Annual Report 2020

imb bank
right by you

1880-2020
140 years

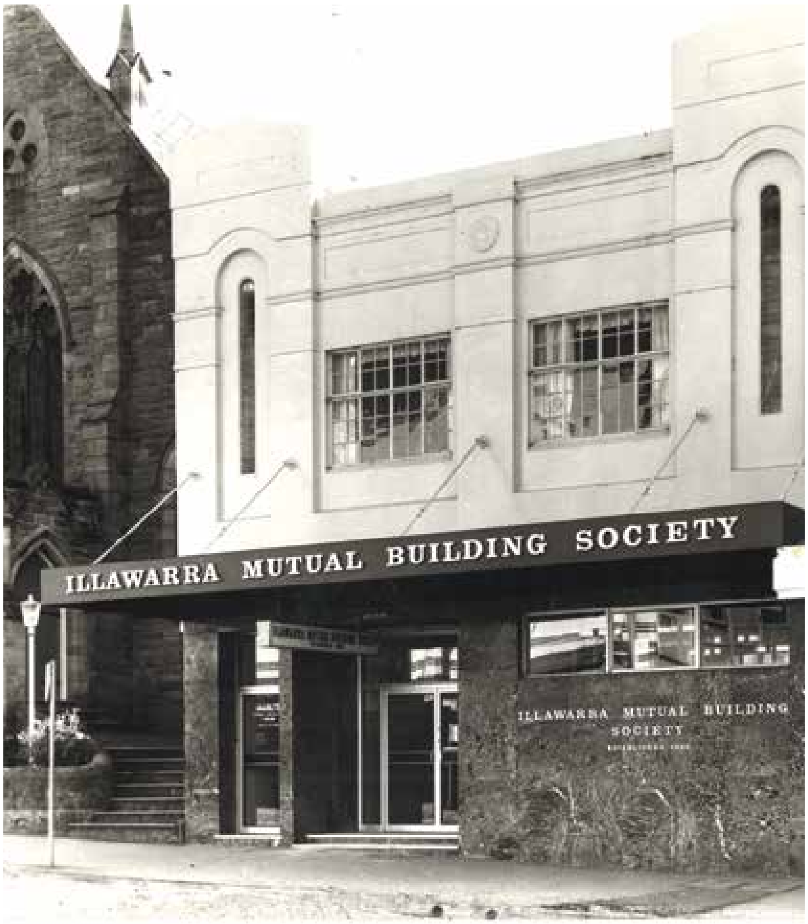







2020 Contents

Snapshots from 140 years of growth: from 1916 (left) through the 1960s (centre) and the 1980s (right) and today *(see page 9).*



About IMB

Established in 1880, IMB Bank is one of the most enduring financial institutions in the country, helping people achieve their financial goals for 140 years.

We do this by offering competitive products, practical solutions and, thanks to a dual focus on person-to-person relationships and digital innovation, superior customer service.

IMB offers a fully featured range of banking solutions: home and personal lending, savings and transaction accounts, term deposits and business banking.

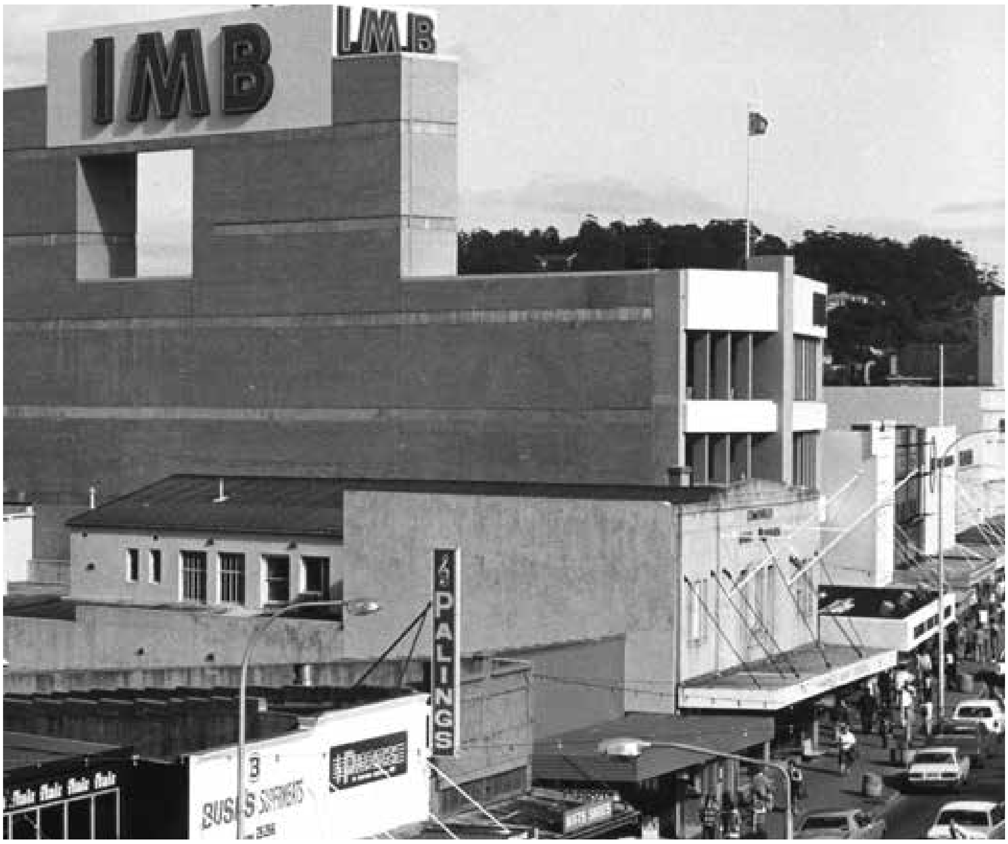
IMB members enjoy the benefits and convenience of IMB's continued innovation leadership in the banking sector. Our renowned personal service extends to webchat, in-app messaging and social communication with our members, who can also bank with us via internet, mobile, phone banking or through our Australia-based call centre, IMB Direct.

Members also have access to digital banking options, such as secure Osko® real-time payments, a range of mobile wallets and, as of 2020, an online mortgage application that reduces time and simplifies the lending process.

IMB has a retail network throughout the Illawarra, Sydney, NSW South Coast, the ACT, Melbourne and, thanks to a successful merger with Hunter United Employees' Credit Union in 2020, Newcastle and the Hunter Region.

IMB is regulated by the Australian Prudential Regulation Authority (APRA) and is a member of the Customer Owned Banking Association (COBA), an independent organisation representing mutual banks, building societies and credit unions. We have over 206,000 members and assets over $6.7 billion.

IMB also supports the communities in which we operate. The IMB Community Foundation was established in 1999 and since that time has provided more than $10 million to support over 700 projects.



Our Purpose

IMB provides simple, authentic customer-owned banking, that helps our members and communities be better off.

Our Values

IMB's values reflect the way we do things. They are the guiding principles by which we run the business and conduct ourselves in all interactions with all our stakeholders.

They comprise:

- Demonstrating Integrity
- Showing Respect
- Valuing Performance
- Focusing on our Members
- Striving to Offer Solutions

Notice of Annual General Meeting

IMB Bank's 2020 Annual General Meeting (AGM) will be held as follows:

Date: Monday, 9 November 2020
Time: 10:30am (AEDT)
Venue: online at https://agmlive.link/IMB20

IMB Bank takes the health and safety of our members, employees and the broader community seriously. Given the continuing risks and uncertainty faced as a result of COVID-19, the 2020 IMB Bank Annual General Meeting will be held as a virtual meeting. To participate in the Annual General Meeting online on 9 November 2020 members can log in online at https://agmlive.link/IMB20 from a desktop, mobile or tablet device with internet access and wait for registration to commence from 10:00am (AEDT).

2020 Highlights

Responding to the events of FY20 and our customers' needs, IMB demonstrated agility, innovation and resilience in our 140th year of business.

9.5%

Total loan growth

Results

Our financial performance was sound in a very challenging environment. Group operating profit after tax of $26.3 million is 17% lower than the previous year, predominantly due to provisioning of $4.0 million raised in respect of potential losses associated with the COVID-19 pandemic. Other results for the financial year include:

- Total loan growth of 9.5%.
- Deposits grew 11.5% to $5.9 billion.
- Average interest margin for the year was 2.09%, reflecting close management of the balance sheet.
- The ratio of non-interest expense to operating income for the Group increased to 72.8%, up from 66.9% in the previous year. The increase in expenses has been driven by the costs of implementing the digital strategy and merger with Hunter United Employees' Credit Union.

140th Anniversary

In April, IMB Bank marked 140 years in business. The anniversary signifies IMB as one of the country's most enduring financial institutions, beginning life as a building society and now operating as a mutual bank. A calendar of events has been postponed and reduced due to the COVID-19 pandemic, but the anniversary was celebrated in the media. As a genuine indication of IMB's resilience, the team and business transitioned to new ways of working and customer engagement.

$10m

Pledged to support 700 projects

Community

The IMB Bank Community Foundation has given $10 million in support of over 700 community projects in NSW, the ACT and Victoria. In its 21st year of operation, the Foundation received a record 402 applications for funding from diverse not-for-profit and charity groups.

Funding allocation has been disrupted due to COVID-19, as IMB transformed operations to deliver the safest and most seamless continuation of service. With the protection of our team, members and communities the foremost priority, this meant that the assessment process has been delayed. The grants will proceed in the first half of FY21.

After bushfires devastated much of the community over December and January, the IMB Bank Community Foundation donated $50,000 to the Vinnies Bushfire Appeal and allocated another $50,000 to projects that will rebuild and regenerate affected communities.

74%

Promotions awarded to women

Supporting our people

In response to the COVID-19 pandemic, we rapidly executed a successful transition of all non-contact personnel to remote working and instituted COVID-safe protocols in all of our branches.

We welcomed 71 new employees to IMB, 11 new trainees and five cadets. Since 2005, we have helped 142 young people to further their qualifications with a 12-month traineeship.

We have delivered 19,530 hours of training across the business and delivered 42 modules of Leadership Learning Curriculum for all levels of management.

74% of all promotions were awarded to women, while 84% of all management promotions were awarded to women. This is in keeping with our commitment to our diversity and inclusion goals and gender equality strategy.

100%

Office staff successfully enabled for remote working

Innovation

Innovation and investment continued to be critical to expanding digital product and service enhancements, bolstering growth initiatives and broadening security for members and our team.

Key achievements include:

- **Our COVID-safe plan featured the seamless transition of 100% of non-contact staff to working remotely.** These team members were able to work from home with no interruption to member service. 100% of our retail team continued their role supporting members backed by our COVID-safe plan. This was supported by sustained investment in our cyber-security and collaboration tool capabilities. Further, branch staff were equipped to remotely assist with Contact Centre enquiries to support members during what has been a difficult period for many.
- **The first phase of IMB's Lending Transformation** recently went live and will soon see the roll out of our online application. This will give borrowers an indication of pre-approval in about 20 minutes, a much reduced handling time and a simpler experience for members.
- **Fraud Capability Enhancements.** Since implementation in March, we have maintained a constant downward trend in fraud losses and have seen a significant reduction in fraud losses in some months.
- **Continued rollout of Workflow Management and Collaboration tools** ensured faster request resolution for members and several process efficiencies for a better member experience.

54

Best-ever Net Promoter Score

Connecting with our members

In this unprecedented year, IMB remained committed to connecting with our members, providing the best and safest banking experience for customers and our communities. While we encouraged members to embrace the many remote banking options available, we ensured branch banking remained available by diligently following government hygiene protocols.

We provided a range of measures to help our members through financial hardships experienced as a result of the bushfire catastrophe and/or the pandemic, and we continue to work with them.

We welcomed 20,261 new members in FY20, including 8,000 customers who have joined IMB through the Hunter United merger.

Net Promoter Score (NPS) of 54 is the highest since we started tracking it. This score is well above our peers and the major banks.

Top 4

Bank

Recognition

IMB was delighted to be named as one of the 2020 World's Best Banks by US business media magazine, Forbes. IMB was voted one of the Top 4 banks in Australia, based on a customer survey which rated customer recommendations and satisfaction across a range of factors, including trust, customer service and digital innovation. The Forbes recognition supports previous honours from RFi Group. IMB Bank was awarded Best Mutual Bank of the Year in 2018 and was a finalist in 2019 in the Most Innovative Mutual of the Year category.

1

Merger with Hunter United

Corporate

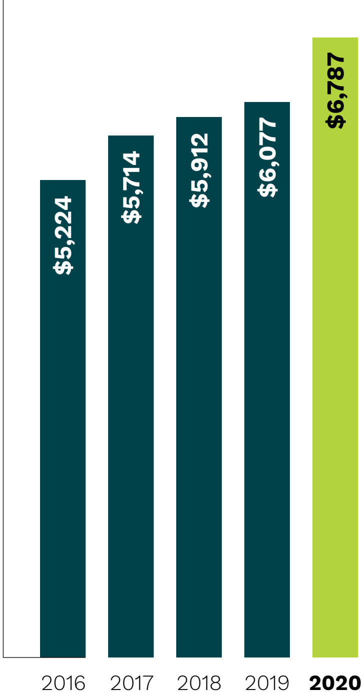
IMB Bank completed its merger with Newcastle-headquartered Hunter United Employees' Credit Union Ltd ('Hunter United') on 1 May 2020. The merger strengthens IMB's representation in the Hunter region and provides Hunter United's members with access to a wider range of products and services. As a result of the merger we have increased our branch numbers to 53, with 5 branches in the Hunter region.

Following a strategic review, we sold our financial planning business to Bridges Financial Services ('Bridges'), one of Australia's largest financial planning organisations. The sale completed on 30 April 2020 and all previous IMB Financial Planning clients have transitioned to Bridges.

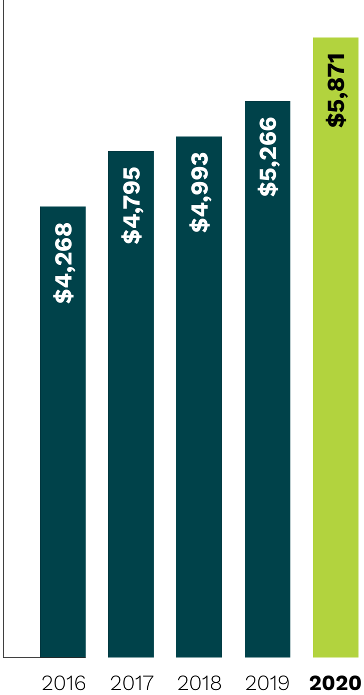
2020 Results

In a unique economic environment and significantly challenging year, IMB Bank's results reflect sustainable performance and commitment to our members.

Total assets ($m)



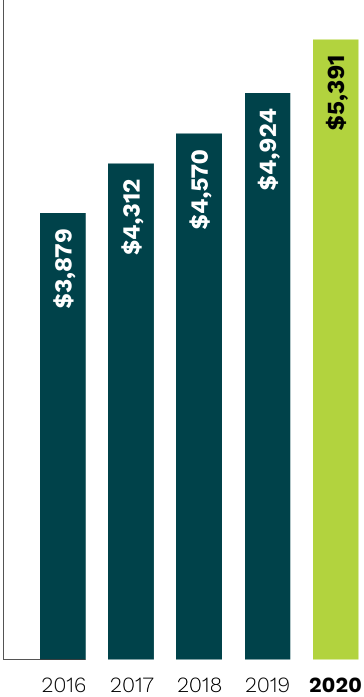
Member's deposits ($m)



Profit after tax ($m)

Capital ratio (%)

Loans and advances ($m)



Top 4

Bank in Australia

Rated by Forbes via an international customer survey of the World's Best Banks

Five-Year Summary

		2016 $000	2017 $000	2018 $000	2019 $000	2020 $000
Financial performance						
Interest income		223,587	220,867	231,874	242,279	**214,944**
Interest expense		119,756	110,439	110,529	117,327	**85,208**
Interest margin		103,831	110,428	121,345	124,952	**129,736**
Non-interest income		14,227	15,029	14,086	13,573	**13,756**
Bad and doubtful debts expense		333	1,066	1,235	1,501	**5,178**
Non-interest expense		75,503	85,139	89,012	91,623	**100,629**
Profit before tax		42,222	39,252	45,184	45,401	**37,685**
Income tax expense		12,666	11,800	13,623	13,669	**11,354**
Profit after tax		29,556	27,452	31,561	31,732	**26,331**
Financial position						
Assets						
Loans and advances		3,879,221	4,312,141	4,569,669	4,924,283	**5,390,648**
Liquids		1,320,398	1,374,988	1,298,933	1,083,210	**1,277,908**
Other		24,499	26,552	43,580	69,584	**118,034**
		5,224,118	5,713,681	5,912,182	6,077,077	**6,786,590**
Liabilities						
Deposits		4,268,430	4,795,283	4,993,265	5,266,418	**5,871,469**
Securitised loans funding		535,303	430,571	405,795	324,004	**240,198**
Other		111,806	157,579	169,435	123,947	**263,246**
		4,915,539	5,383,433	5,568,495	5,714,369	**6,374,913**
Net assets		308,579	330,248	343,687	362,708	**411,677**
Total assets		5,224,118	5,713,681	5,912,182	6,077,077	**6,786,590**
Performance ratios						
Capital adequacy	%	16.9	16.6	16.1	15.5	**16.0**
Total asset growth	%	5.0	9.4	3.5	2.8	**11.7**
Net asset growth	%	5.9	7.0	4.1	5.5	**13.5**
After tax return on average net assets	%	9.9	8.5	9.4	9.0	**7.8**
Non-interest income/average total assets	%	0.28	0.27	0.24	0.23	**0.22**
Non-interest expense/average total assets	%	1.46	1.54	1.54	1.53	**1.60**
Non-interest expense/operating income	%	64.1	68.4	66.3	66.9	**72.8**
Bad debts expense/average loans	%	0.01	0.03	0.03	0.03	**0.10**
Interest margin	%	2.04	2.03	2.13	2.12	**2.09**

Chairman's Letter

Despite an uncertain environment in FY20, IMB has grown in size and capability, and delivered committed service to our members.

"The strong financial position from which IMB Bank entered the 2019-2020 year has enabled us to operate efficiently in uncertain economic conditions and to maintain a range of important financial health metrics."

NH Cornish AM
Chairman

IMB's 140th year: unique and challenging

The 2019-2020 year has proven to be incredibly challenging for all Australians and many of IMB's members have endured significant strain and interruption from both the bushfire crisis and the COVID-19 global pandemic.

On 6 April 2020, amidst the growing uncertainty and economic pressure, IMB Bank reached its 140th anniversary. As a result of the limitations posed by the COVID-19 environment we were unable to celebrate this milestone with our members in the way that we had hoped, however we have reflected on IMB Bank's lasting legacy and our commitment to helping our members in difficult times. Since 1880, IMB Bank has stood alongside and supported our members through economic depressions and recessions, the global financial crisis and natural disasters. I speak on behalf of the Board when I say that we are immensely proud of the way that IMB Bank is supporting our members through the current challenges and we are focused on maintaining the financial strength of this organisation so that we can continue to do so for many more years to come.

We know that for some of our members, the crisis is not over, and we are ready to provide support to help members stay in their homes and to keep businesses operational and their workforces employed. IMB has worked hard to operate our branches and customer service functions in flexible and innovative ways, enabling members to manage their financial needs, largely without interruption. We are assisting our members with various forms of financial support such as emergency payments, loan repayment deferrals, fee relief, rate reductions and targeted finance to assist businesses to manage through this period.

The strong financial position from which IMB Bank entered the 2019-2020 year has enabled us to operate efficiently in uncertain economic conditions and to maintain a range of important financial health metrics.

However, like all ADIs, IMB Bank's net profit result of $26.3m, down 17% on the prior year, has been impacted by the additional provisioning which has been made in response to future credit losses that may occur as a result of the COVID-19 pandemic. It is pleasing that almost half the members that received some form of loan repayment deferral have now returned to normal repayment arrangements, however we are cognisant that the current economic conditions will prevail for some time. This means a significant level of loan provisioning is also expected to be carried in the 2020-2021 year, which will constrain our ability to significantly lift profit above the 2019-2020 result.

The importance of prudent capital management to build resilience against the uncertainty of the economic climate

It is a reflection of the heightened risks being faced by all ADIs that the prudential regulator, APRA, has formally communicated its expectation that caution is to be exercised in relation to capital distributions, including the payment of dividends. APRA's position is aimed at ensuring ADIs have sufficient capital buffers to absorb likely credit losses arising from COVID-19, whilst also being in a position to support new lending to households and businesses. At the same time, the Board is very aware of the lower investment returns being

Thanks in part to an uptick in mobile banking options, members continued to manage their finances largely without interruption.

experienced by many Australians, including because of market volatility, reduced rates on savings products and the decision by some financial services entities to defer, or not to pay, dividends.

With this context in mind, the Board has declared a final dividend of seven and a half (7.5) cents, bringing the full year dividend to fifteen and a half (15.5) cents. Based on shareholders' interest in contributed funding, this represents a 72.49% payout ratio and in light of the reduction in net profit and the regulator's guidance relating to capital, this is considered a fair outcome for IMB Bank's shareholder members.

As previously announced, while the current economic conditions and regulatory capital guidance prevail, given the outflow of Tier 1 regulatory capital that would occur, it is not envisaged that a buyback of IMB ordinary shares will be undertaken in the 2020-2021 financial year. The ongoing strengthening of IMB's capital position is critically important and we will maintain our robust approach to capital management in the year ahead.

Our strategic growth and forward planning continues despite the challenges of the current environment

We welcome the accommodative approach financial services regulators have taken to the schedule of regulatory change and the clarity provided in terms of their priorities and areas of focus. Outside of the measures being taken to maintain strong balance sheets and liquidity levels across the industry, understandably, the prudent treatment of borrowers experiencing hardship has been at the forefront of the regulatory agenda for 2019-2020.

And yet, despite needing to turn our focus to the challenges of the present day, it is exceptionally pleasing that IMB Bank made strong progress on its long-term growth objectives in the 2019-2020 year.

Our digital transformation has continued and we have seen our investment in technology deliver new ways of working, greater member benefits and operational efficiency at a time when it is most needed.

Our new purpose-built head office in Wollongong is nearing completion and will provide the optimum environment for IMB Bank to thrive in the years ahead, and in May, IMB Bank completed another merger, welcoming Hunter United Employees' Credit Union's 8,000 members to the organisation. The merger has resulted in IMB firmly establishing its presence in the Hunter/Newcastle region with an expanded workforce and distribution capability.

There is no question that the current financial constraints and economic risks, and volume of regulatory change is placing pressure on smaller mutuals; organisations that provide competition and an alternative way of banking to the major banks. IMB Bank has established itself as a compelling merger partner, able to provide tangible, ongoing benefits for members and employees of the merged entity and the community. With the advantage of a strong balance sheet, leading digital capabilities, an efficient operating model and a demonstrated merger execution capability, IMB intends to pursue merger opportunities with other like-minded mutual ADIs that are committed to providing superior personal service, practical banking solutions and strong community support.

During the year the composition of the Board underwent planned renewal and we welcomed two new directors to IMB Bank. Upon completion of the merger, former Chair of Hunter United, Jann Gardner, joined the Board, and makes an important contribution to the development of strategy and stakeholder engagement to drive success in the Hunter region. Further change occurred with the scheduled retirement of James Coleman, and the appointment of Harry Wendt from July 2020. The Board acknowledges the outstanding

Chairman's Letter
Continued

"In looking back on a year that is historically significant from a global perspective, what stands out is the importance of personal relationships and the strength of community."

22%

Increase in mobile app sessions

contribution that James Coleman made during his tenure, including with respect to the maintenance of robust governance frameworks and exceptional credit quality and risk outcomes. Harry Wendt comes to IMB Bank with a long career in financial services, and expertise in technology systems, data and cyber security and banking operations which are critical components in IMB's strategic growth initiatives. With the Board's strong support, Harry will seek re-appointment by members at the 2020 AGM.

Recognising the efforts of our people and all that they do for IMB Bank's members

In looking back on a year that is historically significant from a global perspective, what stands out is the importance of personal relationships and the strength of community.

I want to thank all IMB employees for their commitment to serving our members and going to extraordinary lengths to help in the most difficult of circumstances. Our people have continued to keep the vast majority of our 53 branches open and provide essential assistance to members even after their own homes have been threatened by bushfires and during periods of heightened social restrictions. It is our people and their genuine connections with members and their communities that sets IMB Bank apart. They are the reason for IMB Bank's continued relevance and success over a rich history of 140 years.

I also acknowledge the deep commitment that has been demonstrated by my Board colleagues, the Chief Executive, Robert Ryan and his management team throughout the year. The events of the past year have called for an increased level of oversight and the need to deal with complex circumstances.

The willingness of all Directors and Executives to do what is necessary to protect the interests of members and employees is outstanding.

We're committed to helping our members and communities recover

It is expected that market conditions for 2020-21 will remain challenging and because of this, it is difficult to provide members with guidance on the likely performance outcomes for the year ahead. Government stimulus packages and regulatory reforms delivered in response to COVID-19 have supported the Australian economy, and this type of monetary support will be required for some time given the contraction to the economy and the prospect of high unemployment.

Despite the uncertainty and challenges we continue to face, IMB Bank's underlying performance is strong and we are well placed to contribute to the economic recovery through our dealings with our members. We have proven our capability to quickly and efficiently adapt our operations to deliver new member experiences, drive greater efficiency and build future resilience. Our priority remains to help our members to recover and manage through the events of the past year, and to make a meaningful contribution to the rebuilding and revitalisation of the communities where we operate.

NH Cornish AM
Chairman

Right: *The new IMB Bank Head Office on Burelli Street Wollongong (lower right) is nearing completion.*

Chief Executive's Review of Operations

IMB's 140th anniversary year delivered strategic objectives and stable performance in an unprecedented and challenging environment.

