

2019

Annual Report



Supporting Communities | Driving Innovation

IMB Ltd trading as IMB Bank ABN 92 087 651 974

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About IMB

Established in 1880, IMB has been helping people achieve their financial goals for 139 years. We do this by offering competitive products, practical solutions and, thanks to a dual focus on person-to-person relationships and technological innovation, superior customer service.

IMB provides a fully-featured range of banking solutions: home and personal lending, savings and transaction accounts, term deposits, business banking and access to financial planning. A selection of insurance and travel products are also available.

IMB has a growing branch network throughout the Illawarra, Sydney, NSW South Coast, the ACT and Melbourne. We have a lending specialist in every branch and a team of mobile lending and business banking specialists who will come to you.

Our members enjoy access to free Internet, Mobile and Phone banking 24/7 and a team of professionals who are just a phone call away at our Australia-based contact centre, IMB Direct. IMB is also proud to be one of the first Australian banks to introduce real-time payments through Osko® and the full suite of Digital Wallets, including Apple Pay, Google Pay, Samsung Pay, Fitbit Pay and Garmin Pay.

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.

As a leading mutual bank, IMB also supports the communities in which we operate. The IMB Community Foundation was established in 1999 and since that time has provided over \$10 million to support over 700 projects.

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 at IMB. 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

Governance

IMB Bank is committed to maintaining robust culture, governance and accountability frameworks. We have a comparatively simple retail banking business and fortunately, we are not affected by many of the issues that were explored within other large financial institutions throughout the Financial Services Royal Commission. However, we know that we must continuously enhance our policies and procedures to ensure that they deliver on our mutual values and meet the high standards expected of us by our members and the community. We welcome the regulatory change that is occurring across industry in relation to fairness and integrity in the way that financial institutions deal with their customers, products being fit for purpose, and services being delivered with due care and skill.

Notice of Annual General Meeting

The Annual General Meeting of IMB Ltd will be held at the Novotel Northbeach Hotel, 2-14 Cliff Road, North Wollongong on Wednesday 23 October 2019 at 10.30 am.



2019 Highlights

A year of stable business performance and innovation for IMB Bank, with a focus on 20 years of community support through the IMB Bank Community Foundation.



Results

IMB Bank's results for the FY2019 reflect the delivery of sustainable financial performance, despite the significant challenges being faced by all financial institutions. Effective management of the impacts of the decreasing rate environment and a subdued housing market delivered a net profit after tax result of \$31.7 million, just above that of the FY2018 result of \$31.6 million. Other results for the financial year include:

- Total loan growth of 7.7%.
- Deposits grew 5.5% to \$5.3 billion.
- Average interest margin for the year was 2.12%, reflecting close management of the balance sheet.
- The ratio of non-interest expense to operating income for the Group increased slightly to 66.9%, up from 66.3% in the previous year.

These results position IMB Bank very well in the mutual sector.



Community

We celebrated 20 years of the IMB Bank Community Foundation with launch events in the ACT and NSW. Over the last 20 years the IMB Bank Community Foundation has pledged \$10 million in support of over 700 community projects in NSW, the ACT and Victoria. Further, we recognised 20 Community Heroes and Spotlight Projects – people and programs which we have consistently worked with over the two decades.

In 2019, we funded another 51 outstanding projects across both the IMB Bank Community Foundation and its sister organisation the IMB Bank Shire Community Foundation. These diverse grassroots projects shared in over \$700,000 of funding, delivering projects that enable communities to thrive.

Strategic sponsorships that genuinely enhance the quality of life to our members and our communities remained a focus. These include the IMB Bank Sunset Cinema, the IMB Bank Cook Community Classic, Football South Coast, Hills Shire Football and more (see page 20).



Developing our people

We are changing the way we work across the business, building an innovation hub. Our core teams have been trained in Agile methods and we've invested in a dedicated workspace to truly collaborate and innovate.

8 new financial services trainees began a new career and we financially assisted 21 team members with tertiary and post graduate education. Since 2005, we have helped 128 young people to further their qualifications after they completed their HSC or to add to their education with a 12-month traineeship.

IMB trainees Blake Ford (Information Technology) and Anna Murphy (Business) were honoured at the NSW Department of Industry's NSW Training Awards – Illawarra and Southeast NSW Region. Both were awarded Trainee of the Year in their respective disciplines.



Innovation and Growth

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

Key achievements include:

The launch of a full suite of mobile payment options, including Apple Pay, Google Pay, Samsung Pay, Garmin Pay and Fitbit Pay. This furnishes our customers with industry best-practice banking flexibility.

Re-engineered contact centre operations by moving to a leading cloud-based telephony platform.

Midway through a major lending transformation project to digitise IMB's lending processes and offer a genuine online application for mortgages. This is expected to be delivered in early 2020.

Using digital device intelligence to greatly enhance our fraud detection capabilities for members transacting via Internet Banking and our Banking App.



Opening our newest branch at Rouse Hill – with a modern, open-plan design, IMB Rouse Hill will operate as a retail and business banking community hub. It takes our branch numbers to 48.

Expansion of our mobile lending team to the Central Coast and Newcastle / Hunter markets, plus the recent addition of three new business bankers across Sydney and Newcastle.



Connecting with our members

This year we continued to find meaningful ways to enhance our relationship with our members, sustaining an ongoing conversation that reflects the brand pillars: service, product features and inclusion.

Our 95% Member satisfaction rating and a 51.3 Net Promoter Score (NPS) are among industry-best customer ratings. The NPS is the highest since we started tracking it, well above that of the major banks.

Migrating our Contact Centre's phone system to AWS Connect has provided additional functionality and a range of service features, ensuring a better customer experience.

IMB School Banking grew steadily with just over 2,430 students registered for school banking in 27 primary schools across the Illawarra, Sutherland Shire, South Coast and Queanbeyan.



Recognition

After being awarded Mutual Bank of the Year in 2018, we were delighted to be a Top 3 finalist in the Most Innovative Mutual category at the 2019 Australian Banking Innovation Awards. This category recognises customer-owned banks that are redefining their product and service offering, innovating from a strong understanding of their customers' needs. These innovations will be completed in the second half of 2019, improving customer experience and expediting operational growth.



Corporate

In June we announced plans to merge with Hunter United Employees' Credit Union Ltd, in a move that will deliver benefits to members of both organisations.

Construction of IMB's new head office has commenced and is due for completion in 2020. Designed under benchmark workplace principles, the new building will support our continued growth, deliver operational efficiency and faster, better member outcomes.

We successfully completed our sixth off-market share buyback which saw 1.86 million shares bought back through the voluntary share tender mechanism. We have now bought back 16 million shares, representing 40% of the issued share capital since commencement of the buyback program.

Above

1. IMB Bank Community Foundation Chair, Jan Swinhoe, speaking at the ACT launch.

2. IMB CEO Robert Ryan, Jayne Baric of the Victor Chang Cardiac Research Institution and Hills Shire Mayor Dr Michelle Byrne launch the Western Sydney leg of the Heart Health Check Tour in Rouse Hill.

3. IMB mascot Buzzy is a hit at the 2018 Football South Coast Grand Final Day.

2019 Results

Against a backdrop of significant market challenges and transformation across the financial services industry, IMB Bank's results for the FY2019 reflect the delivery of sustainable financial performance.

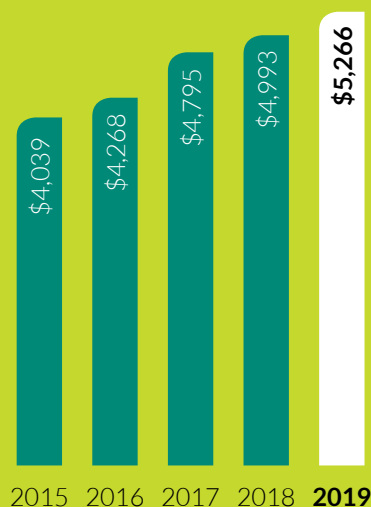
Total assets (\$m)

↑ 2.8%



Members' deposits (\$m)

↑ 5.5%



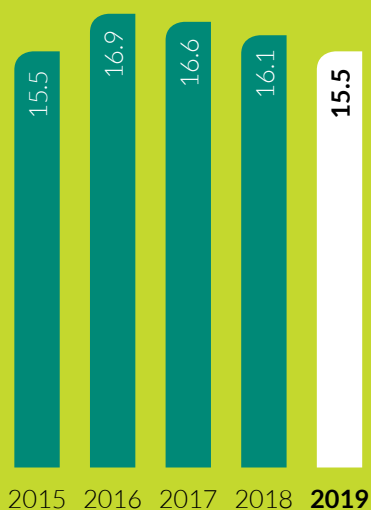
Profit after tax (\$'000)

↑ 0.5%



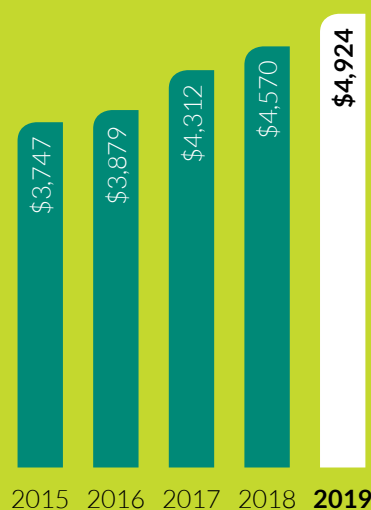
Capital ratio (%)

↓ 0.6%



Total loans (\$m)

↑ 7.7%



95%
Member
satisfaction*

* Discovery Research, 2019

Five-Year Summary

	2015*	2016	2017	2018	2019	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial performance						
Interest income	232,289	223,587	220,867	231,874	242,279	
Interest expense	134,006	119,756	110,439	110,529	117,327	
Interest margin	98,283	103,831	110,428	121,345	124,952	
Non-interest income	21,990	14,227	15,029	14,086	13,573	
Bad and doubtful debts expense	366	333	1,066	1,235	1,501	
Non-interest expense	74,613	75,503	85,139	89,012	91,623	
Profit before tax	45,294	42,222	39,252	45,184	45,401	
Income tax expense	12,795	12,666	11,800	13,623	13,669	
Profit after tax	32,499	29,556	27,452	31,561	31,732	
Financial position						
Assets						
Loans and advances	3,746,949	3,879,221	4,312,141	4,569,669	4,924,283	
Liquids	1,207,508	1,320,398	1,374,988	1,298,933	1,083,210	
Other	20,706	24,499	26,552	43,580	69,584	
	4,975,163	5,224,118	5,713,681	5,912,182	6,077,077	
Liabilities						
Deposits	4,038,803	4,268,430	4,795,283	4,993,265	5,266,418	
Securitised loans funding	562,680	535,303	430,571	405,795	324,004	
Other	82,298	111,806	157,579	169,435	123,947	
	4,683,781	4,915,539	5,383,433	5,568,495	5,714,369	
Net assets	291,382	308,579	330,248	343,687	362,708	
Total assets	4,975,163	5,224,118	5,713,681	5,912,182	6,077,077	
Performance ratios						
Capital adequacy	%	15.5	16.9	16.6	16.1	15.5
Total asset growth	%	3.0	5.0	9.4	3.5	2.8
Net asset growth	%	2.3	5.9	7.0	4.1	5.5
After tax return on average net assets	%	11.1	9.9	8.5	9.4	9.0
Non-interest income/average total assets	%	0.45	0.28	0.27	0.24	0.23
Non-interest expense/average total assets	%	1.52	1.46	1.54	1.54	1.53
Non-interest expense/operating income	%	62.2	64.1	68.4	66.3	66.9
Bad debts expense/average loans	%	0.01	0.01	0.03	0.03	0.03
Interest margin	%	2.04	2.04	2.03	2.13	2.12

* includes profit from the sale of head office premises.



Chairman's Letter

Sustainable performance amid significant industry challenges made 2018-19 a very successful year for IMB.



95%
Member
satisfaction in 2019

I am pleased to deliver IMB Bank's 2018-2019 Annual Financial Report to members on behalf of the Board. The results for 2018-2019 demonstrate sustainable financial performance and show IMB Bank's ability to meet the significant challenges being faced by all banking and financial services organisations.

Profit grew incrementally from \$31.6 million at the previous year end to \$31.7 million in 2018-2019 and given the external context, the Board is very satisfied with maintaining profit at this level. Capital levels are being managed effectively so that IMB Bank is positioned to meet regulatory requirements and to undertake investment in initiatives that support IMB Bank's long-term competitive position.

The stability of IMB Bank's business performance gives the Board confidence that the Company is well equipped to respond to the ongoing regulatory changes and evolving community expectations that will affect banks and financial services organisations for the foreseeable future.

We welcome the initiatives led by financial services regulators over the past year, including those which seek to elevate the importance of governance, culture and accountability at all levels of an organisation. The Board takes seriously its obligation to assess and monitor the risk culture of the organisation, and in addition to considering a range of reports about risk, compliance and conduct-related matters, IMB Bank directors regularly

meet with employees of varying roles and responsibilities. Through personal interactions such as these, the Board is testing the culture of the organisation and assessing whether the information that is being received by the Board is reflected consistently throughout the bank.

The overwhelming insight that the Board has taken from these interactions is the passion that IMB Bank's people have for ensuring members receive superior service and good outcomes from their relationship with the organisation. As the financial services industry works to rebuild the trust of consumers, we know that it is critical for IMB Bank to ensure that acting in the best interests of our members is at the heart of our operations – as it has been for the past 139 years.

The Final Report from the Banking, Superannuation and Financial Services Royal Commission was released in February 2019. The Board sees the recommendations from the Final Report as an appropriate response to the serious issues the Royal Commission identified, particularly those relating to poor corporate behaviour and deliberate misconduct by some of the major banks and other financial services organisations.

IMB supports and will comply with any regulatory change that is introduced as a result of the recommendations from the Final Report, including those relating to financial products and the way they are offered to, and maintained, for our members. We are already improving

“The overwhelming insight is the passion that IMB Bank's people have for ensuring members receive superior service and good outcomes from their relationship with the organisation.”



IMB's internal processes and our products and services, for the benefit of our members, with ongoing investment in safe and secure banking options, greater levels of automation which reduce the possibility of errors and the expansion of our risk and compliance capabilities.

Together with our peers in the customer owned banking industry, we hope that the regulation that is forthcoming will recognise the value demonstrated by different banking models, including the customer ownership model, and seek to promote competition with the major banks rather than inhibit it.

At the same time as maintaining strong financial performance, we have made further progress on our vision to be NSW's Leading Mutual. The Board is delighted to have announced a proposed merger with Hunter United Employees' Credit Union, which, subject to receipt of all necessary regulatory approvals, will occur in early 2020. Through the merger with Hunter United, IMB Bank will welcome 9,000 members, and gain five branches, \$334 million in total assets and 35 employees with strong connections and knowledge of the Hunter region. IMB Bank established operations in Newcastle and the Central Coast in 2018 and by leveraging our joint investment, and Hunter United's physical presence and strong local experience, we look forward to deepening relationships with existing members and attracting new members in the Hunter region.

Together with the expansion of IMB Bank's Sydney presence and the merger with Hunter United, IMB Bank will have soon have administrative and technical operations in Wollongong, Sydney and Newcastle, providing our employees with expanded employment options and the ability for IMB to attract high-quality employees across a range of talent pools.

A highlight for the Board and all employees was the celebration of the 20th anniversary

of the IMB Bank Community Foundation in June 2019. Since 1999, the IMB Bank Community Foundation has contributed \$10 million to over 700 projects in communities where IMB Bank operates in the Illawarra, Southern Highlands, South Coast, Sydney, Victoria, and the ACT. It has been an honour to reflect on the partnerships IMB Bank has formed with people and organisations in the community who dedicate their time and effort to creating a better life for others.

IMB completed another successful off-market share buyback in June 2019 with 1.86 million shares bought back. This was the sixth buyback, bringing the total shares bought back to 16 million, representing 40% of the 40 million shares on issue prior to the commencement of the buyback program. The timing of future buybacks will be considered having regard to the capital required to support the strategic and operational requirements of the business.

The Board has declared a final dividend of 10.5 cents per share. In setting the level of dividend, the Board considered a range of matters such as previous announcements regarding IMB's Dividend Guideline, the capital treatment of the ordinary shares, the 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 dividend paid is in line with this guidance and represents a payout ratio of approximately 73.95% of shareholders' interest in contributed funding.

On behalf of the Board, I would like to thank the Chief Executive, Robert Ryan, the executive management team and all the staff at IMB for a very successful year.

NH Cornish AM
Chairman



12,183
New members
in 2018/19

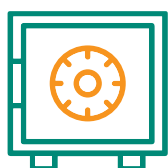
Above

IMB Chairman Noel Cornish, Board members Catherine Aston, Jan Swinhoe, Margaret Towers and Peter Fitzgerald, and CEO Robert Ryan launch the IMB Community Foundation 20th anniversary celebrations in June 2019.



Chief Executive's Review of Operations

As IMB Bank enters its 140th year of operation, the business remains financially strong and is well positioned for the future.



\$6.1b
Total assets

In an environment of unprecedented low interest rates and intense competition, IMB Bank has grown in members, balance sheet size and employees, while profits have been maintained and community support increased.

These results have been achieved across a highly productive year where a number of our key strategic initiatives were executed in line with our vision of being NSW's Leading Mutual bank.

A strong and secure financial position

Our financial performance was strong given the challenging market and competitive environment in which we operated.

