

IMB Ltd

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2016 Annual General Meeting

Chairman's Address

Noel Cornish

Ladies and Gentlemen, let me say thank you for your support in re-electing me as a director. It is a privilege to be able to contribute to such a wonderful organisation as IMB Bank.

As many of you know, IMB has been in continuous operation since 1880. And while in some ways we are a vastly different organisation today than the one we were 136 years ago, there are also fundamental attributes that haven't changed and won't change. As you hear us talk about our strategic goals in the form of digital transformation, member analytics and geographic expansion, the core values, the core purpose for which IMB exists, is still "to help our members and communities to be better off".

IMB was established in the Illawarra and proudly remains headquartered in the Illawarra, but as you know, we are making a difference in the lives of our members far beyond our original heartland. Some of you may have previously heard the background to IMB's inception, where a small group of Wollongong coalminers and cedar cutters formed the Illawarra Mutual Building Society to fund the building of one another's homes because they were unable to obtain finance on reasonable terms through the banks.

That co-operative approach with the integration of the needs of the individual and the broader community is still our driving force, and is something that defines the mutual banking sector.

When we ask our members what it is that brought them to IMB or what keeps them satisfied, so much of what we hear is about how they feel a part of an organisation that is different to the major banks, where they don't feel like a number, where there is a level of personal and genuine service, where members and staff know each other, or even that when things don't go as planned, we take ownership and appropriate action to address the issue.

All our decisions are based around ensuring that IMB is a viable, sustainable, competitive banking alternative, so that we can deliver value to all our stakeholders for the longer term and continue to make a positive difference in the lives of our member's and the communities in which they live.

I'd like to mention a few examples where IMB is making a difference:

Firstly, the IMB Traineeship Program is in its 11th year, with 103 trainees having commenced their careers with IMB. 93% of our Trainees took up permanent roles at the completion of their traineeship and almost half of them continue to be permanently employed by IMB in a variety of roles, including in leadership positions.

And then there's the IMB Community Foundation which has funded more than 550 community projects in NSW and the ACT, projects such as heart health check booths, creation of careers in the dairy industry and youth safe driving programs.

And of course, IMB sponsors a range of grass roots activities associated with sporting and leisure activities, schools, local events and community causes, and this is where our staff are truly part of their local community. Yes, we proudly support some large projects like the Camp Quality Convoy for Kids with Cancer and the University of Wollongong Discovery Space for children, but I would also like to highlight some of the local activities our wonderful staff are passionate about.

I think of Michelle Milsom, our Merimbula Branch Manager organising a Cyber Bullying Info Night for the Merimbula Public School P&C to help parents better support their children in their online activities and to use technology responsibly.

And Terry Egan our Manager at Gungahlin who organised clothing collections for program called "Through Communities @ Work". These clothes are passed on so that the less fortunate in the community have appropriate clothing for job interviews. Once Terry saw how enthusiastically his own members responded to this wonderful initiative, he expanded IMB's support across all other branches in the ACT.

These are just a fraction of the support our staff are happy to give outside of hours. Every IMB branch across the business is involved in activities like this – the cumulative effect is remarkable.

This long history of giving back to our members and communities is worthy of reflection and all of us should be proud of our association with IMB.

Once employees and directors move on from IMB, their involvement and interest in the success of the company often continues and I warmly acknowledge former IMB Directors and staff who have joined us today.

Thank you.

Additionally, I would like to acknowledge the outstanding contribution of our recently retired Chairman Michael Cole and Director, Kieran Biddle.

Michael was a director of IMB from 2003 until September 2016, and served as Chairman since 2007. Michael provided outstanding leadership throughout some of the largest corporate initiatives in IMB's history, including the transformation to IMB Bank and the commencement of the share buyback program. His experience in financial markets has been invaluable, not least of all while IMB endured the challenges of the global financial crisis.

