2021
Annual Report

Building a stronger future for our members

2021
Contents

About IMB

Established in 1880, IMB Bank has been helping people achieve their financial goals for 141 years.

With $7.0 billion in assets and over 207,000 members across Australia, IMB is a proud, growing mutual bank that places our members' financial needs at the centre of our banking experience, and works with our communities to help them thrive.

Maintaining highly competitive banking products and services, our sustainability is built around exceptional customer service, through both person-to-person interactions and via our innovative range of digital banking solutions, reflected in our industry leading member satisfaction.

As a mutual bank, our role in the communities where we operate is vital. We proudly support civic, business, sporting and cultural programs, and the IMB Bank Community Foundation has provided over $10.5 million to more than 750 not-for-profit groups since 1999.

IMB has a fully-featured range of banking solutions, and our members enjoy the benefits and convenience of IMB's continued innovation leadership in the banking sector. Members have access to digital banking options, such as the full suite of mobile wallet and wearables, plus the convenience of opening a deposit account or applying for a loan via our website, supported by a team of experienced professionals.

We pride ourselves on delivering superior customer service to members, regardless of how they choose to engage with us. This includes our extensive branch network, our Australia-based contact centre and our digital channels including webchat, in-app messaging and social media. IMB's retail network delivers person-to-person service in the ACT, NSW and Melbourne.

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.

In 2021, IMB was awarded an 'Employer of Choice for Gender Equality' citation from the Workplace Gender Equality Agency. The citation is a recognition of our commitment to our people, our members and our communities by implementing leading equality initiatives.

Our Purpose

IMB provides simple, authentic member-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 2021 Annual General Meeting (AGM) will be held as follows:

Date: Tuesday, 26 October 2021

Time: 10.30am (AEDT)

Venue: Online at https://agmlive.link/IMB21

IMB Bank takes the health and safety of our members, employees and the broader community seriously. Given the continuing risks and uncertainty faced by all as a result of COVID-19, the 2021 IMB Bank AGM will be held as a virtual meeting. To participate in the AGM online on 26 October 2021, members can log in online at https://agmlive.link/IMB21 from a desktop, mobile or tablet device with internet access and wait for registration to commence from 10.00am (AEDT).

2021 Highlights

Responding to the events of FY2021 and the needs of our members, IMB demonstrated innovation, equality and resilience.

Results

14.6% retail deposit growth

Our financial performance was sound in a very challenging environment. Group operating profit after tax of $30.8 million is 17.1% higher than the previous year. Other results for the financial year include:

- We approved a record level of loans totalling $1.3 billion, growing the portfolio by 1.2%.
- Retail deposits grew 14.6% to $5.3 billion.
- Average interest margin for the year was 2.13%, reflecting prudent management of the balance sheet in a low interest rate environment.
- The ratio of non-interest expense to operating income for the Group decreased to 71.5%, down from 72.8% in the previous year.

Community Support

$10.5m support for 750+ projects

With over $10.5 million donated to more than 750 community projects since 1999, the IMB Bank Community Foundation committed once again in 2021 to supporting community needs with an additional $600,000 in grants to projects run by not-for-profit, charity and community groups.

Due to the uncertain economic climate surrounding COVID-19, funding for many FY2020 projects was allocated in FY2021; 28 grassroots projects were awarded grants in the places that IMB operates. Applications for 2021 funding commenced in April, with grants to be announced later in 2021.

Sustainability

IMB's mutual model remains steadfast

IMB results for FY2021 reflect the underlying strength and sustainability of our business. Despite the uncertainty associated with the pandemic, IMB's mutual model has shown resilience in the face of challenging market conditions.

Our approach to corporate social responsibility and ethical conduct is embedded through our core organisational values and governance frameworks, which are built on our mutual model of delivering benefits to our members and the communities in which we operate.

We are committed to making a positive impact for the benefit of current and future generations and are evolving our approach through our community support programs, a commitment to an equal and inclusive workplace, the development of more environmentally sustainable practices and continuous improvement in our policies and procedures.

Supporting Diversity in the Workplace

In 2021, IMB was thrilled to have been recognised by the Workplace Gender Equality Agency as an Employer of Choice for Gender Equality (EOCGE). This was an extremely important milestone as it recognises our commitment to creating an inclusive workplace that respects and values everyone as individuals.

Accepting every one of our employees for who they are and appreciating diverse perspectives of all is the fundamental basis of the workplace culture at IMB Bank. We are dedicated to building a diverse workforce and a culture of inclusion to support our long-term vision of being NSW's Leading Mutual.

Despite the challenging environment we continued to support our team, providing a 50% increase in training hours, adapting our learning systems online and adding to our in-house education suite, "Development Edge", building our leadership capability from within.

Innovation

Strength, security and simplicity

Building upon advancements in technology, our dedication to innovation and investment has proven to be a significant component of IMB's growth strategy. Our digitisation journey will continue to be the catalyst for growth, by enhancing our digital product offerings, supporting efficiencies in our service facilities, and strengthening our security for both members and staff.

Key achievements in 2020/2021:

- **Implemented a new digital lending platform:** IMB's all-new digital lending platform delivers an intuitive and streamlined mortgage lending experience for our existing and new members. The platform uses leading technology to automate processes from loan application through to loan settlement, delivering faster outcomes for members within our responsible lending framework.
- **Launch of card management facilities within IMB Internet Banking:** The updated release of our Internet Banking offered members self-service management of their VISA and Cashcards. This was an important upgrade for our members, providing greater convenience for the management of their banking products.
- **Progression of the Open Banking Project:** The objective of this project is to provide members with the ability to share their IMB account, product, transaction and payment data with an accredited third-party following guidelines and rules established by the ACCC. It offers our members more management capabilities of their financial products, while improving their experiences when dealing with the transfer of their financial data.

Connecting with our Members

Welcoming over 10,300 new members

In 2021, we welcomed 10,363 new members to IMB; 8,703 through our merger with Hunter United. Support was provided to ensure a seamless transition of their banking products to IMB. At the end of FY2021 we had a total of 207,583 members.

Through uncertain conditions, IMB has remained committed to being more than just a bank. We have continued to support our members through a comprehensive range of measures, aiming to aid those financially impacted by COVID-19. Our support services have assisted members in periods of lockdown and provide hardship relief when required.

Corporate

New Head Office completed for future growth

March 2021 proved to be the beginning of a new chapter as IMB celebrated the completion and opening of its new Head Office. We were honoured to have held a traditional smoking ceremony and Welcome to Country by a representative of the Dharawal people to pay our respects to the traditional owners of the land.

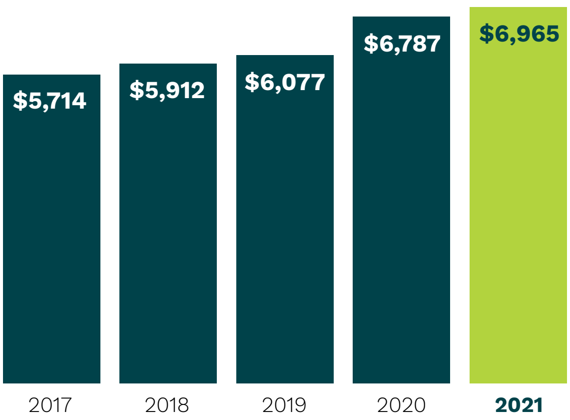
IMB Bank completed the systems-based migration with the Hunter United Employees' Credit Union in May 2021, completing the merger process. This merger strengthens IMB's position in the Hunter region and demonstrates our determination to become NSW's Leading Mutual Bank.

Five-year Summary

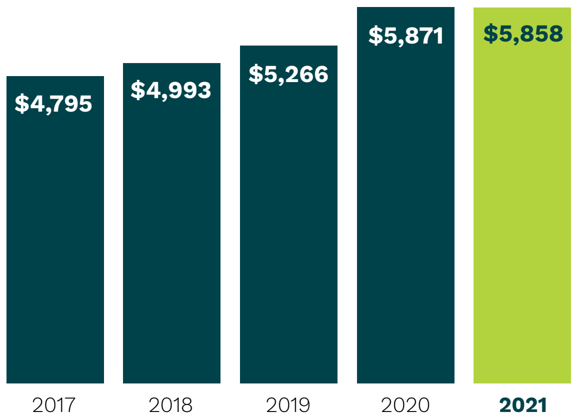
		2021 $'000	2020 $'000	2019 $'000	2018 $'000	2017 $'000
Financial performance						
Interest income		**189,979**	214,944	242,279	231,874	220,867
Interest expense		**46,619**	85,208	117,327	110,529	110,439
Interest margin		**143,360**	129,736	124,952	121,345	110,428
Non-interest income		**11,062**	13,756	13,573	14,086	15,029
Impairment (reversal)/losses		**(603)**	5,178	1,501	1,235	1,066
Non-interest expense		**110,808**	100,629	91,623	89,012	85,139
Profit before tax		**44,217**	37,685	45,401	45,184	39,252
Income tax expense		**13,402**	11,354	13,669	13,623	11,800
Profit after tax		**30,815**	26,331	31,732	31,561	27,452
Financial position						
Assets						
Loans and advances		**5,458,598**	5,390,648	4,924,283	4,569,669	4,312,141
Liquids		**1,377,001**	1,277,908	1,083,210	1,298,933	1,374,988
Other		**129,276**	118,034	69,584	43,580	26,552
		6,964,875	6,786,590	6,077,077	5,912,182	5,713,681
Liabilities						
Deposits		**5,858,054**	5,871,469	5,266,418	4,993,265	4,795,283
Securitised loans funding		**178,866**	240,198	324,004	405,795	430,571
Other		**488,426**	263,246	123,947	169,435	157,579
		6,525,346	6,374,913	5,714,369	5,568,495	5,383,433
Net assets		**439,529**	411,677	362,708	343,687	330,248
Total assets		**6,964,875**	6,786,590	6,077,077	5,912,182	5,713,681
Performance ratios						
Capital adequacy	%	**17.4**	16.0	15.5	16.1	16.6
Total asset growth	%	**2.6**	11.7	2.8	3.5	9.4
Net asset growth	%	**6.8**	13.5	5.5	4.1	7.0
After-tax return on average net assets	%	**6.5**	7.8	9.0	9.4	8.5
Non-interest income/average total assets	%	**0.16**	0.22	0.23	0.24	0.27
Non-interest expenses/average total assets	%	**1.58**	1.60	1.53	1.54	1.54
Non-interest expenses/operating income	%	**71.5**	72.8	66.9	66.3	68.4
Bad debts expense/average loans	%	**(0.01)**	0.10	0.03	0.03	0.03
Interest margin	%	**2.13**	2.09	2.12	2.13	2.03

2021 Results

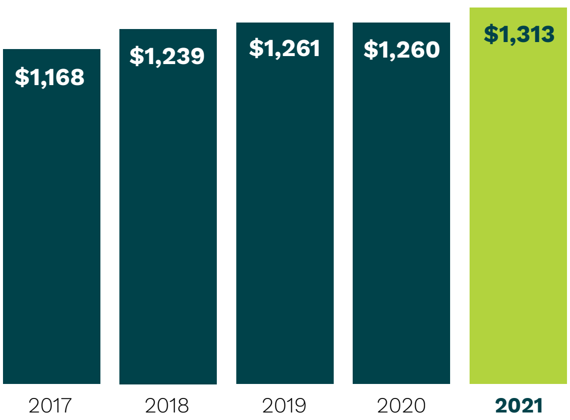
Total Assets ($m)



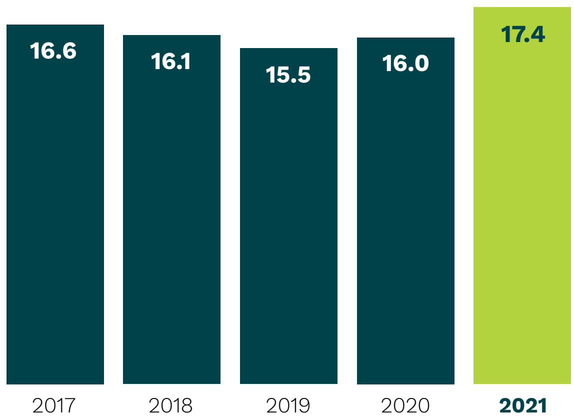
Members Deposits ($m)



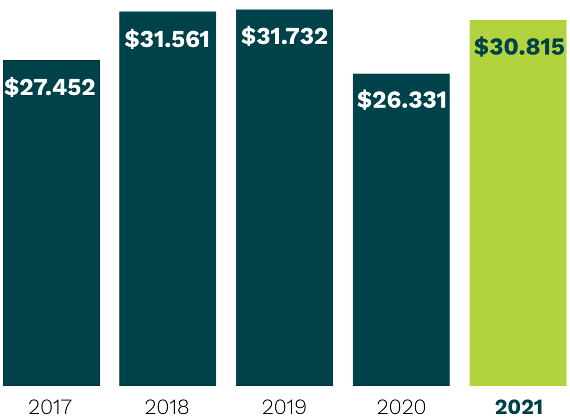
Total Loans Approved ($m)



Capital Ratio (%)



Profit After Tax ($m)



Employer of Choice for Gender Equality

Citation awarded to IMB Bank for 2021/22

WGEA Employer of Choice for Gender Equality

A message from our Chairman and Chief Executive

IMB Bank responded exceptionally well to the disruption and uncertainty of the external environment over the 2020-2021 financial year (FY2021), achieving good momentum on the execution of our strategic growth objectives, and delivering an uplift in key financial outcomes as at 30 June 2021.

Noel Cornish AM
Chairman

Robert Ryan
Chief Executive

$7.0b
Total assets

As we again face the impacts of the global pandemic, we remain committed to serving and supporting our members and communities, so that together we emerge strongly from this difficult period.

Working with our Members through the Pandemic

The global pandemic presented unique challenges for IMB Bank and our members. We've faced many uncertain times over our 140 years, and giving our members the confidence that they can rely on us to help them meet their financial needs has never been more important. We responded by mobilising our Strategic Response Team quickly and operated effectively under our COVID-Safe Plan keeping our members and people safe while maintaining business continuity and keeping our branches open.

We were pleased to offer support to members who needed short-term financial assistance through adjustments to their loan arrangements, fee waivers and by working directly with our small business members to tailor their banking arrangements as the environment shifted. The underlying strength of our loan portfolio is reflected in the small number of members still requiring hardship support at the year's end, however we recognise that further assistance will be needed as our members reach out to us as a result of the latest lockdowns.

Executing an Ambitious Strategic Agenda

In FY2021 we embarked on a substantial strategic agenda to drive our digital capabilities forward and respond to the changing expectations of our members. A number of major projects were delivered over the course of the year, and the momentum achieved in an environment of continuous disruption demonstrated IMB's resilience and ability to adapt to challenging conditions.

