance on high risk-supply chains, including computer and electronics. Potentially elevated risks do not exist in the direct operations of our suppliers in these categories, but rather deeper within their own product supply chains.

The risks with computers and electronic products are occurring right through the supply chain. From the reliance upon forced and child labour in extracting raw materials such as cobalt used in laptop batteries, through to the manufacture of components and final assembly of products in countries such as China, Vietnam, and Malaysia (with elevated risks of forced labour, debt bondage and deceptive recruitment practices in the electronic manufacturing sector). There is also a specific linkage between the manufacturing of common electronics, mobile phone and computer components / products.

Walk Free Foundation's updated 2023 Global Slavery Index classifies electronics as the highest value product group for forced labour risk based on the overall import activity of G20 countries.¹

Australian Printed Media.

The suppliers in this category are predominately printing and signage suppliers.

¹ <https://www.walkfree.org/global-slavery-index/findings/importing-risk/>

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Areas of potentially elevated risks associated with this sector largely relate to the key material inputs and manufacturing processes, rather than the operations of Australian printed media companies, which are relatively low risk.

Paper and pulp are key raw materials used in the printing and packaging industry. The production of pulp and paper is highly dependent on the forestry industry, which is a sector characterised by predominantly informal workforces, especially in developing countries. Due to this informality and remoteness of worksites, workers may be practically unprotected by labour standards, and may have limited access to medical services and grievance mechanisms. Forced labour is often associated with illegal logging, including migrant workers without formal contracts, who are vulnerable to exploitation.

Australian Garments and Apparel products.

This category primarily covers Defence Bank's corporate uniform supplier. The garment manufacturing sector is widely regarded as high risk, from the harvesting of common inputs such as cotton, to the manufacturing of textiles and final stage of garment assembly.

Factors such as the use of factories in high-risk countries such as China and India, prevalence of migrant workers, the inherently low skilled nature of the sector and prevalence of authorised subcontracting all contribute to the risk.

Other factors at play include purchasing practices from end stage customers, such as poor forecasting, last minute changes to orders, low-cost price per item orders, tight deadlines, and the mass cancellation of contracts during the COVID-19 pandemic are also contributors.

Identified risks in our operations.

The identified areas of elevated modern slavery risk are considerably removed from our day-to-day core operations, or our direct suppliers' operations.

However, we recognise potential areas of identified risks associated with our day-to-day operations in Australia:

- Our engagement with professional cleaning services, facilitates /maintenance providers and catering services. The 2023 Global Slavery Index's country-based review of modern slavery risk in Australia identified the cleaning, hospitality and food services sectors as higher risk for instances of domestic forced labour.
- Links between the kinds of financial products that we offer being unknowingly and covertly exploited in connection with modern slavery practices such as the transfer of payments for online child exploitation, transfers of illegal recruitment fees, laundering of illicit funds generated through modern slavery.

Reporting requirement #4: Assessing and addressing modern slavery risks.

Defence Bank did not receive any reports, complaints, or otherwise become aware of, any actual or suspected incidences of modern slavery in its supply chains or operations during the reporting period.

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As an Australian financial institution that is primarily located near, and engaged with, Australian Defence Force personnel and their families, we self-assess our overall modern slavery risk profile to be low.

As noted above, Defence Bank has embarked upon the long-term process of formal modern slavery reporting through comprehensive risk assessment of our complete supply chains. Areas of potentially (and relatively) elevated modern slavery risk exposure were identified and assessed using proprietary risk assessment and supply chain mapping technology developed by our external consultants, Fair Supply.

Fair Supply's supply chain mapping is driven by a balanced, global Multi-Regional Input-Output (MRIO) dataset, which links supply chain data from 190 countries, and in relation to 15,909 industry sectors. The MRIO draws on comprehensive global data from the following sources:

- The United Nations' (UN) System of National Accounts;
- UN COMTRADE databases;
- Eurostat databases;
- The Institute of Developing Economies, Japan External Trade Organisation (IDE/JETRO);
- Numerous National Agencies including the Australian Bureau of Statistics.