Group operating profit after tax of \$31.7 million is slightly ahead of the previous year, and was supported by the maintenance of interest margin and a disciplined focus on operating expenses. IMB Bank's average interest margin for the year was 2.12%, reflecting close management of the balance sheet. The Group's capital adequacy ratio at 30 June was 15.5%.

IMB Bank's deposits have continued to increase, with year-on-year growth of \$273 million, or 5.5%, to \$5.3 billion, reflecting our competitive suite of deposit products.

Total assets grew by 2.8% to \$6.1 billion, supported by strong growth in IMB Bank's lending book to \$4.9 billion. Our residential loan portfolio grew by more than 7%, our personal loan portfolio by 9% and our commercial lending by over 12%, well above system growth in all three categories.

Despite this growth, IMB Bank's lending has not been driven by a relaxation of IMB Bank's stringent lending policies and these results are underpinned by robust lending policies, reflected in our bad debts expense and arrears

position, which continue to be well below the national averages.

Bad and doubtful debts expense was \$1.5 million, and although slightly higher than the previous year, this remains an excellent result reflecting the quality of IMB Bank's loan book across both the secured and unsecured loan portfolios.

Total expenses amounted to \$91.6 million for the year, an increase of 3.3% on the previous year. Non-interest expense as a proportion of average total assets for the Group remained constant at 1.5% and the ratio of non-interest expense to operating income for the Group increased slightly to 66.9%, up from 66.3% in the previous year. Management are pleased with these results in an environment where we have made significant investment in delivering on IMB Bank's strategic agenda.

Good progress on our strategic agenda

Geographic expansion

Supporting our Sydney growth strategy, IMB Bank opened a new branch and introduced a new mobile lending role in the fast growing Hills Shire of North Western Sydney. The open plan branch, located in the Rouse Hill Town Centre, reflects a modern design that will allow us to bring our unique and competitive retail and business banking propositions to the North West growth corridor of Sydney.

We have also expanded the offerings through our distribution network by introducing *Local Business Centres* where strategic branch locations are now able to conduct small business lending, with a number of lenders also trained in aged care finance solutions.

In July 2019 we announced our plans to merge with Hunter United Employees' Credit Union.

Both IMB Bank and Hunter United believe that the merger will provide benefits to members of both organisations and will provide a stronger banking alternative in the Hunter region.

Digital transformation

Our digital transformation continues with a clear focus on meeting increasing demands from our members to transact, interact and engage digitally with IMB Bank. We are using technology to provide consistent experiences across our channels, and using data to improve customer experience, empower staff, and optimise our operations.

Having been amongst the first banks in Australia to provide real-time payments (OSKO) on both our mobile app and in internet banking, we are pleased to have followed this up by delivering the full range of mobile payment options to members. Members can now use their Visa debit cards on ApplePay, Google Pay, Samsung

Pay, Fitbit Pay and Garmin Pay to make every day contactless “tap ‘n’ pay” purchases.

We have re-engineered our contact centre operations, moving to a leading cloud-based contact centre platform which provides improved security, a greater range of self-service options for members and enhanced reporting. This upgrade enables contact centre operations to be extended to our branch network, allowing our skilled branch staff to deliver excellent service and support to members who engage with us remotely.

Keeping our members safe online remains a key priority for IMB Bank. In response to increasing global cyber risks and fraud threats, we are now utilising a digital device intelligence monitoring system. This technology provides advanced risk detection and analysis capabilities during every mobile app and internet banking session conducted by our members. In the year



7.7%

**Increase in
total loans**

Below

Members of the IMB
Direct Team: Alexander,
Johanna, Xanie and Tim.



Chief Executive's Review of Operations

continued



51.3

Net promoter score

ahead, we will continue to invest in new fraud prevention technologies, including machine learning across all channels to detect and respond to fraud risk.

We are midway through a major transformation of our lending operations. We will soon launch a leading mortgage experience that will deliver secure, fast and compliant lending solutions for members. The new platform will deliver a 20-minute conditional loan approval for a new customer, and an even faster experience for existing members.

New head office

It is exciting to see the progress of the construction of our new head office located in the Wollongong CBD. The building is currently on track for completion in late 2020 and the project team is working to ensure a smooth transition as staff move to a new work environment. The new premises will facilitate more modern, collaborative and agile ways of working in an effort to drive faster response times and improved service outcomes for members.

Committed people delivering the right outcomes

Member satisfaction

IMB Bank prides itself on providing our members with competitive products, practical solutions and excellent service. This could not be achieved without the support and commitment of our people, whether they be in customer-facing roles or support functions.

It is our employees' unwavering focus on our members and meeting their needs that is reflected in our consistently high member satisfaction rating, which remains above 95%, and our increased Net Promoter Score which



moved from 38 in 2015 to an impressive 51 this year. This is a strong result and testament to the values which guide our interactions with all our stakeholders.

New senior management

Reflecting our strong commitment to achieve our strategic objectives and maintain the quality of our operations, the Executive management team has expanded. **Michael King** is the company's new Chief Risk Officer and **Rachael Heald** holds the new position of General Manager, People and Culture.

Michael has deep banking and financial services experience, and has held a number of senior risk management positions in major Australian financial institutions.

Rachael has broad human resources and change management experience in strategic HR roles, both in Australia and internationally.

“In an environment of unprecedented low interest rates and intense competition, IMB Bank has grown in members, balance sheet size and employees, while profits have been maintained and community support increased.”



Supporting our focus on digital transformation, a new Executive position of Chief Digital Officer was also introduced. **Nathan Campbell**, who was previously the Chief Risk Officer, moved into this role and is responsible for driving digital transformation across the business, with the aim of enhancing our products and services and providing an improved member experience.

Trainee program

Since IMB Bank introduced traineeships in 2005 we have helped 128 young people to further their qualifications. During the year, we welcomed a further eight new financial services trainees to a career at IMB Bank. We are proud that two of these trainees, Blake Ford and Anna Murphy, were recognised as winners in their respective categories at the Illawarra and South East NSW Regional Training Awards. With over 7,000 trainees across the region competing, this is a fabulous recognition of their hard work and dedication.

IMB Bank and the Royal Commission

IMB Bank was among all of the large Australian financial services entities that were invited to make a submission to the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*. IMB Bank was not required to give evidence in any of the Commissions hearings and there were no

findings specific to IMB Bank in either the Royal Commission's Interim Report or Final Report.

Despite there being no recommendations which specifically relate to IMB Bank, the contents of the report are relevant for all Australian financial institutions, and we continue to review our governance, risk and compliance frameworks to ensure that they are strong and that our conduct meets the expectations of our members and the broader community.

Our Board, management and staff remain deeply committed to delivering the highest standards of ethical conduct and ensuring a robust risk culture.

We remain committed to our communities

In our 140th year of operation, supporting the communities in which we operate remains a core value for IMB Bank.

IMB Bank Community Foundation 20 years

We established the IMB Bank Community Foundation in 1999 to help build and strengthen our local communities. Over the last 20 years, The IMB Bank Community Foundation has invested over \$10 million to support over 700 community projects. We are very proud of the projects IMB Bank has funded and each year we are impressed by



20%
**Increase in
number of
mobile app
sessions**

Above

The new branch at Rouse Hill is community-focused.

Chief Executive's Review of Operations continued



2,435
**Number of
students registered
for school banking**

the wonderful achievements of the volunteers striving to make our communities better.

In its 20th anniversary year, the IMB Bank Community Foundation pledged \$700,000 to worthwhile community groups. As part of this funding, the Foundation is supporting the Victor Chang Cardiac Research Institute in providing free heart health screening to help fight heart disease through their 50-stop public access Heart Health Check Tour across NSW. We are honoured to be able to support this initiative that will have life-changing results.

We were delighted to continue our partnerships with the Illawarra Business Chamber, Sunset Cinema and Football South Coast and to be a part of the activities they operate in our region. Supporting the presence of our new branch in Sydney's Hills Shire, we are also sponsoring the Hills Football Junior Competition for the 2019 season.

Our school banking program continues to expand with over 27 schools now operating and more than 2,400 students registered in the program which supports financial literacy and the importance of learning to save from a young age.

Looking forward to 2019-2020

We expect that the challenging market conditions currently being experienced will continue in the medium term. Interest rates are likely to decline further which will have an impact on profitability, and lending demand, although showing some improvement, will remain relatively subdued in the year ahead.

Our delivery of a range of strategic initiatives, including our new lending system, new head office and proposed merger with Hunter United Employees' Credit Union, will place increased pressure on costs in the short term, before providing significant benefits to IMB Bank and members when delivered.

Despite these conditions, we are strongly positioned to continue to grow and meet our members' needs. We will maintain our disciplined focus on financial management while continuing to focus on delivering a competitive alternative to the major banks to support further growth.

So much of our success to date is due to the hard work and commitment of our people, and I would like to thank IMB Bank's management and employees for their care and commitment to serving our members. I would also like to recognise IMB Bank's directors for their significant contribution and strong oversight of IMB Bank's strategy.

Finally, I thank our loyal and growing membership for your continued support and we look forward to continuing to serve your banking needs for many years to come.

RJ Ryan
Chief Executive



IN FOCUS: Our Capability **Building the Future**

In 2018/19, IMB laid the foundation for a new way of banking.

In March of 2019, IMB created a Transformation Hub at premises adjacent to our corporate head office in Wollongong. Its purpose is to transform both the customer's and team member's experience of IMB banking, using Agile methods of project management.

Recruiting team members from across the organisation, each with deep understanding of market and member requirements, the Transformation Hub is engaged in a two-fold campaign to revolutionise the way IMB does business. The first is to transform the loans process in a digital capacity, making assessments and approval processes faster and simpler for the member. The second is the digitisation of core branch and department processes. This will lead to greater levels of automation which reduce the possibility for errors and will deliver better outcomes for our members.

Both projects have achieved critical milestones and are on target to deploy in 2020.

“The Transformation Hub is engaged in a campaign to revolutionise the way IMB does business.”

Future proofing

IMB's Digital Transformation team are refining a leading online experience for our members.

IMB Digital Snapshot

Our 2018/19 snapshot demonstrates IMB's agility in creating flexible digital and mobile banking experiences for our members.



13.6m

Total digital banking sessions



9%

Month-on-month growth of digital wallets



4,444,723

Number of website sessions



12,000

Digital chat and messaging engagements



415,232

Number of real-time payment transactions (NPP)



\$213,325,634

Value of real-time payment transactions (NPP)

IN FOCUS: Our Technology

Digital Wallets


IMB is among the first banks to offer a full selection of Digital Wallets.

IMB Bank's 139-year history has been built within our communities, delivering financial solutions for the people of NSW and beyond. As the financial industry landscape changes so does our service to our members. A major component of our transformation over the 2018/19 financial year was the expansion of our digital and mobile banking offer.

In delivering innovations to our customers, 2018 was a strong year. IMB was the first Australian Bank to offer authenticated in-app messaging. Then, we were among the first to implement Osko® real-time payments, where members can transfer and receive funds in seconds via their mobile device using their mobile phone number or email address as a PayID. This new service has been warmly received by members with hundreds of PayIDs created each month.

In November 2018, we introduced Apple Pay as the first Digital Wallet to our customers well before many of our peers and before three major banks. This was quickly followed in February 2019 with the launch of other leading digital wallets including Google, Samsung, Fitbit and Garmin, enabling customers to pay via their mobile phone or watch, online and over the counter.

We've seen thousands of registrations since launch with growth averaging 9% every month and millions of dollars exchanged in real-time transactions.



“A major component of our transformation over the 2018/19 financial year was the expansion of our digital and mobile banking offer.

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 2019.



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 Chairman of the Capital and Securitisation Committee and is a member of the People and Culture Committee. Mr Cornish's previous roles include Deputy Chancellor of the University of Wollongong, National President Ai Group, Chief Executive of BlueScope Ltd's Australian and New Zealand businesses, President NorthstarBHP LLC in Ohio USA and Chairman of Hunter United Credit Union. He is currently Chairman of Snowy Hydro Ltd and is a director of Forests Corp NSW and UOW Global Enterprises. As well as being a director of IMB Ltd, Mr Cornish is also a director of all entities

wholly owned by IMB Ltd.



Catherine Ann Aston

B.EC. M. COMM TFASFA F FIN GAICD

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

also a Committee member of the Illawarra division of the AICD and is an advisory board member of Avanseus Holding Pte Ltd (Singapore). As well as being a director of IMB Ltd, Ms Aston is also a director of all entities wholly owned by IMB Ltd.



James Randolph Coleman

BA MBA GAICD

Mr Coleman is a career banker with extensive experience in risk management, commercial and corporate banking. Mr Coleman has been a non-executive director of IMB Ltd since 2012 and is a member of the Risk Committee and the Capital and Securitisation Committee. Mr Coleman was formerly Group Chief Credit Officer of Westpac Banking Corporation where he had previously held the roles of General Manager Risk Management, General Manager Corporate Finance and General Manager Corporate Banking in the Westpac Institutional Bank. Mr Coleman has previously been a director of Delhi Petroleum and has acted as an expert witness in relation to credit and banking related matters. As well as being a director of IMB Ltd, Mr

Coleman is also a director of all entities wholly owned by IMB Ltd.



Peter John Fitzgerald

B.COM FCA GAICD

Mr Fitzgerald has been a non-executive director of IMB since 2017. Mr Fitzgerald is a Chartered Accountant whose experience was gained as a tax and audit partner of KPMG, where he served as Managing Partner of the Wollongong office for over 20 years. Throughout his career he has been responsible for providing business advisory and taxation services to clients, with industry specialisations in professional services, aged care, property and construction and manufacturing. Mr Fitzgerald is a member of the IMB Audit Committee, 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.



Gai Marie McGrath

BA LLB (HONS) LLM (DISTINCTION) GAICD

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



Jan Margaret Swinhoe

BSC (HONS) AIAA GAICD

Ms Swinhoe has over 30 years' experience in the financial services sector in a career that spans corporate superannuation, derivatives trading, capital markets origination and institutional relationship banking. Ms Swinhoe has been a non-executive director of IMB Ltd since October 2014. Ms Swinhoe is 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 Suncorp Portfolio Services Limited, 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. As well as being a director of IMB Ltd, Ms Swinhoe is also a director of all entities wholly owned by IMB Ltd.



Margaret Elizabeth Towers

CA GAICD

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



“I’ve been a member with IMB since my first job and have always loved the personal service.



IN FOCUS: Our Members

“We wouldn’t be in our home without IMB”

First home buyers Megan Pracy and Matthew Butler worked with IMB to save their deposit, navigate their entitlements and move into their own home.

Last year, Camden newlyweds Megan Pracy and Matthew Butler were preparing for their honeymoon, thanks to a gift from their parents. Everything was in place and the grandparents were teed up to care for little Valetta, then aged two. Then, life intervened.

“A house which belonged to a friend came onto the market at a great price and we thought, ‘Okay, there goes the honeymoon!’” laughs Megan. “I’ve been a member with IMB since my first job at Coles and have always loved the personal service. So, I called Lauren Oakes.”

Then Camden Branch Manager, Lauren had been involved in the Butler-Pracy’s preparation over the previous two years, setting up term deposits, helping them formulate a budget program to save their deposit, and steering them through NSW First Homebuyer’s Grant, Stamp Duty exemptions and mortgage insurance (as they are both on modest incomes). It worked; the pair were armed with a greater than 20% deposit when the contracts were produced.

It was a level of service that was light years ahead of what they had experienced at the Commonwealth Bank, where Matt had been a long-time customer. “All our dealings there felt like they were business transactions,” says Megan. “Money in, money out.”

“There’s always a line-up,” Matt adds with a shake of the head. “You’re always waiting. They try to pass you off onto a computer, and they charged me monthly fees for absolutely nothing.”

“At IMB, everyone knows us,” continues Megan. “They are terrific with Valetta and have always been incredibly supportive. Now that we have the IMB app, we go into the branch less, but all the staff still make our visits there easy and friendly. We wouldn’t be in our home without them.”



Our Community

Supporting the communities in which we operate is a vital pillar of our culture proposition and has been since IMB was established in 1880.

IMB provides funding to a variety of charity, community and sporting organisations, and more formally supports dozens of grassroots projects through the IMB Bank Community Foundations (see page 22).

Sponsorships

We continued to support many events in 2018/19, including the IMB Sunset Cinema in the Illawarra, Canberra and North Sydney and the IMB Bank Cook Community Classic in the Sutherland Shire, a 12-year strong health and community initiative of the Prime Minister of Australia, The Hon Scott Morrison MP.

IMB also continued its support of Football South Coast as their official Community Partner. The Moment of the Week competition, where we celebrate those who love being a part of football each week, continues to be a popular and effective social program. At IMB Bank, we believe that supporting grassroots sport is crucial for the development of our children: nurturing leadership skills, encouraging health and fitness, and promoting a sense of community spirit.

As part of our strategic activity around the new branch in Rouse Hill, we sponsored the 2019 season of the Hills Shire Football Junior Competition. Young players are celebrated through our Superstar of the Week social campaign and IMB was a welcome inclusion to the Gala Day.

Our passion for supporting business excellence expanded in 2018/19. On top of existing naming rights sponsorship of the IBC Illawarra Business Awards and Illawarra Women in Business Awards, we also became category sponsors for the Shoalhaven Business Awards and Eurobodalla Business Awards.