Our new lending platform is performing well, providing a more intuitive and streamlined mortgage lending experience for our existing and new members. The platform uses leading technology to automate processes from loan application through to loan settlement, delivering faster outcomes for members within our responsible lending framework. We are continuing to expand the functionality of the platform and will be bringing a new digital lending application to market in coming months.

The importance of offering physical touchpoints, comprehensive digital capabilities and secure online banking options has been highlighted throughout ongoing lockdowns. Our members' needs and preferences are shifting, and many who previously did their banking in branches are now comfortable with digital engagement and the speed and convenience of online banking and payments tools.

We are continuously enhancing these facilities, and recently upgraded our internet banking platform to give our members self-service capabilities for managing their Visa debit and cashcards. We are also working on a next-generation mobile app which will provide simplified online access to our products and services for members.

In addition to this we maintained investment in our face-to-face channels, upgrading four branches and introducing new mobile lenders in Sydney and Newcastle.

It has been concerning to see the heightened level of financial scams targeting vulnerable people in our community. Over the year we continued to invest in our fraud prevention capabilities and the enhancement of infrastructure to protect members against cyber and data breach risks while promoting awareness of scam activity so that our members remain vigilant.

Under the Open Banking regime, which gives consumers more access to and control over their data held by financial institutions, IMB began sharing product data. Later in the year, we will enable consumer data sharing with accredited recipients through the secure mechanisms being established across industry. While our current efforts are directed at the extensive compliance requirements associated with Open Banking, we are focused on the innovation opportunities presented by the regime and over time intend to expand our capabilities to deliver improved member experiences by using data in new ways.

Extending our Reach

Following completion of the systems and business integration for the merger with Hunter United Employees' Credit Union in May 2021 we are now providing the full merger benefits to the Hunter United division members. We are delighted that all IMB and Hunter United members can access the same products and services at any of IMB Bank's 52 branches or digital channels. The Board and executive are proud of the way teams across the merged organisation have worked together to support our Hunter members to efficiently manage the transition to new systems and processes.

Our merger capability is strong, and we have developed effective strategies for managing the challenges that can arise when bringing unique technology and payments systems together. We are open to considering more merger opportunities with other like-minded mutual Australian Deposit Taking Institutions (ADIs) that are committed to providing superior personal service, practical banking solutions and strong community support.

In addition to the expansion of our member base through mergers, our organic growth strategies saw over 10,000 new members choose to bank with IMB during the year, taking our total membership to over 207,000. We are delighted to have leading net promoter scores and a customer satisfaction rating of 95% which reflect the tireless efforts of our staff and their dedication in meeting our members' needs.

Our core administrative and support functions are now operating from the newly constructed head office in Burelli Street, Wollongong. Aside from the efficiencies and operational improvements that flow from the purpose-built accommodation, the move is a reflection of IMB Bank's continued growth and evolution over more than 140 years.

We are focused on deepening the contribution that IMB can make in markets such as Sydney and the Hunter/Newcastle region in the year

$30.8m
Group Operating Profit

A message from our Chairman and Chief Executive
continued

14.6%
Growth in retail deposits

ahead. We also see a strong opportunity to develop IMB's business banking offering for small and medium enterprises through personalised relationship management which is not being delivered consistently by the large banks to this segment of the market.

Financial Highlights

IMB Bank's results for FY2021 reflect the underlying strength and sustainability of our business.

Total assets grew by 2.6% to $7.0 billion, with loans under management reaching $5.5 billion (up 1.3%), and retail deposits increasing by an impressive 14.6%. A record $1.3 billion in loan applications were approved, assisting our members with their personal, home, and business-related credit requirements.

The Group operating profit after tax of $30.8 million is 17% higher than for the previous financial year, which was impacted by provisioning of $4.0 million for potential losses associated with the COVID pandemic. The level of provisioning at 30 June 2021 has been reduced to $2.9 million which while being reflective of more optimistic economic forecasts takes into account the continued uncertainty associated with the pandemic.

Operating expenses totalled $110.8 million for the year. While this represents a 10% increase on the previous year, non-interest expenses as a proportion of average total assets for the Group improved to 1.58% and the ratio of non-interest expense to operating income for the Group also improved to 71.5% (down from 72.8%). The increase in expenses is attributable to the full year impact of the merger with Hunter United Employees' Credit Union and the costs of implementing IMB Bank's digital strategy so that we can continue to provide you, our members, with the services you need – today and tomorrow.

IMB Bank's average interest margin for the year improved to 2.13%, reflecting an increased proportion of retail deposit funds. The Group's capital adequacy ratio at 30 June, 2021 was 17.4% and liquidity remains well above prudential requirements.

In line with the more promising economic recovery over the second half of FY2021, it was pleasing to see an associated decline in the level of financial hardship assistance required by our members, with just 0.01% of our loan portfolio in receipt of hardship assistance at 30 June, down from 4.8% at the end of FY2020. The current circumstances have unfortunately placed renewed pressure on some of our members and in the year ahead we will continue to provide a range of support measures aimed at improving their financial wellbeing.

Engaging Our People

We continued to be impressed by the adaptability shown by our people in a year that again presented challenges for them both at and away from the workplace. Our culture is at its strongest when we are working together for the benefit of our members, and we regularly see our people 'going the extra mile' to provide outstanding service. Whether it has been keeping branches open under the highest of community restrictions, developing solutions to provide contactless banking options, or simply listening to our members in their time of need – our people are the key to IMB's success, every day.

With the workplace changes caused by the COVID outbreaks, we have focused on ensuring our people can connect with each other, collaborate to solve problems, and build a sense of community regardless of where, or how, they work. Over the year we accelerated the development of new skills and invested significantly in supporting our people's wellbeing, with a focus on mental health and resilience.

We are exceptionally proud to have been awarded an Employer of Choice for Gender Equality citation in FY2021 by the Workplace Gender Equality Agency, recognising our inclusive culture and commitment to providing meaningful development and career opportunities for the women and men who make IMB Bank so successful. This important independent recognition will help us to attract and retain the high quality, diverse talent that is needed as we pursue our strategic ambitions.

Alexander Brbevski
IMB Sales & Service Consultant

We're focused on improving our members' financial outcomes

A message from our Chairman and Chief Executive
continued

$1.3b
Home loan approvals: all-time record

17%
Increase in Group Operating Profit

We thank all IMB employees for the care and commitment they have displayed throughout another disruptive period.

Board Renewal

During the year, Margaret Towers and Gai McGrath retired as directors. They have each made an outstanding contribution to the development of IMB Bank's governance, culture, and risk management practices and we sincerely thank Margaret and Gai for their committed service.

As part of the merger with Hunter United, Jann Gardner, who was the Chair of that organisation, joined the IMB Bank Board as an additional director, bringing strong legal and board-level expertise in governance, audit, and risk management. The Board has invited Jann to stand for re-appointment at the 2021 Annual General Meeting (AGM). An externally facilitated non-executive director search is underway to fill the remaining director vacancy.

Supporting our Communities When it is Most Needed

The pandemic significantly affected not-for-profit and volunteer organisations, with many unable to operate their programs or access traditional fundraising opportunities under community restrictions, so we are proud to have allocated a further $600,000 in grants to community-based projects during FY2021. The determination and resilience shown by our Community Foundation project partners through such a difficult period is inspiring. This year the Foundation supported projects like Educaid Australia and Parramatta Mission who make a vital community contribution through providing mental health crisis services and it is satisfying to help projects like these come to life. We are currently assessing the applications received for FY2022 grants and look forward to announcing the successful grant recipients later in the year.

Dividends

The Board has declared a final dividend of 9 cents per share. In setting the level of the dividend the Board considered a range of matters including the uncertain economic forecast, the capital treatment of the ordinary shares, profit for the financial year, and the capital and strategic needs of the business over the medium term.

The Board has previously indicated that the dividend is likely to be within an effective payout ratio range of 65% to 80% based on shareholders' interest in contributed funding. The full year dividend paid is in line with this guidance and represents a payout ratio of approximately 78.4% of shareholders' interest in contributed funding.

Looking Ahead

The increase in the FY2021 profit, together with the strength of our other financial health metrics means that IMB Bank is well placed to meet the challenges resurfacing with the unfortunate outbreak of the Delta COVID variant. We care deeply about the wellbeing of our members and their communities, and our priority is to help those that are financially affected by the pandemic.

We remain cautious about the extent of the financial impacts flowing from the latest lockdowns, with national and state COVID vaccination rates expected to be the key determinant in the level of economic recovery.

We are focused on maintaining strong and sustainable outcomes so that we can continue to deliver on our members' expectations and advance our strategies in the year ahead.

Thank you to our employees, members, and communities for your continued support of IMB Bank this year.

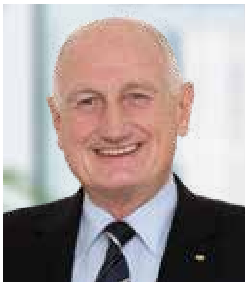
NH Cornish AM
Chairman

RJ Ryan
Chief Executive

Since 1880, we've stood beside and supported our members

Our Board

Information set out in this section relating to board committee memberships and positions held by each of IMB's directors relates to the financial year ended 30 June 2021.



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. He is currently a director of UOW Global Enterprises. Mr Cornish's previous roles include Chairman of Snowy Hydro Ltd, Deputy Chancellor of the University of Wollongong, director of Forests Corp NSW, 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. 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 Ltd 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 the Chair of the Risk Committee and is a member of the Audit Committee and the Capital and Securitisation Committee. Ms Aston is currently a director of Macquarie Investment Management Limited, IVE Group Limited and Over the Wire Holdings Limited. 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). 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 Ltd 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 Ltd 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 Community Foundation Committee. Ms Gardner is the Chair of StateCover Mutual Ltd, and is a director of Arch LMI Pty Ltd and Arch Financial Holdings Australia Pty Ltd, a member of the University of Newcastle Council, and is the Chairperson of Audit and Risk Management Committee, SWSLHD. She was previously a Member of the Governing Council of Sancta Sophia College and was a member of the s150 Committee of the Nursing and Midwifery Council of NSW. As well as being a director of IMB Ltd, Ms Gardner 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 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 the Chair of the IMB 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 and is a director of Australian Philanthropic Services. She 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.

Harry Walter Wendt

BSC (COMPSC) MSC (Astronomy) PHD GAICD

Dr. Wendt has been a non-executive director of IMB Ltd 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 the Chair of the People and Culture Committee and is a member of the Risk 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.

Retired Directors

Gai Marie McGrath

BA LLB (HONS) LLM (DISTINCTION) GAICD

Ms McGrath resigned as a non-executive director of IMB Ltd on 31 May 2021. Ms McGrath was Chair of the People and Culture Committee and the IMB Financial Planning Committee, and was a member of the Risk Committee and the Capital and Securitisation Committee. As well as being a director of IMB Ltd, Ms McGrath was also a director of all entities wholly owned by IMB Ltd.

Margaret Elizabeth Towers

CA GAICD

Ms Towers retired as a non-executive director of IMB Ltd on 30 September 2020. Ms Towers was a member of the Risk Committee, the Financial Planning Committee and the Audit Committee. As well as being a director of IMB Ltd, Ms Towers was also a director of all entities wholly owned by IMB Ltd.

Our People

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

89%
of staff feel supported through the pandemic

Culture and Diversity

We are proud of the culture at IMB. Our commitment to the creation of a great place to work – based on inclusion, respect and integrity – was no more evident than with our achievement of citation as an Employer of Choice for Gender Equality, awarded by the Workplace Gender Equality Agency. While the criteria for citation are many and varied, our Diversity and Inclusion (D&I) Survey provided us with insights into what makes this a special place to work.

The results were very encouraging. The vast majority of our people tell us they feel a sense of belonging at IMB, and also agree that managers treat our people fairly, regardless of their background.

Inclusion is at the heart of who we are. This year, we leveraged that strength to support each other, our members and our communities through what has been consistently changing and challenging times.

COVID, Wellbeing and Mental Health

In a year that started and ended with pandemic lockdowns and restrictions, enabling our people to adapt to the changing circumstances while keeping them safe has been our focus. We are very proud of how all of our people have continued to provide high quality service to our members throughout. We have continued to provide support to our people to assist them in building resilience and maintaining their health and wellbeing, with over 150 of our people participating in Mental Health Resilience and Awareness sessions this year.

Our pulse surveys have enabled us to stay connected and to monitor how our staff feel, with 89% feeling well supported through the pandemic.

We continued our support and focus on RUOK Day in September, with a week-long campaign, providing information and resources to support our people as pandemic restrictions continued.

Managing our COVID response through the provision of timely information, resilience workshops and responsive operational decision-making, helped us to keep our people safe throughout the year. The flexibility of our people to adapt to changing circumstances has been exemplary, and enabled us to continue to serve our members throughout.

Our policy of providing paid pandemic leave to our people, including our casual workforce, has supported safe work practices and the wellbeing of our people. We have also provided a Flu Vaccination program and are continuing to encourage our people to access the COVID vaccine if eligible as soon as possible.

Connection, Collaboration, Community through New Ways of Working

Our rapid move to remote working for our office-based staff accelerated our preparations for moving to our new building and new ways of working. While relocating to new premises was a big milestone for us, it played an important role in bringing many of our people back to the workplace to connect with peers, collaborate to solve problems, and enhance our connection as a workforce.

We have now adapted to “hybrid” working – with our ability to provide enhanced communication and learning to our people through virtual and online learning tools. This has enabled our strategic priorities – such as the continued development of the digital mortgage – to progress throughout the long period of work from home restrictions. Flexible working, be it in the office or from

A Welcome to Country and smoking ceremony was performed at IMB Bank's new head office by Richard Campbell of the Dharawal people (pictured above, and top right with CEO Robert Ryan) "to cleanse negative energy and clear a pathway for future generations".

A year focused on connection, collaboration and community

50%
increase in training hours

home, has become part of our ways of working, with improved connection and collaboration across our IMB community.

The new head office workspace, combined with a permanent move to flexible work arrangements, has enabled IMB to improve its attractiveness to new employees, and engage and retain our current staff. The new space brings together technology which supports flexible working within the building, but also remotely and across our retail network. The infrastructure upgrade the building has facilitated sets us up for future growth and improved productivity and service delivery.

We were able to adapt the fit-out of the space to support pandemic restrictions, such as the $4m^2$ rule, on an ongoing basis, without having to sacrifice the agile way of working. While some limits to capacity have been maintained as part of our COVID Safe Plan, flexible work arrangements have provided enhanced benefits overall to our people. Our people have been excited to come into the workplace, and reconnect with their peers.

