

2015 Annual General Meeting

Chairman's Address

Michael Cole

Members

As this is my final AGM as Chairman of IMB I do not intend to comment further on the financial performance of IMB in FY2015 period beyond my previous observations in the Annual Report that it was more than satisfactory. The CEO will review the most recent year in some detail in his comments that will follow my address. Rather today I would like to make some observations about the performance of IMB over the past decade and its competitive position over the next decade and beyond.

I joined the Board of IMB in 2003 and have been privileged to lead the organisation as Chairman for nearly a decade. In that period IMB has had to respond to a number of external shocks, most notable being the GFC in 2008, as well as an increasingly competitive housing lending and deposit gathering environment.

Using FY2003 as the opening benchmark I consider IMB has performed very credibly against its peers in the mutual Approved Deposit Taking Institution (ADI) sector and in relation to the regional banks. I will now take some time to reflect on the outcomes of IMB's corporate strategy since 2003, which can be summarised under six key points.

1. Competitive Marketplace

	FY 2003	FY 2015	% Change
Total assets	\$3.0b	\$5.0b	67%
Total deposits	\$2.3b	\$4.0b	74%
Net interest margin	2.29%	2.04%	-11%

In a very competitive home lending and deposit taking environment, IMB has grown its total assets by a very solid 67%. IMB deposit growth of 74% compares to the M3 (cash and ADI deposits) system growth of 115%. The competitive pressure in the market is reinforced by the 10.9% reduction in the net interest margin to 2.04% at the close of the period. The margin had bottomed out at 1.60% in FY2007 and has been gradually reclaimed through an internal product distribution strategy.

2. Exclusive Internal Product Distribution

	FY 2003	FY 2015	% Change
Total loans approved	\$1,077m	\$850m	-21%
Home loans approved	\$967m	\$777m	-20%
Number of branches	34	53	26.5%

The IMB business model moved from a heavily broker driven distribution focus accounting for over 50% of new loans at the start of the period, to a predominantly internal branch employee/mobile lender approach. Adjusting for mortgage brokers' exclusion, the FY2015 home loan approvals of \$777 m compares very favourably to FY2003. In recent times new lending growth has been assisted by the 26.5% expansion of the IMB Branch network footprint and mobile lender recruitment. The exit from use of mortgage brokers as a key distribution channel was driven by profitability issues. After payment of broker commissions and loan trails it took three years for the loans to be profitable and five years to breakeven. This time to break even is significant when considering that the average life of an IMB mortgage is also around 6 years.

3. Enhanced Business Productivity

	FY 2003	FY 2015	% Change
Cost to income ratio	75.3%	62.2%	17%
Net profit after tax	\$12.4m	\$32.5m	162%

IMB has focused on being more efficient in its service delivery whilst maintaining its high customer service rating of currently around 96%. This is highlighted by the 17.4% reduction in the cost to income ratio to 62.2%. This productivity gain has driven 162% lift in profit over the period. The profit growth is more than double the growth in the balance sheet. The efficiency dividend is a continuous improvement process which is ultimately benchmarked against the mid 40% cost to income ratios of the four bank majors. With both lending and savings products highly commoditised it is essential to be a low cost supplier to be competitive in the financial market place.

4. More Conservative Risk Profile

	FY 2003	FY 2015	% Change
Net assets	\$132.9m	\$291.4m	119%
Capital adequacy	10.5%	15.5%	48%
Net assets / Total assets	5.28%	5.94%	12.5%
Net profit after tax / Net assets	9.6%	11.1%	15.6%
Bad debts expense	\$1.1m	\$0.4m	-64%

The IMB business model has been significantly de-risked over the period. The capital adequacy ratio has lifted 48% to 15.5%. This point is further reinforced by the improvement in the net asset/total asset ratio from 5.28% to 5.94%. Notwithstanding the significant de-leveraging of the IMB balance sheet in nominal terms, the net profit after tax/net assets (ROE) has lifted from 9.6% to 11.1%. The IMB ROE is significantly above our mutual peer group. The lowering of business risk is further reinforced by the reduction in bad debt write-offs to a minimal level most recently.