"Throughout these very challenging circumstances, I have been impressed by the way that our employees have responded to these challenges and particularly their commitment to supporting IMB Bank's members."

RJ Ryan
Chief Executive

11.7%

Total assets $6.8b; up from $6.1b in 2019

140 years of supporting our members

In April 2020, IMB Bank celebrated 140 years of continuous operation. Throughout IMB's history, there have been many periods of adversity, such as the Great Depression, World Wars and the Spanish Flu global pandemic. As we report on the 2020 financial year, we again find ourselves in challenging times, with our commitment and resolve to support our members as strong as ever.

Having reached this significant milestone, it is valuable to reflect on the important contribution that IMB Bank has made to the communities in which we operate and what has underpinned IMB Bank's success over this period. Our contribution has taken many forms, from the banking services we provide to our members, the employment opportunities for staff, as well as the support that we provide to community organisations, local sport, cultural activities and various charities. IMB Bank's role in helping our members and their communities to be better off has been no more evident than during the last 12 months.

From the bushfires of the 2019-20 summer to the current COVID-19 pandemic, our focus has been on supporting our members through these crises. IMB Bank has assisted our members through a range of measures including repayment moratoriums on loans, tailored packages and waiving various fees. We have also provided direct financial assistance in emergency relief grants with $35,000 distributed to eligible members who have faced the loss of their homes, business and employment.

For borrowers affected by COVID-19, assistance has predominantly taken the form of loan repayment moratoriums of between 3 to 6 months. At the peak of the pandemic, IMB Bank had less than 4.8% of our loan portfolio receiving hardship assistance and following the 3-month review period we are encouraged that around 44% of residential borrowers who had received assistance no longer require it. Notwithstanding these positive signs, we are mindful that the cessation of the Federal Government's stimulus measures may result in some borrowers needing further assistance.

Throughout these very challenging circumstances, I have been impressed by the way that our employees have responded to these challenges and particularly their commitment to supporting IMB Bank's members. Our staff have quickly adapted to significant changes in their work environment and have embraced improved processes delivered under our program of business process transformation. Their resilience and positive attitude are testaments to IMB Bank's values and our focus on providing exceptional banking services to members.

Delivering our strategic agenda

It was pleasing that during the year IMB Bank was recognised as one of Australia's top four banks, according to influential American business magazine Forbes. This accolade was based on surveys of more than 40,000 customers around the globe. The key decision criteria were trust, customer service, digital services and financial advice. The award is a reflection of IMB Bank's commitment to focusing on the needs of our members, including always striving to enhance the customer experience, improve our members' financial outcomes and deliver digital innovation.

IMB Bank completed its merger with Newcastle-headquartered Hunter United Employees' Credit

IMB's online mortgage application is rolling out in Q1/2, FY21.

Union Ltd ('Hunter United') on 1 May 2020. The merger strengthens IMB Bank's representation in the Hunter region, and provides Hunter United's members with access to a wider range of products and services.

We have welcomed 8,000 new members as a result of the merger and have increased our branch numbers to 53, with 5 branches in the Hunter region. We are currently progressing integration of Hunter United members across to IMB Bank's systems which will provide those members with access to more products, ATMs and branches, and to a broader range of digital payments and service platforms.

Following a detailed strategic review, IMB Bank made the decision to sell its financial planning business to Bridges Financial Services ('Bridges'), one of Australia's largest financial planning organisations. The sale completed on 30 April 2020 and all previous IMB Financial Planning clients have transitioned to Bridges. We are pleased that the majority of IMB Financial Planning's employees accepted ongoing roles with Bridges which not only supported a smooth transition for IMB Financial Planning clients to a new provider, but gives those employees access to comprehensive professional development programs and greater career opportunities in the financial services industry.

Financial advice remains an important part of our suite of services and we are delighted to have Bridges, which has a long-term association with the mutual banking industry, as IMB Bank's financial advice referral partner.

Digital transformation

At the commencement of the COVID-19 pandemic, we took the opportunity to accelerate the simplification and digitisation of a large number of processes to ensure we could operate most effectively in the new environment.

It is as a result of the increased investment we have made in IMB's technology platforms and security capabilities that, very quickly, all staff in our administration functions were enabled to work safely from home, allowing IMB Bank to continue seamlessly and avoid disruption to banking operations and services. These new processes and systems have also improved the productivity of our workforce and will simplify the transition into IMB Bank's new head office in early 2021.

At the same time, we have seen many of our members increase their adoption and use of digital channels and payments. Our mobile apps and internet banking platforms provide simple, fast and secure options for members to transact and engage with IMB Bank. Our transformation roadmap will continue to deliver new digital capabilities, including to allow members greater flexibility to interact with IMB Bank through the channel of their choice.

During the year, we connected our Contact Centre and Digital Channels and extended capacity to our branch network, enabling us to deliver excellent service and support to the increasing number of members who now engage with us remotely. It is extremely pleasing to see the way our branch workforce have enthusiastically responded to this new functionality which enables them to connect with members via telephone or webchat and extends their customer service skillset to new channels and technologies.

We have recently launched the first phase of a major transformation of our lending system, with a team of lenders writing loans through a new lending platform, which delivers a 20-minute conditional loan approval for a new borrower and will be an even faster experience for existing members. The initial results of the first delivery phase have been positive, and over the coming months we will expand the range of loans that are written through the new platform.

The COVID-19 environment has seen a rise in fraud, scams and cyber-attacks around the world. IMB Bank is committed to protecting our members from such threats and we have invested in cloud-based fraud detection and prevention solutions to further safeguard card and online purchases. This platform protects members using advanced risk detection and analysis capabilities and incorporates the ability for transactions and cards to be automatically blocked when a fraud risk is detected. This is supported by two-way SMS functionality that enables our members to determine whether any transactions flagged as higher risk are genuine.

We have also enabled capabilities that provide enhanced protection for

Chief Executive's Review of Operations

Continued

> "We have streamlined in-branch account opening processes, improved internal controls through automation, and uplifted underlying system performance."

10.4%

Increase in home loans

members when they are shopping online, allowing them to confirm and approve high risk transactions in real-time. Both solutions are leading edge technology systems and provide IMB Bank with enhanced reporting and data analytics which will see us continuously evolve our fraud protection measures.

In the year ahead, we will deliver a refreshed data strategy which will drive new member experiences, richer reporting and analytics and will support the delivery of improved products and services for members.

We are well progressed towards the implementation of the Open Banking regime which is designed to provide consumers with greater control over their financial information, leading to more choice in their banking arrangements and more convenience in managing their money. We will be sharing product data from October this year, with the sharing of consumer data being required from July 2021.

We have streamlined in-branch account opening processes, improved internal controls through automation, and uplifted underlying system performance. Our simplification stream of work has many more functionality enhancements to come, including the continued unification of staff-facing systems across the Bank to improve productivity, as well as further process efficiencies and controls to help us to better serve our members.

It is very pleasing to have made such significant strategic progress notwithstanding the difficult circumstances being faced.

Financial strength and sustainability

Our financial performance was sound in a very challenging environment.

Group operating profit after tax of $26.3 million is 17% lower than the previous year, predominantly due to provisioning of $4.0 million raised in respect of potential losses associated with the COVID-19 pandemic. IMB Bank has taken a prudent approach with regard to the provisioning levels, noting that there is a significant amount of uncertainty as to the duration, and longer term economic impacts, of the pandemic.

IMB Bank's average interest margin for the year was 2.09% reflecting close management of the balance sheet. The Group's capital adequacy ratio at 30 June was 16.0%.

IMB Bank's deposits have continued to increase, with year-on-year growth of $605 million, or 11.5%, to $5.9 billion. Excluding the effects of the merger with Hunter United, IMB Bank's deposits grew by $289 million, or 5.5%.

Total assets grew by 11.7% to $6.8 billion, supported by strong growth in IMB Bank's lending book to $5.4 billion. Excluding the effects of the merger with Hunter United, IMB Bank's lending portfolio grew by $191 million, or 3.9%.

Impairment losses were $5.2 million, including the aforementioned provision of $4.0 million raised in response to the COVID-19 pandemic.

Total expenses amounted to $100.6 million for the year, an increase of 10% on the previous year. Non-interest expense as a proportion of average total assets for the Group increased slightly to 1.6% and the ratio of non-interest expense to operating income for the Group increased to 72.8%, up from 66.9% in the previous year. The increase in expenses has been driven by costs of implementing the digital strategy and the merger with Hunter United Employees' Credit Union. Upon the completion of systems integration work for the merger, we expect to realise greater economies of scale and synergies as our operations are streamlined and duplication is removed.

Engaging our people

Our people have responded with grace and flexibility as we moved quickly to adapt new ways of working without disruption to our members. Empowered through technology, staff continue to deliver excellent service to members in these challenging times.

Throughout the year, as we have dealt with the risks relating to the bushfires in summer and COVID-19, our focus has been on the health and wellbeing of our staff. More than 90% of our staff have said they feel well supported throughout the pandemic. Our overall Staff Engagement has also been high at 84%, and we have seen higher employee retention through the year.

As part of our diversity and inclusion strategy, we continue to make progress on developing a diverse workforce with the skills needed for the future. We are committed to our Gender Equality goals, and 74% of our promotions this year were women. Our focus continues to be on diversifying our gender representation across our senior leadership group by providing women with development and career opportunities, investment in education and training, and effective talent and development plans to build their capability. We are committed to Pay Equity and have completed a detailed analysis of our remuneration structures this year to assist us in achieving this.

Supporting our communities

IMB Bank has a long history of supporting the communities in which we operate, and we remain dedicated to helping those communities to thrive. Every day we strive to help our members achieve their individual financial goals while also actively supporting events, projects, sporting groups and organisations in their communities. And we know this support has never been more important.

In response to the bushfires earlier this year, the IMB Bank Community Foundation pledged $50,000 to the Vinnies Bushfire Appeal as well as $50,000 to community groups in bushfire affected areas. This financial support has been directed towards initiatives such as a quick-fill pump for Wolumla Rural Fire Brigade and a new production kitchen for the North Shoalhaven Meals on Wheels.

Through the IMB Bank Community Foundation, we are providing much needed support to community groups and projects that foster inclusion, encourage volunteering and create sustainable outcomes, enabling communities to thrive.

Over the last 20 years, the IMB Bank Community Foundation has invested over $10 million to support over 700 community projects. We are very proud of the projects we have assisted and each year we marvel at the achievements of our funding recipients.

In these difficult times, we are delighted to continue supporting many grassroots community organisations.

Outlook

The COVID-19 pandemic will continue to have a significant effect on both global and domestic economies. The stimulus measures implemented by the Australian Federal Government have reduced the depth of the downturn in the Australian economy, however the impacts of higher unemployment and reduced consumer confidence and spending will lead to further contraction in economic activity.

We expect that low interest rates and lower demand for credit will affect net interest income over the medium term and, with further provisioning possible if the pandemic continues for an extended period, we expect profit levels to remain subdued for the 2020-21 financial year.

Notwithstanding this context, IMB Bank's financial position is strong and we are well placed to continue to assist our members through these difficult times, while focusing on providing a competitive banking alternative to the major banks.

During these uncertain times, I would particularly like to thank our hardworking employees for their resilience and commitment to our members. I am proud of the manner in which all our staff have embraced changes to our business processes and working arrangements, whilst continuing to provide exceptional service to our members and deliver on our strategic agenda.

I would also like to thank IMB Bank's Directors for their support and guidance over the past 12 months. IMB Bank's strong financial position is a reflection of their stewardship and oversight, and their commitment to IMB Bank and our members.

Finally, I would like to thank our members for their continued support of IMB Bank and we look forward to continuing to meet their banking needs.

The period ahead remains uncertain and will present many challenges. One thing that is certain however, is the priority IMB Bank places on supporting our members in difficult times. That is what we have been doing for over 140 years.

RJ Ryan
Chief Executive

140 years of building communities

1880

The proposal

In 1880, Wollongong was a small port mainly used by colliers and small steamers, and was described as having “an air of quiet unostentatious prosperity.” Upon formation of the Illawarra Mutual Building Society in April, the seed was planted for that prosperity to be shared by the community.

1932

The Great Depression

During the Great Depression, IMB worked with its members, often suspending payments until the worst of the devastation was over. It was a prime example of IMB’s core values: we stand by our members.

1955

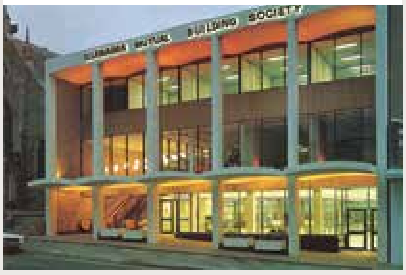
Wollongong: growing fast

As job opportunities at Port Kembla Steelworks transformed Wollongong into Australia’s fastest growing city, IMB’s Assets Under Management surpassed £1 million.

1971

Bigger, better, brighter

While a new head office and branch was opened at 110 Crown St, IMB’s branch network expanded wider into NSW, including the South Coast, South West and Western Sydney. People from as far south as Eden and west as Campbelltown were achieving their financial goals through IMB.



1980

100 years!

Wollongong celebrated IMB’s centenary as an integral part of the community with a street parade. Phenomenal growth in capital, capability and team members warranted a move to a new head office building. By decade’s end IMB also called Sydney home, with branches in the city and suburbs.

1999

Supporting your community

The IMB Bank Community Foundation was launched, providing funding to projects run by charities and not-for-profit groups. This formalised a long legacy of IMB investing in the future of local communities.

To see more IMB history, **visit imb.com.au/140years**

Cutting edge local employer

Using state-of-the-art technology, IMB Direct arrived, making banking hours more accessible. The Wollongong-based call centre provides many job opportunities for the people of the Illawarra and Southern Sydney regions.

Growing into the Shire

IMB Bank merged with the Sutherland Credit Union and established the IMB Bank Shire Community Foundation. IMB's decades of support and sponsorship in our communities extended from Bega to Penrith, Queanbeyan to Cronulla, and beyond.

$10 million in support

As IMB Bank Community Foundation celebrated 20 years of supporting local communities to thrive, donated funds exceeded $10 million. A new funding category was also announced — Future Heroes — exclusively dedicated to projects led by young people between 18 and 30.

2004 | 2015 | 2016 | 2018 | 2019 | 2020

From building society to bank

Following approval from the Australian Prudential Regulation Authority, IMB became a Mutual Bank from 1 August. The transformation made for a stronger foundation as "The Local Society" continued to grow across NSW.

Award-winning banking

IMB is awarded Mutual Bank of the Year by the RFi Group Australian Retail Banking Awards. At the same time, Discovery Research finds that IMB has a 95% customer satisfaction rating.

140 years of growth

After completing a merger with the Hunter United Employees' Credit Union Ltd in May 2020, IMB was named one of the World's Best Banks by Forbes Magazine. Empowering our customers to reach their financial goals and supporting our communities remains at the heart of our mission. IMB is right by you: then, now and into the future.

In focus: **Member hardship support**

A helping hand in tough times

At IMB Bank, we've stood by our members and helped them face many uncertain times during our 140 years, including the bushfires and pandemic in 2020.

IMB has supported our business and personal banking customers through uncertain and difficult circumstances.

When New South Wales and Victoria were struck by bushfires over the 2019 summer, we launched our disaster relief package which assisted impacted members by waiving transaction, dishonour and debit card replacement fees, and term deposit break costs. Members experiencing financial hardship were also able to restructure their loans and suspend payments.

Through our IMB Bank Community Foundation we pledged $100,000 to bushfire-ravaged communities on the NSW South Coast and throughout the Southern Highlands. Of this, $50,000 was directed to the Vinnies Bushfire Appeal, which guaranteed all donated funds would be channelled to the immediate and ongoing recovery of the communities in those regions.

Community groups on the South Coast also received $50,000 from the Foundation, which was earmarked to be spent directly on projects on the South Coast and in the Southern Highlands.

As COVID-19 gripped the world soon after, we adapted our workplace and branches to ensure a safe environment for our staff and members. Our branch staff practise social distancing of a minimum of 1.5 metres, wear protective gloves and use and provide hand sanitiser for those visiting our branches.

To support both our most vulnerable customers and those working on the front line, we have established dedicated phone lines to help them fast-track their banking over the phone. This includes seniors and pensioners, emergency services workers and healthcare workers.

We stand by our commitment to our members who continue to be financially impacted by the pandemic.

Members with a home loan are able to defer their repayments for up to six months and can choose to make interest-only payments for up to a year. Those with a personal loan are also able to make interest-only payments for up to a year and can choose to defer their repayments for up to three months.

Members can reduce their loan repayments to the minimum level, and we have waived dishonour and honour fees and loan redraw fees on eligible products. In April we reduced the personal line of credit interest rate by 1% and made a 0.25% cut to interest rates on our reverse mortgage and aged care loans.

In order to support small businesses, members with a business loan up to $5 million can defer their repayments for up to six months, while the fees on loan redraws on eligible business loan products have been waived. Loan repayments can be reduced to their minimum level, or members can choose to make interest-only repayments on their business loans.

We are participating in the Federal Government's SME Guarantee Scheme to help our small business customers – including sole traders – boost their working capital to get through the pandemic with a loan of up to $75,000 guaranteed in part by the Federal Government.

For members with new or existing secured and unsecured Business Overdrafts we've cut the applicable rate by 2% to offer further relief during this challenging period.

For 140 years we've been dedicated to helping our members through uncertain times, and we are committed to maintaining that support in the most challenging times.

Small business (top) and borrowers (bottom) could bank on IMB to work with them through the disruptions of 2020, while our increased fraud detection capability helped protect all IMB members.


malware
@

Our Digital Innovation

15.5m

Digital banking sessions

10,380

Digital chat and messaging engagements

22%

Increase in Mobile App sessions

IMB's adoption of leading edge technologies and continuous digital innovation provides convenience and security for our members, and a platform for future growth.

In both customer-facing retail applications and the processing and security functions within the organisation itself, IMB continues to be a market-leader in the rigorous assessment, development and utilisation of new technologies.

This strategy provides a market advantage in retail, but also with potential merger partners in the mutual sector.

Today, that strategy is digital, mobile and cloud-based.

Digital first

In recent years, IMB has been a leader in delivering digital innovation to members. IMB was one of the first financial institutions in Australia to offer a full suite of mobile payment systems, including Apple Pay, Google Pay™, Samsung Pay, Fitbit Pay™ and Garmin Pay™. IMB was also amongst the first banks to enable members and business banking customers to transfer money instantly thanks to the introduction of Osko® real-time payments.

Cloud-based platforms

IMB has recognised the significant advantage cloud-based platforms can deliver in terms of security, innovation, resilience and reliability.

As one of the first banks in Australia to move digital banking assets into the public cloud using AWS, IMB has delivered members increased speed, stability and reliability. The platform allows IMB to seamlessly scale operations to meet increasing usage and demand from members in a cost effective manner. These investments also futureproof IMB's organic growth and merger strategies. IMB's adoption of m365 has supported modern ways of working and greater flexibility for staff in meeting the needs of members.

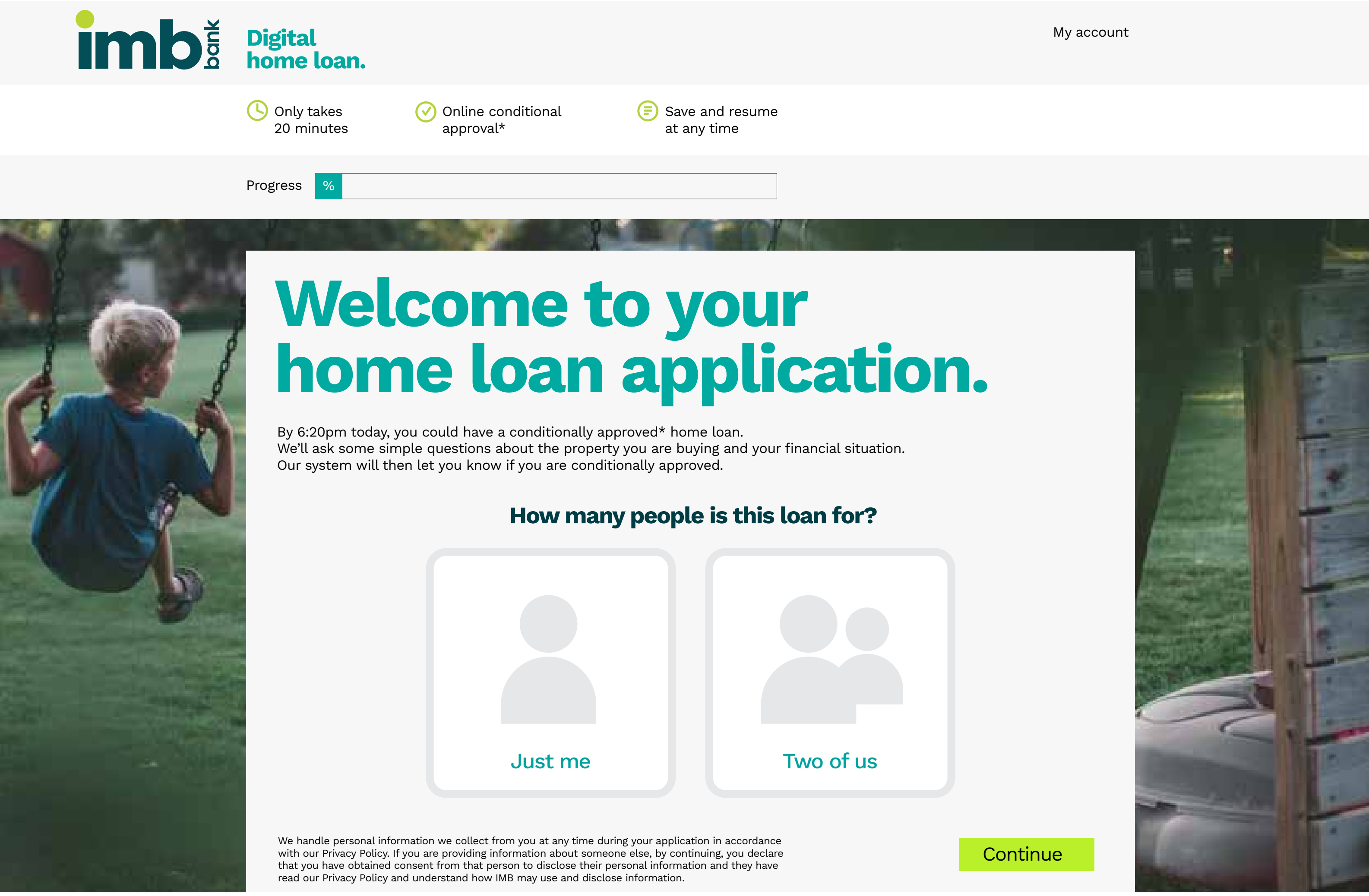
Contact centre transformation

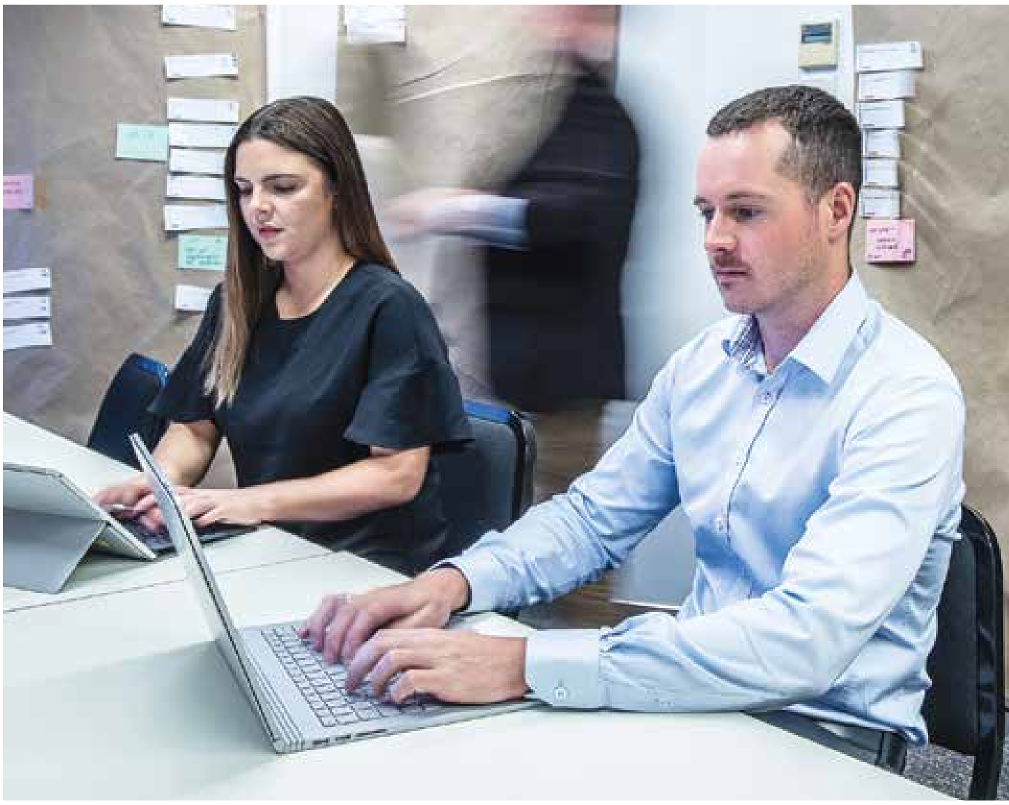
IMB was also among the first banks in Australia to rollout the Amazon Connect platform across our Contact Centre, branch network and support departments. This has enabled seamless customer contact, which allows capacity in the branch network team to support the increasing volume of non-face-to-face inquiries, through digital and phone channels. In addition to the significant productivity benefits, the platform has allowed IMB to scale up operations to deliver improved customer support during the bushfires and pandemic crises.