As an organisation with a Board gender equation that is more than 50% female, we continue to look for sponsorship opportunities for professional women. In 2018/19, IMB combined our sponsorship of Illawarra Women in Business with the first-time support of Thriving Women, a network for like-minded women, whether in business or building a profession.



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

- Cook Community Classic
- Eurobodalla Business Awards
- Football South Coast
- Frock Up for the Farmers
- Hills Shire Football
- Illawarra Business Awards
- Illawarra Hawks
- International Women's Day Illawarra
- Jeans for Genes
- Shoalhaven Business Awards
- Sunset Cinema
- Sutherland 2 Surf
- Thriving Women
- UOW: O-Week and O-Day

Educating the Next Generation

Sound financial literacy is the platform that will enable the next generation to make financial

decisions that will help them improve their lives. This year we were pleased to extend our range of financial literacy initiatives to support young people in our communities.

IMB School Banking

IMB's School Banking Program continues to grow with 27 primary schools across the Illawarra, Sutherland Shire, South Coast, Queanbeyan and Western Sydney. That's over 2,500 students learning positive saving behaviours early in life. IMB's School Banking Program enjoys complementary support from our sporting sponsorships.

The Money Tree by IMB Bank

The Money Tree by IMB Bank is a financial literacy hub launched in 2017 to provide information and resources for teenagers. Designed in alignment with financial literacy curricula, The Money Tree grew in 2019 by 36% year-on-year.

Above

1. The Cook Community Classic Swim event.
2. Football South Coast's 2018 Grand Final day.
3. The Illawarra Hawks' Cedric Jackson.
4. IMB's Terry Widdicombe (left) presents the Shoalhaven Business Award to Nowra Farmers Market.
5. IMB in the winner's circle at the Cook Community Classic.
6. IMB's Buzzy at the 2019 Hills Football Gala Day.

20 Years of Supporting Your Community

20
Celebrating
20 years

imb
BANK
Community
Foundation

The IMB Bank Community Foundations are unique in their support of diverse and truly grassroots projects in our communities.



700+

Grants funded over
the last 20 years

2019 marks the 20th anniversary of the IMB Bank Community Foundations, which includes the IMB Bank Shire Community Foundation. Since 1999, the ICF has invested over \$10 million to support more than 700 community projects. We're very proud of the people and projects we've supported and each year we marvel at the wonderful achievements of our funding recipients.

IMB Bank established the IMB Bank Community Foundation in 1999 to help build and strengthen our local communities. The Foundation formalised the support IMB has always provided in the communities in which we operate, creating a brand identity that is an extension of IMB's essential values: authenticity, integrity, practical solutions. We believe that sponsoring projects that foster inclusion and cohesion, encourage volunteering and create sustainable outcomes enables the communities around us to thrive. We see firsthand the difference the projects we fund make to many people.

The 20th anniversary was celebrated in June, over three launches in key centres of IMB's community footprint: the National Gallery of Australia in Canberra; the Wollongong Art Gallery in the Illawarra; and the Wanda Surf Life Saving Club in the Sutherland Shire. These were moving and joyful events, featuring key speakers from the community and the stories of the recipients, told in their own words.

The IMB Bank Community Foundation and IMB Bank Shire Community Foundations would like to extend a sincere thank you to all the people and organisations we have worked with over the last 20 years. Your ideas amaze us, your passion and dedication inspire us. The results you work so hard to achieve are remarkable and have a significant, lasting impact on our communities.

Thank you for allowing the Foundation to be a part of your efforts and for helping us to build stronger, happier and more resilient communities.



IMB Bank Community Foundation 2019 Recipients

Aboriginal Literacy Foundation

Indigenous Tutorial Program Southern NSW

Albion Park Youth and Community Care

Free Before School Brekky Club

Bowral Men's Shed

Drill Press

Canberra Model Railway Club

Youth Mastering Digital Technology

Canberra PCYC

PCYC Street Support Trailer

CareSouth

Health Hub

Crossroads Rural Fire Brigade

Firefighting Equipment

educAID Australia

Mental Health First Aid Course

Family Services Illawarra

Securing Women & Children's Safety Project

Farmborough Heights Rural Fire Brigade

Thermal Imaging Camera

Giralang/Kaleen Men's Shed

First Aid Officers

Girl Guides Queanbeyan

High Ropes for Girl Guides

Girls on Bikes

Girls on Bikes ACT

headspace

'Save a Mate' Dual Peer Mentoring Program

Illawarra Flame Tree Project

The Flame Tree Project

Illawarra Multicultural Services

IMS Swim Instructor

Kind Hearts Illawarra

Kind Hearts Illawarra Outreach

Lions Club of Strzelecki

Cows Create Careers

Liverpool Women's Health Centre

Women's Clinic Upgrade

Merimbula-Imlay Historical Society

Presentation Banner

Below

1. 2019 Recipients at the Wollongong launch.

2. Aboriginal Literacy Foundation expands into Southern NSW.

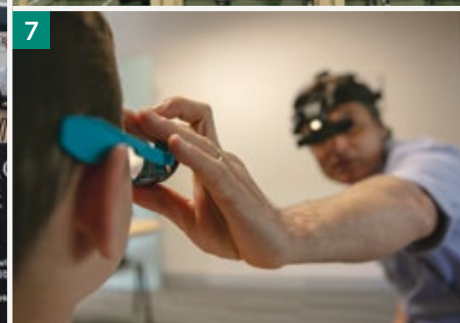
3. Albion Park Youth and Community Care provides hundreds of kids with free brekky.

4. Bowral Men's Shed creates community treasures.

5. PCYC Canberra Support Trailer reaches out to the ACT's youth.

6. Canberra Model Railway Club working with the ACT's young people.

7. CareSouth providing dental, optical and hearing checks (and more).



20 Years of Supporting Your Community continued



\$10m
plus in grants

Milton-Ulladulla Youth Driver Education Program

Youth Driver Education

MKUD Makedonski Biseri

Traditional Dance Uniforms

Mt Brown Public School P & C Association

Musical Sensory Playground

My Coaching My Future

My Coaching My Future

Neighbourhood Watch Australasia

Building Social Cohesion

Older Women's Network NSW

Let's Loosen Up and Laugh

Our Community Place

Community Food Share

OzGREEN – Global Rivers Environmental Education Network

Youth Leading the World

Pambula Wetlands and Heritage Project

Cultural Education for Panboola's volunteers

Port Kembla Youth Project

PK Leap

Rotary Club of Camden

How to Help a Mate!

The Rotary Club of Gerringong Sunrise

Dancing for People with Dementia





The Rotary Club of Goulburn

U Turn the Wheel

The Rotary Club of Kiama

Kiama High Mental Health Intervention

The Rotary Club of Moss Vale

U Turn the Wheel

The Rotary Club of West Wollongong

Rotary Youth Driver Awareness Illawarra

Royal Far West

Healthy Kids Bus Stop

SCARF

Let's LEAD

St John Ambulance Australia

ACT Patient Transport at Events

St John Ambulance Australia NSW

First Aid in Schools

Sustainable Agriculture and Gardeners Eurobodalla

SAGE Veggies for All 2019

Sydney Children's Hospitals Foundation

Engaging Cardiac Kids Through Play

Teensafe

TeenSafe Safe Driver Training

Thirroul Surf Life Saving Club

Thirroul ATV Replacement

Tomerong School of Arts

Accessible Toilet

Top Blokes Foundation

Stepping Up Mentoring

Volunteering Wingecarribee

Teeniors

Wollondilly Macarthur Mountain Bike Club

Australian Botanic Garden Mountain Bike Trail Restoration

Wollongong Emergency Family Housing

Our place

Wollongong West Street Centre

Solid Ground

Left

1. Crossroads Rural Fire Brigade.

2. Tools of the trade for educAID.

3. Lions Club of Strzelecki's Cows Create Careers program.

4. The Illawarra Flame Tree project gets kids making music.

5. Rope work with Girl Guides Queanbeyan.

6. The team at the Liverpool Women's Health Centre.

7. Girls on Bikes gives refugee women mobility.

8. headspace equips young people with the skills to mentor their peers.

Above

9. Neighbourhood Watch Australia's Anne Collishaw showcasing new collateral.

10. Older Women's Network classes in action.

11. Our Community Place Food & Info Hub offers free laundry.

12. OzGreen's YOUTH LEADiNG The World program, in the wild.

13. Bush regeneration at the Pambula Wetlands and Heritage Project.



Community Heroes

To celebrate our anniversary, IMB Bank Community Foundation acknowledged 20 Community Heroes, who continue to inspire us.

Over the last 20 years, we've had the privilege of working with many incredible community volunteers – people whose tireless efforts to support others and persistence to deliver meaningful project outcomes have made a profound difference.

In the Foundation's 20th year, we're delighted to recognise 20 IMB Bank Community Foundation heroes, and their remarkable effort and achievements.

- Melissa Abu-Gazaleh, Top Blokes Foundation
- Janet Andrews, Wollongong Conservatorium of Music
- Ann-Marie Balliana, Football South Coast
- Jayne Baric, Victor Chang Cardiac Research Institute (see Our Hero, right)
- Louise Farroway, Project Youth

- Rima Elhage, NSW Police Force/ Wollongong District police
- Nicole Jervis, Cancer Patients Foundation
- Kathryn Maxwell, SAGE
- Glenn Moore, Science Space
- Jess Moore, Our Community Project
- Sally O'Neill, Goulburn Regional Art Gallery
- Trevor Phyllis, Rotary Club of Kiama
- Sandra Pires, Why Documentaries
- Ian Radford, Rotary Club of Goulburn
- Don Rothnie, Menai Men's Shed
- Jackie Rousseau, Royal Life Saving Australia
- Jeff Thompson, LEAD Development
- Dean & Annette Turner, The Crossing Land Education Centre
- Rebecca Whitford, Youth Solutions
- Danielle Woolage, CareSouth

Above

1. The Crossing's Annette Turner.

2. The Community Heroes at the Wollongong launch. From left: Rima Elhage, Ann-Marie Balliana, Melissa Abu-Gazaleh, Trevor Phyllis, Janet Andrews, Kathryn Maxwell, Jess Moore, Jayne Baric, Danielle Woolage, IMB Community Foundation Chair Jan Swinhoe.

3. U Turn The Wheel's Ian Radford.

IN FOCUS: Our Hero

From the Heart

Jayne Baric, of the Victor Chang Cardiac Research Institute, exemplifies the IMB Bank Community Foundation spirit. She is one of our 20 Community Heroes in 2019.

One in four heart attacks occur with no prior symptoms. It's the kind of ratio that contributes to ensuring heart disease is Australia's biggest killer. Thus, it's no surprise that the Victor Chang Cardiac Research Institute's Heart Health Check Tour, a 50-stop roadshow through regional NSW, has already saved lives. In a pop-up clinic, nurses supply free 10-minute checks of three modifiable risk factors for heart disease. The Tour's architect is Jayne Baric, the Strategic Partnerships Manager of the Foundation.

"The IMB Bank Community Foundation's contribution is critical," says Ms Baric. "Without it, we cannot do what we do. We don't run the Heart Health Check booth on donations, we don't receive government funding – the funding we receive from the Foundation keeps us on the road and means we can offer free heart health checks to communities. We have to date tested 76,000 people and 25,000 – or one in three – have one of the three risk factors. If those people make a lifestyle change and don't develop heart disease, then the program has achieved its goals."

"The Tour is an incredible service to the people of NSW," says IMB CEO Robert Ryan, "we are so proud to fund the work of people like Jayne. The difference they make in the community is material, and very welcome."



“The Foundation’s contribution is critical. Without it, we cannot do what we do.”

IN FOCUS: Our Growth

Community Banking

IMB Rouse Hill expands into Sydney's North West, a huge market for families, school banking and first homebuyers.

Built in 2007, Rouse Hill Town Centre is a modern market town comprised of four quarters, each with a mall and paved retail streetscape. Beyond the shops, restaurants and cinema are family spaces, the Vinegar Hill Library and Northwest Community College. The design makes the precinct a cultural and civic centre of the Hills Shire. The new Metro rail line, which became operational in April 2019, connects the Town Centre to the greater Sydney rail network.

These factors all make for compelling rationale for an IMB branch opening. In a rapidly developing area, with a growing population, IMB's brand proposition is a genuine breath of fresh air.

Located in the heart of the Town Centre, the open-plan layout of the branch is welcoming, while astute recruitment of experienced professionals from within the area ensures that IMB's 48th branch is an authentic and practical solutions-based banking hub.

The branch network's visibility and growth are two key signifiers of permanency in an industry which fields dozens of online competitors. The combination of bricks-and-mortar and transformative digital innovation will continue to deliver growth in 2019-20.

The IMB Rouse Hill Team: Mira, Nermin, Janice and Emily.



“IMB Rouse Hill is an authentic and practical solutions-based banking hub.”

Our People

Continued investment in training, people and culture is delivering a more efficient and better experience for our members.



128
Trainees since
2005

We deliver on our promise to our members through our people, built on a culture of doing the right thing by our members, our people and our stakeholders. We operate with integrity and respect, ensuring high levels of performance, with a commitment to effective risk management and safety. We work together to find solutions and build sustainable success.

Our People Strategy is focused on developing the capabilities needed to support our growth in new markets and segments while preserving our strengths. This requires adaptive leaders who can lead our diverse workforce, delivering a great employee experience. As our business becomes more agile and embraces digital technologies, supporting our people to utilise new ways of working enables them to collaborate and problem-solve faster – delivering a better experience to our members.

We source talent in the communities we operate in. We look for people who share our passion for members and our community, and are committed to making a difference through the delivery of simple, authentic, connected and valued services.

We hired 113 new people to IMB during the year, across all disciplines within our business, providing career opportunities across our communities. This year we appointed a new General Manager People & Culture, Rachael Heald, who joined our Executive to accelerate the delivery of our People & Culture Strategy.

Developing our people

Ensuring our people have the skills and knowledge needed to assist and create meaningful experiences for our members is a key focus of our learning and development plan. We understand our responsibilities to our members and the communities in which we operate, and as such we provided more than 20,000 hours of training to our people to ensure they have the knowledge they need. This is a 23% increase in training hours from the previous year.

We also recognise the need to develop future skills to empower us to problem-solve and innovate. As an example, developing Human-centred Design Thinking skills has enabled us to look at how we deliver services with the end customer in mind. This year we have also embraced Agile Program Methodology in the development of our digital loans products, training the complete project team in how Agile works. Coupled with our continuing investment in LEAN, these approaches to development and problem solving enable us to innovate faster and deliver services to members that are simple and authentic.

Growing talent

We continue to support our Traineeship and Cadetship programs, along with Tertiary Education support to develop and grow talent in our business. This year we welcomed eight new

Gender diversity:	2018 %	2019 %
% Workforce female	72.8	74.2
Proportion of promotions to women	74.7	80.0
Proportion of promotions to manager roles	83.3	50.0
Proportion of all management positions	55.8	57.4
Proportion of senior management positions	10.0	34.4

Our People continued

Trainees, including our first Indigenous Trainee, to gain valuable work experience and knowledge across our business.

Two of our Trainees were recently recognised at the NSW Department of Industry Illawarra and South East NSW Regional Training Awards.

Anna Murphy — Finalist in the Trainee of the Year Awards and winner of the Certificate III in Business.

Blake Ford — Finalist in the Trainee of the Year Awards and winner of the Certificate III in Information Technology.

This year we also supported two of our emerging leaders to attend the COBA Emerging Leaders program — Sasha Heddington and Tim Pattison were able to network and learn from others in our industry at the Emerging Leaders forum in Melbourne.

Health and safety

IMB continues to strive towards the goal of Zero Harm, by promoting a culture of safety and wellbeing, where health and safety is the responsibility of all staff and is central to how we operate. The health and safety of our people is paramount and we have robust risk management programs and systems in place to support our staff, contractors and visitors.

Our focus is increasingly on the wellbeing of our staff, with a particular focus on mental health in the workplace and understanding how

to support our people in times of illness. We provide all our staff and their families access to our Employee Assistance Program (EAP) to assist them when needed.

Diversity

IMB is committed to building an inclusive culture which recognises and values the uniqueness of every employee. In this past year we delivered two important policies in support of our diversity and inclusion strategy.

Paid Parental Leave

Paid Parental Leave is an important policy to support both women and men in balancing their work and family obligations. As a modern workplace, we recognise the value in supporting our staff when they have children. Our new policy provides 12 weeks' paid parental leave for the primary carer and 2 weeks' paid parental leave for the secondary carer in addition to stay-in-touch programs whilst on leave, to assist in reintegration upon their return.

Family violence

Another important area is our support for employees experiencing domestic or family violence, or who need to care for family members impacted by domestic or family violence. These are sensitive situations, and we recognise that these are times when employees need to focus on their family and their safety. Employees have access to both paid and unpaid leave in these situations, as well as our EAP services.

Below

1. Blake Ford and Anna Murphy at the 2019 NSW Department of Industry Training Awards.

2. Naomi Ashton, Chief Executive Award-winner for 2018.

3. Jessica Flores-Bellamy is awarded the IMB Outstanding Service Award at the 2018 Night of Excellence.



8

Trainees in 2019



23%

**Increase in
training hours
per employee**

Recognition

Our staff are recognised through formal awards in which staff are nominated and recognised by peers or IMB members. These awards aim to reward high performance, outstanding member service and actions which reflect our organisational values.

