

IMB Ltd

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2014 Annual General Meeting

Chairman's Address

Michael Cole

Good morning members.

It is a pleasure to be reporting to you again on IMB's recent activities and I look forward to responding to any questions from the floor you may have later in the meeting. However in anticipation of those questions I will deal with a number of issues raised by members prior to the AGM.

In Financial Year 2014 (FY14) IMB recorded a net profit after tax of \$29.069 million, a 2% increase over the previous corresponding period.

I have spoken previously about the challenges of the market conditions in which IMB operates and this year proved no exception with the IMB business model continuing to record sustainable, profitable growth.

The modest economic growth outlook restrained the level of home loan demand which is fundamental to IMB's core business. New residential lending approvals were \$678 million, a lift of 19.7% but still below budget. The final outcome was aggregate loans to members declined fractionally over FY14.

The stabilisation of official interest rates at historically low levels assisted a modest lift in the interest rate lending margins to 2.04%.

It is pleasing to report a number of other major Key Performance Indicators (KPIs) matched or exceeded expectations. Credit impairment was well below national industry averages, retail deposit growth was strong notwithstanding intense competition and the cost to income ratio if adjusted for abnormal items was very close to our target level of 60% due to an intense expense containment focus.

The current operating environment for IMB remains challenging. The primary focus of management remains on the excellent execution of the strategic plan to deliver a sound risk/return outcome for all stakeholders.

At 30 June 2014, IMB's capital adequacy ratio was 16.0%, a slight decrease of 0.4% over the previous year end. The return on equity (ROE) was lower at 10.6%, down from 10.9% in the previous financial year. The decline in the ROE is accounted for by the further deleveraging of the IMB balance sheet in FY14.

The maintenance of the IMB capital base above current regulatory requirements in FY14 was a significant achievement. It must be viewed in the context of our second successful off-market share buy-back offer to shareholder members.

The second buyback saw 2.14 million shares bought back at a price of \$4.07 per share for a total consideration of \$8.7million. The 5.8% of ordinary share capital cancelled resulted in a reduction in the level of shareholder members' contributed funding.

The aggregate number of shares cancelled under the two buybacks to date is 12.6% of the original shares on issue of 39.9 million.

There were a number of shareholder questions about the continuation of the share buyback programme.

It remains the Board's intention to continue to seek to buyback and cancel all ordinary shares on issue through a series of buybacks, subject to the minimum capital requirements previously stated. However a caveat should be noted. Initiating the buyback action at any time is always subject to a number of factors including the requirement of a more efficient cost of capital outcome for IMB. Shareholder members should not assume that share buybacks will take place annually or regardless of the share price. It remains subject to an enhanced cost of capital discipline.

Another topic that remains in constant focus of shareholder questions is the IMB dividend policy to apply as the share buy-back is implemented over an extended period. The Board determines the level of any dividend payable after consideration of a range of factors including IMB's financial performance, the current and expected operating environments, capital requirements and prudential controls and the PwC Report on Contributed Funding. Their initial report was recently updated to have regard to the impact of the two buybacks to date and it has been posted on the IMB website.

The dividend payout ratio will remain a result, rather than a targeted outcome, of those deliberations (subject always to the payout ratio remaining below 50% on account of Mutuality requirements). The total dividend for FY14 was 25 cents per share. Having regard to the reduction in share capital following the buyback and the net profit lift, the effective payout ratio to shareholders decreased from 33% to 30%. After adjustment for the reduction in share capital following the buyback and its impact on Contributed Funding, the effective payout ratio to shareholders in FY2014 remained at just under 75%.

Previously the Board has released its Dividend Guideline which stated that while IMB's capital adequacy ratio is above 14% and profits are maintained or increased, it is the Board's current intention to pay a full year dividend of 25 cents per share. The Board reaffirms its continued support for this Guideline in the current year.

In response to a query on the matter, I can confirm that there is no current intention to reintroduce the dividend reinvestment plan.

A related shareholder question which continues to be raised is whether the ongoing share buyback program rules out de-mutualisation at a future point in time. The answer is no as the two issues are independent over the longer term. However let me restate the IMB has no current intention to demutualise and our immediate priority remains to continue with the share buyback.

A further possible change that I would like to flag at this meeting is a review of IMB's operational trading status. As you may be aware APRA has given larger ADIs the opportunity to trade as banks and a number of our peers have elected to make the change from Credit Union or Building Society to bank status. We are reviewing our position with regard to Mutual

Bank with a goal of pursuing an outcome that enables IMB to be most competitively positioned in the market place. We will keep all stakeholders updated.

