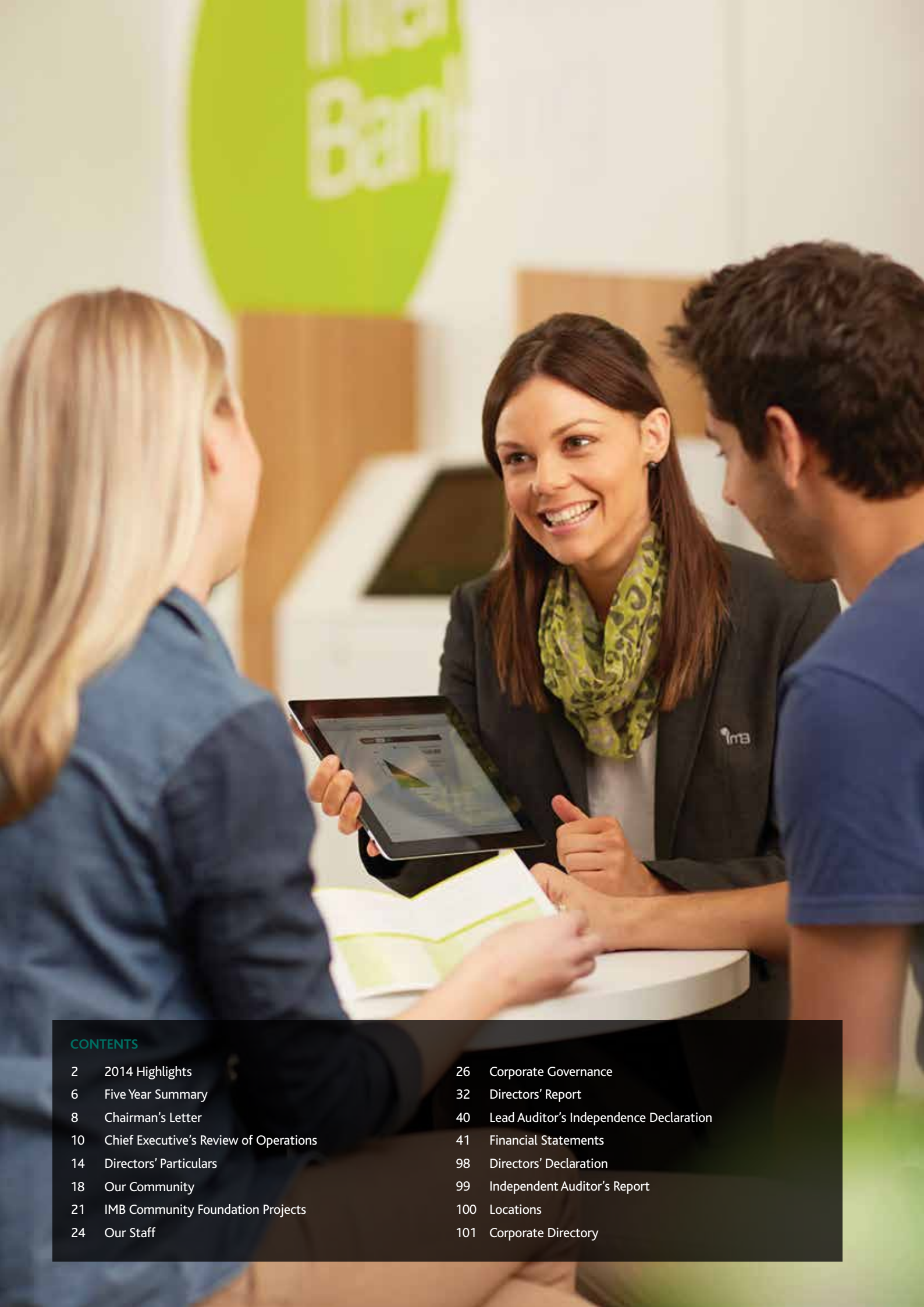




Annual Report 2014

SUPPORTING OUR MEMBERS' FINANCIAL JOURNEY



About IMB

IMB IS ONE OF AUSTRALIA'S LARGEST BUILDING SOCIETIES WITH ASSETS OF MORE THAN \$4.8 BILLION AND AROUND 180,000 MEMBERS. ESTABLISHED IN 1880, WE ARE ALSO THE LONGEST STANDING MUTUAL BUILDING SOCIETY IN NSW.

IMB offers full-service face-to-face, over the phone, internet and mobile banking facilities including home and personal lending, savings and transaction accounts, term deposits, business banking, financial planning and a wide range of insurance products.

IMB boasts 43 branches throughout the Illawarra, Sydney, NSW South Coast, ACT and in Melbourne, supported by an effective mobile lending team and ATM network. IMB also provides commercial loans through broker groups across Australia.

IMB is regulated by the Australian Prudential Regulation Authority, the Australian Securities and Investment Commission, and is a member of the Customer Owned Banking Association, an independent organisation representing building societies, credit unions and mutual banks.

OUR VISION

IMB will be the first choice, member owned banking alternative based on service and member satisfaction.

OUR MISSION

IMB is a profitable, independent member based financial institution that will focus on identifying and fulfilling the needs of its members.

This will be achieved by offering better value banking, which is based on our staff being empowered and equipped to deliver member value and superior service.

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

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 Monday, 20 October 2014 at 10.00am.

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2014 Highlights

WE WERE AWARDED A 5 STAR RATING BY CANSTAR FOR 5 OF OUR HOME LOAN PRODUCTS INCLUDING THE IMB BUDGET HOME LOAN, IMB ESSENTIALS HOME LOAN, IMB PLATINUM PACKAGE 1 YEAR FIXED AND VARIABLE HOME LOANS, AND THE STANDARD IMB 1 YEAR FIXED HOME LOAN. THESE HOME LOAN RATINGS ARE IN ADDITION TO IMB'S CURRENT 5 STAR RATINGS ON THE IMB BUSINESS CASH MANAGEMENT ACCOUNT AND IMB DIY SUPER ACCOUNT.

- We received a "Gold Medal" in the inaugural Mozo Experts Choice Home Loan Awards 2014 in the 1 Year Fixed Home Loan Category for the IMB Fixed Home Loan Special (Platinum Package) and two "Highly Commended" awards in the First Home Buyers Home Loan Category for the IMB Budget Home Loan and the IMB Essentials Home Loan.
- We enhanced our mobile website with some new and improved functionality. The new look of the m-site is easier and more convenient to use and was designed to deliver a better member experience.
- We agreed to partner with Visa to offer a new digital wallet service, V.me that aims to secure the way consumers pay online.
- We commenced issuing Visa PayWave contactless cards to improve the convenience and speed of transactions for members when paying for items under \$100, by reducing the need for a PIN.

- We introduced to small business customers the option of linking their account to Xero, third party online accounting software for managing business finance.
- Our most recent member satisfaction survey recorded a result of 96%, continuing a four year trend of overall member satisfaction levels above 95%.
- We maintained our commitment to supporting local communities. Since its inception in 1999 the IMB Community Foundation has granted funding to more than 450 community projects, returning more than \$7.1 million to the communities in which we operate.
- We successfully completed a further off market share buyback. The buyback was the second in a series of buybacks we expect to undertake over the medium term. The second buyback was successful in buying back 2.1 million shares through the voluntary share tender mechanism.



TOTAL ASSETS
\$ Million



1.3% decrease

MEMBERS' DEPOSITS
\$ Million



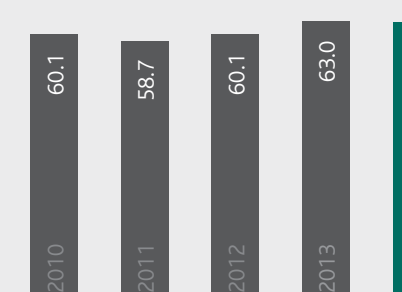
4.4% increase

PROFIT AFTER TAX
\$ Million



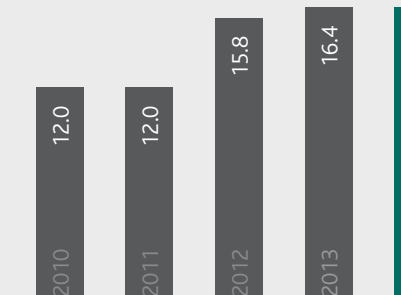
2.0% increase

EFFICIENCY RATIO
%



0.1% improvement

CAPITAL RATIO
%



0.4% decrease

MEMBER SATISFACTION

*Discovery Research 2014

96%



"I'm still with IMB after all these years because it's great to support a local business that gives so much back to the community."

THE WARREN FAMILY

Local Illawarra resident Philip Warren has trusted IMB with his everyday banking for the past 25 years and is proud to be a member of the local financial institution. Now a father, Philip manages his family's banking with an IMB transaction account. Not only does Philip remain with IMB for the friendly customer service he receives from his local Figtree branch, he appreciates the convenience offered when banking with IMB.

"I'm still with IMB after all these years because it's great to support a local business that gives so much back to the community. Plus, it's fantastic to work with a financial institution that offers competitive products and helpful, personalised service that is tailored to best suit my needs. I am also able to check my balance on the go via my mobile phone and a Visa Debit Card lets us make online purchases from our everyday account, rather than having to use a credit card," said Philip.

5 year SUMMARY

	2014 \$000	2013 \$000	2012 \$000	2011 \$000	2010 \$000
FINANCIAL PERFORMANCE					
Interest income	239,939	272,746	322,595	325,064	266,742
Interest expense	144,912	180,272	227,422	228,585	173,723
Interest margin	95,027	92,474	95,173	96,479	93,019
Non interest income	18,147	18,577	14,320	13,746	14,815
Bad and doubtful debts expense	876	849	1,989	3,646	3,638
Non interest expense	70,674	69,424	64,629	62,565	62,644
Profit before tax	41,624	40,778	42,875	44,014	41,552
Income tax expense	12,555	12,268	12,727	12,996	12,481
Profit after tax	29,069	28,510	30,148	31,018	29,071
FINANCIAL POSITION					
ASSETS					
Loans to members	3,698,709	3,722,492	3,781,358	3,763,503	3,576,564
Liquids	1,104,711	1,133,328	946,407	1,015,406	1,087,047
Other	28,319	38,138	44,651	37,338	32,204
	4,831,739	4,893,958	4,772,416	4,816,247	4,695,815
LIABILITIES					
Deposits	3,756,015	3,598,296	3,443,940	3,526,906	3,362,526
Securitised loans funding	700,642	926,706	968,609	999,733	1,064,650
Other	90,380	95,836	98,882	50,000	48,182
	4,547,037	4,620,838	4,511,431	4,576,639	4,475,358
Net assets	284,702	273,120	260,985	239,608	220,457
Total assets	4,831,739	4,893,958	4,772,416	4,816,247	4,695,815
PERFORMANCE RATIOS					
Capital adequacy	%	16.0	16.4	15.8	12.0
Total asset growth	%	-1.3	2.5	-0.9	2.6
Net asset growth	%	4.2	4.6	8.9	8.7
After tax return on average net assets	%	10.58	10.92	12.66	13.47
Non interest income/average total assets	%	0.38	0.39	0.30	0.29
Non interest expenses/average total assets	%	1.49	1.46	1.33	1.31
Non interest expenses/operating income	%	62.9	63.0	60.1	58.7
Bad debts expense/average loans	%	0.02	0.02	0.05	0.07
Interest margin	%	2.04	1.97	1.99	2.05

"They are always on call in times of need and willing to go above and beyond to provide exceptional service that caters to me individually."

DAVID POPOVSKI

Wollongong resident David Popovski knows the importance of building a successful relationship with his financial institution. After being dissatisfied with the service he was receiving from one of the major banks concerning his five investment properties he interviewed a number of other financial institutions. Pleased with IMB's high-quality service, personal approach and competitive loan products, David made the switch to IMB in 2007.

"IMB has been great with helping us build our property portfolio, but what has made my property investment experience so successful is the great relationship and level of trust I have developed with the staff at my local IMB branch. They are always on call in times of need and willing to go above and beyond to provide exceptional service that caters to me individually," said David.

Chairman's LETTER

IN FINANCIAL YEAR 2014 (FY14) IMB RECORDED A NET PROFIT AFTER TAX OF \$29.069 MILLION, AN INCREASE OF 2.0% OVER THE PREVIOUS CORRESPONDING PERIOD. THIS PROFIT RESULT SHOULD BE VIEWED IN THE LIGHT OF A CHALLENGING BUSINESS ENVIRONMENT WITH A SLOWING ECONOMIC GROWTH OUTLOOK GENERATING LOW HOUSING LOAN DEMAND. FURTHER THE RESULTING MONETARY POLICY STIMULUS TO LOWER OFFICIAL INTEREST RATES CAUSED DOWNWARD PRESSURE ON HOME LENDING MARGINS.



Against this difficult background it is pleasing to report a number of major Key Performance Indicators (KPIs) matched or exceeded expectations. Credit impairment was well below national industry averages and retail deposit growth was strong in an intensely competitive market. However some of the KPIs fell short of budget including new residential loan approvals of \$678 million, notwithstanding an increase of 19.7% on the prior period. As a result the aggregate loans to members declined fractionally over the year.

In a reduced revenue growth environment there continued to be a strong commitment to cost containment and with management focus the cost to income ratio was maintained at 62.9%. If adjusted for abnormal items it was very close to our target level of 60%.

The 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 gearing level remains comfortably within current regulatory requirements. 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 in nominal terms.

The maintenance of the IMB capital base 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. As a result, a total of 2.14 million shares were bought back at a price of \$4.07 per share for a total consideration of \$8.7million. The 5.8% of ordinary share capital retired resulted in a reduction in the level of shareholder members' contributed funding.

The aggregate number of shares retired under the two buybacks to date is 12.6% of the original number of shares on issue of 39.9 million. It remains the Board's intention to continue to seek to retire all ordinary shares on issue through a series of buybacks, subject to the minimum capital requirements previously stated. However a caveat must be added, that is: 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 buy-backs 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 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, 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 IMB's website.

"ON BEHALF OF THE DIRECTORS I WOULD ALSO LIKE TO THANK ROBERT RYAN, THE EXECUTIVE MANAGEMENT TEAM AND ALL THE STAFF AT IMB FOR THEIR CONTINUED COMMITMENT TO IMB AND ALL THE STAKEHOLDERS."

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). Previously the Board 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.

The Board has resolved to maintain a final dividend for FY14 of 15 cents per share. The total dividend for FY14 will be 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%.

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

On behalf of the Directors I would also like to thank 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.

A handwritten signature in dark ink, appearing to read 'Michael Cole'.

MJ Cole
Chairman

Chief Executive's REVIEW OF OPERATIONS

AS IT ENTERS ITS 135TH YEAR OF OPERATIONS, IMB HAS AGAIN DELIVERED A SOLID PERFORMANCE AGAINST THE BACKDROP OF AN AUSTRALIAN ECONOMY WITH A LOW INTEREST RATE ENVIRONMENT, CONTINUED INTENSE DEPOSIT AND CREDIT COMPETITION AND CONTINUED UNCERTAINTY IN GLOBAL MARKETS. DESPITE THE DIFFICULT ENVIRONMENT, IMB HAS CONTINUED TO OPTIMISE THE BUSINESS MODEL TO MAINTAIN PROFITABILITY AND A STRONG BALANCE SHEET, WHILE SUCCESSFULLY EXECUTING AGAINST OUR BUSINESS STRATEGY.



FINANCIAL PERFORMANCE

Group operating profit after tax remained solid at \$29.1 million. This result was \$0.6 million, or 2.0%, higher than the previous year, IMB's underlying business fundamentals have proven to be resilient despite the challenging operating environment.

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

IMB's average interest margin for the year was 2.04% compared to 1.97% in 2012/13. The improvement in margin reflects our management of interest margin and balance sheet growth, as well as maintaining strong capital levels. We expect that the interest margin will maintain around this level over the coming financial year, although this will be contingent on further moves in official rates and margin pressures linked to the highly competitive deposit and lending markets.

Bad and doubtful debts expense was \$0.9 million, the same level as the previous year. This is an excellent result reflecting the quality of IMB's loan book across both the secured and unsecured loan portfolios. IMB's level of mortgage arrears continues to be well below the national averages in all categories, reflected by the value of our loans in arrears by 90 days or more being only 0.04% of total loans at 30 June.

Total expenses amounted to \$70.7 million, an increase of \$1.3 million on the prior year. Excluding land development expenses, expenses on a like for like basis were \$66.1 million, a 2.5% increase on the previous year. This result reflects IMB's continued disciplined approach to cost containment.

The ratio of non interest expense to operating income for the Group was 62.9% in 2013/14, with non interest expense as a proportion of average total assets for the Group 1.5%, up on 1.4% the previous year. Excluding the impacts of land development in the current and prior years, the ratio was 61.2%, broadly in line with the result for 2012/13 and continues to be one of the lowest efficiency ratios amongst our peer set.

Total assets were \$4.8 billion at the end of the financial year. Loan approval levels for the year were \$753.1 million, 21.5% higher than the previous year, reflecting the increased focus on lending, despite a highly competitive market.

Loan growth was funded largely from growth in deposits which increased by \$158 million over the year. The increase of 4.4%, and more particularly the growth in call funds, reflects our competitive deposit product offering. IMB's liquidity ratio remains well in excess of regulatory requirements.

In addition to our retail deposit base, IMB also has a diverse middle markets and wholesale funding capability including access to a \$2 billion debt issuance programme.

During the year IMB established a \$500 million Internal Securitisation Warehouse. The Group's capital adequacy ratio at 30 June was 16.0%, reflecting our strategy to maintain a high capital ratio whilst delivering the share buyback program.

STRATEGY

IMB's strategy targets profitable and sustainable growth, supported by disciplined cost control, strong credit standards and considered investment in capability that will benefit the future needs of our members. IMB's organic growth agenda includes extending our online footprint, investing in Business Banking and increasing our capabilities to grow and retain members.

We have maintained our commitment to face to face banking and have undertaken a number of branch refurbishments over the past year. We expect to open a new branch in south west Sydney later this year supporting our existing member base and providing opportunity to welcome new members to IMB. Supporting our growth strategies, particularly younger members, we have launched a school banking program which we expect to roll out more broadly over the coming period. In addition, we are exploring opportunities to deliver a financial literacy program to school aged children.

Earlier this year, we upgraded our mobile website providing improved functionality to our members. These improvements include expanded access to product information, additional calculators and easy and convenient product application forms. We have also recently launched the IMB Visa PayWave contactless debit card, providing members with increased convenience for card transactions.

IMB is committed to supporting small business customers through better value banking, and during the year IMB expanded its Business Banking services to provide customers the option of linking their account to their Xero accounting software for managing business finance. We are also reviewing opportunities around merchant facilities and payment offerings available for Business Banking clients.

IMB's lending and deposit products continue to be recognised by independent reviewers, with IMB's Fixed Home Loan Special (Platinum Package) receiving a Gold medal in the 1 Year Fixed Home Loan Category of the inaugural Mozo Experts Choice Awards 2014. IMB's popular Budget Home Loan and recently revamped Essentials Home Loans received Highly Commended awards in the First Home Buyers Home Loan category.

IMB has more 5-star-rated variable home loan products than any of the major banks, with the CANSTAR 5 star rating awarded to IMB's Essentials Home Loan, Budget Home Loan, Platinum Package Variable (\$250,000 - \$499,000) Loan, Platinum Package Fixed 1 year and Residential Fixed 1 year. These home loan ratings are in addition to IMB's current five star ratings on the IMB Business Cash Management Account and IMB DIY Super Account.

During the year we conducted a member satisfaction survey which delivered an excellent result with 96% of IMB members surveyed satisfied with the products and services they receive from IMB. Over the last 5 years, IMB has maintained overall member satisfaction levels above 95%. We are very proud of these results which reflect our commitment to providing our members with better products and services.

We completed the second of a series of off-market share buybacks in November 2013 with 2.1 million shares bought back through a voluntary share tender mechanism. The share buybacks are in line with our corporate strategy to support IMB's mutual structure by buying back, and cancelling, over time, the ordinary shares on issue.

Looking ahead, IMB will continue to focus on strategic priorities that will drive strong revenue growth and deliver banking solutions to our members, including a focus on Digital and Mobile. To that end, IMB has commenced a period of transformation, which is being delivered by systems modernisation, supported by a program of business process improvements and simplification. Our future investments in technology will deliver noticeable improvements for members and staff including a more contemporary online presence, improved service, greater productivity and easier processes for our staff.

The first major component of this work is an upgrade of our personal lending process. By the end of the calendar year, members will have access to a straightforward online application process and quick response. The upgraded system and processes will allow members outside IMB's footprint, or those unable to visit a branch, the ability to access our highly competitive personal loan products.

