# Annual Report 2013

## Shaping the future for our communities




Better Value Banking

IMB Ltd 92 087 651 974

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# 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; and
- striving to offer solutions.

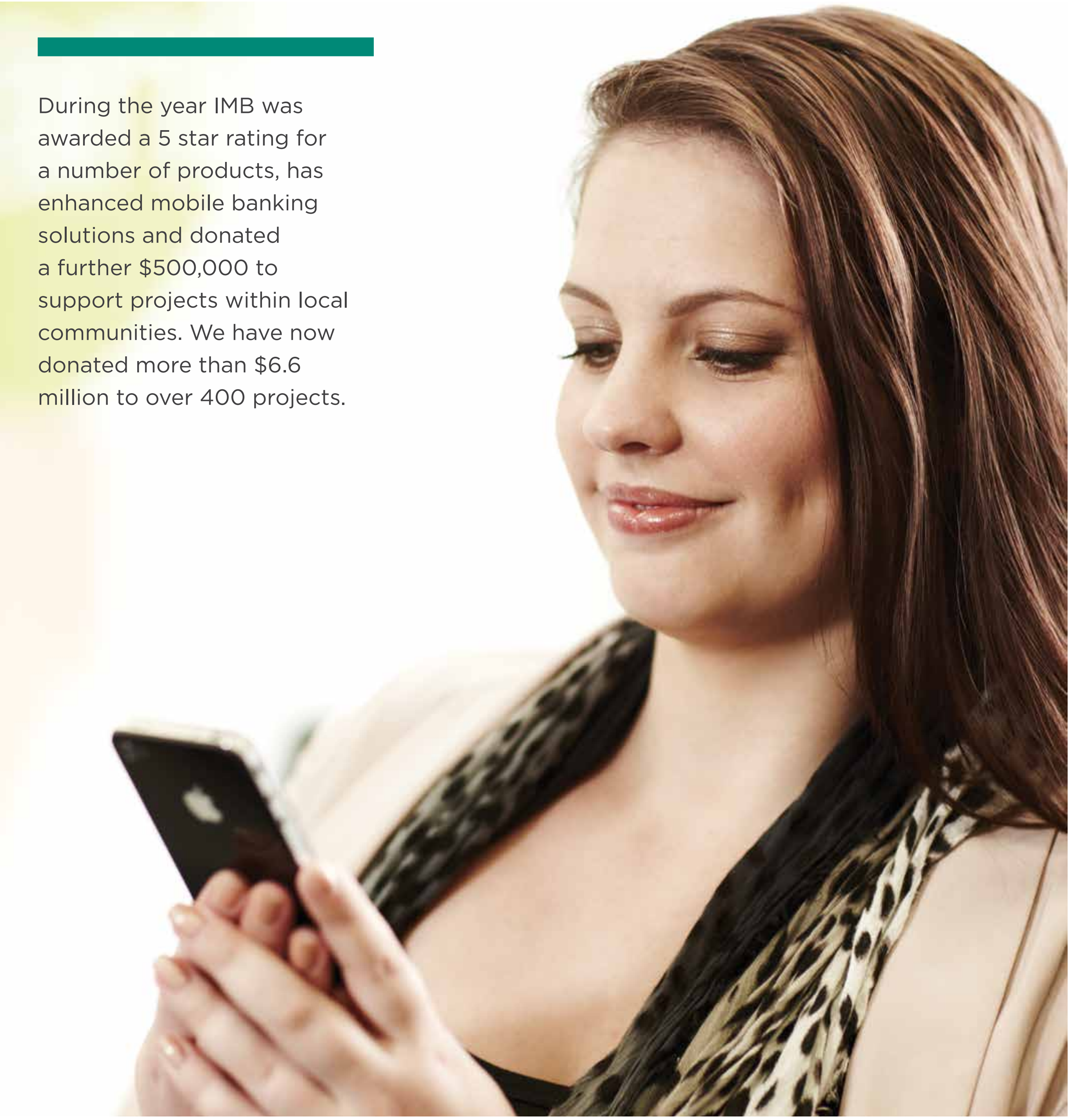
**Notice of Annual General Meeting**

The annual general meeting of IMB Ltd will be held at the Novotel Northbeach Hotel, 2-14 Cliff Road, North Wollongong on Tuesday, 22 October 2013 at 10.00 am.

Since 1880, IMB has proved to be a strong and secure alternative to the major banks, committed to mutual success with its valued members. Our focus on better service, products and overall better value will ensure IMB's success continues into the future.

# 2013 HIGHLIGHTS

During the year IMB was awarded a 5 star rating for a number of products, has enhanced mobile banking solutions and donated a further $500,000 to support projects within local communities. We have now donated more than $6.6 million to over 400 projects.



# 96%

**Member Satisfaction**

*Discovery Research 2012

- We introduced online identification and account opening to provide members with an alternative method of engaging with IMB.
- We enhanced our existing mobile banking solutions with the introduction of IMB Alerts, delivering up to date account information direct to members via SMS or email.
- We maintained our commitment to face to face banking, taking care to ensure new facilities matched to the demographics being targeted in that area. This included significant refurbishments in our Belconnen, Macarthur Square and Warrawong branches providing a more modern space for our members to conduct their banking.
- We upgraded the systems used by our call centre located at Fairy Meadow to provide better telephone support to our members.
- We were awarded a 5 star rating from an independent reviewer for a number of our home loan and deposit products including the IMB Budget Home Loan, IMB Essentials Home Loan, IMB Platinum Package Variable Home Loan, IMB Business Cash Management Account and IMB DIY Super Account.
- We provided access to over 3,000 ATMs Australia wide, via IMB and Westpac Group ATMs. Our members were also provided access to their money worldwide with our multi-currency cash passport.
- Our most recent member satisfaction survey recorded a result of 96%, continuing a three year trend of overall member satisfaction levels above 95%. Roy Morgan customer satisfaction monitor rated IMB members as the most satisfied of all building societies.
- We maintained our commitment to supporting local communities. Since its inception in 1999 the IMB Community Foundation has granted funding to more than 400 community projects, returning more than $6.6 million to the communities in which we operate.
- We successfully completed an off market share buyback. This is expected to be the first in a series of buybacks IMB will undertake over the medium term. The first buyback was successful in acquiring 2.9 million shares through a share tender mechanism.
- We continued to strengthen our balance sheet with our Capital Ratio increasing by 0.6% to 16.4% against the corresponding period last year well above prudential requirements.