A topic raised by shareholder members is the growth outlook for IMB. The Board is acutely aware that aggregate loans to members have edged up only slightly over past few financial years and in fact actually declined in FY 2014. This can be explained by a very subdued demand for new home loans and our commitment to preserve loan margins and profitability. Maintaining profitability at the expense of balance sheet growth is consistent with our highest priority of building our capital adequacy. For the same reason the branch expansion programme was subject to increased performance hurdles and resulted in new branch openings being deferred.

In the current financial year we have raised our loan budget consistent with stronger new lending demand and positive growth outcome is projected for the year. While organic growth still remains challenging it is pleasing to report that lending and profitability are both ahead of the corresponding period last year. Further the branch opening programme has been reactivated with a new branch commitment at Oran Park.

A number of members have asked for an update on IMB's merger activities. As I noted last year, the Board has refocused its attention and engagement on being an active participant in the mutual ADI industry rationalisation. A merger with another mutual ADI is likely to be able to deliver more significant or rapid growth and uplift in key performance metrics over time as synergies and efficiencies are achieved.

We believe this is a scale business and mergers between mutual ADIs based on a transfer of business methodology avoid the usual premium associated with such transactions, providing a good platform to create a stronger combined entity for the benefit of all IMB stakeholders. Further the strong financial metrics of IMB supports its position to be a merger partner of choice for other smaller ADIs.

I can confirm that there are currently no merger discussions underway.

A topic which has attracted much attention from both the financial press and the regulators is the escalation in residential prices and the possibility of a housing bubble and subsequent severe price correction. Mooted public policy responses to lower housing demand include interest rate increases and/or quantitative controls to restrict volume and type of new lending growth.

Our experience is the regulator has already issued appropriate lending guidelines through the supervisory interaction which IMB has heeded. These standards are consistent with IMB maintaining our existing high credit standards. If IMB's 135 years lending experience has taught us one thing, it is never to compromise our credit approval disciplines in the pursuit of loan portfolio growth.

We received a small number of queries with regard to the content of IMB's Annual Report. As advised in previous years, IMB is not currently contemplating any changes outside of those necessitated by accounting or regulatory disclosure requirements.

The subject of director succession has also been raised by members. The Board Corporate Governance and Remuneration Committee regularly consider IMB's succession plans and is responsible for identifying suitable candidates based on Board agreed selection criteria. These criteria are determined with regard to the skills deemed necessary under IMB's Fit and Proper Policy and in accordance with the Corporate Governance Manual.

Through these processes the Committee had identified Jan Swinhoe as a suitable candidate to replace the retiring Director, Lynton Nicholas. Jan has been assessed as being Fit and Proper to be a Director of IMB and will bring strong banking, risk and philanthropic skills to the Board.

As discussed last year, my retirement from the Board is scheduled to occur in 2016, and the Corporate Governance and Remuneration Committee has processes in place to ensure there is a transition path in place for the appointment of the next Chairman.

And finally on this matter, I would again like to thank our retiring director, Lynton Nicholas for his outstanding contribution to IMB's business and philanthropic activities over nearly a decade. Lynton has made a significant contribution to IMB and its members during his 10 years on the Board.

I continue to be impressed by the commitment of all IMB's Directors and I would like to thank all Board members for their contributions to what has been a challenging year.

On behalf of the Directors I would also like to thank our CEO, Robert Ryan, the executive management team and all the staff at IMB for their continued commitment to IMB and all the stakeholders.

Finally I would like to thank all our members for their continuing support of IMB.

Chief Executive's Address

Robert Ryan

Good morning everyone. It is a pleasure to be here today and I join with Michael in welcoming you to our 134th Annual General Meeting.

Year in Review

2013-14 has been a solid year for IMB with improvements in a number of key areas including our operating profit, loan writings and retail deposits, while maintaining our industry leading member satisfaction levels. These results have been pleasing in an operating environment that continues to see historically low interest rates and intense competition for deposits and loans.

IMB's financial position remains strong with high liquidity and capital ratios and our low level of arrears has been supported by our robust credit standards. We have maintained a focus on improving productivity and IMB continues to display a peer leading cost discipline.

As noted by Michael, IMB's net profit after tax was \$29.1 million, up from \$28.5 million in the previous year. The increase in operating profit was supported by an improvement in net interest income, maintenance of non-interest income levels and a modest increase in operating expenses.