Developing our People and their Leaders

Despite the challenging environment, we continued to support the development of our people, and actually increased our training hours by 50% compared to the year before.

Right:
Cards and Development Officer Jenny Cadona and Dapto Branch Assistant Manager Debbie Barnard catch up in one of the many collaboration spaces in 47 Burelli St.

The access to virtual tools which enabled us to deliver content and learning also reduced our overall cost of delivery by 24% on a per-person basis. On average, our people have experienced 48 hours learning each over the course of the year, compared to 30 hours in 2020.

Our core products, systems and process training moved online, and training in our lending system was delivered with a blended approach (a combination of face-to-face and online). With new tools to use, training in how to get the most out of them has supported the rapid adoption of new ways of working.

Adding to our Adaptive Leadership suite of learning, we launched the Development Edge – a series of virtual learning programs designed to build the knowledge and capability of all our people, and particularly our Leaders, to lead themselves and their teams. A diverse range of topics from Anatomy of Trust to Unconscious Bias is supporting our inclusive culture.

We have continued to support the development of trainees and cadets despite the restrictions, as well as supporting the ongoing development of staff through study assistance, and sponsorship into programs such as Leadership Illawarra and Women in Banking and Finance.

Integrating Teams

Merging the Hunter United business with IMB amid lockdowns and travel restrictions presented its own unique challenges. Nevertheless, our agile adoption of virtual connection again assisted in making this a success. The cultural alignment between our two organisations made that transition easier – with a strong focus on serving members' needs in an authentic way, our Hunter staff have seamlessly integrated into our business.

We successfully applied to the Fair Work Commission to transition Hunter employees from the HUECU Enterprise Agreement to the IMB Enterprise Agreement after a 100% yes vote by employees.

Team members Andrew Drapaniotis, Melanie Shepherd and Deniz Karaerik "Choose to Challenge" for International Women's Day in 2021.

In Focus / Workplace Culture

An Employer of Choice

Recognition from the Workplace Gender Equality Agency marked a significant milestone in IMB's business strategy.

In February 2021, IMB Bank was named an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency. The prestigious citation is one of only 17 issued to Australian companies in 2021; there are only 136 nationwide. IMB is the only mutual bank to currently hold the citation, which is the product of several years' endeavour as part of our ongoing workplace business strategy.

As a voluntary leading-practice recognition program, the EOCGE citation recognises proactive action in key result areas in leadership, learning and development, closing the gender pay gap, flexible working opportunities, initiatives that support family commitments, preventing sex-based harassment and discrimination, and realising targets for improving gender equality outcomes.

IMB Bank's gender equality program includes paid parental leave for both men and women; supporting flexible work arrangements and ensuring we have gender balanced approaches to hiring and promotion; providing career opportunities for women and men, as well as actively working to close the gender pay gap year-on-year. The program continues to evolve to foster inclusivity across all levels of the business.

An inclusive workplace that values integrity and capability is a feature of our recruit and retain strategy, which benefits members, and our communities with more opportunities and a responsible corporate example.

Our Innovation

Adjusting to economic and workplace disruptions, we continue to improve our members' experience, convenience and security through investment in our digital and other strategic priorities.

16.2%
Increase in Mobile App sessions

Lending Transformation

We have continued our focus on digital transformation, successfully implementing our new digital lending platform to support staff-assisted lending.

Our focus remains to significantly reduce our "time to yes" for customers and streamline our processes aided by machine learning and optical character recognition (OCR).

The coming phase of this initiative will deliver our online loan application process, supported by the ability to access support at any stage in the process, through booking an appointment with a Lender or chatting to one of our Team. This will pair our highly valued personal service with the simplicity of an online application.

Open Banking

In line with our continued digitisation, our product data was made available to the Open Banking platform in line with required timelines. Delivery of customer data to the platform will occur later in the year and will provide our members with the ability to access, view and share their banking data with trusted recipients.

Security Enhancements

IMB's significant investment in capabilities, skills and technology continued to ensure we are protecting our members and their data. Further automation of our security monitoring has strengthened cyber controls across customer-facing and internal systems.

A cybersecurity education program has been deployed across the business, continuing to build the skills of our employees regarding possible threats to IMB. Similarly, an evolving communications strategy is rolling out next year to educate members on keeping their information secure and how to identify scams.

Head Office Relocation

IMB relocated to a new, modern, purpose-built head office. Designed to support IMB's growth and significantly enhance our cybersecurity and disaster recovery capabilities, the building incorporates new data centres, flexible network technology and hardware, and best-practice workplace features.

The relocation has seen a significant reduction in paper use and and energy consumption across the organisation and completely transformed the way in which our people work. Spaces have been specifically created for collaboration and innovation, assisting us to deliver on our strategic goals and digitise our services for the benefit of members.

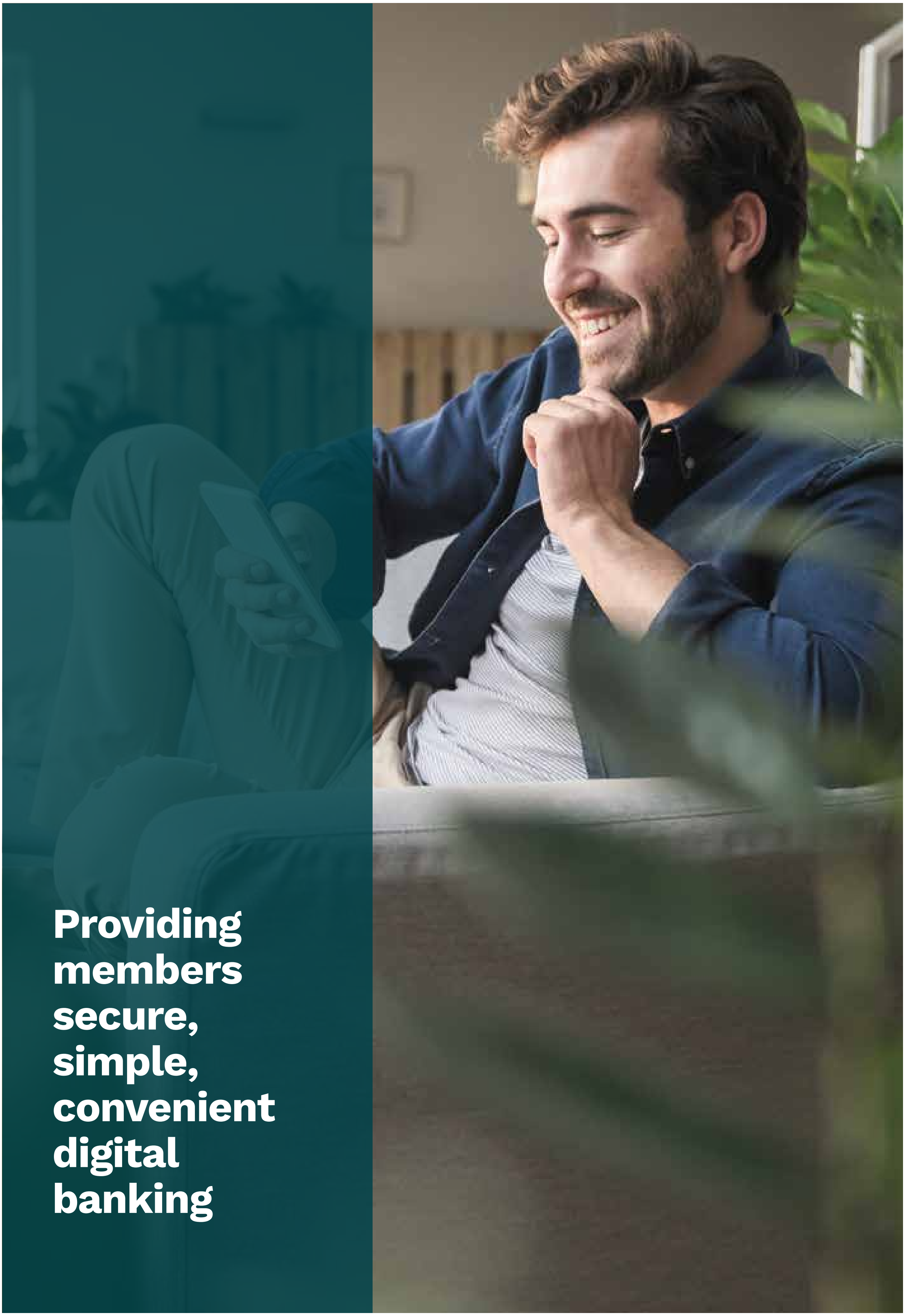
Investment in Digital Member Services

Continuing our investment in digital capability to support our members, we launched an improved online card management facility. This underpinned the activation of over 7,000 new Visa cards issued as part of the Hunter United integration with IMB and significantly simplified the issuance and registration of cards leading to a seamless transition, for our newest members.

Throughout the year our Internet Banking platform has undergone a significant upgrade ready to support Open Banking early in the FY2022.

Our previous investments in our cloud telephony platform were further leveraged, allowing us to significantly scale our Contact Centre capacity in real-time to ensure we were there to support our members through the COVID pandemic.

Similarly, our non-branch staff were able to work from home with no impact to service quality to our members.



Providing members secure, simple, convenient digital banking

Our Digital Evolution

Our recent history showcases significant and strategic investment in digital technology: a key driver in providing members better service and security.

2015 September

Online deposit account opening platform Customers become members online in minutes

2018 November

Apple Pay® is the first digital wallet made available to IMB members

2015 January

IMB mobile banking app launched Secure, simple and on your phone

2017 September

First Australian bank to introduce authenticated in-app messaging Members can message securely while banking

2018 March

Osko® Real-time payments IMB is among the first banks to rollout the near-instant technology

2015 April

Online personal loan application Customers enjoy much faster, simpler application process and reduced times

2017 November

Customer-facing digital assets move into cloud Faster, more secure, and more reliable service made possible

2020 October

Open Banking Allows IMB product attributes to be easily compared with other offers

2021 June

Digital Mortgage Platform IMB's lending processes streamlined and digitised, reducing approval times

2022 Next

Next Generation Mobile App with additional features and improved interface

2019 April

Card Tokenisation Visa card numbers converted to encrypted digital tokens for enhanced security during online shopping

2021 Next

New online digital lending platform to market in FY2022

2019 January

Google Pay®, Samsung Pay®, Garmin Pay® and Fitbit Pay® launched One of the first Australian banks to offer the full suite of mobile payment options

2020 March

Fraud system IMB's card and online fraud systems upgraded to leverage artificial intelligence and machine learning

Our Member Support and Service

Through another disruptive year including stay-at-home orders for many of our members we continued our hardship support and maintained our services.

50

NPS for Members who use IMB as their main bank

Evolving the measures introduced at the onset of the pandemic in FY2020, IMB continued to provide flexibility and understanding to members, addressing their needs on an individual basis.

COVID Relief

Members and business banking customers experiencing financial hardship were also able to restructure their loans and suspend payments and a range of fees and charges were waived, including transaction, dishonour and debit card replacement fees, and term deposit break costs. We stand by our commitment to our members who continue to be financially impacted by the pandemic.

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

In Our Branches

Our entire branch network remained open, so that members who required face-to-face service could speak in person with one of our team.

In FY2021 we continued to refurbish our branch network for a better customer and staff experience, while commencing the rebranding of our sites. Canberra City, Liverpool and Narooma have all been refurbished and our Hunter branches will be refreshed in FY2022.

Scam & Fraud Awareness

As well as our continued investment in the technological safeguards for our members' security we commenced a new program updating members on the evolving forms of scams and how best to combat them. An "Educate to Protect" program will evolve and grow as a priority in FY2022, to help protect our members.

Contact Centre Capability

During the year, IMB relocated its contact centre from a standalone premises to IMB's new Head Office, supporting easier communication and collaboration across departments. As part of this move, the Solutions Services team was created which has streamlined a range of customer service tasks including deceased estates, share trading and complaint management.

With the effect of COVID lockdowns reducing branch visits, our contact centre experienced higher activity volumes with more and more of our members switching to phone and digital inquiries. With 90% of our contact centre staff working from home at various times throughout the year, the team supported over 180,000 member enquiries via phone and online channels.

To assist with call volumes and reduce call waiting times, the AWS Connect telephony solution used in our contact centre was extended through the IMB retail network. Our branch and mobile lending teams now provide additional capacity to deliver improved service levels and reduced call abandonment. The technology also streamlines the monitoring of quality assurance of member interactions over the phone.

In the year ahead, we will extend the capability of accepting and managing customer's digital inquiries to our branch network, while restructuring the centralised digital service hub to support the introduction of IMB's digital mortgage solution.

Business Banking

IMB continues to grow and enhance our business banking unit, as we see a great opportunity to bring the mutual proposition to small- and medium-sized businesses across Sydney, Newcastle, the ACT and the Illawarra.

We have evolved our strategic approach throughout the year and have concentrated on supporting our business customers through COVID by providing hardship support where required on an individualised basis.

Jason Best and Sharon Banks invested in a beach house in Tasmania with IMB.

IN FOCUS / Our Members

Realising the Dream

Thanks to the care from our professional team, IMB feels like home for our members, no matter where they are or where they buy.

In 2016, Sharon Banks was a single mum living on Queensland's Gold Coast. She was looking for a bank with a good rate that was adaptable to her needs. "My brother, who lives on the South Coast of NSW, suggested IMB and I was introduced to his branch manager in Ulladulla," says Sharon. "It was a long way from Queensland but felt like home. I found the care and guidance exceptional."

"Fast forward to 2019, my partner and I contacted IMB regarding an investment loan. We had been researching beachfront properties in Tasmania. Our dream was to live close to a city but overlook the ocean."

Sharon and partner Jason Best spent a year shopping for their dream beach shack before finding the one. "We found the perfect property at 'Eggs and Bacon Bay' in Tasmania. Of course, by now, the Ulladulla branch manager had retired, so I was referred to Jacqui Fletcher, the mobile lender here in Queensland."

"Jacqui worked nonstop to tick every box necessary to fulfill our goal. She made everything seem possible, even though the location was considered remote and to be on the 'great frontier'."

"I think Jacqui went above and beyond," says Sharon. "Jason and I are so very grateful to her. The communication and understanding between us was the key."

Our Community

Through a challenging year, IMB provided community support where it was needed in the places where we operate.

IMB has strived to help build strong, resilient communities since our formation in 1880. Providing 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.

Sponsorships

As was the case last year, IMB's planned schedule has been impacted by the pandemic during certain periods, but our sponsorship calendar featured several highlights.