In keeping with the contribution our staff make to the community, last month I attended a function where Michael was invested as a Fellow of the University of Wollongong. This is the highest award granted by the University for exceptional service to the institution. Michael has made a significant contribution to the management of investments and large capital works projects at the university over a significant period of time.

Kieran was appointed as a director in 2007 and served as Deputy Chair in 2014/15. Kieran was Chair of the IMB Community Foundation Committee, overseeing the continued growth and success of the Foundation's activities which I mentioned earlier.

Both Michael and Kieran were committed directors, working always to ensure the best outcomes for IMB and its members and I wish them both all the best in their future endeavours.

I also welcome our 2 newest directors - Gai McGrath and Cathy Aston. You will soon have the opportunity to approve their re-appointments as directors of IMB. I will be inviting both Cathy and Gai to address the meeting, however I would like to take this opportunity to thank them for the contribution they have already made as directors of IMB and we welcome their significant experience in financial management, law, retail banking, digital technologies and member satisfaction.

I will now briefly touch on IMB's performance for the 2015/16 year. Our Chief Executive, Rob Ryan, will provide a more detailed commentary on the results.

- IMB's balance sheet assets increased by 5% on the previous year to \$5.2 billion. Following the merger with Sutherland Credit Union, this is now \$5.4 billion;
- Operating Profit after Tax of \$29.6 million was broadly in line with the previous year's underlying result;
- Loan approvals for the year were \$1.01 billion, 19.1% higher than the previous year;
- Retail deposit growth was significantly above budget in an intensely competitive market;
- IMB's strong commitment to sound margin and cost management continued, with the cost to income ratio at 64.1%, and
- IMB has a strong capital base, with a capital adequacy ratio of 16.9% at 30 June 2016, which saw a lift of 1.4% in absolute terms over the previous year end.

As members know, capital is an important measure of strength for a financial institution, but there are other elements that are also essential. Strong financial institutions need to have prudently managed balance sheets, a razor sharp focus on credit quality, sustainable profitability, a strong risk culture, the ability to efficiently execute strategic projects and a focus on long term viability and competitive advantage.

Each of these requirements are evident in IMB's operations and are reflected in our results.

I would like to address a number of topics that have been the focus of the Board in recent times, and have been the subject of questions from members in the lead up to today's meeting.

The first topic relates to the regulatory treatment of IMB's ordinary shares.

Members may be aware that all ADIs – banks, building societies and credit unions, are required by the regulator APRA to hold prescribed levels of capital to ensure that the Australian banking sector remains strong. APRA will only recognise certain types of capital instruments, such as retained earnings, shares and subordinated debt, in a bank's capital calculation.

As we recently announced, following changes in prudential standards which were introduced after the GFC, APRA has determined that IMB's ordinary shares do not meet the requirements for recognition as regulatory capital.

APRA has provided approval for the shares to temporarily maintain their current regulatory capital treatment of Common Equity Tier 1 until 1 January 2025. From this date, the ordinary shares on issue will have no regulatory capital value for prudential capital purposes.

After exhaustive consultation with APRA, IMB accepts the regulator's position. It is important to emphasise that IMB is currently well capitalised, with a strong capital management strategy and has sufficient capital to remain above its prescribed capital requirements.

Further, the transitional period APRA has approved is consistent with the period over which IMB intends to buy back all ordinary shares on issue, and as you would be aware we have recently announced our 4th off-market share buyback.

However, what we are unable to ignore, is that this determination means that the ordinary shares cannot be viewed as an efficient form of capital as there is an outflow of dividends on an instrument that will in time, have no regulatory capital value. This change of circumstances is significant and in this context, let me emphasise that the Board remains committed to buying back all shares on issue.

As a mutual organisation, IMB is owned by all of its Members. We currently have over 190,000 members which includes around 3,600 shareholder members.

To ensure we are balancing the interests of all members appropriately, in 2008 IMB's Board commissioned PwC Securities to prepare a report on the relative funding contribution of each member class. This report has been used by the Board to assess whether the proportion of annual profit being allocated to dividends payable on IMB ordinary shares is broadly consistent with the relative funding contribution of shareholder members.