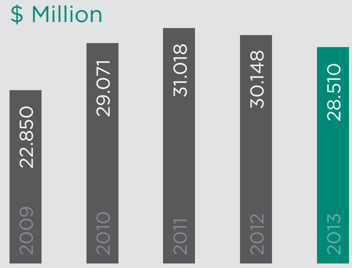
**Total Assets**
$ Million


2.5% increase

**Members' Deposits**
$ Million

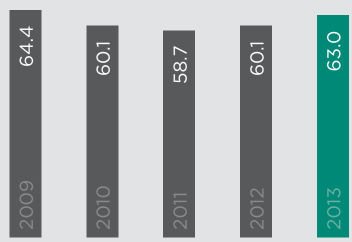

4.5% increase

**Profit After Tax**
$ Million



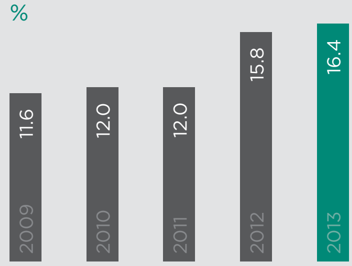

5.4% decrease

**Efficiency Ratio**
%




2.9% increase

**Capital Ratio**
%




0.6% increase

# INVESTING IN **THE NEXT GENERATION**

Wollongong grandmother Trudy Bruton has been an IMB member for as long as she can remember, since her mother opened Trudy's first IMB savings account when she was just eight years old.

Trudy used the money she saved in this account to purchase furniture when she first moved out of home and throughout the years, she has turned to IMB many times utilising personal loans for cars and renovations as well as for her family home loan.

Now, more than 57 years since she joined IMB, Trudy remains a loyal member who currently holds an IMB Wisdom account, as well as term deposits.

"I have always found IMB staff extremely helpful in guiding me through the process of understanding which products are best for me. Although the faces may have changed throughout the years, the excellent support and assistance I have received remains the same," said Trudy.

Continuing her family's long-standing relationship with IMB, Trudy opened an IMB Zoo account for each of her three grandchildren when they were born.

"As a little girl my mother taught me the importance of saving money and this is a value I hope to instill in my grandchildren. They are only two, four and six years old respectively but it is never too early to start saving," said Trudy.

Trudy Bruton with Grandchildren Edie, Cooper and Ruby.

# FIVE YEAR SUMMARY

| | | 2013 $000 | 2012 $000 | 2011 $000 | 2010 $000 | 2009 $000 |
|---|---|---|---|---|---|---|
| **FINANCIAL PERFORMANCE** | | | | | | |
| Interest income | | 272,746 | 322,595 | 325,064 | 266,742 | 304,007 |
| Interest expense | | 180,272 | 227,422 | 228,585 | 173,723 | 227,397 |
| Interest margin | | 92,474 | 95,173 | 96,479 | 93,019 | 76,610 |
| Non interest income | | 18,577 | 14,320 | 13,746 | 14,815 | 17,141 |
| Impairment losses | | 849 | 1,989 | 3,646 | 3,638 | 1,790 |
| Non interest expense | | 69,424 | 64,629 | 62,565 | 62,644 | 59,264 |
| Profit before tax | | 40,778 | 42,875 | 44,014 | 41,552 | 32,698 |
| Income tax expense | | 12,268 | 12,727 | 12,996 | 12,481 | 9,848 |
| **Profit after tax** | | **28,510** | **30,148** | **31,018** | **29,071** | **22,850** |
| **FINANCIAL POSITION** | | | | | | |
| **ASSETS** | | | | | | |
| Loans to members | | 3,722,492 | 3,781,358 | 3,763,503 | 3,576,564 | 3,476,040 |
| Liquids | | 1,133,328 | 946,407 | 1,015,406 | 1,087,047 | 937,532 |
| Other | | 38,138 | 44,651 | 37,338 | 32,204 | 30,611 |
| | | 4,893,958 | 4,772,416 | 4,816,247 | 4,695,815 | 4,444,183 |
| **LIABILITIES** | | | | | | |
| Deposits | | 3,598,296 | 3,443,940 | 3,526,906 | 3,362,526 | 3,158,283 |
| Securitised loans funding | | 926,706 | 968,609 | 999,733 | 1,064,650 | 1,025,682 |
| Other | | 95,836 | 98,882 | 50,000 | 48,182 | 61,057 |
| | | 4,620,838 | 4,511,431 | 4,576,639 | 4,475,358 | 4,245,022 |
| **Net assets** | | 273,120 | 260,985 | 239,608 | 220,457 | 199,161 |
| **Total assets** | | **4,893,958** | **4,772,416** | **4,816,247** | **4,695,815** | **4,444,183** |
| **PERFORMANCE RATIOS** | | | | | | |
| Capital adequacy | % | 16.4 | 15.8 | 12.0 | 12.0 | 11.6 |
| Total asset growth | % | 2.5 | -0.9 | 2.6 | 5.7 | -1.6 |
| Net asset growth | % | 4.6 | 8.9 | 8.7 | 10.7 | 4.4 |
| After tax return on average net assets | % | 10.92 | 12.66 | 13.47 | 13.92 | 12.02 |
| Non interest income/average total assets | % | 0.39 | 0.30 | 0.29 | 0.33 | 0.39 |
| Non interest expenses/average total assets | % | 1.46 | 1.33 | 1.31 | 1.40 | 1.33 |
| Non interest expenses/operating income | % | 63.0 | 60.1 | 58.7 | 60.1 | 64.4 |
| Bad debts expense/average loans | % | 0.02 | 0.05 | 0.07 | 0.10 | 0.05 |
| Interest margin | % | 1.97 | 1.99 | 2.05 | 2.11 | 1.75 |

# FINDING THE RIGHT **HOME LOAN TO SUIT YOUR NEEDS**

Robertson resident Graham Grootemaat was introduced to IMB in early 2012 as an executor acting on his late father's estate. Graham and his wife Pamela were so happy with the service they received that they decided to refinance their home loan with IMB.

"Not only are IMB's interest rates and home loan packages very competitive with the big four banks, we found IMB much more flexible when it came to finding the right home loan to suit our financial conditions."