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

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.

The interim report of the Financial System Inquiry has been released and while aspects of the recent interim report have highlighted important matters, overall it appears to fall short on the area of ensuring competition in banking. IMB continues to engage directly, as well as through our industry body, to advocate for outcomes that provide fair and sustainable competition, in particular providing better recognition of the customer owned banking model and addressing some of the unfair advantages held by our major banks.

STAFF

During the year, the senior management team was restructured to support the execution of our strategy and to recognise the increasing importance of risk and governance in the financial services industry. As part of that process we split the previous role for Sales and Marketing into General Manager Members and General Manager Sales, and also created the roles of Chief Risk Officer and General Manager Corporate Services.

We recognise that our staff are key to delivering IMB’s strategies and providing excellent service to our customers – both internal and external. Our turnover rates remain low, with less than 7% turnover for the last financial year, and in an environment that sees staff moving between jobs on a regular basis, it is a testament to IMB’s employment proposition that IMB currently has 56 staff with 20 years or more of service.

We continue to support our Trainee and Cadet programs, providing opportunity for young employees and we have continued to invest in developing the skills of our staff through a range of learning and development programs.

The safety of our staff and members is a key focus for Board and management. During the year IMB achieved 12 months without a Lost Time Injury and I am pleased to advise that at the date of this report we are approaching 19 months without a Lost Time Injury.

COMMUNITY

The Foundation celebrated its 15th anniversary this year. Over those 15 years the Foundation has donated more than \$7.1 million to more than 450 projects in the communities in which it operates. IMB is proud of the difference our support makes to the various projects, and the extended community, and we continue to be inspired at the diversity and the number of volunteers that are involved in these community projects.

In addition, IMB also supports a variety of charity, community and sporting organisations and numerous other community grass roots projects and events such as the popular Sunset Cinema that was run again in the Wollongong Botanic Gardens, in Canberra as well as a programme presented for the first time in North Sydney. We are very pleased this year to be supporting the 2014 i98FM Camp Quality Convoy which provides much-needed funds for local children and their families.

OUTLOOK

For the coming year, we expect the current low rate environment to continue although it is likely that the next movement in official rates rate will be an increase. The ongoing competition for retail funds and lending products will continue to place pressure on interest margins. Notwithstanding these factors, we remain confident about our future financial performance.

CONCLUSION

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 thank them for their significant contribution to our results and their personal approach to providing member service.

I would also like to thank IMB’s Board for their continued support and the significant contribution they make to IMB.

Finally, I would like to thank all of our loyal members for their continued support of IMB and we look forward to continuing to meet their financial needs.



RJ Ryan
Chief Executive



Directors' PARTICULARS

THE BOARD OF DIRECTORS AIMS TO ENSURE THAT THE MEMBERS ARE INFORMED OF ALL MAJOR DEVELOPMENTS AFFECTING THE GROUP'S STATE OF AFFAIRS. THE BOARD ENCOURAGES FULL PARTICIPATION OF MEMBERS AT THE ANNUAL GENERAL MEETING TO ENSURE A HIGH LEVEL OF ACCOUNTABILITY AND IDENTIFICATION WITH THE GROUP'S STRATEGIES AND GOALS.

MICHAEL JOHN COLE BEC (SYD) MEC (SYD) F.FIN

Mr Cole, whose expertise is funds management, has been a non executive director since 2003 and Chairman since 2007. He is Chairman of the Corporate Governance and Remuneration Committee and the Capital and Securitisation Committee and a member of the IMB Financial Planning Committee. Mr Cole is also an ex-officio member of the IMB Community Foundation Committee and the Audit and Risk Committees. Mr Cole held many senior executive and board positions during his 17 years with Bankers Trust Australia Limited, and is now an independent consultant. Mr Cole is currently Chairman of Ironbark Capital Limited, Platinum Asset Management Limited and Challenger Listed Investments Ltd. As well as being Chairman of IMB Ltd, Mr Cole is also Chairman of all entities wholly owned by IMB Ltd.

LYNTON PATRICK NICHOLAS FCPA FCIS FCSA

Mr Nicholas, whose expertise is business management, has been a non executive director since 2004 and was elected Deputy Chairman in 2007. He is Chairman of the IMB Community Foundation Committee, the Audit Committee and the Risk Committee, and a member of the Corporate Governance and Remuneration Committee and the Capital and Securitisation Committee. Mr Nicholas is a former General Manager Supply of BHP Steel and a former Chief Financial Officer of a number of BHP Steel divisions. He is a business consultant to a number of major Australian companies. Mr Nicholas is also Chairman of the Flagstaff Group Limited, President of Port Kembla Golf Club Limited, and he is a member and Chairman of the Audit and Risk Management Committee of the Catholic Diocese of Wollongong Finance Committee. As well as being a director of IMB Ltd, Mr Nicholas is also a director of all entities wholly owned by IMB Ltd.

KIERAN ROBERT BIDDLE DIP.LAW SAB SPEC – ACC BUS GAICD

Mr Biddle, who is a lawyer, has been a non executive director since 2007. He is the Chairman of the Land Development Committee and is a member of the Corporate Governance and Remuneration Committee, the Capital and Securitisation Committee and the IMB Community Foundation Committee. Mr Biddle has been a principal solicitor in private practice in Wollongong since 1978, is a solicitor of the High Court of Australia and the Supreme Court of New South Wales, an Accredited Specialist in Business Law and a Public Notary. He is a director and member of the Finance Committee of Catholic Care, and Chair of the Catholic Diocese of Wollongong Finance Committee and also a director of Australian Industry World Limited, a local not-for-profit company and acts as an honorary solicitor for a number of charities. As well as being a director of IMB Ltd, Mr Biddle 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 since 2012 and is a member of the Audit Committee, the Risk Committee and Land Development 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



Front left to right: Lynton Patrick Nicholas, Margaret Elizabeth Towers, Noel Harold Cornish, Michael John Cole, Kieran Robert Biddle, Robert Hillis Page Elvy & James Randolph Coleman.

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.

ROBERT HILLIS PAGE ELVY B SC(ENG) B COM(ACCY) FIEAUST FCPA FCIS FAICD

Mr Elvy, whose expertise is business management particularly in the building and construction industry, has been a non executive director since 2008 and is a member of the Audit Committee, the Risk Committee and the Land Development Committee. Mr Elvy is CEO and a director of the Cleary Bros Group, Chairman of Illawarra Sports Stadium Ltd, former Chairman of the Port Kembla Port Corporation and has also served on the Boards of other sporting and charitable organisations. As well as being a director of IMB Ltd, Mr Elvy 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 since 2011 and is Chairman of the Financial Planning Committee and a member of the Audit Committee, the Risk Committee and the IMB Community Foundation Committee. Ms Towers was previously with Price Waterhouse and was an Executive Vice President at Bankers Trust Australia. She is currently a non-executive Director and Chairperson of the Audit and Risk Management Committee of Platinum Asset Management Limited. Ms Towers also provides 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.

NOEL HAROLD CORNISH BSC (MET) M ENGSC

Mr Cornish, whose expertise is business management, has been a non executive director since 2010. Mr Cornish is a member of the Corporate Governance and Remuneration Committee, the Land Development Committee and the Capital and Securitisation Committee. Mr Cornish's previous roles include Chief Executive of BlueScope Steel Limited's Australian and New Zealand steel manufacturing businesses, President NorthstarBHP LLC in Ohio USA and Group General Manager Whyalla Steelworks in South Australia. He is currently a member of the Council of the University of Wollongong, and is a director of Forests Corp NSW and Snowy Hydro Ltd. Mr Cornish is also National President of the Ai Group. Mr Cornish was previously the Chairman of Hunter United Credit Union. As well as being a director of IMB Ltd, Mr Cornish is also a director of all entities wholly owned by IMB Ltd.



"With IMB we have always felt we are in a partnership, which is exactly what we were looking for in a financial institution."

EDWARD AND NADINE HILLS

Looking for a financial institution when arriving in Wollongong from England 26 years ago, Edward Hills turned to local building society IMB. To this day Edward remains an IMB member and has extended his relationship with IMB to include financial planning services.

"My wife Nadine and I originally sought out financial planning advice to help us invest wisely for the future of our family, particularly the long-term future of our sons. IMB's

financial planning team were fantastic and listened carefully to our story before helping us establish a practical plan that best suited our needs. With IMB we have always felt we are in a partnership, which is exactly what we were looking for in a financial institution. We have stayed with IMB due to its exceptional customer service, which is reflective of excellent staff training," said Edward.

Our COMMUNITY

NEARLY 135 YEARS AGO IMB WAS ESTABLISHED BY A SMALL GROUP OF WOLLONGONG PIONEERS TO FUND THE BUILDING OF MEMBERS' HOMES. SINCE THOSE HUMBLE BEGINNINGS IMB HAS CONTINUED TO BUILD ON A HERITAGE IMMersed IN COMMUNITY AND TODAY CONTINUES A PROUD TRADITION OF HELPING MEMBERS ACHIEVE THEIR FINANCIAL GOALS, AS WELL AS HELPING THE LOCAL COMMUNITIES IN THE AREAS IN WHICH WE OPERATE.



IMB COMMUNITY FOUNDATION

Established in 1999 to give back to the local communities where IMB members live and work, the IMB Community Foundation provides financial assistance to volunteer and not-for-profit organisations and community groups selected on how they might positively impact the local area and turn their ideas into successful working projects.

This year marks the 15th anniversary of IMB's Community Foundation. Since its inception, the Community Foundation has contributed \$7.1m to support over 450 projects within local communities.

In 2014, IMB Community Foundation donated a further \$500,000 to 49 local projects in need of support including disadvantaged youth, senior community involvement, mental health groups and educational opportunities.

OTHER COMMUNITY SUPPORT

As well as supporting local communities through the Community Foundation, IMB also supports a variety of other projects during the year. These include charity, community and sporting organisations, as well as numerous other grass-roots local projects and events that directly benefit the communities where IMB members live and work.

Complimentary-hire of IMB's quality marquees is another of many ways IMB continues to support local communities. For more than nine years the IMB marquees have featured at countless community events across the Illawarra, Sydney, NSW South Coast, ACT and Victoria, including sporting matches, school fetes, charity fundraisers and presentations. This year, the fleet of marquees received an upgrade and multiplied to 39.

Other community events and sponsorships supported by IMB throughout the past year included:

- Belconnen Ice Dragons
- Gungahlin Bulls
- Wollongong Hawks
- Cook Community Classic
- Moonlight Movies
- Sunset Cinema – Illawarra, Sydney and ACT
- Dapto Community Carols
- Wollongong's Blue Mile Dash
- Illawarra Women in Business
- Narooma Oyster Festival
- Tuggeranong Festival
- Goulburn Show
- Camden Play Day



"With the generous support of the IMB Community Foundation, in the last six months we have been able to triple the number of bikes we repair."



RECYCLERY

In Canberra, a small group of dedicated workers are making a big difference in the local community.

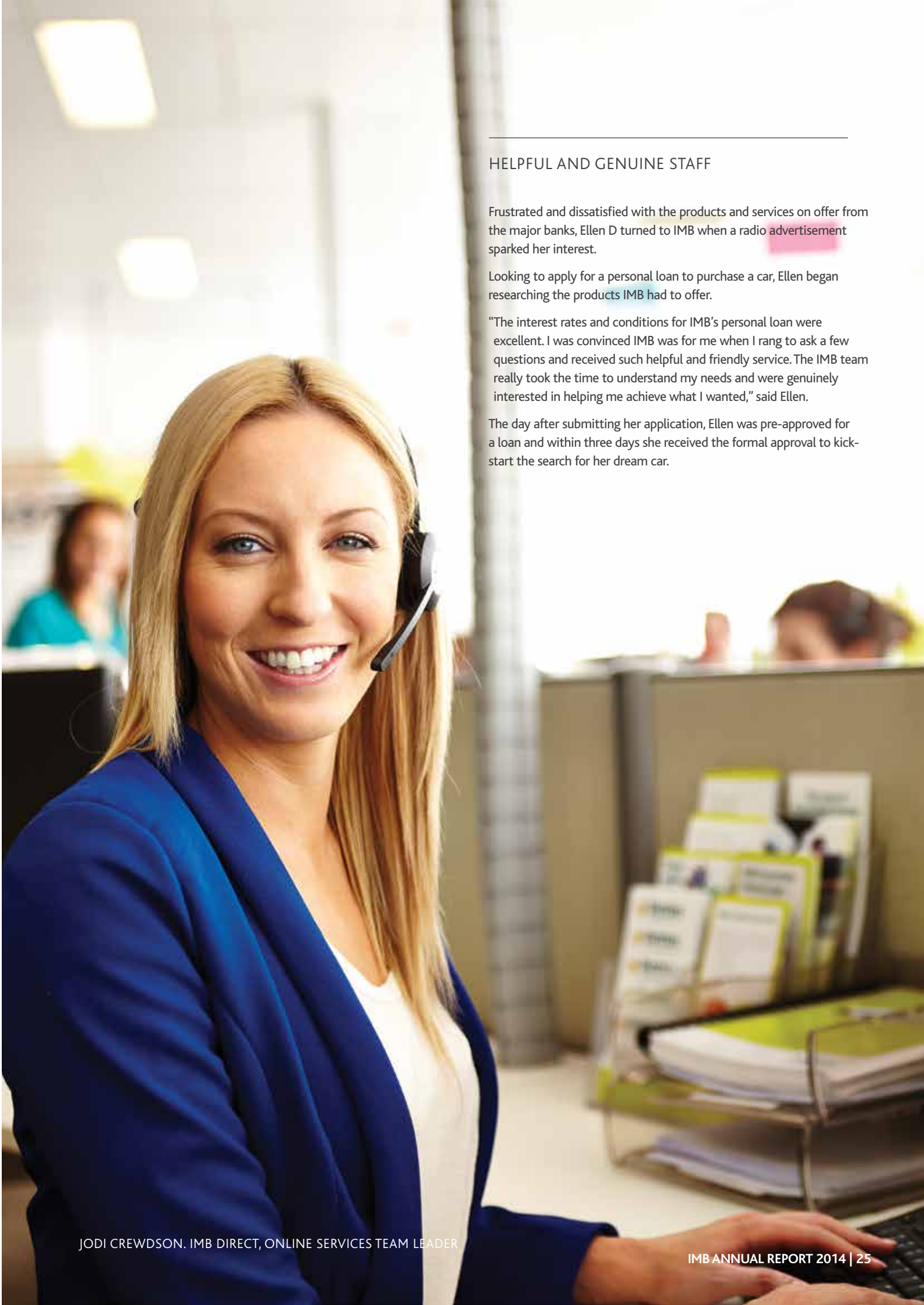
Recyclery employs 10 people with disabilities to salvage bikes destined for the scrap yard and fixes them up to road-worthy quality. The bikes are then sold to the general public as an affordable source of sustainable transport. This year, the IMB Community Foundation granted funds to Recyclery to help expand the project and reach even more people within the local community.

"Recyclery provides a space for community involvement and inclusion. With the generous support of the IMB Community Foundation, in the last six months we have been able to triple the number of bikes we repair. More bikes to repair means more jobs for people with a disability," said Jeff Thompson, Manager.

IMB Community Foundation PROJECTS

Organisation	Project Name	Project Description
ACT/Goulburn		
Belconnen Baptist Church Inc.	Shed Health and Safety	Install first aid & safety equipment in the men's shed to upgrade standards (to include welding & metalwork). Volunteer trainer to organise structured training programmes & document formal policies & procedures for members.
Community Programs Association	Recyclery	Upgrade to Recyclery project with access to all bicycles at the Green Shed tip, giving potential to triple throughput, increasing employment & training opportunities for disabled people. Repaired bikes on-sold to students & community.
Parkinson's ACT Inc.	Dancing for People with Parkinson's	Deliver innovative dance classes for people with Parkinson's & their friends, focusing on specific concerns such as mobility, balance, rhythm & flexibility in an enjoyable, social & communal environment.
Rotary Club Of Canberra	Young Driver Awareness Campaign	Deliver RYDA Young Driver Awareness program to up to 1200 school students, with emphasis on road safety awareness, peer pressure & risk taking.
Rotary Club of Goulburn Inc.	U-Turn The Wheel	Deliver intensive courses for year 11 high school students in driver training, emphasising road safety awareness, peer pressure & risk taking.
SouthCare Helicopter Fund	Snowy Hydro SouthCare Education Program	Educate school children about safety awareness & how the local rescue helicopter contributes to the health & wellbeing of the South Eastern communities.
St John Ambulance Australia (ACT) Inc.	Event Health Service Clinics	Establish six portable health clinics for St John ACT Health Care Professionals & First Responders to operate from when deployed at community events.
Tallong Public School	Centenary Celebration and Commemoration	Host two events in October 2014 to celebrate educational milestones. Strong educational theme on history & heritage over past 150 yrs; create a publication with both living & past history.
Vision Australia Ltd.	DAISY Online - Bridging the Online Divide	Upgrade & connect "DAISY" online to enable members to read audio books, newspapers & give them access to a wide range of information & education.
Illawarra		
Bulli High	Environment Sustainment	Deliver an environmental preservation project that focuses on student involvement, community participation & building practices that will sustain the environment of the school community.
City of Wollongong Eisteddfod Inc.	Eisteddfod Electronic Lodgement	New technology to allow parents, competitors, teachers, organisers & volunteers to submit backing tracks for vocals or dance & poems for speech & drama sections to a central hub, to reduce performance errors & omissions.
Friends of Curtis Park Arboretum	Birds of the Arboretum	Assist visitors to identify the various birds with picture signage & an information booklet.
George Cross Falcons Club	Carpentry Workshop	Upgrade & improve existing carpentry workshop (tools, timber, paints & brushes) to enable team to increase output of toys & useful items for disadvantaged & sick children.
Illawarra Community Safety Brigade	Illawarra Community Safety Van Fitout	Design & fit-out of Safety Van used to increase awareness & education of community on fire risks & bush fire preparedness.
Illawarra Quilters Inc.	Illawarra Quilters Community Youth Quilts	Expand the participation & training of members in providing quilts for numerous disadvantaged members of the community.
Killalea State Park Trust	Killalea Valley Regeneration Project	Launch the Valley Regeneration Project which aims to restore the natural vegetation in the valley area behind the lagoon & increase community volunteerism.
Lions Club of Strzelecki	Cows Create Careers	Introduce students to various careers in the dairy industry with an academic & hands-on training module, which includes bringing calves into schools.
NSW Police Force - Wollongong Police	Getting On In Wollongong	Develop two educational videos in relation to staying safe, crime prevention & accessing help, for international students & newly arrived refugees, featuring local police, volunteers, life guards, emergency workers & university students.
PCYC Wollongong	Break Free Cafe	Provide young offenders, youth at risk & disadvantaged youth who are being case managed by Wollongong PCYC Police Youth Case Managers, with skills to enhance work opportunities in the hospitality industry.
Peterborough School	Disability Options Directory	Compile, print & distribute to 400+ people at annual Disability Expo a "Disability Options Directory," covering education, post-school services, government/non-government services, leisure & recreational services & web guides to service providers.
Rotary Club of Corrimal Inc.	Imagination Library Illawarra	Promote literacy & a love of reading so children start school ready & keen to learn, by posting registered preschool children an age appropriate book with tips sheet for parents each month.
Rotary Club of Kiama Inc.	Mental Health First Aid Courses	Run two free, nationally certified mental health first aid courses for the community, youth & particularly carers to raise awareness of mental health issues.

