



APS 330 Regulatory Disclosures

Overview

The Basel II Capital Framework (the Framework) came into effect in Australia on 1 January 2008 through APRA's prudential standards and applied to all authorised deposit-taking institutions (ADIs).

The Framework is based on three mutually reinforcing pillars:

- new and considerably more sophisticated minimum capital requirements, including specific capital charges for operational risk (Pillar 1);
- institutions' own assessment of their capital adequacy and enhanced supervision of capital management (Pillar 2); and
- materially increased disclosure requirements (Pillar 3).

The Pillar 3 (Market Discipline) disclosures complement the other two Pillars by encouraging market discipline through disclosure and enables market participants to assess the capital adequacy of ADIs.

IMB Ltd (IMB), being the Company and its controlled entities, adopted the Pillar 1 standardised approach to credit risk and operational risk from 1 January 2008. It also became subject to Pillars 2 and 3 from that date.

From 1 January 2012 APRA expanded the disclosure requirements in APS330 to provide certain disclosures on securitisation exposures.

From 30 June 2013 APRA introduced a package of reforms (Basel III) including expanded capital and remuneration disclosure measures in APS330 to improve the transparency of regulatory capital and to enhance market discipline.

APRA has implemented the Basel III approach to regulatory adjustments in full from 1 January 2013 and, accordingly, IMB are required to complete the 'post 1 January 2018 common disclosure template'. IMB is required to disclose that this template has been adopted due to the Basel III regulatory adjustments having been applied in full.

The disclosures in this document are on a standardised basis.

This document is unaudited, however it has been prepared consistent with the information otherwise published or supplied to APRA.

Basis and Frequency of Disclosures

This disclosure document has been prepared by IMB in accordance with the requirements of Pillar 3. IMB must make high quality and timely disclosures of information on its risk management and capital adequacy to contribute to the transparency of financial markets and to enhance market discipline.

Basic public disclosure requirements relating to capital adequacy and credit risk will be published within 40 business days after the end of each quarter. Unless otherwise stated, figures will be published as at:

- 30 September;
- 31 December;
- 31 March; and
- 30 June.

Disclosure requirements relating to capital structure will be published as soon as practicable after the lodgement date for IMB's annual financial reports and unless otherwise stated will be as at 30 June, our financial year end.