Chief Executive Award

Naomi Ashton, Business Project Analyst, Banking Services, was celebrated as the winner of the 2017-2018 Chief Executive award.

Naomi brings a passion for member service and a continuous improvement mindset to her work. Naomi has worked on many key projects including the SCU merger integration and the launch of the New Payment Platform services for IMB members. During this period, Naomi worked countless additional hours to ensure that project deadlines were met; at the same time assisting the Banking Services team with their day-to-day workload. As a young leader in our business, we congratulate Naomi on her ongoing progression and development.

IMB Outstanding Service Award

The IMB Outstanding Service Award recognises those staff members who consistently provide excellent service to external or internal customers of IMB.

Jessica Flores-Bellamy — Senior Customer Service Representative, Thirroul Branch.

Jessica has been recognised for her commitment to IMB and desire to assist IMB's members, which has been displayed consistently throughout the year. This consistency is reflected with Jessica receiving numerous compliments from members on her helpfulness, professionalism, and for always looking for solutions that are good for our members and for IMB. In support of her colleagues, Jessica has provided leadership to new employees around procedural training and excellence in member service, while also assisting with weekend rosters at short notice.

Outstanding Achievements Awards

IMB also recognised the following staff for their outstanding achievements in the below categories:

- Lender of the Year — Marilyn Edwards, Belconnen Branch
- Sales Team of the Year — Dapto Branch (for the 3rd consecutive year)
- Sales Person of the Year — Renee Gilkes, Goulburn Branch
- IMB Financial Planning Referrer of the Year award — Robyn Middlemiss, Camden Branch
- IMB Business Banking Referrer of the Year award — Naina Mistry, Thirroul Branch
- Divisional Recognition Awards — Erin Cartwright, Product Development and Tessa Burnside, Legal Services.





“The traineeship program’s investment really provided the right start, in the right industry for me.



IN FOCUS: Our Team

Homegrown Leader

IMB's Trainee program creates valued team members and leaders, like Jodi Crewdson, Operations Manager Direct & Digital.

Since 2005, the IMB Bank Trainee Program has been a preferred entry to employment for young people across NSW. From banking to information technology, marketing to member services and more, IMB has trained 128 employees across all disciplines within the business. Many have continued noteworthy careers at IMB and beyond, the product of a mutual bank with a passion for community engagement and talent development.

Directly after finishing high school, Jodi Crewdson was a graduate of the first trainee group in 2005. Now 32, the Operations Manager Direct & Digital is responsible for the sales and service outcomes of IMB Direct – the call centre and online customer portal. Based at the IMB Direct facility in Fairy Meadow, Ms Crewdson leads 42 team members across four teams that field account, product and system queries, complaints, and loan applications from both IMB's 200,000-plus members and new customers, seven days a week.

"I began my traineeship right here in IMB Direct," says Ms Crewdson, "and worked through all of Direct's departments: in-bound, admin, personal loans, home loans, member retention and third party brokering. I have spoken to thousands of members and been fortunate to create many more. The traineeship program's investment really provided the right start, in the right industry for me."

Jodi's career has been fostered at each stage of development, an example of IMB's in-house talent development. She now holds numerous certificates, including a Diploma of Frontline Management, and is a star of IMB's Future Leaders program. Her achievements have included the design and implementation of IMB's personal loan re-engineering and the newly installed Amazon Web Services telephone platform, which improves the service experience for both staff member and customer.

"Happy team, happy members," is how Jodi sums up the central KPI of her job description. "Balancing a fast-paced environment with members' needs has its challenges, especially as the market is so dynamic," she says.

"But I love seeing our team deliver wins, big and small. The combination of expertise and the processes we continue to refine make a real difference to our members."

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 2019 and the auditor's report thereon.

Directors

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

- Noel Harold Cornish AM
- Catherine Ann Aston
- James Randolph Coleman
- Peter John Fitzgerald
- Gai Marie McGrath
- Jan Margaret Swinhoe
- Margaret Elizabeth Towers

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 16 to 17 of this report.

At the annual general meeting of the Company on 23 October 2019, Mr NH Cornish, Ms GM McGrath and Ms CA Aston will retire in accordance with the constitution of the Company and, being eligible, offer themselves for re-appointment.

Company Secretary

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

Principal activities

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

There has been no significant change in the nature of these activities during the year ended 30 June 2019.

Operating and financial review

Consolidated profit after tax for the year attributable to members was \$31.7 million (2018: \$31.6 million), an increase of \$0.1 million or 0.4% on 2018.

Total deposits increased to \$5,266 million, up by \$273 million or 5.5% on the previous year. Securitised loan funding decreased by \$82 million or 20.2% to \$324 million.

Loan approvals increased by \$22 million or 1.8% to \$1,261 million (2018: \$1,239 million). Total loans and

advances to customers increased by 7.7% or \$354 million to \$4,924 million.

Net interest income for the year was \$125.0 million, up \$3.6 million, or 3.0% on the previous year. This increase was predominantly due to an increase in average earning assets.

Impairment losses were \$1.5 million, \$0.3 million higher than the previous year. This increase was due to an increase in the specific provision for impaired loans.

Non-interest income for the year decreased by \$0.2 million, or 1.4%, to \$13.6 million, mainly due to lower fee and commission income.

Non-interest expense for the year increased by \$2.9 million, or 3.3%, to \$91.6 million (2018: \$89.0 million). This was due to an increase in personnel and marketing expenses, and occupancy and data processing costs.

The non-interest expense to operating income ratio increased from 66.3% in 2018 to 66.9% in 2019, predominantly due to the cost of implementing the digital strategy.

Dividends

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

- a final ordinary dividend of \$0.10 per share amounting to \$2.597 million franked to 100% at a tax rate of 30%, declared on 28 August 2018, in respect of the year ended 30 June 2018, paid on 4 September 2018.
- an interim dividend of \$0.095 per share amounting to \$2.467 million franked to 100% at a tax rate of 30%, declared on 30 January 2019, in respect of the year ended 30 June 2018, paid on 27 February 2019; and
- a final ordinary dividend of \$0.105 per share amounting to \$2.532 million franked to 100% at a tax rate of 30%, declared on 26 August 2019, in respect of the year ended 30 June 2019, payable at the close of trade on 3 September 2019.

Total dividends paid or declared in respect of the year ended 30 June 2019 were \$0.20 per share (2018: dividend of \$0.20) amounting to \$4.999 million (2018: \$5.194 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

On 8 July 2019 the Company announced plans to merge with Hunter United Employees' Credit Union Ltd (Hunter United). The merger is to be undertaken by way of a voluntary transfer of the business of Hunter United to the Company in accordance with legislation administered by APRA. Under the merger, all members of Hunter United on the date of the transfer will become members of the Company.

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

- (i) The operations of the Group;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Group,

in the financial years subsequent to this financial year.

State of affairs

Details of any significant changes in the state of affairs of the Group are disclosed in the Chairman's Letter and Chief Executive's Review of Operations on pages 6 to 12 of the annual report.

Directors' interests

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

Director	Holding at 27 August 2019
Mr NH Cornish	2,000
Ms CA Aston	–
Mr JR Coleman	2,000
Mr PJ Fitzgerald	2,000
Ms GM McGrath	–
Ms JM Swinhoe	–
Ms ME Towers	–

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.

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.

Environmental regulation

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.

Directors' Report

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 2019 and the number of meetings attended by each director.

	IMB Ltd		ACN 003 207 841 Pty Ltd		ACN 132 157 192 Pty 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	Attended	Eligible to attend	Attended	Eligible to attend
Mr NH Cornish	8	8	2	2	2	2	2	2	2	2	2	2	1	1
Ms CA Aston	8	8	2	2	2	2	2	2	2	2	2	2	1	1
Mr JR Coleman	8	8	2	2	2	2	2	2	2	2	2	2	1	1
Mr PJ Fitzgerald	8	8	2	2	2	2	2	2	2	2	2	2	1	1
Ms GM McGrath	8	8	2	2	2	2	2	2	2	2	2	2	1	1
Ms JM Swinhoe	7	8	1	2	1	2	1	2	1	2	1	2	–	1
Ms ME Towers	8	8	2	2	2	2	2	2	2	2	2	2	1	1

The following table sets out the number of committee meetings of the Company's directors held during the year ended 30 June 2019 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	–	–	3*	–	2*	–	5	5	–	–	3	3
Ms CA Aston	–	–	4	4	2*	–	5	5	–	–	–	–
Mr JR Coleman	–	–	2*	–	4	4	2*	–	–	–	3	3
Mr PJ Fitzgerald	–	–	4	4	4*	–	3*	–	5	5	3	3
Ms GM McGrath	4	4	2*	–	4	4	5	5	–	–	3	3
Ms JM Swinhoe	–	–	1*	–	4	4	4	5	5	5	–	–
Ms ME Towers	4	4	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. Mr JR Coleman was appointed to fill a vacancy arising on the People and Culture Committee for the April meeting.

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-us-corporate-governance.html

APS 330 Capital instruments disclosure

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

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

The lead auditor's independence declaration is set out on page 38 and forms part of the directors' report for the financial year ended 30 June 2019.

Rounding of amounts

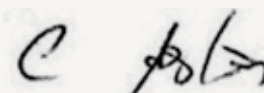
The Company is of a kind referred to in ASIC Instrument 2016/191 dated 30 June 2016 and in accordance with that Class Order, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Wollongong this 27th day of August 2019

Signed in accordance with a resolution of the directors:



NH Cornish
Chairman



CA Aston
Director



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 for the financial year ended 30 June 2019 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

Dated at Wollongong this 27th day of August 2019

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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Financial Statements

Statements of Profit or Loss

For the year ended 30 June 2019

	Note	Consolidated		Company	
		2019 ⁽¹⁾ \$'000	2018 \$'000	2019 ⁽¹⁾ \$'000	2018 \$'000
Interest revenue calculated using the effective interest method	2	242,279	231,874	259,087	246,297
Interest expense	2	(117,327)	(110,529)	(134,135)	(124,953)
Net interest income		124,952	121,345	124,952	121,344
Impairment losses on financial instruments	2	(1,501)	(1,235)	(1,501)	(954)
Net interest income after impairment losses		123,451	120,110	123,451	120,390
Fee and commission income	2	12,948	13,288	11,776	12,088
Fee and commission expense	2	(289)	(285)	(289)	(285)
Net fee and commission income		12,659	13,003	11,487	11,803
Profit from sale of property, plant and equipment	2	89	77	89	77
Other income	2	825	720	551	449
Net operating income		137,024	133,910	135,578	132,719
Operating expenses	3	(91,623)	(88,726)	(90,560)	(87,686)
Profit before tax		45,401	45,184	45,018	45,033
Income tax expense	4	(13,669)	(13,623)	(13,556)	(13,445)
Profit for the year attributable to members of the Company		31,732	31,561	31,462	31,588

The statements of profit or loss are to be read in conjunction with the notes to the financial statements set out on pages 46 to 105.

(1) The June 2019 financial statements reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) on 1 July 2018. As permitted by AASB 9, the Group and the Company have not restated the comparative financial reporting period. Refer to Note 1(c) for the impact from the initial adoption of AASB 9.

Statements of Comprehensive Income

For the year ended 30 June 2019

	Consolidated		Company	
	2019 ⁽¹⁾ \$'000	2018 \$'000	2019 ⁽¹⁾ \$'000	2018 \$'000
Profit for the year	31,732	31,561	31,462	31,588
Other comprehensive (expense)/income				
Items that will never be reclassified to profit or loss:				
Remeasurement of defined benefit liability	(293)	280	(293)	280
Net change in fair value of other financial asset at FVOCI	214	–	214	–
<i>Total items that will never be reclassified to profit or loss</i>	(79)	280	(79)	280
Items that are or may be reclassified subsequently to profit or loss:				
Net change in fair value of investment debt securities at FVOCI	1,081	(1,235)	1,081	(1,235)
Net change in fair value of cash flow hedges	–	25	–	25
Net change in fair value of investment debt securities at FVOCI transferred to profit or loss	(937)	(98)	(937)	(98)
<i>Total items that may be reclassified subsequently to profit or loss</i>	144	(1,308)	144	(1,308)
Total other comprehensive income/(expense) for the year, net of income tax	65	(1,028)	65	(1,028)
Total comprehensive income for the year	31,797	30,533	31,527	30,560

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 46 to 105.

(1) The June 2019 financial statements reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) on 1 July 2018. As permitted by AASB 9, the Group and the Company have not restated the comparative financial reporting period. Refer to Note 1(c) for the impact from the initial adoption of AASB 9.

Financial Statements

Statements of Financial Position

As at 30 June 2019

	Note	Consolidated		Company	
		2019 ⁽¹⁾ \$'000	2018 ⁽²⁾ \$'000	2019 ⁽¹⁾ \$'000	2018 ⁽²⁾ \$'000
ASSETS					
Cash and cash equivalents ⁽²⁾	25	96,306	103,761	62,863	71,324
Investment debt securities	6	822,464	959,712	1,580,370	1,467,487
Loans and advances to ADIs ⁽²⁾	7	164,440	235,460	164,440	235,460
Loans and advances to customers	8	4,924,283	4,569,669	4,924,283	4,569,669
Other financial assets	9	805	505	2,564	2,264
Property, plant and equipment	11	30,216	12,366	30,127	12,250
Intangible assets	12	2,281	1,000	2,281	1,000
Net deferred tax assets	4	3,744	3,749	3,713	3,723
Other assets	13	32,538	25,960	58,552	42,499
Total assets		6,077,077	5,912,182	6,829,193	6,405,676
LIABILITIES					
Trade and other payables	14	40,523	40,766	33,037	25,254
Deposits	15	5,266,418	4,993,265	5,270,420	4,996,765
Securitised loans funding	16	324,004	405,795	1,081,249	912,699
Interest bearing liabilities	17	69,853	114,739	69,853	114,739
Current tax liabilities	4	3,502	4,508	3,502	4,508
Provisions	18	10,069	9,422	10,022	9,352
Total liabilities		5,714,369	5,568,495	6,468,083	6,063,317
Net assets		362,708	343,687	361,110	342,359
EQUITY					
Share capital	19	28,324	30,514	28,324	30,514
Reserves		48,734	47,421	48,734	47,421
Retained earnings		285,650	265,752	284,052	264,424
Total equity attributable to members of the Company		362,708	343,687	361,110	342,359

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 46 to 105.

(1) The June 2019 financial statements reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) on 1 July 2018. As permitted by AASB 9, the Group and the Company have not restated the comparative financial reporting period. Refer to Note 1(c) for the impact from the initial adoption of AASB 9.

(2) Refer to Note 28 for information regarding the prior period restatement of cash and cash equivalents and loans and advances to ADIs.

Statements of Cash Flows

For the year ended 30 June 2019

	Note	Consolidated		Company	
		2019 ⁽¹⁾ \$'000	2018 ⁽²⁾ \$'000	2019 ⁽¹⁾ \$'000	2018 ⁽²⁾ \$'000
CASH FLOWS USED IN OPERATING ACTIVITIES					
Interest received		244,361	232,064	261,169	246,488
Other cash receipts in the course of operations		15,405	23,278	4,379	16,065
Interest paid on deposits		(115,070)	(108,403)	(131,879)	(122,827)
Income taxes paid		(14,671)	(13,676)	(14,553)	(13,512)
Net loans funded		(354,939)	(251,761)	(354,939)	(251,294)
Net increase in deposits		270,896	195,856	271,398	196,316
Other cash payments in the course of operations		(96,991)	(97,484)	(87,804)	(87,497)
Net cash flows used in operating activities	25	(51,009)	(20,126)	(52,229)	(16,261)
CASH FLOWS FROM INVESTING ACTIVITIES					
Net redemptions of investment debt securities and loans and advances to ADIs ⁽²⁾		205,650	66,868	205,516	59,756
Expenditure on property, plant and equipment, and intangibles		(22,329)	(4,261)	(22,325)	(4,203)
Proceeds from sale of property, plant and equipment	11	264	277	265	265
Net cash flows from investing activities ⁽²⁾		183,585	62,884	183,456	55,818
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES					
Net repayments from securitised loans funding		(81,791)	(24,776)	(81,450)	(17,598)
Net payments for interest bearing liabilities		(44,885)	(1,816)	(44,883)	(1,816)
Own shares acquired		(8,291)	(11,942)	(8,291)	(11,942)
Dividends paid	5	(5,064)	(5,152)	(5,064)	(5,152)
Net cash flows used in financing activities		(140,031)	(43,686)	(139,688)	(36,508)
Net (decrease)/increase in cash and cash equivalents held ⁽²⁾		(7,455)	(928)	(8,461)	3,049
Cash and cash equivalents at the beginning of the year ⁽²⁾		103,761	104,689	71,324	68,275
Cash and cash equivalents at the end of the year ⁽²⁾	25	96,306	103,761	62,863	71,324

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out in pages 46 to 105.

(1) The June 2019 financial statements reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) on 1 July 2018. As permitted by AASB 9, the Group and the Company have not restated the comparative financial reporting period. Refer to Note 1(c) for the impact from the initial adoption of AASB 9.

(2) Refer to Note 28 for information regarding the prior period restatement of cash and cash equivalents and loans and advances to ADIs.