5. Better Stakeholder Alignment

	FY 2003	FY 2015	% Change
Dividend per share	18.5c	25.0c	35%

Obtaining the PWC Securities Ltd Report on Contributed Funding has assisted the IMB Board by providing it with another tool when it considers how to fairly return benefits to Shareholder Members in a manner consistent with their investment in the IMB business. In the period since FY2003 the Shareholder Member dividend has lifted 35% to 25 cents per share. As I highlighted in the Annual Report, the current effective dividend payout ratio based on shareholder members' interest in contributed funding, assuming an approximate 33% interest in contributed funding and operating profit after tax, is 77%.

6. Share Buyback to strengthen IMB's mutual structure

	FY 2003	FY 2015	% Change
Number of shares	38.1m	31.9m	-16.3%

The number of IMB shares on issue has reduced to 31.9 m, a reduction of 20% from the maximum amount on issue over the period. The Directors remain committed to the buyback of all shares on issue, as long as this strategy is consistent with the optimisation of the IMB capital structure. The successful completion of three share buy backs to date for a total outlay of \$34.2 million is a significant achievement in the light of the marked improvement in the capital adequacy ratio which I highlighted above. In the period since FY2003 IMB has recorded cumulative net profit of \$306.6m and paid dividends totalling \$118.8m to Shareholder Members. In total, almost 50% of cumulative net profits have been paid to Shareholder Members in dividends and through the share buybacks.

The optimisation of the IMB business model remains a work in progress but the achievements to date mean the Bank is well placed to move forward with a high level of confidence. The Bank's strategy to grow the balance sheet will continue to be restrained by the capital demands of further share buy backs and dividend payments while the regulatory environment can be expected to be more challenging.

In my view, the ADI regulator, APRA will require further de-leveraging of all ADI balance sheets and this will lower future ROEs for the banking sector. Further the Regulator has a predilection for ADIs organic growth to be limited to the system credit expansion which means IMB's existing market share is likely to remain stable.

It is anticipated these factors may combine to create merger opportunities in the mutual ADI sector. In my view, IMB has appeal as a merger partner as it has consistently demonstrated the efficiency and viability of its business model. As long as IMB can continue to substantiate its mutual status credibility I am optimistic IMB will participate in the inevitable mutual ADI industry rationalisation.

As I have highlighted in previous communications with members, a merger with another mutual ADI is likely to be able to deliver more significant or rapid growth and an uplift in key performance metrics over time as synergies and efficiencies are achieved. A key point for IMB members to appreciate is that mergers between mutual ADIs based upon a transfer of business methodology avoid the usual premium associated with such transactions, providing a good platform to create a stronger combined entity for the benefit of all IMB stakeholders.

Following the release of the APS 111 capital adequacy supervisory regulations, IMB has had preliminary communications with APRA regarding IMB's unique capital structure created by the issue of IMB ordinary shares in 1989. We continue our discussions with APRA as to the longer term implications for IMB, however our preliminary communications indicate that IMB's ordinary shares are likely to be categorised differently for regulatory capital purposes under the application of the new Basel regulations which have a transition period out to the end of 2021, or such later date as may be agreed with APRA.

IMB will continue to engage with APRA on this matter to arrive at a mutually agreeable outcome which optimises the efficiency of IMB's capital base.

In my view, the share buyback program is likely to support any outcome reached with APRA in relation to IMB's regulatory capital structure and the Board remains committed to this initiative as well as exploring any complementary actions that will best position IMB to execute the Bank's strategic plans.

In response to a shareholder inquiry as to the other means by which IMB could remove the ordinary shares, I re-state that any corporate action to remove the shares other than through the voluntary buyback mechanism would need to comply with both the IMB Constitution and the Corporations Act. The courses of action which are likely to be available are a Scheme of Arrangement, a capital reduction, or an equal access buyback in excess of the 10/12 limit. Each of these alternatives currently require member approval, including approval by each Court approved class of members. At this time, IMB has not decided which course of action would be appropriate, and this is a matter that the Board will consider as part of all regulatory capital matters under review.