Organisation	Project Name	Project Description
Illawarra cont.		
SCARF	Water Safety Awareness Project	Provide water safety education for members of the local refugee community by highlighting the role water plays in a coastal lifestyle & the importance of water safety knowledge & practices.
Scouts Australia (Mt Keira)	Mt Keira Challenge Valley	Build a state of the art, user-friendly, safe & community acceptable training facility for locals & tourists called "Challenge Valley Obstacle Course."
Shellharbour City Arts Society Inc.	Shellharbour City Arts Precinct	Turn a neglected building into an arts precinct for Shellharbour & neighbouring precincts to enhance tourism & create job opportunities whilst also providing a place for community groups to meet.
U3A Shoalhaven Third Age of Learning Inc.	Reinventing U3A Shoalhaven	Upgrade & improve educational amenities in Nowra premises, to enable U3A to expand their reach & enhance the collaborative learning experience.
Wollongong Conservatorium of Music	IMB/Roger Soden Scholarship Year 2	Provide a scholarship (annually over 5 years) for a student musician at Wollongong Conservatorium.
Wollongong Workshop Theatre Inc.	Workshop Theatre	Digitise & create hard copy of all archives of Wollongong's oldest theatre company, for donation to library or museum.
South Coast		
Arts Council of Eurobodalla Inc.	Art Central Maintenance Program	Carry out building renovation work on existing building owned by the Arts Council of Eurobodalla at Art Central in Moruya.
Crossing Land Education Trust	Young Leaders in Sustainable Land Management	Connect motivated year 10 agriculture students in S.E. NSW with sustainable land management practices, experience, mentors & traineeship options, including support to achieve a UNESCO Young Masters on Sustainable Development & development of an innovative sustainable agriculture project.
Eden Marine Centre Ltd.	Marine Debris - Clean up your act!	Sapphire Coast Marine Discovery Centre will work with local schools to 'clean up their act' by having students tidy up the local beaches, whilst learning about marine debris, its environmental impact & what they can do to help.
EuroSCUG INC.	Internet Savvy Seniors	Extend the successful 'IMB Cyber Classrooms for Seniors' project by offering hands on training by seniors for seniors, using tablets, smartphones or other computers.
Legacy Club of Queanbeyan-Eden- Monaro Inc.	Replacement of Membership Database Computer	Replace membership database computer for "Legacy," an assistance program for the families of men & women who served in wars involving Australia & have since died.
Murramarang Mens Shed Inc.	Equip the Murramarang Mens Shed	Purchase tools to enable the Murramarang Mens Shed to construct its shed, participate in community projects & assist people in need in local communities of Termeil, Bawley Point & Kioloa.
Narooma District Woodcrafters Association Inc.	CNC Router	Acquire & install computer-numerical-controlled router & software in order to train supervisors & develop courses for members, other clubs & high schools.
SouthernCare Inc.	Pantry Plus	Expand facilities in Food Pantry to improve capacity to deliver to vulnerable & disadvantaged people & families; includes "domestic" training.
TeenSafe	Teensafe Safe Driver Education Program	Deliver practical behind-the-wheel safe driver awareness training programs for teenagers.
Southern Highlands		
BCD Community Care Inc.	Youth/Carers Mentoring Program	Launch Youth Hub to provide: BBQ cooking, meal preparation, cleaning, movie social nights, social media training & after-hours youth & young carers development in a safe learning environment.
Rotary Club of Moss Vale	U-Turn The Wheel	Deliver intensive course to 500+ year 11 high school students in driver training, emphasising road safety awareness, peer pressure & risk taking.
Southern Highlands Botanic Gardens Ltd.	Plant Education & Propagation Area	Seed funding to expand facilities to provide chemicals & equipment storage to support propagation & protection of endemic & rare plant species to develop the gardens.
Macarthur		
Camden District Care Inc.	Discovering New Talents	Introduce 2 new programmes for the aged & those living with disabilities of all ages to "Develop New Talents," including art classes, floral work & skills enhancement to encourage companionship & assist with independent living.
Camden Mens Shed	Camden Mens Shed Centre	Build a new shed to house equipment & operate a training centre for members & young people to work together.
PCYC Liverpool	Fit for Life	Deliver the "Fit for Life" 10 week project to young people, that assists in developing skills & attitudes for their futures, including leadership & self awareness, exercise, nutrition & community engagement.
Robert Townson High School	Older, Wiser and Learners (OWLS) Team	Two groups of year 10 & 11 boys to visit aged care facilities in the Macarthur region, to work with older men in a companionship program of playing games, music, talking, reading & mentoring.
Sydney		
PCYC Parramatta	Stand Tall	Deliver an interactive program to direct youth-at-risk & young offenders away from negative decision making & to re-engage with education.
Port Hacking Potters Group	48th Port Hacking Pottery Competition	Hold a biennial exhibition at the Hazelhurst Gallery, Gymea to enable accomplished, novice & beginning potters to exhibit their work & provide a source of inspiration to others.
Project Youth	Cafe Y Menai	Renovate & fit out an existing café, in preparation for a program that will provide careers training in hospitality, for young people who face adversity.
Sydney Story Factory Inc.	Volunteer Workshop Leader Training Pilot	Deliver creative writing workshop leader training for Sydney Story Factory. Volunteers to lead their own workshops in order to reach more marginalised youth across NSW.
Victor Chang Cardiac Research Institute	Health Check Booth	Bring a fully mobile heart health testing service to the community, including testing blood pressure, total cholesterol & blood sugar levels, as well as providing information on heart disease risk factors & healthy heart habits.



JODI CREWDSON. IMB DIRECT, ONLINE SERVICES TEAM LEADER

HELPFUL AND GENUINE STAFF

Frustrated and dissatisfied with the products and services on offer from the major banks, Ellen D turned to IMB when a radio advertisement sparked her interest.

Looking to apply for a personal loan to purchase a car, Ellen began researching the products IMB had to offer.

“The interest rates and conditions for IMB’s personal loan were excellent. I was convinced IMB was for me when I rang to ask a few questions and received such helpful and friendly service. The IMB team really took the time to understand my needs and were genuinely interested in helping me achieve what I wanted,” said Ellen.

The day after submitting her application, Ellen was pre-approved for a loan and within three days she received the formal approval to kick-start the search for her dream car.

Our STAFF

IMB REMAINS COMMITTED TO PROVIDING A POSITIVE WORK ENVIRONMENT WHICH ENGAGES OUR STAFF THROUGH MEANINGFUL AND REWARDING WORK. OUR STAFF DEMONSTRATE THE IMB VALUES OF INTEGRITY, RESPECT, PERFORMANCE, MEMBER FOCUS AND OFFERING SOLUTIONS WHEN ENGAGING WITH OUR MEMBERS, EACH OTHER AND ALL STAKEHOLDERS, ENSURING THAT THE SERVICE PROVIDED IS OF THE HIGHEST LEVEL.

IMB recognises and rewards our people for their performance and achievements and supports them to pursue development opportunities from the time of recruitment. We are committed to providing a safe and healthy workplace driven by a culture of Zero Harm. Our focus on our people has enabled IMB to build long-term and mutually rewarding relationships with our staff, reflected in a voluntary staff turnover rate of 5.17%.

LEARNING AND CAREER

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, induction and necessary compliance training. This has been supplemented with the provision of management and coaching skills for key managers and supervisors across the business.

We have also continued our focus on activities to support individual career development and organisational succession planning efforts, to provide for the longer term needs of individuals and IMB. The success of our learning and development programs is reflected in an internal promotion rate (the number of promotional opportunities filled by internal candidates) in excess of 60%.

Our Traineeship, Cadetship and Tertiary Education programs are an important area of focus for us as we grow and develop the next generation of IMB leaders and specialists. This year IMB welcomed five new Trainees into our very successful traineeship program. These staff gain valuable on-the-job experience in key areas of IMB including Executive Services, IT, IMB Direct and our Retail Network. A further thirty seven existing IMB employees also successfully completed tertiary level qualifications whilst maintaining key roles with IMB.

Our Trainees, Cadets and Tertiary Education students performed exceptionally well, both on-the-job and in their studies, contributing strongly to IMB's business success.

The 2014 NSW Training Awards for the South Western Sydney Region and the

Illawarra Region acknowledged outstanding achievement in vocational education and training of selected IMB Trainees. Chanelle Beech from Liverpool branch, took out an individual award for Certificate III in Financial Services and was a finalist for the South Western Sydney Region Trainee of the Year Award. Elizabeth Vaughan from Fairy Meadow branch, was named a category winner for Certificate IV in Frontline Management at the Illawarra Region Awards. Haylee Temple from Human Resources, was named a category winner for Certificate IV in Human Resources and was a finalist for the Illawarra Region Trainee of the Year Award. Haylee was also named 2013 IMB Trainee of the Year.

IMB congratulates these staff of their achievements.

HEALTH AND SAFETY

IMB continues to have a strong commitment to providing a healthy and safe workplace for all staff, customers and visitors. We continue to strive towards the goal of Zero Harm by promoting a culture where health and safety is the responsibility of all staff and underpins all that we do.

In the FY 2013-2014, IMB celebrated a significant milestone in our journey towards Zero Harm by reaching 365 days (1 year) without a Lost Time Injury. IMB maintained this achievement and finished the financial year with 502 continuous days without a Lost Time Injury. IMB will continue to pursue this goal over the coming year.

IMB maintains a comprehensive Work Health and Safety Management System aligned with Australian Standards which is founded upon risk management principles, due diligence and a consultative approach. We also have



a thorough system for the identification, reporting and resolution of hazards, incidents and near misses which includes regular workplace inspections of IMB premises.

We have an active Health and Safety Committee which has been established to bring employees and management together in a consultative and cooperative way to improve systems for managing health and safety at work.

Commitment to staff continues through IMB's provision of safety training in areas such as robbery, first aid and evacuation procedures. This commitment is also extended to staff and their families through the provision of a free independent and confidential counselling service which aims to assist staff and family members deal with a range of work or non-work related concerns.

RECOGNITION

Our Staff are recognised through formal awards in which staff are nominated and recognised by their peers and/or IMB members. These awards include the annual Chief Executives Award, Sales Awards, and Outstanding Service Awards. The annual IMB Night of Excellence provides an opportunity to celebrate the success of our high achievers and acknowledge their contributions to IMB.

The Chief Executives Award recognises staff who exceed expectations when carrying out their work, have made a significant contribution, epitomize the IMB Values, always displays a high level of professionalism and are a valued corporate citizen.

The 2013 CEO's Award winner was Fran Heskett, Manager of Queanbeyan branch. Fran holds a wealth of knowledge in all areas and is always willing to help colleagues throughout IMB, who know it is never a problem to call at any time to seek advice or assistance, whether it be related to lending, policy or general day to day tasks. Fran on more than one occasion took on the responsibility of other work areas in addition to her own to cover leave periods or vacancies, and did so with great enthusiasm and professionalism. Fran regularly receives compliments from both members and colleagues on her commitment to exceptional service and quality, with one member commenting that this person "puts the relationship into banking".

Fran combines her commitment to IMB with a warm personality which is everything that IMB is about.

IMB's Outstanding Service Award recognises those staff members who consistently provide excellent service to external and/or internal customers of IMB. The winner of the 2013 Outstanding Service Award was Cheryl Spurs from Banking Services. Cheryl's member focused approach to her work has resulted in her receiving many compliments from happy customers throughout the year regarding her efficiency, friendliness, patience and prompt assistance. Cheryl's service has also resulted in new members sharing their experience with family and friends, locally, interstate and even internationally, encouraging them to move their banking to IMB.

IMB congratulates all our award winners for your ongoing commitment to the highest standards of performance and service.

COMMUNITY INVOLVEMENT

Having an engaged and positive relationship with the community is something that IMB is strongly committed to and our staff make an important contribution in this vital part of what we do. In the past year IMB staff have not only been involved in many of the IMB Community Foundation sponsored projects, but have also been actively involved in various activities within the community, including:

- Australia's Biggest Morning Tea
- Jeans for Genes
- Wollongong University O-Week
- Mother's Day Classic
- Wollongong SLSC
- PCYC Time for Kids

Regional areas along with individual branches and departments also play a role in local communities by supporting fundraisers and local events, attending school information sessions and being active participants in the business community.

An example of the community work that Regional areas are involved in comes from the Sydney West Region where staff have teamed up with the Beacon Foundation which operates a program to assist at risk students complete their schooling and subsequently obtain employment. IMB staff have volunteered their time outside of working hours to help in activities such as:

- mentoring students
- conducting mock job interviews and preparing students for job search activities
- participating in careers expos

Corporate GOVERNANCE

THIS STATEMENT OUTLINES THE MAIN CORPORATE GOVERNANCE PRACTICES IN PLACE THROUGHOUT THE FINANCIAL YEAR ENDED 30 JUNE 2014.

BOARD OF DIRECTORS

Board of Directors and its Committees

Role of the Board

The board is responsible for the overall corporate governance of the Company and its controlled entities ("the Group") including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration of the Chief Executive and Senior Managers, appointing, removing and creating succession policies for directors and senior managers, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for the operation and administration of the Company to the Chief Executive and executive management. Responsibilities are delineated by formal authority delegations.

Board Processes

To assist in the execution of its responsibilities, the board has established a number of board committees including a Corporate Governance and Remuneration Committee, an Audit Committee, a Risk Management Committee, a Land Development Committee, an IMB Community Foundation Committee,

a Capital and Securitisation Committee and an IMB Financial Planning Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds twelve scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and the Chief Executive. Standing items include the Chief Executive's report, financial statements, governance, risk management and compliance. Submissions are circulated in advance to directors. Executives and Senior Managers are regularly involved in board discussions and directors have other opportunities including visits to business operations, for contact with a wider group of employees.

Director Education

The Group has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent Professional Advice and access to Company Information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the Group's expense. A copy of the advice received is made available to all other members of the board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in the Directors' Report on pages 14 and 15 of this report.

The board comprises seven independent non executive directors. The size and composition of the board is determined by the full board, subject to the limits imposed by the constitution and compliance with any applicable legislation regarding board composition.

- Only the board may nominate an employee for election as a director.
- The Chairman of the board must be an independent non executive director.
- Directors are elected at the Annual General Meeting.
- Subject to the constitution, the board may appoint any person as a director to fill a casual vacancy. The term of office of a director so appointed will end at the start of the next Annual General Meeting after they were appointed to fill a casual vacancy.

A director must retire from office at the start of the third Annual General Meeting after the director was last elected and if eligible, may be re-elected.

In general, up to three full terms are considered to be the maximum period of time to serve on

the board, however the Board may determine to extend the period for which a Director remains in office, for example where their retirement would result in the loss of two (2) or more directors in any twelve month period or the loss of an essential skill set.

An independent non executive director is a director who is not a member of management and who:

- has not within the last three years been employed in an executive capacity by the Company or another Group member, or not been a director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member;
- is not a material supplier or customer of the Company or another Group member, or is not an officer of or otherwise associated, directly or indirectly, with a material supplier or customer; and
- has no material contractual relationship with the Company or any Group member other than as a director of the Company.

Details of the directors of the Company in office at the date of this statement appear on pages 14 and 15 of this report.

CORPORATE GOVERNANCE AND REMUNERATION COMMITTEE

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

The Corporate Governance and Remuneration Committee oversees the appointment

and induction process for directors and committee members. The committee makes recommendations to the board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the committee in consultation with the board determines the selection criteria based on the skills deemed necessary and on the Company's Fit and Proper Policy. The committee identifies potential candidates. The board then appoints the most suitable candidate to fill the casual vacancy. Board appointed candidates must stand for election at the next general meeting of members. In addition the committee is responsible for advising the board on corporate governance, and developing, regularly reviewing and updating the corporate governance manual.

The Corporate Governance and Remuneration Committee uses an external facilitator to annually review the effectiveness of the board and individual directors. The performance criteria take into account each Director's contribution in setting the direction, strategy and financial objectives of the Group, and monitoring compliance with regulatory requirements and ethical standards.

The Corporate Governance & Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the Chief Executive and senior managers and the board. A key part of the committee's role is to ensure that such remuneration arrangements promote prudent risk taking in the management of IMB and to seek input from the Chairman of the Risk Committee and the Chief Risk Officer as appropriate. From time to time the committee may obtain independent advice on the appropriateness of remuneration packages.

The members of the Corporate Governance and Remuneration Committee during the year were:

Mr MJ Cole (Chairman)
Mr KR Biddle
Mr NH Cornish
Mr LP Nicholas

The Corporate Governance and Remuneration Committee meets annually or more frequently as required. The committee met twice during the year and committee member attendance is disclosed in the table of Directors' meetings on page 39.

The previously established Remuneration and CEO Evaluation Committee also met once during the year.

Mr Elvy was a member of the previously established Nominations and Governance Committee.

The Chief Executive, Mr RJ Ryan, is invited to Corporate Governance and Remuneration Committee meetings as required to discuss management performance and remuneration packages but does not attend meetings involving matters pertaining to himself.

The committee is responsible for the selection, appointment and succession planning process of the Company's Chief Executive. The committee also conducts an annual review of the performance of the Chief Executive and makes appropriate recommendations to the board in respect of such performance evaluations.

During the year, the Committee was responsible for overseeing the requirements of the Remuneration Policy for the Board, Chief Executive and Senior Managers to meet APRA's remuneration requirements under CPS 510 Governance.

Increases in the aggregate base emoluments for all directors are approved by members at an Annual General Meeting and include superannuation payments required under legislation.

Further details of directors’ and executives’ remuneration, superannuation and retirement payments are set out in the Remuneration Report contained within the Directors’ Report.

AUDIT AND RISK MANAGEMENT COMMITTEE

Audit and Risk Management Committee

In December 2013, the previously established Board Audit and Risk Management Committee was split to form the Risk Committee and the Audit Committee.

The members of the Audit and Risk Management Committee during the year up until this date were:

- Mr LP Nicholas (Chairman)
- Mr MJ Cole (ex-officio)
- Mr JR Coleman
- Mr RHP Elvy
- Ms ME Towers

The Audit and Risk Management Committee met twice during the year.

Further details are provided on the separate Risk and Audit Committees.

AUDIT COMMITTEE

The Audit Committee has a documented charter, approved by the board. At least three members must be independent non-executive directors and at least one member shall also be a member of the Risk Committee. The Chairman must not be the Chairman of the Board.

The members of the Audit Committee during the year were:

- Mr LP Nicholas (Chairman)
- Mr MJ Cole (ex-officio)
- Mr JR Coleman
- Mr RHP Elvy
- Ms ME Towers

The internal and external auditors, the Chief Executive, Chief Financial Officer and the Chief Risk Officer, are invited to Audit Committee meetings at the discretion of the committee. The committee met two times during the year (in addition to the two meetings held of the previously established Audit and Risk Management Committee) and committee member attendance is disclosed in the table of Directors’ meetings on page 39.

The external auditor met with the Audit Committee twice during the year without management being present.

The Chief Executive and the Chief Financial Officer declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company’s financial statements for the year ended 30 June 2014 comply with accounting standards, international financial reporting standards, and present a true and fair view of the Company’s financial condition and operational results. This statement is required annually.

The responsibilities of the Audit Committee include:

- reviewing the annual and half year reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether financial information is adequate for member needs;
- assessing management processes supporting external reporting;
- assessing the performance and objectivity of the internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor’s independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of

independence of auditors imposed by the Corporations Act 2001;

- assessing the adequacy of the internal control framework and the Company’s code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Prudential Regulation Authority and the Australian Securities and Investment Commission.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them four times a year to:

- discuss the external audit and internal audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review fees proposed for audit work to be performed;
- review the draft annual and half-year financial statements, and recommend board approval of the financial statements; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made.

The Audit Committee also conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner.

Consistent with this function, the committee encourages continuous improvement of, and fosters adherence to, the Company’s policies, procedures and practices at all levels.

RISK COMMITTEE

The Risk Committee has a documented charter, approved by the board. At least three members must be independent non-executive directors.

The members of the Risk Committee during the year were:

- Mr LP Nicholas (Chairman)
- Mr MJ Cole (ex-officio)
- Mr JR Coleman
- Mr RHP Elvy
- Ms ME Towers

The Chief Executive, Chief Financial Officer and the Chief Risk Officer, are invited to Risk Committee meetings at the discretion of the committee. The committee met two times during the year (in addition to the two meetings held of the Audit and Risk Management Committee) and committee member attendance is disclosed in the table of Directors’ meetings on page 39.

The responsibilities of the Risk Committee include:

- oversight of the risk profile and risk management of the IMB Group within the context of the Board approved risk appetite for each type of risk;
- making recommendations to the Board on IMB’s overall current and future risk appetite and risk management strategy;
- establishing a Group wide view of the IMB’s current and future risk position relative to risk appetite and capital strength;
- oversight of senior management’s implementation of the risk management strategy;
- oversight of the implementation and review of risk management and internal compliance and control systems throughout the IMB Group;
- constructive review and challenge of senior management’s proposals and decisions on all aspects of risk management arising from IMB’s activities;

- assessing the performance of the Chief Risk Officer and the risk function; and
- promoting the awareness of a risk based culture and the achievement of a balance between risk and reward.

The Risk Committee conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner.

Consistent with this function, the Risk Committee encourages continuous improvement of, and fosters adherence to, the IMB Group’s risk appetite, policies, procedures and practices at all levels.

Oversight of Risk Management Framework

The board oversees the establishment, implementation and annual review of the Group’s Risk Management Framework. Management has established and implemented the Risk Management Framework for assessing, monitoring and managing its key risks including credit risk, operational risk, market risk, financial reporting and compliance risks for the Group.

The Risk Committee ensures the Group maintains an appropriate risk management framework including the establishment of policies for the control of risk. The Risk Committee receives information on the risk profile of the Group, any breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to the risk management policies and framework.