Lending transformation

A significant development during the year has been the launch of IMB's new lending platform. IMB's lenders can now utilise the user-friendly platform to deliver a conditional approval in under 20 minutes. Using IMB's Loan Hub portal, customers

“In both customer-facing retail applications and the processing and security functions within the organisation itself, IMB continues to be a market-leader in the rigorous assessment, development and utilisation of new technologies.”





can upload documents and receive status updates. In the coming months IMB will be launching this capability through our digital channel, which will enable customers nationwide to self-serve and move to IMB's excellent home loan offering.

Advanced Fraud Risk Management

With cyber-crime and scams an increasing reality for all banking customers, IMB's early adoption of cloud-based fraud detection is delivering exceptional protection for members. Using machine learning and artificial intelligence, fraud detection and prevention rates have improved markedly. IMB continues to invest in fraud detection and cyber risk capabilities that combat new and emerging risks.

IMB's Digital Home Loan mortgage application (top) and Mobile App refresh (bottom), both rolling out Q1, FY21. ***Centre:*** *Lending Transformation team members Carly Costello and Josh Noble in 2019.*

In focus: **Building your dream home**

Beyond the Big 4
Fast and Flexible

When a Big 4 bank property valuation came in under everyone's expectations, Justice and Lorna needed to move fast on their land-and-construction loan or risk losing their deposit.

Aged care nurse Justice Kanyandura was hopeful that he and wife Lorna Zingwe's first home would be built from the ground up. Brand new and theirs. Lorna wasn't so sure.

"I was happy to buy an existing property," she says, "because I didn't want to wait for the time it takes to build a home. But we simply couldn't find what we wanted. It made the decision to build easier – and Justice was very interested in building a new home."

The couple have called the Rouse Hill area – in Sydney's northwest – home for years. "We love the area," says Justice. "It's where I moved as soon as I came from Zimbabwe to study. It's close to work, we have family nearby and it's a quiet, friendly community."

They decided on a home-and-land package in nearby Riverstone. Initial conversations with one of the Big 4 Banks – Justice was already a customer – inspired them to put down a sizeable deposit on the land. However, a final approval evaluation from the bank left them with a valuation gap they simply couldn't afford beyond their deposit. This was a problem; they were scheduled to break ground in a month.

"I was beginning to get worried," says Justice. "Time was really pressing and our deposit was on the line. Then about a fortnight out from the start of the build, our solicitor recommended I speak to Nermin Farahat from IMB. She was fantastic – so professional, friendly and helpful. I first met her at the IMB Rouse Hill branch on a Friday and by the following Friday we were approved.

"It was a terrific experience," he continues. "Nermin responded to every question, every email and phone call very quickly and would meet with us after hours – nothing was a problem."

Once approval for the land-and-construction loan had been arranged, the building process was even smoother, says Lorna. "I was very surprised how fast it was! The build was scheduled for six months but because we had reasonable weather and a smoother schedule, it only took four months. IMB had no problem with the faster schedule. Every invoice from the builder was paid within a day or two."

"There was never any problem," agrees Justice. "IMB have been very flexible with the faster construction timetable and Nermin made sure everything went smoothly."

Now, the couple are in their new home with baby Leanne and life is good. "A few sleepless nights," Justice laughs, "but we are very happy. Thanks, IMB."

Lorna, Leanne and Justice at their new Riverstone home.

"IMB have been very flexible with the faster construction timetable and Nermin made sure everything went smoothly."

Justice Kanyandura

Our Board

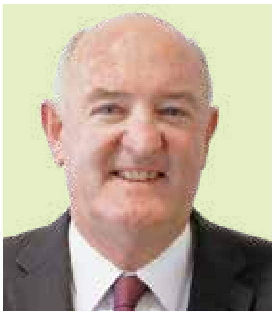
Information set out in this section relating to board committee memberships and positions relates to each IMB director holding office at any time during or since the end of the financial year ended 30 June 2020.

Noel Harold Cornish AM – BSC(MET) M ENGSC FAICD

Mr Cornish, whose expertise is business management, has been a non-executive director of IMB Ltd since 2010 and was elected Chairman in September 2016. Mr Cornish is the Chair of the Capital and Securitisation Committee and is a member of the People and Culture Committee. Mr Cornish's previous roles include Chairman of Snowy Hydro Ltd, Deputy Chancellor of the University of Wollongong, National President Ai Group, Chief Executive of BlueScope Ltd's Australian and New Zealand businesses, President NorthstarBHP LLC in Ohio USA and Chairman of Hunter United Credit Union. He is currently a director of Forests Corp NSW and UOW Global Enterprises. As well as being a director of IMB Ltd, Mr Cornish is also a director of all entities wholly owned by IMB Ltd.

Catherine Ann Aston – B.EC M. COMM F FIN GAICD

Ms Aston has been a non-executive director of IMB since 2016. Ms Aston's experience is as an executive and non-executive director of digital and telecommunications businesses across Asia Pacific. She has a broad commercial background with senior roles in finance, marketing, strategy and business improvement. Ms Aston is Chair of the Risk Committee and is a member of the Audit Committee and the Capital and Securitisation Committee. Her previous positions include Chair of Pillar Administration, director of Southern Phone Company Ltd and various senior executive positions at Telstra Corporation, Telstra International (Hong Kong) and Mobitel (Pvt) Ltd (Sri Lanka). Ms Aston is currently a director of Macquarie Investment Management Limited and Over the Wire Holdings Limited. As well as being a director of IMB Ltd, Ms Aston is also a director of all entities wholly owned by IMB Ltd.



Peter John Fitzgerald – B.COM FCA GAICD

Mr Fitzgerald has been a non-executive director of IMB since 2017. Mr Fitzgerald is a Chartered Accountant whose experience was gained as a tax and audit partner of KPMG, where he served as Managing Partner of the Wollongong office for over 20 years. Throughout his career he has been responsible for providing business advisory and taxation services to clients, with industry specialisations in professional services, aged care, property and construction and manufacturing. Mr Fitzgerald is the Chair of the IMB Audit Committee and is a member of the Capital and Securitisation Committee and the IMB Community Foundation Committee. He is currently a director of Peoplecare Health Insurance and the IRT Group and was previously a member of the Council of the University of Wollongong where he chaired the Risk, Audit and Compliance Committee. As well as being a director of IMB Ltd, Mr Fitzgerald is also a director of all entities wholly owned by IMB Ltd.

Jann Angela Gardner – BA LLB MBA GAICD

Ms Gardner has been a non-executive director of IMB since May 2020. Ms Gardner is an experienced litigation and insurance lawyer and the former Newcastle Managing Partner of Sparke Helmore Lawyers. Ms Gardner has held a number of management roles in professional services firms and is experienced in governance and risk, with recent non-executive experience in the infrastructure, government, insurance, university and health sectors. Ms Gardner is a member of the Audit Committee and the IMB Bank Community Foundation Committee. Ms Gardner is a non-executive director of StateCover Mutual Ltd, non-executive director of Arch LMI Pty Ltd and Arch Financial Holdings Australia Pty Ltd, a member of the Governing Council of Sancta Sophia College, a member of the University of Newcastle Council, a member of the s150 Committee of the Nursing and Midwifery Council of NSW and is the Chairperson of Audit and Risk Management Committee, SWSLHD. As well as being a director of IMB Ltd, Ms Gardner is also a director of all entities wholly owned by IMB Ltd.

Gai Marie McGrath – BA LLB (HONS) LLM (DISTINCTION) GAICD

Ms McGrath, has been a non-executive director of IMB Ltd since 2016. Ms McGrath is Chair of the People and Culture Committee and the IMB Financial Planning Committee, and is a member of the Risk Committee and the Capital and Securitisation Committee. Ms McGrath began her career as a lawyer before moving into financial services where she spent 12 years with the Westpac Group, and was most recently the General Manager of Westpac's flagship retail business. She previously held senior positions with Westpac New Zealand, BT Financial Group and Perpetual. Ms McGrath is a director of Genworth Mortgage Insurance Australia Limited, HBF Health Limited, Steadfast Group Limited and Toyota Finance Australia Limited. Ms McGrath is also Chair of Humantix. As well as being a director of IMB Ltd, Ms McGrath is also a director of all entities wholly owned by IMB Ltd.

Jan Margaret Swinhoe – BSC (HONS) AIAA GAICD

Ms Swinhoe has over 30 years' experience in the financial services sector in a career that has spanned corporate superannuation, derivatives trading, capital markets origination and institutional relationship banking. Ms Swinhoe has been a non-executive director of IMB Ltd since 2014. Ms Swinhoe is Chair of the IMB Bank Community Foundation Committee and is a member of the Risk Committee and the People and Culture Committee. The last 16 years of her executive career were spent at Westpac where Ms Swinhoe held General Management positions within the Institutional Bank and also BT Financial Group where she led Westpac's Private Bank. Ms Swinhoe is currently Chair of Mercer Superannuation Australia Limited, and is a director of Swiss Re Life & Health Australia Limited, and the Advisory Board of Swiss Reinsurance Company Limited, Australia Branch. Ms Swinhoe is also Deputy Chair of Athletics Australia, is a director of Australian Philanthropic Services and was formerly a director of Suncorp Portfolio Services Limited. As well as being a director of IMB Ltd, Ms Swinhoe is also a director of all entities wholly owned by IMB Ltd.

Margaret Elizabeth Towers – CA GAICD

Ms Towers is a Chartered Accountant with over 30 years' experience in the Australian finance sector. Ms Towers has been a non-executive director of IMB since 2011, and is currently a member of the Risk Committee, the Financial Planning Committee and the Audit Committee. Ms Towers' previous roles include senior positions at Price Waterhouse, Executive Vice President at Bankers Trust Australia, and she was also a non-executive director and Chairperson of the Audit and Risk Management Committee of Platinum Asset Management Limited. Ms Towers is Chair of Platinum Capital Limited and Platinum Asia Investments Ltd and continues to provide independent consulting services to the finance sector. As well as being a director of IMB Ltd, Ms Towers is also a director of all entities wholly owned by IMB Ltd.

Harry Walter Wendt – BSC (COMPSC) MSC (Astronomy) PHD GAICD

Dr Wendt has been a non-executive director of IMB since July 2020. He has over 28 years of financial services industry experience, with extensive expertise in using technology to revolutionise customer experiences and transform business. Dr Wendt is currently a member of the Risk Committee and the People and Culture Committee. Dr Wendt's previous roles include executive positions with Westpac Banking Corporation and he was formerly a non-executive director of Assembly Payments where he was Chair of the Audit, Risk and Compliance Committee. Dr Wendt is an adjunct research fellow of the University of Southern Queensland. As well as being a director of IMB Ltd, Dr Wendt is also a director of all entities wholly owned by IMB Ltd.

In focus: **Business banking**

Business is Personal

For manufacturing business Integrity Pumps, banking is about more than the numbers.

In August 2004, Integrity Pumps opened for business. As the month closed, turnover came in at a tidy $45,000. "We thought we were made," laughs Director Peter Smith, who founded Integrity with his son, Chris. "Things are a lot different now."

Indeed. Today, the Unanderra-based supplier and servicer of industrial pump equipment employs 22 people and services more than 500 clients nationwide. Turnover exceeded $10 million in FY20, with continued growth in the mining, commercial food production and municipal sectors. Integrity has recently added Japanese company Tsurumi Pumps to its distribution portfolio. To accommodate the growing inventory and streamline production, the company has leased a second premises. IMB has been there for most of the journey.

"We started with IMB," says Director Chris Smith. "But we had to work with another bank when we took on the distributorship of US brand Wilden Pumps. Because Peter and I are the guarantors of Integrity, we had to switch our home loans over as well. We lasted about a year – I couldn't wait to get back. We hated it. You become a number with the bigger banks. Our account manager wouldn't get back to us for a week or would be fobbing us to the Business Banking telephone centre.

"IMB is just more personal," he continues. "It never feels like it's about the money with Terry. He has always made sure we are looked after."

Chris is referring to Terry Widdicombe, IMB's National Manager Commercial Lending & Business Banking. With over 40 years' experience delivering banking solutions to businesses nationwide, Terry heads up the IMB Business Banking Team, with a dedicated Relationship Manager and Local Business Banking Centre in all the areas IMB call home.

For Peter, the "business is personal" approach demonstrated by Terry anchors the IMB difference.

"IMB Bank is our preferred financial institution, a real partner with our business," he says. "We are looking to buy the new warehouse premises we are leasing as soon as we can. Terry is the first person we will turn to. There's trust in the relationship; trust and flexibility. We've built a friendship more than anything."

Directors Peter and Chris Smith with IMB's Terry Widdicombe at Integrity Pumps.

> "IMB Bank is our preferred financial institution, a real partner with our business."
>
> **Peter Smith** Director, Integrity Pumps

In focus: First home buyers

‘We’d lost all hope. Then we met Vanessa.’

With a baby on the way, Newcastle couple Damian Callander and Elissa Lalor were ready to find a base for the rest of their lives.

After what seemed like an endless tour of open homes, Damian and Elissa finally settled on the right place and turned to the matter of getting a mortgage. Unfortunately this was when things got tricky.

“We had got into the stage where we quite quickly needed to get our finances sorted,” Damian says.

However, Elissa – a school teacher – says the couple had difficulty navigating the process of securing a home loan with their previous financial institution.

“They weren’t clear on how much money we needed in order to get a loan and left out key details,” Elissa says.

“Then as we got into the process, they said we’d need the money upfront for lender’s mortgage insurance, which threw a spanner in the works,” Damian explains.

After discovering they did not have enough saved to take out the required loan, Damian and Elissa came to the sudden realisation that they weren’t going to be able to get a house in time for the arrival of their new baby.

Having almost lost hope, Damian got in touch with Vanessa Muddiman, an IMB Mobile Lender and a family friend.

The couple says Vanessa was clear and made things easy from their first meeting.

“Vanessa mapped out all the steps for us. She said, ‘This is how it will work, this is what you’ll need to start with, and if you do A, B and C, I’ll take care of X, Y and Z,’” Damian says.

“It really eased our minds to know that Vanessa was all over the process and going to let us know what to do at each step.

“That really took a weight off our shoulders, given Elissa was about to go on maternity leave and we had a fair bit going on at that stage.”

With Vanessa’s help, the couple had their loan application approved and have since moved into their new home. Vanessa has stayed in touch since and subsequently helped the couple take advantage of a lower interest rate on their mortgage.

“That was really good because we were so busy at the time with our newborn that we didn’t even think to look at our rate.

“It was so fantastic of her to go above and beyond in that way,” Damian says.

So impressed have they been with Vanessa’s service, the couple has recommended her to their friends.

“I knew a friend who was in a similar situation where they couldn’t get a loan because the banks kept knocking them back,” Elissa says.

“And Vanessa was able to get them a loan too, so that was really fantastic.”

Damian, Elissa and baby Walter, at home in Newcastle.

Our Community

Through the disruption of the bushfire and COVID-19 emergencies, IMB has maintained close ties to the community and is building foundations for FY21.

Since 1880, IMB's core philosophy has been to help build strong, resilient communities. Grassroots and meaningful financial support remains our primary focus, funding a variety of charity, community, business advocacy and sporting organisations.

These efforts are split between strategic sponsorships, community engagement and enrichment, and the work of the IMB Bank Community Foundation.

As with IMB's 140th anniversary celebrations, our sponsorship and IMB Community Foundation activities were disrupted in the second half of FY20 by the COVID-19 pandemic. However, we have adapted our community engagement processes for FY21 and our community bonds remain strong.

Sponsorships

In the first half of FY20, IMB's planned schedule included the successful celebration of the IMB Bank Illawarra Business Chamber Awards at WIN Entertainment Centre, the Illawarra Women in Business Awards, IMB Sunset Cinema in the Illawarra, Canberra and Sydney and the IMB Bank Cook Community Classic in the Sutherland Shire, a health and community initiative of the Prime Minister of Australia, The Hon Scott Morrison MP.

We are also a sponsor of the Illawarra Hawks Basketball Team and invest in local junior sport, using IMB's social media channels to celebrate players each week during the season. Highlights from our sporting club support include being the official community partner of Football South Coast, the Hills Shire Junior Football competition, Camden Junior Rugby League and more. Junior sport is a vital component of diligent corporate citizenship, and essential for providing our young people with valuable skills for a healthy and fulfilling life.

Supporting business

Our dedication to supporting the business community and celebrating business excellence expanded in 2020. On top of existing naming rights sponsorship of the IMB Bank Illawarra Business Awards, we are major category sponsors of the Shoalhaven Business Awards and the Eurobodalla NSW Business Awards.

As an organisation with a Board gender equation that is 62% female, we are proud to prioritise sponsorship opportunities for professional women. In 2020, IMB was pleased to take part in the Illawarra Women in Business Awards and the International Women's Day Each for Equal celebration. We will be looking to expand our advocacy for women in business in FY21.

Over the past 12 months IMB has been proud to support:

- Australia's Biggest Morning Tea
- Bega High Sports Awards
- Clean Up Lake Burley Griffin
- Cook Community Classic
- Day at the Lake ACT
- Eden Chamber of Commerce
- Eurobodalla Business Awards
- Football South Coast
- Hills Shire Football
- Illawarra Business Awards
- Illawarra Hawks
- Illawarra Women in Business
- Jeans for Genes
- Lifeline
- NSW Police Ball
- Oran Park Mums Festival
- Penrith Rugby Union Club
- Rouse Hill Town Centre Winter Fair

- RUOK Day
- Shoalhaven Business Awards
- Sunset Cinema
- Sutherland 2 Surf
- Spring Corrimal Festival
- Thriving Women
- UOW: O-Week and O-Day

Financial literacy

The Money Tree by IMB Bank (www.imbmoneytree.com.au) is a financial literacy hub launched in 2017 to provide information and resources for teenagers. Designed in alignment with financial literacy curricula, The Money Tree gives teens insights on earning, saving, spending and managing their money. The program will be expanded in FY21.

Top: *IMB's General Manager of Sales and Marketing Michael Brannon (left) presents the 2019 IMB Bank Illawarra Business of the Year to Symbio Wildlife Park.* ***Middle Left:*** *IMB CEO Robert Ryan and team enjoy a photo opportunity with Prime Minister The Hon Scott Morrison MP at the Cook Community Classic.* ***Middle right****: Corrimal Chamber of Commerce President Neil Johnston with IMB Corrimal Branch Manager Rebecca Round.* ***Bottom right:*** *IMB team supporting Lifeline in the wake of the bushfires: Standing from left: Rachael Heald, Terry Widdicombe, Robert Ryan, Nathan Campbell, James Armstrong. Seated, from left: Pushpa Kant, Gai McGrath, Lauren Wise, Clair Messiha.* ***Bottom left:*** *IMB's Buzzy is flanked by IMB's Nermin Farahat (left) and Mira Subasi at Rouse Hill's Winter Fair.*

IMB Bank
Community Foundation 2020

A disruptive year required the Foundation to target its support to bushfire-affected communities and those in immediate need, with the broader grant allocation process now resuming.

In FY20, the IMB Bank Community Foundation turned 21 and allocated $600,000 for community projects.

700+

Community projects supported since 1999

$10m

plus in grants

In a year like no other, connection to our local communities is more important than ever before. The importance of the role the IMB Bank Community Foundation fulfils has been reaffirmed by the record number of applications we received this year. The Foundation has experienced disruptions to our usual timetable as a result of COVID-19 restrictions. With assessment due to take place in April at the height of NSW COVID-19 restrictions, the IMB Community Foundation committee made the difficult decision to defer the timetable until later in the year.

The committee was pleased however, to be able to announce early funding for six projects presenting an urgent need, including:

- **Parramatta Mission, Western Sydney Lifeline:** Training for additional call support volunteers
- **Care South, Health Hub:** Providing basic health checks to underprivileged children
- **North Shoalhaven Meals on Wheels, Kitchen Upgrade:** A new appliance to increase output and the variety of meals
- **Para Meadows School, The Corner Store:** A real life experience to support students learning everyday life skills
- **Wolumla Fire Brigade, Quick-fill Pump:** Equipment to improve access to water for firefighting
- **The Victor Chang Research Institute, Heart Health Tour:** The second of two years of funding to support free heart health checks within our local communities.

In addition, the Foundation donated $50,000 to the Vinnies Bushfire Appeal to help rebuild those communities in which we live and operate that were impacted by the bushfires over the summer. Another $50,000 of 2020 funding is earmarked specifically for projects in bushfire-affected areas.

The IMB Bank Community Foundation organising committee is eagerly anticipating a return to the timetable and remains very positive about potential projects for 2020.

Clockwise from top: *Parramatta Mission, Western Sydney Lifeline; Students at the Para Meadows School; Wolumla RFS Brigade; The Victor Chang Heart Health Tour; North Shoalhaven Meals on Wheels.* ***Page 30:*** *The Care South Health Hub.*

In focus: **Foundation support**

Backing the RFS

For over 15 years the IMB Bank Community Foundation has contributed to a vital community asset: the Rural Fire Service.

Since it was established in 1999, the IMB Bank Community Foundation has provided funding support to those working to make our local communities better for everyone.

Over the years the IMB Bank Community Foundation has forged strong relationships with many diverse groups within our communities, among them those courageous enough to take on the worst that nature throws at us, our rural firefighters.

Our relationship began with a grant awarded to Burragate Rural Fire Service in 2005. Fifteen years later and the IMB Bank Community Foundation has generated close to $200,000 in support of Rural Fire Brigades and communities rebuilding after devastating bushfires, including an allocation of $50,000 in 2020. After the bushfires in December 2019 and January 2020, a further $50,000 was donated by the Foundation to the Vinnies Bushfire Relief Fund, for rebuilding the impacted areas where IMB calls home.

Grants have ranged in value, though each has had a significant impact. Funding has been provided to support the purchase of equipment to support fire-fighting efforts – including a portable generator for emergency lighting and power, a thermal imaging camera for quick assessment of a fire scene, a reel that allows quick deployment of a live water hose thereby reducing operational fatigue for crews and VHF radios providing critical communications on the fireground.

The IMB Bank Community Foundation is also proud to have supported the upgrade of fire station amenities and provided support for training and education of crews and their community members.

In 2013, the IMB Bank Community Foundation worked with Lynwood Park Rural Fire Brigade to build a Hothouse training facility allowing fire fighters across Western Sydney practical training in a real-life scenario.

Over the years, many of our local communities have been devastated by intense bushfires, some of the worst occurring in our most recent bushfire season. The IMB Community Foundation has been there to lend a hand with donations to bushfire and mayoral appeals in the worst affected areas.

We would like to take this opportunity to thank every crew member who worked so tirelessly to support communities in the front line, and the many community members that stepped up to support the people and animals suffering around them.

Clockwise from top left: *The Heathcote RFS backburning; Engadine RFS Brigade at work; Farmborough Heights RFS truck; Crossroads team on site; Crossroads Brigade and supporters.*

"The IMB Community Foundation has been there to lend a hand with donations to bushfire and mayoral appeals in the worst affected areas."


FARMBOROUGH HEIGHTS 18

Our People

In an extraordinary year, expanded support and investment in our people and their wellbeing, growth and learning is delivering an improved experience for our members.

We deliver on our promise to our members through our people, and a culture of doing the right thing by our members, our people and our stakeholders.

84%

Engagement Index for our team across the business

100%

Office staff enabled to work remotely in response to COVID-19

We successfully delivered a full program of both corporate and people initiatives set out for 2019-2020 and adjusted our priorities and focus as needed to respond to the unforeseen events. Pleasingly, our Employee Engagement has remained high at 84% and our overall attrition has dropped.

Our new employees joined various areas of the business bringing with them new skills, experiences and diverse backgrounds, including our new Head of IT, Krissie Auld. We continued our commitment to our diversity and gender equality goals, by providing promotional opportunities to 46 of our employees, of which 74% were awarded to women, with 84% of management promotions being women.

We have focused our efforts on supporting our strategy, such as ensuring the seamless transition of Hunter United employees into IMB; and the transfer of IMB Financial Planning employees to Bridges. We have also made progress on our People Strategy with the design and implementation of the Leadership Learning curriculum; support for our Mortgage Lending Transformation and branch interface system replacement projects.

Health and Safety – COVID-19 & bushfire response

As COVID-19 impacted workplaces and communities everywhere, we responded quickly. We shifted our areas of focus and changed the way we worked as we needed to, enabling 100% of our office-based staff to work remotely as well as implementing our COVID Safe Plan with cleaning, hygiene and Personal Protective Equipment (PPE) in place to ensure our people and our members still interacting face-to-face were safe in the workplace.

We placed a significant focus on our people's mental health and that of their friends and family – as well as the safety and wellbeing of all our employees, our members and communities through our continued commitment to Zero Harm. In providing our people with the capability to work remotely, each person was in turn able to provide the support they needed to their family, friends and community during the pandemic.

RUOK Day was promoted across the company in an effort to raise awareness for mental health and to remind our staff to ask someone "Are you OK?". We provided resources and tools to encourage them to have conversations about mental health where needed, to help either themselves or others who may be struggling.

We greatly improved our communications, providing more real-time and relevant information to our people and members. We created a specific WHS Newsletter and a new intranet site with COVID-19 information comprising 26 Fact Sheets covering health and safety, mental health, ergonomics and remote working and helpful links to Support Services. Feedback from our people has been overwhelmingly positive with 91% feeling properly equipped and supported during the pandemic.

For our people affected by bushfires during January, we mobilised our

Employee Assistance Program (EAP) provider to brief teams, talk with staff and conduct site visits (where possible) with our HR team supporting each individual staff member's recovery back to work.

Developing our people

To ensure our people have the skills and knowledge needed to create meaningful experiences for our members, we delivered 19,530 hours of training overall during the year. The deployment of a virtual learning library has enabled us to swiftly transition to virtual learning as many of our people transitioned to working from home. As support for Remote Working, Cyber Awareness, Robbery Safety and Dealing with Aggressive Customers was needed, we have been able to provide relevant content and support. Equipping our leaders with the skills to manage a complex and changing environment has been supported through our Adaptive Leadership training.