"IMB Dapto branch manager Craig Franklin was so helpful. He was able to get our loan approved and provide us with the funds to buy a block of land, whilst holding our current home. It was quite a complicated application but Craig's expertise and patience helped us get it across the line," said Graham.

Since switching their home loan to IMB, Graham has found the efficient and personal approach of IMB staff a welcome change to his experiences with other financial institutions.

"IMB's great customer service was clear from the beginning when we promptly received the repayment details for our home loan, meaning we could start paying it off straight away. It's also the personal touches, like a letter welcoming us as members, which makes IMB stand-out from the crowd," added Graham.

Craig Franklin, IMB Dapto Branch Manager, assisting a young couple.

# CHAIRMAN'S **LETTER**

"Against this difficult background it is pleasing to report a number of major Key Performance Indicators (KPIs) matched or exceeded expectations."

In Financial Year 2013 (FY13) IMB recorded a net profit after tax of $28.510 million, a decrease of 5.4% 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 notwithstanding intense competition.

However some of the KPIs fell short of budget including new residential loan approvals of $566 million, over 7% below 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. Notwithstanding management's intense focus on the cost to income ratio, it lifted to 63% but if adjusted for land development activities 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 2013, IMB's capital adequacy ratio was 16.4%, an increase of 0.6% over the previous year end. The gearing level remains comfortably within current regulatory requirements. The return on equity (ROE) was lower at 10.9%, down from 12.7% in the previous financial year. More than half the recorded decline in the ROE is accounted for by the further deleveraging of the IMB balance sheet in FY13.

The strengthening of the IMB capital base in FY13 was a significant achievement. The increase to IMB's capital base, must also be viewed in the context of the commencement of our successful off-market share buyback offer to shareholder members. As a result a total of 2.9 million shares were repurchased at a price of $3.28 per share for a total consideration of $9.5 million. The resultant 7.3% of ordinary share capital retired resulted in a reduction in the level of shareholder members' contributed funding. This equity was replaced by a number of alternative sources including subordinated debt and securitisation issues.

As I foreshadowed at the last AGM, following the strong shareholder participation in the first buyback, it remains the Board's intention to continue to seek to buyback 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 buybacks will take place annually or regardless of the share price. It remains subject to an enhanced cost of capital discipline.

Another topic addressed at the last AGM was the IMB dividend policy that would apply as the share buyback is implemented over an extended period. The Board determines the level of any dividend payable after consideration of a range of factors; including IMB's financial performance, the current and expected operating environments, capital requirements and prudential controls and the PwC Report on Contributed Funding. 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 has released its Dividend Guideline which stated that while IMB's capital adequacy ratio is above 14% and profits are maintained or increased, it is the Board's current intention to pay a full year dividend of 25 cents per share. The Board reaffirms its continued support for this Guideline in the current year.

Notwithstanding the 5.4% decline in net profit, the Board has resolved to pay a final dividend for FY13 of 15 cents per share (equivalent to last year). The total dividend for FY13 will be 25 cents per share. Having regard to the reduction in share capital following the buyback, the effective payout ratio to shareholders increased slightly in the year.

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.

MJ Cole
Chairman

"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."


The team at Divalls Earthmoving and Bulk Haulage.


# HELPING LOCAL **BUSINESSES GROW**

Divalls Earthmoving and Bulk Haulage, a thriving Goulburn-based business, has been an IMB Business Banking customer since 1995 with the Divall family's association dating back around 30 years to the same time IMB opened its Goulburn branch.

The company now employs 120 local staff and has expanded into crushing, plant hire, civil works, demolition, recycling and even concrete and bitumen supply. The group is a major contributor to the local economy.

Brothers, Andrew and Michael Divall, remain with IMB because of the personal service from a team of experienced and knowledgeable staff.

"Most importantly, whenever we call, there is always someone to talk to, even after hours, who reacts quickly to our needs. This makes our life much easier and is very reassuring. On the back of this type of service, we have developed an excellent relationship with IMB," said the brothers.

"IMB understands the different parts of our business, listens to our requirements and meets regularly with our accountants to ensure we are all on the same wavelength. Without question, we confidently recommend IMB to our friends and colleagues knowing they will be looked after."

# CHIEF EXECUTIVE'S **REVIEW OF OPERATIONS**

## INTRODUCTION

The Australian economy continues to feel the effect of the financial crisis and ongoing market volatility, albeit improving, continues to impact financial markets. Although the domestic economy is relatively better placed than other global markets, intense competition for retail funds, lower credit demand and the decreasing interest rate environment all continue to challenge Australian financial institutions.

Against this backdrop, I am pleased to report that IMB has again delivered a strong result for 2012/13 and we have continued to strengthen the balance sheet and invest in a range of initiatives to improve the member experience.

## FINANCIAL PERFORMANCE

Group operating profit after tax remained solid at $28.5 million. While this result was $1.6 million, or 5.4%, lower than the previous year, IMB's underlying business fundamentals have proven to be resilient despite the challenging operating environment. Excluding IMB's land development activities, as well as impairment losses on an available for sale asset and gains on the sale of IMB Financial Planning in the prior year, Group profit after tax decreased by $1.3 million, or 4.3%.

Operating profit was primarily impacted by pressure on interest margin, caused by both the Reserve Bank's reductions in official rates and challenging funding conditions as a result of aggressive pricing structures adopted by many of our competitors. The higher capital setting adopted by IMB as part of the global regulatory framework, known as Basel III, has also contributed an additional level of costs that have, and will continue to, impact IMB's results.

IMB's average interest margin for the year was 1.97% compared to 1.99% in 2011/12. 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, a decrease of $1.1 million on 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.

Total non interest expenses amounted to $69.4 million, an increase of $4.8 million on the prior year. Excluding land development expenses and the write down of IMB's land inventory in the current and prior years, expenses on a like for like basis were $64.5 million, which is comparable to the previous year. This result reflects improvements in productivity and IMB's disciplined approach to cost containment.

The ratio of non interest expense to operating income for the Group was 63.0% in 2012/13, with non interest expense as a proportion of average total assets for the Group was unchanged from last year at 1.4%. Excluding the effects of land development and the write down of IMB's land inventory in the current and prior years, the ratio was 60.9%, broadly in line with the result for 2011/12.

Total assets increased to $4.9 billion at the end of the financial year.