Encouraging Participation

March 2021 marked the beginning of our naming rights sponsorship of the IMB South Coast Blaze Netball NSW Premier League Opens and U23s teams. The Blaze provides young people in the Macarthur, Illawarra, Shoalhaven and NSW South Coast regions a clear, accessible pathway to elite level participation. This presents great opportunities for talented athletes in these regions to excel.

We also invest in local junior sport, using IMB's social media channels to celebrate players during the season. Highlights from our sporting club support include Football South Coast, St George AFC and Hills Shire Football Junior Competition. Junior sport is a vital component of diligent corporate citizenship, and essential for providing our young people valuable skills for a healthy and fulfilling life.

IMB was once again an essential part of the University of Wollongong's O-Week, and was the principal sponsor the *Watch and Act* musical, supporting bushfire relief in the Shoalhaven.

Supporting Business

Our dedication to supporting the business community and celebrating entrepreneurial excellence continued in 2021.

We maintained our naming rights sponsorship of the IMB Bank Illawarra Business Awards and Illawarra Women in Business Awards, and our category sponsorship for the Shoalhaven Business Awards and Eurobodalla Business Awards.

As an organisation with a Board gender composition that is 50% female, and as a recently appointed "Employer of Choice for Gender Equality" by the Workplace Gender Equality Agency, we are proud to prioritise sponsorship opportunities for professional women. During the year, IMB also took part in the International Women's Day celebration. We will be looking to expand our advocacy for women in business in FY22.

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

- Cook Community Classic
- Day at the Lake ACT
- Bega Lions Christmas
- Eden Chamber of Commerce
- Eurobodalla Business Awards
- Football South Coast
- Hills Shire Football
- Illawarra Business Awards
- Illawarra Women in Business
- Kidzwish
- Lions Canberra
- RUOK Day
- Shoalhaven Business Awards
- St George AFC
- UOW: O-Week and O-Day
- *Watch and Act*

Top: Lachlan and Selena Stevens of His Boy Elroy restaurant accept the Illawarra Business of the Year award from IMB Bank CEO Robert Ryan in 2020.

Middle: Members of the IMB team and guests “Choose to Challenge” at the International Women’s Day lunch. Clockwise around the the table from left: Lauren Wise, Noel Cornish AM, Meg Gates, Justine Parkinson, Nathan Campbell, Rachael Heald, Robert Ryan, Kelly Witts and Carly Jackson.

Bottom: The IMB South Coast Blaze Netball U23s (left of the IMB banner) and Opens squads for 2021.

IMB Bank Community Foundation 2021

Despite disrupted scheduling, the Foundation continued to fund not-for-profit projects that make our communities stronger, safer, more sustainable and more inclusive.

$10.5m
Worth of grants supported since 1999

The IMB Bank Community Foundation's 22nd year reinforced our commitment to funding projects and groups that make for more resilient communities and improved outcomes for the places we call home. In the midst of the pandemic the IMB Bank Community Foundation awarded urgent funding to a number of projects in June 2020. We were pleased to announce the remaining recipients from the FY20 group in November. Despite the difficulty of 2020, 27 projects across IMB's footprint received funding support (see complete list right). Since 1999, the Foundation has supported more than 750 not-for-profit community projects with a combined $10.5 million in grants.

The disruption to the FY20 round created a busy schedule for the IMB Bank Community Foundation in 2021. As restrictions eased in the first half of this year, the Foundation committee opened applications for the 2021 round of funding at the end of April. This was in recognition that many community and not-for-profit organisations would have been affected by the impacted economic conditions surrounding the pandemic in 2020. The Foundation received 315 eligible applications, with record numbers in Sydney and the Hunter region.

The public profile of the IMB Bank Community Foundation grew considerably in 2021. Increased awareness and engagement with the Foundation will deliver more projects in emerging markets as IMB continues to grow.

2021 recipients will be announced in October.

Projects funded in FY21

- **Autism Swim, Inclusive Surfing:** Providing children with autism and other abilities water safety and basic surfing skills
- **Callaghan District Netball, Inclusive Netball:** Supporting court maintenance and new equipment for the all-abilities netball program
- **Canberra PCYC, Youth Street Support:** Training mentors to help vulnerable young people in the ACT
- **Care South, Health Hub:** Providing health checks to children in need
- **Coast and Country Community Services, Flexible Training:** Delivering online training to the vital volunteers that are the backbone of CCCS's services
- **EducAID, The Mental Health Project:** A high school program based in south-west Sydney that helps students to identity when their peers are struggling with mental health issues
- **Fairy Meadow SLS, Inflatable Rescue Boat**
- **Hill Top Men's Shed, Equipment:** New woodworking equipment for the Bowral Men's shed
- **Illawarra Wigs and Turbans:** New wigs for people who are experiencing the appearance-related effects of cancer
- **Lions Club of Strzelecki, Cows Create Careers:** Connecting high school students with opportunities and education in the dairy industry
- **Marine Rescue Jervis Bay, Rescue Vessel Motor:** New outboard motors to help keep waterways safe
- **Marine Rescue Middle Harbour, Rescue Vessel Infra-red Camera:** Vital technology for helping to save lives on Sydney Harbour
- **Marymead Child and Family Centre, Music For All:** Enhancing outdoor spaces for the music program, which provides support to children living with a disability
- **North Shoalhaven Meals on Wheels, Kitchen Upgrade:** A new appliance to increase output and variety of meals
- **Para Meadows School, The Corner Store:** A real-life experience to support students learning everyday life skills
- **Nurses on Wheels/Clever Care Now, Patient Transport:** New equipment to provide transport for the aged, frail and wheelchair-bound in Sydney's south
- **Ocean Live, Community Beach Safe:** Smart signs for beach conditions and app

- **Painting with Parkinson's, Outreach:** Delivering art therapy to people with Parkinson's Disease to regional centres
- **Parramatta Mission, Western Sydney Lifeline:** Training for additional call support volunteers
- **Port Kembla SLS, Surf Rescue Trailer**
- **Scullin Community Group, Community Events Trailer:** Providing support materials for small community groups in the ACT
- **SAGE, Veggies for All:** Sustainable Agriculture and Gardeners Eurobodalla provide free garden beds and tuition to those in need on the NSW far south coast
- **Sprouts Out and About:** Funding a program that facilitates connections between pre-schoolers and elders
- **St. John Ambulance, First Aid in Schools, eLearning:** Teaching primary school students basic first aid online
- **Victor Chang Research Institute, Heart Health Tour:** The second of two years of funding to support free heart health checks within our local communities
- **Vision Australia, Upgrading Assessment Equipment:** New equipment to help adults and children facing vision loss in Newcastle and the NSW Central Coast
- **Wolumla Fire Brigade, Quick-fill Pump:** Equipment to improve access to water for firefighting

Clockwise from top left: Autism Swim, EducAid, Victor Chang Cardiac Research Institute speaking to WIN Television in Wollongong in 2021; Painting with Parkinson's in the ACT; Ocean Live beach safe signs.

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 2021 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
Peter John Fitzgerald
Jann Angela Gardner
Gai Marie McGrath, resigned 31 May 2021
Jan Margaret Swinhoe
Margaret Elizabeth Towers, retired 30 September 2020
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 the year are set out on pages 14 to 15 of this report.

At the annual general meeting of the Company on 26th October 2021, Ms JA Gardner will retire in accordance with the constitution of the Company and, being eligible, offers herself 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 2021.

Operating and Financial Review

Consolidated profit after tax for the year attributable to members was $30.8 million (2020: $26.3 million), an increase of $4.5 million or 17.1% on 2020, primarily due to lower impairment charges driven by a partial release of the additional COVID-19 pandemic loan provision raised in the prior year. Profit after tax before the impact of the COVID-19 provision in the current and prior years, was $30.0 million, an increase of 3.1%.

Total deposits decreased to $5,858 million, down by $13 million or 0.2% on the previous year. Retail deposits grew by $671 million or 14.6%.

Loan approvals of $1,313 million were $53 million higher than the prior year (2020: $1,260 million). Total loans and advances to customers increased by 1.3% or $68 million to $5,459 million.

Net interest income for the year was $143.4 million, up $13.7 million, or 10.6% on the previous year. This increase was predominantly due to an increase in average interest margin from 2.09% to 2.13%.

Impairment losses were $5.8 million lower than the $5.2 million expense recognised in the prior year resulting in a reported gain of $0.6 million for the current period. This decrease was due to a partial release of the COVID-19 pandemic collective provision for impaired loans that was recognised in the prior year due to the impacts of the COVID-19 pandemic.

Non-interest income for the year decreased by $2.7 million, or 19.6%, to $11.1 million, mainly due to a reduction in transaction fee income, and the profit on sale of the IMB Financial Planning business recognised in the prior year.

Non-interest expense for the year increased by $10.2 million, or 10.1%, to $110.8 million (2020: $100.6 million). This was due to an increase in personnel and data processing costs, as well as an increase in depreciation and amortisation expense.

The non-interest expense to operating income ratio decreased from 72.8% in 2020 to 71.5% in 2021, predominantly due to the decrease in the collective provision. Excluding the impact of COVID-19 on the collective provision the non-interest expense to operating income ratio was 72.0%.

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:

- during the year IMB accessed a further $218.0 million (2020: $50.0 million) through the Reserve Bank's Term Funding Facility. This facility closed on 30 June 2021.
- 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 $0.075 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, paid on 21 September 2020.
- an interim dividend of $0.09 per share amounting to $2.170 million franked to 100% at a tax rate of 30%, declared on 29 January 2021, in respect of the year ended 30 June 2021, paid on 4 March 2021; and
- a final ordinary dividend of $0.09 per share amounting to $2.170 million franked to 100% at a tax rate of 30%, declared on 24 August 2021, in respect of the year ended 30 June 2021, payable at the close of trade on 1 September 2021.

Total dividends paid or declared in respect of the year ended 30 June 2021 were $0.18 per share (2020: dividend of $0.155) amounting to $4.340 million (2020: $3.737 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 message from the Chairman and Chief Executive on pages 8 to 12 of the annual report.

Directors' Interests

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

Director	Holding at 25 August 2021
Mr NH Cornish	2,000
Ms CA Aston	–
Mr PJ Fitzgerald	2,000
Ms JA Gardner	–
Ms JM Swinhoe	–
Mr 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 release made by APRA during the year of its draft *Prudential Practice Guide CPG 229 Climate Change Financial Risks*. IMB intends to develop guidance on the prudent management of climate change risks aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related

Directors' Report

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 guidance and industry consultation.

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 (Third Edition) (ASX Principles), which is reflected in our Corporate Governance Statement.

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-corporate.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 www.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 35 and forms part of the directors' report for the financial year ended 30 June 2021.

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 2021 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 PJ Fitzgerald	10	10	2	2	2	2	2	2	1	1
Ms JA Gardner	10	10	2	2	2	2	2	2	1	1
Ms GM McGrath^	9	9	2	2	2	2	2	2	1	1
Ms JM Swinhoe	10	10	2	2	2	2	2	2	1	1
Ms ME Towers#	3	3	1	1	1	1	1	1	1	1
Mr HW Wendt*	10	10	2	2	2	2	2	2	1	1

^ Ms GM McGrath resigned as a Director from IMB Ltd effective 31 May 2021

Ms ME Towers retired as a Director from IMB Ltd effective 30 September 2020

* Mr HW Wendt appointed as Director to IMB Ltd on 1 July 2020

The following table sets out the number of committee meetings of the Company's directors held during the year ended 30 June 2021 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	–	–	*2	–	*2	–	4	4	–	–	2	2
Ms CA Aston	–	–	4	4	4	4	–	–	–	–	1	2
Mr PJ Fitzgerald	–	–	4	4	*2	–	*1	–	5	5	2	2
Ms JA Gardner	–	–	4	4	*2	–	–	–	5	5	*1	–
Ms GM McGrath	1	1	*1	–	3	3	3	3	–	–	2	2
Ms JM Swinhoe	–	–	*1	–	4	4	4	4	5	5	–	–
Ms ME Towers	1	1	1	1	–	–	–	–	–	–	–	–
Mr HW Wendt	–	–	*2	–	4	4	4	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 People and Culture Committee 1 July 2020 and was appointed to the Risk Committee as Chair and Capital and as a member of the Securitisation Committee on 1 July 2020. Mr HW Wendt was appointed to the Risk Committee and People and Culture Committee 1 July 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 25th day of August 2021

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 2021 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
25 August 2021

Financial Statements
Contents

Financial Statements

Statements of Profit or Loss

For the year ended 30 June 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Interest revenue	2	**189,979**	214,944	**210,211**	236,761
Interest expense	2	**(46,619)**	(85,208)	**(66,851)**	(107,026)
Net interest income		**143,360**	129,736	**143,360**	129,735
Impairment reversal/(losses) on financial instruments	2	**603**	(5,178)	**603**	(5,178)
Net interest income after impairment losses		**143,963**	124,558	**143,963**	124,557
Fee and commission income	2	**9,999**	12,345	**10,006**	11,478
Fee and commission expense	2	**(339)**	(306)	**(339)**	(306)
Net fee and commission income		**9,660**	12,039	**9,667**	11,172
Profit from sale of property, plant and equipment	2	**123**	110	**123**	110
Other income	2	**1,279**	1,607	**521**	446
Net operating income		**155,025**	138,314	**154,274**	136,285
Operating expenses	3	**(110,808)**	(100,629)	**(110,747)**	(99,681)
Profit before tax		**44,217**	37,685	**43,527**	36,604
Income tax expense	4	**(13,402)**	(11,354)	**(13,192)**	(11,029)
Profit for the year attributable to members of the Company		**30,815**	26,331	**30,335**	25,575

The statements of profit or loss are to be read in conjunction with the notes to the financial statements set out on pages 43 to 99.

Financial Statements

Statements of Comprehensive Income

For the year ended 30 June 2021

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Profit for the year	**30,815**	26,331	**30,335**	25,575
Other comprehensive (expense)/income				
Items that will never be reclassified to profit or loss:				
Remeasurement of defined benefit liability	**1,558**	(581)	**1,558**	(581)
Net change in fair value of other financial assets at FVOCI	**242**	(67)	**242**	(67)
Total items that will never be reclassified to profit or loss	**1,800**	(648)	**1,800**	(648)
Items that are or may be reclassified subsequently to profit or loss:				
Net change in fair value of investment debt securities at FVOCI	**1,435**	(282)	**1,435**	(282)
Net change in fair value of cash flow hedges	**(1,662)**	3,545	**(1,662)**	3,545
Net change in fair value of investment debt securities at FVOCI transferred to profit and loss	**(413)**	(324)	**(413)**	(324)
Total items that may be reclassified subsequently to profit or loss	**(640)**	2,939	**(640)**	2,939
Total other comprehensive income/(expense) for the year, net of income tax	**1,160**	2,291	**1,160**	2,291
Total comprehensive income for the year	**31,975**	28,622	**31,495**	27,866

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 43 to 99.