Emerging talent

We continue to support our Traineeship and Cadetship programs, along with tertiary education support to develop and grow talent across IMB. This year, we welcomed 11 trainees and 5 cadets to new careers in financial services where they gained valuable on-the-job work experience and knowledge of our business and industry. Since 2005, we have helped 142 young people to further their qualifications with a 12-month traineeship. With a significantly high completion rate of 95%, 87% of our trainees take up a permanent role with IMB on completion, and 40% of all trainees are still employed by IMB.

Two of our Emerging Leaders from our technical and operational areas of the business attended the COBA Emerging Leaders Program – Justine Parkinson from IT and Jeremy MacDonald from Anti-Money Laundering/Fraud.

As a founding Corporate Partner to the UOW Global Leaders Development Program, IMB has hosted a Bachelor of Commerce Global Honours student for Industry Placement over the past three years. Dean Naylor, our Global Leaders Development Program student is on his final placement with us and has spent time working with and supporting our Project Management, Member Experience and Business Process Transformation teams.

Diversity

This year we celebrated International Women's Day on 6 March, 2020 and ran a competition to recognise a staff member who is supporting the development of women in the community. The winner was Annabel Cook of Fairy Meadow Branch, nominated by her colleague, Olivia Partridge.

"Each for Equal" at the International Women's Day luncheon at Wollongong Entertainment Centre. Clockwise from left: IMB team members Nathan Campbell, Annabel Cook, Olivia Partridge, Krissie Auld, Nandi De Araujo, Lauren Wise, Stephen Pender, Catherine Aston (Director), Rachael Heald, Terry Widdicombe.

Our People

Continued

Early in 2020, IMB joined the Women in Banking & Finance association to provide more growth and development opportunities for our employees, and so far has sponsored two women to attend the WIBF Leadership Summit and five additional women to participate in further leadership programs.

Our workforce composition is weighted to 70% female and 30% male and comprised of 65% full time, 31% part time and 4% casual employees.

Gender Diversity (Workplace Gender Equality Report)	2018 %	2019 %	2020 %
% Workforce female	72.8	74.2	73.6
Proportion of promotions awarded to women	74.7	80.0	74.0
Proportion of management promotions awarded to women	83.3	50.0	83.3
Proportion of all females in Branch/Mid-level management positions	55.8	57.4	64.7
Proportion of females in senior management positions	10.0	34.4	34.7

46

Employees offered promotion opportunities

84% of management promotions awarded to women

91%

of staff feel equipped and supported through COVID-19

Recognition

Our staff are recognised through formal awards throughout the year and in an annual celebration. Staff are nominated and recognised by peers or IMB members. These awards reward high performance, outstanding member service and actions which reflect our organisational values, and dedicated service to the company over many years.

Chief Executive Award

Jody Hennessy, Project Management Office, was the winner of the 2018-2019 Chief Executive award. Jody displays exemplary leadership qualities and embodies IMB's values, equally able to perform the role of leader or team member to get the job done. During the previous year, Jody oversaw the challenging and technically complex Mobile Payments project. She consistently went above and beyond to offer solutions to problems and challenges across the business to ensure positive outcomes for IMB Members. Jody balanced managing the IMB project team while effectively building and managing key relationships across external organisations such as First Data, Apple, Google and Visa. Jody also assisted with technical troubleshooting while providing strategic support to the Executive Sponsor and Business Owner of the project. Jody's work exemplifies IMB's goal to simplify our processes and to adopt better ways of working.

Outstanding Service Awards

The IMB Outstanding Service Award recognises those staff members who consistently provide excellent service to external or internal customers of IMB. Our joint winners of this year's award were Cheryl Spurs of Warilla Branch and Adam Bowyer from our Information Technology team.

*IMB Night of Excellence major category winners: **Top:** CEO Robert Ryan with Chief Executive Award winner Project Manager Jody Hennessy; Outstanding Service Award winners Cheryl Spurs, IMB Warilla (left) and Network Support Analyst Adam Bowyer (right).*

In focus: **Our team**

Living right by you

IMB Bank is proud of the way our staff have developed and refined our culture for 140 years. Newcastle-Hunter Mobile Lender Vanessa Muddiman embodies this culture.

Joining IMB in 2018 after taking a break from her career in banking, Vanessa took on the challenge of introducing the Newcastle-Hunter region to IMB in her role as the sole mobile lender responsible for the area.

Winning Lender of the Year in just her first 12 months at IMB, Vanessa has blazed a trail in the region, successfully establishing IMB as a bank committed to the local community.

Constantly aiming to help her clients find the right solution at the right time, Vanessa epitomises IMB's culture. She says the key to her success is that she believes in what IMB's solutions can do for members of the community.

"I love what I do, and I never ever look at my role as a sales role. I look at my role as a relationship role," Vanessa says. "I treat every single interaction as a personal interaction."

Vanessa is committed to developing long-lasting relationships which make members feel valued.

"The key is the relationship, and that's the rewarding part: having the conversation with people. What is it about them, what is it that makes them tick," Vanessa says. "And it's not about 'What can I get from them right now?' and walking away to process the loan thinking, 'Great, we've got the deal.' It's about asking what I want for those clients in three and five years. It's about making myself accessible to them. I say to them, 'Don't stress if it's 6pm at night and you're having tea, and you want to put the kids to bed. If you want to ring me at 8pm, ring me then and ask those questions you have while they're fresh in your head.'"

Vanessa's clients agree, regularly offering glowing feedback about their experience with the Hunter-Newcastle mobile lender. "She was friendly, always on the ball, always made the extra effort, and small touches like sending a card to my address to congratulate me were really thoughtful and kind. I'm recommending her to my brother," wrote one customer in an endorsement to management.

Newcastle first home buyers Damian Callander and Elissa Lalor say Vanessa went above and beyond throughout the purchase of their home, making things as easy as possible as they navigated the process of buying their first home.

"Vanessa was an absolute pleasure to deal with, and is a huge asset to IMB Bank," the couple said.

"I love what I do, and I never ever look at my role as a sales role. I look at my role as a relationship role."

Vanessa Muddiman IMB Mobile Lender of the Year

Directors' Report

The directors have pleasure in presenting their report, together with the financial statements of IMB Ltd, ("the Company") and of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2020 and the auditor's report thereon.

Directors

The directors of the Company during or since the end of the financial year are:

Noel Harold Cornish AM
Catherine Ann Aston
James Randolph Coleman, retired 30 June 2020
Peter John Fitzgerald
Jann Angela Gardner, appointed 1 May 2020
Gai Marie McGrath
Jan Margaret Swinhoe
Margaret Elizabeth Towers
Harry Walter Wendt, appointed 1 July 2020

All of the directors are independent directors.

The particulars of the qualifications, experience and special responsibilities of each director holding office at any time during or since the end of the financial year are set out on pages 22 to 23 of this report.

At the annual general meeting of the Company on 9 November 2020, Mr PJ Fitzgerald, Ms JM Swinhoe and Mr H Wendt will retire in accordance with the constitution of the Company and, being eligible, offer themselves for re-appointment.

Company Secretary

Ms Lauren Wise (BA LLB Grad Dip. Legal Practice) was appointed to the position of Company Secretary in 2007.

Principal Activities

The principal activities of the Group during the financial year were the provision to members of banking and financial services, including lending, savings, insurance and investment products.

There has been no significant change in the nature of these activities during the year ended 30 June 2020.

Operating and Financial Review

Consolidated profit after tax for the year attributable to members was $26.3 million (2019: $31.7 million), a decrease of $5.4 million or 17.0% on 2019, primarily due to higher impairment charges driven by the impacts of the COVID-19 pandemic. Profit after tax before the increase in the collective provision was $29.1 million, down 8.2% on the prior year.

Total deposits increased to $5,871 million, up by $605 million or 11.5% on the previous year.

Loan approvals of $1,260 million were in line with the prior year (2019: $1,261 million). Total loans and advances to customers increased by 9.5% or $467 million to $5,391 million.

Net interest income for the year was $129.7 million, up $4.7 million, or 3.8% on the previous year. This increase was predominantly due to an increase in average earning assets.

Impairment losses were $5.2 million, $3.7 million higher than the previous year. This increase was due to an increase in the collective provision for impaired loans due to the impacts of the COVID-19 pandemic.

Non-interest income for the year increased by $0.2 million, or 1.3%, to $13.8 million, mainly due to the profit on sale of the IMB Financial Planning business.

Non-interest expense for the year increased by $9.0 million, or 9.8%, to $100.6 million (2019: $91.6 million). This was due to an increase in personnel and marketing expenses, and data processing costs.

The non-interest expense to operating income ratio increased from 66.9% in 2019 to 72.8% in 2020, predominantly due to the increase in the collective provision, as well as the costs of implementing the digital strategy, and the merger with Hunter United Employees' Credit Union. Excluding the increase in the collective provision the non-interest expense to operating income ratio was 70.7%.

A range of Government relief and stimulus measures have been made available to entities as a result of the COVID-19 pandemic. In this respect:

- on 6 April 2020 IMB accessed $59.0m through the Reserve Bank's Term Funding Facility. This facility will end on 30 June 2021.
- on 9 April 2020 IMB was approved as a participating lender in the Government's Coronavirus SME Guarantee Scheme which provides a framework for lenders to make loans to eligible businesses (50% of which will be guaranteed by the Government) to assist them to work through the pandemic. IMB was approved for an unconditional allocation of $3 million under the first phase of the scheme which ends on 30 September 2020.
- IMB has not received any other forms of support such as the JobKeeper subsidy.

Dividends

Dividends paid or declared by the Company to shareholders since the end of the previous financial year were:

- a final ordinary dividend of $0.105 per share amounting to $2.532 million franked to 100% at a tax rate of 30%, declared on 26 August 2019, in respect of the year ended 30 June 2019, paid on 3 September 2019.
- an interim dividend of $0.08 per share amounting to $1.929 million franked to 100% at a tax rate of 30%, declared on 29 January 2020, in respect of the year ended 30 June 2020, paid on 27 February 2020; and
- a final ordinary dividend of $0.075 per share amounting to $1.808 million franked to 100% at a tax rate of 30%, declared on 14 September 2020, in respect of the year ended 30 June 2020, payable at the close of trade on 21 September 2020.

Total dividends paid or declared in respect of the year ended 30 June 2020 were $0.155 per share (2019: dividend of $0.20) amounting to $3.737 million (2019: $4.999 million).

Events Subsequent to Reporting Date

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely Developments

No other matters, circumstances or likely developments in the operations have arisen since the end of the financial year that have significantly affected or may significantly affect:

(i) The operations of the Group;

(ii) The results of those operations; or

(iii) The state of affairs of the Group,

in the financial years subsequent to this financial year.

State of Affairs

Details of any significant changes in the state of affairs of the Group are disclosed in the Chairman's Letter and Chief Executive's Review of Operations on pages 6 to 13 of the annual report.

Directors' Interests

The relevant interests of each director in the share capital of the Company are:

Director	Holding at 14 September 2020
Mr NH Cornish	2,000
Ms CA Aston	–
Mr JR Coleman	–
Mr PJ Fitzgerald	2,000
Ms JA Gardner	–
Ms GM McGrath	–
Ms JM Swinhoe	–
Ms ME Towers	–
Dr HW Wendt	–

The Constitution of the Group includes specific eligibility requirements to qualify as a Director that relate to minimum holdings of share capital of, or deposits with, the Company. All Directors have satisfied these eligibility requirements.

Environmental Risk and Regulation

The Group is exposed to a range of risks which are monitored and managed through the Risk Management Framework. Sustainability Risk, including environmental risk, is one of the categories of risk under the Risk Management Framework. IMB is exposed to environmental risk predominantly through the lending portfolio. This risk is managed via credit policies including an assessment process that identifies security properties located in pre-determined risk areas. An environmental assessment is incorporated in the valuation of security properties as well as a requirement that all security properties be adequately insured.

The Group's operations include the ownership of branch premises (land and buildings) which are subject to standard environmental regulations applicable to owners of property. Processes are in place for monitoring any associated environmental responsibilities in relation to these properties and the Board is not aware of any breach of environmental requirements as they apply to the Group.

Other than the matter discussed above, the Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

IMB acknowledges the announcement made by APRA during the year that it intends to develop guidance on the prudent management of climate change risks

Directors' Report

aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, including aspects of governance, strategy, risk management, metrics and disclosures. IMB's approach to this area of risk management will continue to evolve, including having regard to APRA's views on better industry practice.

Directors' and Officers' Indemnification and Insurance

Indemnification

Every director and executive officer of the Company and its controlled entities is indemnified out of the property of the Company against any liability which the director or executive officer may incur while acting as a director or executive officer.

Insurance Premium

During the year, the Company paid a premium in respect of a contract insuring the current and former directors and executive officers of the Company and its controlled entities against certain liabilities that may be incurred in discharging their duties as directors and executive officers. The contract of insurance prohibits the disclosure of the nature of the liabilities insured and premium payable.

Corporate Governance Statement is online

IMB Bank complies with its constitution, the Corporations Act 2001 (Cth), and has regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Fourth Edition) (ASX Principles).

As an APRA-regulated entity, IMB Bank also complies with the governance requirements prescribed by APRA under Prudential Standard CPS 510 Governance. Information about IMB Bank's Board and management, corporate governance policies and practices and enterprise Risk Management Framework can be found in the Corporate Governance Statement available at:
www.imb.com.au/about-us-corporate-governance.html

APS 330 Capital Instruments Disclosure

Regulatory disclosures required under Prudential Standard APS 330, including a reconciliation between the Group's regulatory capital and audited financial statements, and additional disclosures in the composition of the Group's regulatory capital, are available on the Company's website imb.com.au

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 45 and forms part of the directors' report for the financial year ended 30 June 2020.

Meetings of Directors

The following table sets out the number of meetings of the Company and its wholly owned subsidiaries held by the directors during the year ended 30 June 2020 and the number of meetings attended by each director.

	IMB Ltd		IMB Securitisation Services Pty Ltd		IMB Funeral Fund Management Pty Ltd		IMB Community Foundation Pty Ltd		IMB Financial Planning Ltd	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Mr NH Cornish	10	10	2	2	2	2	2	2	1	1
Ms CA Aston	10	10	2	2	2	2	2	2	1	1
Mr JR Coleman^	10	10	2	2	2	2	2	2	1	1
Mr PJ Fitzgerald	10	10	2	2	2	2	2	2	1	1
Ms JA Gardner#	2	2	–	–	–	–	–	–	–	–
Ms GM McGrath	10	10	2	2	2	2	2	2	1	1
Ms JM Swinhoe	10	10	2	2	2	2	2	2	1	1
Ms ME Towers	9	10	1	2	1	2	1	2	–	1

^ Mr JR Coleman resigned from the Board 30 June 2020.

Ms JA Gardner appointed to the Board 1 May 2020.

The following table sets out the number of committee meetings of the Company's directors held during the year ended 30 June 2020 and the number of meetings attended by each director.

	IMB Financial Planning		Audit		Risk Management		People and Culture		IMB Community Foundation		Capital and Securitisation	
	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#
Mr NH Cornish	–	–	*1	–	*1	–	4	4	–	–	2	2
Ms CA Aston	–	–	*4	3	*2	2	4	4	–	–	–	–
Mr JR Coleman	–	–	*2	–	4	4	–	–	–	–	2	2
Mr PJ Fitzgerald	–	–	4	4	*2	–	*2	–	3	3	2	2
Ms JA Gardner	–	–	1	1	*1	–	–	–	–	–	–	–
Ms GM McGrath	4	4	*2	–	4	4	4	4	–	–	2	2
Ms JM Swinhoe	–	–	*1	–	4	4	4	4	3	3	–	–
Ms ME Towers	4	4	4	4	3	4	–	–	–	–	–	–

Number of meetings eligible to attend in a formal capacity as a committee member.

* Includes meetings attended as an observer, not in the capacity as a committee member. Ms CA Aston resigned from the Audit Committee on 1 February 2020, was appointed to the Risk Committee on 1 February 2020, and was appointed Risk Committee Chair on 1 June 2020. Ms JA Gardner was appointed to the Audit Committee and IMB Community Foundation Committee on 1 May 2020.

Directors' Report

Rounding of amounts

The Company is of a kind referred to in ASIC Instrument 2016/191 dated 30 June 2016 and in accordance with that Class Order, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Wollongong this 14th day of September 2020

Signed in accordance with a resolution of the directors:

NH Cornish AM
Chairman

PJ Fitzgerald
Director

Auditor’s Independence Declaration

Lead Auditor’s Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of IMB Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of IMB Ltd for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG	Richard Drinnan
	Partner
	Wollongong
	14 September 2020

Financial Statements Contents

Financial Statements

Statements of Profit or Loss

For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Interest revenue	2	**214,944**	242,279	**236,761**	259,087
Interest expense	2	**(85,208)**	(117,327)	**(107,026)**	(134,135)
Net interest income		**129,736**	124,952	**129,735**	124,952
Impairment losses on financial instruments	2	**(5,178)**	(1,501)	**(5,178)**	(1,501)
Net interest income after impairment losses		**124,558**	123,451	**124,557**	123,451
Fee and commission income	2	**12,345**	12,948	**11,478**	11,776
Fee and commission expense	2	**(306)**	(289)	**(306)**	(289)
Net fee and commission income		**12,039**	12,659	**11,172**	11,487
Profit from sale of property, plant and equipment	2	**110**	89	**110**	89
Other income	2	**1,607**	825	**446**	551
Net operating income		**138,314**	137,024	**136,285**	135,578
Operating expenses	3	**(100,629)**	(91,623)	**(99,681)**	(90,560)
Profit before tax		**37,685**	45,401	**36,604**	45,018
Income tax expense	4	**(11,354)**	(13,669)	**(11,029)**	(13,556)
Profit for the year attributable to members of the Company		**26,331**	31,732	**25,575**	31,462

The statements of profit or loss are to be read in conjunction with the notes to the financial statements set out on pages 53 to 112.

Financial Statements

Statements of Comprehensive Income

For the year ended 30 June 2020

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit for the year	**26,331**	31,732	**25,575**	31,462
Other comprehensive (expense)/income				
Items that will never be reclassified to profit or loss:				
Remeasurement of defined benefit liability	**(581)**	(293)	**(581)**	(293)
Net change in fair value of other financial asset at FVOCI	**(67)**	214	**(67)**	214
Total items that will never be reclassified to profit or loss	**(648)**	(79)	**(648)**	(79)
Items that are or may be reclassified subsequently to profit or loss:				
Net change in fair value of investment debt securities at FVOCI	**(282)**	1,081	**(282)**	1,081
Net change in fair value of cash flow hedges	**3,545**	–	**3,545**	–
Net change in fair value of investment debt securities at FVOCI transferred to profit and loss	**(324)**	(937)	**(324)**	(937)
Total items that may be reclassified subsequently to profit or loss	**2,939**	144	**2,939**	144
Total other comprehensive income/(expense) for the year, net of income tax	**2,291**	65	**2,291**	65
Total comprehensive income for the year	**28,622**	31,797	**27,866**	31,527

Amounts are stated net of tax

The statements of comprehensive income are to be read in conjunction with the notes to the financial statements set out on pages 53 to 112.

Statements of Financial Position

As at 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
ASSETS					
Cash and cash equivalents	26	**226,384**	96,306	**167,476**	62,863
Investment debt securities	6	**952,880**	822,464	**2,610,747**	1,580,370
Deposits with other ADIs	7	**98,644**	164,440	**98,644**	164,440
Loans and advances to customers	8	**5,390,648**	4,924,283	**5,390,648**	4,924,283
Other financial assets	9	**958**	805	**2,716**	2,564
Derivative assets	11	**5,064**	–	**5,064**	–
Property, plant and equipment	12	**85,605**	30,216	**85,605**	30,127
Intangible assets	13	**5,364**	2,281	**5,364**	2,281
Net deferred tax assets	4	**4,500**	3,744	**4,470**	3,713
Other assets	14	**16,543**	32,538	**70,751**	58,552
Total assets		**6,786,590**	6,077,077	**8,441,485**	6,829,193
LIABILITIES					
Trade and other payables	15	**34,426**	40,523	**28,697**	33,037
Deposits	16	**5,871,469**	5,266,418	**5,876,864**	5,270,420
Securitised loans funding	17	**240,198**	324,004	**1,897,781**	1,081,249
Interest bearing liabilities	18	**212,856**	69,853	**212,856**	69,853
Current tax liabilities	4	**2,637**	3,502	**2,637**	3,502
Provisions	19	**13,327**	10,069	**13,327**	10,022
Total liabilities		**6,374,913**	5,714,369	**8,032,162**	6,468,083
Net assets		**411,677**	362,708	**409,323**	361,110
EQUITY					
Share capital	20	**28,324**	28,324	**28,324**	28,324
Reserves		**76,794**	48,734	**76,794**	48,734
Retained earnings		**306,559**	285,650	**304,205**	284,052
Total equity attributable to members of the Company		**411,677**	362,708	**409,323**	361,110

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 53 to 112.

Financial Statements

Statements of Cash Flows

For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
CASH FLOWS USED IN OPERATING ACTIVITIES					
Interest received		**217,429**	244,361	**239,246**	261,169
Other cash receipts in the course of operations		**29,599**	15,405	**(625)**	4,379
Interest paid on deposits		**(95,897)**	(115,070)	**(117,713)**	(131,879)
Income taxes paid		**(13,196)**	(14,671)	**(12,873)**	(14,553)
Net loans funded		**(201,455)**	(354,939)	**(201,455)**	(354,939)
Net increase in deposits		**316,676**	270,896	**318,068**	271,398
Other cash payments in the course of operations		**(93,972)**	(96,991)	**(91,437)**	(87,804)
Net cash flows used in operating activities	26	**159,184**	(51,009)	**133,211**	(52,229)
CASH FLOWS FROM INVESTING ACTIVITIES					
Net (payments for)/redemptions of investment debt securities and Deposits with other ADIs		**(36,205)**	205,650	**(935,978)**	205,516
Expenditure on property, plant and equipment, and intangibles		**(18,779)**	(22,329)	**(18,655)**	(22,325)
Net cash received on merger		**16,198**	–	**16,198**	–
Proceeds from sale of property, plant and equipment	12	**422**	264	**422**	265
Net cash flows from investing activities		**(38,364)**	183,585	**(938,013)**	183,456
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES					
Net proceeds/(repayments) from securitised loans funding		**(83,626)**	(81,791)	**816,531**	(81,450)
Net proceeds from/(payments) for interest bearing liabilities		**97,348**	(44,885)	**97,348**	(44,883)
Own shares acquired		**(3)**	(8,291)	**(3)**	(8,291)
Dividends paid	5	**(4,461)**	(5,064)	**(4,461)**	(5,064)
Net cash flows used in financing activities		**9,258**	(140,031)	**909,415**	(139,688)
Net increase/(decrease) in cash and cash equivalents held		**130,078**	(7,455)	**104,613**	(8,461)
Cash and cash equivalents at the beginning of the year		**96,306**	103,761	**62,863**	71,324
Cash and cash equivalents at the end of the year	26	**226,384**	96,306	**167,476**	62,863

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 53 to 112.

Statements of Changes in Equity

For the year ended 30 June 2020

Consolidated	Share capital $'000	Fair value reserve $'000	Cash flow hedge reserve $'000	General reserve for credit losses $'000	General reserve $'000	Transfer of business reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2018	**30,514**	**3,087**	**–**	**6,874**	**25,255**	**12,894**	**265,642**	**344,266**
Total comprehensive income for the year								
Profit after tax	–	–	–	–	–	–	31,732	31,732
Other comprehensive income								
Remeasurement of defined benefit liability	–	–	–	–	–	–	(293)	(293)
Net revaluation movement due to change in fair value	–	1,295	–	–	–	–	–	1,295
Investment debt securities at FVOCI reclassified to profit or loss	–	(937)	–	–	–	–	–	(937)
Total other comprehensive income	–	358	–	–	–	–	(293)	65
Total comprehensive income for the year	–	358	–	–	–	–	31,439	31,797
Transfer from retained profits	–	–	–	266	–	–	(266)	–
Transactions with owners, recorded in equity								
Dividends to shareholder members	–	–	–	–	–	–	(5,064)	(5,064)
Own shares acquired	(2,190)	–	–	–	–	–	(6,101)	(8,291)
Balance at 30 June 2019	**28,324**	**3,445**	**–**	**7,140**	**25,255**	**12,894**	**285,650**	**362,708**
Balance at 1 July 2019	**28,324**	**3,445**	**–**	**7,140**	**25,255**	**12,894**	**285,650**	**362,708**
Acquired on merger	–	–	–	–	–	24,811	–	24,811
Total comprehensive income for the year								
Profit after tax	–	–	–	–	–	–	26,331	26,331
Other comprehensive income								
Remeasurement of defined benefit liability	–	–	–	–	–	–	(581)	(581)
Net revaluation movement due to change in fair value	–	(349)	3,545	–	–	–	–	3,196
Investment debt securities at FVOCI reclassified to profit or loss	–	(324)	–	–	–	–	–	(324)
Total other comprehensive income	–	(673)	3,545	–	–	–	(581)	2,291
Total comprehensive income for the year	–	(673)	3,545	–	–	–	25,750	28,622
Transfer from retained profits	–	–	–	377	–	–	(377)	–
Transactions with owners, recorded in equity								
Dividends to shareholder members	–	–	–	–	–	–	(4,461)	(4,461)
Own shares acquired	–	–	–	–	–	–	(3)	(3)
Balance at 30 June 2020	**28,324**	**2,772**	**3,545**	**7,517**	**25,255**	**37,705**	**306,559**	**411,677**

Amounts are stated net of tax

Refer to Note 20 for details on each of the reserves. *The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 53 to 112.*

Financial Statements

Statements of Changes in Equity

For the year ended 30 June 2020

Company	Share capital $'000	Fair value reserve $'000	Cash flow hedge reserve $'000	General reserve for credit losses $'000	General reserve $'000	Transfer of business reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2018	**30,514**	**3,087**	**–**	**6,874**	**25,255**	**12,894**	**264,314**	**342,938**
Total comprehensive income for the year								
Profit after tax	–	–	–	–	–	–	31,462	31,462
Other comprehensive income								
Remeasurement of defined benefit liability	–	–	–	–	–	–	(293)	(293)
Net revaluation movement due to change in fair value	–	1,295	–	–	–	–	–	1,295
Investment debt securities at FVOCI reclassified to profit or loss	–	(937)	–	–	–	–	–	(937)
Total other comprehensive income	–	358	–	–	–	–	(293)	65
Total comprehensive income for the year	–	358	–	–	–	–	31,169	31,527
Transfer from retained profits	–	–	–	266	–	–	(266)	–
Transactions with owners, recorded in equity								
Dividends to shareholder members	–	–	–	–	–	–	(5,064)	(5,064)
Own shares acquired	(2,190)	–	–	–	–	–	(6,101)	(8,291)
Balance at 30 June 2019	**28,324**	**3,445**	**–**	**7,140**	**25,255**	**12,894**	**284,052**	**361,110**
Balance at 1 July 2019	**28,324**	**3,445**	**–**	**7,140**	**25,255**	**12,894**	**284,052**	**361,110**
Acquired on merger	–	–	–	–	–	24,811	–	24,811
Total comprehensive income for the year								
Profit after tax	–	–	–	–	–	–	25,575	25,575
Other comprehensive income								
Remeasurement of defined benefit liability	–	–	–	–	–	–	(581)	(581)
Net revaluation movement due to change in fair value	–	(349)	3,545	–	–	–	–	3,196
Investment debt securities at FVOCI reclassified to profit or loss	–	(324)	–	–	–	–	–	(324)
Total other comprehensive income	–	(673)	3,545	–	–	–	(581)	2,291
Total comprehensive income for the year	–	(673)	3,545	–	–	–	24,994	27,866
Transfer from retained profits	–	–	–	377	–	–	(377)	–
Transactions with owners, recorded in equity								
Dividends to shareholder members	–	–	–	–	–	–	(4,461)	(4,461)
Own shares acquired	–	–	–	–	–	–	(3)	(3)
Balance at 30 June 2020	**28,324**	**2,772**	**3,545**	**7,517**	**25,255**	**37,705**	**304,205**	**409,323**

Amounts are stated net of tax

Refer to note 20 for details on each of the reserves. *The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 53 to 112.*

Notes to the Consolidated Financial Statements

1 Significant accounting policies

(a) Reporting entity

IMB Ltd (the "Company") is a company domiciled in Australia.