Regulatory Capital Reconciliation

| | Published financial statement 30-Jun-14 \$000 | Regulatory scope of consolidation 30-Jun-14 \$000 | Explanatory note | Reference* |
|---|---|---|---------------------|------------|
| ASSETS | | | | |
| Cash and equivalents | 50,466 | 31,671 | 1,2,3,4 | |
| Available for sale investments | 693,323 | 690,188 | 5 | |
| Loans and receivables to ADIs | 360,922 | 344,668 | 3,4,5 | |
| Loans and receivables to members | 3,698,709 | 2,993,335 | 1,6 | |
| <i>of which: eligible collective provision</i> | | (3,605) | | a |
| <i>of which: DTA netted from eligible collective provision</i> | | 1,082 | | b |
| <i>of which: equity portion-general reserve for credit losses</i> | | (2,834) | | c |
| <i>of which: deferred fee income</i> | | (518) | | d |
| Equity accounted investments | - | - | | |
| Other financial assets | 515 | 518 | 1 | |
| <i>of which: equity investments in financial institutions</i> | | 235 | | e |
| Non-current assets held for sale | - | - | 7 | |
| Inventories | 4,137 | - | 8 | |
| Property, plant and equipment | 11,769 | 11,769 | | |
| Intangible assets | 236 | 236 | | f |
| Net deferred tax assets | 2,416 | - | 9 | |
| Other assets | 9,246 | 37,551 | 1,2,5,7,8,9,11 | |
| <i>of which: deferred tax assets</i> | | 4,306 | | g |
| <i>of which: capitalised loan origination fees</i> | | 715 | | h |
| <i>of which: capitalised expenses</i> | | 1,541 | | i |
| <i>of which: other national specific regulatory adjustments</i> | | 450 | | j |
| Total assets | 4,831,739 | 4,109,936 | | |
| LIABILITIES | | | | |
| Trade and other payables | 35,066 | 34,670 | 1,2,10,12,14,15 | |
| <i>of which: GST clearing</i> | | (67) | | k |
| Deposits | 3,756,015 | 3,735,731 | 10 | |
| Securitised loan funding | 700,642 | - | 1 | |
| Interest bearing liabilities | 44,920 | 45,000 | 11 | l |
| Derivative liability | - | - | 12 | |
| Current tax liabilities | 2,545 | - | 13 | |
| Income tax liabilities | | 5,516 | 13 | |
| <i>of which: deferred tax liability</i> | | 2,971 | | m |
| Provisions | 7,849 | 6,703 | 14,15 | |
| Loans and other borrowings | - | 463 | | |
| Total liabilities | 4,547,037 | 3,828,083 | | |
| Net assets | 284,702 | 281,853 | | |
| EQUITY | | | | |
| Share capital | 40,989 | 40,989 | | n |
| Reserves | 35,151 | 35,989 | 6,16 | |
| <i>of which: unrealised gains/(losses) on AFS</i> | | 7,217 | | o |
| <i>of which: gains/(losses) on cashflow hedges</i> | | - | | p |
| <i>of which: general reserve</i> | | 25,255 | | q |
| Retained earnings | 210,562 | 204,875 | 16 | r |
| <i>of which: securitisation income not irrevocably received</i> | | 1,399 | | s |
| <i>of which: property revaluation reserve</i> | | 5,626 | | t |
| <i>of which: securitisation loss trap reserve</i> | | 771 | | u |
| Total equity attributable to the members of the Company | 284,702 | 281,583 | | |

* Reference letters are included to assist in identifying the source of each input in the "Capital Disclosures" table on Page 4.

Items not directly found in the balance sheet.

| | Regulatory scope of consolidation 30-Jun-14 \$000 | Explanatory note | Reference |
|---|--|---------------------|-----------|
| Defined benefit superannuation fund net assets This information is sourced from the actuarial report | 678 | | v |
| Transitional phase out of interest bearing liability 10% of base amount as per APS111 | 9,000 | | w |

Explanatory notes

| | |
|----|---|
| 1 | APRA securitisation deconsolidation of assets and liabilities held by SPV's |
| 2 | APRA reporting nets amounts due to/from clearing houses and reports them as Cash and Cash Equivalents |
| 3 | APRA reporting includes funds held in 11am with other institutions as Cash and Cash Equivalents |
| 4 | APRA reporting classifies amounts due from financial institutions as Cash and Cash Equivalents |
| 5 | APRA reports accrued interest income under Other Assets |
| 6 | APRA reporting nets the general reserve for credit losses from loans balances |
| 7 | APRA reporting includes non-current assets held for sale under Other Assets |
| 8 | APRA reporting includes inventories under Other Assets |
| 9 | Published financial statements report net deferred tax position. APRA separates tax asset and tax liability |
| 10 | APRA reporting includes accrued interest expense as Trade and Other Payables |
| 11 | APRA reports any costs associated with establishment of interest bearing liabilities under Other Assets |
| 12 | APRA reporting includes derivative liabilities under Trade and Other Payables |
| 13 | APRA reporting combines current and deferred tax liability as Income Tax Liability |
| 14 | APRA reporting includes make good provision under Trade and Other Payables |
| 15 | APRA reporting includes pension liability provision under Trade and Other Payables |
| 16 | APRA reporting includes property revaluation reserve as a Reserve |

Legal entities Items not directly found in the balance sheet.