This report has been updated a number of times based on changes in IMB's operations, and two alternative approaches for determining the contributed funding position of each of IMB's member classes were devised by PwC. 'Approach 2' as it is referred to in the report has recently been confirmed by PwC Securities to be the most appropriate approach to determine contributed funding. This approach entails post-tax profits being split in line with the respective interests of those two member groups before the deduction of dividends.

This reflects the fact that dividends paid to shareholder members reduce retained profits and this logically results in the dilution of their continuing interest relative to other members who effectively reinvest 100% of post-tax profit attributable to them back in the organisation.

I have also received questions from shareholders in relation to the level of Dividends.

As noted in the recent announcement of the revised Dividend Guideline, the Board takes a number of factors into account when considering dividends. These factors include the:

- performance of the company;
- strategic growth objectives;
- the operating environment;
- current and future capital requirements, which must now take into consideration APRA's determination that IMB's ordinary shares will not be recognised as regulatory capital after a period of time;
- PwC's Report on Contributed Funding and
- regulatory requirements.

We have announced that the Board's current intention is to pay a dividend of 20 cents per share for 2016/17, so long as IMB's capital adequacy ratio is above 14% and profits are maintained or increased. However, as the previous Chairman has advised, following the two most recent RBA reductions to official interest rates, and in the context of expected regulatory capital requirements, the ability to maintain profits at the 2015/2016 level will be a challenge.

Going forward, the Board expects that the effective dividend payout ratio based on shareholders' interest in contributed funding, will move to a range between 65% to 80%. This range is consistent with the dividend payout ratio ranges applied by the major banks.

The Board does not take dividend decisions lightly. We have considered the interests of all stakeholders in determining the new Guideline, and believe that this revised Dividend Guideline ensures that IMB is best positioned to effectively compete in a very challenging market, to provide a fair outcome for all members by allocating dividends in a manner consistent with members' interests and to support the ongoing sustainability of IMB as a whole.

I would now like to address Director remuneration.

Director remuneration increases have been contained to movements in the Consumer Price Index, being 1% for the current year and 1.5% for the prior year. And, for the avoidance of doubt, increases in remuneration have been limited to the movement in the CPI for the last six consecutive years.

Increases in the last two years have been conservative in comparison to other movements in industry and the aggregate amount of IMB Directors fee is comparable or in most cases, lower than the other large mutual ADIs we include in our benchmarking with similar operations and scale to IMB.

Directors and Executives' remuneration represent fees paid for employment services provided to the company and in order to attract and retain high calibre Board members, it is appropriate that Director remuneration is consistent with industry standards.

As I have mentioned, we have recently announced our next voluntary off-market share buyback under which we are seeking to buy back up to \$18 million of shares on issue. We have again received questions as to whether IMB intends to buy back all shares, and I confirm that, yes, this is the objective in order to provide IMB with the most effective capital structure over the longer term.

In considering their participation in the buyback, I urge shareholders to review the announcements we have made relating to the prudential treatment of IMB's shares and the revised dividend guideline. Depending on your circumstances, the off-market share buyback may provide an effective avenue to dispose of shares more quickly and effectively than would occur on IMB's market.

The buyback also provides IMB the opportunity to release franking credits to shareholders with the buyback price including a dividend component, with franking credits attached.

Shareholders will soon begin to receive their Buyback Booklet with the Tender Period opening on 31 October. We recommend that shareholders seek financial, taxation or legal advice prior to making a decision to participate in the buyback.

The Board is thrilled to advise this meeting that IMB's first merger with another mutual ADI in over a decade is now complete. Being able to take part in the consolidation of the mutual sector is something you have heard us talk about for some time, and we are pleased to have achieved our goal of partnering with another mutual ADI which is committed to providing a genuine banking alternative. The merger was finalised on 1 July and I welcome the former Sutherland Credit Union members to the IMB community and thank those that have joined us here today.