Net interest income increased on the previous year to just over \$95 million with a corresponding improvement in the average interest margin. This improvement in margin reflects our management of interest rates and balance sheet growth in a market that remains highly competitive. IMB's margin has increased from last year and is currently just under 2.1% and, dependent on the RBA's decisions regarding official rates, we expect this margin to be maintained over the coming year.

IMB's bad debt expense was maintained at 0.02% of IMB's total loan portfolio, reflecting IMB's prudent lending practices and the overall quality of lending portfolio.

Total expenses increased by \$1.3 million on the previous year to \$70.7 million. Excluding land development expenses, expenses on a like for like basis increased by 2.5% on the previous year, reflecting managements continued focus on cost containment.

The ratio of non-interest expenses to operating income on the same basis was 62.9% and continues to be one of the lowest ratios of our peer set. Excluding the impacts of land development in the current and prior years, the rate was 61.2% and in line with the result for the previous financial year.

By the end of this financial year we anticipate IMB will have completed its exit from all land development joint venture activities. As previously foreshadowed IMB has no future plans to participate in land development activities.

Loan approvals for the year were \$753 million, an increase of more than \$130 million, or 22%, on the previous year. This is a strong result reflecting the competitiveness of our product offering in terms of both features and rate.

Demand for credit, although still highly competitive, has increased over the last 12 months and we expect that our lending results for the current financial year will continue to improve.

The quality of IMB's loan book remains very strong, with IMB's level of mortgage arrears well below national averages in all categories. As at the end of September, IMB had only 10 mortgage and 2 commercial loans in arrears by more than 90 days, in a book of just over 20,000 loans. This represents less than 0.06% of our total loans.

Loan growth was funded largely from growth in deposits which grew by \$158 million over the previous year. On the back of this growth in funding, IMB's liquidity remained strong at 27.1%, with the high quality liquid asset ratio at 18.3%, well above regulatory requirements. The capital ratio was also strong at 16.0%.

IMB's products continue to be recognised by independent reviewers with many awards received this year. IMB currently has more 5-star-rated variable home loan products than any of the major banks.

Our most recent member satisfaction survey completed in August this year recorded a result of 96%, continuing a three year trend of overall member satisfaction levels above 95%. As part of the survey, we also asked members to provide their feedback on IMB's service overall, and more than 97% of members indicated they were happy with the service they received from IMB.

At the same time, Roy Morgan Research's July Consumer Banking Satisfaction Report stated that IMB scored the highest rating of all Australian banking institutions, with a 93.9% customer satisfaction rating. The Roy Morgan report found that IMB outperformed other banks, particularly in relation to fees and charges, interest rates and treatment of customers.

I would now like to provide an overview of our current and future strategic focus areas:

Delivering Strategy

IMB's strategy targets profitable and sustainable growth, supported by disciplined cost control, robust credit standards and considered investment in capability that will benefit the future needs of our members. To that end we have implemented a range of initiatives over the past 12 months to support our members and their banking needs.

These include a new fresh advertising campaign which was launched over the last week, sporting a new tagline of "I'm with IMB". The campaign seeks to communicate the importance we place in treating customers as individuals and supporting their goals through our competitive suite of products. We believe the campaign's different creative approach will allow us to reach broader, younger audiences as we continue to introduce our better value banking into new areas.

In conjunction with the new advertising, IMB's website has been refreshed with the new look and improved design for easier navigation, particularly for tablet users, whilst retaining the current high levels of security.

We have upgraded our mobile website providing improved access to product information, additional calculators and easy and convenient product application forms.

In addition, we recently launched the IMB Visa PayWave debit card, providing members with contactless convenience for point of sale card transactions.

We expanded our Business Banking services to provide customers the option of linking their account to their Xero accounting software for managing business finance. We are also currently reviewing our offering around merchant facilities and payment offerings with a view to moving towards more portable, convenient and robust technology that better reflects our SME business customer base.

We have made our Business Banking Managers more readily available in branches enabling them to operate more closely with their customers in the customers markets.

And we have recently appointed a Business Banking Relationship Manager for the Macarthur region and are exploring opportunities to expand our Business Banking services in the ACT.

We have maintained our commitment to face to face banking for members and can announce that we will be opening our 44th branch at Oran Park in south west Sydney this week as part of our strategy to grow our distribution footprint and attract new members in this rapidly expanding region of Sydney.