The following entities are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation under the securitisation deconsolidation principals that remove assets, liabilities, revenues and expenses of special purpose vehicles (SPV's) that meet the requirements of Prudential Standard APS 120 Securitisation.

| Entity | Principal Activity | Assets \$000 | Liabilities \$000 |
|------------------------------------|----------------------|-----------------|----------------------|
| Illawarra Warehouse Trust No.1 | Securitisation Trust | 31,909 | 31,909 |
| Illawarra Warehouse Trust No.2 | Securitisation Trust | 6,961 | 6,961 |
| Illawarra Series 2004-1 RMBS Trust | Securitisation Trust | 51,755 | 51,755 |
| Illawarra Series 2005-1 RMBS Trust | Securitisation Trust | 61,596 | 61,596 |
| Illawarra Series 2006-1 RMBS Trust | Securitisation Trust | 88,887 | 88,887 |
| Illawarra Series 2007-1 CMBS Trust | Securitisation Trust | 39,896 | 39,896 |
| Illawarra Series 2010-1 RMBS Trust | Securitisation Trust | 118,508 | 118,508 |
| Illawarra Series 2011-1 CMBS Trust | Securitisation Trust | 100,002 | 100,002 |
| Illawarra Series 2013-1 RMBS Trust | Securitisation Trust | 225,636 | 225,636 |
| Illawarra IS Trust | Securitisation Trust | 514,667 | 514,667 |

Capital Disclosures

The information set out in the following table is only required to be disclosed when the relevant reporting period coincides with the ADIs normal statutory reporting period (ie annual for ADIs that are not listed). At 30 June 2014 and throughout the year, the Group complied with the capital requirements that were in force as set out by APRA.

The following table shows the breakdown of the total available capital for the IMB as at 30 June 2014.

| Common Equity Tier 1 Capital: Instruments and Reserves | | A\$000 | Reference* |
|---|--|------------------|-------------------|
| | Items included to the extent applicable to IMB Ltd | | |
| 1 | Directly issued qualifying ordinary share (and equivalents for mutually-owned entities) capital | 40,989 | n |
| 2 | Retained earnings | 202,707 | r-s-u |
| 3 | Accumulated other comprehensive income (and other reserves) | 38,098 | o+p+t+q |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | 281,794 | |
| Common Equity Tier 1 capital: regulatory adjustments | | | |
| 15 | Defined benefit superannuation fund net assets | 678 | v |
| 26 | National specific regulatory adjustments | 5,143 | |
| 26d | of which: equity investments in financial institutions | 235 | e |
| 26e | of which: deferred tax assets | 2,483 | b+g-k-m |
| 26f | of which: capitalised expenses | 1,974 | i+f+d+h |
| 26j | of which: other national specific regulatory adjustments | 450 | j |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | 5,821 | |
| 29 | Common Equity Tier 1 Capital (CET1) | 275,973 | |
| 45 | Tier 1 Capital (T1) | 275,973 | |
| Tier 2 Capital: instruments and provisions | | | |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 | 36,000 | l-w |
| 50 | Provisions | 6,439 | a+c |
| 51 | Tier 2 Capital before regulatory adjustments | 42,439 | |
| 58 | Tier 2 Capital (T2) | 42,439 | |
| 59 | Total Capital (TC=T1+T2) | 318,412 | |
| 60 | Total risk-weighted assets based on APRA standards | 1,989,050 | |
| Capital ratios and buffers | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk-weighted assets) | 13.87% | |
| 62 | Tier 1 (as a percentage of risk-weighted assets) | 13.87% | |
| 63 | Total capital (as a percentage of risk-weighted assets) | 16.01% | |
| 64 | Institution-specific buffer requirement | 7.00% | |
| 65 | of which: capital conservation buffer requirement | 2.50% | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets) | 9.37% | |
| Applicable caps on the inclusion of provisions in Tier 2 | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) | 6,439 | |
| 77 | Cap on inclusion of provisions in Tier 2 under standardised approach | 24,863 | |
| Capital instruments subject to phase-out arrangements | | | |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | 80% | |
| 85 | Amount excluded from T2 due to cap | 9,000 | |

* Refer to "Regulatory Capital Reconciliation" on page 2

Capital Instruments

The following table shows the main features for each capital instrument included in regulatory capital.