Like IMB, Sutherland Credit Union has focused for the best part of 50 years on positively contributing to communities in the Sutherland Shire and has been passionate about its mutual value programs. We want to learn from the successes of Sutherland Credit Union in order to deliver more benefits and value across our combined membership.

For the year ahead, I believe that we will continue to see a focus from the Government and regulators on driving cultural change in the financial services industry and particularly amongst the major banks. We believe that this can lead to an increased level of competition and consumer awareness of mutual banking alternatives, and an opportunity for IMB to leverage its member service culture to win customers that are looking for a transparent and genuine banking relationship to meet their financial needs.

IMB is strong and is focused on maintaining an efficient and sustainable business model, which has us well placed to achieve organic growth, with more significant uplift possible through further mergers as opportunities with other like-minded mutuals arise.

In my first year as Chairman, I am looking forward to working collaboratively with the renewed Board, our Chief Executive Robert Ryan, and IMB's outstanding staff as we continue our sharp focus on providing superior services for our members and contributing to the prosperity of our local communities.

In finishing, I would like to thank my fellow directors and our staff for their dedication and strong contribution during a year that has seen the delivery of many key strategic milestones that have positioned IMB for continued success.

Thank you. I will now hand over to our Chief Executive, Robert Ryan.

Chief Executive's Address

Robert Ryan

Thank you Noel. I would also like to extend a warm welcome to our members here today and I particularly welcome our new members following our merger with Sutherland Credit union.

I also would like to acknowledge the contribution of both Michael Cole and Kieran Biddle to IMB and thank them for their leadership and support. During their tenure we not only successfully navigated the GFC, we have also implemented a range of initiatives that have placed IMB in a stronger position for future growth. Thank you Michael and Kieran for your counsel and friendship and I wish you well for your future endeavours.

As IMB enters its 136th year of continuous operations, I am pleased to report that in a landscape that has been dominated by political and economic uncertainty and a rapidly changing environment, IMB remains financially strong, relevant and well positioned for the future.

We performed strongly in our key metrics, with profits being maintained, loan approvals up significantly, continued strong growth in our deposit base and capital and liquidity levels well in excess of regulatory requirements.

In August last year IMB transitioned to a mutual bank. This change has been well received by members and has supported our best result for growth in new members in several years, and improved our brand relevance particularly in newer and younger markets.

Capping off a solid year, as Noel confirmed, on July 1 we merged with Sutherland Credit Union. The merger will, over time, provide Sutherland's members with greater access to branches, ATMs and to a broader range of products and services. The merger has taken us to 190,000 members, 550 employees, total assets to \$5.4 billion and branch numbers to 48.

We have purposefully tried to minimise any change for Sutherland members in these early days so that you are still having your needs met by the same friendly Sutherland staff members that you have always dealt with.

Our current focus is now about completing the system changes required to bring all members across onto the one banking platform, which is when we can really start to deliver a broader range of products and services to our newest group of members.

Financial Performance

IMB's net profit after tax, excluding the profit on the sale of IMB's head office building, was in line with the previous year's result which is a great outcome in the current market and reflects our management of interest margin, diligent attention to managing costs and a focus on improving productivity.

Net interest income increased on the previous year to \$104 million with the average interest margin maintained during the year at 2.04%. The maintenance of the interest margin, in a highly competitive market, reflects our management of interest rates and balance sheet growth.

As was commented on when we announced our results in August, we expect that the interest margin will come under pressure over the coming financial year, with downward movements in official rates and pressures arising from the highly competitive deposit and lending markets.

IMB's bad debt expense was again an impressive result at only \$300,000, a further reduction on the previous year and the lowest result for IMB in over 20 years. Bad debts expense was 0.01% of IMB's total loan portfolio, reflecting the quality of IMB's credit policies and processes.