Three Lines of Defence

The Group employs the three lines of defence approach to risk management to ensure adequate and appropriate risk governance across all levels and key classes of risk. The three lines of defence are:

- Line 1 - Business units including the front line, working within defined limits, are responsible for risk identification, risk management and maintaining effective controls;

- Line 2 – Risk function supported by business unit risk areas and the Executive Risk Committee responsible for establishing and maintaining the risk management framework and providing independent risk oversight; and
- Line 3 - Internal Audit responsible for providing independent assurance on the adequacy of the Group’s risk management processes and controls.

Risk Profile

The Risk Committee reports to the board quarterly on the status of risks through risk management programs aimed at ensuring that risks are identified, assessed and appropriately managed within the Group’s risk appetite.

In line with the three lines of defence approach to risk management, each business unit is responsible and accountable for implementing and managing the standards required by the program.

Major risks arise from such matters as actions by competitors, government policy changes, the impact of interest rate movements, occupational health and safety, property, financial reporting and the purchase, development and use of information systems.

Risk Management Function

The Group’s approach to risk management is embedded across all business units. The Risk Management function assists the Risk Committee oversee the risk appetite and profile of the Group and ensures that business developments are consistent with the risk appetite and goals of the Group.

Risk Management and Compliance and Control

The board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the board has instigated an internal control framework that can be described under five headings:

Corporate Governance

CONTINUED

- Financial reporting - there is a comprehensive budgeting system with an annual budget approved by the board. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Group reports to members half-yearly.
- Approval levels - delegated authority is given to nominated officers to perform the daily operations of the Company. Maximum loan approval limits are delegated subject to the qualifications and experience of the nominated officer. Cheque signatory authority for the various Company bank accounts are also delegated to nominated officers subject to experience and task related need. The delegated authority for each of these is reviewed on a quarterly basis. Authority to incur expenditure and also capital commitments is delegated to nominated senior officers. The board reviews these levels on a regular basis and changes are only made following a recommendation from the Chief Executive.
- Operating unit controls - financial controls and procedures including information systems controls are detailed in procedures manuals.
- Functional speciality reporting - the Group has identified a number of key areas which are subject to regular reporting to the board such as risk management levels pertaining to liquidity risk, market risk, credit risk, data risk and operations risk. The board reviews each of these areas monthly and the risk policies underlying the reports at least annually. In addition to the review of risk management levels and the financial reporting described above other key matters reviewed monthly are the level of arrears on the loan portfolio as well as specific loan performance where deemed applicable.
- Investment appraisal - the Group has clearly defined guidelines for capital expenditure. These include annual

budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired.

Comprehensive practices are in place such that occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.

Formal appraisals are conducted at least annually for all employees. A formal succession plan is in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Assessment of effectiveness of risk management

As the third line of defence, Internal Audit provides an independent review and challenge of IMB's risk management framework and supporting processes and systems to ensure they remain effective.

ETHICAL STANDARDS

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they refer any issues arising from their employment.

Conflict of Interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that an actual or potential significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and Group are set out in Note 30 to the financial accounts.

Code of Conduct

The directors are expected to abide by the Australian Institute of Company Directors Code of Conduct.

Dealings in Company securities by directors and selected officers and their associates

The board applies the following policy in respect of dealings in securities of the Company by directors, selected officers (being members of the executive group and other person or persons in the employ of the Company nominated by the Chief Executive) and their associates.

- Purchase or sale of IMB Ltd ("Company") shares is permitted within six weeks after announcements (a "trading window") subject to prior advice by the Director or Selected Officer to the Company Secretary who will notify the Chairman (or in the case of proposed trade by the Chairman or a related entity of the Chairman, the Chairman of the Audit Committee).
- Purchase or sale of Company shares is permitted outside a trading window only with the prior consent of the board who will examine the transaction (and any information known by the director or officer) prior to giving approval, to ensure that the transaction is not related to inside information, nor could be seen to be related to such information.
- Generally transactions in Company shares within a period of two months leading up to an announcement will not be approved.
- The above guidelines extend to sale and purchase of Company shares by directors and selected officers personally, by directors' and selected officers' spouses and dependent children, and by any company in which a director or selected officer holds a majority of the shares. It will also extend to any company in which a director or selected officer is an officer (director, secretary, executive officer or employee), unless effective conflict

of interest arrangements are in place. It is the responsibility of each Director and selected officer to avoid or manage a conflict of interest. As guidance, a conflict of this nature may be able to be effectively avoided or managed by:

- the Director or selected officer not being present at any meeting in which the purchase or sale of Company shares is discussed or approved;
 - the Director or selected officer not taking part in the company's decision to buy or sell the Company shares; and
 - the Director or selected officer ensuring that they do not pass inside information to those in the company making the decision in relation to the sale or purchase of Company shares.
- It is the responsibility of the director or selected officer to ensure the order to purchase or sell expires no more than six weeks after the relevant announcement is made.
 - The above guidelines also apply to transactions in debentures, stocks, bonds, notes, options and other securities of the Company, but will not apply to any election made to acquire shares or other securities under the terms of any plan for the reinvestment of dividends or the issue of bonus shares in lieu of dividends or the issue of shares under the employee share scheme.
 - These guidelines do not apply to transfers between a Director or selected officer and their associated entities that do not change the aggregate holding of the parties to the transaction.

GENDER EQUALITY REPORTS

Reports completed by IMB Ltd under the Workplace Gender Equality Act 2012 (Act) can be accessed from the Company's website (<http://www.imb.com.au/about-us-investor-centre-financial-reports.html>).

COMMUNICATION WITH MEMBERS

The board provides members with information via its Continuous Disclosure Policy. This policy is in place to:

- identify matters that may have a material effect on the price or value of IMB shares or any quoted and unquoted securities; and
 - ensure disclosure of such matters to ASIC or the ASX, in relation to listed debt securities, as the case may be, with subsequent disclosure to IMB members.
- In summary, the Company's Continuous Disclosure Policy operates as follows:
- on a weekly basis the Company's Executive Group examines all areas of the Group's internal and external environment to determine whether any "price sensitive" matters exist.
 - the Executive Group is responsible for interpreting the Company's Continuous Disclosure Policy, and where necessary, informing the board so that the board can determine if disclosure is necessary. The board will then appoint a representative who is responsible for any necessary communications with the ASX, in relation to listed debt securities, or ASIC and subsequently with members.

The board of directors also aims to ensure that the members are informed of all major developments affecting the Group's state of affairs. Information is communicated to members as follows:

- All disclosures of "price sensitive" information are made via the IMB website, together with media releases, public announcements and other information concerning the Group's operations.
- Public release of performance results, plus declared dividends as soon as available.
- A full copy of the annual report is made available to all members via the Company's website and upon request.

- The annual report is distributed to all members who have elected to receive this document. This document is also available to any other member upon request. The board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, in addition to the other disclosures required by the Corporations Act 2001.
- The half-yearly report is distributed to all members who have elected to receive this document. This document is also available to any other member upon request. This document contains summarised financial information and a review of the operations of the Group during the period. Half-year financial statements are prepared in accordance with Australian Accounting Standards and relevant legislation and contain an independent review report from the external auditors.
- All of the above information, including that of the previous three years, is made available on the Company's website (imb.com.au).
- Proposed changes to the constitution of the Company are submitted to a vote of members.

The board encourages full participation of members at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategies and goals. Important issues are presented to the members as single resolutions. To assist members in communicating issues with the board, a question form is issued with the AGM notice and members are invited to submit questions in advance. The most commonly raised issues are addressed at the AGM.

The members may also be requested to vote on the appointment and aggregate remuneration of directors where required by the constitution. Copies of the constitution are available to any member who requests it.

Directors' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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 2014 AND THE AUDITOR’S REPORT THEREON.

DIRECTORS

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

Michael John Cole, Chairman
Lynton Patrick Nicholas, Deputy Chairman
Kieran Robert Biddle
James Randolph Coleman
Noel Harold Cornish
Robert Hillis Page Elvy
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 14 to 15 of this report.

At the annual general meeting of the Company on 20 October 2014, two directors Mr RHP Elvy and Ms ME Towers, 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. Ms Wise commenced parental leave in April 2014. Ms Kelli Halling (B Comm CPA SA Fin) is acting as Company Secretary. Ms Halling was appointed to the position Company Secretary in 2011 and has been employed by IMB for 20 years.

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 2014.

OPERATING AND FINANCIAL REVIEW

Consolidated profit after tax for the year attributable to members was \$29.1 million (2013: \$28.5 million), an increase of \$0.6 million or 2.1% on 2013.

Total deposits increased to \$3,756 million up by \$158 million or 4.4% on the previous year. Securitised loan funding decreased by \$226 million or 24.4% to \$701 million.

Loan approvals increased by \$134 million to \$753 million (2013: \$620 million). This was due to higher residential lending approvals which increased by \$112 million on 2013 levels, and an increase in other lending of \$22 million.

Net interest income for the year was \$95.0 million, up \$2.5 million on the previous year. This increase was predominantly due to an increase in average net interest margin by 7bps.

Impairment losses were \$0.9 million, the same level as the previous year.

Non interest income decreased by \$0.4 million or 2.3% to \$18.1 million as a result of a decrease in transaction fee income and a decrease in revenue from land development.

Non interest expense increased by 1.8% or \$1.3 million to \$70.7 million (2013: \$69.4 million) due to an increase in personnel and occupancy expenses partly offset by a decrease in development expenses.

The non interest expense to operating income ratio decreased from 63.0% in 2013 to 62.9% in 2014.

On 27 November 2013, in the second of a series of voluntary buybacks, IMB bought back 2.1 million shares for a total cash consideration, including transaction costs, of \$8.8 million. The buyback was not subject to a scale back and all shares tendered at discount of 10% or more or as a Final Price Tender were accepted in full.

DIVIDENDS

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

- a final ordinary dividend of \$0.15 per share amounting to \$5,550,000 franked to 100% at a tax rate of 30%, declared on 27 August 2013, in respect of the year ended 30 June 2013, paid on 5 September 2013;
- an interim dividend of \$0.10 per share amounting to \$3,486,000 franked to 100% at a tax rate of 30%, declared on 28 January 2014, in respect of the year ended 30 June 2014, paid on 27 February 2014; and

- a final ordinary dividend of \$0.15 per share amounting to \$5,230,000 franked to 100% at a tax rate of 30%, declared on 26 August 2014, in respect of the year ended 30 June 2014, payable on 4 September 2014.

Total dividends paid or declared in respect of the year ended 30 June 2014 were \$0.25 per share (2013: dividend of \$0.25) amounting to \$8,716,000 (2013: \$9,250,000).

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

Details of likely developments in the operations of the Group in subsequent financial years are disclosed in the Chairman's Letter and Chief Executive's Review of Operations on pages 8 to 12 of the annual report.

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 8 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 26 Aug 2014
Mr MJ Cole	2,000
- related party	100
Mr KR Biddle	2,325
- related party	12,878
Mr JR Coleman	2,000
Mr NH Cornish	2,000
Mr RHP Elvy	6,800
Mr LP Nicholas	2,000
- related party	190
Ms ME Towers	—
- related party	5,000

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 interest in two controlled entities involved in land development is subject to environmental regulations. The board believes that the controlled entities have adequate systems in place for the management of its environmental requirements. The remainder of the Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The board is not aware of any breach of environmental requirements as they apply to the Group.

Directors' Report

CONTINUED

REMUNERATION REPORT – AUDITED

Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and the Group and executives of the Company and the Group.

Compensation levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced directors and executives. From time to time the Corporate Governance and Remuneration Committee obtains independent advice on the appropriateness of compensation packages given trends in comparative Australian companies, and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates and reward the achievement of strategic objectives while promoting a prudent approach to risk management. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the Group's performance;
- Board approved risk limits; and
- the Group's performance.

Compensation packages include a mix of fixed and variable compensation and are designed to encourage behaviour that supports IMB's long term financial soundness and risk management framework, and to ensure that the independence of employees responsible for risk management and control functions is not compromised. In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and contributes to

post-employment superannuation plans on their behalf.

Fixed compensation

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

Compensation levels are reviewed annually by the Corporate Governance and Remuneration Committee. External consultants may be invited to provide analysis and advice to ensure the directors' and executives' compensation is competitive in the market place. The committee also seeks input from the Chairman of the Risk Committee and Chief Risk Officer when making recommendations in relation to remuneration arrangements.

Short term Incentive Bonus

Performance based incentive compensation is in place to reward key management personnel for meeting or exceeding their financial and personal objectives.

Each year the Corporate Governance and Remuneration Committee sets the performance indicators for the key management personnel. In setting these performance indicators consideration is given to the desired strategic outcomes of the business, the risks related to business activities (having considered the input of the Chairman of the Risk Committee and Chief Risk Officer) and the time necessary for the outcomes of those business activities to be reliably measured.

The financial and non financial performance objectives vary with position and responsibility and include measures such as "net profit after tax", "efficiency", "deposit growth" and "loan approvals" for the Group compared to the approved budget for the financial year, and achieving strategic objectives, regulatory ratios such as capital adequacy and liquidity, and organisational health and safety standards.

At the end of the financial year the Coporate Governance and Remuneration Committee assesses the actual performance of the Group compared to the approved budget for the Group.

For the Chief Executive and senior executives the performance based incentive payment is based on both financial and non-financial performance objectives of the Group. At the end of the year the Board approves the performance based incentive payment for the Chief Executive and senior executives based on the recommendation of the Corporate Governance and Remuneration Committee (which has considered the input of the Chairman of the Risk Committee and Chief Risk Officer).

A percentage of each executive's Total Fixed Remuneration (TFR) is the basis for the performance based incentive payment depending upon the performance and results. No bonus is payable if the performance is below the minimum agreed objectives (which is 90 percent of the key performance indicators). If the agreed budget and targets are met then a performance based incentive bonus of 30 percent of TFR is payable to the Chief Executive and 25 percent of TFR is payable to senior executives. When these targets are exceeded the maximum performance based incentive bonus payable is 60 percent of TFR for the Chief Executive and 50 percent of TFR for senior executives (which is payable on achieving 125 percent of the key performance indicators). The Board has discretion to adjust the performance based payments downwards if such adjustment is necessary to respond to significant adverse unexpected or unintended consequences affecting the Group.

Directors

In line with the commitment made at the 2009 AGM, the Board intends to limit the increase to the total aggregate remuneration payable to Directors each year in line with movements in the All Groups Consumer Price Index (CPI) (in the absence

of members having approved an increase of a different amount in a general meeting). Accordingly as the aggregate amount of remuneration payable following the 2009 AGM was \$563,320, the amount currently payable to directors on an aggregate basis is \$624,952 inclusive of superannuation. The remuneration payable to Directors for the 2014 financial year will increase by 3.0% in line with the movement in CPI for the 12 months to June 2014.

Performance based incentive structure

The Corporate Governance and Remuneration Committee considers that the above performance based compensation structure is generating the desired outcome. This is evidenced by consistent profit levels in recent years despite the challenging economic conditions. In the current year the Group achieved satisfactory results in most areas. Residential lending and deposit growth targets were achieved in a highly competitive market. Interest margin improved despite the impact of the decreasing interest rate environment and the cost of capital raising activities in the prior year.

Consequences of performance on non-shareholder wealth and shareholder wealth

Due to the structure of IMB, in particular the existence of non-shareholder members and shareholder members, the following indices in respect of the current financial year, and the previous four financial years, are considered the most appropriate measures to enable the assessment of the performance of the Group.

	2014	2013	2012	2011	2010
Net profit after tax (\$000)	29,069	28,510	30,148	31,018	29,071
Capital Ratio (%)	16.0	16.4	15.8	12.0	12.0

Other benefits

Key management personnel can elect to receive non cash benefits as part of the terms and conditions of their appointment. Non-cash benefits typically include motor vehicles and reimbursement of business related internet expenses, and the Company pays fringe benefits tax on these benefits.

Service contracts

The Group has entered into service contracts with each key management person, excluding the Chief Executive Officer, that are capable of termination on 1 month's notice. The Group retains the right to terminate a contract immediately by making payment equal to 1 month's pay in lieu of notice. The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual leave and long service leave.

The service contracts with each key management person, excluding the Chief Executive Officer and Chief Financial Officer, provide for the following separation payments:

- 3 weeks pay for each year of service (to a maximum of 52 weeks) should their services be terminated on the grounds of redundancy arising from structural, economic or technological changes with IMB's business; and
- 6 months pay should their services be terminated on the grounds of redundancy arising from a merger between IMB and another entity, a takeover of IMB by another entity, or IMB's acquisition of another entity.

The service contract for Mr Chris Goodwin, Chief Financial Officer, provides for a payment equivalent to 12 months' pay at base salary in the event that IMB terminates his contract for reasons other than: serious misconduct; failure to meet the requirements of a 'Fit and Proper Person' under APRA Prudential Standards; banning or disqualification by any regulatory authority; inability to perform duties for an accumulated period of 3 months in any

12 month period due to incapacitation by illness, injury or accident; deterioration in health to a level such that it is advisable for employment to cease; frustration of the employment contract by Mr Goodwin.

Mr Robert J Ryan, Chief Executive, has a contract of employment dated 28 February 2012 with the Company. This current contract will terminate on 31 October 2017. Subject to any applicable legislative requirements, the Group retains the right to terminate the contract immediately, by making a payment equal to the remuneration that would have been payable under the contract for the period from the date of termination to 31 October 2017, accrued leave entitlements and a pro-rata calculation of any performance based incentive bonus.

In the event that the Chief Executive's service is terminated as a result of misconduct, his contract provides that he is paid his remuneration up until the date of termination, accrued leave entitlements and any pro-rata entitlement to a performance based incentive bonus.

Directors' Report

CONTINUED

Details of the nature and amount of each major element of remuneration for each director of the Group and Company and each of the key management personnel are:

Short Term						Post Employ- ment	Other			
		Salary and fees ¹ \$	STI cash bonus ² \$	Non- monetary benefits \$	Total \$	Super- annuation benefits \$	Termination benefits ⁵ \$	Other long term benefits ⁴ \$	Total \$	Proportion of remuneration performance related %
NON EXECUTIVE DIRECTORS										
Mr MJ Cole Chairman	2014	134,816	-	-	134,816	12,471	-	-	147,287	-
	2013	131,656	-	-	131,656	11,849	-	-	143,505	-
Mr KR Biddle	2014	70,182	-	-	70,182	6,492	-	-	76,674	-
	2013	68,538	-	-	68,538	6,168	-	-	74,706	-
Mr JR Coleman	2014	70,182	-	-	70,182	6,492	-	-	76,674	-
	2013	68,538	-	-	68,538	6,168	-	-	74,706	-
Mr NH Cornish	2014	70,182	-	-	70,182	6,492	-	-	76,674	-
	2013	68,538	-	-	68,538	6,168	-	-	74,706	-
Mr RHP Elvy	2014	70,182	-	-	70,182	6,492	-	-	76,674	-
	2013	68,538	-	-	68,538	6,168	-	-	74,706	-
Mr LP Nicholas	2014	86,310	-	-	86,310	7,984	-	-	94,294	-
	2013	84,287	-	-	84,287	7,586	-	-	91,873	-
Ms ME Towers	2014	70,182	-	-	70,182	6,492	-	-	76,674	-
	2013	68,538	-	-	68,538	6,168	-	-	74,706	-
Total non executive directors	2014	572,036	-	-	572,036	52,915	-	-	624,951	-
	2013	558,633	-	-	558,633	50,275	-	-	608,908	-

Short Term						Post Employ- ment	Other			
		Salary and fees ¹ \$	STI cash bonus ² \$	Non- monetary benefits \$	Total \$	Super- annuation benefits \$	Termination benefits ⁵ \$	Other long term benefits ⁴ \$	Total \$	Proportion of remuneration performance related %
EXECUTIVES										
Mr RJ Ryan	2014	476,658	200,072	41,865	718,595	137,065 ³	-	15,175	870,835	27.8
	2013	502,611	190,035	41,689	734,335	140,239	-	13,415	887,989	25.9
Mr CJ Goodwin	2014	316,139	108,003	17,070	441,212	23,520	-	6,723	471,455	24.5
	2013	298,524	94,287	17,082	409,893	23,890	-	6,244	440,027	23.0
Mr M Brannon	2014	233,056	65,764	15,597	314,417	44,027 ³	-	6,743	365,187	20.9
	2013	235,514	59,194	18,670	313,378	43,878 ³	-	6,008	363,264	18.9
Mr CA Rumble ⁶	2014	187,355	-	49,681	237,036	19,161	-	5,239	261,436	-
	2013	258,294	67,053	74,235	399,582	23,160	-	5,553	428,295	19.8
Mr N Campbell ⁸	2014	145,141	58,728	12,134	216,003	17,704	-	2,842	236,549	27.2
Mr C Newham ⁷	2014	122,745	29,563	12,416	164,724	11,619	-	2,218	178,561	17.9
Ms L Wise ⁸	2014	110,450	46,752	-	157,202	9,578	-	1,867	168,647	29.7
Ms K Halling ⁸	2014	26,234	-	179	26,413	4,139	-	464	31,016	-
Total executives	2014	1,617,778	508,882	148,942	2,275,602	266,813	-	41,271	2,583,686	22.4
	2013	1,294,943	410,569	151,676	1,857,188	231,167	-	31,220	2,119,575	22.9
Total remuneration	2014	2,189,814	508,882	148,942	2,847,638	319,728	-	41,271	3,208,637	17.9
	2013	1,853,576	410,569	151,676	2,415,821	281,442	-	31,220	2,728,483	17.4

¹ Includes movements in accrued annual leave entitlements and pre tax superannuation contribution payments.