| | Paid-up ordinary shares | Transitional tier 2 | Transitional tier 2 |
|--|--------------------------------|---|--|
| Issuer | IMB Ltd | IMB Ltd | IMB Ltd |
| Unique identifier | Unlisted | ISIN:-AU3FN0014163 | ISIN:-AU3FN0015806 |
| Governing law(s) of instrument | Corporations Act (C'th) 2001 | Corporations Act (C'th) 2001 Banking Act (C'th) 1959 | Corporations Act (C'th) 2001 Banking Act (C'th) 1959 |
| Regulatory treatment | | | |
| Transitional Basel III rules | Common Equity Tier 1 | Tier 2 | Tier 2 |
| Post-transitional rules | Common Equity Tier 1 | Tier 2 (ineligible) | Tier 2 (ineligible) |
| Eligible at solo/ group/ group & solo | Solo and Group | Solo and Group | Solo and Group |
| Instrument type | Ordinary shares | Subordinated notes | Subordinated notes |
| Amount recognised in regulatory capital | \$40,988,557 | \$12,000,000 | \$24,000,000 |
| Par value of instrument | \$40,988,557 | \$15,000,000 | \$30,000,000 |
| Accounting classification | Shareholders' equity | Liability – amortised cost | Liability – amortised cost |
| Original date of issuance | 6 September 1989 | 16 September 2011 | 29 June 2012 |
| Perpetual or dated | Perpetual | Dated | Dated |
| Original maturity date | No maturity | 16 September 2021 | 29 June 2022 |
| Issuer call subject to prior supervisor approval | No | Yes | Yes |
| Optional call date, contingent call date and redemption amount | N/A | 16 September 2016 or subject to prior APRA approval for tax reasons, loss of tax deductibility or loss of regulatory treatment. \$15,000,000 | 29 June 2017 or subject to prior APRA approval for tax reasons, loss of tax deductibility or loss of regulatory treatment. \$30,000,000 |
| Subsequent call dates (if applicable) | N/A | Each interest payment date there after | Each interest payment date there after |
| Coupons/dividends | | | |
| Fixed or floating dividend/coupon | Floating | Floating | Floating |
| Coupon rate and any related index | N/A | BBSW3M + 400 bps | BBSW3M + 425 bps |
| Existence of a dividend stopper | No | No | No |
| Fully discretionary, partially discretionary or mandatory | Full discretion | Mandatory | Mandatory |
| Existence of a step up or other incentive to redeem | No | No | No |
| Noncumulative or cumulative | Noncumulative | Noncumulative | Noncumulative |
| Convertible or non-convertible | Nonconvertible | Nonconvertible | Nonconvertible |
| Write-down feature | No | No | No |
| Position in subordination hierarchy in liquidation | Subordinated debt | Depositors and other liabilities | Depositors and other liabilities |
| Non-compliant transitioned features | No | No non-viability clause | No non-viability clause |

Risk exposures and assessment

IMB has adopted the standardised approach to both credit and operational risk since 1 January 2008 in order to calculate the Basel II Pillar 1 minimum capital requirement.

The following table shows IMB's overall minimum capital requirement for credit risk under the standardised approach at 30 September 2014.

The information set out in the following table is required to be disclosed on a quarterly basis and is presented in terms of risk-weighted assets (RWA).

| | | RWA \$ 30 September 2014 | RWA \$ 30 June 2014 |
|------------|--|-----------------------------------|---------------------------|
| (a) | Capital requirements – credit risk | | |
| | Credit risk - by portfolio | | |
| | Secured by residential mortgage | 1,101,796,242 | 1,049,494,471 |
| | Other retail | 198,055,695 | 253,523,006 |
| | Corporate | - | - |
| | Bank | 270,242,870 | 269,809,950 |
| | Government | - | - |
| | All other | 104,007,824 | 102,690,370 |
| | Securitisation | 37,109,760 | 45,176,518 |
| | | 1,711,212,391 | 1,720,694,315 |
| (b) | Capital requirements – market risk | - | - |
| (c) | Capital requirements – operational risk | 269,688,485 | 269,688,485 |
| (e) | Common Equity Tier 1 (consolidated) | 14.07% | 13.87% |
| (f) | Tier 1 capital ratio (consolidated) | 14.07% | 13.87% |
| (g) | Total capital ratio (consolidated) | 16.21% | 16.00% |