Statements of Financial Position

As at 30 June 2021

		Consolidated		Company	
	Note	2021 $'000	2020 $'000	2021 $'000	2020 $'000
ASSETS					
Cash and cash equivalents	26	**134,558**	226,384	**56,148**	167,476
Investment debt securities	6	**1,134,349**	952,880	**2,792,183**	2,610,747
Deposits with other ADIs	7	**108,094**	98,644	**108,094**	98,644
Loans and advances to customers	8	**5,458,598**	5,390,648	**5,458,598**	5,390,648
Other financial assets	9	**1,294**	958	**3,052**	2,716
Derivative assets	11	**2,690**	5,064	**2,690**	5,064
Property, plant and equipment	12	**94,502**	85,605	**94,502**	85,605
Intangible assets	13	**9,563**	5,364	**9,563**	5,364
Net deferred tax assets	4	**4,174**	4,500	**4,163**	4,470
Other assets	14	**17,053**	16,543	**91,361**	70,751
Total assets		**6,964,875**	6,786,590	**8,620,354**	8,441,485
LIABILITIES					
Trade and other payables	15	**42,668**	34,426	**38,048**	28,697
Deposits	16	**5,858,054**	5,871,469	**5,863,881**	5,876,864
Securitised loans funding	17	**178,866**	240,198	**1,835,972**	1,897,781
Interest bearing liabilities	18	**431,751**	212,856	**431,751**	212,856
Current tax liabilities	4	**2,190**	2,637	**2,190**	2,637
Provisions	19	**11,817**	13,327	**11,817**	13,327
Total liabilities		**6,525,346**	6,374,913	**8,183,659**	8,032,162
Net assets		**439,529**	411,677	**436,695**	409,323
EQUITY					
Share capital	20	**28,324**	28,324	**28,324**	28,324
Reserves		**76,218**	76,794	**76,218**	76,794
Retained earnings		**334,987**	306,559	**332,153**	304,205
Total equity attributable to members of the Company		**439,529**	411,677	**436,695**	409,323

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 43 to 99.

Financial Statements

Statements of Cash Flows

For the year ended 30 June 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
CASH FLOWS USED IN OPERATING ACTIVITIES					
Interest received		**188,063**	217,429	**208,296**	239,246
Other cash receipts in the course of operations		**10,763**	29,599	**(10,083)**	(625)
Interest paid on deposits		**(52,496)**	(95,897)	**(72,725)**	(117,713)
Income taxes paid		**(13,522)**	(13,196)	**(13,331)**	(12,873)
Net loans funded		**(67,319)**	(201,455)	**(67,319)**	(201,455)
Net (decrease)/increase in deposits		**(7,543)**	316,676	**(7,110)**	318,068
Other cash payments in the course of operations		**(89,319)**	(93,972)	**(88,156)**	(91,437)
Net cash flows (used in)/from operating activities	26	**(31,373)**	159,184	**(50,428)**	133,211
CASH FLOWS FROM INVESTING ACTIVITIES					
Net payments for investment debt securities and Deposits with other ADIs		**(187,534)**	(36,205)	**(187,505)**	(935,978)
Expenditure on property, plant and equipment, and intangibles		**(26,725)**	(18,779)	**(26,725)**	(18,655)
Net cash received on merger		**–**	16,198	**–**	16,198
Proceeds from sale of property, plant and equipment	12	**222**	422	**222**	422
Net cash flows used in investing activities		**(214,037)**	(38,364)	**(214,008)**	(938,013)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES					
Net (repayments)/proceeds from securitised loans funding		**(61,333)**	(83,626)	**(61,809)**	816,531
Net proceeds from interest-bearing liabilities		**218,895**	97,348	**218,895**	97,348
Own shares acquired		**–**	(3)	**–**	(3)
Dividends paid	5	**(3,978)**	(4,461)	**(3,978)**	(4,461)
Net cash flows from financing activities		**153,584**	9,258	**153,108**	909,415
Net (decrease)/increase in cash and cash equivalents held		**(91,826)**	130,078	**(111,328)**	104,613
Cash and cash equivalents at the beginning of the year		**226,384**	96,306	**167,476**	62,863
Cash and cash equivalents at the end of the year	26	**134,558**	226,384	**56,148**	167,476

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 43 to 99.

Statements of Changes in Equity

For the year ended 30 June 2021

Consolidated **In thousands of AUD**	**Share capital**	**Fair value reserve**	**Cash flow hedge reserve**	**General reserve for credit losses**	**General reserve**	**Transfer of business reserve**	**Retained earnings**	**Total equity**
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**
Balance at 1 July 2020	**28,324**	**2,772**	**3,545**	**7,517**	**25,255**	**37,705**	**306,559**	**411,677**
Acquired on merger	–	–	–	–	–	(145)	–	(145)
Total comprehensive income for the year								
Profit after tax	–	–	–	–	–	–	30,815	30,815
Other comprehensive income								
Remeasurement of defined benefit liability	–	–	–	–	–	–	1,558	1,558
Net revaluation movement due to change in fair value	–	1,677	(1,662)	–	–	–	–	15
Investment debt securities at FVOCI reclassified to profit or loss	–	(413)	–	–	–	–	–	(413)
Total other comprehensive income	–	1,264	(1,662)	–	–	–	1,558	1,160
Total comprehensive income for the year	–	1,264	(1,662)	–	–	–	32,373	31,975
Transfer to retained profits	–	–	–	(33)	–	–	33	–
Transactions with owners, recorded in equity								
Dividends to shareholder members	–	–	–	–	–	–	(3,978)	(3,978)
Own shares acquired	–	–	–	–	–	–	–	–
Balance at 30 June 2021	**28,324**	**4,036**	**1,883**	**7,484**	**25,255**	**37,560**	**334,987**	**439,529**

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 43 to 99.

Financial Statements

Statements of Changes in Equity

For the year ended 30 June 2021

Company In thousands of AUD	Share capital	Fair value reserve	Cash flow hedge reserve	General reserve for credit losses	General reserve	Transfer of business reserve	Retained earnings	Total equity
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**
Balance at 1 July 2020	**28,324**	**2,772**	**3,545**	**7,517**	**25,255**	**37,705**	**304,205**	**409,323**
Acquired on merger	–	–	–	–	–	(145)	–	(145)
Total comprehensive income for the year								
Profit after tax	–	–	–	–	–	–	30,335	30,335
Other comprehensive income								
Remeasurement of defined benefit liability	–	–	–	–	–	–	1,558	1,558
Net revaluation movement due to change in fair value	–	1,677	(1,662)	–	–	–	–	15
Investment debt securities at FVOCI reclassified to profit or loss	–	(413)	–	–	–	–	–	(413)
Total other comprehensive income	–	1,264	(1,662)	–	–	–	1,558	1,160
Total comprehensive income for the year	–	1,264	(1,662)	–	–	–	31,893	31,495
Transfer from retained profits	–	–	–	(33)	–	–	33	–
Transactions with owners, recorded in equity								
Dividends to shareholder members	–	–	–	–	–	–	(3,978)	(3,978)
Own shares acquired	–	–	–	–	–	–	–	–
Balance at 30 June 2021	**28,324**	**4,036**	**1,883**	**7,484**	**25,255**	**37,560**	**332,153**	**436,695**

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 43 to 99.

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 47 Burelli Street, Wollongong NSW. The consolidated financial statements of the Company as at and for the year ended 30 June 2021 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*.

The Group has consistently applied the following accounting policies to all periods presented in these financial statements unless otherwise stated.

This financial report was authorised for issue by the directors on 25 August 2021.

(ii) Basis of measurement

This financial report was prepared on the historical cost basis, except for investment debt securities, equity investments and derivative instruments 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.

The COVID-19 pandemic, together with measures implemented to contain the virus, continue to have a significant impact on the Australian economy. COVID-19 related impacts to GDP, property prices and unemployment have been less severe than first anticipated. There is also the risk of further outbreaks of new strains of the infection which could delay the economic recovery further. Accordingly, significant estimation uncertainty with respect to the provision for impairment on loans and advances remains, as forecast macro-economic conditions are a key factor in determining the expected credit loss (ECL) on these assets. Refer to Note 10.

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(g) and 10);
- Consolidation of special purpose entities (Notes 1(c) and 25);
- Valuation of financial instruments (Notes 1(b)(v), 1f, 6 and 9); and
- Defined benefit fund liability (Notes 1(o) 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(g) and 10);
- Measurement of fair values (Notes 1(b)(v), 1(e) 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:

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

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.

This category includes instruments that are valued 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) 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.

(d) 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.

(e) 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 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 in profit or loss. Any gain or loss on derecognition is recognised in profit or loss;
- investment debt securities at FVOCI are measured at fair value. Interest income calculated using the effective interest rate method and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On recognition, gains and losses accumulated in OCI are reclassified to profit or loss;
- equity investments at FVOCI 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 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

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

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.

(f) 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 (ECL). 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.

(g) 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 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:

- significant financial difficulty of the borrower or issuer;
- a breach of contract as a default or past due event;
- the 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

1 Significant accounting policies (continued)

- the 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.

(h) 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 percent. 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.

(i) 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.

(j) 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 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

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

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.

(k) 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(g)(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.

(l) 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.

(m) 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.

(n) Dividends payable

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

(o) 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

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) International Financial Reporting Standards Interpretations Committee final agenda decisions not yet adopted

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Group's accounting policy has historically been to capitalise all costs relating to the configuration and customisation of cloud computing arrangements as intangible assets in the Statements of Financial Position. The adoption of this agenda decision could result in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Comprehensive Income, impacting both the current and/or prior periods presented.

As at 30 June 2021:

- The Group has not adopted this IFRIC agenda decision. The Group is currently undergoing a number of technology development projects and has capitalised $7.6m of intangible assets in relation to these projects which involve cloud computing arrangements. Of this amount $4.1m relates to the current financial year with the remaining $3.5m relating to prior periods.
- The Group is in the process of performing a detailed assessment of the impact of the IFRIC agenda decision. This assessment is ongoing.
- As such, the impact of the change is not reasonably estimable as at 30 June 2021.
- The Group expects to adopt this IFRIC agenda decision in its half year financial statements ending on 31 December 2021.

(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 July 2021 and earlier application is permitted, however the Group has not early adopted the new or amended standards in preparing these financial statements. None of these are expected to have a material impact on the Group's financial statements in the period of initial adoption.

Notes to the Consolidated Financial Statements

2 Operating income

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Interest revenue calculated using the effective interest rate method					
Financial assets measured at amortised cost:					
Cash and cash equivalents		**65**	469	**65**	469
Deposits with other ADIs		**652**	2,292	**652**	2,292
Loans and advances to customers		**179,318**	196,426	**179,318**	196,426
Financial assets measured at FVOCI:					
Investment debt securities		**9,944**	15,757	**30,176**	37,574
		189,979	214,944	**210,211**	236,761
Interest expense					
Deposits		**39,759**	75,560	**39,759**	75,560
Securitised loans funding		**3,383**	6,015	**23,615**	27,833
Interest bearing liabilities		**3,473**	3,631	**3,473**	3,631
Other interest expense		**4**	2	**4**	2
		46,619	85,208	**66,851**	107,026
Net interest income		**143,360**	129,736	**143,360**	129,735
Impairment (reversals)/losses on financial instruments					
Impairment charge	10	**(846)**	5,348	**(846)**	5,348
Release of impairment on losses written off directly		**(1,551)**	(946)	**(1,551)**	(946)
Impairment losses written off directly		**1,794**	776	**1,794**	776
		(603)	5,178	**(603)**	5,178
Net interest income after impairment (reversals)/losses		**143,963**	124,558	**143,963**	124,557
Fee and commission income					
Loan switch and breakout fees		**838**	1,104	**838**	1,104
Transaction fees		**4,902**	6,052	**4,902**	6,052
Payment system fees		**2,591**	2,393	**2,591**	2,393
Financial planning revenue		**–**	867	**–**	–
Commissions		**1,668**	1,929	**1,675**	1,929
		9,999	12,345	**10,006**	11,478

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Fee and commission expense					
Bank fees		**160**	108	**160**	108
Commission		**179**	198	**179**	198
		339	306	**339**	306
Net fee and commission income from contracts with customers		**9,660**	12,039	**9,667**	11,172
Profit from sale of property, plant and equipment					
Profit from sale of plant and equipment		**123**	110	**123**	110
		123	110	**123**	110
Other income					
Impairment losses recovered		**176**	91	**176**	91
Rental income		**119**	144	**119**	144
Gain on sale – financial planning business		**200**	710	**–**	–
Other		**784**	662	**226**	211
		1,279	1,607	**521**	446
Net operating income		**155,025**	138,314	**154,274**	136,285

Notes to the Consolidated Financial Statements

3 Operating expenses

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Personnel expense					
Salaries		**51,390**	48,811	**51,389**	48,242
Payroll tax		**2,922**	2,882	**2,921**	2,860
Fringe benefits tax		**662**	650	**659**	630
Superannuation		**5,559**	5,218	**5,559**	5,168
		60,533	57,561	**60,528**	56,900
Occupancy expense					
Repairs and maintenance		**443**	453	**443**	452
Expenses on leases of short term and low value assets		**1,036**	552	**1,036**	524
Other		**3,217**	2,411	**3,217**	2,360
		4,696	3,416	**4,696**	3,336
Payment system expense		**4,370**	3,950	**4,370**	3,950
Marketing expense		**7,167**	7,354	**7,167**	7,350
Data processing expense		**7,561**	6,088	**7,561**	6,052
Postage and printing expense		**2,625**	1,936	**2,625**	1,933
Contributions to IMB and Shire Community Foundations		**550**	600	**550**	600
Goods and services tax not recovered		**3,260**	2,247	**3,260**	2,247
Sundry expenses					
Depreciation and amortisation					
– plant and equipment		**4,663**	2,775	**4,663**	2,745
– buildings		**799**	92	**799**	92
– intangibles		**670**	515	**670**	515
– leased properties		**7,373**	7,423	**7,373**	7,423
Legal and consulting		**2,609**	2,191	**2,609**	2,181
Loss from sale of property, plant and equipment		**22**	32	**22**	32
Other		**3,910**	4,449	**3,854**	4,325
		20,046	17,477	**19,990**	17,313
Total operating expenses		**110,808**	100,629	**110,747**	99,681

4 Taxation

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
a) Income tax expense					
Current tax expense					
– current year		**13,622**	13,493	**13,431**	13,174
– adjustment for prior years		**(122)**	–	**(122)**	–
		13,500	13,493	**13,309**	13,174
Deferred tax expense					
– origination and reversal of temporary differences		**(98)**	(2,139)	**(117)**	(2,145)
Total income tax expense		**13,402**	11,354	**13,192**	11,029
Reconciliation between income tax expense and profit before tax					
Profit before tax		**44,217**	37,685	**43,527**	36,604
Prima facie income tax expense at 30% on operating profit		**13,265**	11,305	**13,058**	10,981
Increase in income tax expense due to:					
– other non-deductible expenses		**–**	1	**–**	–
– depreciation of buildings		**240**	20	**240**	20
– non-deductible entertainment		**22**	36	**21**	36
Decrease in income tax expense due to:					
– income tax over-provided for in prior year		**(120)**	–	**(122)**	–
– other deductible expenses		**(5)**	(8)	**(5)**	(8)
Income tax expense		**13,402**	11,354	**13,192**	11,029
Income tax recognised directly in other comprehensive income					
Relating to defined benefit fund		**667**	(249)	**667**	(249)
Relating to equity investments		**104**	(29)	**104**	(29)
Relating to investment debt securities		**438**	(259)	**438**	(259)
Relating to cash flow hedges		**(712)**	1,519	**(712)**	1,519
		497	982	**497**	982

b) Current tax liabilities

The current tax liability for the Group of $2,190,000 (2020: $2,637,000) and for the Company of $2,190,000 (2020: $2,637,000) 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.