² The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 34. The amount was finally determined on 26 August 2014 (27 August 2013) after performance reviews were completed and approved by the Corporate Governance and Remuneration Committee and the Board.

³ Represents an allocation of the amount expensed for the year in relation to the IMB Defined Benefit plan as determined by the plan's Actuary. The executives are only entitled to this amount if a retirement benefit is payable in accordance with the provisions of the plan design. This amount is not fully vested as part of their withdrawal benefits on resignation.

⁴ Includes movements in accrued long service leave entitlements.

⁵ Excludes amounts already provided for.

⁶ Ceased employment 22 April 2014.

⁷ Commenced employment 20 January 2014.

⁸ Mr Campbell and Ms Wise appointed to key management personnel positions 1 October 2013. Ms Wise commenced parental leave 22 April 2014. Ms Halling appointed as acting General Manager Corporate Services and Company Secretary on 22 April 2014.

Directors' Report

CONTINUED

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the performance based incentive cash bonuses awarded as remuneration to each of the named executives are detailed below.

Executives	\$ included in remuneration(A)	% vested in year	% forfeited in year(B)
Mr RJ Ryan	200,072	53	47
Mr M Brannon	65,764	44	56
Mr CJ Goodwin	108,003	62	38
Mr N Campbell	58,728	52	48
Mr C Newham	29,563	43	57
Ms L Wise	46,752	57	43

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on satisfaction of specified performance criteria approved by the Board. No amounts vest in future financial years in respect of the bonus schemes for the 2014 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year. The performance based incentive cash bonus becomes fully vested only on achievement of 125 percent of each of the key performance indicators.

End of audited remuneration report.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company and it's wholly owned subsidiaries' held by the directors during the year ended 30 June 2014 and the number of meetings attended by each director.

	IMB Ltd		IMB Land Pty Ltd		IMB Land No. 2 Pty Ltd		IMB Securitisation Services Pty Ltd	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Mr MJ Cole (a)	12	12	2	2	1	1	2	2
Mr KR Biddle	12	12	2	2	1	1	2	2
Mr JR Coleman	11	12	2	2	1	1	2	2
Mr NH Cornish	12	12	2	2	1	1	2	2
Mr RHP Elvy	12	12	2	2	1	1	2	2
Mr LP Nicholas	12	12	2	2	1	1	2	2
Ms M Towers	12	12	2	2	1	1	2	2

	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
Mr MJ Cole (a)	2	2	2	2	2	2
Mr KR Biddle	2	2	2	2	2	2
Mr JR Coleman	2	2	2	2	2	2
Mr NH Cornish	2	2	2	2	2	2
Mr RHP Elvy	2	2	2	2	2	2
Mr LP Nicholas	2	2	2	2	2	2
Ms M Towers	2	2	2	2	2	2

The following table sets out the number of committee meetings of the Company's directors held during the year ended 30 June 2014 and the number of meetings attended by each director.

	IMB Financial Planning		Audit & Risk Management^^		Audit		Risk	
	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#
Mr MJ Cole (a)	4	4	2	2	2	2	2	2
Mr KR Biddle	-	-	1*	-	2*	-	-	-
Mr JR Coleman	-	-	2	2	0	2	2	2
Mr NH Cornish	-	-	2*	-	1*	-	1*	-
Mr RHP Elvy	-	-	2	2	2	2	2	2
Mr LP Nicholas	-	-	2	2	2	2	2	2
Ms M Towers	4	4	2	2	2	2	2	2

	Corporate Governance & Remuneration		Land Development		IMB Community Foundation		Capital & Securitisation**	
	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#	Attended	Eligible to attend#
Mr MJ Cole (a)	3	3^	-	-	2*	-	5	5 ⁺
Mr KR Biddle	3	3^	1	1	1*	-	3	3 ⁺
Mr JR Coleman	-	-	1	1	-	-	-	-
Mr NH Cornish	3	3^	1	1	-	-	4	4*
Mr RHP Elvy	-	-	1	1	-	-	-	-
Mr LP Nicholas	2	2	-	-	2	2	4	4*
Ms M Towers	-	-	-	-	2	2	-	-

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.

^ Includes a meeting of the previously established Remuneration and CEO Evaluation Committee.

^^ Split into individual Audit and Risk Committees December 2013.

** Capital and Securitisation Committees combined December 2013. Includes two meetings of the prior Capital Committee (x) and one of the Securitisation Committee (+).

(a) Mr Cole is an ex-officio member of the Audit & Risk Management Committee, Audit Committee, Risk Management Committee and IMB Community Foundation Committee.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 40 and forms part of the directors' report for the financial year ended 30 June 2014.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the ASIC Class Order 98/100 dated 10 July 1998 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 26th day of August 2014

Signed in accordance with a resolution of the directors:



MJ Cole
Chairman



LP Nicholas
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 2014 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

Warwick Shanks
Partner

Dated at Wollongong this 26th day of August 2014

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.

Financial

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Statements of

PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated		Company	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Interest revenue	2	239,939	272,746	244,385	272,845
Interest expense	2	(144,912)	(180,272)	(149,446)	(180,402)
Net interest income		95,027	92,474	94,939	92,443
Impairment losses	2	(876)	(849)	(1,064)	(1,637)
Net interest income after impairment losses		94,151	91,625	93,875	90,806
Revenue from land development	2	4,382	4,587	-	-
Fee and commission income	2	13,094	13,433	12,023	12,416
Other income	2	671	557	483	406
Net operating income		112,298	110,202	106,381	103,628
Land development expense	3	(4,585)	(4,943)	-	-
Operating expenses	3	(66,089)	(64,481)	(64,981)	(63,387)
Profit before tax		41,624	40,778	41,400	40,241
Income tax expense	4	(12,555)	(12,268)	(12,480)	(12,095)
Profit for the year attributable to members of the Company		29,069	28,510	28,920	28,146

The statements of profit or loss are to be read in conjunction with the notes to the financial statements set out on pages 48 to 97.

Statements of

COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Profit for the year	29,069	28,510	28,920	28,146
Other comprehensive income/(expense)				
Items that will never be reclassified to profit or loss				
Remeasurement of defined benefit liability	61	-	61	-
Items that may be reclassified subsequently to profit or loss:				
Net change in fair value of available for sale investments	1,208	3,661	1,208	3,661
Net change in fair value of cash flow hedges	65	153	65	153
Net change in fair value of available for sale investments transferred to profit and loss	(950)	(110)	(950)	(110)
<i>Total items that may be reclassified subsequently to profit or loss</i>	<i>323</i>	<i>3,704</i>	<i>323</i>	<i>3,704</i>
Total other comprehensive income/(expense) for the year, net of income tax	384	3,704	384	3,704
Total comprehensive income for the year	29,453	32,214	29,304	31,850

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 48 to 97.

Statements of

FINANCIAL POSITION

AS AT 30 JUNE 2014

		Consolidated		Company	
	Note	2014 \$000	2013 \$000	2014 \$000	2013 \$000
ASSETS					
Cash and cash equivalents	28	50,466	37,822	12,597	13,900
Available for sale investments	6	693,323	554,641	1,194,125	554,641
Loans and receivables to ADIs	7	360,922	540,865	360,922	540,865
Loans and receivables to members	8	3,698,709	3,722,492	3,703,462	3,731,112
Other financial assets	9	515	538	5,570	5,570
Assets held for sale	11	-	1,250	-	-
Inventories	13	4,137	6,899	-	-
Property, plant and equipment	14	11,769	12,180	11,650	12,142
Intangible assets	15	236	416	236	416
Net deferred tax assets	4	2,416	2,883	3,273	2,998
Other assets	16	9,246	13,972	25,601	17,613
Total assets		4,831,739	4,893,958	5,317,436	4,879,257
LIABILITIES					
Trade and other payables	17	35,066	39,435	15,657	19,464
Deposits	18	3,756,015	3,598,296	3,761,511	3,603,653
Securitised loans funding	19	700,642	926,706	1,200,482	926,706
Interest bearing liabilities	20	44,920	44,872	44,920	44,872
Derivative liabilities	12	-	94	-	94
Current tax liabilities	4	2,545	3,554	2,545	3,554
Provisions	21	7,849	7,881	7,800	7,826
Loans and other borrowings	30	-	-	3,234	3,234
Total liabilities		4,547,037	4,620,838	5,036,149	4,609,403
Net assets		284,702	273,120	281,287	269,854
EQUITY					
Share capital	22	40,989	43,502	40,989	43,502
Reserves		33,151	32,579	33,151	32,579
Retained earnings		210,562	197,039	207,147	193,773
Total equity attributable to members of the Company		284,702	273,120	281,287	269,854

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 48 to 97.

Statements of

CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated		Company	
	Note	2014 \$000	2013 \$000	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		240,680	273,118	245,126	273,216
Other cash receipts in the course of operations		17,749	19,084	12,958	13,840
Interest paid on deposits		(151,340)	(186,439)	(155,873)	(186,565)
Income taxes paid		(13,098)	(8,958)	(13,764)	(8,134)
Net loans funded		22,907	58,016	26,586	61,371
Net increase in deposits		164,144	160,520	164,284	159,920
Other cash payments in the course of operations		(63,847)	(67,576)	(61,617)	(56,950)
Net cash flows from operating activities	28	217,195	247,765	217,700	256,698
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemptions of/(Payments for) available for sale investments		40,834	(190,905)	40,008	(190,878)
Expenditure on property, plant and equipment, and intangibles		(1,712)	(2,103)	(1,582)	(2,059)
Proceeds from sale of property, plant and equipment	14,15	214	250	181	250
Net cash flows from investing activities		39,336	(192,758)	38,607	(192,687)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net repayments from securitised loans funding		(226,064)	(41,903)	(239,787)	(41,903)
Net proceeds/(repayments) from interest bearing liabilities		48	(49)	48	(49)
Own shares acquired		(8,835)	(10,392)	(8,835)	(10,392)
Dividends paid	5	(9,036)	(9,687)	(9,036)	(9,687)
Net cash flows from financing activities		(243,887)	(62,031)	(257,610)	(62,031)
Net increase/(decrease) in cash and cash equivalents held		12,644	(7,024)	(1,303)	1,980
Cash and cash equivalents at the beginning of the year		37,822	44,846	13,900	11,920
Cash and cash equivalents at the end of the year	28	50,466	37,822	12,597	13,900

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 48 to 97.

Statements of

CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated						
<i>In thousands of AUD</i>	Share capital	Available for sale investments revaluation reserve	Cash flow hedge reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
Balance at 1 July 2012	46,936	1,253	(218)	2,435	25,255	185,324	260,985
Total comprehensive income for the year							
Profit after tax	-	-	-	-	-	28,510	28,510
Other comprehensive income							
Net revaluation movement due to change in fair value	-	3,661	153	-	-	-	3,814
Net change in fair value transferred to profit and loss	-	(110)	-	-	-	-	(110)
Total other comprehensive income	-	3,551	153	-	-	-	3,704
Total comprehensive income for the year	-	3,551	153	-	-	28,510	32,214
Transfer from retained profits	-	-	-	150	-	(150)	-
Transactions with owners, recorded in equity							
Dividends to shareholder members	-	-	-	-	-	(9,687)	(9,687)
Own shares acquired	(3,434)	-	-	-	-	(6,958)	(10,392)
Balance at 30 June 2013	43,502	4,804	(65)	2,585	25,255	197,039	273,120
Balance at 1 July 2013	43,502	4,804	(65)	2,585	25,255	197,039	273,120
Total comprehensive income for the year							
Profit after tax	-	-	-	-	-	29,069	29,069
Other comprehensive income							
Remeasurement of defined benefit liability	-	-	-	-	-	61	61
Net revaluation movement due to change in fair value	-	1,208	65	-	-	-	1,273
Net change in fair value transferred to profit and loss	-	(950)	-	-	-	-	(950)
Total other comprehensive income	-	258	65	-	-	61	384
Total comprehensive income for the year	-	258	65	-	-	29,130	29,453
Transfer from retained profits	-	-	-	249	-	(249)	-
Transactions with owners, recorded in equity							
Dividends to shareholder members	-	-	-	-	-	(9,036)	(9,036)
Own shares acquired	(2,513)	-	-	-	-	(6,322)	(8,835)
Balance at 30 June 2014	40,989	5,062	-	2,834	25,255	210,562	284,702

Amounts are stated net of tax.

Refer to note 22 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 48 to 97.

	Company						
<i>In thousands of AUD</i>	Share capital	Available for sale investments revaluation reserve	Cash flow hedge reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
Balance at 1 July 2012	46,936	1,253	(218)	2,435	25,255	182,422	258,083
Total comprehensive income for the year							
Profit after tax	-	-	-	-	-	28,146	28,146
Other comprehensive income							
Net revaluation movement due to change in fair value	-	3,661	153	-	-	-	3,814
Net change in fair value transferred to profit and loss	-	(110)	-	-	-	-	(110)
Total other comprehensive income	-	3,551	153	-	-	-	3,704
Total comprehensive income for the year	-	3,551	153	-	-	28,146	31,850
Transfer from retained profits	-	-	-	150	-	(150)	-
Transactions with owners, recorded in equity							
Dividends to shareholder members	-	-	-	-	-	(9,687)	(9,687)
Own shares acquired	(3,434)	-	-	-	-	(6,958)	(10,392)
Balance at 30 June 2013	43,502	4,804	(65)	2,585	25,255	193,773	269,854
Balance at 1 July 2013	43,502	4,804	(65)	2,585	25,255	193,773	269,854
Total comprehensive income for the year							
Profit after tax	-	-	-	-	-	28,920	28,920
Other comprehensive income							
Remeasurement of defined benefit liability	-	-	-	-	-	61	61
Net revaluation movement due to change in fair value	-	1,208	65	-	-	-	1,273
Net change in fair value transferred to profit and loss	-	(950)	-	-	-	-	(950)
Total other comprehensive income	-	258	65	-	-	61	384
Total comprehensive income for the year	-	258	65	-	-	28,981	29,304
Transfer from retained profits	-	-	-	249	-	(249)	-
Transactions with owners, recorded in equity							
Dividends to shareholder members	-	-	-	-	-	(9,036)	(9,036)
Own shares acquired	(2,513)	-	-	-	-	(6,322)	(8,835)
Balance at 30 June 2014	40,989	5,062	-	2,834	25,255	207,147	281,287

Amounts are stated net of tax.

Refer to note 22 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 48 to 97.

Notes to the Consolidated FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 2014 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. 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

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the directors on 26 August 2014.

(ii) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following assets and liabilities that are stated at their fair value:

- derivative financial instruments (note 1g), available for sale investments (note 1f and 6), and non-current assets held for sale (note 11).

(iii) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, all financial information presented in Australian dollars has 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 1j and 10);
- Consolidation of special purpose entities (notes 1d and 9);
- Valuation of financial instruments (notes 1j, 6, 9 and 12); and
- Defined benefit fund liability (notes 1r and 23).

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 1j and 10);
- Assets held for sale (note 11);
- Inventories (notes 1p and 13); and
- Measurement of fair values (notes 1f and 32).

(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.

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.

Further information about the valuation techniques and assumptions made in measuring fair values is included in Note 32 Risk Management and financial instruments.

(c) Changes in accounting policy

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.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013:

- AASB 10 Consolidated Financial Statements (2011);
- AASB 13 Fair Value Measurement;
- AASB 119 Employee Benefits (2011);
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to AASB 136) (2013); and
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

The nature and effects of the changes are explained below.

(i) Subsidiaries

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. Notwithstanding the above, the change had no significant impact on the entities consolidated within the Group.

(ii) Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such

measurements are required or permitted by other AASBs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7. As a result, the Group has included additional disclosures in this regard (see note 32). In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iii) Post-employment defined benefit plans

As a result of AASB 119 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans. Under AASB 119 (2011), 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. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The quantitative impact of the change is set out in Note 23 Employee benefits.

(iv) Disclosures of recoverable amount for non-financial assets

The Group has early adopted the amendments to AASB 136 (2013). As a result, the Group has expanded its disclosures of recoverable amounts when they are based on fair value less costs of disposals and an impairment is recognised.

(v) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

As a result of the amendments to IAS 1, the Group has modified the presentation of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(d) Basis of consolidation

(i) Transactions eliminated on consolidation

Balances and effects of inter-entity transactions are eliminated on consolidation. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced, or up to the date control ceased.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

(iii) Special Purpose Entities (SPEs)

The Company, through its securitisation program, packages residential and commercial mortgage loans, and uses these pools of loans to raise funds from investors of an amount equivalent to the unpaid balances of the loans.

An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPEs operation.
- The Group has the decision making powers to obtain the majority of the benefits of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision making powers.
- The Group has the right to obtain the majority of the benefits of the SPE and therefore may be exposed to the risks incidental to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

As the Company has the right to obtain a majority of the residual benefits of the SPEs and is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the Group's consolidated statement of financial position and statement of profit or loss. Information

about the Group's securitisation activities is set out in Notes 27 and 31.

(iv) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) 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 cash balances in the Group's bank accounts and cash on hand. 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) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets, excluding available for sale investments, are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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.

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. The Group has the following non-derivative financial assets: loans and receivables and available for sale investments.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans are initially recorded at fair value net of origination income and expenses. Subsequent measurement is at amortised cost under the effective interest method, after assessing required provisions for impairment as described in note 1j.

(ii) Available for sale investments

Available for sale investments are non-derivative financial assets consisting of debt securities that are not actively traded and are intended to be held until maturity. Such securities are available for sale and may be sold should the need arise, including liquidity needs, or impacts of changes in interest rates, or equity prices.

Available for sale investments are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When the investment is derecognised the cumulative gain or loss in equity is transferred to profit or loss. Fair values of quoted investments in

active markets are based on current mid-prices. If the relevant market is not considered active, and other methods of determining fair value do not result in a reasonable estimate, then the investment is measured at cost less impairment losses. Available for sale investments are accounted for on the date of settlement.

(g) Derivatives

(i) Cash flow hedges

The Group uses interest rate swaps to hedge its exposure to interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the year for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives

are measured at fair value and changes therein are accounted for as described below. The fair value of derivative financial instruments is determined by reference to market rates for similar instruments.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the cashflow hedge reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same year as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the year when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss. In other cases the amount recognised in other income is transferred to the income statement in the same year that the hedge item affects profit

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or loss.

(h) Revenue recognition

(i) Interest income and fees for services rendered

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The principal sources of revenue are interest income, commission income and fee income. Interest income arising from loans and investments is brought to account using the effective interest rate method. Commission and fee income is recognised in profit or loss when the service is provided (except as described in part (ii) below).

(ii) Loan origination income

Revenue received in relation to the origination of loans is deferred and recognised in the income statement, as an increase in loan interest income, on a yield basis over the expected life of the relevant loans. The balance outstanding of the deferred origination income is recognised in the statement of financial position as a decrease in the value of loans outstanding.

(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 they are received.

(i) Expenses

(i) Loan origination expenses

Expenses incurred directly in the origination of loans are deferred and recognised in profit or loss, as a reduction to loan interest income, on a yield basis over the expected life of the relevant loans. The balance outstanding of the

deferred origination expenses is recognised in the statement of financial position as an increase in the value of loans outstanding.

(ii) Securitisation set-up expenses

Expenses incurred directly in the establishment and marketing of securitisation vehicles are deferred and recognised in profit or loss on a yield basis over the expected life of the relevant liability to note holders. The balance outstanding of deferred securitisation expenses is recognised in the statement of financial position as a reduction in securitised loans funding.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment for receivables and available for sale investment securities at both a specific asset and collective level. All individually significant receivables and available for sale investment securities are assessed for specific impairment. All individually significant receivables and

available for sale investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and available for sale investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and available for sale investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment

loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent year, the fair value of an impaired available-for-sale investment security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale investment security is recognised in other comprehensive income.