Financial Statements

Statements of Changes in Equity

For the year ended 30 June 2019

Consolidated	Share capital \$'000	Fair value reserve \$'000	Cash flow hedge reserve \$'000	General reserve for credit losses \$'000	General reserve \$'000	Transfer of business reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2017	33,345	4,334	(25)	5,098	25,255	12,894	249,347	330,248
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	31,561	31,561
Other comprehensive income								
Remeasurement of defined benefit liability	-	-	-	-	-	-	280	280
Net revaluation movement due to change in fair value	-	(1,235)	25	-	-	-	-	(1,210)
Net change in fair value transferred to profit or loss	-	(98)	-	-	-	-	-	(98)
Total other comprehensive income	-	(1,333)	25	-	-	-	280	(1,028)
Total comprehensive income for the year	-	(1,333)	25	-	-	-	31,841	30,533
Transfer from retained profits	-	-	-	1,173	-	-	(1,173)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(5,152)	(5,152)
Own shares acquired	(2,831)	-	-	-	-	-	(9,111)	(11,942)
Balance at 30 June 2018	30,514	3,001	-	6,271	25,255	12,894	265,752	343,687
Balance at 1 July 2018	30,514	3,001	-	6,271	25,255	12,894	265,752	343,687
Adjustment from adoption of AASB 9	-	86	-	603	-	-	(110)	579
Restated opening balance at 1 July 2018	30,514	3,087	-	6,874	25,255	12,894	265,642	344,266
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	31,732	31,732
Other comprehensive income								
Remeasurement of defined benefit liability	-	-	-	-	-	-	(293)	(293)
Net revaluation movement due to change in fair value	-	1,295	-	-	-	-	-	1,295
Investment debt securities at FVOCI reclassified to profit or loss	-	(937)	-	-	-	-	-	(937)
Total other comprehensive income	-	358	-	-	-	-	(293)	65
Total comprehensive income for the year	-	358	-	-	-	-	31,439	31,797
Transfer from retained profits	-	-	-	266	-	-	(266)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(5,064)	(5,064)
Own shares acquired	(2,190)	-	-	-	-	-	(6,101)	(8,291)
Balance at 30 June 2019	28,324	3,445	-	7,140	25,255	12,894	285,650	362,708

Amounts are stated net of tax

Refer to note 19 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 in pages 46 to 105.

Statements of Changes in Equity

For the year ended 30 June 2019

Company	Share capital \$'000	Fair value reserve \$'000	Cash flow hedge reserve \$'000	General reserve for credit losses \$'000	General reserve \$'000	Transfer of business reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2017	33,345	4,334	(25)	5,098	25,255	12,894	247,992	328,893
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	31,588	31,588
Other comprehensive income								
Remeasurement of defined benefit liability	-	-	-	-	-	-	280	280
Net revaluation movement due to change in fair value	-	(1,235)	25	-	-	-	-	(1,210)
Net change in fair value transferred to profit or loss	-	(98)	-	-	-	-	-	(98)
Total other comprehensive income	-	(1,333)	25	-	-	-	280	(1,028)
Total comprehensive income for the year	-	(1,333)	25	-	-	-	31,868	30,560
Transfer from retained profits	-	-	-	1,173	-	-	(1,173)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(5,152)	(5,152)
Own shares acquired	(2,831)	-	-	-	-	-	(9,111)	(11,942)
Balance at 30 June 2018	30,514	3,001	-	6,271	25,255	12,894	264,424	342,359
Balance at 1 July 2018	30,514	3,001	-	6,271	25,255	12,894	264,424	342,359
Adjustment from adoption of AASB 9	-	86	-	603	-	-	(110)	579
Restated opening balance at 1 July 2018	30,514	3,087	-	6,874	25,255	12,894	264,314	342,938
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	31,462	31,462
Other comprehensive income								
Remeasurement of defined benefit liability	-	-	-	-	-	-	(293)	(293)
Net revaluation movement due to change in fair value	-	1,295	-	-	-	-	-	1,295
Investment debt securities at FVOCI reclassified to profit or loss	-	(937)	-	-	-	-	-	(937)
Total other comprehensive income	-	358	-	-	-	-	(293)	65
Total comprehensive income for the year	-	358	-	-	-	-	31,169	31,527
Transfer from retained profits	-	-	-	266	-	-	(266)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(5,064)	(5,064)
Own shares acquired	(2,190)	-	-	-	-	-	(6,101)	(8,291)
Balance at 30 June 2019	28,324	3,445	-	7,140	25,255	12,894	284,052	361,110

Amounts are stated net of tax

Refer to note 19 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 in pages 46 to 105.

Notes to the Consolidated Financial Statements

1 Significant accounting policies

(a) Reporting entity

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

The address of the Company's registered office is 253-259 Crown Street, Wollongong NSW. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 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 and Investments Commission, permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by regulation 2M.3.01 of the *Corporation Regulations 2001*.

This is the first set of the Group's annual financial statements in which *AASB 9 Financial Instruments* has been applied. Changes to significant accounting policies are described in Note 1(c).

This financial report was authorised for issue by the directors on 27 August 2019.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

been rounded off to the nearest thousand dollars, unless otherwise stated.

(iv) Use of estimates and judgements

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

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

- Loan impairment (notes 1(h) and 10);
- Consolidation of special purpose entities (notes 1(d) and 24);
- Valuation of financial instruments (notes 1(b)(iv), 1(f), 6 and 9); and
- Defined benefit fund liability (notes 1(o) and 20).

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 1h and 10);
- Measurement of fair values (notes 1b(iv), 1(f) and 29).

(v) Measurement of fair values

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

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

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

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

for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

(vi) Presentation changes

Statement of financial position

Following the adoption of AASB 9 *Financial Instruments*, and in order to present items on the basis of the nature of the underlying item as opposed to its measurement basis, the Group has made changes to the presentation of certain items in its statement of financial position. The effect of these presentation changes has been disclosed in the 'Change in Accounting Policy' section of this note and as footnotes to the other relevant notes to the financial statements.

Income statement

The Group has made certain presentation changes in its income statements and Note 2 Operating income, in order to align the presentation of items of income and expense with the categories of financial instruments presented in the statements of financial position.

This has had no effect on the measurement of these items and therefore on retained earnings or profit for any period. Comparative information has been represented, for all these presentation changes in the statements of financial position and income statements.

(c) Changes in accounting policy

The Group has initially adopted AASB 9 and AASB 15 from 1 July 2018.

A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying AASB 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- a decrease in the provision for impairment recognised on financial assets; and

- additional disclosures related to AASB 9.

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 1 to all periods presented in these consolidated financial statements.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets. This standard replaces

AASB 139 *Financial Instruments: Recognition and Measurement*. The requirements of AASB 9 represent a significant change from AASB 139 and brings fundamental changes to the accounting for financial assets.

As permitted by AASB 9, the Group has elected to continue to apply the hedge accounting requirements of AASB 139.

The Group has adopted consequential amendments to AASB 7 *Financial Instrument Disclosures* that are applied to disclosures, but have not been applied to the comparative information.

The key changes to the Group's accounting policies from its adoption of AASB 9 are summarised below.

Classification of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). AASB 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Group classifies financial assets under AASB 9, see Note 1(f). AASB 9 largely retains existing requirements in AASB 139 for the classification of financial liabilities. For an explanation of how the Group classifies financial liabilities under AASB 9 see Note 1(p).

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

The following table explains the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for the Group's financial assets and financial liabilities as at 1 July 2018, as well as the impact of classification and measurement changes.

Consolidated	Original classification under AASB 139 \$'000	New classification under AASB 9 \$'000	AASB 139 Carrying Amount at 30 June 2018 \$'000	Re-measurement \$'000	Re-classification \$'000	AASB 9 Carrying Amount at 1 July 2018 \$'000
Financial Assets						
Cash and cash equivalents	Amortised cost	Amortised cost	103,761	–	–	103,761
Available-for-sale investments	Available-for-sale	–	959,712	–	(959,712)	–
Investment debt securities ^(A)	–	FVOCI – debt	–	–	959,712	959,712
Loans and advances to ADIs ^(B)	Amortised cost	Amortised cost	235,460	(100)	–	235,360
Loans and advances to customers ^(C)	Amortised cost	Amortised cost	4,569,669	1,210	–	4,570,879
Other financial assets ^(D)	Amortised cost	FVOCI – equity	505	86	–	591
Other assets	Amortised cost	Amortised cost	25,960	–	–	25,960
Total Financial Assets			5,895,067	1,196	–	5,896,263
Financial Liabilities						
Deposits	Amortised cost	Amortised cost	4,993,265	–	–	4,993,265
Securitised loan funding	Amortised cost	Amortised cost	405,795	–	–	405,795
Interest bearing liabilities	Amortised cost	Amortised cost	114,739	–	–	114,739
Trade and other payables	Amortised cost	Amortised cost	40,766	–	–	40,766
Total Financial Liabilities			5,554,565	–	–	5,554,565

(A) Investment debt securities that were classified as 'Available-for-sale investments' under AASB 139 re-classified as FVOCI – debt under AASB 9 as this portfolio of assets is held to both collect contractual cash flows and selling the assets.

(B) An ECL for 'Loans and advance to ADIs' reclassified from the general reserve in credit losses and recognised in retained earnings on adoption of AASB 9.

(C) A decrease in the ECL recognised on 'Loans and advances to customers' recognised in retained earnings on adoption of AASB 9.

(D) 'Other financial assets' that were recognised at amortised cost under AASB 139 re-measured at FVOCI – equity on adoption of AASB 9.

The following table explains the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for the Company's financial assets and financial liabilities as at 1 July 2018, as well as the impact of classification and measurement changes.

Company	Original classification under AASB 139 \$'000	New classification under AASB 9 \$'000	AASB 139 Carrying Amount at 30 June 2018 \$'000	Re- measurement \$'000	Re- classification \$'000	AASB 9 Carrying Amount at 1 July 2018 \$'000
Financial Assets						
Cash and cash equivalents	Amortised cost	Amortised cost	71,324	-	-	71,324
Available-for-sale investments	Available-for-sale	-	1,467,487	-	(1,467,487)	-
Investment debt securities ^(A)	-	FVOCI - debt	-	-	1,467,487	1,467,487
Loans and advances to ADIs ^(B)	Amortised cost	Amortised cost	235,460	(100)	-	235,360
Loans and advances to customers ^(C)	Amortised cost	Amortised cost	4,569,669	1,210	-	4,570,879
Other financial assets ^(D)	Amortised cost	FVOCI - equity	2,264	86	-	2,350
Other assets	Amortised cost	Amortised cost	42,499	-	-	42,499
Total Financial Assets			6,388,703	1,196	-	6,389,899
Financial Liabilities						
Deposits	Amortised cost	Amortised cost	4,996,765	-	-	4,996,765
Securitised loan funding	Amortised cost	Amortised cost	912,699	-	-	912,699
Interest bearing liabilities	Amortised cost	Amortised cost	114,739	-	-	114,739
Trade and other payables	Amortised cost	Amortised cost	25,254	-	-	25,254
Total Financial Liabilities			6,049,457	-	-	6,049,457

(A) Investment debt securities that were classified as 'Available-for-sale investments' under AASB 139 re-classified as FVOCI - debt under AASB 9 as this portfolio of assets is held to both collect contractual cash flows and selling the assets.

(B) An ECL for 'Loans and advance to ADIs' reclassified from the general reserve in credit losses and recognised in retained earnings on adoption of AASB 9.

(C) A decrease in the ECL recognised on 'Loans and advances to customers' recognised in retained earnings on adoption of AASB 9.

(D) 'Other financial assets' that were recognised at amortised cost under AASB 139 re-measured at FVOCI - equity on adoption of AASB 9.

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not equity investments.

Under AASB 9, credit losses are recognised earlier than under AASB 139. For an explanation of how the Group applies the impairment requirements of AASB 9, see Note 1(h).

Transition

As permitted by AASB 9, the Group has not restated its comparative financial statements and has recorded a transition adjustment to its opening balance sheet, retained earnings and OCI at 1 July 2018 for the impact of the adoption of AASB 9's classification and measurement, impairment and hedge accounting requirements.

The transition adjustment, which relates to AASB 9's ECL requirements, has decreased the Group and Company's provision for impairment by \$0.3 million, increased the general reserve for credit losses by \$0.6 million after tax, decreased fair value reserve by \$0.3 million, decreased retained earnings by \$0.1 million after tax and increased the Group's equity by \$0.2 million after tax and does not have a material impact on the Group's minimum regulatory capital requirements.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* is effective from 1 July 2018 and replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services is transferred to the customer. No material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised as at 30 June 2018. However the Group and Company have prospectively presented certain amounts of expenses, which were previously presented on a net basis within fee and commission expense, on a gross basis under AASB 15 with fee and commission income.

(d) Basis of consolidation

(i) Transactions eliminated on consolidation

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

(ii) Subsidiaries

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

(e) Cash and cash equivalents

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

(f) Financial assets

(i) Classification and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or 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, loans and advances to 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 – debt are measured at fair value. Interest income calculated using the effective interest rate method and impairment are recognised in profit or loss; and
- other financial assets at FVOCI – equity 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.

(ii) Business Model Assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

- 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.

Prior to the adoption of AASB 9, the Group's financial assets were classified into the following categories:

- **Loans and advances – being financial assets with fixed or determinable payments that are not quoted in an active market and that the Group did not intend to sell immediately or in the near term. The measurement and recognition of gains and losses on such assets aligns with that for financial assets classified as amortised cost under AASB 9.**
- **Available-for-sale investments – being financial assets consisting of debt securities that were not actively traded and are intended to be held until maturity. Such securities were available for sale and could be sold should the need have arisen, including liquidity needs, or impacts of changes in interest rates, or equity prices. Subsequent to initial recognition, they were**

measured at fair value and changes therein, other than impairment losses, were recognised in other comprehensive income and presented within equity in the fair value reserve (previously available for sale reserve). When the investment was derecognised the cumulative gain or loss in equity was transferred to profit or loss. Interest income on available-for-sale investments was aligned with that for financial assets classified as FVOCI under AASB 9.

- **Other financial assets were classified as available-for-sale equity investments measured at amortised cost.**

(g) Revenue and expense recognition

(i) Net interest income

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

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

The calculation of EIR does not include 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).

Prior to the adoption of AASB 9, interest income on financial assets that were measured at amortised cost (being loans and receivables to ADIs and Loans and advances) or classified as available-for-sale, was recognised in accordance with the EIR method.

(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.

Prior to the adoption of AASB 15, fee and commission income was recognised when the fees and income could be reliably measured, and its receipt became highly probable.

(iii) Dividend income

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

(iv) Expenses

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

(h) Impairment

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

Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include mortgage loans, commercial loans, personal loans and revolving credit.

For investment debt securities and loans and advances to 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.

(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.

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

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
- 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.

Prior to the adoption of AASB 9, credit impairment provisions were recognised on an incurred loss basis.

Key differences included:

- an impairment loss was recorded where there was objective evidence of impairment as a result of one or more events (loss event) which had an impact on the estimated future cash flows of the financial asset that could be reliably estimated;
- where the credit risk of an exposure had deteriorated but there was no objective evidence of impairment, no credit impairment was required to be recognised;
- forward looking or macroeconomic information was not required to be incorporated into the determination of the credit impairment loss; and
- credit impairments were only required to be recognised for on-balance sheet exposures.

Credit impairments were calculated on the basis of the difference between the exposure's carrying value and the

present value of expected future cash flows, discounted using the original EIR.

For available-for-sale investment securities, where there was objective evidence of impairment and the fair value of the financial asset was less than its initial carrying amount then the cumulative loss was transferred from other comprehensive income to the income statement. Impairment losses recognised for investment securities classified as available-for-sale were subsequently reversed through the income statement if the fair value increased and the increase was objectively related to an event after the impairment loss was recognised 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 inventories and deferred tax assets (see note 1j), are reviewed at each reporting date to determine whether there is any indication of impairment.

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

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

(i) 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 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

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

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(h)(vi)).

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(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) Lease payments

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

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of the specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

(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) 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.

(iii) Defined benefit plan

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

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

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

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

(iv) 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.

(v) 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.

Notes to the Consolidated Financial Statements

1 Significant accounting policies (continued)

(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) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and earlier application is permitted, however, the Group has not early adopted the following new or amended standards in preparing this financial report.

AASB 16 Leases

AASB 16 replaces the current AASB 117 Leases standard and sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from the lessee perspective within the scope of AASB 16 will require the recognition of a 'right-of-use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense. As compared to AASB 117, the pattern of expense recognition changes with higher costs in the earlier stages of the lease as a result of the interest expense being determined on the lease liability that amortises over the lease term. Classification of leases from the Group's perspective as lessor remains unchanged under AASB 16. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 and therefore will be applied by the Group from 1 July 2019.

Transition

Alternative methods for calculating the right-of-use asset are permitted under AASB 16 which impacts the size of the transition adjustment. The Group will apply the modified retrospective transition approach, as a result prior period comparative financial statements are not restated.

Based on the elected transition method, the Group will recognise right-of-use assets and lease liabilities for operating leases of approximately \$25 million as at 1 July 2019.