Overlaid on all of these considerations, is the fact that yet further changes to the competitive landscape and the regulatory framework relating to the way in which banks are required to calculate regulatory capital requirements will be introduced in connection with the adoption of the Murray *Financial System Inquiry* recommendations and following this, with the next round of directives under Basel IV.

In summary - I am hoping to convey to members that in the relatively short period since 2012 when the Board completed its review of IMB's capital structure and approved the ordinary share buyback strategy, a number of dynamics and external factors have changed. Once our discussions with APRA on this matter are finalised, a preferred strategy for IMB's capital structure for the longer term will be confirmed by the Board and the necessary engagement and communication with all members will occur.

On a related topic, questions received from shareholders ahead of each AGM inevitably seek to understand the future expectations around dividends and how the Board determines the level of dividends payable. As I disclosed in the Annual Report, in the context of these evolving regulatory capital changes, it is prudent that the Board undertakes a review of the IMB dividend guideline which was established in 2012 following the Board initiated review of IMB's capital structure.

This review and any resulting Dividend Guidelines will consider IMB's strategic growth objectives and capital requirements, current and expected operating environments, prudential requirements and the movement in shareholders' interest in contributed funding as derived from the latest PwC Securities Report to the Board. It is expected that this review will conclude following the completion of discussions with APRA, after which the relevant communications will be made to shareholders.

IMB recorded its 135th anniversary this year and it should be celebrated as a magnificent corporate achievement. To put this in historical perspective BHP, the iconic Australian company celebrated its 130th anniversary this year.

In its 135 years of operation IMB has successfully navigated the challenges of the Major Banking Crisis of 1893, the Great Depression of 1930, the post WWII Credit Squeezes of 1961, 1971, 1979, the 1987 Wall Street Crash, the 2000 Tech Wreck and most recently, the Global Financial Crisis in 2008.

Will IMB face greater financial market volatility challenges in the next 135 years? The answer is probably yes. Will IMB successfully deal with those financial market disruptions? The answer is certainly yes. Our long history has created an acute awareness of risk/return which is deeply engrained in our culture and how we manage the business.

If we fast forward 135 years to 2150, it is difficult to comprehend what the Australian financial landscape will look like. As a point of reference to the pace of technological change, remember the iPhone has only been with us around 5 years and think how that technology has changed our daily lives.

What is clear is that in 2150 Australians will still be living in dwellings and will need to borrow to purchase them. Further, savings will continue to be a key financial resource in the capital allocation in a market driven economy. What is unclear is how the functions of housing lending and saving will be best delivered to interact most effectively with the community?

However as long as IMB remains relevant to execution of those lending and savings functions it is probable members at the 2150 AGM will be celebrating 270 years of financial service to the community. Using the existing strong operational base and exceptional level of customer satisfaction as a starting platform the challenge for the IMB Board over the next decade and beyond is to develop a strategy that ensures IMB remains deeply relevant to its member base, not deviate from that path and pursue excellent execution by management of the chosen strategy.

In addition to the matters that I have covered relating to the Board's review of the dividend guideline and IMB's capital structure, I will now respond to the other topics of common interest received via the AGM question forms submitted by members.

1 Director Remuneration

An amendment to the Corporations Act became effective this year, which removed the requirement for unlisted disclosing entities such as IMB to include a Remuneration Report within their annual report. As a result, consistent with the approach of other mutual ADI's, the remuneration for IMB Directors is now covered by the related party disclosures in Note 28 of the Annual Report.

I wish to confirm that in line with commitment made at the 2009 AGM, the Board has limited the increase to the total aggregate remuneration payable to Directors to the movement in the All Groups Consumer Price Index (CPI). Therefore the aggregate remuneration payable to Directors for the 2016 financial year will increase by 1.5% to \$654,852. This amount is distributed between the seven (7) members of the Board based on their various responsibilities to the Board and its committees.