Credit Risk Exposure

The gross credit risk exposure (based on the definitions for regulatory capital purposes, before credit risk mitigation) is summarised as follows. The information set out in the following table is required to be disclosed on a quarterly basis.

| Credit Risk Exposures | Gross Total as at 30 September 2014 \$ | Gross Total as at 30 June 2014 \$ |
|----------------------------------|---|--|
| By type of credit exposure | | |
| Loans and receivables to members | 3,098,864,571 | 2,995,605,434 |
| Loans and receivables to ADIs | 315,940,586 | 374,575,903 |
| Available for sale investments | 722,859,224 | 693,323,507 |
| Other assets | 164,355,850 | 164,743,203 |
| By portfolio | | |
| Secured by residential mortgage | 2,900,822,704 | 2,742,134,509 |
| Other retail | 198,041,866 | 253,470,924 |
| Corporate | - | - |
| Bank | 1,019,058,737 | 1,056,626,713 |
| Government | - | - |
| All other | 184,096,924 | 176,015,901 |

Impairment Provisions

The following table shows the past due loans and provisions for impaired exposures and charges to the income statement for the reported period.

| For the period ended: | 30 September 2014 \$ | 30 June 2014 \$ |
|--|----------------------------|--------------------|
| Impaired facilities by portfolio | | |
| Secured by residential mortgage | 1,581,479 | 1,797,862 |
| Other retail | 4,845,425 | 4,757,370 |
| Corporate | - | - |
| Bank | - | - |
| Government | - | - |
| All other | - | - |
| Past Due facilities by portfolio | | |
| Secured by residential mortgage | 1,204,029 | 1,235,174 |
| Other retail | - | - |
| Corporate | - | - |
| Bank | - | - |
| Government | - | - |
| All other | - | - |
| Specific Provisions by portfolio | | |
| Secured by residential mortgage | 342,713 | 342,713 |
| Other retail | 2,496,786 | 2,509,008 |
| Corporate | - | - |
| Bank | - | - |
| Government | - | - |
| All other | - | - |
| Charges for specific provisions during the period | | |
| Secured by residential mortgage | - | (164,127) |
| Other retail | - | 202 |
| Corporate | - | - |
| Bank | - | - |
| Government | - | - |
| All other | - | - |
| General Reserve for Credit Losses | 6,462,483 | 6,439,328 |

Securitisation Exposures

The following table includes a summary of the total amount of exposures securitised, securitisation activity for the current period and amounts of securitisation exposures retained or purchased.

| For the period ended: | 30 September 2014 \$ | 30 June 2014 \$ |
|---|----------------------------|--------------------|
| Securitized assets (value of assets in pool) | | |
| Housing loans | 979,457,087 | 1,067,969,543 |
| Commercial loans | 121,516,449 | 133,974,312 |
| Holdings of securitisation securities | | |
| Securities held in banking book | - | - |
| Facilities categorised as securitisation exposures (notional amount) | | |
| Liquidity facilities | 23,302,534 | 24,792,898 |
| Credit enhancements | 450,000 | 450,000 |
| Derivatives | 195,687,861 | 217,155,151 |
| Other | 17,193,873 | 18,556,838 |
| Loans sold into securitisation SPVs during the period | | |
| Illawarra Series IS Trust | - | 500,000,000 |
| New facilities provided to securitisation SPVs during the period | | |
| Liquidity facilities | - | 9,500,000 |
| Credit enhancements | - | - |
| Derivatives | - | - |
| Other | - | - |
| Credit risk capital requirement related to securitisation (risk weighted assets) | | |
| Securitisation exposures | 20,094,742 | 27,553,575 |
| Other unrated exposures | 950,666 | 1,126,509 |
| Unrated eligible facilities | 8,552,352 | 8,984,434 |
| Cash collateral | 7,512,000 | 7,512,000 |
| Total | 37,109,760 | 45,176,518 |
| Deductions from capital | 1,759,846 | 2,230,694 |

Remuneration Disclosures

Qualitative Disclosures

(a) Information relating to the bodies that oversee remuneration.