The address of the Company's registered office is 253-259 Crown Street, Wollongong NSW. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprises the Company and its subsidiaries (together referred to as the "Group").

The Group is a for-profit entity primarily involved in the provision to members of banking and financial services, including lending, savings, insurance and investment products.

(b) Basis of preparation

(i) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. This financial report complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The Group has adopted Class Order 10/654, issued by the Australian Securities and Investments Commission, permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by regulation 2M.3.01 of the *Corporation Regulations 2001*.

This is the first set of the Group's annual financial statements in which *AASB 16 Leases* has been applied. Changes to significant accounting policies are described in Note 1(c).

This financial report was authorised for issue by the directors on 14 September 2020.

(ii) Basis of measurement

This financial report was prepared on the historical cost basis, except for investment debt securities and equity investments that are stated at their fair value.

(iii) Functional and presentation currency

This financial report is presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(iv) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected. For the year ended 30 June 2020, this revision has included the impacts of the COVID-19 pandemic.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Loan impairment (Notes 1(h) and 10);
- Consolidation of special purpose entities (Notes 1(d) and 25);
- Valuation of financial instruments (Notes 1(b)(v), 1f, 6 and 9); and
- Defined benefit fund liability (Notes 1(p) and 21).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Loan impairment (Notes 1(h) and 10);
- Measurement of fair values (Notes 1(b)(v), 1(f) and 30).

(v) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not observable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

This category includes instruments that are value based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(c) Changes in accounting policy

The Group has initially adopted AASB 16 *Leases* from 1 July 2019. A number of other new standards are effective from 1 July 2019 but they do not have a material effect on the Group's financial statements.

AASB 16 Leases

AASB 16 *Leases* introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right of use assets (ROUA), representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied AASB 16 using the modified retrospective approach, under which the right of use asset is equal to the lease liability at the date of initial application. Accordingly, the comparative information presented for 2019 has not been restated, i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below.

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under *Interpretation 4 Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and *Interpretation 4* were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group leases many assets, including properties and IT equipment. As a lessee, the Group previously classified leases as operating leases or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under AASB 16, the Group recognises right of use assets and lease liabilities for most leases i.e. these leases are on balance sheet.

However, the Group has elected not to recognise right of use assets and lease liabilities for some leases of low-value items (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense over the lease term.

The Group presents right of use assets in ‘property, plant and equipment’ and lease liabilities in ‘interest bearing liabilities’ in the statement of financial position. The carrying amounts of right of use assets are as below:

Property, plant and equipment

	Land and Buildings $’000
Balance at 1 July 2019	21,487
Balance at 30 June 2020	18,145

Significant accounting policies

Transition

Previously, the Group classified property leases as operating leases under AASB 117. These include real property and IT equipment. The leases typically run for a period of 5 years. Some leases include an option to renew the lease for an additional 2 to 10 years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 July 2019. Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right of use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains an option to extend or terminate the lease.

(iii) Impacts on financial statements

Impacts on transition

On transition to AASB 16, the Group recognised additional right of use assets and lease liabilities. The impact on transition is summarised below. For detailed accounting policies under AASB 16 and AASB 17 see Note 1(n).

	1 July 2019 $’000
Right of use assets (presented in Property, plant and equipment)	21,487
Lease liabilities (presented in Interest Bearing Liabilities)	(21,487)

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The rate applied is 2.65%.

	1 July 2019 $'000
Operating lease commitment at 30 June 2019 as disclosed in the Group's consolidated financial statements	18,650
Discounted using the incremental borrowing rate at 1 July 2019	17,881
– GST considered under operating lease commitments	(1,695)
– Rent paid in advance and other adjustments	(847)
– Extension options reasonably certain to be exercised	6,148
Lease liabilities recognised at 1 July 2019	21,487

Impacts for the period

As a result of initially applying AASB 16, the Group recognised $18,145,000 of right of use assets and $17,850,000 of lease liabilities as at 30 June 2020. Also in relation to the leases under AASB 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 30 June 2020, the Group recognised $7,423,000 of depreciation charges and $421,000 of interest costs.

During the year ended 30 June 2020, the Group entered into 7 new lease agreements for use of real property for up to 6 years. The Group makes fixed payments and additional variable payments during the contract period. On lease commencement, the Group recognised $3,463,000 as a right of use asset and lease liability.

(d) Basis of consolidation

(i) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(iii) Special Purpose Entities (SPEs)

The Group has securitised certain mortgage loans by the transfer of the loans to Special Purpose Entities (SPEs) controlled by the Group. The securitisation enables a subsequent issuance of debt by the SPEs to investors who gain security of the underlying assets as collateral. Those SPEs are fully consolidated into the Group's accounts.

The transfer of mortgage loans to the SPEs are not treated as a sale by the Company. The Company continues to recognise the mortgage loans on its own balance sheet after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the SPEs. In the accounts of the Company the proceeds from the transfer are accounted for as an imputed loan repayable to the SPEs.

The Group has also entered into self-issuances of debt to be used as collateral for repurchase ('repo') transactions. Investments in self-issued debt and the related obligation, together with the related income, expenditure and cash flows, are not recognised in the Group's financial statements.

To manage interest rate risk, the Company enters into derivative transactions with the SPEs, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the imputed loan and are not separately fair valued because the relevant mortgages have not been derecognised.

(iv) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the

Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(v) Discontinued operation

A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively for resale.

Classification as a discontinued operation occurs at the earlier of when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

(e) Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand and deposits at call with Authorised Deposit-taking Institutions and are stated at the gross value of the outstanding balance. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flows.

(f) Financial assets

(i) Classification and measurement

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value adjusted by directly attributable transaction costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. For the purposes of subsequent measurement, on initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include cash and cash equivalents, deposits with other ADIs, loans and advances to customers and other assets.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI include investment debt securities and equity investments.

All other financial assets, including those loans and advances to customers that are mandatorily required to be measured at fair value due to the inclusion of a no negative equity guarantee, are classified as measured at FVTPL.

In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent to initial recognition the following measurement principles and recognition of gains and losses are applied as follows:

- financial assets at amortised cost are measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

in profit or loss. Any gain or loss on derecognition is recognised in profit or loss;

- investment debt securities at FVOCI – debt are measured at fair value. Interest income calculated using the effective interest rate method and impairment are recognised in retained earnings;
- equity investments at FVOCI – equity investments are measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss; and
- financial assets at FVTPL – financial assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

(ii) Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

(iii) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(v) Securities sold under repurchase agreements

Securities sold under an agreement to repurchase are not derecognised from the statements of financial position and an associated liability is recognised for the consideration received.

(g) Revenue and expense recognition

(i) Net interest income

Interest income and expense is recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost or investment debt securities classified as at FVOCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include expected credit losses. Interest income that is classified as credit impaired is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying amount after deducting the impairment loss).

(ii) Fees and commission income

Fees and commission income include fees other than those that are an integral part of EIR.

Fee income relating to deposit or loan accounts is either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to performance obligations carried out over a period of time therefore recognised on a systematic basis over the life of the agreement as the services are provided.

Transaction fees and provision of services are defined within product terms and conditions.

Commission income which includes insurance, protection products and financial planning advice is recognised when the performance obligation is satisfied and only at the point that the income is highly probable and not expected to be reversed in future periods.

(iii) Dividend income

Dividends and distributions from controlled entities are brought to account in profit or loss when they are declared. Dividends and distributions from other parties are brought to account in profit or loss when the right to receive income is established.

(iv) Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

(h) Impairment

Financial assets within the scope of AASB 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at either amortised cost or FVOCI. These include cash, deposits with other ADIs, investment debt securities and loans and advances to customers.

Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include on-balance sheet mortgage loans, commercial loans, personal loans and revolving credit and off-balance sheet undrawn loan commitments.

For investment debt securities and deposits with other ADIs, the Group has applied the AASB 9 'low credit risk' exemption given their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are calculated from initial recognition of the financial asset for the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the statements of financial position is net of impairment provisions.

For financial assets classified as FVOCI, any credit losses are recognised in the fair value reserve.

(i) Forward-looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, three scenarios are used.

This includes a central scenario which reflects the Group's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability.

The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 10.

(ii) Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

default events expected to occur over the lifetime of the instrument.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group uses the criteria of 30 days past due or loans under credit watch as the criteria to identify whether there has been a significant increase in credit risk.

Stage 3: credit-impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit-impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit-impaired when:

- there is significant financial difficulty of the borrower or issuer;
- there is a breach of contract as a default or past due event;
- there is restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- there is disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition is different.

Interest income on stage 3 credit-impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above. For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met.

(iii) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL is measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in the derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the effective interest rate method of the existing financial asset.

(iv) Write-off

Loans remain on the statements of financial position, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

(v) General reserve for credit losses

A general reserve for credit losses is also held as an additional allowance for impairment losses to meet current prudential requirements.

(vi) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets (see Note 1(k)), are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of other non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Derivatives

(i) Cash flow hedges

The risk being hedged in a cash flow hedge is the potential variability in future cash flows that may affect profit or loss. The Group uses interest rate swaps to hedge its exposure to interest rate risks arising from operating, financing and investing activities. In accordance with its Interest Rate Risk management policy, the Group does not hold or issue derivative financial instruments for trading purposes.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the year for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125% For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below. The fair value of derivative financial instruments is determined by reference to market rates for similar instruments.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the cashflow hedge reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same year as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the year when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss. In other cases, the amount recognised in other income is transferred to the income statement in the same year that the hedge item affects profit or loss.

(j) Deposits

Deposits are the Group's primary source of debt funding. Deposits are initially recorded at fair value plus any directly attributable transaction costs and subsequently measured at their amortised cost using the effective interest method.

(k) Income tax

Income tax expense for the year comprises current and deferred tax. Current and deferred tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to shareholders.

(i) Tax consolidation

The Company is the head entity in a tax consolidated group comprising the Company and all its wholly-owned subsidiaries. As a consequence, all members of the tax consolidated group have been taxed as a single entity from 1 July 2003. Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised by the Company as amounts payable (receivable) to (from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The head entity recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised. Any subsequent year adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-company receivable/(payable) equal in amount to the tax liability/(asset) assumed.

The inter-company receivables/(payables) are at call. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities. The head entity in conjunction with other members of the tax consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (see Note 1(h)(vi)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives in the current and comparative years are as follows:

- Buildings 40 years
- Leasehold Improvements up to 7 years
- Plant and Equipment 3 – 15 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually and adjusted if appropriate.

(m) Intangibles

Computer software

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls. The Group carries capitalised computer software assets at cost less accumulated amortisation and any accumulated impairment losses. These assets are amortised over the estimated useful lives of the computer software (being between 3 and 5 years) on a straight-line basis. Computer software maintenance costs are expensed as incurred. Any impairment loss is recognised in the profit or loss when incurred. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(n) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16.

(i) As a lessee

The Group recognises a right of use asset and lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. Generally the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right of use assets recognised.

Previously, payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, spread over the lease term.

(o) Dividends payable

Dividends on ordinary shares are recognised as a liability in the year in which they are declared.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(p) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations including annual leave are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(iii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iv) Defined benefit plan

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(v) Other long term employee benefits

The Group's net obligation in respect of the long-term employee benefits including long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

(q) Interest bearing liabilities

Interest bearing liabilities are initially recorded at fair value less directly attributable transaction costs and subsequently measured at their amortised cost using the effective interest method.

(r) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or Group. Payables are stated at cost and are normally settled within 30 days.

(s) Provision for make good costs

The provision for make good costs represents the present value of the estimated future cash outflows to be made by the Company arising from its obligations as a lessee should the relevant lease not be renewed.

The provision is calculated using estimated costs required to return leased premises to the condition in which they were initially provided, by using the Company's cost of capital as at reporting date.

The expected timing of the outflows is dependent upon whether the relevant lease is renewed.

(t) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of the asset or as a separate expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(u) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Where ordinary shares are repurchased, the amount of consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however, the Group has not early adopted the following new or amended standards in preparing this financial report.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

2. Operating income

		Consolidated		Company	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interest revenue calculated using the effective interest rate method					
Financial assets measured at amortised cost:					
Cash and cash equivalents		**469**	983	**469**	983
Deposits with other ADIs		**2,292**	5,552	**2,292**	5,552
Loans and advances to customers		**196,426**	208,811	**196,426**	208,811
Financial assets measured at FVOCI:					
Investment debt securities		**15,757**	26,933	**37,574**	43,741
		214,944	242,279	**236,761**	259,087
Interest expense					
Deposits		**75,560**	101,194	**75,560**	101,194
Securitised loans funding		**6,015**	11,980	**27,833**	28,788
Interest bearing liabilities		**3,631**	4,153	**3,631**	4,153
Other interest expense		**2**	–	**2**	–
		85,208	117,327	**107,026**	134,135
Net interest income		**129,736**	124,952	**129,735**	124,952

Notes to the Consolidated Financial Statements

2. Operating income (continued)

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Impairment losses on financial instruments					
Impairment charge	10	**5,348**	1,254	**5,348**	1,254
Release of impairment on losses written off directly		**(946)**	–	**(946)**	–
Impairment losses written off directly		**776**	247	**776**	247
		5,178	1,501	**5,178**	1,501
Net interest income after impairment losses		**124,558**	123,451	**124,557**	123,451
Fee and commission income					
Loan switch and breakout fees		**1,104**	404	**1,104**	404
Transaction fees		**6,052**	5,980	**6,052**	5,980
Payment system fees		**2,393**	2,257	**2,393**	2,257
Financial planning revenue		**867**	1,172	**–**	–
Commissions		**1,929**	3,135	**1,929**	3,135
		12,345	12,948	**11,478**	11,776
Fee and commission expense					
Bank fees		**108**	110	**108**	110
Commission		**198**	179	**198**	179
		306	289	**306**	289
Net fee and commission income from contracts with customers		**12,039**	12,659	**11,172**	11,487
Profit from sale of property, plant and equipment					
Profit from sale of plant and equipment		**110**	89	**110**	89
		110	89	**110**	89
Other income					
Impairment losses recovered		**91**	104	**91**	104
Rental income		**144**	150	**144**	150
Gain on sale – financial planning business		**710**	–	**–**	–
Other		**662**	571	**211**	297
		1,607	825	**446**	551
Net operating income		**138,314**	137,024	**136,285**	135,578

3. Operating expenses

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Personnel expense					
Salaries		**48,811**	44,657	**48,242**	44,034
Payroll tax		**2,882**	2,561	**2,860**	2,523
Fringe benefits tax		**650**	684	**630**	654
Superannuation		**5,218**	4,889	**5,168**	4,833
		57,561	52,791	**56,900**	52,044
Occupancy expense					
Repairs and maintenance		**453**	573	**452**	573
Expenses on leases of short term and low value assets		**552**	–	**524**	–
Rental on operating leases		**–**	7,457	**–**	7,424
Other		**2,411**	2,162	**2,360**	2,102
		3,416	10,192	**3,336**	10,099
Payment system expense		**3,950**	3,270	**3,950**	3,270
Marketing expense		**7,354**	6,902	**7,350**	6,900
Data processing expense		**6,088**	5,003	**6,052**	4,969
Postage and printing expense		**1,936**	2,130	**1,933**	2,128
Contributions to IMB and Shire Community Foundations		**600**	700	**600**	700
Goods and services tax not recovered		**2,247**	1,852	**2,247**	1,852
Sundry expenses					
Depreciation and amortisation					
– plant and equipment		**2,775**	2,444	**2,745**	2,413
– buildings		**92**	65	**92**	65
– intangibles		**515**	494	**515**	494
– leased properties		**7,423**	–	**7,423**	–
Legal and consulting		**2,191**	1,580	**2,181**	1,569
Loss from sale of property, plant and equipment		**32**	22	**32**	22
Other		**4,449**	4,178	**4,325**	4,035
		17,477	8,783	**17,313**	8,598
Total operating expenses		**100,629**	91,623	**99,681**	90,560

Notes to the Consolidated Financial Statements

4. Taxation

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
a) Income tax expense					
Current tax expense					
– current year		**13,493**	13,573	**13,174**	13,454
– adjustment for prior years		**–**	155	**–**	156
		13,493	13,728	**13,174**	13,610
Deferred tax expense					
– origination and reversal of temporary differences		**(2,139)**	(59)	**(2,145)**	(54)
Total income tax expense		**11,354**	13,669	**11,029**	13,556
Reconciliation between income tax expense and profit before tax					
Profit before tax		**37,685**	45,401	**36,604**	45,018
Prima facie income tax expense at 30% on operating profit		**11,305**	13,620	**10,981**	13,506
Increase in income tax expense due to:					
– income tax under-provided for in prior year		**–**	4	**–**	4
– other non-deductible expenses		**1**	1	**–**	1
– depreciation of buildings		**20**	20	**20**	20
– non-deductible entertainment		**36**	47	**36**	48
Decrease in income tax expense due to:					
– non-assessable income		**–**	–	**–**	–
– other deductible expenses		**(8)**	(23)	**(8)**	(23)
Income tax expense		**11,354**	13,669	**11,029**	13,556
Income tax recognised directly in other comprehensive income					
Relating to defined benefit fund		**(249)**	(126)	**(249)**	(126)
Relating to equity investments		**(29)**	90	**(29)**	90
Relating to investment debt securities		**(259)**	100	**(259)**	100
Relating to cash flow hedges		**1,519**	–	**1,519**	–
		982	64	**982**	64

b) Current tax liabilities

The current tax liability for the Group of $2,637,000 (2019: $3,502,000) and for the Company of $2,637,000 (2019: $3,502,000) represents the amount of income taxes payable in respect of current and prior financial years due to the relevant tax authority. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Deferred tax assets/(liabilities)					
Deferred tax assets and liabilities are attributable to the following:					
– Provisions and accrued expenses		**4,189**	2,486	**4,159**	2,469
– Employee benefits		**4,057**	2,899	**4,057**	2,885
– Lease liabilities		**5,220**	–	**5,220**	–
– Consulting and legal fees		**40**	21	**40**	21
Total deferred tax assets		**13,506**	5,406	**13,476**	5,375
– Investment debt securities		**(1,127)**	(1,387)	**(1,127)**	(1,387)
– Property, plant and equipment		**(991)**	(86)	**(991)**	(86)
– Derivative assets		**(1,519)**	–	**(1,519)**	–
– Right of use assets		**(5,285)**	–	**(5,285)**	–
– Equity investments		**(61)**	(90)	**(61)**	(90)
– Deferred expenditure		**(23)**	(99)	**(23)**	(99)
Total deferred tax liabilities		**(9,006)**	(1,662)	**(9,006)**	(1,662)
Net deferred tax assets		**4,500**	3,744	**4,470**	3,713

Effective tax rates (ETR)

The ETR for the Group of 30.1% (2019: 30.1%) and the Company of 30.1% (2019: 30.1%) represents tax expense divided by total accounting profit.

5. Dividends

	Cents per Share	Total amount $'000	% Franked	Date of payment
Dividends recognised in current year by the Company are:				
2020				
2020 interim dividend	**8.0**	1,929	100%	27-Feb-20
2019 final dividend	**10.5**	2,532	100%	3-Sep-19
		4,461		
2019				
2019 interim dividend	9.5	2,467	100%	27-Feb-19
2018 final dividend	10.0	2,597	100%	4-Sep-18
		5,064		

Franked dividends paid were franked at the tax rate of 30%.

Notes to the Consolidated Financial Statements

5. Dividends (continued)

Subsequent events

On 14 September 2020 the Board declared a final ordinary dividend of 7.5 cents per share amounting to $1,808,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2020. The dividend is payable on 21 September 2020. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2020 and will be recognised in subsequent financial statements. The declaration and subsequent payment of dividends has no income tax consequences.

	Company	
	2020 $'000	**2019 $'000**
Dividend franking account		
30% franking credits available to members of the Company for dividends in subsequent financial years	**138,864**	127,227

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;

(b) franking debits that will arise from the payment of dividends recognised as a liability at year end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at year end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to use the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of $nil (2019: $nil) franking credits.

6. Investment debt securities

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Investment debt securities at FVOCI*				
– certificates of deposit issued by banks	**200,803**	75,730	**200,803**	75,730
– government and semi-government securities	**189,022**	–	**189,022**	–
– other bonds	**1,025**	–	**1,025**	–
– floating rate notes**	**562,030**	746,734	**2,219,897**	1,504,640
Total investments	**952,880**	822,464	**2,610,747**	1,580,370

* All investment debt securities are measured at fair value (refer to Note 1f for details on accounting policy).

** The Company holds $1,650,000,000 (2019: $750,000,000) in bonds issued by the Illawarra Series IS Trust and $7,000,000 (2019: $7,000,000) in bonds issued by the Illawarra Warehouse Trust No. 3 as part of a contingency liquidity facility. These investments are eliminated on consolidation. Refer Note 25.

An ECL of $383,000 is recognised in OCI at 30 June 2020 (2019: $352,000).

Of the above amounts, $384,642,000 (2019: $245,523,000) is expected to be recovered within 12 months of the balance date by the Group and the Company.

The Group's exposure to credit risk and interest rate risk is disclosed in Note 30.

7. Deposits with other ADIs

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Deposits with other Authorised Deposit-taking Institutions (ADIs) at amortised cost	**98,674**	164,510	**98,674**	164,510
Provision for impairment	**(30)**	(70)	**(30)**	(70)
Total Deposits with other ADIs	**98,644**	164,440	**98,644**	164,440

Of the above amounts, $58,565,000 (2019: $123,270,000) is expected to be recovered within 12 months of the balance date by the Group and the Company.

8. Loans and advances to customers

		Consolidated		Company	
	Note	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Loans and advances to customers at amortised cost*		**5,400,159**	4,929,175	**5,400,159**	4,929,175
Provision for impairment	10	**(9,511)**	(4,892)	**(9,511)**	(4,892)
Total loans net of provision for impairment		**5,390,648**	4,924,283	**5,390,648**	4,924,283

* Includes $1,898,094,000 of securitised residential loans and $nil of securitised commercial loans (2019: $1,061,282,000 of securitised residential loans and $20,531,000 of securitised commercial loans).

Of the above amounts, $192,975,000 (2019: $150,715,000) is expected to be recovered within 12 months of the balance date by the Group and the Company.

9. Other financial assets

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Other equity investments – at FVOCI	**958**	805	**958**	805
Investments in controlled entities	**–**	–	**1,758**	1,759
Total other financial assets	**958**	805	**2,716**	2,564

Notes to the Consolidated Financial Statements

10. Provision for impairment – expected credit losses

The table below represents the reconciliation of opening balance to closing balance of ECL allowances:

Consolidated and Company	Investment debt securities* $'000	Deposits with other ADIs $'000	Loans and advances to customers $'000	Total $'000
Balance as at 1 July 2019	**352**	**70**	**4,892**	**5,314**
Impairment charge/reversal	31	(40)	5,357	5,348
Provision acquired on merger	–	–	208	208
Amounts written off, previously provided for	–	–	(946)	(946)
Balance as at 30 June 2020	**383**	**30**	**9,511**	**9,924**
Balance as at 1 July 2018	**405**	**100**	**3,902**	**4,407**
Impairment charge/reversal	(53)	(30)	1,337	1,254
Amounts written off, previously provided for	–	–	(347)	(347)
Balance as at 30 June 2019	**352**	**70**	**4,892**	**5,314**

* ECL for investment debt securities measured at FVOCI is recognised in OCI.