Total expenses increased by \$0.9 million on the previous year to \$75.5 million, although excluding land development expenses, expenses on a like for like basis increased by \$5.8 million. The increase in expenses reflects the costs associated with implementing a number of key initiatives including new branches, investment in digital channels and a strengthening of IMB's management structure.

IMB also invested in increased training for our staff and an uplift in our marketing spend which has supported the strong growth in both loans and deposits.

Total assets increased to \$5.2 billion at the end of the financial year.

Loan approvals for the year were over \$1 billion, an increase of more than \$162 million, or 19%, on the previous year. This level of writings is a significant achievement, being just short of the level of writings that IMB generated when we were active in third party origination.

The continued year on year increase in loan writings is a reflection of IMB's dedicated team of lenders and our competitive loan offering with standard variable interest rates remaining lower than those of the major banks for more than 5 years.

Member deposits continued their year on year growth, with total deposits increasing by \$230 million, or 5.7%, over the previous year, and retail deposits growing by 7.0% which was ahead of system growth.

The growth in funding contributed to an increase in IMB's liquidity levels notwithstanding the significant growth in loan writings. IMB's liquidity remained well above regulatory requirements and the capital ratio was also strong at 16.9%.

I'd now like to highlight some of our strategic initiatives undertaken during the 2015-2016 year.

Strategy

IMB's vision is to become NSW's leading mutual. Key to achieving this outcome is for IMB to always strive to provide simple, authentic member owned banking that helps our members and communities be better off.

Core to our strategy is the expansion of our physical and digital footprint, so that we will organically growing our member base and balance sheet, while at the same time looking to further mergers that will deliver the benefits of greater size and scale.

Over the past 12 months, we have continued to invest in a range of new technologies that allow us to more quickly respond to the changing needs of our members. This has allowed us to deliver a suite of enhanced capabilities through our digital channel where members now have a greater range of options to engage with IMB at the time and place of their choice.

Following the launch of our online Personal Loan application system, we launched Deposit Apply, our online account opening system, where members can open new accounts in under five minutes. This has not only resulted in existing members opening additional deposit accounts with IMB, but has also seen an increase in new members, often outside of our traditional areas of operation, taking advantage of this simple and easy process.

In June 2016, we upgraded Internet Banking to a responsively designed platform, and released new versions of our Mobile Banking Apps providing new features and self-service functionality and improving the online banking experience for our Members across all their devices. We are committed to regularly upgrading and continuously improving these platforms with innovative features and functionality.

We launched IMB's social media channels, going live on Facebook, Twitter and LinkedIn, and more recently Instagram. Our social media platforms are being used to support customer service, two-way member communications and the sharing of information on IMB community activity, product offerings, and useful financial tips and hints for members.

We are also focused on delivery of a range of technology upgrades in our branches, contact centre and back office areas, that are all designed to make banking with IMB easier and faster and to allow our staff to focus on activities which are of greater value to our members.

In July we started rolling out a new fleet of ATMs which includes a number of Smart ATMs that will accept both cash and cheque deposits for IMB Members. For our Business Banking clients, we are currently launching IMB paytoday, a mobile payment capability, allowing our business members to accept card payments anywhere, anytime.

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

In the same way we have reduced the time to take out a personal loan or open a deposit account, we believe we can make getting finance for a home, or refinancing an existing loan, more simple for our members by leveraging digital technologies. We want to provide members with the ability to take a mortgage with IMB online, minimising the time and effort required by streamlining the customer journey using digital data capture assessment and settlement processes.

Recognising the rapid pace of technological change, IMB is actively engaging with the Australian fintech community, to identify innovative technologies, products and services that IMB can bring to market for the benefit of our members. We continue to build a strong network of innovation and technology partners with whom we are working closely to build new capabilities, solve problems and to support IMB's strategy to remain a relevant and attractive banking provider.

IMB's strong performance over 2015-16 reflects the commitment and dedication of our people to our members and to our Values.