IMB's Board Corporate Governance and Remuneration Committee is responsible for overseeing the remuneration arrangements for the Board and senior managers of IMB. This includes conducting regular reviews of, and making recommendations to the Board, on the company's Remuneration Policy, and making recommendations to the Board on the fixed and variable remuneration arrangements of the CEO and senior managers. The Committee is responsible for assessing the performance of the CEO and receiving reports of the performance of senior managers within IMB.

In December 2013, the Board resolved to combine the previously established Nominations and Governance Committee and Remuneration and CEO Evaluation Committee to form the Corporate Governance and Remuneration Committee.

The Committee operates in accordance with its written charter which outlines the Committee's roles, responsibilities and terms of operation. The Committee generally acts in an advisory capacity only, unless powers are otherwise delegated to it by the Board from time to time.

The members of the Corporate Governance and Remuneration Committee during the year were:
Mr MJ Cole (Chairman) - Independent Non-Executive director
Mr KR Biddle - Independent Non-Executive director
Mr NH Cornish - Independent Non-Executive director
Mr LP Nicholas – Independent Non-Executive director

The Committee seeks the input and review of the Chairman of the Risk Committee and IMB's Chief Risk Officer in carrying out its duties.

The Committee meets twice annually or as is required to carry out its functions. The number of meetings during the year and the Committee members' attendance record is disclosed in the meeting of Directors table in the IMB 2014 annual report.

From time to time the Committee will obtain independent advice on the appropriateness of the remuneration arrangements for those covered by IMB's Remuneration Policy. There were no external consultants engaged during the year.

The Remuneration Policy was last reviewed by the Committee in August 2014. The Remuneration Policy covers all directors of IMB and its subsidiaries, the Chief Executive, the Company Secretary, the senior executives that report directly to the Chief Executive and senior managers within IMB that are responsible for key risk and control functions. All persons covered by the Remuneration Policy are located within Australia.

Having reviewed IMB's corporate risks and remuneration structures, as at 30 June 2014 the Board considered the following employees to be 'senior managers' and/or 'material risk takers' as defined under paragraph 48 of CPS510 Governance:

| Types of Employees | Number |
|-----------------------------|--------|
| Senior managers | |
| Chief executive officer | 1 |
| Executive officers | 5 |
| Other senior managers | 1 |
| Material risk takers | |
| N/A* | |

* Employees that would meet APRA's definition of 'material risk takers' are already captured under the definition of senior manager above.

(b) Information relating to the design and structure of remuneration processes.

IMB's Remuneration Policy is considered an important factor in attracting and retaining employees who have the necessary skills for the effective and prudent operation of IMB. The Remuneration Policy is designed to ensure:

- remuneration practices are aligned to the IMB's Group strategy and risk appetite;
- the attraction and retention of highly capable, motivated employees;
- the alignment of IMB's corporate interests with those of its employees, members and stakeholders;
- that there are appropriate incentives for outstanding performance;
- that there is transparency and fairness in remuneration policies and procedures;
- the encouragement of behaviours that support IMB's long-term financial soundness;
- that IMB's remuneration practices are compliant with regulatory requirements; and
- the support of an effective risk management framework.

The Remuneration Policy currently provides for remuneration arrangements made up of:

- Fixed Remuneration; and
- Variable remuneration (i.e. performance based payments), dependant on the achievement of the objectives of the company, and individual performance, which is reviewed and rated annually.