To complete a modern-slavery-based analysis of the applicable supply chain data, the MRIO is examined against the following international standards:

- The UN Guiding Principles on Business and Human Rights;
- The Global Slavery Index (as updated in May 2023);
- International Labour Organisation (ILO) Global Estimates of Modern Slavery;
- The United States' Reports on International Child Labour and Forced Labour.

A proprietary algorithm is applied to synthesise risk data against the exclusively licensed MRIO table. This results in the production of a modern slavery risk profile, based on industry category and country of operation, to the tenth tier of our supply chains.

In anticipation of becoming a mandatory reporting entity under the Act, Defence Bank was proactive in engaging our external anti-slavery consultants to undertake a 'desktop' audit of 13 specific suppliers that the initial assessment identified as having potentially elevated risks. The audited suppliers covered the following industry sectors:

- Financial service providers
- Insurance providers
- Post and telecommunication providers
- Computer and IT service providers
- Advertising, marketing and printing providers
- Legal service provider
- Business and consulting services
- Corporate travel services

Although this supplier-specific due diligence occurred prior to the commencement of the subject reporting period, the insights remain relevant as we remain actively engaged with the vast majority of these suppliers on an ongoing basis.

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The following eight key indicators were used to assess, through the desktop audit process, each examined supplier's response to modern slavery issues through the nature and extent of the following:

- Publicly available policy and management framework demonstrates its commitment to addressing modern slavery risk.
- Comprehensive supply chain standards and practices.
- Comprehensive procedures and practices relevant to raising, investigating and responding to allegations of modern slavery.
- Comprehensive risk assessment processes to identify modern slavery risks in its business operations and its supply chains.
- Initiatives to educate and engage with relevant stakeholders to mitigate modern slavery risk within their own supply chains and operations.
- Whether the Supplier shows awareness of the need to address modern slavery risk via its reporting requirements
- The impact of relevant geographic factors on the Supplier's modern slavery risk
- Mechanisms for identifying the impact of key industry factors on the Supplier's modern slavery risk.

During the reporting period, the day-to-day responsibility of developing the early stages of Defence Bank's formal modern slavery response framework, including the compilation of information for in the preparation of our first statement, was handled at the executive team level by our Chief Risk Officer and Chief Financial Officer.

We recognise that, to develop an effective and long-term modern slavery response framework, increasing institutional awareness and capacity building are essential building blocks. Defence Bank has operationalised an online internal education module on modern slavery issues. The training covers core features of modern slavery, including an explanation of the eight different types of serious exploitation; an overview of the Act and the obligations for reporting entities; and the necessity of all Defence Bank employees to report any suspicions relating to possible modern slavery practices to the appropriate authorities. In line with the importance of a 'top-down' approach to modern slavery training, 6 out of 7 of Defence Bank's Board Members have completed our internal education module.

Reporting requirement #5: Measuring effectiveness.

As this is as our first reporting period, Defence Bank has not yet developed a formal framework for measuring the effectiveness of our modern slavery response on an ongoing basis.

This is a priority area that we have identified for development and implementation during the next (FY2023/2024) reporting period.

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KPI area.	Action items for Next Reporting Period (Financial Year 2023/24).
Governance	<p>Develop and roll out modern slavery clauses for new, material contracts that expressly addresses modern slavery risk.</p> <p>Track the percentage of new contracts / supplier agreements with modern slavery provisions.</p>
Risk Assessment	<p>Continue proprietary supply chain risk assessment, including with updated procurement data.</p>
Training and Education	<p>Continue tracking completion rates of annual online module.</p> <p>Maintain high levels of training at the Board and Executive levels.</p>
Supplier Engagement and Due Diligence	<p>Issue self-assessment questionnaires to highest risk suppliers, identified through proprietary risk assessment.</p>
Grievance and Remediation	<p>Review existing Whistleblower policy to ensure it is usable for reporting modern slavery concerns.</p>

Reporting requirement #6: Consultation with owned and controlled entities.

Defence Bank's single owned entity (as listed above in relation to our structure) was consulted in relation to the preparation and content of this statement, and has been subject to the measures for identifying, assessing, and addressing potential modern slavery risks described above.

Reporting requirement #7: Any other relevant information.

N/A



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