Notes to the Consolidated Financial Statements

4 Taxation (continued)

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Deferred tax assets/(liabilities)					
Deferred tax assets and liabilities are attributable to the following:					
– Provisions and accrued expenses		**3,841**	4,189	**3,830**	4,159
– Employee benefits		**3,308**	4,057	**3,308**	4,057
– Lease liabilities		**4,192**	5,220	**4,192**	5,220
– Property, plant and equipment		**244**	(991)	**244**	(991)
– Deferred expenditure		**29**	(23)	**29**	(23)
– Consulting and legal fees		**35**	40	**35**	40
Total deferred tax assets		**11,649**	12,492	**11,638**	12,462
– Investment debt securities		**(1,565)**	(1,127)	**(1,565)**	(1,127)
– Land and buildings		**(749)**	–	**(749)**	–
– Derivative assets		**(807)**	(1,519)	**(807)**	(1,519)
– Right of use assets		**(4,189)**	(5,285)	**(4,189)**	(5,285)
– Equity investments		**(165)**	(61)	**(165)**	(61)
Total deferred tax liabilities		**(7,475)**	(7,992)	**(7,475)**	(7,992)
Net deferred tax assets		**4,174**	4,500	**4,163**	4,470

Effective tax rates (ETR)

The ETR for the Group of 30.3% (2020: 30.1%) and the Company of 30.3% (2020: 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:				
2021				
2021 interim dividend	**9.0**	2,170	100%	4-Mar-21
2020 final dividend	**7.5**	1,808	100%	21-Sep-20
		3,978		
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		

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

Subsequent events

On 24 August 2021 the Board declared a final ordinary dividend of 9 cents per share amounting to $2,170,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2021. The dividend is payable on 1 September 2021. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in subsequent financial statements. The declaration and subsequent payment of dividends has no income tax consequences.

	Company	
	2021 $'000	**2020 $'000**
Dividend franking account		
30% franking credits available to members of the Company for dividends in subsequent financial years	**150,749**	138,864

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 (2020: $nil) franking credits.

6 Investment debt securities

	Consolidated		Company	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Investment debt securities at FVOCI*				
– certificates of deposit issued by banks	**179,711**	200,803	**179,711**	200,803
– government and semi-government securities	**353,089**	189,022	**353,089**	189,022
– other bonds	**55,598**	1,025	**55,598**	1,025
– floating rate notes**	**545,951**	562,030	**2,203,785**	2,219,897
Total investments	**1,134,349**	952,880	**2,792,183**	2,610,747

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

** The Company holds $1,650,000,000 (2020: $1,650,000,000) in bonds issued by the Illawarra Series IS Trust and $7,000,000 (2020: $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 for investment debt securities of $449,000 is recognised in OCI at 30 June 2021 (2020: $383,000).

Of the above amounts, $393,033,000 (2020: $384,642,000) 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.

Notes to the Consolidated Financial Statements

7 Deposits with other ADIs

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Deposits with other Authorised Deposit-taking Institutions (ADIs) at amortised cost	**108,152**	98,674	**108,152**	98,674
Provision for impairment – expected credit losses	**(58)**	(30)	**(58)**	(30)
Total Deposits with other ADIs	**108,094**	98,644	**108,094**	98,644

Of the above amounts, $100,639,000 (2020: $58,565,000) 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	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Loans and advances to customers at amortised cost*		**5,465,618**	5,400,159	**5,465,618**	5,400,159
Provision for impairment – expected credit losses	10	**(7,020)**	(9,511)	**(7,020)**	(9,511)
Total loans net of provision for impairment		**5,458,598**	5,390,648	**5,458,598**	5,390,648

* Includes $1,836,110,000 of securitised residential loans (2020: $1,898,094,000).

Of the above amounts, $213,129,000 (2020: $192,975,000) is expected to be recovered within 12 months of the balance date by the Group and the Company.

9 Other financial assets

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Other equity investments – at FVOCI	**1,294**	958	**1,294**	958
Investments in controlled entities	**–**	–	**1,758**	1,758
Total other financial assets	**1,294**	958	**3,052**	2,716

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 2020	**383**	**30**	**9,511**	**9,924**
Impairment charge/(reversal)	**66**	**28**	**(940)**	**(846)**
Provision acquired on merger	**–**	**–**	**–**	**–**
Amounts written off, previously provided for	**–**	**–**	**(1,551)**	**(1,551)**
Balance as at 30 June 2021	**449**	**58**	**7,020**	**7,527**
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

* 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 2020	**5,983**	**1,188**	**2,340**	**9,511**
Transfers during the period to:				
12 month ECL	252	(149)	(103)	–
Lifetime ECL not credit-impaired	(51)	144	(93)	–
Lifetime ECL credit-impaired	(6)	(63)	69	–
Net remeasurement of loss allowance	(323)	54	681	412
COVID-19 overlay	(839)	(145)	(138)	(1,122)
New financial assets originated	632	–	–	632
Provisions acquired on merger	–	–	–	–
Financial assets that have been derecognised	(533)	(30)	(299)	(862)
Write-offs	(4)	(2)	(1,545)	(1,551)
Balance as at 30 June 2021*	**5,111**	**997**	**912**	**7,020**

Notes to the Consolidated Financial Statements

10 Provision for impairment – expected credit losses (continued)

ECL on loans and advances to customers Consolidated and Company	Stage 1 12 month ECL $'000	Lifetime ECL Stage 2 not-credit impaired $'000	Lifetime ECL 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**

* 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(g).

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 a partial release of the collective provision of $1,122,000 reflecting an improvement in credit quality and the underlying economic forecasts compared to the prior period offset by adjustments to the management overlays. Additional details on the calculation of this value are 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 2021.

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 continues to be held in the financial statements to reflect the estimated impact of COVID-19 on ECLs. Due to the limited observable data available at reporting date, the size of this 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 consider the continued 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 deferrals continue to be offered on all loan products and unlike other concessions granted to borrowers in financial difficulty, these payment holidays are not subject to detailed affordability assessments, and therefore the level of financial difficulty of members who apply for them requires estimation.

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 2021, the probability weightings for each scenario were reviewed and the probabilities allocated were revised in light of the continued impact of COVID-19. Given recent economic data has been surprising on the upside the macro-economic scenario weightings used in the calculation of ECLs have been changed to reflect the optimistic nature of the forecasts. The changes made to the probability weightings applied to each scenario are shown in the table below:

Economic scenarios	2021 %	2020 %
Upside	**5**	5
Base	**40**	50
Downside	**55**	45

In assessing forecast economic conditions, consideration has been given to both the significant government support that has been provided 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 macro-economic outlook, as reflected in the economic scenarios, has improved since the outbreak of COVID-19 including lower unemployment and improved GDP and residential property prices. However, the potential for further downside risk remains, including economic deterioration from additional lockdowns and the reduction of government support. The table below provides a summary of the values of key Australian macro-economic assumptions used within the residential mortgage scenarios:

Notes to the Consolidated Financial Statements

10 Provision for impairment – expected credit losses (continued)

Macro-economic forecast assumptions	2021 %	2022 %	2023 %
GDP Growth*			
Upside scenario	**10.3**	5.0	3.8
Base case scenario	**9.3**	4.0	3.0
Downside scenario	**8.5**	2.5	2.0
Unemployment			
Upside scenario	**5.3**	4.3	3.8
Base case scenario	**5.3**	4.8	4.5
Downside scenario	**5.3**	5.3	5.5
Housing Price Index			
Upside scenario	**–**	10	–
Base case scenario	**–**	5	–
Downside scenario	**–**	–	–
Cash rate – all scenarios#	**0.1**	0.1	0.1

* the assumptions used in the commercial loan portfolio scenarios are based on the GDP macro-economic forecast at June-19 as the PD outputs produced by the model using the latest macro-economic forecast were judged as being too low.

\# except the commercial loan portfolio. The assumptions used in the personal loan and revolving credit scenarios are based solely 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 outlook remains positive with a stronger than expected economic forecast and most members coming off loan payment deferrals. However, there remains some uncertainty over the trajectory of the recovery, including, the immunisation timetable and effectiveness, emergence of new variants, the impact of wind-back of government assistance, and the timing and length of localised lock downs. 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 day past due information. Other factors considered include whether an exposure has been identified and placed on credit watch and whether the loan has been subject to temporary modifications due to financial difficulty.

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. 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 the uncertainty around the size of 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
- 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	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Interest rate swaps at fair value	**2,690**	5,064	**2,690**	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 of Floating Rate Note (FRN) investments. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

At 30 June 2021, 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	635	1,906	2,342
Average interest rate	0.17%	0.17%	0.18%

Notes to the Consolidated Financial Statements

12 Property, plant and equipment

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Freehold land				
– at cost	**13,781**	13,781	**13,781**	13,781
	13,781	13,781	**13,781**	13,781
Freehold buildings				
– at cost	**75,134**	29,683	**75,134**	29,683
– accumulated depreciation	**(10,833)**	(8,538)	**(10,833)**	(8,538)
	64,301	21,145	**64,301**	21,145
Total land and buildings	**78,082**	34,926	**78,082**	34,926
Plant and equipment				
– at cost	**44,221**	35,609	**44,221**	35,609
– accumulated depreciation	**(28,321)**	(27,619)	**(28,321)**	(27,619)
Total plant and equipment	**15,900**	7,990	**15,900**	7,990
Work in progress – at cost – buildings	**–**	42,564	**–**	42,564
Work in progress – at cost – other	**520**	125	**520**	125
Work in progress – at cost	**520**	42,689	**520**	42,689
Total property, plant and equipment – at cost	**133,656**	121,762	**133,656**	121,762
Total accumulated depreciation	**(39,154)**	(36,157)	**(39,154)**	(36,157)
Total property, plant and equipment – carrying amount	**94,502**	85,605	**94,502**	85,605
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	**13,781**	11,556	**13,781**	11,556
Acquired on merger	**–**	2,225	**–**	2,225
Carrying amount at the end of the year	**13,781**	13,781	**13,781**	13,781
Buildings				
Carrying amount at the beginning of the year	**21,145**	1,317	**21,145**	1,317
Additions	**107**	–	**107**	–
Transfers from work in progress	**48,006**	–	**48,006**	–
Acquired on merger	**–**	1,775	**–**	1,775
Recognition of ROUA* on initial application of AASB 16	**–**	22,105	**–**	22,105
Additions – ROUA	**3,215**	3,463	**3,215**	3,463
Depreciation – ROUA	**(7,373)**	(7,423)	**(7,373)**	(7,423)
Depreciation – buildings	**(799)**	(92)	**(799)**	(92)
Carrying amount at the end of the year	**64,301**	21,145	**64,301**	21,145

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Plant and equipment				
Carrying amount at the beginning of the year	**7,990**	7,173	**7,990**	7,084
Additions	**2,222**	2,243	**2,222**	2,190
Transfers from work in progress	**10,526**	792	**10,526**	792
Reclassification to software	**(7)**	–	**(7)**	–
(Adjustment)/Acquired on merger	**(100)**	934	**(100)**	934
Disposals	**(68)**	(377)	**(68)**	(265)
Depreciation	**(4,663)**	(2,775)	**(4,663)**	(2,745)
Carrying amount at the end of the year	**15,900**	7,990	**15,900**	7,990
Work in progress				
Carrying amount at the beginning of the year	**42,689**	10,170	**42,689**	10,170
Additions	**16,363**	33,311	**16,363**	33,311
Transfers to plant and equipment and buildings	**(58,532)**	(792)	**(58,532)**	(792)
Carrying amount at the end of the year	**520**	42,689	**520**	42,689

* Right of use assets

Notes to the Consolidated Financial Statements

13 Intangible assets

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Intangible computer software				
- at cost	**14,497**	12,980	**14,497**	12,980
- accumulated amortisation	**(13,483)**	(11,848)	**(13,483)**	(11,848)
Intangible computer software	**1,014**	1,132	**1,014**	1,132
Work in progress – at cost	**8,549**	4,232	**8,549**	4,232
Total intangible computer software	**9,563**	5,364	**9,563**	5,364
Reconciliation				
Intangible computer software				
Carrying amount at the beginning of the year	**1,132**	1,011	**1,132**	1,011
Additions	**84**	282	**84**	282
Transfers from work in progress	**559**	26	**559**	26
Reclassification from property, plant and equipment	**7**	–	**7**	–
Disposals	**(98)**	–	**(98)**	–
Additions acquired on merger	**–**	328	**–**	328
Amortisation	**(670)**	(515)	**(670)**	(515)
Carrying amount at the end of the year	**1,014**	1,132	**1,014**	1,132
Work in progress				
Carrying amount at the beginning of the year	**4,232**	1,270	**4,232**	1,270
Additions	**4,876**	2,988	**4,876**	2,988
Transfers to intangible computer software	**(559)**	(26)	**(559)**	(26)
Carrying amount at the end of the year	**8,549**	4,232	**8,549**	4,232

14 Other assets

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Sundry debtors	**17,053**	16,543	**91,361**	70,751

15 Trade and other payables

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Trade creditors	**38,480**	29,294	**38,048**	28,697
Distributions payable by Special Purpose Entities	**3,692**	4,644	**–**	–
Fees payable by Special Purpose Entities	**496**	488	**–**	–
Total trade and other payables	**42,668**	34,426	**38,048**	28,697

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

16 Deposits

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Retail deposits	**5,252,819**	4,582,019	**5,258,646**	4,587,414
Middle markets	**501,604**	999,126	**501,604**	999,126
Wholesale deposits	**96,938**	277,302	**96,938**	277,302
Accrued interest	**6,693**	13,022	**6,693**	13,022
Total deposits	**5,858,054**	5,871,469	**5,863,881**	5,876,864

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

17 Securitised loans funding

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Notes payable	**178,866**	240,198	**–**	–
Loans from securitisation trusts*	**–**	–	**1,835,972**	1,897,781
Total securitised loans funding	**178,866**	240,198	**1,835,972**	1,897,781

* Includes $1,657,000,000 (2020: $1,657,000,000) 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

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Repurchase agreements*	1e				
Repurchase agreements		**307,957**	125,062	**307,957**	125,062
Total Repurchase agreements*		**307,957**	125,062	**307,957**	125,062
Lease liabilities					
Lease liabilities		**13,973**	17,850	**13,973**	17,850
Total lease liabilities		**13,973**	17,850	**13,973**	17,850
Subordinated floating rate notes	1p				
– Series 3		**–**	29,986	**–**	29,986
– Series 4		**39,990**	39,958	**39,990**	39,958
– Series 5		**69,831**	–	**69,831**	–
Total Subordinated floating rate notes		**109,821**	69,944	**109,821**	69,944
Total interest bearing liabilities		**431,751**	212,856	**431,751**	212,856

* 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 3 was redeemed in full on 15 June 2021, with the approval of APRA.