(ii) Loan impairment

All loan assets are subject to recurring review and assessed for possible impairment. All bad debts are written off in the year in which they are identified. Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, even where the impairment event cannot be attributed to individual exposures. The required provision is estimated on the basis of historical loss experience, and an assessment of the impact of current economic conditions.

Specific provisions are recognised where specific impairment is identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified. The Group makes judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a portfolio of loans. The evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a group, or national

or local economic conditions that are likely to have triggered a worsening of the loan quality, which will eventually lead to losses. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio. The methodology and assumptions used for estimating likely future losses are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in the assumptions used for estimating likely future losses could result in a change in provisions for loan losses and have a direct impact on the impairment charge.

A general reserve for credit losses is also held as an additional allowance for impairment losses to meet prudential requirements.

(iii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets (see note 1l), 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.

(k) Deposits and interest expense

Deposits are the Group's 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. Interest expense on deposits is calculated daily based on the closing balance for each day and is brought to account on an accruals basis.

(l) 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

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FOR THE YEAR ENDED 30 JUNE 2014

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 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 is 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.

(m) 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 1j).

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

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(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.

(n) Intangibles

(i) 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.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is calculated over the cost of the asset, less residual value. Amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Client book costs - 10 years

(o) 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.

(i) Determining whether an arrangement contains a finance lease

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.

(p) Inventories

(i) Valuation

Inventories, consisting of freehold land held for development are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost includes expenses directly attributable to the cost of acquisition, development and holding costs including borrowing costs, rates and taxes. Capitalisation of borrowing costs is ceased during extended years in which active development is interrupted. When a

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FOR THE YEAR ENDED 30 JUNE 2014

development is completed and ceases to be a qualifying asset, borrowing costs and other costs are expensed. Independent valuations for development properties are obtained on an annual basis.

(ii) Recognition of income

Income from sales is generally recognised on exchange of contracts. However, where contracts include conditions precedent to the performance of the contract, the sales are recognised upon the satisfaction of those conditions. The amount of costs matched against sales is based on an average recovery factor calculated on estimated total costs to estimated total sales for each stage of the project.

(q) Dividends payable

Dividends on ordinary shares are recognised as a liability in the year in which they are declared.

(r) Employee benefits

(i) 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.

(ii) 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.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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.

(iv) Long service leave

The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the Group resulting from employees' services provided up to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to Australian state, territory and federal government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

(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.

(s) Directors' retirement benefits

A provision for directors' retirement benefits was recognised in accordance with the Company's constitution. Retirement benefits have ceased to be accrued from 28 September 2004 for all directors, with the retirement benefits accrued up to that date being fully provided for and the Group has no obligation to increase the provision. The balance of the provision will be utilised as the relevant current directors retire from service.

(t) Interest bearing liabilities

Subordinated liabilities are initially recorded at fair value less directly attributable transaction costs and subsequently measured at their amortised cost using the effective interest method.

(u) 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.

(v) 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.

(x) 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.

(y) 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.

(z) Assets held for sale

Assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(aa) 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 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set

out below. The Group does not plan to adopt these standards early.

AASB 9 *Financial Instruments* (2013), AASB 9 *Financial Instruments* (2010) and AASB 9 *Financial Instruments* (2009) (together AASB 9)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9 (2013) introduces new requirements for hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2017. The effective date is subject to review pending the finalisation of the outstanding phases of the standard. However, early adoption is permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities. The Group has not yet determined the impact on its hedging arrangements.

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	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
2 OPERATING INCOME				
Interest revenue				
Loans				
- to members	201,224	228,821	201,224	228,821
- consolidated entities, key management personnel, and related entities	553	794	582	893
- ADIs	15,940	27,019	15,940	27,019
Available for sale investments	22,222	16,112	26,639	16,112
	239,939	272,746	244,385	272,845
Interest expense				
Deposits				
- from members	104,686	136,334	104,686	136,334
- consolidated entities	-	-	4,534	130
- subordinated debt	3,140	3,410	3,140	3,410
Securitised loans funding	37,085	40,524	37,085	40,524
Other interest expense	1	4	1	4
	144,912	180,272	149,446	180,402
Net interest income	95,027	92,474	94,939	92,443
Impairment losses				
Impairment of loans and receivables to members	876	849	1,064	1,637
Net interest income after impairment losses	94,151	91,625	93,875	90,806
Revenue from land development	4,382	4,587	-	-
Fees and commission income				
Loan switch and breakout fees	524	651	524	651
Transaction fees	7,298	7,609	7,298	7,609
Payment system fees	1,742	1,755	1,742	1,755
Financial planning revenue	1,071	1,016	-	-
Commissions	2,459	2,402	2,459	2,401
	13,094	13,433	12,023	12,416
Other income				
Profit from sale of property, plant and equipment	64	34	64	34
Impairment losses recovered	163	130	163	130
Property income	141	139	141	139
Other	303	254	115	103
	671	557	483	406
Net operating income	112,298	110,202	106,381	103,628

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
3 OPERATING EXPENSES				
Personnel expense				
Salaries	31,249	29,788	30,732	29,185
Payroll tax	1,776	1,742	1,752	1,699
Fringe benefits tax	482	428	467	423
Superannuation	3,435	3,190	3,390	3,142
	36,942	35,148	36,341	34,449
Occupancy expense				
Repairs and maintenance	620	595	619	594
Rental on operating leases	5,559	5,408	5,529	5,378
Other	1,997	2,050	1,960	1,990
	8,176	8,053	8,108	7,962
Payment system expense	2,429	2,528	2,429	2,528
Marketing expense	5,260	5,150	5,250	5,150
Data processing expense	2,387	2,275	2,360	2,251
Postage and printing expense	1,565	1,534	1,554	1,523
Contributions to IMB Community Foundation	500	500	500	500
Goods and services tax not recovered	2,065	2,087	2,065	2,087
Sundry expenses				
Depreciation and amortisation				
- plant and equipment	1,661	1,937	1,645	1,931
- buildings	147	147	147	147
- intangibles	335	295	335	295
Loss from sale of property, plant and equipment	11	61	11	61
Auditors' remuneration (KPMG)				
- audit and review of financial statements	359	346	279	271
- other services				
- other assurance services	61	73	33	73
- taxation services	19	37	19	37
- advisory services*	53	46	44	46
Other	4,119	4,266	3,861	4,076
	6,765	7,206	6,374	6,937
Total operating expenses	66,089	64,481	64,981	63,387
Land development expense	4,585	4,943	-	-
Total non interest expense	70,674	69,424	64,981	63,387

* KPMG provided additional services to the value of \$33,266 during 2014 (2013: \$201,202). These additional costs were deferred as part of the Illawarra Series 2013-1 RMBS Trust (\$8,750) (2013: \$23,369) and the share buy-back (\$24,516) (2013: \$177,833).

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
4 TAXATION				
a) Income tax expense				
Current tax expense				
- current year	12,248	12,338	12,915	12,100
- adjustment for prior years	5	2	5	5
	12,253	12,340	12,920	12,105
Deferred tax expense				
- origination and reversal of temporary differences	302	(72)	(440)	(10)
Total income tax expense	12,555	12,268	12,480	12,095
Reconciliation between income tax expense and profit before tax				
Profit before tax	41,624	40,778	41,400	40,241
Prima facie income tax expense at 30% on operating profit	12,487	12,234	12,420	12,072
Increase in income tax expense due to:				
- income tax under provided for in prior year	5	2	5	5
- depreciation of buildings	44	44	44	44
- non deductible entertainment	34	38	34	38
- other	41	38	33	24
Decrease in income tax expense due to:				
- other deductible expenses	(56)	(88)	(56)	(88)
Income tax expense	12,555	12,268	12,480	12,095
Income tax recognised directly in other comprehensive income				
Relating to defined benefit fund	26	-	26	-
Relating to available for sale investments	111	1,522	111	1,522
Relating to cashflow hedges	28	65	28	65
	165	1,587	165	1,587

b) Current tax liabilities

The current tax liability for the Group of \$2,545,000 (2013: \$3,554,000) and for the Company of \$2,545,000 (2013: \$3,554,000) 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	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
4 TAXATION (CONTINUED)				
Deferred tax assets/(liabilities)				
Deferred tax assets and liabilities are attributable to the following:				
Provisions and accrued expenses	2,999	2,649	3,725	3,310
Employee benefits	2,188	2,224	2,174	2,208
Derivative liabilities	-	28	-	28
Consulting and legal fees	5	30	5	16
Property, plant and equipment	41	26	41	26
Other	2	3	2	3
Total deferred tax assets	5,235	4,960	5,947	5,591
Deferred expenditure	(438)	(593)	(438)	(593)
Deferred lending fees	(52)	(128)	(52)	(128)
Unearned income	(14)	187	(14)	187
Freehold land held for development	(145)	516	-	-
Available for sale investments	(2,170)	(2,059)	(2,170)	(2,059)
Total deferred tax liabilities	(2,819)	(2,077)	(2,674)	(2,593)
Net deferred tax assets	2,416	2,883	3,273	2,998

	Cents per Share	Total amount \$000	% Franked	Date of payment
5 DIVIDENDS				
Dividends recognised in current year by the Company are:				
2014				
2014 interim dividend	10.0	3,486	100%	27-Feb-14
2013 final dividend	15.0	5,550	100%	05-Sep-13
		9,036		
2013				
2013 interim dividend	10.0	3,700	100%	27-Feb-13
2012 final dividend	15.0	5,987	100%	07-Sep-12
		9,687		

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

Subsequent events

On 26 August 2014 the Board declared a final ordinary dividend of 15.0 cents per share amounting to \$5,230,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2014. The dividend is payable on 4 September 2014. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2014 and will be recognised in subsequent financial statements. The declaration and subsequent payment of dividends has no income tax consequences.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

	Company	
	2014	2013
	\$000	\$000
5 DIVIDENDS (CONT.)		
Dividend franking account		
30% franking credits available to members of the Company for dividends in subsequent financial years	92,313	86,614

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 (2013: \$nil) franking credits.

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
6 AVAILABLE FOR SALE INVESTMENTS				
Available for sale investments*				
- certificates of deposit issued by banks	94,559	99,663	94,559	99,663
- floating rate notes**	598,764	454,978	1,099,566	454,978
Total investments	693,323	554,641	1,194,125	554,641

* All available for sale investments are measured at fair value (refer to note 1f for details on accounting policy).

** The Company holds \$500,000,000 (2013: nil) in bonds issued by the Illawarra Series IS Trust as part of a contingency liquidity facility. These investments are eliminated on consolidation. Refer note 27.

The Group's exposure to credit risk and interest rate risk is disclosed in note 32.

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
7 LOANS AND RECEIVABLES TO ADIs				
Loans to Authorised Deposit-taking Institutions ("ADIs")	360,922	540,865	360,922	540,865
Total loans and receivables to ADIs	360,922	540,865	360,922	540,865
LOANS BY MATURITY				
- up to three months	309,452	465,316	309,452	465,316
- from three to six months	20,239	10,266	20,239	10,266
- from six to nine months	5,073	21,559	5,073	21,559
- from nine to twelve months	-	17,565	-	17,565
- from one to five years	26,158	26,159	26,158	26,159
Total loans and receivables to ADIs	360,922	540,865	360,922	540,865

		Consolidated		Company	
	Note	2014	2013	2014	2013
		\$000	\$000	\$000	\$000
8 LOANS AND RECEIVABLES TO MEMBERS					
Loans to					
- members*		3,703,873	3,727,654	3,703,873	3,727,654
- consolidated entities, key management personnel and related entities	29,30	1,292	1,094	8,465	11,946
Provision for impairment	10	(6,456)	(6,256)	(8,876)	(8,488)
Total loans net of provision for impairment		3,698,709	3,722,492	3,703,462	3,731,112
LOANS BY MATURITY					
Loans maturing					
- revolving credit		9,801	11,805	11,772	15,110
- up to three months		22,070	21,894	22,070	21,894
- from three to six months		22,458	22,258	22,458	22,258
- from six to nine months		23,353	23,206	23,353	23,206
- from nine to twelve months		23,736	23,609	23,736	23,609
- from one to five years		369,392	361,706	374,146	369,075
- over five years		3,234,355	3,264,270	3,234,803	3,264,448
Provision for impairment	10	(6,456)	(6,256)	(8,876)	(8,488)
Total loans net of provision for impairment		3,698,709	3,722,492	3,703,462	3,731,112

* Includes \$1,067,970,000 of securitised residential loans and \$133,974,000 of securitised commercial loans (2013: \$740,283,000 of securitised residential loans and \$188,417,000 of securitised commercial loans).

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
9 OTHER FINANCIAL ASSETS				
Other equity investments – at cost*	515	538	505	505
Investments in controlled entities	-	-	5,065	5,065
Total other financial assets	515	538	5,570	5,570

* Other equity investments are measured at cost as there is no quoted market price in an active market and the fair value can not be easily measured.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
10 PROVISION FOR IMPAIRMENT OF LOANS AND RECEIVABLES TO MEMBERS				
Specific provision				
Opening balance	2,470	3,035	4,702	4,479
Additions to specific provision	465	464	653	1,252
Loans written off, previously provided for	(64)	(941)	(64)	(941)
Reversal of provision	(201)	(88)	(201)	(88)
Closing balance	2,670	2,470	5,090	4,702
Collective provision				
Opening balance	3,786	3,786	3,786	3,786
Additions to collective provision	-	-	-	-
Loans written off	-	-	-	-
Reversal of provision	-	-	-	-
Closing balance*	3,786	3,786	3,786	3,786
Total provision for impairment	6,456	6,256	8,876	8,488
Impairment of loans and receivables to members				
Movement in specific provision	265	376	452	1,164
Impairment losses written off directly	611	473	612	473
	876	849	1,064	1,637

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

The Group's exposure to credit risk and impairment losses related to loans and receivables is disclosed in note 32.

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
11 ASSETS HELD FOR SALE				
Assets classified as held for sale				
Freehold land	-	1,250	-	-

Inventory related to land held by IMB Land Pty Ltd presented as an asset held for sale in the prior year has now been sold.

An impairment loss of \$281,000 (2013: \$888,000) is included in the land development expense in the income statement.

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
12 DERIVATIVE LIABILITIES				
Interest rate swaps at fair value	-	94	-	94

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
13 INVENTORIES				
Freehold land held for development and sale				
- acquisition costs	1,618	2,868	-	-
- development costs capitalised	2,034	3,153	-	-
- rates, taxes and interest capitalised	485	878	-	-
Total inventories	4,137	6,899	-	-

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
14 PROPERTY, PLANT AND EQUIPMENT				
<i>Freehold land</i>				
- at cost	3,165	3,165	3,165	3,165
<i>Freehold buildings</i>				
- at cost	5,892	5,892	5,892	5,892
- accumulated depreciation	(2,209)	(2,062)	(2,209)	(2,062)
	3,683	3,830	3,683	3,830
Total land and buildings	6,848	6,995	6,848	6,995
<i>Plant and equipment</i>				
- at cost	32,643	32,045	32,422	31,920
- accumulated depreciation	(28,366)	(27,422)	(28,264)	(27,335)
Total plant and equipment	4,277	4,623	4,158	4,585
Work in progress – at cost	644	562	644	562
Total property, plant and equipment – at cost	42,344	41,664	42,123	41,539
Total accumulated depreciation	(30,575)	(29,484)	(30,473)	(29,397)
Total property, plant and equipment – carrying amount	11,769	12,180	11,650	12,142
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 and end of the year	3,165	3,165	3,165	3,165
<i>Buildings</i>				
Carrying amount at the beginning of the year	3,830	3,977	3,830	3,977
Depreciation	(147)	(147)	(147)	(147)
Carrying amount at the end of the year	3,683	3,830	3,683	3,830

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)				
<i>Plant and equipment</i>				
Carrying amount at the beginning of the year	4,623	4,792	4,585	4,791
Additions	1,040	1,119	910	1,076
Transfers from work in progress	489	899	489	899
Disposals	(214)	(250)	(181)	(250)
Depreciation	(1,661)	(1,937)	(1,645)	(1,931)
Carrying amount at the end of the year	4,277	4,623	4,158	4,585
<i>Work in progress</i>				
Carrying amount at the beginning of the year	562	564	562	564
Additions	571	897	571	897
Transfers to plant and equipment	(489)	(899)	(489)	(899)
Carrying amount at the end of the year	644	562	644	562

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
15 INTANGIBLE ASSETS				
<i>Intangible computer software</i>				
- at cost	7,779	7,624	7,779	7,624
- accumulated amortisation	(7,543)	(7,208)	(7,543)	(7,208)
Total Intangible computer software	236	416	236	416
Reconciliation				
<i>Intangible computer software</i>				
Carrying amount at the beginning of the year	416	625	416	625
Additions	155	86	155	86
Amortisation	(335)	(295)	(335)	(295)
Carrying amount at the end of the year	236	416	236	416

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
16 OTHER ASSETS				
Sundry debtors	9,246	13,972	25,601	17,613

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
17 TRADE AND OTHER PAYABLES				
Trade creditors	15,870	19,682	15,657	19,464
Distributions payable by Special Purpose Entities	18,870	19,497	-	-
Fees payable by Special Purpose Entities	326	256	-	-
Total trade and other payables	35,066	39,435	15,657	19,464

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 32.

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
18 DEPOSITS				
Retail deposits	2,798,442	2,790,156	2,803,938	2,795,513
Middle markets	669,986	575,487	669,986	575,487
Wholesale deposits	267,303	205,943	267,303	205,943
Accrued interest	20,284	26,710	20,284	26,710
Total deposits	3,756,015	3,598,296	3,761,511	3,603,653
CONCENTRATION OF DEPOSITS				
New South Wales	3,119,452	3,086,278	3,124,948	3,091,635
Australian Capital Territory	222,633	169,614	222,633	169,614
Queensland	133,320	85,729	133,320	85,729
South Australia	30,895	39,473	30,895	39,473
Victoria	171,248	130,363	171,248	130,363
Western Australia	27,637	31,953	27,637	31,953
Tasmania	16,346	16,974	16,346	16,974
Northern Territory	34,484	37,912	34,484	37,912
Total deposits	3,756,015	3,598,296	3,761,511	3,603,653

The Group's exposure to liquidity risk related to deposits is disclosed in note 32.

	Consolidated		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
19 SECURITISED LOANS FUNDING				
Notes payable	700,642	926,706	-	-
Loans from securitisation trusts*	-	-	1,200,482	926,706
Total securitised loans funding	700,642	926,706	1,200,482	926,706

* Includes \$500,000,000 (2013: nil) in bonds issued by the Illawarra Series IS Trust. Refer note 27.

The Group's exposure to liquidity risk related to securitised loans funding is disclosed in note 32.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated		Company	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
20 INTEREST BEARING LIABILITIES					
Subordinated floating rate notes	1t				
- Series 1		14,988	14,976	14,988	14,976
- Series 2		29,932	29,896	29,932	29,896
Total interest bearing liabilities		44,920	44,872	44,920	44,872

Series 1 was issued for a ten year period maturing 2021 with an option to redeem at par after five years, subject to Australian Prudential Regulation Authority ("APRA") approval. Interest is paid quarterly in arrears based on the 90 day Bank Bill Rate plus a margin of 400 basis points (2013: 400 basis points). Series 2 was issued for a ten year period maturing 2022 with an option to redeem at par after five years subject to APRA approval. Interest is paid quarterly in arrears based on the 90 day Bank Bill Rate plus a margin of 425 basis points (2013: 425). In line with APRA's capital adequacy measurement rules the Floating Rate Notes are included in lower tier 2 capital.

The Group's exposure to interest rate risk is disclosed in note 32.

	Note	Consolidated		Company	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
21 PROVISIONS					
<i>Make good provision</i>					
Balance at the beginning of the year		467	515	467	515
Provisions used during the year		-	(48)	-	(48)
Balance at the end of the year		467	467	467	467
<i>Employee benefits</i>					
Balance at the beginning of the year		7,414	7,130	7,359	7,093
Provisions made during the year		2,966	3,153	2,924	3,092
Provisions used during the year		(2,998)	(2,869)	(2,950)	(2,826)
Balance at the end of the year	23	7,382	7,414	7,333	7,359
Total provisions		7,849	7,881	7,800	7,826

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
22 SHARE CAPITAL AND RESERVES				
Share capital – Ordinary shares				
On issue at 1 July (37,001,998 ordinary shares)	43,502	46,936	43,502	46,936
Own shares acquired (2,138,203 ordinary shares)	(2,513)	(3,434)	(2,513)	(3,434)
On issue at 30 June (34,863,795 ordinary shares)	40,989	43,502	40,989	43,502

On 28 November 2013 the Company bought back 2.1 million shares for a total cash consideration, including transaction costs, of \$8.8 million. All shares tendered at discount of 10% or more or as a Final Price Tender 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 Shareholders 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.