2 Operating income

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Interest revenue calculated using the effective interest rate method					
<i>Financial assets measured at amortised cost:</i>					
Cash and cash equivalents		983	987	983	987
Loans and advances to ADIs		5,552	7,303	5,552	7,303
Loans and advances to customers		208,811	197,338	208,811	197,339
<i>Financial assets measured at FVOCI:</i>					
Investment debt securities (2018: available for sale)		26,933	26,246	43,741	40,668
		242,279	231,874	259,087	246,297
Interest expense					
Deposits		101,194	93,661	101,194	93,661
Securitised loans funding		11,980	12,506	28,788	26,930
Interest bearing liabilities		4,153	4,362	4,153	4,362
		117,327	110,529	134,135	124,953
Net interest income		124,952	121,345	124,952	121,344
Impairment losses					
Impairment charge	10	1,254	886	1,254	886
Impairment losses written off directly		247	349	247	68
		1,501	1,235	1,501	954
Net interest income after impairment losses		123,451	120,110	123,451	120,390

Notes to the Consolidated Financial Statements

2 Operating income (continued)

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Fee and commission income				
Loan switch and breakout fees	404	371	404	371
Transaction fees	5,980	6,082	5,980	6,082
Payment system fees	2,257	2,348	2,257	2,348
Financial planning revenue	1,172	1,200	-	-
Commissions	3,135	3,287	3,135	3,287
	12,948	13,288	11,776	12,088
Fee and commission expense				
Bank fees	110	115	110	115
Commission	179	170	179	170
	289	285	289	285
Net fee and commission income from contracts with customers	12,659	13,003	11,487	11,803
Profit from sale of property, plant and equipment				
Profit from sale of plant and equipment	89	77	89	77
	89	77	89	77
Other income				
Impairment losses recovered	104	175	104	175
Rental income	150	149	150	149
Other	571	396	297	125
	825	720	551	449
Net operating income	137,024	133,910	135,578	132,719

3 Operating expenses

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Personnel expense				
Salaries	44,657	42,981	44,034	42,387
Payroll tax	2,561	2,481	2,523	2,442
Fringe benefits tax	684	622	654	598
Superannuation	4,889	4,713	4,833	4,656
	52,791	50,797	52,044	50,083
Occupancy expense				
Repairs and maintenance	573	389	573	388
Rental on operating leases	7,457	7,101	7,424	7,068
Other	2,162	2,071	2,102	2,014
	10,192	9,561	10,099	9,470
Payment system expense	3,270	3,119	3,270	3,119
Marketing expense	6,902	6,493	6,900	6,484
Data processing expense	5,003	4,274	4,969	4,242
Postage and printing expense	2,130	2,139	2,128	2,138
Contributions to IMB and Shire Community Foundations	700	600	700	600
Goods and services tax not recovered	1,852	2,670	1,852	2,670
Sundry expenses				
Depreciation and amortisation				
– plant and equipment	2,444	2,363	2,413	2,332
– buildings	65	65	65	65
– intangibles	494	638	494	638
Legal and consulting	1,580	2,362	1,569	2,344
Loss from sale of property, plant and equipment	22	34	22	34
Other	4,178	3,611	4,035	3,467
	8,783	9,073	8,598	8,880
Total operating expenses	91,623	88,726	90,560	87,686

Notes to the Consolidated Financial Statements

4 Taxation

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
a) Income tax expense				
Current tax expense				
– current year	13,573	13,897	13,454	13,734
– adjustment for prior years	155	3	156	3
	13,728	13,900	13,610	13,737
Deferred tax expense				
– origination and reversal of temporary differences	(59)	(277)	(54)	(292)
Total income tax expense	13,669	13,623	13,556	13,445
Reconciliation between income tax expense and profit before tax				
Profit before tax	45,401	45,184	45,018	45,033
Prima facie income tax expense at 30% on operating profit	13,620	13,555	13,506	13,510
Increase in income tax expense due to:				
– income tax under provided for in prior year	4	3	4	3
– other non deductible expenses	1	31	1	31
– depreciation of buildings	20	20	20	20
– non deductible entertainment	47	43	48	43
Decrease in income tax expense due to:				
– non assessable income	–	–	–	(133)
– other deductible expenses	(23)	(29)	(23)	(29)
Income tax expense	13,669	13,623	13,556	13,445
Income tax recognised directly in other comprehensive income				
Relating to defined benefit fund	(126)	120	(126)	120
Relating to equity investments	90	–	90	–
Relating to investment debt securities	100	(571)	100	(571)
Relating to cash flow hedges	–	10	–	10
	64	(441)	64	(441)

b) Current tax liabilities

The current tax liability for the Group of \$3,502,000 (2018: \$4,508,000) and for the Company of \$3,502,000 (2018: \$4,508,000) 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.

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Deferred tax assets/(liabilities)				
Deferred tax assets and liabilities are attributable to the following:				
Provisions and accrued expenses	2,486	2,558	2,469	2,553
Employee benefits	2,899	2,705	2,885	2,684
Consulting and legal fees	21	19	21	19
Total deferred tax assets	5,406	5,282	5,375	5,256
Investment debt securities (2018: available for sale)	(1,387)	(1,286)	(1,387)	(1,286)
Property, plant and equipment	(86)	(46)	(86)	(46)
Equity investments	(90)	–	(90)	–
Deferred expenditure	(99)	(201)	(99)	(201)
Total deferred tax liabilities	(1,662)	(1,533)	(1,662)	(1,533)
Net deferred tax assets	3,744	3,749	3,713	3,723

Effective tax rates (ETR)

The ETR for the Group of 30.1% (2018: 30.1%) and the Company of 30.1% (2018: 29.9%) represents tax expense divided by total accounting profit.

Notes to the Consolidated Financial Statements

5 Dividends

	Cents per Share	Total amount \$'000	% Franked	Date of payment
Dividends recognised in current year by the Company are:				
2019				
2019 interim dividend	9.5	2,467	100%	27-Feb-19
2018 final dividend	10.0	2,597	100%	4-Sep-18
		5,064		
2018				
2018 interim dividend	10.0	2,597	100%	27-Feb-18
2017 final dividend	9.0	2,555	100%	4-Sep-17
		5,152		

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

Subsequent events

On 26 August 2019 the Board declared a final ordinary dividend of 10.5 cents per share amounting to \$2,532,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2019. The dividend is payable on 3 September 2019. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2019 and will be recognised in subsequent financial statements. The declaration and subsequent payment of dividends has no income tax consequences.

	Company	
	2019 \$'000	2018 \$'000
Dividend franking account		
30% franking credits available to members of the Company for dividends in subsequent financial years	127,227	118,012

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 (2018: \$nil) franking credits.

6 Investment debt securities

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Investment debt securities at FVOCI*				
– certificates of deposit issued by banks	75,730	79,760	75,730	79,760
– floating rate notes**	746,734	879,952	1,504,640	1,387,727
Total investments	822,464	959,712	1,580,370	1,467,487

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

** The Company holds \$750,000,000 (2018: \$500,000,000) in bonds issued by the Illawarra Series IS Trust and \$7,000,000 (2018: \$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 24.

Of the above amounts, \$245,523,000 (2018: \$378,261,000) 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 29.

7 Loans and advances to ADIs

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Loans to Authorised Deposit-taking Institutions (ADIs) at amortised cost	164,510	235,460	164,510	235,460
Provision for impairment*	(70)	–	(70)	–
Total loans and advances to ADIs	164,440	235,460	164,440	235,460

* Provision for impairment reclassified from the general reserve in credit losses under AASB 139 and recognised in retained earnings on adoption of AASB 9.

Of the above amounts, \$123,270,000 (2018: \$194,185,000) is expected to be recovered within 12 months of the balance date by the Group and the Company.

Notes to the Consolidated Financial Statements

8 Loans and advances to customers

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Loans and advances to customers at amortised cost*		4,929,175	4,574,781	4,929,175	4,574,781
Provision for impairment**	10	(4,892)	(5,112)	(4,892)	(5,112)
Total loans net of provision for impairment		4,924,283	4,569,669	4,924,283	4,569,669

* Includes \$1,061,282,000 of securitised residential loans and \$20,531,000 of securitised commercial loans (2018: \$884,221,000 of securitised residential loans and \$29,382,000 of securitised commercial loans).

** Provision for impairment for the current period represents the expected credit loss (ECL) under AASB 9. As the prior year has not been restated for AASB 9, the provision for impairment at 30 June 2018 remains in accordance with AASB 139. Accordingly amounts are not comparable.

Of the above amounts, \$150,715,000 (2018: \$143,480,000) is expected to be recovered within 12 months of the balance date by the Group and the Company.

9 Other financial assets

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Other equity investments – at amortised cost	–	505	–	505
Other equity investments – at FVOCI*	805	–	805	–
Investments in controlled entities	–	–	1,759	1,759
Total other financial assets	805	505	2,564	2,264

* Other equity investments are measured at FVOCI under AASB 9. As the prior year has not been restated for AASB 9 the amounts are not comparable.

10 Provision for impairment – expected credit losses

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

	Investment debt securities* \$'000	Loans and advances to ADIs \$'000	Loans and advances to customers \$'000	Total \$'000
Consolidated and Company				
Balance as at 30 June 2018	–	–	5,112	5,112
Change on initial application of AASB 9	405	100	(1,210)	(705)
Balance as at 1 July 2018	405	100	3,902	4,407
Impairment charge/reversal	(53)	(30)	1,337	1,254
Amounts written off, previously provided for	–	–	(347)	(347)
Balance as at 30 June 2019	352	70	4,892	5,314

* ECL for Investment debt securities measured at FVOCI recognised in OCI at 30 June 2019.

The tables below represent the reconciliation from the opening balance to the closing balance of the ECL allowance for loan advances to customers for which impairment requirements under AASB 9 apply:

ECL on loans and advances to customers Consolidated and Company	Lifetime ECL			Collective provision \$'000	Specific provision \$'000	Total \$'000
	Stage 1 12 month ECL \$'000	Stage 2 not credit- impaired \$'000	Stage 3 credit- impaired \$'000			
Balance as at 30 June 2018	–	–	–	4,290	822	5,112
Change on initial application of AASB 9	2,907	60	935	(4,290)	(822)	(1,210)
Balance as at 1 July 2018	2,907	60	935	–	–	3,902
Transfers during the period to:						
12 month ECL	14	(14)	–			–
Lifetime ECL not credit-impaired	(5)	5	–			–
Lifetime ECL credit-impaired	(5)	(4)	9			–
Net remeasurement of loss allowance	(12)	24	1,127			1,139
New financial assets originated	625	3	–			628
Financial assets that have been derecognised	(371)	(13)	(46)			(430)
Write-offs	–	–	(347)			(347)
Balance as at 30 June 2019*	3,153	61	1,678	–	–	4,892

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

The net movement in ECL allowance for loans and advances to customers is primarily due to loan growth, a change in forward looking macro-economic variables and changes in credit quality.

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

Under AASB 9 specific provisions are classified as Stage 3 expected credit losses.

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

The Group's exposure to credit risk and impairment losses related to loans and advances to customers is disclosed in note 29.

Notes to the Consolidated Financial Statements

10 Provision for impairment – expected credit losses (continued)

The following table represents the comparative information prior to the adoption of AASB9 on the movement in provision for impairment for the year ended 30 June 2018.

	Consolidated	Company
	2018 \$'000	2018 \$'000
Specific provision		
Opening balance	739	739
Additions to specific provision	431	431
Loans written off, previously provided for	(299)	(299)
Reversal of provision	(49)	(49)
Closing balance	822	822
Collective provision		
Opening balance	3,786	3,786
Additions to collective provision	504	504
Loans written off	–	–
Reversal of provision	–	–
Closing balance*	4,290	4,290
Total provision for impairment	5,112	5,112
Impairment of loans and advances		
Movement in specific provision	382	382
Movement in collective provision	504	504
Impairment losses written off directly	349	68
	1,235	954

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

11 Property, plant and equipment

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Freehold land</i>				
– at cost	11,556	2,315	11,556	2,315
<i>Freehold buildings</i>				
– at cost	2,614	2,614	2,614	2,614
– accumulated depreciation	(1,297)	(1,232)	(1,297)	(1,232)
	1,317	1,382	1,317	1,382
Total land and buildings	12,873	3,697	12,873	3,697
<i>Plant and equipment</i>				
– at cost	34,521	32,854	34,245	32,583
– accumulated depreciation	(27,348)	(25,723)	(27,161)	(25,568)
Total plant and equipment	7,173	7,131	7,084	7,015
Work in progress – at cost	10,170	1,538	10,170	1,538
Total property, plant and equipment – at cost	58,861	39,321	58,585	39,050
Total accumulated depreciation	(28,645)	(26,955)	(28,458)	(26,800)
Total property, plant and equipment – carrying amount	30,216	12,366	30,127	12,250
Reconciliations				
Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:				
<i>Freehold land</i>				
Carrying amount at the beginning of the year	2,315	2,315	2,315	2,315
Transfers from work in progress*	9,241	–	9,241	–
Carrying amount at the end of the year	11,556	2,315	11,556	2,315
<i>Buildings</i>				
Carrying amount at the beginning of the year	1,382	1,437	1,382	1,437
Additions	–	10	–	10
Depreciation	(65)	(65)	(65)	(65)
Carrying amount at the end of the year	1,317	1,382	1,317	1,382

* Includes purchase of land in relation to construction of new head office. Refer Note 21.

Notes to the Consolidated Financial Statements

11 Property, plant and equipment (continued)

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Plant and equipment</i>				
Carrying amount at the beginning of the year	7,131	7,299	7,015	7,198
Additions	1,484	1,173	1,480	1,115
Transfers from work in progress	1,197	1,256	1,197	1,256
Disposals	(195)	(234)	(195)	(222)
Depreciation	(2,444)	(2,363)	(2,413)	(2,332)
Carrying amount at the end of the year	7,173	7,131	7,084	7,015
<i>Work in progress</i>				
Carrying amount at the beginning of the year	1,538	182	1,538	182
Additions	19,070	2,612	19,070	2,612
Transfers to plant and equipment	(10,438)	(1,256)	(10,438)	(1,256)
Carrying amount at the end of the year	10,170	1,538	10,170	1,538

12 Intangible assets

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Intangible computer software</i>				
– at cost	11,109	10,604	11,109	10,604
– accumulated amortisation	(10,098)	(9,604)	(10,098)	(9,604)
Intangible computer software	1,011	1,000	1,011	1,000
Work in progress – at cost	1,270	–	1,270	–
Total intangible computer software	2,281	1,000	2,281	1,000
Reconciliation				
<i>Intangible computer software</i>				
Carrying amount at the beginning of the year	1,000	1,172	1,000	1,172
Additions	505	466	505	466
Amortisation	(494)	(638)	(494)	(638)
Carrying amount at the end of the year	1,011	1,000	1,011	1,000
<i>Work in progress</i>				
Carrying amount at the beginning of the year	–	–	–	–
Additions	1,270	–	1,270	–
Carrying amount at the end of the year	1,270	–	1,270	–

13 Other assets

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Sundry debtors	32,538	25,960	58,552	42,499

14 Trade and other payables

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Trade creditors	33,347	25,423	33,037	25,254
Distributions payable by Special Purpose Entities	6,870	15,079	–	–
Fees payable by Special Purpose Entities	306	264	–	–
Total trade and other payables	40,523	40,766	33,037	25,254

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 29.

Notes to the Consolidated Financial Statements

15 Deposits

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Retail deposits	3,792,615	3,597,810	3,796,617	3,601,310
Middle markets	1,091,629	937,031	1,091,629	937,031
Wholesale deposits	358,920	437,427	358,920	437,427
Accrued interest	23,254	20,997	23,254	20,997
Total deposits	5,266,418	4,993,265	5,270,420	4,996,765

The Group's exposure to liquidity risk related to deposits is disclosed in note 29.

16 Securitised loans funding

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Notes payable	324,004	405,795	–	–
Loans from securitisation trusts*	–	–	1,081,249	912,699
Total securitised loans funding	324,004	405,795	1,081,249	912,699

* Includes \$750,000,000 (2018: \$500,000,000) in bonds issued by the Illawarra Series IS Trust. Refer note 24.

The Group's exposure to liquidity risk related to securitised loans funding is disclosed in note 29.

17 Interest bearing liabilities

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Repurchase agreements*	1f				
Repurchase agreements		–	45,019	–	45,019
		–	45,019	–	45,019
Subordinated floating rate notes	1p				
– Series 3		29,948	29,888	29,948	29,888
– Series 4		39,905	39,832	39,905	39,832
Total Subordinated floating rate notes		69,853	69,720	69,853	69,720
Total interest bearing liabilities		69,853	114,739	69,853	114,739

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

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

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

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

The Group's exposure to interest rate risk is disclosed in note 29.

18 Provisions

		Consolidated		Company	
	Note	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Make good provision</i>					
Balance at the beginning of the year		405	479	405	479
Provisions used during the year		–	(74)	–	(74)
Balance at the end of the year		405	405	405	405
<i>Employee benefits</i>					
Balance at the beginning of the year		9,017	8,805	8,947	8,749
Provisions made during the year		5,047	4,006	5,005	3,952
Provisions used during the year		(4,400)	(3,794)	(4,335)	(3,754)
Balance at the end of the year	20	9,664	9,017	9,617	8,947
Total provisions		10,069	9,422	10,022	9,352

Notes to the Consolidated Financial Statements

19 Share capital and reserves

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Share capital – Ordinary shares				
On issue at 1 July (25,966,082 ordinary shares)	30,514	33,345	30,514	33,345
Own shares acquired (1,855,821 ordinary shares)	(2,190)	(2,831)	(2,190)	(2,831)
On issue at 30 June (24,110,261 ordinary shares)	28,324	30,514	28,324	30,514

On 24 June 2019 the Company bought back 1.86 million shares for a total cash consideration, including transaction costs, of \$8.29 million. All shares tendered were accepted in full.