Loan approval levels for the year were $619.6 million, 11.6% lower than the previous year, reflecting the low demand for credit and the subdued consumer sentiment that prevailed during the year. Loans outstanding, including loans to Authorised Deposit taking Institutions, increased to $4.3 billion.

Loan growth was funded largely from growth in deposits which increased by $154 million over the year. The increase of 4.5%, 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.

IMB also has a diverse middle markets and wholesale funding capability as well as access to a $2 billion debt issuance programme.

During the year IMB successfully launched a $300 million Residential Mortgage Backed Securities issue. The Group's capital adequacy ratio at 30 June was 16.4%, up from 15.8% last year.

## STRATEGY

IMB's vision is to be the first choice, member owned banking alternative based on service and member satisfaction. Each year we undertake a fulsome review of our strategic plan to ensure that it remains appropriate in the current environment and is consistent with the overall vision. Over the past twelve months we have implemented a range of initiatives to deliver our strategic goals and to enhance the products and services we provide to our members.

From a corporate perspective, IMB Financial Planning has been integrated into the IMB group and we are developing strategies that will provide benefits to both IMB and IMB Financial Planning as well as IMB members. We have continued to grow our retail deposit funding base through competitive product offerings and a strong service proposition. We have also invested further in our risk capabilities to ensure that IMB is well positioned in a fluctuating environment.

As online interactions become more prevalent, we have introduced online identification and account opening functionality to provide members with an alternate method of engaging with IMB. We also enhanced our existing mobile banking solutions with the introduction of IMB Alerts, delivering up to date account information direct to members via SMS or email.

We have maintained our commitment to face to face banking and have undertaken a number of branch refurbishments over the past year. This includes significant refurbishments in our Belconnen, Macarthur Square and Warrawong branches providing a more modern space for our members to conduct their banking. The telephone system used by IMB Direct was also upgraded to provide enhanced telephone support to our members.

We continue to review our products to ensure that their features and pricing provide a competitive alternative for our members. As part of this process, we have refreshed our new car personal loan product and introduced a number of packaged offers which provide savings and benefits to members.

We were awarded a 5 star rating from an independent reviewer for a number of our home loan and deposit products including the IMB Budget Home Loan, IMB Essentials Home Loan, IMB Platinum Package Variable Home Loan, IMB Business Cash Management Account and IMB DIY Super Account.

In late 2012 we conducted a member satisfaction survey which delivered a strong result with 96% of IMB members surveyed satisfied with the products and services they receive from IMB. This result continues a three year trend of overall member satisfaction levels above 95%. A recent Roy Morgan customer satisfaction monitor also rated IMB members as the most satisfied of all Australian building society members.

In response to our strategic aim of supporting IMB's mutual structure, we successfully completed the first of a series of off-market share buybacks in September 2012. IMB bought back 2.9 million shares through a share tender mechanism and we anticipate that the next buyback will be strongly supported.

Looking ahead, IMB will continue to focus on strategic priorities that will drive strong revenue growth and deliver banking solutions to our members for their continually changing needs. We will be improving our online and mobile banking capabilities including the introduction of an Android mobile banking application in addition to upgrading our mobile website.

Ensuring that our members have access to the latest payment technologies IMB has agreed to partner with Visa and offer V.me, a new digital wallet service to our members as well as introducing a contactless Visa card. Both the contactless Visa cards and V.me are expected to be available to members in the current financial year. We are also exploring the benefits social media can provide in our interactions with members.

We are currently reviewing the personal loans process with a view to providing our existing and new members with a straightforward application process and quick response. This work will further extend our ability to reach members outside our heartland through improvements to our online service delivery and supporting processes, enabling us to service members unable to visit a branch.

We are also undertaking a review of our Business Banking division and have identified a number of initiatives that will increase awareness levels of IMB's service based offering. We believe that IMB Business Banking provides a genuine alternative to the major banks.

## COMMUNITY

Since its formation, IMB has supported the communities in the areas where we operate. In 1999, the IMB Community Foundation was established as a social enterprise initiative providing tangible support to groups and organisations that are making a difference in their communities.

Now in its 14th year, the Foundation has donated more than $6.6 million to more than 400 projects in the communities in which it operates. The support that the Foundation provides benefits not only the recipients, but also the extended community.

In addition, IMB also supports a variety of charity, community and sporting organisations and numerous other community grassroots projects and events such as the popular Sunset Cinema that was run again in the Wollongong Botanic Gardens as well as a programme presented for the first time in Canberra.

## OUTLOOK

For the coming year, we expect the current low rate environment to continue and although we are seeing signs of an improving housing market, it may be some time before lending levels improve significantly. The ongoing competition for retail funds, particularly ahead of Basel III liquidity changes, will continue to place pressure on interest margins. Notwithstanding these factors, we remain confident about our future financial performance.

## CONCLUSION

The solid result that has been delivered this year could not have been achieved without IMB's loyal and dedicated staff who strive to deliver great products and service to our members. Their contribution has ensured that IMB is a genuine alternative to the major banks. And finally, I would also like to thank all of our loyal members for their continued support of IMB.

RJ Ryan
Chief Executive

# DIRECTORS' **PARTICULARS**

### 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 Remuneration and CEO Evaluation Committee, Nominations and Governance Committee, Securitisation Committee, IMB Financial Planning Committee and the Capital Committee and is also an ex-officio member of the Audit and Risk Management Committee, and the IMB Community Foundation Committee. 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 a director of NSW Treasury Corporation and One Vue Ltd, and he is 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 and the Audit and Risk Management Committee, and a member of the Nominations and Governance Committee and the Capital 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 Chairperson of the Land Development Committee and is a member of the Nominations and Governance Committee, Remuneration and CEO Evaluation Committee and the Securitisation Committee. Until August 2012, he was also a member of the Audit and Risk Management 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 Chair 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 and Risk Management 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 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 and Risk Management Committee, the Nominations and Governance 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.

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.

## 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 a member of the Audit and Risk Management Committee, Financial Planning 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 Committees of both Platinum Asset Management Limited and Opportunity International Australia. 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 Remuneration and CEO Evaluation Committee, Land Development Committee and the Capital 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 President NSW Council and National Vice President of the AiG 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.

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.

# HEALTH AT THE **HEART OF OUR COMMUNITY**

Heart disease is Australia's number one killer, responsible for 1 in 3 deaths a year. This amounts to 48,000 people every year.