2 Board Succession Planning

The Board renewal process is well in hand and two Directors will be announced next year as Kieran Biddle and myself are expected to retire ahead of the 2016 AGM. The Board Corporate Governance and Remuneration Committee has identified a number of potential candidates with a range of professional backgrounds in banking, law and digital technology. The Committee will continue its assessment of all candidates that are identified according to the established selection criteria which is determined with regard to the skills deemed necessary under IMB's Fit and Proper Policy, Corporate Governance policies and according to the strategic needs of IMB and the Board.

The Board has also considered the successor for my role as Chairman and pleasingly it is expected that the next IMB Chairman will be selected from within the existing group of directors whose tenure continues beyond that of myself and Kieran. Following today's meeting, the Board will consider any logical changes in the roles of Deputy Chairman and various Board Committee memberships to ensure that there is an effective transition period leading up to my retirement before the 2016 AGM.

3 Head Office

Finally, as some members noted from the Annual Report, IMB announced the sale and lease back of its head office premises at 253-259 Crown Street Wollongong in February. The terms of the lease are commercially competitive and provide IMB with adequate time and flexibility to establish a new Head Office location.

We have commenced the search for new head office premises or site in the Illawarra region, with the aim of achieving a modern, flexible work environment that better suits the needs of IMB, our employees and members. It is expected that this project will continue over the next 2-3 years, subject to site availability and the scope of works that may be required.

I continue to be impressed by the commitment of IMB's Directors and I would like to thank all the current Board members for their contributions in what has again been a challenging year. In addition, my appreciation must also be recorded for the contribution of a number of Directors that have retired over past decade. Some of those directors are here today including Russell Fredericks, Vivien Twyford and Harold Hanson. My particular thanks goes to Lynton Nicholas for the outstanding job he did as Deputy Chair for much of my term as Chairman.

On behalf of the Directors I would also like to thank our CEO Robert Ryan, the executive team and all the staff for their continued commitment to IMB and all the stakeholders. Robert has been the CEO for the whole of my term as Chair and the strength of the key financial metrics discussed earlier reflect his outstanding leadership and implementation of the current IMB business model and strategy.

Finally I would like to thank all of you, the members for your continuing support of IMB.

I will now hand over to Robert to review the last financial year.

Chief Executive's Address

Robert Ryan

Thank you Michael and I would also like to extend a warm welcome to our members here today.

Despite the challenges of a very tough economic environment, I am delighted to report that IMB has again delivered a very pleasing result that demonstrates the strength and resilience of our business model and reflects the successful execution of our business strategy.

Profitability has been maintained in a period where we are supporting both the costs of the share buyback strategy and a new phase of significant investment in order to expand our digital platform for the future.

We are now well advanced in our journey to becoming a national provider of savings and lending products via our new digital platforms which will underpin our next phase of growth, and increase our relevance and credibility with younger demographics.

Perhaps most notably - in our 135th year, we transitioned to become IMB Bank. I am proud to say that as a mutual bank, we continue to demonstrate the philosophy that was the basis on which IMB was established in 1880 - being to help people in our local communities to achieve their financial goals. As we move into a new chapter of our growth as IMB Bank - a change that will open up many more market opportunities for us to attract new members - this philosophy remains as relevant as ever.

While the emergence of digital and new technologies have brought major change and benefits in the way that way we conduct our business, there is absolutely still a need for personal, friendly service and a desire to help people achieve their goals and aspirations – and our member satisfaction ratings tell us that IMB excels in this area.

Strategy

We have made excellent progress over the past 12 months on delivering new capabilities that will support our growth ambitions. These new capabilities will improve the experience for both our members and staff, making it easier and faster to bank with IMB, across all our channels. I'd like to take this opportunity today to highlight some of our key achievements in the 2014-2015 year.