The tables below represent the reconciliation from the opening balance to the closing balance of the ECL allowance for loan and advances to customers:

ECL on loans and advances to customers

		Lifetime ECL		
Consolidated and Company	Stage 1 12 month ECL $'000	Stage 2 not credit-impaired $'000	Stage 3 credit-impaired $'000	Total $'000
Balance as at 1 July 2019	**3,153**	**61**	**1,678**	**4,892**
Transfers during the period to:				
12 month ECL	322	(161)	(161)	–
Lifetime ECL not credit-impaired	(96)	208	(112)	–
Lifetime ECL credit-impaired	(2)	(115)	117	–
Net remeasurement of loss allowance	(492)	135	1,422	1,065
COVID-19 overlay	2,473	1,059	475	4,007
New financial assets originated	959	–	–	959
Provisions acquired on merger	152	24	32	208
Financial assets that have been derecognised	(480)	(16)	(178)	(674)
Write-offs	(6)	(7)	(933)	(946)
Balance as at 30 June 2020*	**5,983**	**1,188**	**2,340**	**9,511**

ECL on loans and advances to customers

Consolidated and Company	Stage 1 12 month ECL $'000	Lifetime ECL Stage 2 not credit-impaired $'000	Stage 3 credit-impaired $'000	Total $'000
Balance as at 1 July 2018	**2,907**	**60**	**935**	**3,902**
Transfers during the period to:				
12 month ECL	14	(14)	–	–
Lifetime ECL not credit-impaired	(5)	5	–	–
Lifetime ECL credit-impaired	(5)	(4)	9	–
Net remeasurement of loss allowance	(12)	24	1,127	1,139
New financial assets originated	625	3	–	628
Financial assets that have been derecognised	(371)	(13)	(46)	(430)
Write-offs	–	–	(347)	(347)
Balance as at 30 June 2019*	**3,153**	**61**	**1,678**	**4,892**

* The Company also holds a general reserve for credit losses as an additional allowance for impairment losses to comply with prudential requirements.

The ECL on investment debt securities and deposits with other ADIs are classified at Stage 1 as there has been no significant increase in credit risk since initial recognition.

For a definition of Stage 1, 2 & 3 refer to Note 1(h).

The Group's exposure to credit risk and impairment losses related to loans and advances is disclosed in Note 30.

The values in the tables above include an additional collective provision to reflect the estimated impact of the COVID-19 pandemic on ECL of $4,007,000. Additional details on the calculation of this value is included in the 'Impact on expected credit losses of COVID-19' section below.

The overlay has been determined based on possible forward-looking scenarios, considering the facts, circumstances and forecasts of future economic conditions and supportable information that is available as at 30 June 2020.

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimates of future cash flows. In determining the required level of impairment provisions, the Group uses output from statistical models, incorporating a number of estimates and judgements to determine the Probability of Default (PD), the Exposure at Default (EAD), and the Loss Given Default (LGD) for each loan.

The most significant areas of estimation uncertainty are the impact on expected credit losses of COVID-19 and the use of forward-looking information. The most significant area of judgement is the approach to identifying significant increases in credit risk.

The Group's approach to each of these estimates and judgements is described in more detail below.

Impact on expected credit losses of COVID-19

An additional collective provision for credit losses has been recognised in the financial statements to reflect the estimated impact of COVID-19 on ECLs. Due to the limited observable data available at reporting date, this additional provision is subject to significant levels of estimation.

Revised COVID-19 macro-economic scenarios have been modelled to estimate additional losses in the residential mortgage, commercial and consumer lending portfolios. The impact on expected losses in the treasury investment portfolio is immaterial. These scenarios take into account the significant impact of the pandemic and also government support measures. Further information regarding the assumptions for, and ECL associated with, these scenarios is included in the forward-looking macro-economic section below.

In addition, the Group estimated the credit losses associated with loan repayment holidays granted to borrowers as a result of COVID-19, recognising that in some cases borrowers will experience long term financial difficulty as a result of the pandemic. Loan repayment

Notes to the Consolidated Financial Statements

10. Provision for impairment – expected credit losses (continued)

holidays have been offered on all loan products and unlike other concessions granted to borrowers in financial difficulty, these payment holidays have not been subject to detailed affordability assessments, and therefore the level of financial difficulty of members who apply for them requires estimation.

Analysis of risk characteristics of the payment holiday was carried out to estimate the proportion of these loans judged to have increased credit risk. At reporting date the proportion varied between 50% and 70%. The increase in expected credit loss includes the impact of loans transferring to Stage 2. The increase in the reported provisions to reflect the risk associated with borrowers who requested payment holidays as a result of COVID-19 is $1.1 million.

A 10% change in the number of payment holidays would increase/decrease the additional provision by $0.14 million.

Use of forward-looking macro-economic information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Australia.

At 30 June 2020, the probability weightings for each scenario were reviewed and the probabilities allocated were revised due to the impact of COVID-19. The changes made to the probability weightings applied to each scenario are shown in the table below:

Economic scenarios	2020 %	2019* %
Upside	5	20
Base	50	70
Downside	45	10

* In the year ended 30 June 2019 the scenarios weightings for the Commercial loan portfolio were 10/50/40 respectively.

In assessing forecast economic conditions, consideration has been given to both the significant government support measures being undertaken and relief offered to borrowers by the Group. This includes deferred repayment periods of up to six months on home and business loan repayments and three months for personal loan repayments and also the Reserve Bank of Australia (RBA) Term funding facility providing a three year facility at an interest rate of 25 basis points.

The table below provides a summary of the values of key Australian macro-economic assumptions used within the residential mortgage scenarios:

Macro-economic forecast assumptions	2020 (peak) %	2021 %	2022 %
*GDP Growth**			
Upside scenario	(5)	2	4
Base case scenario	(8)	(3)	5
Downside scenario	(11)	(7)	7
Unemployment			
Upside scenario	8	6.5	5
Base case scenario	9	8.5	6.5
Downside scenario	11	9.5	7.5
HPI			
Upside scenario	(2)	3	6
Base case scenario	(7)	0	3
Downside scenario	(15)	0	0
Cash rate – all scenarios#	0.25	0.25	0.25

* The assumptions used in the commercial loan portfolio scenarios are based on the GDP macro-economic forecast.

\# The assumptions used in the personal loan and revolving credit scenarios are based on the cash rate macro-economic forecast.

Sensitivity analysis

The impacts of COVID-19 have resulted in significant estimation uncertainty in relation to the measurement of the Group's ECL for loans and advances to customers. The impacts of COVID-19 on borrowers as well as the government stimulus packages deployed are unprecedented, accordingly significant adjustments to the ECL could occur in future periods as the full effects of COVID-19 are better understood.

Identifying significant increase in credit risk (SICR)

The Group periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by quantitative and qualitative factors. For residential mortgages, SICR is determined by classifying loans into defined risk classes using loan characteristics and borrower behavioural variables or by whether the loan is 10 days past due. For commercial mortgages and personal loans the primary indicator is based on 30 days past due information while other factors considered include whether an exposure has been identified and placed on credit watch.

In response to COVID-19 the Group has applied judgement in determining when a SICR has occurred. For example, the extension of payment holidays to borrowers as part of a COVID-19 support package will not, in all cases, mean a SICR has occurred or the loan has been restructured.

The calculation of the collective provision in this current environment is subject to significant uncertainty. This section provides a possible range for the outcomes of COVID-19 on the Group. The impact of COVID-19 on the collective provision has been calculated based on the Group's best estimate of the impacts of the COVID-19 outbreak using information available at the time of preparation and by its nature, includes forward-looking assumptions. In the event the impacts are more severe or prolonged than anticipated in the scenarios, this will have a corresponding impact on the collective provision, the financial position and performance of the Group. Notwithstanding this expected increase in the collective provision, the Group is expected to remain in a solid capital position.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

Notes to the Consolidated Financial Statements

10. Provision for impairment – expected credit losses (continued)

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

11. Derivative assets

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interest rate swaps at fair value	**5,064**	–	**5,064**	–

The Group uses interest rate swaps to hedge interest rate risk resulting from the variability in interest cash flows caused by the changes in the benchmark interest rate (BBSW) applicable to a portfolio Floating Rate Note (FRN) investments. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

At 30 June 2020, the Group held the following interest rate swaps to hedge exposures to changes in interest rates.

	Maturity		
	0-3 months $'000	3-12 months $'000	More than one year $'000
Interest rate swaps			
Net exposure	**939**	**1,683**	**4,313**
Average interest rate	0.17%	0.15%	0.16%

12. Property, plant and equipment

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Freehold land				
– at cost	**13,781**	11,556	**13,781**	11,556
	13,781	11,556	**13,781**	11,556
Freehold buildings				
– at cost	**29,683**	2,614	**29,683**	2,614
– accumulated depreciation	**(8,538)**	(1,297)	**(8,538)**	(1,297)
	21,145	1,317	**21,145**	1,317
Total land and buildings	**34,926**	12,873	**34,926**	12,873

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Plant and equipment				
– at cost	**35,609**	34,521	**35,609**	34,245
– accumulated depreciation	**(27,619)**	(27,348)	**(27,619)**	(27,161)
Total plant and equipment	**7,990**	7,173	**7,990**	7,084
Work in progress – at cost – buildings	**42,564**	10,000	**42,564**	10,000
Work in progress – at cost – other	**125**	170	**125**	170
Work in progress – at cost	**42,689**	10,170	**42,689**	10,170
Total property, plant and equipment – at cost	**121,762**	58,861	**121,762**	58,585
Total accumulated depreciation	**(36,157)**	(28,645)	**(36,157)**	(28,458)
Total property, plant and equipment – carrying amount	**85,605**	30,216	**85,605**	30,127
Reconciliations				
Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:				
Freehold land				
Carrying amount at the beginning of the year	**11,556**	2,315	**11,556**	2,315
Acquired on merger	**2,225**	–	**2,225**	–
Transfers from work in progress	**–**	9,241	**–**	9,241
Carrying amount at the end of the year	**13,781**	11,556	**13,781**	11,556
Buildings				
Carrying amount at the beginning of the year	**1,317**	1,382	**1,317**	1,382
Acquired on merger	**1,775**	–	**1,775**	–
Recognition of ROUA on initial application of AASB 16	**22,105**	–	**22,105**	–
Additions – ROUA	**3,463**	–	**3,463**	–
Depreciation – ROUA	**(7,423)**	–	**(7,423)**	–
Depreciation – buildings	**(92)**	(65)	**(92)**	(65)
Carrying amount at the end of the year	**21,145**	1,317	**21,145**	1,317
Plant and equipment				
Carrying amount at the beginning of the year	**7,173**	7,131	**7,084**	7,015
Additions	**2,243**	1,484	**2,190**	1,480
Transfers from work in progress	**792**	1,197	**792**	1,197
Acquired on merger	**934**	–	**934**	–
Disposals	**(377)**	(195)	**(265)**	(195)
Depreciation	**(2,775)**	(2,444)	**(2,745)**	(2,413)
Carrying amount at the end of the year	**7,990**	7,173	**7,990**	7,084

Notes to the Consolidated Financial Statements

12. Property, plant and equipment (continued)

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Work in progress				
Carrying amount at the beginning of the year	**10,170**	1,538	**10,170**	1,538
Additions	**33,311**	19,070	**33,311**	19,070
Transfers to plant and equipment and freehold land	**(792)**	(10,438)	**(792)**	(10,438)
Carrying amount at the end of the year	**42,689**	10,170	**42,689**	10,170

13. Intangible assets

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Intangible computer software				
– at cost	**12,980**	11,109	**12,980**	11,109
– accumulated amortisation	**(11,848)**	(10,098)	**(11,848)**	(10,098)
Intangible computer software	**1,132**	1,011	**1,132**	1,011
Work in progress – at cost	**4,232**	1,270	**4,232**	1,270
Total intangible computer software	**5,364**	2,281	**5,364**	2,281
Reconciliation				
Intangible computer software				
Carrying amount at the beginning of the year	**1,011**	1,000	**1,011**	1,000
Additions	**308**	505	**308**	505
Additions acquired on merger	**328**	–	**328**	–
Amortisation	**(515)**	(494)	**(515)**	(494)
Carrying amount at the end of the year	**1,132**	1,011	**1,132**	1,011
Work in progress				
Carrying amount at the beginning of the year	**1,270**	–	**1,270**	–
Additions	**2,988**	1,270	**2,988**	1,270
Transfers to intangible computer software	**(26)**	–	**(26)**	–
Carrying amount at the end of the year	**4,232**	1,270	**4,232**	1,270

14. Other assets

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Sundry debtors	**16,543**	32,538	**70,751**	58,552

15. Trade and other payables

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade creditors	**29,294**	33,347	**28,697**	33,037
Distributions payable by Special Purpose Entities	**4,644**	6,870	**–**	–
Fees payable by Special Purpose Entities	**488**	306	**–**	–
Total trade and other payables	**34,426**	40,523	**28,697**	33,037

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 30.

16. Deposits

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Retail deposits	**4,582,019**	3,792,615	**4,587,414**	3,796,617
Middle markets	**999,126**	1,091,629	**999,126**	1,091,629
Wholesale deposits	**277,302**	358,920	**277,302**	358,920
Accrued interest	**13,022**	23,254	**13,022**	23,254
Total deposits	**5,871,469**	5,266,418	**5,876,864**	5,270,420

The Group's exposure to liquidity risk related to deposits is disclosed in Note 30.

17. Securitised loans funding

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Notes payable	**240,198**	324,004	**–**	–
Loans from securitisation trusts*	**–**	–	**1,897,781**	1,081,249
Total securitised loans funding	**240,198**	324,004	**1,897,781**	1,081,249

* Includes $1,657,000,000 (2019: $757,000,000) in bonds issued by Consolidated SPEs. Refer Note 25.

The Group's exposure to liquidity risk related to securitised loans funding is disclosed in Note 30.

Notes to the Consolidated Financial Statements

18. Interest bearing liabilities

		Consolidated		Company	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Repurchase agreements*	1f				
Repurchase agreements		**125,062**	–	**125,062**	–
Total repurchase agreements		**125,062**	–	**125,062**	–
Lease liabilities					
Lease liabilities		**17,850**	–	**17,850**	–
Total lease liabilities		**17,850**	–	**17,850**	–
Subordinated floating rate notes	1p				
– Series 3		**29,986**	29,948	**29,986**	29,948
– Series 4		**39,958**	39,905	**39,958**	39,905
Total subordinated floating rate notes		**69,944**	69,853	**69,944**	69,853
Total interest bearing liabilities		**212,856**	69,853	**212,856**	69,853

* Represent securities repurchase agreements with the Reserve Bank of Australia.

Series 3 was issued for a ten-year period maturing 2026 with an option to redeem at par after five years, subject to APRA approval. Interest is paid quarterly in arrears based on the 3 month Bank Bill Rate plus a margin of 375 basis points.

Series 4 was issued for a ten-year period maturing 2027 with an option to redeem at par after five years subject to APRA approval. Interest is paid quarterly in arrears based on the 3 month Bank Bill Rate plus a margin of 300 basis points.

In line with APRA's capital adequacy measurement rules the Subordinated Floating Rate Notes are included in lower tier 2 capital.

The Group's exposure to interest rate risk is disclosed in Note 30.

19. Provisions

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Make good provision					
Balance at the beginning of the year		**405**	405	**405**	405
Provisions acquired on merger		**80**	–	**80**	–
Provisions used during the year		**(11)**	–	**(11)**	–
Balance at the end of the year		**474**	405	**474**	405
Employee benefits					
Balance at the beginning of the year		**9,664**	9,017	**9,617**	8,947
Provisions made during the year		**6,155**	5,047	**6,136**	5,005
Provisions acquired on merger		**806**	–	**806**	–
Provisions used during the year		**(3,772)**	(4,400)	**(3,706)**	(4,335)
Balance at the end of the year	21	**12,853**	9,664	**12,853**	9,617
Total provisions		**13,327**	10,069	**13,327**	10,022

Notes to the Consolidated Financial Statements

20. Share capital and reserves

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Share capital – Ordinary shares				
On issue at 1 July (24,110,261 ordinary shares)	**28,324**	30,514	**28,324**	30,514
Own shares acquired (ordinary shares)	**–**	(2,190)	**–**	(2,190)
On issue at 30 June (24,110,261 ordinary shares)	**28,324**	28,324	**28,324**	28,324

The Company does not have authorised capital or par value in respect of its issued shares. Under the constitution of the Company, no person may hold an entitlement in ordinary shares of more than five per cent (5%) of the nominal value of all shares of that class. The Company has Members by way of guarantee and Shareholder Members by way of both shares and guarantee. Subject to basic voting qualifications, a Member of the Company is entitled to one vote only, irrespective of the number of shares or the number or amounts of deposits held. The holders of ordinary shares are entitled to receive dividends as declared from time to time. In assessing the dividend to be paid, the Board has regard to the Company's status as a mutual entity. All Members have an interest in the assets and earnings of the Company.

Fair value reserve

The fair value reserve includes the cumulative net change in fair value of investment debt securities and other financial assets until the investment or asset is derecognised or impaired, net of applicable income tax.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of applicable income tax.

General reserve for credit losses

The general reserve for credit losses contains an additional allowance for impairment losses, above that calculated in accordance with Note 1h. The general reserve for credit losses together with the amounts calculated in accordance with Note 1h must be adequate to comply with prudential requirements.

General reserve

The general reserve includes retained profits from prior years.

Transfer of business reserve

Mergers with other mutual entities are accounted for by recognising the identifiable assets and liabilities of the transferred entity on the Statement of Financial Position at their fair value at the date of merger. The excess of the fair value of assets taken up over liabilities assumed is taken directly to equity as a reserve.

21. Employee benefits

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Current				
Liability for annual leave	**4,729**	3,632	**4,729**	3,598
Liability for banked time	**5**	9	**5**	9
Liability for long service leave	**6,070**	5,120	**6,070**	5,119
Liability for purchased annual leave	**83**	58	**83**	58
	10,887	8,819	**10,887**	8,784
Non Current				
Net defined benefit liability/(asset)	**668**	(199)	**668**	(199)
Liability for long service leave	**1,298**	1,044	**1,298**	1,032
	1,966	845	**1,966**	833
Total employee benefits	**12,853**	9,664	**12,853**	9,617

Liability for the IMB Staff Defined Benefit Superannuation Plan Obligations

The plan is a salary-related defined benefit superannuation plan. Benefits are payable on retirement, resignation, death or total and permanent disability as a lump sum. The plan also provides salary continuance insurance.

The Company makes contributions in respect of each plan member based on a fixed percentage of the member's salary. Each member is also required to contribute 5% of their salary during each financial year. The plan provides defined benefits on retirement based on years of service and the final average salary. In accordance with Superannuation Industry (Supervision) Regulations – Reg 9.04D, due to the membership of the fund being less than fifty on 12 May 2004, no new members have been accepted to the plan since that date. There are currently 9 members (2019: 9) in the plan. An actuarial assessment of the plan at 30 June 2020 was carried out by Ms S Sweeney FIAA on 10 July 2020.

The plan is administered by a separate Trust that is legally separate from the Company. The Company's main responsibility under the regulatory framework is to pay the funding contribution as recommended by the plan actuary. The Trustee is responsible for the day-to-day operation of the plan which includes administration, investment policy, governance, compliance and maintaining a minimum adequate level of financial solvency.

In Australia, legislation requires that defined benefit plans are funded to meet the Minimum Requisite Benefits (MRBs) and regulations require defined benefit plans to have a Vested Benefit Index (VBI) of at least 100%. The plan actuary performs a triennial funding valuation which considers the plan's funding position and policies and the plan actuary recommends an employer contribution rate in order to target at least 100% of the MRBs are covered by the plan assets and to target the plan achieves a VBI of 100%. In the interim the plan is monitored regularly and the employer contribution rate is adjusted if required.

The Trustee is required by law to act in the best interest of the beneficiaries of the plan.

The defined benefit plan exposes the Company to actuarial risks, such as salary inflation risk and market (investment) risk.

Notes to the Consolidated Financial Statements

21. Employee benefits (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Movements in the net defined benefit (liability)/asset				
Net defined benefit asset at the beginning of the year	**199**	592	**199**	592
Total remeasurement recognised in other comprehensive income gain/(loss)	**(829)**	(419)	**(829)**	(419)
Contributions received from employer	**457**	448	**457**	448
Defined benefit cost recognised in the profit and loss	**(495)**	(422)	**(495)**	(422)
Net defined benefit (liability)/asset at the end of the year	**(668)**	199	**(668)**	199

	Year Ending 30 June 2021
Expected contributions to the plan in the next reporting period	
Expected employer contributions	468
Expected employee contributions	111

Maturity profile of the Defined Benefit Obligation as measured by weighted average duration

The weighted average term of the Defined Benefit Obligation is calculated as 4.30 years.

Projected benefit payments (defined benefit only)	2020 $'000	2019 $'000
Next year	**1,884**	1,120
Next year + 1 year	**1,746**	1,599
Next year + 2 years	**1,053**	1,499
Next year + 3 years	**1,201**	901
Next year + 4 years	**1,672**	1,008
Sum of next year + 5 – 9 years	**4,748**	5,356

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was $4,266,000 for the financial year (2019: $3,940,000).

22. Capital and other commitments

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Loan commitments approved but not advanced				
– not later than one year	**357,189**	351,728	**357,189**	351,728
– later than one year	**9,598**	9,485	**9,598**	9,485
Total	**366,787**	361,213	**366,787**	361,213
Capital expenditure commitments not taken up in the financial statements				
– not later than one year	**11,866**	25,687	**11,866**	25,687
– later than one year	**–**	19,083	**–**	19,083
Total	**11,866**	44,770	**11,866**	44,770

Capital commitments

During the year, the Company progressed the construction of a purpose-built head office under a maximum sum contract. The remaining payments under the building contract are $11,490,000 (2019: $44,489,000). The building is due for completion in late 2020.

Operating leases

At 30 June 2019, the Company leased property under operating leases for terms up to seven years. Leases generally provide the Company with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movement in the Consumer Price Index or operating criteria. The future minimum lease payments under non-cancellable operating leases were payable as follows:

Consolidated and Company	2019 $'000
Non-cancellable operating lease rentals payable	
– not later than one year	7,153
– later than one year but not later than five years	11,418
– later than five years	79
Total	18,650

Notes to the Consolidated Financial Statements

23. Financial arrangements

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Bank overdraft available	**2,500**	2,500	**2,500**	2,500
Other overdraft available	**200**	–	**200**	–
Facilities not utilised	**2,700**	2,500	**2,700**	2,500

The overdraft facility when drawn is secured by a charge over mortgage loans made by the Company to members. This facility is subject to annual review. The facility is subject to an annual interest rate of 5.74% (2019: 8.34%).

The other overdraft facility when drawn is secured by a security deposit made by the Company. The facility is subject to an annual interest rate of 8.50%.

24. Contingent liabilities

Contingent liabilities considered remote

Guarantees given by IMB Ltd

Business Banking clients

Contingent liabilities include guarantees of $3,769,000 (2019: $4,133,000) issued on behalf of clients supporting performance, rental and other commercial obligations. The Company holds either term deposits or real estate as security against these performance guarantees.

These facilities are established on the basis that the beneficiary of the guarantee can call up the guarantee at any time and IMB is obliged to make good the value within the guarantee. In such circumstances the value of the payment under the guarantee is recovered from the security or a loan supported by the security.

Considering the contingent liability imposed upon IMB, fees are charged for the establishment and ongoing management of such facilities.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

25. Consolidated entities

Parent entity: IMB Ltd

Subsidiary	Principal Activity	Ownership interest 2020 %	Ownership interest 2019 %
IMB Funeral Fund Management Pty Ltd	Trustee	**100.0**	100.0
IMB Community Foundation Pty Ltd	Dormant	**100.0**	100.0
IMB Securitisation Services Pty Limited	Securitisation trust management	**100.0**	100.0
IMB Financial Planning Limited	Financial Planning	**100.0**	100.0
Securitisation SPEs*			
Illawarra Warehouse Trust No. 3	Securitisation trust		
Illawarra Series 2011-1 CMBS Trust	Securitisation trust		
Illawarra Series 2013-1 RMBS Trust	Securitisation trust		
Illawarra Series 2017-1 RMBS Trust	Securitisation trust		
Illawarra Series IS Trust	Securitisation trust		

* Refer Note 1d. These entities are consolidated on the basis of risk exposure, not control or ownership. IMB continues to reflect the securitised loans in their entirety and also recognises a financial liability to the Trust. The interest payable in the intercompany financial asset/liability represents the return on an imputed loan between IMB and the SPEs.

All entities are incorporated in Australia.

Change in the composition of the consolidated entity

IMB Financial Planning completed a business sale agreement with Bridges Financial Services Group Pty Limited (Bridges), effective 1 May 2020. Under this arrangement Bridges purchased IMBFP's advice business assets and will provide ongoing financial planning and advice to IMB's members via an exclusive referral arrangement. During the year, excluding the proceeds from the sale, IMB Financial Planning's contribution to Group profit before tax was a loss of $39,800 (2019: a profit of $150,000).

26. Notes to the statements of cash flows

	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
RECONCILIATION OF CASH				
Cash and cash equivalents at the end of the year as shown in the statements of cash flows is reconciled to the related item in the balance sheets:				
Cash controlled by the Group	**167,477**	62,864	**167,476**	62,863
Cash controlled by SPEs	**58,907**	33,442	**–**	–
Total	**226,384**	96,306	**167,476**	62,863

The Group's exposure to interest rate risk for financial assets and liabilities is disclosed in Note 30.