IMB has recently welcomed seven new Trainees across the Banking Services, Business Banking, IMB Direct call centre, Retail Network and Executive Services departments, with all gaining valuable knowledge and on-the-job experience within their key areas. We genuinely believe in a 'grow our own' strategy for key roles, and I am excited that a number of our past trainees are now currently participating in a formal talent management program which aims at preparing them for leadership and specialist roles within IMB.

IMB's learning and development approach focuses on providing staff with the skills and knowledge to meet immediate business needs, and the opportunity to build long term careers with IMB. Our learning priorities in the last 12 months have continued to be in the areas of member service, sales skills, deposits, personal and home loan lending, alliance products, and compliance training.

This has been supplemented with the provision of management and coaching skills for key managers and supervisors across the business as well as the upskilling of experienced IT staff on new approaches to systems development.

We can see the results of our focus on member products and service through the compliments we receive from members and our Member Satisfaction Survey. The most recent survey, which was completed in July, reported an overall member satisfaction rating of 96%. This is a pleasing result that validates our current strategies and focus on putting members first.

Supporting Local Communities

Supporting the communities in which we operate is a core value for IMB. As well as the support IMB provides to a variety of charity, community and sporting organisations, we also provide significant support to community projects through the IMB Community Foundation. Since its inception the IMB Community Foundation has granted approximately \$8.1 million to support over 550 projects with a diverse range of themes and purposes throughout our local communities.

This year, the Foundation has donated a further \$500,000 to 50 local projects including drug awareness and mental health programs, projects supporting refugees, unemployed youth, those living with disabilities or battling cancer.

We are delighted to have also committed \$100,000 to The Shire Community Foundation for each of the next three years. This funding will support projects specifically in the Sutherland Shire.

Each year we continue to be inspired by the range of community projects and the dedicated volunteers that are seeking to make a difference in their communities. We are honoured to be able to assist these worthwhile, and in some instances life-changing, projects and we look forward to funding further projects in the future.

IMB also continues to support a variety of charity, community and sporting organisations such as the Football South Coast and Illawarra Women in Business. Throughout the last year we have been a proud sponsor of the Illawarra Business Awards, the recent Yours and Owls Music Festival, the Cook Community Classic and the popular Sunset Cinema held in Wollongong, Sydney and the ACT.

We are committed to the provision of support like this because while operationally we are here to provide excellent banking products and services and good value for our members, we also consider the bigger picture.

We want to help strengthen the communities our members live and work in and create positive relationships and partnerships. This philosophy is what creates our point of differentiation and is part of what keeps our members so satisfied.

Conclusion

In terms of the year ahead, we expect the current low rate environment to continue. Competition for retail funds, coupled with historically low lending rates, will place considerable pressure on interest margins for all institutions.

Notwithstanding this competitive market, we believe that IMB's business model will continue to deliver sound results and, dependent on broader economic conditions, we remain confident about our future financial performance.

While we will always drive for increased performance levels, we remain committed to maintaining the highest standards of conduct and customer service. In the context of the intense media and regulatory focus on ethics in banking and risk culture, we will also ensure that our Values which are centred on elements like integrity and member focus, are upheld in the way we operate. This means continuously reviewing our policies and procedures, performance management frameworks, the way we incentivise and reward staff and how we report and respond when we see something that doesn't reflect our desired culture.

Given our very low levels of complaints, and our high customer satisfaction rating, I am confident that we are able to deliver on our purpose of helping our members and communities to be better off.

I would like to thank all IMB's management and staff for their ongoing commitment and dedication. I am very proud of our staff and take this opportunity to recognise their significant contribution to our results and their personal approach to providing member service.

I would also like to thank the Board for their continued support and guidance over the past year. IMB has a very hard working, highly skilled Board, with all directors contributing a significant amount of time to IMB.

And finally, I would thank you, our loyal members for your continued support of IMB.

Thank you.