Late last year, we launched a simplified process to apply for a personal loan online. The new process provides members with a conditional personal loan approval without the need to visit an IMB branch and has genuinely extended our reach Australia wide. We also launched a webchat solution which offers a new way for us to communicate with existing and prospective members in a simple and effective 'online' manner.

We have introduced a more efficient online deposit account opening process, allowing both current and new members around Australia to open a new savings or investment account, on the device of their choice, in just a few minutes.

We also upgraded our website, so that it is easier to navigate and provides a more modern look and feel, and more recently, we established a social media presence, on Facebook and Twitter, which opens up another new avenue for IMB to engage digitally with our members. We see social media as an important mechanism to improve our brand awareness and relevance to younger market segments and will be expanding our presence in social media over the coming year.

We have also continued to invest in our traditional channels, with a highlight being the opening of a new branch at Oran Park. The Oran Park branch complements our representation in the Macarthur region and as one of the first financial institutions in the new development, we are looking forward to growing the branch alongside Sydney's fastest growing suburb.

We have enhanced the capabilities of key IMB branches to provide specialist bankers to assist our business clients with their lending and deposit requirements. These "business banking hubs" are in addition to our dedicated team of Business Banking specialists that provide full service to our growing number of business and commercial members.

Our Financial Planning team has been strengthened over the last 12 months with the new appointments of highly skilled planners and the implementation more sophisticated systems and processes. IMB Financial Planning is now a Financial Planning Association recognised 'Professional Practice' with all planners holding tertiary qualifications. We are working hard to spread the word amongst our members of the professional and quality financial planning and wealth advice that they can access through IMB's wholly owned financial planning entity.

For the year ahead, I am looking forward to us building on these achievements with a continued focus on expanding our digital and mobile payments capabilities, as well as maintaining and modernising our traditional channels.

As examples, we are in the process of upgrading our Internet banking platform and we have started exploring options to replace our mortgage processing system. The latter project will significantly improve the lending process for staff and members and will provide IMB with a digital platform to offer our highly competitive home loans on a national basis.

Financial Performance

From a financial perspective, IMB's results for year remained strong, with growth in profits and the balance sheet, strong liquidity and capital ratios and an exceptionally low level of arrears supported by our robust credit standards. We have maintained a focus on improving productivity and IMB continues to display a peer leading cost discipline.

IMB's net profit after tax was \$32.5 million, up from \$29.1 million in the previous year. The result included a profit on the sale of our head office building of \$2.9 million which occurred earlier this year. As Michael commented, we have commenced a search for a new head office premises in the Illawarra, which provides better flexibility for all of IMB's operations, allows for expansion, and provides a modern, efficient working environment for our staff.

The increase in operating profit was supported by an improvement in net interest income, maintenance of non-interest income levels and a modest increase in operating expenses.

Net interest income increased on the previous year to just over \$98 million with the average interest margin remaining stable during the year at 2.04%. The maintenance of the interest margin, in a highly competitive market, reflects our management of interest rates and balance sheet growth. Although the interest margin dropped towards the end of the financial year, we expect an average margin through the year similar to last year.

IMB's bad debt expense was \$0.4 million, a significant reduction on the previous year and the lowest result for IMB in over 20 years. Bad debts expense was 0.01% of IMB's total loan portfolio, reflecting the quality of IMB's loan book across both the secured and unsecured loan portfolios.

Total expenses increased by \$3.9 million on the previous year to \$74.6 million. The increase in expenses reflects the costs associated with implementing a number of key strategies including opening a new branch, digital initiatives and the strengthening of IMB's management structure. IMB also invested in increased training for our staff and an increase in our marketing spend has supported the strong growth in both lending and deposits.

The ratio of non-interest expenses to operating income was 62.2%, slightly improved from 62.9% last year. This is a great result bearing in mind the significant investment made during the year to implement the initiatives I have outlined to you earlier. IMB's efficiency ratio continues to be one of the lowest ratios of our peer set.

Total assets increased to \$5 billion at the end of the financial year.