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 1h. The general reserve for credit losses together with the amounts calculated in accordance with note 1h must be adequate to comply with prudential requirements.

General reserve

The general reserve includes retained profits from prior years.

Transfer of business reserve

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

20 Employee benefits

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Current				
Liability for annual leave	3,632	3,619	3,598	3,577
Liability for banked time	9	5	9	5
Liability for long service leave	5,120	5,003	5,119	5,003
Liability for purchased annual leave	58	54	58	54
	8,819	8,681	8,784	8,639
Non Current				
Net defined benefit asset	(199)	(592)	(199)	(592)
Liability for long service leave	1,044	928	1,032	900
	845	336	833	308
Total employee benefits	9,664	9,017	9,617	8,947

Liability for the IMB Staff Defined Benefit Superannuation Plan Obligations

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

The Company makes contributions in respect of each plan member based on a fixed percentage of the member's salary. Each member is also required to contribute 5% of their salary during each financial year. The plan provides defined benefits on retirement based on years of service and the final average salary. In accordance with Superannuation Industry (Supervision) Regulations – Reg 9.04D, due to the membership of the fund being less than fifty on 12 May 2004, no new members have been accepted to the plan since that date. There are currently 9 members (2018: 10) in the plan. An actuarial assessment of the plan at 30 June 2019 was carried out by Ms Sweeney FIAA on 11 July 2019.

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

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

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

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

Notes to the Consolidated Financial Statements

20 Employee benefits (continued)

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Movements in the net defined benefit asset				
Net defined benefit asset at the beginning of the year	592	182	592	182
Total remeasurement recognised in other comprehensive income gain/(loss)	(419)	399	(419)	399
Contributions received from employer	448	468	448	468
Defined benefit cost recognised in the profit and loss	(422)	(457)	(422)	(457)
Net defined benefit asset at the end of the year	199	592	199	592

Year ending
30 June 2020
\$'000

Expected contributions to the plan in the next reporting period

Expected employer contributions	445
Expected employee contributions	105

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 4.85 years

	2019 \$'000	2018 \$'000
Projected benefit payments (defined benefit only)		
Next year	1,120	1,514
Next year + 1 year	1,599	966
Next year + 2 years	1,499	1,423
Next year + 3 years	901	1,345
Next year + 4 years	1,008	825
Sum of next year + 5 – 9 years	5,356	5,516

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was \$3,940,000 for the financial year (2018: \$3,628,000).

21 Capital and other commitments

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Loan commitments approved but not advanced				
– not later than one year	351,728	365,260	351,728	365,260
– later than one year	9,485	12,071	9,485	12,071
Total	361,213	377,331	361,213	377,331
Capital expenditure commitments not taken up in the financial statements				
– not later than one year	25,687	45,079	25,687	45,079
– later than one year	19,083	16,980	19,083	16,980
Total	44,770	62,059	44,770	62,059
Non-cancellable operating lease rentals payable				
– not later than one year	7,153	7,688	7,153	7,688
– later than one year but not later than five years	11,418	13,638	11,418	13,638
– later than five years	79	116	79	116
Total	18,650	21,442	18,650	21,442

Capital commitments

On 6 November 2017, the Company entered into as purchaser, a Contract for Sale of Land to purchase land at 47 Burelli Street, Wollongong, for \$8 million (plus GST). The settlement of this purchase was conditional upon the receipt of a development consent from Wollongong City Council to the Company's satisfaction, which was received by the Company in July 2018. Following settlement of the Contract for Sale of Land, the Company has completed contractual arrangements for the development and construction of a purpose-built head office under a maximum sum contract.

Operating leases

The Company leases property under operating leases for terms up to seven years. Leases generally provide the Company with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movement in the Consumer Price Index or operating criteria.

Notes to the Consolidated Financial Statements

22 Financing arrangements

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Bank overdraft available	2,500	2,500	2,500	2,500
Facilities not utilised	2,500	2,500	2,500	2,500

The overdraft facility when drawn is secured by a charge over mortgage loans made by the Company to members. This facility is subject to annual review. The facility is subject to an annual interest rate of 8.34% (2018: 8.40%).

23 Contingent liabilities

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.

Contingent liabilities considered remote

Guarantees given by IMB Ltd

Business Banking clients

Contingent liabilities include guarantees of \$4,133,000 (2018: \$4,397,000) 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.

24 Consolidated entities

Parent entity

IMB Ltd

Subsidiaries	Principal Activity	Ownership interest	
		2019 %	2018 %
IMB Funeral Fund Management Pty Ltd	Trustee	100.0	100.0
ACN 003 207 841 Pty Ltd	In liquidation	-	100.0
ACN 132 157 192 Pty Ltd	In liquidation	-	100.0
IMB Community Foundation Pty Ltd	Dormant	100.0	100.0
IMB Securitisation Services Pty Limited	Securitisation trust management	100.0	100.0
IMB Financial Planning Limited	Financial Planning	100.0	100.0
Securitisation SPEs *			
Illawarra Warehouse Trust No. 3	Securitisation trust		
Illawarra Series 2011-1 CMBS Trust	Securitisation trust		
Illawarra Series 2013-1 RMBS Trust	Securitisation trust		
Illawarra Series 2017-1 RMBS Trust	Securitisation trust		
Illawarra Series IS Trust	Securitisation trust		

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

All entities are incorporated in Australia.

Change in the composition of the consolidated entity

On 2 May 2019 a first and final distribution to members of ACN 003 207 841 Pty Ltd and ACN 132 157 192 Pty Ltd was completed. No further assets are available for distribution for these companies.

Notes to the Consolidated Financial Statements

25 Notes to the statements of cash flows

	Consolidated		Company	
	2019 \$'000	2018 ⁽¹⁾ \$'000	2019 \$'000	2018 ⁽¹⁾ \$'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	62,864	71,325	62,863	71,324
Cash controlled by SPEs	33,442	32,436	-	-
Total	96,306	103,761	62,863	71,324

The Group's exposure to interest rate risk for financial assets and liabilities is disclosed in note 29.

RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Profit for the year attributable to members of the Company	31,732	31,561	31,462	31,588
Net (gain)/loss on sale of property, plant and equipment	(67)	(43)	(67)	(43)
Remeasurement of defined benefit fund liability	(293)	-	(293)	-
Adjustment to provision for impairment on adoption of AASB 9	493	-	493	-
Impairment losses on financial instruments	1,501	1,235	1,501	954
Depreciation of property, plant and equipment, and amortisation of intangible assets	3,003	3,066	2,972	3,035
Operating profit before changes in assets and liabilities	36,369	35,819	36,068	35,534
<i>Changes in assets and liabilities:</i>				
Decrease in accrued interest on investments	2,076	192	2,076	194
Increase in loans and advances to customers	(355,432)	(251,761)	(355,432)	(251,294)
Increase in sundry debtors	(6,578)	(15,017)	(16,053)	(8,709)
Decrease/(Increase) in net deferred tax asset	5	(1,050)	10	(1,064)
Increase in accrued interest on members' deposits	2,257	2,126	2,257	2,126
(Decrease)/Increase in trade and other payables	(243)	12,573	7,783	9,516
Increase in deposits	270,896	195,856	271,398	196,316
Increase in provision for employee benefits	647	214	670	198
(Decrease)/Increase in current tax liabilities	(1,006)	996	(1,006)	996
Decrease in other provisions	-	(74)	-	(74)
Net cash flows from operating activities	(51,009)	(20,126)	(52,229)	(16,261)

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.

(1) Refer to Note 28 for information regarding the prior period restatement of cash and cash equivalents and loans and advances to ADIs.

26 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

Mr NH Cornish (Chairman)

Ms CA Aston

Mr JR Coleman

Mr PJ Fitzgerald

Ms GM McGrath

Ms JM Swinhoe

Ms ME Towers

Executives

Mr RJ Ryan (Chief Executive Officer)

Mr M Brannon (General Manager, Sales and Marketing)

Mr N Campbell (Chief Digital Officer) appointed from position of Chief Risk Officer 30 January 2019

Mr CJ Goodwin (Chief Financial Officer)

Mr S Griffiths (General Manager Memberships and Alliances)

Ms RJ Heald (General Manager People and Culture) appointed 14 January 2019

Mr MF King (Chief Risk Officer) appointed 30 January 2019

Ms LB Wise (General Manager, Corporate Services and Company Secretary)

	Consolidated		Company	
	2019 \$	2018 \$	2019 \$	2018 \$
The key management personnel compensation included in "personnel expense" (see note 3) is as follows:				
Short-term employee benefits	4,367,344	4,012,185	4,367,344	4,012,185
Post-employment benefits	378,280	352,531	378,280	352,531
Other long-term benefits	79,472	79,513	79,472	79,513
Total	4,825,096	4,444,229	4,825,096	4,444,229

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.

Directors' Remuneration

The aggregate of the amount of remuneration, inclusive of superannuation, available to be distributed between the Directors for the financial year was \$688,120 (2018: \$673,966), with the aggregate available having increased by 2.1%, in line with the movement in the All Groups CPI. This amount is divided between the seven directors in accordance with their various responsibilities on the Board and its Committees.

Notes to the Consolidated Financial Statements

26 Related party disclosures (continued)

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.

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 2019*	3,005,892	2,845,872	88,072	4
Total for key management personnel and their related parties 2018	1,849,564	1,795,944	63,924	5

* Opening balance includes \$1,209,948 in loans for key management personnel and their related parties that were not classified as key management personnel in the 2018 financial year.

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 2019*	15,420	-	-	15,420	8
Total for key management personnel and their related parties 2018	13,178	2,000	-	15,178	12

* Opening balance includes 242 shares for key management personnel and their related parties that were not classified as key management personnel in the 2018 financial year.

No shares were granted to key management personnel during the year as compensation (2018: 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.

27 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 1j. The aggregate amount of loans provided (by)/to the Company (to)/from subsidiaries under the agreement is (\$450,000) (2018: (\$329,000)).

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	
	2019 \$'000	2018 \$'000
Accounting services	8	8
Computer maintenance services	8	8
Operating lease revenue	33	33

The total amount of deposits with the Company by controlled entities at the end of the relevant financial year was \$3,999,000 (2018: \$3,496,000). The total amount of borrowings with the Company by controlled entities at the end of the relevant financial year was \$nil (2018: \$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	
	2019 \$'000	2018 \$'000
IMB Financial Planning Ltd	59	90

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

27 Other related party disclosures (continued)

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

	2019 \$'000	2018 \$'000
Proceeds from securitisation of loans	174,011	243,350
Servicing fees received	2,293	2,259
Management fees received	275	271
Excess income received	9,842	10,014
Note interest	16,808	14,435
Other	245	258

28 Prior period restatement

During 2019, the Group identified that funds held in its 11am bank accounts had been previously classified as loans and advances to ADIs. These funds are used in the Group's management of its daily cash requirements and meet the definition of cash and cash equivalents. The following table summarises the impact on the Group and Company's financial statements of this restatement.

Statements of Financial Position

	Consolidated Assets		
	As previously reported \$'000	Adjustments \$'000	As restated \$'000
1 July 2017			
Cash and cash equivalents	65,237	39,452	104,689
Loans and advances to ADIs	333,977	(39,452)	294,525
30 June 2018			
Cash and cash equivalents	62,216	41,545	103,761
Loans and advances to ADIs	277,005	(41,545)	235,460

Statement of Financial Position

	Company Assets		
	As previously reported \$'000	Adjustments \$'000	As restated \$'000
1 July 2017			
Cash and cash equivalents	28,823	39,452	68,275
Loans and advances to ADIs	333,977	(39,452)	294,525
30 June 2018			
Cash and cash equivalents	29,779	41,545	71,324
Loans and advances to ADIs	277,005	(41,545)	235,460

The adjustments have had no effect on total assets, net assets or the reported profit for the year.

Statements of Cash Flows

	Consolidated		
	As previously reported \$'000	Adjustments \$'000	As restated \$'000
30 June 2018			
Cash flows (used in)/ from investing activities			
Redemptions of/(payments for) investment securities	64,775	2,093	66,868
Net cash flows from investing activities	60,791	2,093	62,884
Net (decrease)/increase in cash and cash equivalents held	(3,021)	2,093	(928)
Cash and cash equivalents at the beginning of the year	65,237	39,452	104,689
Cash and cash equivalents at the end of the year	62,216	41,545	103,761

Notes to the Consolidated Financial Statements

28 Prior period restatement (continued)

Statements of Cash Flows

	Company		
	As previously reported \$'000	Adjustments \$'000	As restated \$'000
30 June 2018			
Cash flows (used in)/ from investing activities			
Redemptions of/(payments for) investment securities	57,663	2,093	59,756
Net cash flows from investing activities	53,725	2,093	55,818
Net (decrease)/increase in cash and cash equivalents held	956	2,093	3,049
Cash and cash equivalents at the beginning of the year	28,823	39,452	68,275
Cash and cash equivalents at the end of the year	29,779	41,545	71,324

The adjustments have had no effect on cash flows (used in)/from operating activities or cash flows (used in)/from financing activities.

29 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 market conditions, 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 oversees the risk management framework, the Assets and Liabilities Committee (ALCO) which is responsible for managing liquidity and market risk, 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 ensuring 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

29 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 2019:

		Consolidated			
	Note	Loans and advances to customers 2019 \$'000	Loans and advances to ADIs 2019 \$'000	Investment debt securities 2019 \$'000	Cash and cash equivalents 2019 \$'000
Carrying Amount	6,7,8,25	4,924,283	164,440	822,464	96,306
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		4,694,867	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		56,105	–	–	–
Investment grade		–	141,254	822,464	96,306
Unrated		–	23,256	–	–
Other		144,095	–	–	–
Net deferred income and expenses		1,723	–	–	–
Carrying amount		4,896,790	164,510	822,464	96,306
Stage 2: significant increase in credit risk					
Secured by mortgage		16,783	–	–	–
Other		823	–	–	–
Carrying amount		17,606	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		14,230	–	–	–
Other		549	–	–	–
Carrying amount		14,779	–	–	–
Expected credit loss	10	(4,892)	(70)	–	–
Total carrying amount	6,7,8,25	4,924,283	164,440	822,464	96,306
Includes restructured loans		9,557	–	–	–

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

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

		Company			
	Note	Loans and advances to customers 2019 \$'000	Loans and advances to ADIs 2019 \$'000	Investment debt securities 2019 \$'000	Cash and cash equivalents 2019 \$'000
Carrying Amount	6,7,8,25	4,924,283	164,440	1,580,370	62,863
Stage 1: no significant increase in credit risk since initial recognition					
Secured by mortgage – current		4,694,867	–	–	–
Secured by mortgage – less than or equal to 30 days in arrears		56,105	–	–	–
Investment grade		–	141,254	1,580,370	62,863
Unrated		–	23,256	–	–
Other		144,095	–	–	–
Net deferred income and expenses		1,723	–	–	–
Carrying amount		4,896,790	164,510	1,580,370	62,863
Stage 2: significant increase in credit risk					
Secured by mortgage		16,783	–	–	–
Other		823	–	–	–
Carrying amount		17,606	–	–	–
Stage 3: credit-impaired (or defaulted) loans					
Secured by mortgage		14,230	–	–	–
Other		549	–	–	–
Carrying amount		14,779	–	–	–
Expected credit loss	10	(4,892)	(70)	–	–
Total carrying amount	6,7,8,25	4,924,283	164,440	1,580,370	62,863
Includes restructured loans		9,557	–	–	–

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

Exposure to credit risk

The following table represents comparative information prior to the adoption of AASB 9 on the Group's maximum credit exposure at 30 June 2018.

		Consolidated			
	Note	Loans and advances to customers 2018 \$'000	Loans and advances to ADIs 2018 \$'000	Investment debt securities 2018 \$'000	Cash and cash equivalents 2018 \$'000
Carrying Amount	6,7,8,25	4,569,669	235,460	959,712	103,761
<i>Individually impaired</i>					
Gross amount		1,783	–	–	–
Provision for impairment	10	(822)	–	–	–
Carrying amount		961	–	–	–
<i>Past due but not impaired</i>					
Days in arrears:					
Less than one month		63,335	–	–	–
Greater than one month and less than two months		6,981	–	–	–
Greater than two months and less than three months		3,954	–	–	–
Greater than three months		4,747	–	–	–
Carrying amount		79,017	–	–	–
<i>Neither past due nor impaired</i>					
Secured by mortgage		4,365,474	–	–	–
Government securities		–	–	–	–
Investment grade		–	212,111	959,712	103,761
Unrated		–	23,349	–	–
Other		126,935	–	–	–
Net deferred income & expense		1,572	–	–	–
Carrying amount		4,493,981	235,460	959,712	103,761
Collective impairment provision	10	(4,290)	–	–	–
Total carrying amount	6,7,8,25	4,569,669	235,460	959,712	103,761
Includes restructured loans		5,346	–	–	–

Exposure to credit risk

The following table represents comparative information prior to the adoption of AASB 9 on the Company's maximum credit exposure at 30 June 2018.