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.

Series 5 was issued for a ten-year period maturing 2031 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 250 basis points.

In line with APRA's capital adequacy measurement rules the Sub-ordinated 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 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Make good provision					
Balance at the beginning of the year		**474**	405	**474**	405
Provisions acquired on merger		**–**	80	**–**	80
Provisions used during the year		**(142)**	(11)	**(142)**	(11)
Balance at the end of the year		**332**	474	**332**	474
Employee benefits					
Balance at the beginning of the year		**12,853**	9,664	**12,853**	9,617
Provisions made during the year		**5,554**	6,155	**5,554**	6,136
Provisions acquired on merger		**–**	806	**–**	806
Provisions used during the year		**(6,922)**	(3,772)	**(6,922)**	(3,706)
Balance at the end of the year	21	**11,485**	12,853	**11,485**	12,853
Total provisions		**11,817**	13,327	**11,817**	13,327

20 Share capital and reserves

	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Share capital – Ordinary shares				
On issue at 1 July (24,110,261 ordinary shares)	**28,324**	28,324	**28,324**	28,324
Own shares acquired (ordinary shares)	**–**	–	**–**	–
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 percent (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 1g. The general reserve for credit losses together with the amounts calculated in accordance with Note 1g must be adequate to comply with prudential requirements.

Notes to the Consolidated Financial Statements

20 Share capital and reserves (continued)

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	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Current				
Liability for annual leave	**5,023**	4,729	**5,023**	4,729
Liability for banked time	**5**	5	**5**	5
Liability for long service leave	**6,111**	6,070	**6,111**	6,070
Liability for purchased annual leave	**55**	83	**55**	83
Liability for termination payments	**460**	–	**460**	–
	11,654	10,887	**11,654**	10,887
Non Current				
Net defined benefit (asset)/liability	**(1,493)**	668	**(1,493)**	668
Liability for long service leave	**1,324**	1,298	**1,324**	1,298
	(169)	1,966	**(169)**	1,966
Total employee benefits	**11,485**	12,853	**11,485**	12,853

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 8 members (2020: 9) in the plan. An actuarial assessment of the plan at 30 June 2021 was carried out by Ms S Sweeney FIAA on 14 July 2021.

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.

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Movements in the net defined benefit asset/(liability)				
Net defined benefit asset at the beginning of the year	**(668)**	199	**(668)**	199
Total remeasurement recognised in other comprehensive income gain/(loss)	**2,225**	(829)	**2,225**	(829)
Contributions received from employer	**454**	457	**454**	457
Defined benefit cost recognised in the profit and loss	**(518)**	(495)	**(518)**	(495)
Net defined benefit asset/(liability) at the end of the year	**1,493**	(668)	**1,493**	(668)

	Year ending 30 June 2022 $'000
Expected contributions to the plan in the next reporting period	
Expected employer contributions	443
Expected employee contributions	104

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 4.3 years.

Projected benefit payments (defined benefit only)	2021 $'000	2020 $'000
Next year	**1,834**	1,884
Next year + 1 year	**1,283**	1,746
Next year + 2 years	**1,433**	1,053
Next year + 3 years	**1,743**	1,201
Next year + 4 years	**2,436**	1,672
Sum of next year + 5 – 9 years	**3,174**	4,748

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was $4,497,000 for the financial year (2020: $4,266,000).

Notes to the Consolidated Financial Statements

22 Capital and other commitments

	Consolidated		Company	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Loan commitments approved but not advanced				
– not later than one year	**396,808**	357,189	**396,808**	357,189
– later than one year	**12,929**	9,598	**12,929**	9,598
Total	**409,737**	366,787	**409,737**	366,787
Capital expenditure commitments not taken up in the financial statements				
– not later than one year	**185**	11,866	**185**	11,866
– later than one year	**–**	–	**–**	–
Total	**185**	11,866	**185**	11,866

Capital commitments

During the year, the Company completed the construction of a purpose-built head office under a maximum sum contract. The remaining payments under the building contract are $nil (2020: $11,490,000). The building was completed in December 2020.

23 Financial arrangements

	Consolidated		Company	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Bank overdraft available	**2,500**	2,500	**2,500**	2,500
Other overdraft available	**200**	200	**200**	200
Facilities not utilised	**2,700**	2,700	**2,700**	2,700

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% (2020: 5.74%).

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% (2020: 8.50%).

24 Contingent liabilities

Contingent liabilities considered remote

Guarantees given by IMB Ltd

Business Banking clients

Contingent liabilities include guarantees of $3,943,000 (2020: $3,769,000) 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	Principle activity	Ownership interest 2021 %	Ownership interest 2020 %
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	Dormant	**100.0**	100.0
Securitisation SPEs*			
Illawarra Warehouse Trust No. 3	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 1c. 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 May 1, 2020. Under this arrangement Bridges purchased IMBFP's advice business assets and 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 $11,875 (2020: a loss of $39,800).

26 Notes to the statements of cash flows

	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'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	**56,149**	167,477	**56,148**	167,476
Cash controlled by SPEs	**78,409**	58,907	**–**	–
Total	**134,558**	226,384	**56,148**	167,476

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	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year attributable to members of the Company	**30,815**	26,331	**30,335**	25,575
Net (gain) on sale of property, plant and equipment	**(101)**	(74)	**(101)**	(74)
Remeasurement of defined benefit fund liability	**1,558**	(581)	**1,558**	(581)
Impairment (gains)/losses on financial instruments	**(603)**	5,178	**(603)**	5,178
Depreciation of property, plant and equipment, and amortisation of intangible assets	**13,509**	10,841	**13,509**	10,629
Operating profit before changes in assets and liabilities	**45,178**	41,695	**44,698**	40,727
Changes in assets and liabilities:				
(Increase)/Decrease in accrued interest on investments	**(1,918)**	2,488	**(1,915)**	2,481
(Increase) in loans and advances to customers	**(67,319)**	(201,455)	**(67,319)**	(201,455)
(Increase)/Decrease in sundry debtors	**(510)**	15,640	**(20,610)**	(12,554)
Decrease/(Increase) in net deferred tax asset	**326**	(1,226)	**307**	(1,227)
(Decrease) in accrued interest on members' deposits	**(5,874)**	(10,688)	**(5,874)**	(10,688)
Increase/(Decrease) in trade and other payables	**8,242**	(6,338)	**9,351**	(4,581)
(Decrease)/Increase in deposits	**(7,541)**	316,675	**(7,109)**	318,068
(Decrease)/Increase in provision for employee benefits	**(1,368)**	3,189	**(1,368)**	3,236
(Decrease) in current tax liabilities	**(447)**	(865)	**(447)**	(865)
(Decrease)/Increase in other provisions	**(142)**	69	**(142)**	69
Net cash flows from operating activities	**(31,373)**	159,184	**(50,428)**	133,211

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 M Brannon (General Manager, Sales and Marketing)
Mr PJ Fitzgerald	Mr N Campbell (Chief Digital Officer)
Ms JA Gardner	Mr CJ Goodwin (Chief Financial Officer)
Ms GM McGrath, resigned 31 May 2021	Mr S Griffiths (General Manager Memberships and Alliances), resigned 13 November 2020
Ms JM Swinhoe	Ms RJ Heald (General Manager People and Culture)
Ms ME Towers, retired 30 September 2020	Mr MF King (Chief Risk Officer)
Mr HW Wendt, appointed 1 July 2020	Ms LB Wise (General Manager, Corporate Services and Company Secretary)

	Consolidated		Company	
	2021 $	2020 $	2021 $	2020 $
The key management personnel compensation included in "personnel expense" (see Note 3) is as follows				
Short-term employee benefits	**5,014,185**	4,922,031	**5,014,185**	4,922,031
Post-employment benefits	**432,981**	447,305	**432,981**	447,305
Termination benefits	**616,265**	–	**616,265**	–
Other long-term benefits – deferred compensation	**713,519**	551,799	**713,519**	551,799
Other long-term benefits – other	**56,192**	85,849	**56,192**	85,849
Total	**6,833,142**	6,006,984	**6,833,142**	6,006,984

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 and the application of deferral, malus and clawback provisions, which provide the Board with broad discretion to adjust remuneration outcomes. 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.

Directors' Remuneration

The maximum aggregate of the amount of remuneration, inclusive of superannuation, available to the Directors for the financial year was $960,000. Of this amount, $708,131 (2020: $713,476) was distributed to directors based on their roles and responsibilities on the Board and its Committees. The directors determined not to pass on a remuneration increase in the financial year.

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.

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 2021	**3,390,141**	**3,336,016**	**83,245**	**3**
Total for key management personnel and their related parties 2020	2,845,872	3,390,141	100,388	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 2021	**13,420**	**–**	**–**	**13,420**	**7**
Total for key management personnel and their related parties 2020	15,420	–	2,000	13,420	7

No shares were granted to key management personnel during the year as compensation (2020: 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(j). The aggregate amount of loans provided (by)/to the Company (to)/from subsidiaries under the agreement is ($960,000) (2020: ($770,000)).

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	
	2021 $'000	**2020 $'000**
Accounting services	–	7
Computer maintenance services	–	7
Operating lease revenue	–	28

The total amount of deposits with the Company by controlled entities at the end of the relevant financial year was $5,827,000 (2020: $5,392,000). The total amount of borrowings with the Company by controlled entities at the end of the relevant financial year was $nil (2020: $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	
	2021 $'000	**2020 $'000**
IMB Financial Planning Ltd	–	2

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:

	Company	
Payments received by the Company	**2021 $'000**	**2020 $'000**
Proceeds from the securitisation of loans	**679,985**	371,715
Servicing fees received	**4,667**	3,713
Management fees received	**560**	446
Excess income received	**27,811**	19,553
Note interest	**20,252**	23,168
Other	**435**	357

29 Remuneration of Auditors

	Consolidated		Company	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Amounts received or due and receivable by KPMG for:				
Audit and review of financial statements	**386**	400	**356**	344
Regulatory audits and review	**60**	41	**42**	41
Other assurance services	**25**	20	**18**	8
	471	461	**416**	393
Taxation				
– compliance	**30**	59	**30**	59
– advisory	**–**	–	**–**	–
Other advisory	**46**	–	**46**	–
	547	520	**492**	452

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 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.

Notes to the Consolidated Financial Statements

30 Risk management and financial instruments (continued)

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 2021:

		Consolidated			
30 June 2021	**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	**5,458,598**	**108,094**	**1,134,349**	**134,558**
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		5,245,839	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		53,381	–	–	–
Government securities		–	–	353,089	–
Investment grade		–	97,261	781,260	134,558
Unrated		–	2,766	–	–
Other		132,439	8,125	–	–
Net deferred income and expenses		1,249	–	–	–
Carrying amount		5,432,908	108,152	1,134,349	134,558
Stage 2: significant increase in credit risk					
Secured by mortgage		22,157	–	–	–
Other		544	–	–	–
Carrying amount		22,701	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		9,811	–	–	–
Other		198	–	–	–
Carrying amount		10,009	–	–	–
Expected credit loss	10	(7,020)	(58)	–	–
Total carrying amount	6,7,8,26	**5,458,598**	**108,094**	**1,134,349**	**134,558**
Includes restructured loans		5,472	–	–	–

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

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(g).

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 2021:

		Company			
30 June 2021	**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	**5,458,598**	**108,094**	**2,792,183**	**56,148**
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		5,245,839	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		53,381	–	–	–
Government securities		–	–	353,089	–
Investment grade		–	97,261	2,439,094	56,148
Unrated		–	2,766	–	–
Other		132,439	8,125	–	–
Net deferred income and expenses		1,249	–	–	–
Carrying amount		5,432,908	108,152	2,792,183	56,148
Stage 2: significant increase in credit risk					
Secured by mortgage		22,157	–	–	–
Other		544	–	–	–
Carrying amount		22,701	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		9,811	–	–	–
Other		198	–	–	–
Carrying amount		10,009	–	–	–
Expected credit loss	10	(7,020)	(58)	–	–
Total carrying amount	6,7,8,26	**5,458,598**	**108,094**	**2,792,183**	**56,148**
Includes restructured loans		5,472	–	–	–

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	–	–	–

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 $2,690,000 (2020: $5,064,000).

IMB issues guarantees to business banking clients with a maximum credit exposure of $3,943,000 (2020: $3,769,000). 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	**2021 $'000**	**2020 $'000**	**2021 $'000**	**2020 $'000**
<= 25%	**253,485**	243,758	**253,485**	243,758
>25%<=50%	**1,076,160**	1,033,893	**1,076,160**	1,033,893
>50%<=70%	**1,714,474**	1,728,771	**1,714,474**	1,728,771
>70%<=80%	**1,154,591**	1,174,448	**1,154,591**	1,174,448
>80%<=90%	**560,149**	526,124	**560,149**	526,124
>90%<=100%	**304,220**	273,338	**304,220**	273,338
>100%	**18,720**	10,108	**18,720**	10,108
Total	**5,081,799**	4,990,440	**5,081,799**	4,990,440

Commercial mortgages

LVR ratio	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
<= 25%	**20,649**	11,359	**20,649**	11,359
>25%<=50%	**59,883**	64,949	**59,883**	64,949
>50%<=70%	**109,658**	111,144	**109,658**	111,144
>70%<=80%	**46,090**	48,486	**46,090**	48,486
>80%<=90%	**–**	1,679	**–**	1,679
>90%<=100%	**–**	–	**–**	–
>100%	**–**	1,450	**–**	1,450
Total	**236,280**	239,067	**236,280**	239,067

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 2021 that were credit-impaired and not well secured is $1,756,000 (2020: $2,573,000) with the amount outstanding on these loans being $418,000 (2020: $2,322,000).