In 2012, the IMB Community Foundation granted funds to the Victor Chang Cardiac Research Institute to rotate a mobile Heart Health Check Booth through the communities of a number of IMB branches and provide free heart testing to residents.

In total, 11 locations throughout the Illawarra, NSW South Coast, greater Sydney, Goulburn and the ACT were visited by the Community Foundation-funded Heart Health Check Booth.

Registered NSW nurses tested the blood pressure, cholesterol and blood sugar levels of 810 people. Participants received immediate results, with more than one in four people deemed 'at risk' and recommended to seek follow-up counsel with their GP.

"The Heart Health Check Booth is one of our most important community initiatives, designed to help people focus on and understand the health of their heart. We are very grateful for IMB's generous support to help raise awareness of the risks of heart disease and ultimately save lives," said Jayne Baric, Victor Chang Cardiac Research Institute Special Projects Officer.

In the 2013 round of IMB Community Foundation grants, the Victor Chang Cardiac Research Institute once again received funds so the Heart Health Check Booth is able to reach more people in the areas where IMB operates.


Heart Health Check Booth in Warrawong.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# OUR
# COMMUNITY

As a Building Society established by a small group of Wollongong pioneers to fund the building of members' homes, IMB's heritage is immersed in community. Today, more than 134 years since establishment, IMB is proud to continue the 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.

Since its inception, the Community Foundation has contributed more than $6.6m to support nearly 400 projects within local communities.

This year, in its 14th year of funding, the IMB Community Foundation donated a further $500,000 to 52 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 grassroots local projects and events that directly benefit the communities where IMB members live and work.

Complimentary hire of IMB's quality marquees is one of many ways IMB continues to support local communities. For more than eight 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
- Dapto Community Carols
- Wings over the Illawarra
- Illawarra Women in Business
- Narooma Oyster Festival
- Shamrock Rugby Club
- Tallong Apple Festival
- Eden Whale Festival
- Goulburn Show
- Cricket Illawarra
- Illawarra Business Awards
- Shoalhaven Business Awards
- Coniston Soccer Club
- Wollongong Swimming Club
- Queanbeyan Women's Bowling Carnival
- St Simons Football Club (VIC)
- A variety of local Primary and High School events

# IMB COMMUNITY **FOUNDATION PROJECTS**

Since its inception the IMB Community Foundation has granted more than $6.6 million to support over 400 projects within our local communities. The Community Foundation supports a diverse range of project themes with a wide variety of objectives.

| Region | Organisation | Project Name | Project Description |
|---|---|---|---|
| **ACT/ Goulburn** | Canberra Model Railway Club Inc. | Facilitating Community Interaction | Set up the transportability of Model Railway Layouts; promoting education of the heritage of rail, encouraging interaction with a wide variety of community groups and providing skills development across all ages. |
| | Community Programs Association | Recyclery | Provide employment opportunities, training and skills development for disabled employees and volunteer students via expansion of an existing not-for-profit recyclery providing inexpensive, refurbished bikes for sale to ANU and wider community. |
| | Federation of Chinese Community of Canberra Inc. Chinese School | Celebration of 20 Years Contribution to the Community | Publish a book (free to the community) to celebrate 20 years of the Federation's work and hold an event that encourages youth participation, enhances multiculturalism and promotes Chinese culture. |
| | Goulburn Mulwaree Council | Repair and Upgrade Belmore Park Rotunda | Renovate and preserve the Belmore Park Rotunda, a heritage landmark; restore original iron-lace work and flooring. |
| | Nichole Overall | Queanbeyan - City of Champions | Produce a high quality pictorial book on the social history of Queanbeyan, covering 175 years since its settlement. |
| | Rotary Club of Canberra | RYDA - Rotary Clubs ACT - Youth Safety Awareness | Conduct young driver road safety awareness programs, and hold workshops across a number of ACT high schools. |
| | Rotary Club of Goulburn | U-Turn-The-Wheel | Hold intensive courses for high school students in driver training that emphasise road safety awareness. Series of classes and workshops with high-profile experienced facilitators. |
| | Scout Association of Australia, ACT Branch - Birralee | Enhancement of Scout Hall Facilities | Extend and fit-out the Birralee Scout Hall to enable sustainable works development to the hall. Encourage greater public use of the hall. |
| | SOS-Canberra | SOS Canberra (Supporting Our Sisters) | Expand an existing program with the aim of supporting young women and reduce incidences of intoxication and assault. Empower young women to start their own community projects. |
| **Illawarra** | Art Arena Gallery and Studios Inc. | Art Arena IT Project | Provide a mentor program for emerging and established visual artists with a focus on information and technology training. |
| | Church of Christ Community Care | Outdoor Work Area - Men's Shed | Extend work space with concrete pad and awning in front of existing small shed to allow increased membership and improve the already strong project delivery to the community. |
| | Illawarra Drug Awareness Group Ltd. | Illawarra Healthy Kids | Enable 15,000 students in more than 50 schools (Thirroul to Shellharbour) to be educated and empowered to make informed choices for a safe and healthy life. |
| | Illawarra History Workshop Inc. | The Dictionary of Wollongong | Implement the first stage of a larger project to produce the history of Wollongong via community engagement, by building online interactive resources for participation. |
| | Illawarra Quilters Inc. | Illawarra Quilters Community Quilts Project | Make quilts for a broad spectrum of disadvantaged people within the community, particularly for recipient organisations such as Youth off the Streets, Lighthouse and SCARF. |
| | Lions Club of Strzelecki | Cows Create Careers | Introduce students to various careers in the dairy industry with an academic and a hands-on training module, which includes bringing calves into the schools. |
| | North West Community Care | Walking Bus - Lakelands Public School | Introduce Walking Bus Project at Lakelands Public School to encourage children to walk to school in a supervised group, developing health, fitness, social skills and independence. |
| | Older Musicians Club of Australia | Older Musicians Club of Australia | Promote music as an aid to mental health issues and combating depression through established links with Denny and Beyond Blue. |
| | Raise the Gong Inc. | Health and Wellbeing for Women | Provide local women, through Wollongong clinics, with free Chemo Care Kits which contain products, discounted services; also personal development classes. |
| | Rotary Club of Kiama Inc. | Mental Health First Aid Courses | Provide two free, nationally certified mental health first aid courses in the community for up to 80 people and promote greater awareness of mental health issues. |
| | Shellharbour City U3A Inc. | Advanced Learning for Shellharbour Seniors | Set up special courses for lonely/isolated seniors in the community, and promoting U3A to increase membership. |
| | Stockyard Creek Bushcare Group | Step into Stockyard Slope | Construct steps for community and visitors to access BushCare site at Wombarra and enable better site management, including re-generation/re-vegetation. |
| | University of Wollongong | Learning, Creating, Sharing in Early Education | Train early childhood educators to utilise Interactive Whiteboard resources to provide wide-engagement opportunities for teachers to share with children. |
| | Wollongong Conservatorium of Music | IMB/Roger Soden Scholarship Year 2 | Provide a scholarship (annually over 5 years) for a student musician at Wollongong Conservatorium. |