The Remuneration Policy ensures that the remuneration of employees in compliance and risk management functions are designed in a way that avoids conflict of interests related to the business unit they are overseeing. Remuneration is reviewed and benchmarked against the market and internally to ensure that it is set at an appropriate level. The key performance indicators (KPIs) for risk and compliance employees are typically based on the achievement of sound regulatory reviews, and audit, compliance, risk management results (both financial and non-financial metrics) that are within pre-defined targets.

(c) Description of the ways in which current and future risks are taken into account in the remuneration process.

Fixed Remuneration:

Annual Salary increases are typically based on national indicators such as CPI or other relevant benchmarks for the finance industry. As part of IMB's strategy to attract and retain high quality, motivated employees, the Board generally aims to set fixed remuneration components at a level consistent with the remuneration amounts represented for each employment position using comparative data from other ADIs of a similar size and character to IMB.

Variable Performance Based remuneration payments:

IMB's Remuneration Policy allows for senior managers to have some portion of their remuneration at risk as a performance based payment or "short term incentive" (STI).

Variable performance based incentive payments are based on achievement of both the financial and non-financial objectives, to reflect the extent to which annual objectives have been met at a company and individual level. Measures include performance in areas such as: net profit after tax, efficiency, deposit growth, loan growth, delivery of strategic projects, regulatory ratios such as capital adequacy and liquidity, credit and fraud losses, risk management, audit and compliance results, and workplace health and safety standards. Together these KPIs measure the key Credit, Market, Liquidity, Capital and Operational Risks to which IMB is exposed. The KPIs are designed to be balanced and the metrics of certain senior managers may 'compete' or challenge the metrics of others.

(d) Description of the ways in which IMB seeks to link performance with levels of remuneration.

Each year the Corporate Governance and Remuneration Committee sets the key performance indicators for senior managers based on the target level of performance for IMB as a whole and relevant to the senior manager's area of operation. In setting these performance indicators consideration is given to the desired strategic outcomes of the business, the Board's risk appetite, and the time necessary for the outcomes of those business activities to be reliably measured.

The KPIs set for each employee will typically change from year to year to reflect changes in the Board's strategic or risk management focus. In order to determine the amount of performance-based remuneration, that is payable IMB adopts the following measures and procedures:

- Setting KPIs for each senior manager based on key strategic goals and risk management requirements at the commencement of each financial year relating to financial and non-financial outcomes;
- Undertaking a formal performance appraisal at the end of each financial year to calculate performance against KPIs;
- Requiring an independent review (for example, by the Internal or External Auditor) of the calculation of performance against KPIs; and
- Using reliable data to substantiate performance against KPIs.

These measures typically affect remuneration arrangements by determining the amount of the variable remuneration component (or STI) to which an employee covered by the Remuneration Policy is entitled, expressed as a % of their total fixed remuneration, while maintaining an appropriate balance between fixed and variable components.

In the past year, there have been no changes to the maximum amounts that may be received by employees covered by the Remuneration Policy as a variable remuneration component.

(e) Description of the ways in which IMB seeks to adjust remuneration to take account of longer-term performance.

The Board considers that the current structure of remuneration arrangements and in particular, the holistic and balanced nature of performance based payments does not warrant the deferral of payments, on the basis that the arrangements are comprised of short term incentive payments, and the quantum of such payments is adequately contained. If long-term incentives were to be introduced or the maximum remuneration that is payable to those covered by the Remuneration Policy significantly increases the amount of performance based payments able to be earned, the Board will reconsider its position on deferral of payment.

Further, the Board has discretion to adjust the performance-based components of the remuneration of a person covered by this Policy downwards, to zero if appropriate, if such adjustment is considered necessary.

(f) Description of the different forms of variable remuneration that IMB utilises and the rationale for using these different forms.

As detailed in the Remuneration Policy, the structure of the remuneration arrangements comprise the following components:

- Fixed component
- Variable performance based components

Fixed components of remuneration for senior managers

Fixed compensation consists of base compensation in the form of cash salary (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), leave entitlements, as well as employer contributions to superannuation funds.