The new contemporary branch will be open plan, utilising leading TCR cash handling technology and has been designed to support personalised interactions with members.

As Michael indicated, we completed our second off market share buyback during the year with just over 5 million shares now bought back and cancelled. Notwithstanding the outflow of capital associated with the buyback, we have maintained our strong capital levels throughout the year.

The timing of the next buyback has not been determined, however the Board and management remain committed to the strategy of buying back and cancelling the ordinary shares on issue. The share buyback program is part of IMB's strategy to participate in the consolidation of the mutual banking sector.

From a senior management perspective, we have welcomed Craig Newham to the Executive team in the role of General Manager Sales. Craig has an extensive background with a range of financial institutions where he held various senior management roles with a strong focus on sales and distribution.

Craig's appointment completes changes to the Executive team that were implemented to enable greater focus on successful implementation of key strategies while achieving business growth.

Going forward

Over the coming year we will continue to invest in a range of growth initiatives, particularly around digital payments and technology. These investments will boost IMB's ability to compete nationally and make us more appealing to our current and potential younger members.

The first key initiative is an upgrade of our personal lending process. From tomorrow, members will have access to an online application system for personal and car loans that allows quick response, automated credit decisions in minutes. The upgraded system and processes will also allow members outside IMB's branch footprint, or those unable to visit a branch, access to our highly competitive personal loan products.

Our online interface will also soon receive a series of new enhancements and functionality, being prioritised to meet the needs of our members who increasingly prefer to transact online and on mobile. Work is underway that will deliver contemporary mobile banking apps for both Apple and Android devices, while we are also exploring opportunities to provide a greater range of intuitive functions, self-service options and product choices available online.

To assist members with their online experience we will be implementing live chat into our website over the next 6 months. Our internet banking system will also be upgraded in early 2015 and this will provide members with improved functionality and features.

In 2016, Australia is set to launch the New Payments Platform, which will provide real time payments and should drive innovation and new services for consumers and business. IMB is currently represented as a participant in the development of this important infrastructure. Over the next few years, we will be working with our partners to ensure we are able provide our members with access to new payments capabilities as they come to market.

On a broader technology front, we are committed to upgrading and modernising our core technology platform over the medium term. This will deliver significant functionality to both our members and IMB's staff.

Supporting our growth strategies, particularly younger members, we are exploring opportunities to deliver a financial literacy program to school aged children. We consider that there is a strong community need, particularly for primary school students, for financial literacy programs. We hope to align the program with our school banking package which we expect to roll out more broadly over the coming period.

As in previous years, we have seen a wide range of regulatory reforms announced affecting all Australian financial institutions. These include prudential standard changes relating to liquidity, capital and the Financial Claims Scheme as well as other regulatory requirements regarding the Foreign Account Tax Compliance Act, more commonly known as FATCA, the implementation of Privacy reforms and additional requirements under the Anti-Money Laundering and Counter-Terrorism Financing Act.

We have a significant amount of resources across the business working on these projects.

The Financial System Inquiry headed by David Murray has released its Interim Report with the final report due by the end of November. IMB continued to engage both directly and indirectly through our industry body COBA to advocate for outcomes that provide fair and sustainable competition, and in particular addressing some of the unfair advantage held by the major banks through the 'too big to fail' approach adopted by regulators.

Supporting Local Communities

The IMB Community Foundation celebrated its 15th anniversary this year and we are proud of the impact the Foundation's support has on the more than 450 projects that have been supported over that time. More than \$7 million in funding has been provided to various projects which has benefited the wider communities in which these projects operate.

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 proud 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 Wollongong Hawks and Illawarra Women in Business. Throughout the last year we have been a proud sponsor of Wollongong's Blue Mile Dash, the Cook Community Classic and the popular Sunset Cinema held in Wollongong, Sydney and the ACT.

We are very pleased to be supporting the 2014 i98FM Camp Quality Convoy providing much needed funds for local children and their families.

Conclusion

For the year ahead, we expect the current low rate environment to continue, with a view that the next rate change will be an increase. We will continue to see strong competition for both consumer lending and retail deposits which will continue to place pressure on interest margins and overall financial performance. 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.

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 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 dedicated Board who contribute a significant amount of time to IMB.

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

As we enter our 135th year, IMB remains a strong and secure mutual financial institution providing our members with a competitive alternative to the banks and I look forward to building on this year's success in the year ahead.

Thank you.