		Company			
	Note	Loans and advances to customers 2018 \$'000	Loans and advances to ADIs 2018 \$'000	Investment securities 2018 \$'000	Cash and cash equivalents 2018 \$'000
Carrying Amount	6,7,8,25	4,569,669	235,460	1,467,487	71,324
<i>Individually impaired</i>					
Gross amount		1,783	–	–	–
Provision for impairment	10	(822)	–	–	–
Carrying amount		961	–	–	–
<i>Past due but not impaired</i>					
Days in arrears:					
Less than one month		63,335	–	–	–
Greater than one month and less than two months		6,981	–	–	–
Greater than two months and less than three months		3,954	–	–	–
Greater than three months		4,747	–	–	–
Carrying amount		79,017	–	–	–
<i>Neither past due nor impaired</i>					
Secured by mortgage		4,365,474	–	–	–
Government securities		–	–	–	–
Investment grade		–	212,111	1,467,487	71,324
Unrated		–	23,349	–	–
Other		126,935	–	–	–
Net deferred income & expense		1,572	–	–	–
Carrying amount		4,493,981	235,460	1,467,487	71,324
Collective impairment provision	10	(4,290)	–	–	–
Total carrying amount	6,7,8,25	4,569,669	235,460	1,467,487	71,324
Includes restructured loans		5,346	–	–	–

IMB issues guarantees to business banking clients with a maximum credit exposure of \$4,133,000 (2018: \$4,397,000). Refer Note 23 for more details.

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

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.

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. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. 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 Loan to Value Ratios (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

LVR ratio	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<= 25%	216,580	189,880	216,580	189,880
>25%<=50%	952,000	863,298	952,000	863,298
>50%<=70%	1,591,773	1,496,422	1,591,773	1,496,422
>70%<=80%	1,074,954	1,021,578	1,074,954	1,021,578
>80%<=90%	466,130	446,209	466,130	446,209
>90%<=100%	219,969	191,236	219,969	191,236
>100%	1,836	1,349	1,836	1,349
Total	4,523,242	4,209,972	4,523,242	4,209,972

Commercial mortgages

LVR ratio	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<= 25%	13,217	13,360	13,217	13,360
>25%<=50%	62,438	57,982	62,438	57,982
>50%<=70%	123,106	112,410	123,106	112,410
>70%<=80%	48,078	37,895	48,078	37,895
>80%<=90%	3,147	1,249	3,147	1,249
>90%<=100%	-	-	-	-
>100%	940	930	940	930
Total	250,926	223,826	250,926	223,826

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 2019 that were credit-impaired is \$1,996,000 (2018: \$1,229,000) with the amount outstanding on these loans being \$2,659,000 (2018: \$1,783,000).

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

Reposessed 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 \$2,501,000 (2018: \$1,255,000).

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 customers		Loans and advances to ADIs		Investment debt securities		Cash and cash equivalents	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
CONSOLIDATED								
Carrying amount	4,924,283	4,569,669	164,440	235,460	822,464	959,712	96,306	103,761
Concentration by location								
New South Wales	3,829,250	3,576,286	141,254	193,600	631,324	523,499	95,668	60,284
Australian Capital Territory	647,331	584,522	21,242	16,328	–	–	540	2,806
Queensland	118,672	110,947	–	5,016	121,922	95,757	–	15,008
Victoria	254,621	232,436	–	18,511	43,312	300,576	98	25,663
Western Australia	45,569	41,131	–	–	14,959	29,926	–	–
South Australia	13,562	11,245	–	2,005	996	4,959	–	–
Tasmania	20,170	18,214	2,014	–	9,951	4,995	–	–
Provision for impairment*	(4,892)	(5,112)	(70)	–	–	–	–	–
Total	4,924,283	4,569,669	164,440	235,460	822,464	959,712	96,306	103,761

	Loans and advances to customers		Loans and advances to ADIs		Investment debt securities		Cash and cash equivalents	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
COMPANY								
Carrying amount	4,924,283	4,569,669	164,440	235,460	1,580,370	1,467,487	62,863	71,324
Concentration by location								
New South Wales	3,829,250	3,576,286	141,254	193,600	1,389,230	1,031,274	62,225	27,847
Australian Capital Territory	647,331	584,522	21,242	16,328	–	–	540	2,806
Queensland	118,672	110,947	–	5,016	121,922	95,757	–	15,008
Victoria	254,621	232,436	–	18,511	43,312	300,576	98	25,663
Western Australia	45,569	41,131	–	–	14,959	29,926	–	–
South Australia	13,562	11,245	–	2,005	996	4,959	–	–
Tasmania	20,170	18,214	2,014	–	9,951	4,995	–	–
Provision for impairment*	(4,892)	(5,112)	(70)	–	–	–	–	–
Total	4,924,283	4,569,669	164,440	235,460	1,580,370	1,467,487	62,863	71,324

* Provision for impairment for the current period represents the ECL under AASB 9. Refer Note 10.

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.

IMB's Treasury performs cash flow projections to determine future net funding requirements reflective of various expected and alternative market and business conditions. Treasury then maintains a portfolio of liquid investments, largely made up of high-quality liquid assets (HQLA), other contingent liquidity and funding sources (eg internal securitisation assets available as collateral under repurchase agreement) and other investment debt securities to ensure that sufficient liquidity is maintained and to avoid large funding mismatches. The liquidity and funding position is monitored and managed daily.

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

The Group relies on deposits from Members as its primary source of funding. Deposits from Members generally have maturities less than one year and a large proportion of them are contractually payable on demand. However, most of these deposits are in transactional, savings and term investment products that display the behaviour of more stable funding sources. In addition, Treasury performs funding as required in the middle and wholesale markets in order to meet daily net funding requirements of the Group. The securitisation of residential mortgage loans and commercial loans further supports diversification of the funding base. The Group also have available a number of other contingent funding sources. This includes a securitisation warehouse facility with Westpac up to a limit of \$85.2 million (2018: \$100 million) and securities issued under the Group's internal 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 2019 was \$84.5 million (2018: \$91.8 million). No internal securitisation securities were subjected under repurchase agreement for the period to 30 June 2019.

Overall, the Group pursues through its funding and liquidity management strategy, a well-diversified funding base in terms of products, maturity terms and funding segment (i.e. wholesale and retail member funding) so as to avoid large concentrations that increases funding liquidity risk. This is controlled through funding and liquidity risk limits monitored weekly by Treasury and monthly by the ALCO. Mitigation of liquidity risk is further supported by a liquidity stress-testing framework which is reported by Treasury on a weekly basis with monthly oversight by the ALCO and the Risk Committee. Various stress tests measure the liquidity coverage of cash outflows under a variety of scenarios. These scenarios are reflective of differing levels of severity in disrupted and abnormal market and depositor behaviour and business conditions. 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 liquid assets to total adjusted liabilities, excluding any liability elements that qualify as Tier 1 or Tier 2 capital for prudential regulatory purposes. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity requirements established by the Group's regulator (APRA). 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. IMB's total liquidity includes HQLA and other deposits with banks or other ADIs not on a call basis that are ineligible to be classified as HQLA for regulatory or liquidity management purposes. Details of the reported Group HQLA ratio and ratio of total investments to total adjusted liabilities at the reporting date were as follows:

Liquidity ratios

At 30 June	2019 %	2018 %
APRA High Quality Liquid Assets	15.94	19.08
Total liquidity	18.88	23.63

Residual contractual maturities of financial liabilities

	At call		Excluding call less than 3 months maturity		Greater than 3 months less than 12 months maturity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
CONSOLIDATED						
Financial Liabilities						
Deposits	2,056,575	2,046,204	1,896,675	1,761,444	1,258,074	1,134,667
Trade and other payables	-	-	40,523	40,766	-	-
Securitised loans funding*	-	-	22,318	22,069	74,607	59,320
Interest bearing liabilities	-	-	820	46,113	2,465	2,780
Total financial liabilities	2,056,575	2,046,204	1,960,336	1,870,392	1,335,146	1,196,767
COMPANY						
Financial Liabilities						
Deposits	2,060,577	2,049,704	1,896,675	1,761,444	1,258,074	1,134,667
Trade and other payables	-	-	33,037	25,254	-	-
Securitised loans funding *	-	-	26,928	25,903	88,107	70,698
Interest bearing liabilities	-	-	820	46,113	2,465	2,780
Total financial liabilities	2,060,577	2,049,704	1,957,460	1,858,714	1,348,646	1,208,145
Consolidated and Company						
Unrecognised loan commitments	-	-	316,162	203,929	-	-

* 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.

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

	Greater than 1 year less than 5 years maturity		Greater than 5 years maturity		Gross nominal outflow		Total carrying amount	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
CONSOLIDATED								
Financial Liabilities								
Deposits	102,644	94,412	-	-	5,313,968	5,036,727	5,266,418	4,993,265
Trade and other payables	-	-	-	-	40,523	40,766	40,523	40,766
Securitised loans funding *	167,477	206,268	83,307	164,972	347,709	452,629	324,004	405,795
Interest bearing liabilities	13,177	14,862	78,338	83,134	94,800	146,889	69,853	114,739
Total financial liabilities	283,298	315,542	161,645	248,106	5,797,000	5,677,884	5,700,798	5,554,565
COMPANY								
Financial Liabilities								
Deposits	102,644	94,412	-	-	5,317,970	5,040,227	5,270,420	4,996,765
Trade and other payables	-	-	-	-	33,037	25,254	33,037	25,254
Securitised loans funding*	239,461	267,157	840,552	671,876	1,195,048	1,035,634	1,081,249	912,699
Interest bearing liabilities	13,177	14,862	78,338	83,134	94,800	146,889	69,853	114,739
Total financial liabilities	355,282	376,431	918,890	755,010	6,640,855	6,248,004	6,454,559	6,049,457
Consolidated and Company								
Unrecognised loan commitments	-	-	-	-	316,162	203,929	-	-

* 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.

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

The banking book has exposure to adverse changes to interest rates, which will negatively affect the Group's profit in current and future periods derived from net interest

income (interest earned less interest paid). This risk is known as Interest Rate Risk in the Banking Book (IRRBB).

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

Management of Interest Rate Risk in the Banking Book

The Group measure and manage IRRBB from two perspectives: firstly, from an earnings perspective quantified in terms of potential changes to its net interest income (NII) as reported in the profit or loss; and secondly from an economic value (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 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, Risk Committee and the Board) and for its day-to-day implementation which includes the development and implementation of hedging strategies.

Exposure to IRRBB

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

Net Interest Income Sensitivity

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

The Net Interest Income Sensitivity measure is supported by further analyses and risk metrics that include reprice gap analyses and interest rate scenario stress tests (e.g. Basel standardised rate shocks and historic calibrations) to measure the impact of repricing mismatches in the balance to the Group's net interest income. In addition, the impact to NII from loan prepayments and basis risk (which is a source of IRRBB manifesting from the imperfect correlation in the changes in loan and deposit rates that otherwise has 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 2019 follows:

	2019 %	2018 %
At 30 June	(1.91)	(2.64)
Average EaR for the period	(2.55)	(2.61)
Minimum EaR for the period	(1.87)	(2.32)
Maximum EaR for the period	(3.06)	(2.91)

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

A summary of the Historical Simulation VaR position of the Group's banking book, expressed as a percentage of capital, as at 30 June 2019 and during the year is as follows:

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

	2019 %	2018 %
At 30 June	0.71	0.66
Average VaR for the period	0.50	1.07
Minimum VaR for the period	0.38	0.61
Maximum VaR for the period	0.71	1.31

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 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:

- Understand the operational risks across the organisation.
- Ensure appropriate controls and mitigation are in place.
- 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 table shows the carrying amount and the fair values of financial assets and financial liabilities under AASB 9, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

30 June 2019	Note	Carrying Amount \$'000	Fair Value			Total consolidated \$'000
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets measured at FVOCI						
Investment debt securities	6	822,464	-	822,464	-	822,464
Equity investments	9	805	-	-	805	805
		823,269				
Financial assets at amortised cost						
Cash and cash equivalents	25	96,306				
Loans and advances to ADIs	7	164,440				
Loans and advances to customers	8	4,924,283	-	-	4,946,048	4,946,048
Trade and other receivables	13	32,538				
		5,217,567				
Financial liabilities measured at amortised cost						
Deposits	15	5,266,418	-	5,281,430	-	5,281,430
Securitised loan funding	16	324,004				
Interest bearing liabilities	17	69,853				
Trade and other payables	14	40,523				
		5,700,798				

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

Notes to the Consolidated Financial Statements

29 Risk management and financial instruments (continued)

The following table shows the carrying amount and the fair values of financial assets and financial liabilities under AASB 139 as at 30 June 2018.

30 June 2018	Note	Carrying Amount \$'000	Fair Value			Total consolidated \$'000
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets measured at fair value						
Investment securities	6	959,712	–	959,712	–	959,712
		959,712				
Financial assets not measured at fair value						
Cash and cash equivalents	25	103,761				
Loans to other ADIs	7	235,460				
Loans and advances	8	4,569,669	–	4,581,657	–	4,581,657
Equity investments held at cost	9	505				
Trade and other receivables	13	25,960				
		4,935,355				
Financial liabilities not measured at fair value						
Deposits	15	4,993,265	–	4,997,777	–	4,997,777
Securitised loan funding	16	405,795				
Interest bearing liabilities	17	114,739				
Trade and other payables	14	40,766				
		5,554,565				

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

Valuation techniques

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

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

Interest rates used for determining fair value

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

	2019	2018
Loans and borrowings	1.18% – 1.25%	1.50% – 2.49%

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 is consistent with the period over which IMB intends to continue the buyback of all ordinary shares on issue.

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

29 Risk management and financial instruments (continued)

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

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Tier 1 capital				
Ordinary share capital	28,324	30,513	28,324	30,513
General reserves	25,255	25,255	25,255	25,255
Asset revaluation reserves	6,712	6,360	6,712	6,360
Retained earnings	269,449	250,753	268,121	248,954
Current year earnings	19,752	18,805	19,482	19,277
(Less) Capitalised expenses	(3,444)	(3,757)	(3,444)	(3,757)
(Less) Other	(9,115)	(4,808)	(9,087)	(4,814)
Total	336,933	323,121	335,363	321,788
Tier 2 capital				
General reserve for credit loss	10,508	9,848	10,508	9,848
Subordinated debt	70,000	70,000	70,000	70,000
Total	80,508	79,848	80,508	79,848
Total regulatory capital	417,441	402,969	415,871	401,636
Capital requirements (in terms of risk-weighted assets) for:				
Credit risk	2,361,001	2,186,436	2,363,079	2,187,950
Operational risk	337,888	321,967	334,601	318,691
Total risk-weighted assets	2,698,889	2,508,403	2,697,680	2,506,641
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	15.5%	16.1%	15.4%	16.0%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	12.5%	12.9%	12.4%	12.8%

30 Remuneration of Auditors

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Amounts received or due and receivable by KPMG for:				
Audit and review of financial statements	369	368	313	309
Regulatory audits and review	70	55	60	46
Other assurance services	20	22	8	10
	459	445	381	365
Taxation				
– compliance	23	17	23	17
– advisory	127	54	126	54
Other advisory	16	85	16	85
	625	601	546	521

31 Events subsequent to reporting date

Dividends

For dividends declared by IMB Ltd after 30 June 2019 refer to note 5.

Merger with Hunter United Employees' Credit Union

On 8 July 2019 the Company announced plans to merge with Hunter United Employees' Credit Union Ltd (Hunter United). The merger is to be undertaken by way of a voluntary transfer of the business of Hunter United to the Company in accordance with legislation administered by APRA. Under the merger, all members of Hunter United on the date of the transfer will become members of the Company.

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.

Directors' Declaration

For the year ended 30 June 2019

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

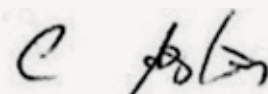
- (a) the financial statements and notes, set out on pages 40 to 105, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2019 and of their performance for the financial year ended on that 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 27th day of August 2019.

Signed in accordance with a resolution of the directors:



NH Cornish
Chairman



CA Aston
Director



Independent Auditor's Report to the Members of IMB Ltd

Report on the financial report

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 are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group and Company's financial position as at 30 June 2019 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2019
- 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 audit 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* (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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of IMB Ltd, would be in the same terms if given to the Directors as at the time of this Auditor's Report.

Other information

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

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

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



Independent Auditor's Report to the Members of IMB Ltd (continued)

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the 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. 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 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 Reports.

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_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Richard Drinnan
Partner

Dated at Wollongong, this 27th day of August 2019.

IMB Bank Branches

New South Wales

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

Level 1, 205 Crown Street WOLLONGONG NSW 2500

IMB Business Banking

Level 1, 205 Crown Street
WOLLONGONG NSW 2500

Corporate Directory

Members' diary and other information

Payment of final dividend 3 September 2019
Annual General Meeting 23 October 2019 at 10:30am

Notice of Annual General Meeting

The Annual General Meeting of IMB Ltd will be held at the Novotel Northbeach Hotel, 2-14 Cliff Road, North Wollongong on Wednesday, 23 October 2019 at 10.30am.

Company Secretary

Lauren Wise (BA LLB Grad Dip. Legal Practice)

Registered office

253-259 Crown Street
Wollongong NSW 2500

Share registry

IMB Ltd is not listed on the Australian Stock Exchange.

Shares are traded under an Australian Market Licence held by the Company

The share register is available for inspection at:

Level 6 Executive Services
253-259 Crown Street
Wollongong NSW 2500

Advisors

Solicitors

Watson Mangioni
23/85 Castlereagh Street
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 can be accessed from the Company's website (<http://www.imb.com.au/about-us-investor-centre-financial-reports.html>).



imb.com.au