Loan approvals for the year were \$850 million, an increase of more than \$96 million, or 13%, on the previous year. This is a strong result reflecting a continued focus on productivity and the competitiveness of our product offering in terms of both features and rate. Loan growth was funded largely from growth in deposits which grew by \$283 million, or 7.5%, over the previous year.

So far for the new financial year, we have seen a continued improvement in our loan writings.

The quality of IMB's loan book remains very strong, with IMB's level of mortgage arrears well below national averages in all categories. As at the end of September, IMB had only 5 mortgage and 2 commercial loans in arrears by more than 90 days, which represents 0.04% of the total of these loan portfolios.

The growth in funding contributed to an increase in IMB's liquidity levels notwithstanding the significant growth in loan writings. IMB's liquidity remained strong at 27.4%, with the high quality liquid asset ratio at 21.0%, well above regulatory requirements. The capital ratio was also strong at 15.5%.

Supporting Local Communities

Moving on from the financial elements of the business, I am pleased to turn to the IMB Community Foundation, which was established in 1999 to provide financial support to community groups with positive ideas and concepts to help them convert their ideas into working projects.

Since its inception, the IMB Community Foundation has granted \$7.6 million to support more than 500 projects with a diverse range of project themes, throughout our local communities.

This year, the Foundation has donated a further \$500,000 to 50 local projects including drug awareness and mental health programs, senior community involvement, projects supporting refugees and unemployed youth.

We are very proud of the difference the IMB Community Foundation is making within the community. In many instances, the funding provided by the Foundation not only allows the realisation of identified outcomes for these groups but also broader outcomes for the community.

In addition to the support provided by the Community Foundation, IMB also supports a range of charity, sporting and community organisations, as well as numerous other grassroots local projects and events that directly benefit the communities where IMB members live and work.

Throughout the last year we have been a proud sponsor of the Wollongong Hawks, Illawarra Women in Business, the Cook Community Classic, and our popular movies events being the Sunset Cinema in Wollongong, Sydney and the ACT and the Summer Movies at Kiama and Jamberoo. We are very pleased to again be supporting the i98FM Camp Quality Convoy providing much needed funds for local children and their families.

This year, we are also excited to have entered into a partnership with the University of Wollongong for its Early Start Discovery Space, a hands-on creative venue for children from birth to 12 years of age. IMB is delighted to be involved in Australia's only dedicated children's museum which provides valuable learning experiences for young children through play-based learning.

Conclusion

Looking ahead, we expect the current low rate environment to continue, with strong competition between financial institutions as they look to increase their share of both consumer lending and retail deposits. This competition will continue to place pressure on interest margins and overall financial performance.

In this context, we welcomed the news last week that the Government has backed the recommendations from the Financial System Inquiry, including the Murray Report's vision for a more competitive and more consumer-friendly banking market, which is a major win for our mutual banking industry.

One of the key reforms supported by the Government is the need to ensure regulators place greater emphasis on competition issues when developing policy, and we look forward to the positive changes this focus can bring to our competitive position going forward.

We therefore remain confident about our future financial performance and while we are always subject to broader economic conditions, I believe that we are taking all the necessary steps to maximise the efficiency of IMB's capital base, and to invest in the initiatives that are required to ensure that IMB can compete and grow, and maintain its relevance in a market that is changing continuously.

I would like to acknowledge the ongoing dedication and commitment of our staff. During a year that presented many changes for IMB, I have been impressed by our employee's enthusiasm in embracing these changes and our desire to evolve, whilst continuing to provide excellent service to our members.

I would also like to thank the Board for their continued support and guidance over the past year. The additional time and effort that our Board members contribute to IMB's business over and above their other duties is greatly appreciated. IMB's strength is a testament to their prudent oversight.

And finally, I would also like to thank our loyal members for their continued support of IMB.

As we move into the next phase of IMB's history as IMB Bank, IMB remains a strong and secure mutual financial institution providing our members with a competitive alternative to the banks and I look forward to building on this year's success in the year ahead.

Thank you.