Notes to the Consolidated Financial Statements

26. Notes to the statements of cash flows (continued)

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year attributable to members of the Company	**26,331**	31,732	**25,575**	31,462
Net (gain)/loss on sale of property, plant and equipment	**(74)**	(67)	**(74)**	(67)
Remeasurement of defined benefit fund liability	**(581)**	(293)	**(581)**	(293)
Adjustment to provision for impairment on adoption of AASB 9	**–**	493	**–**	493
Impairment losses on financial instruments	**5,178**	1,501	**5,178**	1,501
Depreciation of property, plant and equipment, and amortisation of intangible assets	**10,841**	3,003	**10,629**	2,972
Operating profit before changes in assets and liabilities	**41,695**	36,369	**40,727**	36,068
Changes in assets and liabilities:				
Decrease in accrued interest on investments	**2,488**	2,076	**2,481**	2,076
(Increase) in loans and advances to customers	**(201,455)**	(355,432)	**(201,455)**	(355,432)
Decrease/(Increase) in sundry debtors	**15,640**	(6,578)	**(12,554)**	(16,053)
(Increase)/Decrease in net deferred tax asset	**(1,226)**	5	**(1,227)**	10
(Decrease)/Increase in accrued interest on members' deposits	**(10,688)**	2,257	**(10,688)**	2,257
(Decrease)/Increase in trade and other payables	**(6,338)**	(243)	**(4,581)**	7,783
Increase in deposits	**316,675**	270,896	**318,068**	271,398
Increase in provision for employee benefits	**3,189**	647	**3,236**	670
(Decrease) in current tax liabilities	**(865)**	(1,006)	**(865)**	(1,006)
Increase in other provisions	**69**	–	**69**	–
Net cash flows from operating activities	**159,184**	(51,009)	**133,211**	(52,229)

CASH FLOWS PRESENTED ON A NET BASIS

Cash flows arising from loan advances and repayments, member deposits and withdrawals and from sales and purchases of investment debt securities have been presented on a net basis in the statements of cash flows.

27. Related party disclosures

The following were key management personnel of the Group and Company at any time during the year and unless otherwise indicated were key management personnel for the entire year.

Directors	Executive
Mr NH Cornish (Chairman)	Mr RJ Ryan (Chief Executive Officer)
Ms CA Aston	Mr MG Brannon (General Manager, Sales and Marketing)
Mr JR Coleman, retired 30 June 2020	Mr NM Campbell (Chief Digital Officer)
Mr PJ Fitzgerald	Mr CJ Goodwin (Chief Financial Officer)
Ms JA Gardner, appointed 1 May 2020	Mr SD Griffiths (General Manager Memberships and Alliances)
Ms GM McGrath	Ms RJ Heald (General Manager People and Culture)
Ms JM Swinhoe	Mr MF King (Chief Risk Officer)
Ms ME Towers	Ms LB Wise (General Manager, Corporate Services and Company Secretary)

	Consolidated		Company	
	2020	**2019**	**2020**	**2019**
The key management personnel compensation included in “personnel expense” (see Note 3) is as follows:				
Short-term employee benefits	**4,922,031**	4,367,344	**4,922,031**	4,367,344
Post-employment benefits	**447,305**	378,280	**447,305**	378,280
Other long-term benefits	**637,648**	79,472	**637,648**	79,472
Total	**6,006,984**	4,825,096	**6,006,984**	4,825,096

The compensation disclosed above represents an allocation of the key management personnel’s estimated compensation from the Company in relation to their services rendered to the Group. Compensation arrangements have been updated and structured to ensure compliance with the Treasury Laws Amendment (Banking Executive Accountability Regime) Act 2018 and other regulatory guidance. Compensation arrangements have involved the setting of KPIs that balance financial and non-financial performance metrics, a modification to the award for achieving ‘on target’ performance and the introduction of deferral, malus and clawback provisions, which provide the Board with broad discretion to adjust remuneration outcomes. For the first time, these compensation arrangements include the deferral of 40% of the short-term incentives awarded, for a period of not less than 4 years, in order for performance to be reliably measured over a longer period of time. The current financial year is also the first full financial year of the expanded executive team being in place (i.e. 2019-2020 includes 8 KMP for the full year; 2018-2019 includes 6 KMP for the full year with 2 additional KMP from January 2019).

Directors’ remuneration

The aggregate of the amount of remuneration, inclusive of superannuation, available to be distributed between the Directors for the financial year was $713,476 (2019: $688,120), with the aggregate available having increased by 1.6%, in line with the movement in the All Groups CPI. This amount is divided between the directors in accordance with their various responsibilities on the Board and its Committees.

Individual directors and executives compensation disclosures

Apart from the details disclosed in this note, no director has entered into a contract with the Group or the Company since the end of the previous financial year and there were no contracts involving directors’ interests existing at year end.

Notes to the Consolidated Financial Statements

27. Related party disclosures (continued)

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel and their related parties, and the number of individuals in each group, are as follows:

	Opening Balance $	Closing Balance $	Interest and fees paid in the reporting year $	Number in group at 30 June
Total for key management personnel and their related parties 2020	**2,845,872**	**3,390,141**	**100,388**	**4**
Total for key management personnel and their related parties 2019	3,005,892	2,845,872	88,072	4

All loans to key management personnel and their related parties are made on an arm's length basis, on the same terms and conditions and at the same interest rates available to members. All loans are secured by residential mortgage, and no amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

Key management personnel holdings of shares and deposits

Details regarding the aggregate of the number of ordinary shares in IMB Ltd held directly, indirectly or beneficially, by key management personnel and their related parties, and the number of individuals in each group are as follows:

	Opening Balance	Purchases	Sales	Closing Balance	Number in group at 30 June
Total for key management personnel and their related parties 2020	**15,420**	**–**	**2,000**	**13,420**	**7**
Total for key management personnel and their related parties 2019	15,420	–	–	15,420	8

No shares were granted to key management personnel during the year as compensation (2019: nil).

The Company has also received deposits from key management personnel and their related entities. These amounts were received on the same terms and conditions as are applicable to members generally.

Key management personnel transactions with the Company or its controlled entities

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

28. Other related party disclosures

Subsidiaries

Due to the Company and its wholly owned subsidiaries forming a tax consolidated group, the liability for payments of income tax for all members of the tax consolidated group are the liability of the Company. However, the tax consolidated group has entered into a tax funding agreement as described in Note 1(k). The aggregate amount of loans provided (by)/to the Company (to)/from subsidiaries under the agreement is ($770,000) (2019: ($450,000)).

The following table provides the total amount of transactions that were entered into by the Company with controlled entities for the relevant financial year. These transactions were all carried out under normal commercial terms and conditions.

	Company	
	2020 $'000	**2019 $'000**
Accounting services	**7**	8
Computer maintenance services	**7**	8
Operating lease revenue	**28**	33

The total amount of deposits with the Company by controlled entities at the end of the relevant financial year was $5,392,000 (2019: $3,999,000). The total amount of borrowings with the Company by controlled entities at the end of the relevant financial year was $nil (2019: $nil). These are in accordance with normal commercial terms and conditions.

The net amounts receivable from/(payable to) controlled entities as at 30 June were:

	Company	
	2020 $'000	**2019 $'000**
IMB Financial Planning Ltd	**2**	59

Securitisation

The Company, through its loan securitisation program, securitises residential and commercial mortgage loans to the Illawarra Trusts ("the Trusts") which in turn issue rated securities to investors. The Company holds income and capital units in the Trusts. These income and capital units are held at nominal values. The income units entitle the Company to receive excess income, if any, generated by the securitised assets, whilst the capital unitholder receives, upon termination of the Trust, the capital remaining after all other outgoings have been paid. Investors in the Trusts have no recourse against the Company if cash flows from the securitised loans are inadequate to service the obligations of the Trusts.

Any credit losses are first offset against the excess income payable to the Company, to the extent available, with any shortfalls written off against issued securities.

The securities issued by the Trusts do not represent liabilities of the Company. Neither the Company nor any of its subsidiaries stand behind the capital value and/or performance of the securities or assets of the Trusts.

The Company however does receive payment for services provided to the Trusts, including servicing of the loans, interest rate swaps, loan redraw and liquidity facilities. The Company and IMB Securitisation Services Pty Limited, a controlled entity, receives payment for managing the Trusts. All these transactions are entered into on an arm's length basis between the Company, Trust Manager and the Trusts.

Notes to the Consolidated Financial Statements

28. Other related party disclosures (continued)

A summary of the transactions between the Group and the Trusts during the year is as follows:

	2020 $'000	2019 $'000
Proceeds from securitisation of loans	**371,715**	174,011
Servicing fees received	**3,713**	2,293
Management fees received	**446**	275
Excess income received	**19,553**	9,842
Note interest	**23,168**	16,808
Other	**357**	245

29. Remuneration of Auditors

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Amounts received or due and receivable by KPMG for:				
Audit and review of financial statements	**400**	369	**344**	313
Regulatory audits and review	**41**	70	**41**	60
Other assurance services	**20**	20	**8**	8
	461	459	**393**	381
Taxation				
– compliance	**59**	23	**59**	23
– advisory	**–**	127	**–**	126
Other advisory	**–**	16	**–**	16
	520	625	**452**	546

30. Risk management and financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk Committee is responsible for developing and monitoring Group risk management policies. The Risk Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in strategy, market conditions, and products and services offered. The Company and Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Company and Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company and Group. The Risk Committee is assisted in its oversight of these functions by the Chief Risk Officer, a centralised risk management function and an independent Internal Audit Department. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

In addition to the Audit Committee and Risk Committee, the Group has a number of senior management committees where specific risk management information is overseen. These include the Executive Risk Management Committee which has oversight of all risks encountered by the business, the Assets and Liabilities Committee (ALCO) which is responsible for managing liquidity and market risk, the Credit Quality Committee which reviews the risks in the various credit portfolios and the Credit Committee which is responsible for credit approvals which fall outside individual delegated authorities.

Credit risk

Credit risk is the risk of financial loss to the Group if a member or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, other authorised deposit-taking institutions and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).

Management of credit risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's credit risk policies. The Board has delegated responsibility for the management of credit risk to the IMB Executive. A separate Origination Services Department and Lending Services Department reporting to the IMB Executive, are responsible for the implementation of the Group's credit risk policies, including:

- Drafting credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. Formal approval of Credit Policy is retained by the Board.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Delegated Lending Authority limits are allocated to Credit Officers. Transactions outside delegated lending authority limits and exceptions require approval by the Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Origination Services assesses all credit exposures prior to facilities being committed to members. Any facilities in excess of designated limits are escalated through to the appropriate approval level. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposures to certain Board approved asset classes.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Treasury is responsible for managing IMB's liquidity investments including making investments, ensuring investment policies are adhered to and compliance with investment guidelines. These include limiting

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

concentrations of exposures to investment term, asset class and counterparties. IMB's Accounting Department is responsible for risk oversight of compliance with these limits.

Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk under AASB 9 at 30 June 2020:

		Consolidated			
30 June 2020	**Note**	**Loans & advances to customers $'000**	**Deposits with other ADIs $'000**	**Investment debt securities $'000**	**Cash and cash equivalents $'000**
Carrying Amount	6,7,8,26	**5,390,648**	**98,644**	**952,880**	**226,384**
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		5,151,316	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		40,150	–	–	–
Government securities		–	–	189,022	–
Investment grade		–	91,208	763,858	226,384
Unrated		–	–	–	–
Other		156,707	7,466	–	–
Net deferred income and expenses		1,570	–	–	–
Carrying amount		5,349,743	98,674	952,880	226,384
Stage 2: significant increase in credit risk					
Secured by mortgage		33,000	–	–	–
Other		784	–	–	–
Carrying amount		33,784	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		15,983	–	–	–
Other		649	–	–	–
Carrying amount		16,632	–	–	–
Expected credit loss	10	(9,511)	(30)	–	–
Total carrying amount	6,7,8,26	**5,390,648**	**98,644**	**952,880**	**226,384**
Includes restructured loans		6,090	–	–	–

For a definition of Stage 1, 2 & 3 refer to Note 1(h).

The carrying amount of the Group's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk under AASB 9 at 30 June 2019:

		Consolidated			
30 June 2019	**Note**	**Loans & advances to customers $'000**	**Deposits with other ADIs $'000**	**Investment debt securities $'000**	**Cash and cash equivalents $'000**
Carrying Amount	6,7,8,26	**4,924,283**	**164,440**	**822,464**	**96,306**
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		4,694,867	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		56,105	–	–	–
Government securities		-	–	–	–
Investment grade		-	141,254	822,464	96,306
Unrated		-	23,256	–	–
Other		144,095	–	–	–
Net deferred income and expenses		1,723	–	–	–
Carrying amount		4,896,790	164,510	822,464	96,306
Stage 2: significant increase in credit risk					
Secured by mortgage		16,783	–	–	–
Other		823	–	–	–
Carrying amount		17,606	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		14,230	–	–	–
Other		549	–	–	–
Carrying amount		14,779	–	–	–
Expected credit loss	10	(4,892)	(70)	–	–
Total carrying amount	6,7,8,26	**4,924,283**	**164,440**	**822,464**	**96,306**
Includes restructured loans		9,557	–	–	–

For a definition of Stage 1, 2 & 3 refer to Note 1(h).

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

The carrying amount of the Company's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk under AASB 9 at 30 June 2020:

		Company			
30 June 2020	**Note**	**Loans & advances to customers $'000**	**Deposits with other ADIs $'000**	**Investment debt securities $'000**	**Cash and cash equivalents $'000**
Carrying Amount	6,7,8,26	**5,390,648**	**98,644**	**2,610,747**	**167,476**
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		5,151,316	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		40,150	–	–	–
Government securities		-	–	189,022	–
Investment grade		-	91,208	2,421,725	167,476
Unrated		-	–	–	–
Other		156,707	7,466	–	–
Net deferred income and expenses		1,570	–	–	–
Carrying amount		5,349,743	98,674	2,610,747	167,476
Stage 2: significant increase in credit risk					
Secured by mortgage		33,000	–	–	–
Other		784	–	–	–
Carrying amount		33,784	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		15,983	–	–	–
Other		649	–	–	–
Carrying amount		16,632	–	–	–
Expected credit loss	10	(9,511)	(30)	–	–
Total carrying amount	6,7,8,26	**5,390,648**	**98,644**	**2,610,747**	**167,476**
Includes restructured loans		6,090	–	–	–

The carrying amount of the Company's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk under AASB 9 at 30 June 2019:

		Company			
30 June 2019	**Note**	**Loans & advances to customers $'000**	**Deposits with other ADIs $'000**	**Investment debt securities $'000**	**Cash and cash equivalents $'000**
Carrying Amount	6,7,8,26	**4,924,283**	**164,440**	**1,580,370**	**62,863**
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		4,694,867	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		56,105	–	–	–
Government securities		–	–	–	–
Investment grade		–	141,254	1,580,370	62,863
Unrated		–	23,256	–	–
Other		144,095	–	–	–
Net deferred income and expenses		1,723	–	–	–
Carrying amount		4,896,790	164,510	1,580,370	62,863
Stage 2: significant increase in credit risk					
Secured by mortgage		16,783	–	–	–
Other		823	–	–	–
Carrying amount		17,606	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		14,230	–	–	–
Other		549	–	–	–
Carrying amount		14,779	–	–	–
Expected credit loss	10	(4,892)	(70)	–	–
Total carrying amount	6,7,8,26	**4,924,283**	**164,440**	**1,580,370**	**62,863**
Includes restructured loans		9,557	–	–	–

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in relation to interest rate swap contracts, which is limited to the net fair value of the swap agreement at balance date, is $5,064,000 (2019: $0).

IMB issues guarantees to business banking clients with a maximum credit exposure of $3,769,000 (2019: $4,133,000). Refer Note 24 for more details.

Restructured loans

Restructured loans have renegotiated terms due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category subject to satisfactory performance after restructuring for a period of at least six months.

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

Allowance for impairment

The Group establishes an allowance for impairment losses that represents its estimate of expected losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures subject to individual assessment for impairment, and a collective loan loss allowance established for groups of homogeneous assets in respect of expected credit losses on loans that are not subject to individual assessment for impairment.

Collateral and other credit enhancements

Mortgage Loans

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. For residential mortgages, where the Loan to Value Ratio (LVR) is greater than 80%, mortgage insurance contracts are entered into in order to manage the credit risk. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to other ADIs and investment debt securities.

The tables below provide information on credit exposures from residential and commercial mortgage lending by stratifications of LVRs. The LVR is calculated as the ratio of the current balance of the loan to the most recent valuation of the collateral.

Residential mortgages

	Consolidated		Company	
LVR ratio	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
<= 25%	**243,758**	216,580	**243,758**	216,580
>25%<=50%	**1,033,893**	952,000	**1,033,893**	952,000
>50%<=70%	**1,728,771**	1,591,773	**1,728,771**	1,591,773
>70%<=80%	**1,174,448**	1,074,954	**1,174,448**	1,074,954
>80%<=90%	**526,124**	466,130	**526,124**	466,130
>90%<=100%	**273,338**	219,969	**273,338**	219,969
>100%	**10,108**	1,836	**10,108**	1,836
Total	**4,990,440**	4,523,242	**4,990,440**	4,523,242

Commercial mortgages

LVR ratio	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
<= 25%	**11,359**	13,217	**11,359**	13,217
>25%<=50%	**64,949**	62,438	**64,949**	62,438
>50%<=70%	**111,144**	123,106	**111,144**	123,106
>70%<=80%	**48,486**	48,078	**48,486**	48,078
>80%<=90%	**1,679**	3,147	**1,679**	3,147
>90%<=100%	**–**	–	**–**	–
>100%	**1,450**	940	**1,450**	940
Total	**239,067**	250,926	**239,067**	250,926

Credit-impaired loans

The estimated fair value of collateral and other security enhancements held by the group against loans and advances to customers at 30 June 2020 that were credit-impaired and not well secured is $2,573,000 (2019: $1,996,000) with the amount outstanding on these loans being $2,322,000 (2019: $2,659,000).

Repossessed collateral

In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Company does not usually hold any real estate or other assets acquired through the enforcement of security. During the year the Company took possession of property assets with a carrying value of $1,895,000 (2019: $2,501,000).

The Group monitors concentrations of credit risk by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans & advances to customers		Deposits with other ADIs		Investment debt securities		Cash and cash equivalents	
Consolidated	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Carrying amount	**5,390,648**	4,924,283	**98,644**	164,440	**952,880**	822,464	**226,384**	96,306
Concentration by location								
New South Wales	**4,230,460**	3,829,250	**92,209**	141,254	**619,897**	631,324	**225,364**	95,668
Australian Capital Territory	**683,937**	647,331	**3,699**	21,242	**62,985**	–	**918**	540
Queensland	**132,209**	118,672	**2,766**	–	**73,683**	121,922	**–**	–
Victoria	**269,961**	254,621	**–**	–	**36,290**	43,312	**102**	98
Western Australia	**48,636**	45,569	**–**	–	**98,564**	14,959	**–**	–
South Australia	**15,243**	13,562	**–**	–	**4,788**	996	**–**	–
Tasmania	**19,713**	20,170	**–**	2,014	**56,673**	9,951	**–**	–
Provision for impairment	**(9,511)**	(4,892)	**(30)**	(70)	**–**	–	**–**	–
Total	**5,390,648**	4,924,283	**98,644**	164,440	**952,880**	822,464	**226,384**	96,306

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

Company	Loans & advances to customers 2020 $'000	Loans & advances to customers 2019 $'000	Deposits with other ADIs 2020 $'000	Deposits with other ADIs 2019 $'000	Investment debt securities 2020 $'000	Investment debt securities 2019 $'000	Cash and cash equivalents 2020 $'000	Cash and cash equivalents 2019 $'000
Carrying amount	**5,390,648**	4,924,283	**98,644**	164,440	**2,610,747**	1,580,370	**167,476**	62,863
Concentration by location								
New South Wales	**4,230,460**	3,829,250	**92,209**	141,254	**2,277,764**	1,389,230	**166,456**	62,225
Australian Capital Territory	**683,937**	647,331	**3,699**	21,242	**62,985**	–	**918**	540
Queensland	**132,209**	118,672	**2,766**	–	**73,683**	121,922	**–**	–
Victoria	**269,961**	254,621	**–**	–	**36,290**	43,312	**102**	98
Western Australia	**48,636**	45,569	**–**	–	**98,564**	14,959	**–**	–
South Australia	**15,243**	13,562	**–**	–	**4,788**	996	**–**	–
Tasmania	**19,713**	20,170	**–**	2,014	**56,673**	9,951	**–**	–
Provision for impairment	**(9,511)**	(4,892)	**(30)**	(70)	**–**	–	**–**	–
Total	**5,390,648**	4,924,283	**98,644**	164,440	**2,610,747**	1,580,370	**167,476**	62,863

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location for loans and advances to other ADIs and investment debt securities is measured based on the location of the counterparty.

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flow commitments without negatively affecting the Group's daily operations or its financial condition.

Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Treasury's risk management function performs cash flow projections to determine future net funding requirements reflective of various expected and alternative market and business conditions. Treasury then maintains a portfolio of liquid investments, largely made up of high-quality liquid assets (HQLA), other contingent liquidity and funding sources (eg self-securitisation assets available as collateral under repurchase agreement) and other investment debt securities to ensure that sufficient liquidity is maintained and to avoid large funding mismatches. The liquidity and funding position is monitored and managed daily.

The Group relies on deposits from Members as its primary source of funding. Deposits from Members generally have maturities less than one year and a large proportion of them are contractually payable on demand. However, most of these deposits are in transactional, savings and term investment products that display the behaviour of more stable longer term funding sources. In addition, Treasury performs funding as required in the middle and wholesale markets in order to meet daily net funding requirements of the Group. The securitisation of residential mortgage loans and commercial loans further supports diversification of the funding base. The Group also have available a number of other contingent funding sources. This includes a securitisation warehouse facility with Westpac up to a limit of $67.1 million (2019: $85.2 million) and securities issued under the Group's self-securitisation program as repurchase eligible securities in the open market or with the RBA. The utilised balance of the Westpac securitisation warehouse at 30 June 2020 was $65.7 million (2019: $84.5 million). As part of the RBA monetary policy response to the COVID-19 pandemic, a Term Funding Facility (TFF) was made available to banks under which IMB qualified for a $152 million facility. During the year $59.4 million (2019: Nil) of securities were subject to repurchase agreement under the RBA TFF. The unused allowance at 30 June 2020 under the facility with the RBA was $102.1 million (2019: Nil).

To manage its funding and liquidity risk profile, the Group pursues through its funding and liquidity management strategy, a well-diversified funding base in terms of products, maturity terms and funding segment (i.e. wholesale and retail member funding) so as to avoid large concentrations that increases funding liquidity risk and puts a higher demand on the availability of contingent liquidity. This is controlled through funding and liquidity risk limits monitored weekly by senior management and monthly by the ALCO. Mitigation of liquidity risk is further supported by a liquidity stress-testing framework which is reported on a weekly basis with monthly oversight by the ALCO and the Risk Committee. Various stress tests measure the liquidity coverage of cash outflows under a variety of scenarios. These stress scenarios reflect various levels of severity in disrupted market and depositor behaviour. The contingency funding plan forms an integral part of the framework that enables the Group to proactively manage its liquidity risk profile under all conditions. All liquidity policies and procedures are subject to oversight and approval by the ALCO and ultimately the Board.

Exposure to liquidity risk

A key measure used by the Group for managing liquidity risk is the ratio of high quality liquid assets (as defined by APRA) to total adjusted liabilities, excluding any liability elements that qualify as Tier 1 or Tier 2 capital for prudential regulatory purposes. The Group has limits in place to ensure a sufficient buffer above the prudential minimum is held at all times. For the purposes of APRA's prudential minimum liquidity holding requirement the Group holds HQLA including cash, bank deposits on a call basis, securities eligible for repurchase with the RBA and other eligible deposits, as determined by APRA, issued by ADIs. In addition, the Liquidity Coverage Ratio under the APRA APS210 stress test is used to determine the amount of contingent liquidity buffer held is sufficient under stated stress scenario. The reported Group HQLA ratio to total adjusted liabilities at the reporting date was as follows:

Liquidity ratios

At 30 June	2020 %	2019 %
APRA High Quality Liquid Assets	**18.53**	15.94

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

Residual contractual maturities of financial liabilities

Consolidated	At call 2020 $'000	At call 2019 $'000	Excluding call less than 3 months maturity 2020 $'000	Excluding call less than 3 months maturity 2019 $'000	Greater than 3 months less than 12 months maturity 2020 $'000	Greater than 3 months less than 12 months maturity 2019 $'000
Financial Liabilities						
Deposits	**2,541,712**	2,056,575	**1,947,050**	1,896,675	**1,306,334**	1,258,074
Trade and other payables	**–**	–	**34,426**	40,523	**–**	–
Securitised loans funding*	**–**	–	**14,895**	22,318	**39,496**	74,607
Lease liabilities	**–**	–	**1,969**	–	**5,294**	–
Interest bearing liabilities	**–**	–	**75,744**	820	**1,790**	2,465
Total financial liabilities	**2,541,712**	2,056,575	**2,074,084**	1,960,336	**1,352,914**	1,335,146
Unrecognised loan commitments			**189,016**	316,162		

Company	At call 2020 $'000	At call 2019 $'000	Excluding call less than 3 months maturity 2020 $'000	Excluding call less than 3 months maturity 2019 $'000	Greater than 3 months less than 12 months maturity 2020 $'000	Greater than 3 months less than 12 months maturity 2019 $'000
Financial Liabilities						
Deposits	**2,547,107**	2,060,577	**1,947,050**	1,896,675	**1,306,334**	1,258,074
Trade and other payables	**–**	–	**28,697**	33,037	**–**	–
Securitised loans funding*	**–**	–	**20,232**	26,928	**55,333**	88,107
Lease liabilities	**–**	–	**1,969**	–	**5,294**	–
Interest bearing liabilities	**–**	–	**75,744**	820	**1,790**	2,465
Total financial liabilities	**2,547,107**	2,060,577	**2,073,692**	1,957,460	**1,368,751**	1,348,646
Unrecognised loan commitments			**189,016**	316,162		

* Included in this balance are amounts payable to mortgage SPE noteholders. The contractual maturity of the notes is dependent on the repayment of the underlying mortgages.