| Region | Organisation | Project Name | Project Description |
|---|---|---|---|
| **South Coast** | Batemans Bay Men's Shed | Extension of Men's Shed | Establish a space to cater for growing membership, guest speakers and train/refresh the skills of the young and old. |
| | Bega and District Historical Machinery Club Inc. | Bega Historical Machinery Club | Provide suitable premises to house historical machinery and train the younger generation in restoration processes. |
| | Bega District Hospital Auxiliary | Bega Hospital Auxiliary | Provide materials to allow for the maintenance of proper records and better manage fundraising activities in the community. |
| | Bega Men's Shed Inc. | Bega Needs a Men's Shed | Facilitate construction of a Men's Shed on the Old Bega Hospital site to help reduce isolation and depression in the high percentage of men who live alone in the region. |
| | Eurobodalla Woodcraft Guild | Woodworking Hand Tools for Training | Provide new woodworking hand tools for the workshop to train and educate all ages and improve overall skill levels. |
| | Friends of Curtis Park Arboretum | Water Tank; Plumbing; Conservation | Provide and install a water tank for an establishing Arboretum at Shoalhaven Heads; educate community groups in use of conserved water, re-use of garden water and tank water with native plants. |
| | Lady Denman Heritage Complex Inc. | Restoration of the 'Crest' | Restore an historically significant motor launch, by encouraging active participation and training of community volunteers in the wooden boat-building craft at Huskisson. |
| | Milton District Band Inc. | Band Music in Milton | Conduct weekly workshops to develop instrument skills, teach beginners and prepare music for community performances. Expand existing free tuition programs to all community members, particularly the aged. |
| | Pig and Whistle Fleet Club Inc. | Audio/Visual History | Provide equipment to record oral and visual history from older residents to preserve community heritage and increase tourists/visitors to the Tathra Wharf Museum. |
| | TeenSafe Moruya | Teensafe Safe Driver Education Progam | Continue to provide the successful Safe Driver Education programs to community teens, in a "hands on" environment. |
| | Ulladulla Men's Shed Inc. | Better Results with Reduced Noise | Upgrade machinery for working with recycled timber, to reduce high noise level and improve safety. |
| **Southern Highlands** | Bowral and District Art Society Inc. (BDAS) | BDAS Sculpture Garden | Expand art facilities with a low maintenance Sculpture Garden to give the wider community access to the creative arts. |
| | Highlands Community Centres Inc. | MPower Tutoring Program | Provide professional and free after-school tutoring for senior students (12-18 years) studying in the Wingecarribee Shire. |
| | Rotary Club of Moss Vale | U-Turn-The-Wheel | Hold intensive courses for high school students in driver training that emphasise road safety awareness. |
| | Theatre for All Inc. | Theatre for All | Coordinate three sub-projects, involving Small Hall Theatre, Small School Theatre and Highlands Video Group that train kids and members in developing and performing theatre for public audiences in Wingecarribee Shire. |
| **Macarthur** | Airds Bradbury Men's Shed | More Space - More Participation | Reorganise, renovate and relocate machinery in the Shed to create greater space for current membership, address the waiting list and increase community involvement. |
| | Camden Community Connections Inc. | Connecting Women by the Stroke of a Brush | Run a series of art therapy workshops and information sessions in the community to help improve family life, social connections and interactions, self-esteem and personal development. |
| | Camden District Care Inc. | Camden District Care Learning Technology | Acquire iPads to introduce new technology to a wide range of less fortunate aged and youth (including the disabled). |
| | Campbelltown Senior Cyber Seekers Inc. | Travelling Tutors | Train volunteer tutors to deliver improved basic computer skills courses off-site to seniors at various centres, (retirement villages, community centres) concentrating on Housing NSW people. |
| | Lynwood Park Rural Fire Brigade | Rural Fire Service 'Hot House' Training Facility | Upgrade existing, inadequate hot house training facility to better serve a wide range of Rural Fire Service zones in Southern Sydney/Macarthur. |
| | Marrickville Community Training Centre Inc. | Seniors On-Line Budgeting, Banking and BPay | Deliver a 10-week course in Minto (2 hours each session) to train seniors to use simple budgeting tools and resources, understand Internet Banking processes and learn BPAY systems. |
| | Narellan Men's Shed | Fit Out Men's Shed | Fit-out of new shed that will assist senior men with social interaction, skills transfer and health issues, through the delivery of workshops, youth mentoring, sustainable gardening, alternative power systems and community projects. |
| | Robert Townson High School (Raby) | QuikShine Team | A strong intergenerational program where students receive work-related and volunteer training (with TAFE input) to deliver personal services including personal grooming and care. |
| **Sydney** | Cronulla High School | TechnologyHelp@Cronulla High School | Run technology focused programs, involve students and volunteers in community service projects, train students in peer coaching and expand the school's community linkages. |
| | Enough is Enough Anti-Violence Movement Inc. | Positive Solutions Bullying Resilience Program | Provide primary school students with effective strategies and mechanisms for coping with bullying through the recently developed 'Bullying Resilience Project'. |
| | National Heart Foundation of Australia (NSW Division) | Saving Lives from Heart Attacks | Develop comprehensive hard-copy resources for "Managing My Heart Health" which provides individually tailored plans to aid recovery, promote lifesaving changes to reduce heart attacks; delivered across several hospitals. |
| | PCYC NSW (Parramatta) | THINK Program | Deliver an education-based course aimed at directing youth-at-risk away from "negative" decisions, by exploring the consequences of crime, promoting positive interactions with police and covering a range of cyber-type crime issues. |
| | Victor Chang Cardiac Research Institute | Heart Health Check Booth | Provide a fully mobile Health Check Booth to benefit communities by testing up to 2,000 participants for blood pressure, total cholesterol and blood sugar levels. |

# OUR **STAFF**

IMB continues to strive to provide an environment where work is meaningful and satisfying, and our staff are engaged in providing our members with the highest levels of service. From the time of recruitment we look to support the growth and development of our people, reward and recognise their contributions and achievements, provide a safe and healthy workplace and build long and mutually rewarding associations.