Variable components of remuneration for senior managers

The variable performance based payment is designed to encourage outstanding performance and to differentiate rewards by levels of performance. Performance based incentive compensation provides a system for aligning personal performance with the performance of the entity as a whole and rewards senior managers for meeting or exceeding their financial and non-financial personal objectives (key performance indicators). The financial and non financial performance objectives vary with position and responsibility. Performance is reviewed on a regular basis against the KPIs on a regular basis and through a formal annual performance appraisal.

As the employee with the prime responsibility for implementing IMB's Board approved strategy and for ensuring IMB's risk and control frameworks are observed on a day to day basis, the Chief Executive is provided with the opportunity to earn a maximum STI which represents 60% of total fixed remuneration. Those senior managers who report directly to Chief Executive are permitted to earn a maximum STI which represents 50% of total fixed remuneration. All STIs may be adjusted downwards at the discretion of the Board.

Quantitative Disclosures

(g) Number of meetings held by the main body overseeing remuneration during the financial year and the remuneration paid to its members.

During the year, the Board Corporate Governance and Remuneration Committee met three times (including one meeting of the previous Remuneration and CEO Evaluation Committee). The members of the Committee are remunerated by IMB for their directorship. They do not receive any other remuneration for being a member of the Committee.

| | |
|---|------|
| | 2014 |
| | \$ |
| Remuneration of the Corporate Governance and Remuneration Committee | Nil |

(h) The number of persons having received a variable remuneration award during the financial year.

| | 2014 | |
|---|------------------|----------------|
| | No. of employees | Total (\$) |
| Variable remuneration award - discretionary bonus | 7 | 523,882 |
| Guaranteed bonuses | - | - |
| Sign-on award | - | - |
| Severance payment | - | - |
| Total | 7 | 523,882 |

(i) Total amount of deferred remuneration paid out and outstanding during the financial year.

| Deferred Remuneration | Outstanding at 30 June 2014 (\$) | | | | |
|--|-------------------------------------|--------|--------------|-------|-------|
| | Cash | Shares | Share-linked | Other | Total |
| Deferred remuneration pre-adjustment | - | - | - | - | - |
| Adjustments-implicit Mark-to-market value of shares | - | - | - | - | - |
| Adjustments-explicit Clawbacks | - | - | - | - | - |
| Deferred remuneration post-adjustment | - | - | - | - | - |

| Deferred Remuneration | Paid during the year (\$) | | | | |
|--|------------------------------|--------|--------------|-------|-------|
| | Cash | Shares | Share-linked | Other | Total |
| Deferred remuneration pre-adjustment | - | - | - | - | - |
| Adjustments-implicit Mark-to-market value of shares | - | - | - | - | - |
| Adjustments-explicit Clawbacks | - | - | - | - | - |
| Deferred remuneration post-adjustment | - | - | - | - | - |

There was no deferred remuneration paid out in the financial year.

(j) Breakdown of the amount of remuneration awards for the financial year.

| Total Value of remuneration awards for senior managers | Unrestricted | Deferred |
|--|------------------|---------------------------|
| Fixed remuneration | | |
| - Cash-based | 2,268,841 | - |
| - Shares and share-linked instruments | - | - |
| - Other | 200,657 | - |
| | 2,469,498 | - |
| Variable remuneration | | |
| - Cash-based | 523,882 | - |
| - Shares and share-linked instruments | - | - |
| - Other | - | 17,192 |
| | 523,882 | 17,192 |
| | 2,993,380 | 17,192¹ |

¹ Represents movements in accrued long service leave entitlements

| Total Value of remuneration awards for material risk takers | Unrestricted | Deferred |
|---|--------------|----------|
| Fixed remuneration | | |
| - Cash-based | - | - |
| - Shares and share-linked instruments | - | - |
| - Other | - | - |
| Variable remuneration | | |
| - Cash-based | - | - |
| - Shares and share-linked instruments | - | - |
| - Other | - | - |
| | - | - |

(k) Quantitative information on exposure to implicit and explicit adjustments of deferred and retained remuneration.

Refer to table at (i), there was no implicit or explicit adjustments to remuneration during the financial year.