Available for sale investments revaluation reserve

The available for sale investments revaluation reserve includes the cumulative net change in fair value of available for sale debt investments until the investment is derecognised or impaired, net of applicable income tax.

Cashflow hedging reserve

The cashflow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow 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 1j. The general reserve for credit losses together with the amounts calculated in accordance with note 1j must be adequate to comply with prudential requirements.

General reserve

The general reserve includes retained profits from prior years.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
23 EMPLOYEE BENEFITS				
Current				
Liability for annual leave	2,784	2,834	2,754	2,796
Liability for banked time	3	3	3	3
Liability for long service leave	2,886	2,713	2,886	2,713
Liability for purchased annual leave	26	1	26	1
	5,699	5,551	5,669	5,513
Non Current				
Present value of defined benefit fund obligations	7,866	6,861	7,866	6,861
Fair value of defined benefit fund assets	(7,187)	(5,911)	(7,187)	(5,911)
Present value of net obligations	679	950	679	950
Unrecognised actuarial losses	-	(215)	-	(215)
Net defined benefit liability	679	735	679	735
Liability for long-service leave	965	1,089	946	1,072
Liability for directors' retirement benefits	39	39	39	39
	1,683	1,863	1,664	1,846
Total employee benefits	7,382	7,414	7,333	7,359

Directors' Retirement Benefits

In accordance with the resolutions passed at the 2004 Annual General Meeting:

- IMB Ltd's constitution was amended to remove the entitlement to retirement benefits for any director appointed after 28 September 2004; and
- the persons who held office as directors of IMB Ltd at 28 September 2004 will upon retirement or death in office, be paid retirement benefits. The amount to be paid is equal to the amount of retirement benefits permitted to be payable under the Corporations Act 2001 without further approval by members, accrued by those directors up until 28 September 2004. Those directors ceased to accrue any further retirement benefits after that date.

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 percent 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 11 members (2013: 11) in the plan. An actuarial assessment of the plan at 30 June 2014 was carried out by Ms K Greenough FIAA FIA on 11 July 2014.

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.

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
23 EMPLOYEE BENEFITS (CONTINUED)				
Movements in the net defined benefit liability				
Net defined benefit liability at the beginning of the year	(735)	(709)	(735)	(709)
Total remeasurement recognised in other comprehensive income gain/(loss)	87	-	87	-
Contributions received from employer	414	415	414	415
Defined benefit cost recognised in the profit and loss	(445)	(441)	(445)	(441)
Net defined benefit liability at the end of the year	(679)	(735)	(679)	(735)
Movement in the present value of the defined benefit obligations are as follows:				
Defined benefit obligation at the beginning of the year	6,861	6,583	6,861	6,583
Current service cost	327	393	327	393
Past service cost	-	-	-	-
Interest cost	310	285	310	285
Actuarial (gains)/losses arising from:				
- financial assumptions	330	(259)	330	(259)
- experience adjustment	(9)	(93)	(9)	(93)
Contributions by employees	99	96	99	96
Benefits paid	-	-	-	-
Other	(52)	(144)	(52)	(144)
Defined benefit obligation at the end of the year	7,866	6,861	7,866	6,861
Movement in the present value of fund assets are as follows:				
Fair value of fund assets at the beginning of the year	5,911	4,697	5,911	4,697
Interest income on plan assets	283	207	283	207
Remeasurements: return on plan assets	623	625	623	625
Contributions by employer	414	415	414	415
Contributions by employees	99	98	99	98
Benefits paid	-	-	-	-
Taxes paid	(75)	(75)	(75)	(75)
Administrative expenses and insurance premiums	(68)	(56)	(68)	(56)
Fund assets at the end of the year	7,187	5,911	7,187	5,911

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

23 EMPLOYEE BENEFITS (CONTINUED)

Fair value of the plan assets disaggregated by nature and risk

The plan assets are invested in a pool managed investment distributing unit trust. The unit trust investment manager invests funds in the asset classes outlined in the table below:

	2014 \$000
Cash and cash equivalents	
- Cash	359
Equity	
- Domestic	2,135
- International (currency hedged)	647
- International (currency unhedged)	1,516
Fixed income	
- Domestic	726
- International	719
Real estate/ property	
- Domestic indirect property	223
- International property	216
Other	
- Alternate growth	287
- Alternate defensive	359
Total	7,187

The plan assets do not consist of any employer's own financial instruments or any property or other assets used by the employer.

The plan assets are managed in accordance with the trustee's investment policy. In setting and reviewing the investment policy, consideration is given to the risk-return characteristics of the available for sale asset classes, concentration risk, liquidity management and the suitability of the assets to the plan's liability duration. At the request of the employer, the investment policy can be reviewed to match the degree of risk-appetite preference of the employer. The actual funding policy and contribution arrangements incorporate the asset-liability risk and return profile.

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	Consolidated		Company	
	2014 %	2013 %	2014 %	2013 %
Discount rate at 30 June	3.9	4.5	3.9	4.5
Expected return on fund assets at 30 June	3.9	4.5	3.9	4.5
Future salary increases	4.0	4.0	4.0	4.0

Assumptions regarding future retirement, resignation and mortality rates are based on statistical and mortality tables as adopted in the most recent actuarial valuation as at 1 July 2012.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Defined benefit obligation	
	Increase \$000	Decrease \$000
30 June 2014		
Discount rate (1% movement)	7,327	8,466
Future salary growth (1% movement)	8,377	7,394

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

	Year ending 30 June 2015 \$000
Expected contributions to the plan in the next reporting period	
Expected employer contributions	416
Expected employee contributions	101

Maturity profile of the DBO as measured by weighted average duration

The weighted average term of the DBO is calculated as 7.4 years

	\$000
Projected benefit payments (defined benefit only)	
Next year	193
Next year + 1 year	308
Next year + 2 years	706
Next year + 3 years	435
Next year + 4 years	605
Sum of next year + 5 – 9 years	4,149

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was \$2,646,000 for the financial year (2013: \$2,439,000).

Change in accounting standard

The following table summarises the quantitative impact of the change in accounting policy outlined in Note 1. The comparative figures have not been restated because the impact was not considered material.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

23 EMPLOYEE BENEFITS (CONTINUED)

Impacts to Consolidated Statement of Financial Position

	Impact of change in accounting policy
For the year ended 30 June 2014	
Decrease in provisions	87
Decrease in total liabilities	87
Decrease in net deferred tax assets	(26)
Decrease in total assets	(26)
Increase in retained earnings	61
Increase in total equity	61

Impacts to Consolidated Statement of Profit and Loss and OCI

	Impact of change in accounting policy
For the year ended 30 June 2014	
Defined benefit plan remeasurement	87
Tax on items that will never be reclassified to profit or loss	(26)
Other comprehensive income (net of income tax)	61
Total comprehensive income	61

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
24 CAPITAL AND OTHER COMMITMENTS				
Loan commitments approved but not advanced				
- not later than one year	302,326	280,337	302,326	280,337
- later than one year	6,739	7,167	6,739	7,167
Total	309,065	287,504	309,065	287,504
Capital expenditure commitments not taken up in the financial statements				
- not later than one year	282	306	282	306
Non cancellable operating lease rentals payable				
- not later than one year	5,210	5,524	5,210	5,524
- later than one year but not later than five years	9,375	9,329	9,375	9,329
- later than five years	10	207	10	207
Total	14,595	15,060	14,595	15,060

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 movements in the Consumer Price Index or operating criteria.

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
25 FINANCING ARRANGEMENTS				
Bank overdraft available	2,500	2,500	2,500	2,500
Bank overdraft utilised	(462)	-	(462)	-
Facilities not utilised	2,038	2,500	2,038	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 8.98% (2013: 9.23%).

26 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 \$4,931,000 (2013: \$4,681,000) 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.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

		Ownership interest	
	Principal Activity	2014 %	2013 %
27 CONSOLIDATED ENTITIES			
Parent entity			
IMB Ltd			
Subsidiaries			
IMB Funeral Fund Management Pty Ltd	Trustee	100.0	100.0
IMB Land Pty Ltd	Land development	100.0	100.0
IMB Land No. 2 Pty Ltd	Land development	100.0	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. 1	Securitisation trust
Illawarra Warehouse Trust No. 2	Securitisation trust
Illawarra Series 2004-1 RMBS Trust	Securitisation trust
Illawarra Series 2005-1 RMBS Trust	Securitisation trust
Illawarra Series 2006-1 RMBS Trust	Securitisation trust
Illawarra Series 2007-1 CMBS Trust	Securitisation trust
Illawarra Series 2010-1 RMBS Trust	Securitisation trust
Illawarra Series 2011-1 CMBS Trust	Securitisation trust
Illawarra Series 2013-1 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 8 April 2014 a subsidiary Company, IMB Securitisation Services Pty Limited, established the Illawarra Series IS Trust and paid an amount of \$200 to constitute the trust. The purpose of establishing this entity was to allow the securitisation of residential mortgage loans as part of a contingency liquidity facility. In April 2014 the entity issued \$500,000,000 in bonds as Class A and Class B notes to IMB Ltd. The Class A notes are listed as eligible securities under reverse purchase agreement with the Reserve Bank of Australia.

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
28 NOTES TO THE STATEMENTS OF CASH FLOWS				
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	12,603	13,903	12,597	13,900
Cash controlled by SPEs	37,863	23,919	-	-
Total	50,466	37,822	12,597	13,900

The Group's exposure to interest rate risk for financial assets and liabilities is disclosed in note 32.

RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Profit for the year attributable to members of the Company	29,069	28,510	28,920	28,146
Net (gain)/loss on sale of property, plant and equipment	(53)	27	(53)	27
Impairment of loans and receivables to members	876	849	1,064	1,637
Impairment of non-current assets held for sale	281	888	-	-
Depreciation of property, plant and equipment, and amortisation of intangibles	2,143	2,379	2,127	2,373
Operating profit before changes in assets and liabilities	32,316	32,653	32,058	32,183
Changes in assets and liabilities:				
Decrease in accrued interest on investments	741	387	739	392
Decrease in loans and receivables	22,907	58,017	26,586	61,372
Decrease in inventories	2,481	2,038	-	-
Decrease in non-current assets held for sale	1,250	515	-	-
Decrease in sundry debtors	4,726	1,063	5,576	1,576
Decrease/(Increase) in net deferred tax asset	467	1,515	(275)	1,577
(Decrease) in accrued interest on members' deposits	(6,426)	(6,163)	(6,426)	(6,163)
(Decrease)/Increase in trade and other payables	(4,369)	(4,807)	(3,807)	3,240
Increase in deposits	164,145	160,519	164,284	159,920
(Decrease)/Increase in provision for employee benefits	(32)	284	(26)	266
(Decrease)/Increase in provision for income tax	(1,009)	1,792	(1,009)	2,383
(Decrease) in other provisions	-	(48)	-	(48)
Net cash flows from operating activities	217,197	247,765	217,700	256,698

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 securities have been presented on a net basis in the statements of cash flows.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

29 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	Executives
Mr MJ Cole (Chairman)	Mr RJ Ryan (Chief Executive Officer)
Mr LP Nicholas (Deputy Chairman)	Mr M Brannon (General Manager, Members)
Mr KR Biddle	Mr N Campbell (Chief Risk Officer) appointed October 2013
Mr JR Coleman	Mr CJ Goodwin (Chief Financial Officer)
Mr NH Cornish	Ms KA Halling (Acting General Manager, Corporate Services and Company Secretary) appointed April 2014
Mr RHP Elvy	Mr CE Newham (General Manager, Sales) commenced January 2014
Ms ME Towers	Mr CA Rumble (General Manager, Projects and Business Solutions) ceased employment April 2014
	Ms LB Wise (General Manager, Corporate Services and Company Secretary) appointed October 2013 and commenced parental leave April 2014

	Consolidated		Company	
	2014 \$	2013 \$	2014 \$	2013 \$
The key management personnel compensation included in "personnel expense" (see note 3) is as follows:				
Short-term employee benefits	2,847,638	2,415,821	2,847,638	2,415,821
Post employment benefits	319,728	281,442	319,728	281,442
Other long-term benefits	41,271	31,220	41,271	31,220
Total	3,208,637	2,728,483	3,208,637	2,728,483

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.

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report. 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.

Loans to key management personnel and their related parties

		Opening balance \$	Closing balance \$	Write downs \$	Interest and fees paid in the reporting year \$	Highest balance in year \$
Mr KR Biddle	2014	168,694	168,659	-	8,806	168,719
	2013	168,796	168,694	-	9,786	168,809
Mr MJ Cole	2014	-	152,895	-	4,950	153,395
Mr NH Cornish	2014	-	-	-	-	-
	2013	92,971	-	-	1,714	92,971
Mr LP Nicholas	2014	229,708	228,250	-	12,182	229,208
	2013	221,164	229,708	-	13,256	232,242
Mr M Brannon	2014	290,537	236,624	-	13,091	299,301
	2013	110,656	290,537	-	10,503	926,350
Mr CA Rumble	2014	402,401	397,659	-	19,427	402,401
	2013	448,427	402,401	-	23,824	448,431
Ms LB Wise	2014	278,341	268,717	-	4,876	278,341
Ms KA Halling	2014	223,431	232,804	-	2,773	234,397

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 2014	1,593,112	1,685,608	66,105	7
Total for key management personnel and their related parties 2013	1,042,014	1,091,340	59,083	5

All loans to key management personnel and their related parties are made on an arms 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.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

29 RELATED PARTY DISCLOSURES (CONTINUED)

Key management personnel holdings of shares and deposits

The movement during the year in the number of ordinary shares in IMB Ltd held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Directors		Opening balance	Purchases	Sales	Closing balance
Mr MJ Cole	2014	2,000	-	-	2,000
	2013	-	2,000	-	2,000
- related party	2014	121,187	15,382	136,469	100
	2013	59,895	121,187	59,895	121,187
Mr KR Biddle	2014	5,325	-	3,000	2,325
	2013	5,325	-	-	5,325
- related party	2014	12,878	-	-	12,878
	2013	17,878	-	5,000	12,878
Mr JR Coleman	2014	2,000	-	-	2,000
	2013	-	2,000	-	2,000
Mr NH Cornish	2014	2,000	-	-	2,000
	2013	2,000	-	-	2,000
Mr RHP Elvy	2014	6,800	-	-	6,800
	2013	5,454	4,800	3,454	6,800
- related party	2014	3,454	-	3,454	-
	2013	-	3,454	-	3,454
Mr LP Nicholas	2014	2,000	-	-	2,000
	2013	2,000	-	-	2,000
- related party	2014	54,190	-	54,000	190
	2013	43,890	30,300	20,000	54,190
Ms ME Towers	2014	-	10,000	5,000	5,000
- related party	2013	2,000	-	2,000	-
Executives					
Mr RJ Ryan	2014	4,000	-	-	4,000
	2013	4,000	-	-	4,000
Mr CA Rumble*	2014	100	-	-	100
	2013	100	-	-	100
Mr M Brannon	2014	4,954	-	-	4,954
	2013	4,954	-	-	4,954
Ms LB Wise	2014	120	-	-	120
Ms KA Halling	2014	11,615	-	-	11,615
- related party	2014	5,000	-	4,000	1,000
Mr NM Campbell	2014	104	-	-	104

No shares were granted to key management personnel during the year as compensation (2013: nil).

* Represents shareholdings at the time of ceasing employment.

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 directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Three of these entities transacted with the Company or its controlled entities in the reporting year. 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. Details of the transactions are as follows:

Mr KR Biddle is a principal solicitor at Hansons Lawyers, which has, at times, provided legal services to IMB Land Pty Ltd, a controlled entity. Fees paid during the year were \$3,924 (2013: \$19,701).

Mr LP Nicholas is the chairman, and Mr RJ Ryan a director, of The Flagstaff Group Limited (a not for profit organisation providing employment for people with disabilities), which has provided services to the Company throughout the year under normal commercial terms. Purchases during the year under this arrangement were \$58,433 (2013: \$79,257).

Mr MJ Cole has a performance guarantee from the Company. Under the terms of the performance guarantee an amount of \$1,792,000 (2013: \$1,300,000) is payable on demand in the event of an enforceable claim. The Company holds real estate as a security against the performance guarantee. Fees paid during the year were \$14,500 (2013: \$6,500).

Mr MJ Cole is the sole director of Abtourk (Syd No 368) Pty Ltd which has a performance guarantee from the Company. Under the terms of the performance guarantee an amount of \$750,000 (2013: \$750,000) is payable on demand on the event of an enforceable claim. The Company holds real estate as security against the performance guarantee. Fees paid during the year were \$7,500 (2013: \$7,500).

Mr MJ Cole is the sole director of Abtourk (Syd No 368) Pty Ltd which has a shareholding in OneVue Limited. OneVue Limited has a performance guarantee from the Company. Under the terms of the performance guarantee an amount of \$180,000 (2013: nil) is payable on demand on the event of an enforceable claim. The Company holds real estate as security against the performance guarantee. Fees paid during the year were \$1,500 (2013: nil).

30 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 1I. The aggregate amount provided by the Company to subsidiaries under the agreement is:

	2014 \$000	2013 \$000
IMB Land Pty Ltd	(856)	(336)
IMB Land 2 Pty Ltd	(396)	(434)
IMB Securitisation Services Pty Ltd	169	147
IMB Financial Planning Pty Limited	107	19
	(976)	(604)

Notes to the Consolidated FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

30 OTHER RELATED PARTY DISCLOSURES (CONTINUED)

IMB Land Pty Ltd

IMB Land Pty Ltd, a controlled entity has deposits with the Company amounting to \$424 (2013: \$3,000). These amounts are received on normal commercial terms and conditions. IMB Land Pty Ltd and its joint venture partner also have borrowings from the Company advanced during the course of land development. In accordance with normal commercial terms and conditions, the interest rate is set on the first working day of the month for the ensuing month at a fixed margin above the applicable bank bill rate. The aggregate amount of these loans is \$3,943,000 at 30 June 2014 (2013: \$6,608,000). The Group share of these loans is 50%. During the year there were repayments of \$2,925,000 (2013: \$1,519,000) and advances of \$nil (2013: \$nil). Aggregate interest of \$260,000 (2013: \$428,000) was charged during the year. The Company has advanced an additional \$270,000 (2013: \$178,000) to IMB Land Pty Ltd as an unsecured loan. There was no interest charged on the loan and it is included in the bad debt provision below. A provision for doubtful debts of \$4,391,000 at 30 June 2014 (2013: \$4,285,000) has been recognised in relation to the loans with a bad debt expense of \$105,500 (2013: \$1,077,000) recognised in the Income Statement.

IMB Land No. 2 Pty Ltd

IMB Land No. 2 Pty Ltd, a controlled entity has deposits with the Company amounting to \$5,400 (2013: \$14,000). These amounts are received on normal commercial terms and conditions. IMB Land No. 2 Pty Ltd and its joint venture partner also have borrowings from the Company advanced during the course of land development. In accordance with normal commercial terms and conditions, the interest rate is set on the first working day of the month for the ensuing month at a fixed margin above the applicable bank bill rate. The aggregate amount of these loans is \$4,117,000 at 30 June 2014 (2013: \$8,380,000). The Group share of these loans is 70%. During the year there were repayments of \$4,835,000 (2013: \$6,572,000) and advances of \$183,000 (2013: \$301,000). Aggregate interest of \$389,000 (2013: \$709,000) was charged during the year. The Company has advanced an additional \$370,000 (2013: \$848,000) to IMB Land No. 2 Pty Ltd as an unsecured loan. There was no interest charged on the loan which will be repaid as residential lots are sold.

IMB Financial Planning Limited

IMB Financial Planning Limited has related party transactions with the Company. Deposits with the Company by IMB Financial Planning Limited amount to \$3,715,000 (2013: \$3,638,000). These amounts are

received on normal commercial terms and conditions. The Company also has borrowings from IMB Financial Planning Limited associated with the remaining equity purchase on 29 June 2012 of \$3,234,000 (2013: \$3,234,000).

During the year the Company provided accounting services to IMB Financial Planning Limited. In return for these services, IMB Financial Planning Limited has paid the Company fees amounting to \$8,000 (2013: \$8,000). The Company also provides premises for IMB Financial Planning Limited. The Company has received \$30,000 (2013: \$30,000) in rent from IMB Financial Planning Limited. These tenancies are subject to operating leases under normal commercial terms and conditions. The Company also provided computer maintenance services at a cost of \$7,000 (2013: \$8,000) to IMB Financial Planning Limited during the year.