## LEARNING AND DEVELOPMENT

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 critical 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. In this regard it is pleasing to report that our internal promotion rate, the number of promotional opportunities filled by internal appointments, was once again above 60% for the year.

Our Traineeship and Cadetship programs continue to be important areas of focus for us as we grow and develop the next generation of IMB leaders and specialists. Our trainees and cadets have again performed well both on the job and in their studies, contributing strongly to IMB's business success, and being recognised through IMB having Regional Finalists in the Trainee of the Year Awards in each of the Central Sydney, ACT and Illawarra/South Coast regions.

## STAFF RETENTION

IMB has once again recorded strong levels of staff engagement and retention, with total staff turnover for the organisation falling to less than 9% for the year, and as low as zero in some key sections of the business.

## HEALTH AND SAFETY

IMB is committed to providing the highest possible level of workplace health and safety for our staff, customers and visitors. IMB continues to promote a culture of Zero Harm, where safety underpins all that we do, and the health and safety of others is the responsibility of all staff. We maintain a comprehensive Zero Harm management system aligned with Australian Standards and supported by management due diligence, effective consultation, and comprehensive reporting of hazards, incidents and near misses. Staff are trained in areas such as robbery and

We have continued to support individual career development and organisational succession planning efforts, to provide for the longer term needs of individuals and IMB.


fire procedure, and office and branch premises are inspected regularly to ensure that our workplaces are safe for our staff and the public. We have an active H&S Committee responsible for regularly reviewing Zero Harm policies and practice, raising awareness of Zero Harm, and recommending training for employees.

IMB's commitment to its staff and their families can also be seen through the provision of an independent and confidential counselling service to assist staff and family members deal with a range of work or non work related issues.

## RECOGNITION

The achievements of our staff are recognised through formal awards, including the annual Chief Executives Award, Sales Awards, and Outstanding Service Awards. As in previous years, 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 members who perform their job above and beyond expectations, and who exemplify the IMB Values. The 2012 CEO's Award winner was Donna Booth from our Lending Services department. Donna's commitment to demonstrating the IMB values at all times, even when the pressure is high, was praised by her colleagues and managers. Donna took on a range of tasks in addition to her regular workload to assist her team through an extended absence of a team member and during a peak work time. She worked extra hours to ensure all work was completed, and absorbed many pressures and demands, but never lost her composure, remained an inspiration to her team and the rest of the organization. This was not a one-off circumstance, but typical of Donna's ongoing efforts to do whatever is necessary to achieve positive outcomes for IMB and its members.

IMB congratulates Donna along with all our award winners for their continuing commitment to the highest standards of performance and service.

## COMMUNITY INVOLVEMENT

IMB is committed to building positive relationships with the community. Community involvement has included participation in activities such as The Blue Mile Dash, City to Surf, Australia's Biggest Morning Tea, Canberra Multicultural Festival, Wollongong University O-Week, and staff involvement in many of the IMB Community Foundation sponsored projects. Individual branches also play a large role in local communities, supporting fundraisers and local events, attending school information sessions and being active participants in the business community.


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# COMPETITIVE **RATES AND FRIENDLY STAFF**

As a young girl Kobi followed in her family's footsteps when she opened her first IMB account and now, twenty years later, Kobi still turns to IMB for help with her finances.

"Originally I joined IMB because my parents were members but I have continued banking with IMB because it is a strong local institution with competitive products, accessible branches, an extensive ATM network and welcoming and helpful staff," said Kobi.

Recently, when looking to buy a new car, Kobi visited the University of Wollongong branch during her lunch break to discuss her options for funding the purchase. After comparing IMB's rates with those offered by the big four banks, Kobi decided to take out a Personal Loan with IMB.

The day after submitting her application, Kobi received formal approval and was free to start searching for her dream car.

"I love that banking with IMB is so easy and there is a great branch located so close to my office where I know the staff are friendly and the service always seamless!" said Kobi.

Kobi, IMB member.

# CORPORATE **GOVERNANCE**

This statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2013.

## 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 Remuneration and CEO Evaluation Committee, a Nominations and Governance Committee, an Audit and Risk Management Committee, a Land Development Committee, an IMB Community Foundation Committee, a Capital Committee, a 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' Particulars on page 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.

### Nominations and Governance Committee

The Nominations and Governance 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 Nominations and Governance 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 members of the Nominations and Governance Committee during the year were:

Mr MJ Cole (Chairman)
Mr KR Biddle
Mr RHP Elvy
Mr LP Nicholas

The Nominations and Governance Committee meets annually or more frequently as required. The committee met once during the year and committee member attendance is disclosed in the table of Directors' meetings on page 38.

### Remuneration and CEO Evaluation Committee

The Remuneration and CEO Evaluation Committee reviews and make 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 Chairperson of the Audit and Risk Management Committee and the Senior Manager Risk as appropriate. From time to time the committee will obtain independent advice on the appropriateness of remuneration packages.

The members of the Remuneration and CEO Evaluation Committee during the year were:

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

The Chief Executive, Mr RJ Ryan, is invited to Remuneration and CEO Evaluation 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.

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

# CORPORATE GOVERNANCE **CONTINUED**

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

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

The members of the Audit and Risk Management Committee during the year were:

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

The internal and external auditors, the Chief Executive, Chief Financial Officer and the Senior Manager Risk, are invited to Audit and Risk Management Committee meetings at the discretion of the committee. The committee met four times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 38.

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 2013 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 and Risk Management 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 corporate risk assessment processes;
- assessing the performance and objectivity of the risk and 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 and Risk Management Committee reviews 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 and Risk Management 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.