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 $450,000 (2020: $1,895,000).

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 and advances to custmers 2021 $'000	Loans and advances to custmers 2020 $'000	Deposits with other ADIs 2021 $'000	Deposits with other ADIs 2020 $'000	Investment debt securities 2021 $'000	Investment debt securities 2020 $'000	Cash and cash equivalents 2021 $'000	Cash and cash equivalents 2020 $'000
CONSOLIDATED								
Carrying amount	**5,458,598**	5,390,648	**108,094**	98,644	**1,134,349**	952,880	**134,558**	226,384
Concentration by location								
New South Wales	**4,306,181**	4,230,460	**87,866**	92,209	**627,644**	619,897	**133,592**	225,364
Australian Capital Territory	**682,862**	683,937	**8,125**	3,699	**–**	62,985	**789**	918
Queensland	**123,434**	132,209	**2,766**	2,766	**27,274**	73,683	**–**	–
Victoria	**270,516**	269,961	**3,391**	–	**152,448**	36,290	**177**	102
Western Australia	**44,651**	48,636	**–**	–	**83,118**	98,564	**–**	–
South Australia	**15,887**	15,243	**–**	–	**31,338**	4,788	**–**	–
Tasmania	**22,087**	19,713	**6,004**	–	**212,527**	56,673	**–**	–
Provision for impairment	**(7,020)**	(9,511)	**(58)**	(30)	**–**	–	**–**	–
Total	**5,458,598**	5,390,648	**108,094**	98,644	**1,134,349**	952,880	**134,558**	226,384

Notes to the Consolidated Financial Statements

30 Risk management and financial instruments (continued)

	Loans and advances to custmers		Deposits with other ADIs		Investment debt securities		Cash and cash equivalents	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
COMPANY								
Carrying amount	**5,458,598**	5,390,648	**108,094**	98,644	**2,792,183**	2,610,747	**56,148**	167,476
Concentration by location								
New South Wales	**4,306,181**	4,230,460	**87,866**	92,209	**2,285,478**	2,277,764	**55,182**	166,456
Australian Capital Territory	**682,862**	683,937	**8,125**	3,699	**–**	62,985	**789**	918
Queensland	**123,434**	132,209	**2,766**	2,766	**27,274**	73,683	**–**	–
Victoria	**270,516**	269,961	**3,391**	–	**152,448**	36,290	**177**	102
Western Australia	**44,651**	48,636	**–**	–	**83,118**	98,564	**–**	–
South Australia	**15,887**	15,243	**–**	–	**31,338**	4,788	**–**	–
Tasmania	**22,087**	19,713	**6,004**	–	**212,527**	56,673	**–**	–
Provision for impairment	**(7,020)**	(9,511)	**(58)**	(30)	**–**	–	**–**	–
Total	**5,458,598**	5,390,648	**108,094**	98,644	**2,792,183**	2,610,747	**56,148**	167,476

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 (e.g. self-securitisation assets available as collateral under repurchase agreement) and other investment debt securities. This is to ensure that sufficient liquidity is maintained and to avoid large funding mismatches. The liquidity and funding positions are 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 deposit products that display the behaviour of more stable longer term funding sources. In addition, Treasury source funding as required in the middle and wholesale markets in order to meet the 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 $52.2 million (2020: $67.1 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 2021 was $51.2 million (2020: $65.75 million). In April 2020 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 $160 million facility. In September 2020, the RBA announced the provision of a new Supplementary Allowance for which IMB qualified for a further $108 million. During the year an additional $218 million (2020: $50 million) of securities were subject to repurchase agreement under the RBA TFF. The unused allowance at 30 June 2021 under the facility with the RBA was nil (2020: $110 million).

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). This is 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 Board 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 the stated stress scenario. The reported Group HQLA ratio to total adjusted liabilities at the reporting date was as follows:

Liquidity ratios

At 30 June	2021 %	2020 %
APRA High Quality Liquid Assets	**18.0**	18.5

Notes to the Consolidated Financial Statements

30 Risk management and financial instruments (continued)

Residual contractual maturities of financial liabilities

	At call		Excluding call less than 3 months maturity		Greater than 3 months less than 12 months maturity	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
CONSOLIDATED						
Financial Liabilities						
Deposits	**3,414,389**	2,541,712	**1,447,738**	1,947,050	**935,527**	1,306,334
Trade and other payables	**–**	–	**42,668**	34,426	**–**	–
Securitised loans funding*	**–**	–	**11,477**	14,895	**30,332**	39,496
Lease liabilities	**–**	–	**1,589**	1,969	**3,881**	5,294
Interest bearing liabilities	**–**	–	**40,761**	75,744	**2,240**	1,790
Total financial liabilities	**3,414,389**	2,541,712	**1,544,233**	2,074,084	**971,980**	1,352,914
Unrecognised loan commitments			**249,172**	189,016		
COMPANY						
Financial Liabilities						
Deposits	**3,420,216**	2,547,107	**1,447,738**	1,947,050	**935,527**	1,306,334
Trade and other payables	**–**	–	**38,048**	28,697	**–**	–
Securitised loans funding*	**–**	–	**16,423**	20,232	**45,008**	55,333
Lease liabilities	**–**	–	**1,589**	1,969	**3,881**	5,294
Interest bearing liabilities	**–**	–	**40,761**	75,744	**2,240**	1,790
Total financial liabilities	**3,420,216**	2,547,107	**1,544,559**	2,073,692	**986,656**	1,368,751
Unrecognised loan commitments			**249,172**	189,016		

* 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	
2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**	**2021 $'000**	**2020 $'000**	**2021 $'000**	**2020 $'000**
70,448	91,034	**107**	–	**5,868,209**	5,886,130	**5,858,054**	5,871,469
–	–	**–**	–	**42,668**	34,426	**42,668**	34,426
96,452	126,897	**49,121**	70,928	**187,382**	252,216	**178,866**	240,198
8,097	10,213	**1,032**	1,314	**14,599**	18,790	**13,973**	17,850
281,474	59,951	**120,123**	73,628	**444,598**	211,113	**417,778**	195,006
456,471	288,095	**170,383**	145,870	**6,557,456**	6,402,675	**6,511,339**	6,358,949
				249,172	189,016		
70,448	91,034	**107**	–	**5,874,036**	5,891,525	**5,863,881**	5,876,864
–	–	**–**	–	**38,048**	28,697	**38,048**	28,697
174,997	211,652	**1,706,228**	1,728,511	**1,942,656**	2,015,728	**1,835,972**	1,897,781
8,097	10,213	**1,032**	1,314	**14,599**	18,790	**13,973**	17,850
281,474	59,951	**120,123**	73,628	**444,598**	211,113	**417,778**	195,006
535,016	372,850	**1,827,490**	1,803,453	**8,313,937**	8,165,853	**8,169,652**	8,016,198
				249,172	189,016		

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 (as required by APRA): 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 by 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, Board 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 over the forecast time period.

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 2021 follows:

Earnings Risk (Net Interest Income Sensitivity – 100 bps Movement)	2021 %	2020 %
At 30 June	**(0.30)**	(0.21)
Average NII-Sensitivity for the period	**(0.18)**	(1.03)
Minimum NII-Sensitivity for the period	**(0.07)**	(0.21)
Maximum NII-Sensitivity for the period	**(0.31)**	(1.99)

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 percent confidence level. The HS-VaR is an estimate based upon a 99 percent 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 Group's Historical Simulation VaR position, expressed as a percentage of capital, as at 30 June 2021 and during the year is as follows:

VaR (Historical Simulation Method)	2021 %	2020 %
At 30 June	**0.47**	0.14
Average VaR for the period	**0.89**	0.42
Minimum VaR for the period	**0.14**	0.11
Maximum VaR for the period	**2.22**	0.80

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 2021	Note	Carrying amount $'000	Level 1 $'000	Fair value Level 2 $'000	Level 3 $'000	Total consolidated $'000
Financial assets measured at FVOCI						
Investment debt securities	6	**1,134,349**	–	**1,134,349**	–	**1,134,349**
Derivative financial assets	11	**2,690**	–	**2,690**	–	**2,690**
Equity investments	9	**1,294**	–	–	**1,294**	**1,294**
		1,138,333				
Financial assets at amortised cost						
Cash and cash equivalents	26	**134,558**				
Deposits with other ADIs	7	**108,094**				
Loans and advances to customers	8	**5,458,598**	–	–	**5,477,406**	**5,477,406**
Other assets	14	**17,053**				
		5,718,303				
Financial liabilities measured at amortised cost						
Deposits	16	**5,858,054**	–	**5,863,035**	–	**5,863,035**
Securitised loan funding	17	**178,866**				
Interest bearing liabilities	18	**431,751**				
Trade and other payables	15	**42,668**				
		6,511,339				

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 2020	Note	Carrying amount $'000	Level 1 $'000	Fair value 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).

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.

Loans and advances to customers, measured at FVTPL due to the no negative equity guarantee component of these loans, are valued based on assumptions around mortality, property prices and interest rates at balance date and throughout the life of the loan.

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:

	2021 %	2020 %
Loans and borrowings	**0.10 – 0.92**	0.25 – 0.42
Derivatives	**0.08 – 0.92**	0.14 – 0.42

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 percent; a Tier 1 Capital ratio of 6.0 percent; and a Total Capital ratio of 8.0 percent.

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	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Tier 1 capital				
Ordinary share capital	**28,324**	28,324	**28,324**	28,324
General reserves	**25,255**	27,819	**25,255**	27,819
Asset revaluation reserves	**10,051**	13,478	**10,051**	13,478
Retained earnings	**341,895**	315,598	**339,541**	314,000
Current year earnings	**26,870**	21,498	**26,389**	20,742
(Less) Capitalised expenses	**(11,267)**	(7,064)	**(11,267)**	(7,064)
(Less) Other	**(12,880)**	(14,082)	**(12,872)**	(14,054)
Total	**408,248**	385,571	**405,421**	383,245
Tier 2 capital				
General reserve for credit loss	**12,105**	13,559	**12,105**	13,559
Subordinated debt	**110,000**	70,000	**110,000**	70,000
Total	**122,105**	83,559	**122,105**	83,559
Total regulatory capital	**530,353**	469,130	**527,526**	466,804
Capital requirements (in terms of risk-weighted assets) for:				
Credit risk	**2,641,530**	2,571,532	**2,644,100**	2,574,004
Operational risk	**399,491**	366,844	**396,326**	363,141
Total risk-weighted assets	**3,041,021**	2,938,376	**3,040,426**	2,937,145
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	**17.4%**	16.0%	**17.4%**	15.9%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	**13.4%**	13.1%	**13.3%**	13.1%

31 Subsequent events

Dividends

For dividends declared by IMB Ltd after 30 June 2021 refer to Note 5.

COVID-19 lockdown

On 26 June 2021 an announcement was made of a 2-week lockdown of Greater Sydney, which coincided with the year end of 30 June 2021. IMB Bank branches remain essential services and continue to operate under COVID protocols. Following the issue of stay-at-home orders for Greater Sydney, all office staff that can perform their role from home continue to do so.

There was a reasonable expectation at 30 June 2021 of further localised lockdowns due to continual breaches of the hotel quarantine system, and the emergence of the more contagious COVID-19 Delta variant in the weeks leading up to 30 June. Consequently, this makes the Greater Sydney lockdown an adjusting subsequent event that should be taken into consideration when measuring assets and liabilities at 30 June 2021.

The resulting forced closure and cessation of work at construction sites is considered a non-adjusting event for 30 June 2021 as a shutdown of construction had never previously been imposed. However, details of material non-adjusting events must be disclosed in the notes to the financial statements. This includes the nature of the event as well as any possible estimate of their financial effect, or in cases where an estimate cannot be made, a statement should be made to that effect.

The financial statement item that continues to be impacted by COVID is the ECL provision. The provision recognises that the potential for further downside risk remains, including economic deterioration from additional lockdowns and the reduction of government support. For an explanation of the facts, circumstances and forecasts of future economic conditions and supportable information considered in determining the ECL provision refer to Note 10.

Directors' Declaration

In the opinion of the directors of IMB Ltd ("the Company"):

(a) the financial statements and notes, set out on pages 37 to 99, 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 2021 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 25th day of August 2021.

Signed in accordance with a resolution of the directors:

NH Cornish AM
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 2021 and of its 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 2021
- 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.

Independent Auditor's Report

KPMG

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
25 August 2021

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
- **Broadmeadow** – 130 Lambton Rd, BROADMEADOW NSW 2292
- **Camden** – Shop 26, Camden Village Court, 180-186 Argyle Street, CAMDEN NSW 2570
- **Charlestown** – Level 2, Shop 2092, Charlestown Shopping Centre, CHARLESTOWN NSW 2290
- **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
- **Glendale** – Shop 31 Glendale Shopping Centre, GLENDALE NSW 2285
- **Goulburn** – Shop 27 Centro Goulburn, Auburn Street, GOULBURN NSW 2580
- **Green Hills** – Shop 1037/1, Green Hills Shopping Centre, Molly Morgon Dr, EAST MAITLAND NSW 2323
- **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** – Shop 9/185 Princes Hwy, 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
- **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

IMB Bank Branches

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

IMB Business Banking

- Level 1, 47 Burelli Street, WOLLONGONG NSW 2500

Corporate Directory

Members' Diary and other information

Payment of final dividend 1 September 2021

Annual General Meeting

26 October 2021 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: Tuesday, 26 October 2021
Time: 10.30am (AEDT)
Venue: Online at https://agmlive.link/IMB21

IMB Bank takes the health and safety of our members, employees and the broader community seriously. Given the continuing risks and uncertainty faced by all as a result of COVID-19, the 2021 IMB Bank AGM will be held as a virtual meeting. To participate in the AGM online on 26 October 2021, members can log in online at https://agmlive.link/IMB21 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

47 Burelli 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 5 Executive Services, 47 Burelli 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/investor-centre-financial-reports.ht imb.com.au

IMB Ltd trading as IMB Bank ABN 92 087 651 974