As at the reporting date a net receivable of \$201,000 (2013: \$174,000) was due from IMB Financial Planning Limited.

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.

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

	2014 \$000	2013 \$000
Proceeds from securitisation of loans	-	171,160
Servicing fees received	2,362	2,271
Management fees received	283	273
Excess income received	10,448	12,198
Note interest	4,417	-
Other	227	210

31 SEGMENT REPORTING

The Group operates predominantly in the banking and financial services industry in Australia.

32 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.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Risk management framework

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. In December 2013 the previously established Board Audit and Risk Management Committee was split to form the Risk Committee and Audit Committee. 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 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 members, other authorised deposit-taking institutions and available for sale investments. 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 duration, asset class and counterparties. IMB's Accounting Department is responsible for reviewing compliance with these limits.

Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Consolidated							
		Loans & receivables to Members		Loans & receivables to ADIs		Available for sale investments		Cash and cash equivalents	
	Note	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Carrying Amount	6,7,8,28	3,698,709	3,722,492	360,922	540,865	693,323	554,641	50,466	37,822
<i>Individually impaired</i>									
Gross amount		5,256	6,802	-	-	-	-	-	-
Provision for impairment	10	(2,670)	(2,470)	-	-	-	-	-	-
Carrying amount		2,586	4,332	-	-	-	-	-	-
<i>Past due but not impaired</i>									
Days in arrears:									
Less than one month		80,241	88,818	-	-	-	-	-	-
Greater than one month and less than two months		6,005	10,050	-	-	-	-	-	-
Greater than two months and less than three months		2,778	2,201	-	-	-	-	-	-
Greater than three months		1,396	3,452	-	-	-	-	-	-
Carrying amount		90,420	104,521	-	-	-	-	-	-
<i>Neither past due nor impaired</i>									
Secured by mortgage		3,539,421	3,555,662	-	-	-	-	-	-
Government securities		-	-	-	-	-	-	-	-
Investment grade		-	-	229,819	420,846	693,323	554,641	50,466	37,822
Unrated		-	-	131,103	111,480	-	-	-	-
Other		69,871	61,906	-	8,539	-	-	-	-
Net deferred income & expense		197	(143)	-	-	-	-	-	-
Carrying amount		3,609,489	3,617,425	360,922	540,865	693,323	554,641	50,466	37,822
Collective impairment provision	10	(3,786)	(3,786)	-	-	-	-	-	-
Total carrying amount	6,7,8,28	3,698,709	3,722,492	360,922	540,865	693,323	554,641	50,466	37,822
Includes restructured loans		1,057	198	-	-	-	-	-	-

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FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Exposure to credit risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

Consolidated									
		Loans & receivables to Members		Loans & receivables to ADIs		Available for sale investments		Cash and cash equivalents	
	Note	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Carrying Amount	6,7,8,28	3,703,462	3,731,112	360,922	540,865	1,194,125	554,641	12,597	13,900
<i>Individually impaired</i>									
Gross amount		7,228	10,106	-	-	-	-	-	-
Provision for impairment	10	(5,090)	(4,702)	-	-	-	-	-	-
Carrying amount		2,138	5,404	-	-	-	-	-	-
<i>Past due but not impaired</i>									
Days in arrears:									
Less than one month		80,241	88,818	-	-	-	-	-	-
Greater than one month and less than two months		6,005	10,050	-	-	-	-	-	-
Greater than two months and less than three months		2,778	2,201	-	-	-	-	-	-
Greater than three months		1,396	3,452	-	-	-	-	-	-
Carrying amount		90,420	104,521	-	-	-	-	-	-
<i>Neither past due nor impaired</i>									
Secured by mortgage		3,544,622	3,563,210	-	-	-	-	-	-
Government securities		-	-	-	-	-	-	-	-
Investment grade		-	-	229,819	420,846	1,194,125	554,641	12,597	13,900
Unrated		-	-	131,103	111,480	-	-	-	-
Other		69,871	61,906	-	8,539	-	-	-	-
Net deferred income & expense		197	(143)	-	-	-	-	-	-
Carrying amount		3,614,690	3,624,973	360,922	540,865	1,194,125	554,641	12,597	13,900
Collective impairment provision	10	(3,786)	(3,786)	-	-	-	-	-	-
Total carrying amount	6,7,8,28	3,703,462	3,731,112	360,922	540,865	1,194,125	554,641	12,597	13,900
Includes restructured loans		1,057	198	-	-	-	-	-	-

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in relation to interest rate swap contracts, which is limited to the net fair value of the swap agreement at balance date, is \$nil (2013: \$nil). IMB issues guarantees to business banking clients with a maximum credit exposure of \$4,931,000 (2013:\$4,681,000). Refer Note 26 for more details.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

Past due loans but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

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 incurred 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 losses

that have been incurred but have not been identified on loans that are not subject to individual assessment for impairment.

Write off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when the loans/securities are determined to be uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral and other credit enhancements

The Group holds collateral against loans and advances to members 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 available for sale investments.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and receivables to members			
	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
<i>Against Individually impaired</i>				
Property value	2,820	4,793	2,820	6,043
<i>Against past due but not impaired</i>				
Property value	98,780	104,566	98,780	104,566
Other	1,464	1,425	1,464	1,425
Total	103,064	110,784	103,064	112,034

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 \$1,820,000 (2013: \$3,905,000).

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FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 & receivables to Members		Loans & receivables to ADIs		Available for sale investments		Cash and cash equivalents	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
CONSOLIDATED								
Carrying amount	3,698,709	3,722,492	360,922	540,865	693,323	554,641	50,466	37,822
Concentration by location								
New South Wales	2,851,860	2,868,445	256,555	289,466	537,763	464,726	49,805	37,010
Australian Capital Territory	449,172	408,886	-	8,539	-	-	553	607
Queensland	98,802	105,974	29,638	102,156	75,328	64,954	-	-
Victoria	211,709	241,007	25,580	48,325	40,409	-	108	205
Western Australia	63,651	71,984	15,054	60,248	-	-	-	-
South Australia	8,589	9,597	-	7,048	34,847	24,961	-	-
Tasmania	21,382	22,855	34,095	25,083	4,976	-	-	-
Overseas	-	-	-	-	-	-	-	-
Provision for impairment	(6,456)	(6,256)	-	-	-	-	-	-
Total loans net of provision for impairment and deferred income and expenses	3,698,709	3,722,492	360,922	540,865	693,323	554,641	50,466	37,822
COMPANY								
Carrying amount	3,703,462	3,731,112	360,922	540,865	1,194,125	554,641	12,597	13,900
Concentration by location								
New South Wales	2,859,033	2,879,297	256,555	289,466	1,038,565	464,726	11,936	13,088
Australian Capital Territory	449,172	408,886	-	8,539	-	-	553	607
Queensland	98,802	105,974	29,638	102,156	75,328	64,954	-	-
Victoria	211,709	241,007	25,580	48,325	40,409	-	108	205
Western Australia	63,651	71,984	15,054	60,248	-	-	-	-
South Australia	8,589	9,597	-	7,048	34,847	24,961	-	-
Tasmania	21,382	22,855	34,095	25,083	4,976	-	-	-
Overseas	-	-	-	-	-	-	-	-
Provision for impairment	(8,876)	(8,488)	-	-	-	-	-	-
Total loans net of provision for impairment and deferred income and expenses	3,703,462	3,731,112	360,922	540,865	1,194,125	554,641	12,597	13,900

Concentration by location for loans and receivables to members is measured based on the location of the borrower. Concentration by location for loans and receivables to other ADIs and for available for sale investments 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 encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity 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 receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of liquid investments, largely made up of high quality liquid assets (HQLA), liquid investment securities, and loans and advances to other ADIs, to ensure that sufficient liquidity is maintained.

The liquidity position is monitored daily and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Assets and

Liabilities Committee. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Assets and Liabilities Committee.

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 payable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

The Group also utilises a number of other funding sources to enhance its funding profile in terms of duration and funding diversity, including a securitisation warehouse facility with Westpac up to a limit of \$150 million (2013: \$150 million). The utilised balance at 30 June was \$6.4 million (2013: \$11.5 million).

Exposure to liquidity risk

The 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 purposes. Details of the reported Group HQLA ratio and ratio of total liquid assets to total adjusted liabilities at the reporting date were as follows:

Liquidity ratios	2014 %	2013 %
At 30 June		
APRA High Quality Liquid Assets	18.32	16.39
Total liquidity	27.09	29.65

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FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

	At call		Excluding call less than 3 months maturity		Greater than 3 months less than 12 months maturity	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Residual contractual maturities of financial liabilities						
CONSOLIDATED						
Financial Liabilities						
Deposits	1,386,257	1,225,470	1,603,757	1,620,759	697,105	725,184
Trade and other payables	-	-	35,066	39,435	-	-
Securitised loans funding *	-	-	47,282	62,200	167,555	164,348
Subordinated debt	-	-	773	800	2,311	2,347
Bank overdraft	462	-	-	-	-	-
Total financial liabilities	1,386,719	1,225,470	1,686,878	1,723,194	886,971	891,879
COMPANY						
Financial Liabilities						
Deposits	1,391,753	1,230,826	1,603,757	1,620,759	697,105	725,184
Trade and other payables	-	-	15,657	19,464	-	-
Securitised loans funding *	-	-	52,177	62,200	182,239	164,348
Subordinated debt	-	-	773	800	2,311	2,347
Bank overdraft	462	-	-	-	-	-
Total financial liabilities	1,392,215	1,230,826	1,672,364	1,703,223	881,655	891,879
Consolidated and Company						
Derivative financial instruments						
Interest rate swaps (hedging relationship) net **	-	-	-	22	-	66
Unrecognised loan commitments	-	-	147,733	109,735	-	-

The following table indicates the years in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss.

Derivative financial instruments						
Interest rate swaps (hedging relationship) net **	-	-	-	22	-	52

* Included in this balance are amounts payable to mortgage SPE noteholders. The contractual maturity of the notes is dependant on the repayment of the underlying mortgages.

** Represents contractual cashflows to maturity on interest rate swaps in a pay position. Based on current market rates.

Greater than 1 year less than 5 years maturity		Greater than 5 years maturity		Gross nominal outflow		Total carrying amount	
2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
111,044	78,548	-	-	3,798,163	3,649,961	3,756,015	3,598,296
-	-	-	-	35,066	39,435	35,066	39,435
370,610	526,177	200,867	294,148	786,314	1,046,873	700,642	926,706
12,362	12,561	53,529	56,795	68,975	72,503	44,920	44,872
-	-	-	-	462	-	462	-
494,016	617,286	254,396	350,943	4,688,980	4,808,772	4,537,105	4,609,309
111,044	78,548	-	-	3,803,659	3,655,317	3,761,511	3,603,653
-	-	-	-	15,657	19,464	15,657	19,464
448,924	526,177	700,708	294,148	1,384,048	1,046,873	1,200,482	926,706
12,362	12,561	53,529	56,795	68,975	72,503	44,920	44,872
-	-	-	-	462	-	462	-
572,330	617,286	754,237	350,943	5,272,801	4,794,157	5,023,032	4,594,695
-	-	-	-	-	88	-	94
-	-	-	-	147,733	109,735	-	-

-	-	-	-	-	73	-	94
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FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk is the risk that changes in market prices, such as interest rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Group has exposure to non traded interest rate risk generated by banking products such as loans and deposits. The Group does not operate a trading book.

Overall authority for market risk is vested in the Assets and Liabilities Committee. The Assets and Liabilities Committee is responsible for the development of detailed risk management policies (subject to review and approval by the Risk Committee) and for the day to day review of their implementation.

Exposure to market risk

A number of tools are used to measure and control market risk exposure within the Group's banking book including interest rate gap reporting, interest rate sensitivity analysis and Value at Risk (VaR). The VaR of a banking book is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an

adverse market movement with a specified probability (confidence level), expressed as a percentage of regulatory capital. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 20 day holding period. The VaR model used is based on variance/co variance. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 20 day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for total market risk. The overall structure of VaR limits is subjected to review and approval by the Risk Committee. Weekly reports of utilisation of VaR limits are submitted to the Assets and Liabilities Committee.

A summary of the VaR position of the Group's banking book, expressed as a percentage of regulatory capital, as at 30 June 2014 and during the year is as follows:

	2014	2013
	%	%
Interest rate risk		
At June 30	0.79	1.55
Average VaR for the year	1.33	1.89
Minimum VaR for the year	0.79	1.50
Maximum VaR for the year	1.80	2.19

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on the banking book.

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 and to avoid control procedures that restrict initiative and creativity.

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.

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FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 available for sale 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. At 30 June 2014 the term deposit portfolio carrying amount was \$2,386,538,000. Using a recognised valuation technique, the impact of interest rate movements on the term loan portfolio would estimate the fair value at \$2,394,138,000. The carrying amount of these term deposits in the year ended 30 June 2013 was \$2,393,264,000 with an estimated fair value of \$2,404,018,000.
- 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. At 30 June 2014 the fixed rate loan portfolio carrying amount was \$636,790,000. Using a recognised valuation technique, the impact of interest rate movements on the fixed loan portfolio would estimate the fair value at \$650,737,000. The carrying value of these fixed rate loans in the year ended 30 June 2013 was \$531,323,000 with an estimated fair value of \$546,343,000.

Valuation techniques

Financial instruments classified as available for sale 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.

Fair value hierarchy

The table below analyses financial instruments carried or disclosed at fair value, by valuation method. The different levels have been defined 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 based on observable market data (unobservable inputs).

The following tables show the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total consolidated \$000
30 JUNE 2014					
Financial assets measured at fair value					
Available for sale financial assets	6	-	693,323	-	693,323
		-	693,323	-	693,323
Financial assets not measured at fair value (a)					
Loans to other ADIs	7	-	360,922	-	360,922
Loans and receivables to members	8	-	3,698,709	-	3,698,709
Equity investments held at cost	9	-	515	-	515
		-	4,060,146	-	4,060,146
Financial liabilities not measured at fair value (a)					
Deposits	18	-	3,756,015	-	3,756,015
Securitised loan funding	19	-	700,642	-	700,642
Loan capital	20	-	44,920	-	44,920
		-	4,501,577	-	4,501,577
30 JUNE 2013					
Financial assets measured at fair value					
Available for sale financial assets	6	-	554,641	-	554,641
		-	554,641	-	554,641
Financial assets not measured at fair value (a)					
Loans to other ADIs	7	-	540,865	-	540,865
Loans and receivables to members	8	-	3,722,492	-	3,722,492
Equity investments held at cost	9	-	538	-	538
		-	4,263,895	-	4,263,895
Financial liabilities measured at fair value					
Derivatives held for risk management	12	-	94	-	94
		-	94	-	94
Financial liabilities not measured at fair value (a)					
Deposits	18	-	3,598,296	-	3,598,296
Securitised loan funding	19	-	926,706	-	926,706
Loan capital	20	-	44,872	-	44,872
		-	4,569,874	-	4,569,874

(a) The Group has not disclosed the fair values for financial instruments such as short term trade receivables and payables because their carrying amounts are a reasonable approximate to fair values.

Notes to the Consolidated

FINANCIAL STATEMENTS (CONT)

FOR THE YEAR ENDED 30 JUNE 2014

32 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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:

	2014	2013
Derivatives	0%	2.83% - 3.08%
Loans and borrowings	2.50% - 3.92%	2.75% - 3.60%

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 available for sale 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 transitional 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.

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.

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

	Consolidated		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Tier 1 capital				
Ordinary share capital	40,989	43,502	40,989	43,502
General reserves	25,255	25,255	25,255	25,255
Asset revaluation reserves	12,843	12,395	12,843	12,395
Retained earnings	185,225	172,740	181,827	169,840
Current year earnings	17,482	17,378	17,465	17,013
(Less) Capitalised expenses	(1,974)	(2,538)	(1,974)	(2,538)
(Less) Other	(3,847)	(4,357)	(4,708)	(4,476)
Total	275,973	264,375	271,697	260,991
Tier 2 capital				
General reserve for credit loss	6,439	6,050	6,439	6,050
Subordinated debt	36,000	40,500	36,000	40,500
Total	42,439	46,550	42,439	46,550
Total regulatory capital	318,412	310,925	314,136	307,541
Capital requirements (in terms of risk weighted assets) for:				
Credit risk	1,719,362	1,632,381	1,723,559	1,637,316
Operational risk	269,688	264,454	260,771	259,310
Total risk weighted assets	1,989,050	1,896,835	1,984,330	1,896,626
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	16.0%	16.4%	15.8%	16.2%
Total Tier 1 capital expressed as a percentage of risk weighted assets	13.9%	13.9%	13.7%	13.8%

Regulatory 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 imb.com.au.

33 EVENTS SUBSEQUENT TO REPORTING DATE

Dividends

For dividends declared by IMB Ltd after 30 June 2014 refer to note 5.

Directors' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2014

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

- (a) the financial statements and notes, set out on pages 42 to 97 and the Remuneration report in the Directors' report, set out on pages 34 to 38, 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 2014 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 statements also comply 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 26th day of August 2014.

Signed in accordance with a resolution of the directors:



MJ Cole
Chairman



LP Nicholas
Director

Independent AUDITOR'S REPORT

TO THE MEMBERS OF IMB LTD



REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of IMB Limited (the Company), which comprises the statements of financial position as at 30 June 2014, the statements of profit or loss, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial reports

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations

Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

AUDITOR'S OPINION

In our opinion:

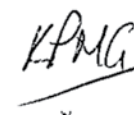
- (a) the financial report of IMB Ltd is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2014 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report of the Group also comply with International Financial Reporting Standards as disclosed in note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 34 to 38 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of IMB Ltd for the year ended 30 June 2014, complies with Section 300A of the Corporations Act 2001.



KPMG



Warwick Shanks, Partner

Dated at Wollongong, this 26th day of August 2014.

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.

Locations

IMB BRANCHES

NEW SOUTH WALES

Albion Park	Shop 14, Centro Shopping Centre 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, 180-186 Argyle Street CAMDEN NSW 2570
Corrimal	Shops 2-4, Stocklands Corrimal Shopping Centre, 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
Fairy Meadow	84B Princes Highway FAIRY MEADOW NSW 2519
Figtree	Shop 32 & 33, Westfield Shopping Town 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 Macquarie Street LIVERPOOL NSW 2170
Macarthur Square	Shop L10, L11 Level 2 Macarthur Square Shopping Centre AMBARVALE NSW 2560
Merimbula	Cnr Merimbula Drive & Market Street MERIMBULA NSW 2548
Miranda	Shop G, 105 Westfield Shoppingtown MIRANDA NSW 2228
Moruya	55 Vulcan Street MORUYA NSW 2537
Narellan	Shop 10, 320 Camden Valley Way Road NARELLAN NSW 2567
Narooma	127 Wagonga Street NAROOMA NSW 2546
Nowra	86 Kinghorn Street NOWRA NSW 2541
Parramatta	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 QUEANBEYAN NSW 2620
Shellharbour	Shop 46, Shellharbour Stockland Shopping Centre SHELLHARBOUR NSW 2529
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 VINCENTIA NSW 2540
Warilla	6 George Street WARILLA NSW 2528
Warrawong	Shop 114, Westfield Shopping Town 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

AUSTRALIAN CAPITAL TERRITORY

Belconnen	Level 3, Westfield Shopping Town BELCONNEN ACT 2617
Canberra City	Shop CG 04, City Walk CANBERRA CITY ACT 2600
Gungahlin	Shop 18, The Market Place, 33 Hobberson St GUNGAHLIN ACT 2912
Tuggeranong	Level 1, Shop 175-177, Tuggeranong Hyperdome Shopping Centre TUGGERANONG ACT 2900
Woden	Shop 1, Plaza Level Woden Churches Centre WODEN ACT 2606

VICTORIA

Glen Waverley	55 Railway Parade North GLEN WAVERLEY VIC 3150
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FINANCIAL PLANNING

IMB Financial Planning	Level 1, 205 Crown Street WOLLONGONG NSW 2500
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Corporate

DIRECTORY

MEMBERS' DIARY AND OTHER INFORMATION

Payment of final dividend 4 September 2014

Annual general meeting 20 October 2014 at 10:00am

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 Monday, 20 October 2014 at 10.00am.

COMPANY SECRETARY

Kelli Halling (B Com CPA SA Fin)
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 License 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
Level 13
50 Carrington St
Sydney NSW 2000

Auditors
KPMG
Level 3
63 Market St
Wollongong NSW 2500

Annual Report 2014

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