Greater than 1 year less than 5 years maturity		Greater than 5 years maturity		Gross nominal outflow		Total carrying amount	
2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
91,034	102,644	**–**	–	**5,886,130**	5,313,968	**5,871,469**	5,266,418
–	–	**–**	–	**34,426**	40,523	**34,426**	40,523
126,897	167,477	**70,928**	83,307	**252,216**	347,709	**240,198**	324,004
10,213	–	**1,314**	–	**18,790**	–	**17,850**	–
59,951	13,177	**73,628**	78,338	**211,113**	94,800	**195,006**	69,853
288,095	283,298	**145,870**	161,645	**6,402,675**	5,797,000	**6,358,949**	5,700,798
				189,016	316,162		

Greater than 1 year less than 5 years maturity		Greater than 5 years maturity		Gross nominal outflow		Total carrying amount	
2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
91,034	102,644	**–**	–	**5,891,525**	5,317,970	**5,876,864**	5,270,420
–	–	**–**	–	**28,697**	33,037	**28,697**	33,037
211,652	239,461	**1,728,511**	840,552	**2,015,728**	1,195,048	**1,897,781**	1,081,249
10,213	–	**1,314**	–	**18,790**	–	**17,850**	–
59,951	13,177	**73,628**	78,338	**211,113**	94,800	**195,006**	69,853
372,850	355,282	**1,803,453**	918,890	**8,165,853**	6,640,855	**8,016,198**	6,454,559
				189,016	316,162		

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, at call deposits from members are expected to maintain a stable or increasing balance and unrecognised loan commitments are not expected to be drawn down immediately.

The gross nominal outflow disclosed is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled.

Market Risk

Adverse changes in prices, foreign exchange rates, interest rates and credit spreads of financial instruments will negatively impact the income and value derived from holding such instruments. This is generally referred to as Market Risk.

The Group's core business activities are centred on making loans, taking deposits and investing in liquid assets (APRA requirement) and other ADI term deposits, in Australian dollars. The intent is to hold these banking products to maturity and is commonly referred to as the banking book.

The banking book has exposure to adverse changes to interest rates, which will negatively affect the Group's profit in current and future periods derived from net interest income (interest earned less interest paid). This risk is known as Interest Rate Risk in the Banking Book (IRRBB).

The Group does not conduct any proprietary trading activities (buying and selling securities for short-term capital gains) or operate any trading books that expose it to any other form of market risk.

Management of Interest Rate Risk in the Banking Book

The Group measure and manage IRRBB from two perspectives: firstly, from an earnings perspective quantified in terms of potential changes to its net interest income (NII) as reported in the profit or loss; and secondly from an economic value of equity (EVE) perspective, by quantifying the change in the net present value of the balance sheet's future earnings potential. The objectives in managing IRRBB are to optimise the trade-off between earnings and economic value whilst managing the risk within levels which are acceptable to the Board.

Overall authority for managing IRRBB is vested in the risk oversight and governance performed by the Assets and Liabilities Committee (ALCO). Treasury is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO, Risk Committee and the Board) and for its day-to-day implementation which includes the development and implementation of hedging strategies.

Exposure to IRRBB

Treasury, under the oversight from the ALCO, uses a number of risk measures to monitor and manage IRRBB exposure from both a NII and EVE perspective. A primary and secondary metric to which Board limits are calibrated are used to make hedging decisions, supported by a range of additional risk metrics and analyses.

Net Interest Income Sensitivity

The primary metric the Group use to measure and manage IRRBB exposure is the Net Interest Income Sensitivity to a 100 basis point move in interest rates. The Net Interest Income model simulates the balance sheet over a 12 month period and derives by how much the NII will change to an instantaneous 100 basis point move in market and product rates. The model assumes the current volume and mix of the portfolio are maintained and applies current observed pricing and margins to the Group's banking products. The model therefore does not incorporate further changes to external variables (i.e. loan growth from member demand for credit etc.) or internal variables (i.e. management actions in terms of changes to product pricing etc.). This captures the impact to the net interest income because of mismatches in the timing and balances of loans and deposits that will reprice to higher and lower rates.

The Net Interest Income Sensitivity measure is supported by further analyses and risk metrics that include reprice gap analyses and interest rate scenario stress tests (e.g. Basel standardised rate shocks and historic calibrations) to measure the impact of repricing mismatches in the balance to the Group's net interest income. In addition, the impact to NII from loan prepayments and basis risk (which is a source of IRRBB manifesting from the imperfect correlation in the changes in loan and deposit rates that otherwise have the same repricing characteristics) are measured and monitored by Treasury and the ALCO.

A summary of the Earnings risk as measured by NII-Sensitivity expressed as a percentage of capital, as at 30 June 2020 follows:

Earnings Risk (Net Interest Income Simulation – 100 bps Movement)	2020 %	2019 %
At 30 June	**(0.21)**	(1.91)
Average NII-Sensitivity for the period	**(1.03)**	(2.55)
Minimum NII-Sensitivity for the period	**(0.21)**	(1.87)
Maximum NII-Sensitivty for the period	**(1.99)**	(3.06)

Value-at-Risk

Value-at-Risk (VaR) is the secondary metric used by Treasury and the ALCO to manage IRRBB exposure and impact from the economic value perspective. The change in the balance sheet's net economic (present) value, also known as the economic value of equity (EVE) is quantified using a historical simulation approach known as HS-VaR. The change in the EVE over a 20-day period is analysed using the past 2 years of actual changes in interest rates. The risk is derived at a 99% confidence level. The HS-VaR is an estimate based upon a 99% confidence level that the loss in value of the balance sheet due to interest rate risk over a 20-day period, will not be exceeded.

Managing IRRBB exposure from an EVE perspective is further supported with sensitivity and scenario-based stress testing. This includes stressed HS-VaR which applies a 1-year holding period and 6 years of interest rate data (consistent with the soundness standard embedded within the APS117 IRRBB regulatory capital requirements to which the major banks' capital adequacy requirements are subjected).

A summary of the Historical Simulation VaR position of the Group's banking book, expressed as a percentage of capital, as at 30 June 2020 and during the year is as follows:

VaR (Historical Simulation Method)	2020 %	2019 %
At 30 June	**0.14**	0.71
Average EaR for the period	**0.42**	0.50
Minimum EaR for the period	**0.11**	0.38
Maximum EaR for the period	**0.80**	0.71

The system-based Net Interest Income Sensitivity and HS-VaR model and limits are subjected to review and approval by the Risk Committee. Weekly reports on Net Interest Income Sensitivity and HS-VaR limit utilisation, stress testing and IRRBB analyses are used by Treasury and reported to senior management and monthly to the ALCO and Risk Committee.

Exposure to other market risks

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by the Group is subject to regular monitoring by the Executive Risk Management Committee, but is not currently significant in relation to the overall results and financial position of the Group.

Operational risk

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness.

The Operational Risk Management Framework (ORMF) is designed to identify, assess and manage operational risks within the organisation. The key objectives of the ORMF are as follows:

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

- Understand the operational risks across the organisation.
- Ensure appropriate controls and mitigation are in place to manage the risks within appetite.
- Provide meaningful information to decision makers.
- Facilitate oversight.
- Encourage a proactive risk management culture.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

These activities are overseen by the Executive Risk Management Committee; while the Risk Management function and Legal & Compliance Department provide business units with support and guidance in managing their operational and compliance risks.

Compliance with Group policies is supported by a program of periodic reviews undertaken by Internal Audit. The results of these Internal Audit reviews are discussed with management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Fair value

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted prices or rates are used to determine fair value where an active market exists. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial instrument is not active, fair values are estimated using present value cash flows or other valuation techniques.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

Financial instruments carried at fair value

- Financial instruments classified as FVOCI are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated based on pricing models or other recognised valuation techniques.
- Derivative instruments used for the purpose of hedging interest rate risk, are carried at fair value. Fair value is measured by a method of forecasting future cash flows, with reference to relevant closing market prices and formula conventions at balance date.

Financial instruments carried at amortised cost

- The fair values of liquid assets and other assets maturing within 12 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of at call deposits with no specific maturity is approximately their carrying amount as they are short-term in nature or are payable on demand.
- The fair value of term deposits at amortised cost is estimated by reference to current market rates offered on similar deposits.
- The fair value of variable rate financial instruments, including loan assets and liabilities carried at amortised cost are approximated by their carrying value. In the case of loan assets held at amortised cost, changes in the fair value do not reflect changes in credit quality, as the impact of credit risk is largely recognised separately by deducting the amount of an allowance for credit losses.
- The fair value of fixed rate loans at amortised cost is estimated by reference to current market rates offered on similar loans.

Fair value hierarchy

The following tables show the carrying amount and the fair values of financial assets and financial liabilities under AASB 9, including their levels in the fair value hierarchy.

30 June 2020	Note	Carrying Amount $'000	Fair value Level 1 $'000	Level 2 $'000	Level 3 $'000	Total consolidated $'000
Financial assets measured at FVOCI						
Investment debt securities	6	**952,880**	**–**	**952,880**	**–**	**952,880**
Derivative financial assets	11	**5,064**	**–**	**5,064**	**–**	**5,064**
Equity investments	9	**958**	**–**	**–**	**958**	**958**
		958,902	**–**	**–**	**–**	**–**
Financial assets at amortised cost						
Cash and cash equivalents	26	**226,384**	**–**	**–**	**–**	**–**
Deposits with other ADIs	7	**98,644**	**–**	**–**	**–**	**–**
Loans and advances to customers	8	**5,390,648**	**–**	**–**	**5,418,087**	**5,418,087**
Other assets	14	**16,543**	**–**	**–**	**–**	**–**
		5,732,219	**–**	**–**	**–**	**–**
Financial liabilities measured at amortised cost						
Deposits	16	**5,871,469**	**–**	**5,887,697**	**–**	**5,887,697**
Securitised loan funding	17	**240,198**	**–**	**–**	**–**	**–**
Interest bearing liabilities	18	**212,856**	**–**	**–**	**–**	**–**
Trade and other payables	15	**34,426**	**–**	**–**	**–**	**–**
		6,358,949	**–**	**–**	**–**	**–**

For an explanation of fair value levels refer to Note 1(b)(v).

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

30 June 2019	Note	Carrying Amount $'000	Fair value Level 1 $'000	Level 2 $'000	Level 3 $'000	Total consolidated $'000
Financial assets measured at FVOCI						
Investment debt securities	6	822,464	–	822,464	–	822,464
Equity investments	9	805	–	–	805	805
		823,269				
Financial assets at amortised cost						
Cash and cash equivalents	26	96,306				
Deposits with other ADIs	7	164,440				
Loans and advances to customers	8	4,924,283	–	–	4,946,048	4,946,048
Other assets	14	32,538				
		5,217,567				
Financial liabilities measured at amortised cost						
Deposits	16	5,266,418	–	5,281,430	–	5,281,430
Securitised loan funding	17	324,004				
Interest bearing liabilities	18	69,853				
Trade and other payables	15	40,523				
		5,700,798				

For an explanation of fair value levels refer to Note 1(b)(v).

Valuation techniques

Financial instruments classified as investment debt securities are valued by a market comparison technique of like securities, using market interest rates and credit trading margins.

Deposits and loans are valued by means of a discounted cash flow model which considers the present value of future cash flow, the discount factors are derived from the term structure of interest rates corresponding to the term of the cash flow being present valued. A yield curve is constructed from benchmark market rates. Also, for fixed rate mortgages cash flows are adjusted for the effect of principal prepayment.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on current market rates at the reporting date which incorporate an appropriate credit spread, and were as follows:

	2020 %	2019 %
Loans and borrowings	**0.25 – 0.42**	1.18 – 1.25
Derivatives	**0.14 – 0.42**	n/a

Capital management – regulatory capital

The Group's regulator (APRA) sets and monitors capital requirements for the Group as a whole. The Group reports to APRA under Basel III capital requirements and has adopted the standardised approach for credit risk and operational risk.

In implementing current capital requirements APRA requires the Group to maintain a prescribed ratio of total capital to total risk weighted assets.

The Group's regulatory capital is analysed in two tiers:

- Tier 1 capital, consisting of: Common Equity Tier 1 capital – which includes ordinary share capital, retained earnings, general reserves, property revaluation reserves, unrealised gains and losses on readily marketable securities classified as FVOCI and gains and losses on cashflow hedges; regulatory adjustments to Common Equity Tier 1 capital; Additional Tier 1 capital; and other Additional Tier 1 capital regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier 2 capital, which includes subordinated liabilities, collective impairment allowances and other Tier 2 capital regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Various limits are applied to elements of the capital base. The minimum prudential capital requirements (PCRs) that an ADI must maintain at all times are: a Common Equity Tier 1 Capital ratio of 4.5%; a Tier 1 Capital ratio of 6.0%; and a Total Capital ratio of 8.0%.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised as the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group and Company have complied with all externally imposed capital requirements throughout the year.

APRA sets a prudential capital requirement (PCR) for each ADI that sets capital requirements in excess of the minimum capital requirement of 8%. A key input into the PCR setting process is the Group's Internal Capital Adequacy Assessment Process (ICAAP). The PCR remains confidential between each ADI and APRA in accordance with accepted practice.

APRA has determined that the Group's ordinary shares will maintain their current regulatory capital treatment of Common Equity Tier 1 (CET1) until 1 January 2025 by Instrument issued under paragraph 42 of APS 111 Capital Adequacy – Measurement of Capital. This transitional period provides IMB the opportunity to structure its capital management plans and actions having regard to the change in regulatory treatment that will occur in future, and to date this has included conducting a series of ordinary share buybacks.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect a differing risk profile, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Notes to the Consolidated Financial Statements

30. Risk management and financial instruments (continued)

The Group's and Company's regulatory capital position at 30 June was as follows:

	Consolidated		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Tier 1 capital				
Ordinary share capital	**28,324**	28,324	**28,324**	28,324
General reserves	**27,819**	25,255	**27,819**	25,255
Asset revaluation reserves	**13,478**	6,712	**13,478**	6,712
Retained earnings	**315,598**	269,449	**314,000**	268,121
Current year earnings	**21,498**	19,752	**20,742**	19,482
(Less) Capitalised expenses	**(7,064)**	(3,444)	**(7,064)**	(3,444)
(Less) Other	**(14,082)**	(9,115)	**(14,054)**	(9,087)
Total	**385,571**	336,933	**383,245**	335,363
Tier 2 capital				
General reserve for credit loss	**13,559**	10,508	**13,559**	10,508
Subordinated debt	**70,000**	70,000	**70,000**	70,000
Total	**83,559**	80,508	**83,559**	80,508
Total regulatory capital	**469,130**	417,441	**466,804**	415,871
Capital requirements (in terms of risk-weighted assets) for:				
Credit risk	**2,571,532**	2,361,001	**2,574,004**	2,363,079
Operational risk	**366,844**	337,888	**363,141**	334,601
Total risk-weighted assets	**2,938,376**	2,698,889	**2,937,145**	2,697,680
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	**16.0%**	15.5%	**15.9%**	15.4%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	**13.1%**	12.5%	**13.1%**	12.4%

31. Business combinations

Merger with Hunter United Employees' Credit Union

On 1 May 2020, Hunter United Employees' Credit Union merged with IMB Ltd by way of a voluntary Transfer of Business pursuant to the Financial Sector (Business Transfer and Group Restructure) Act of 1999 (Cth). The primary reason for the merger is to deliver greater benefits to the Members of the combined organisation, and to strengthen the position of IMB Ltd as a competitive alternative to the major banks in the Hunter region.

The merger was approved by Members of Hunter United Employees' Credit Union on 5 March 2020. The transaction was effective from 1 May 2020 with the transfer of the Hunter United Employees' Credit Union assets and liabilities to IMB Ltd being legally undertaken on that date. Each Member of Hunter United Employees' Credit Union became a Guarantee Member of IMB Ltd on 1 May 2020 unless the Member was already a Member of IMB Ltd. Each Member share in Hunter United Employees' Credit Union was redeemed and cancelled, and the amount paid on their Member share repaid.

It is not practical to disclose the amount of Hunter United Employees' Credit Union Limited's profit or loss since merger date, since this is not fully distinguishable in the Group accounts.

Identifiable assets and liabilities assumed

The fair value of the identifiable assets and liabilities of Hunter United Employees' Credit Union Limited as at the date of merger 1 May 2020 were:

	Recognised values on merger 1 May 2020 $'000
ASSETS	
Cash and cash equivalents	**16,198**
Deposits with other ADIs	**3,266**
Investment debt securities	**42,018**
Property, plant and equipment	**4,934**
Loans and advances to customers	**274,963**
Intangible assets	**328**
Other assets	**942**
Total assets	**342,649**
LIABILITIES	
Deposits	**315,694**
Creditors	**1,293**
Provisions	**562**
Other liabilities	**289**
Total liabilities	**317,838**
Fair value of identifiable net assets attributable to Hunter United Employees' Credit Union	**24,811**

Contingent liabilities

There are no other contingent liabilities that may arise.

Notes to the Consolidated Financial Statements

31. Business combinations (continued)

Separately recognised transactions

The Company incurred merger related costs of $150,000 in relation to external consultancy, legal fees, security, communications and insurance costs. These costs are a part of the disclosures in Note 3, and included under "Operating Expenses" in the statement of profit and loss.

32. Subsequent event

Dividends

For dividends declared by IMB Ltd after 30 June 2020 refer to Note 5.

Directors’ Declaration

In the opinion of the directors of IMB Ltd (“the Company”):

(a) the financial statements and notes, set out on pages 47 to 112, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2020 and of their performance for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b);

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Wollongong this 14th day of September 2020.

Signed in accordance with a resolution of the directors:

NH Cornish
Chairman

PJ Fitzgerald
Director

Independent Auditor's Report

Independent Auditor's Report

To the *members* of IMB Ltd

Opinions

We have audited the consolidated Financial Report of IMB Ltd (the Group Financial Report). We have also audited the Financial Report of IMB Ltd (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of IMB Ltd are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's and Company's financial position as at 30 June 2020 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- Statements of financial position as at 30 June 2020
- Statements of profit or loss, Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of IMB Ltd (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Reports* section of our report.

We are independent of the Group and Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in IMB Ltd's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Richard Drinnan

Partner

Wollongong

14 September 2020

IMB Bank Branches

Locations

IMB Bank Branches

New South Wales

- **Albion Park** – Shop 14, Albion Park Shopping Village, ALBION PARK NSW 2527
- **Batemans Bay** – 21 Orient Street, BATEMANS BAY NSW 2536
- **Bega** – 193-195 Carp Street, BEGA NSW 2550
- **Bowral** – Shop 1, 320 Bong Bong Street, BOWRAL NSW 2576
- **Camden** – Shop 26, Camden Village Court, 180-186 Argyle Street, CAMDEN NSW 2570
- **Corrimal** – Shop 2-4, Stocklands Corrimal, Princes Highway, CORRIMAL NSW 2518
- **Cronulla** – 80 Cronulla Street, CRONULLA NSW 2230
- **Dapto** – 2-4 Bong Bong Road, DAPTO NSW 2530
- **Eden** – 199 Imlay Street, EDEN NSW 2551
- **Engadine** – Cnr Old Princes Hwy & Station St, ENGADINE NSW 2233
- **Fairy Meadow** – 2/84 Princes Highway, FAIRY MEADOW NSW 2519
- **Figtree** – Shop 32 & 33 Figtree Grove, Princes Highway, FIGTREE NSW 2525
- **Goulburn** – Shop 27 Centro Goulburn, Auburn Street GOULBURN NSW 2580
- **Kiama** – 86 Terralong Street, KIAMA NSW 2533
- **Liverpool** – Shop 19, Liverpool Plaza, 165-191 Macquarie Street, LIVERPOOL NSW 2170
- **Macarthur Square** – Shop L10-L11, Lvl 2, Macarthur Square Shopping Centre, AMBARVALE NSW 2560
- **Menai** – Shop 19, Menai Marketplace, 152-194 Allison Road, MENAI NSW 2234
- **Merimbula** – Cnr Merimbula Drive & Market Street, MERIMBULA NSW 2548
- **Miranda** – Shop G105 Westfield Miranda, 105 Kiora Road, MIRANDA NSW 2228
- **Moruya** – 55 Vulcan Street, MORUYA NSW 2537
- **Narellan** – Shop 310/326 Camden Valley Way, NARELLAN NSW 2567
- **Narooma** – 127 Wagonga Street, NAROOMA NSW 2546
- **Nowra** – 86 Kinghorn Street, NOWRA NSW 2541
- **Oran Park** – Shop 4C, Oran Park Town Centre, 351 Oran Park Drive, ORAN PARK. NSW 2570
- **Parramatta** – Shop 1, 207 Church Street, PARRAMATTA NSW 2150
- **Penrith** – 25 Riley Street, PENRITH NSW 2750
- **Picton** – Shop 1A, 148 Argyle Street, PICTON NSW 2571
- **Queanbeyan** – Shop 7 Riverside Plaza, Monaro Street, QUEANBEYAN NSW 2620
- **Rouse Hill** – Shop B-GR93, Rouse Hill Town Centre, Windsor Road and White Hard Drive, ROUSE HILL NSW 2155
- **Stockland Shellharbour** – Shop 46, Stockland Shopping Centre, SHELLHARBOUR NSW 2529
- **Sutherland** – 740 Princes Hwy, SUTHERLAND NSW 2232
- **Sylvania** – Shop 47, Southgate Shopping Centre, Cnr Princes Highway and Port Hacking Road, SYLVANIA NSW 2224
- **Thirroul** – Shop 6, Anita Theatre, King Street, THIRROUL NSW 2515
- **Ulladulla** – 89 Princes Highway, ULLADULLA NSW 2539
- **Unanderra** – 102 Princes Highway, UNANDERRA NSW 2526
- **University of Wollongong** – Ground Floor, Building 17, University of Wollongong NSW 2500
- **Vincentia** – Shop 17, Burton Mall, Burton Street, VINCENTIA NSW 2540
- **Warilla** – 6 George Street, WARILLA NSW 2528
- **Warrawong** – Cnr King and Cowper Sts, WARRAWONG NSW 2502
- **Wollongong** – 205 Crown Street, WOLLONGONG NSW 2500
- **Woonona** – 367-369 Princes Highway, WOONONA NSW 2517
- **Wynyard** – Shop 20, 20 Hunter Street, WYNYARD NSW 2000

ACT

Belconnen – Level 3, Shop 162-163 Westfield Shopping Town, Benjamin Way, BELCONNEN ACT 2617

Canberra City – Shop GC04, Canberra Centre City Walk, CANBERRA ACT 2600

Gungahlin – Shop 18 The Market Place, 33 Hibberson St, GUNGAHLIN ACT 2912

Tuggeranong – Lvl 1 Shop 175-177, Cnr Anketell and Reed Sts, Tuggeranong Hyperdome Shopping Centre, GREENWAY ACT 2900

Woden – Shop 1 Plaza Level, Woden Churches Centre, WODEN ACT 2606

Victoria

Glen Waverley – 55 Railway Parade North, GLEN WAVERLEY VIC 3150

Hunter United Division

Broadmeadow – 130 Lambton Rd, BROADMEADOW NSW 2292

Charlestown – Level 2, Shop 2092, Charlestown Shopping Centre, CHARLESTOWN NSW 2290

Glendale – Shop 31 Glendale Shopping Centre, GLENDALE NSW 2285

Green Hills – Shop 1037/1, Green Hills Shopping Centre. Molly Morgon Dr, EAST MAITLAND NSW 2323

Jesmond – Shop 35, Jesmond Central, Blue Gum Rd & Mordue Pde, JESMOND NSW 2299

IMB Business Banking

Level 1, 205 Crown Street, WOLLONGONG NSW 2500

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Corporate Directory

Members' Diary and other information

Payment of final dividend 21 September 2020

Annual General Meeting – 9 November 2020 at 10:30am (AEDT) (virtual meeting)

Notice of Annual General Meeting

IMB Bank's 2020 Annual General Meeting (AGM) will be held as follows:

Date: Monday, 9 November 2020
Time: 10:30am (AEDT)
Venue: online at https://agmlive.link/IMB20

IMB Bank takes the health and safety of our members, employees and the broader community seriously. Given the continuing risks and uncertainty faced as a result of COVID-19, the 2020 IMB Bank Annual General Meeting will be held as a virtual meeting. To participate in the Annual General Meeting online on 9 November 2020, members can log in online at https://agmlive.link/IMB20 from a desktop, mobile or tablet device with internet access and wait for registration to commence from 10:00am (AEDT).

Company Secretary

Lauren Wise (BA LLB Grad Dip. Legal Practice)

Registered Office

253-259 Crown Street
Wollongong NSW 2500

Share Registry

IMB Ltd is not listed on the Australian Stock Exchange.

Shares are traded under an Australian Market Licence held by the Company.

The share register is available for inspection at:

Level 6 Executive Services
253-259 Crown Street
Wollongong NSW 2500

Advisors

Solicitors

Watson Mangioni
23/85 Castlereagh St
Sydney NSW 2000

Auditors

KPMG
Level 7
77 Market St
Wollongong NSW 2500

Regulatory disclosures

Disclosures required under Prudential Standard APS330, including a reconciliation between the Group's regulatory capital and audited financial statements, and additional disclosures on the composition of the Group's regulatory capital, are available on the Company's website (http://www.imb.com.au/about-us-corporate-governance.html).

Gender Equality Reports

Reports completed by IMB Ltd under the Workplace Gender Equality Act 2012 (Act) can be accessed from the Company's website (http://www.imb.com.au/about-us-investor-centre-financial-reports.html).

right by you

imb.com.au

IMB Ltd trading as IMB Bank ABN 92 087 651 974