### 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 Audit and Risk Management Committee ensures the Group maintains an appropriate risk management framework including the establishment of policies for the control of risk. The 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 Audit and Risk Management 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 Audit and Risk Management 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:

- 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

# CORPORATE GOVERNANCE **CONTINUED**

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

**Internal Audit**

The Internal Audit Department assists the board in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the abovementioned compliance and control systems. The Audit and Risk Management Committee is responsible for approving the Internal Audit Department's plan for each financial year and for the scope of the work to be performed.

## 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 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 and Risk Management 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.
- These guidelines also apply to Selected Officers. "Selected Officer", means a member of the executive group and another person or persons in the employ of the Company nominated by the Chief Executive.

### 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; and
- 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); and
- 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 2013**

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 2013 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 22 October 2013, three directors Mr KR Biddle, Mr MJ Cole and Mr NH Cornish, 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 and also continues as IMB's Senior Manager Legal Services, a position which she has held with IMB since 2004.

## 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 2013.

## OPERATING AND FINANCIAL REVIEW

Consolidated profit after tax for the year attributable to members was $28.5 million (2012: $30.1 million), a decrease of $1.6 million or 5.4% on 2012.

Total deposits increased to $3,598 million up by $154 million or 4.5% on the previous year. Securitised loan funding decreased by $42 million or 4.3% to $927 million.

Loan approvals decreased by $81 million to $620 million (2012: $701 million). This was due to a lower level of residential lending approvals which decreased by $44 million on 2012 levels, and a decrease in other lending of $37 million.

Net interest income for the year was $92.5 million, down $2.7 million on the previous year. This reduction was predominantly due to a decrease in average net interest margin by 2bps.

Impairment losses were $0.9 million, a decrease of $1.1 million on the previous year (2012: $2.0 million) primarily due to a decrease in the provision for individually impaired loans.

Non interest income increased by $4.3 million or 29.7% to $18.6 million as a result of an increase in revenue from land development.

Non interest expense increased by 7.4% or $4.8 million to $69.4 million (2012: $64.6 million) due to an increase in land development expenses in the current year.

The non interest expense to operating income ratio increased from 60.1% in 2012 to 63.0% in 2013.

On 27 September 2012 the Company bought back 2.9 million shares for a total cash consideration, including transaction costs, of $10.3 million. The buyback was not subject to a scale back and all tenders 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 $5,987,000 franked to 100% at a tax rate of 30%, declared on 31 July 2012, in respect of the year ended 30 June 2012, paid on 7 September 2012;
- an interim dividend of $0.10 per share amounting to $3,700,000 franked to 100% at a tax rate of 30%, declared on 29 January 2013, in respect of the year ended 30 June 2013, paid on 28 February 2013; and
- 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, payable on 5 September 2013.

Total dividends paid or declared in respect of the year ended 30 June 2013 were $0.25 per share (2012: dividend of $0.25) amounting to $9,250,000 (2012: $9,978,000).

## 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 2 to 5 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 9 and 12 to 13 of the annual report.

## DIRECTORS' INTERESTS

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

| Director | Holding at 27 Aug 2013 |
|---|---|
| Mr MJ Cole | 2,000 |
| - related party | 121,187 |
| Mr KR Biddle | 5,325 |
| - related party | 12,878 |
| Mr JR Coleman | 2,000 |
| Mr NH Cornish | 2,000 |
| Mr RHP Elvy | 6,800 |
| - related party | 3,454 |
| Mr LP Nicholas | 2,000 |
| - related party | 54,190 |

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.

## 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 Remuneration and CEO Evaluation 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 Remuneration and CEO Evaluation 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 Chairperson of the Audit & Risk Management Committee and Senior Manager Risk 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 Remuneration and CEO Evaluation 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 Chairperson of the Audit & Risk Management Committee and Senior Manager Risk) 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 Remuneration and CEO Evaluation 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 Remuneration and CEO Evaluation Committee (which has considered the input of the Chairperson of the Audit & Risk Management Committee and Senior Manager Risk).

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 $608,908 inclusive of superannuation. The remuneration payable to Directors for the 2013 financial year will increase by 2.4% in line with the movement in CPI for the 12 months to June 2013.

### Performance based incentive structure

The Remuneration and CEO Evaluation 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. Lending was constrained due to the subdued economic environment, while retail deposit growth targets were achieved in a highly competitive retail deposit market. Interest margin was broadly in line with last year despite the decreasing interest rate environment and the cost of capital raising activities.

### 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.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net profit after tax ($000) | 28,510 | 30,148 | 31,018 | 29,071 | 22,850 |
| Capital Ratio (%) | 16.4 | 15.8 | 12.0 | 12.0 | 11.6 |

### 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

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.

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 for Mr Chris Goodwin, Chief Financial Officer, Mr Michael Brannon, General Manager Sales and Marketing and Mr Craig Rumble, General Manager Business Systems, 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.

# 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* | 2013 | 131,656 | - | - | 131,656 | 11,849 | - | - | 143,505 | - |
| | 2012 | 130,096 | - | - | 130,096 | 11,709 | - | - | 141,805 | - |
| Mr KR Biddle | 2013 | 68,538 | - | - | 68,538 | 6,168 | - | - | 74,706 | - |
| | 2012 | 67,726 | - | - | 67,726 | 6,095 | - | - | 73,821 | - |
| Mr JR Coleman | 2013 | 68,538 | - | - | 68,538 | 6,168 | - | - | 74,706 | - |
| | 2012 | - | - | - | - | - | - | - | - | - |
| Mr NH Cornish | 2013 | 68,538 | - | - | 68,538 | 6,168 | - | - | 74,706 | - |
| | 2012 | 67,726 | - | - | 67,726 | 5,605 | - | - | 73,331 | - |
| Mr RHP Elvy | 2013 | 68,538 | - | - | 68,538 | 6,168 | - | - | 74,706 | - |
| | 2012 | 67,726 | - | - | 67,726 | 6,095 | - | - | 73,821 | - |
| Ms LT Gearing | 2013 | - | - | - | - | - | - | - | - | - |
| | 2012 | 67,726 | - | - | 67,726 | 6,095 | - | - | 73,821 | - |
| Mr LP Nicholas | 2013 | 84,287 | - | - | 84,287 | 7,586 | - | - | 91,873 | - |
| | 2012 | 83,289 | - | - | 83,289 | 7,496 | - | - | 90,785 | - |
| Ms ME Towers | 2013 | 68,538 | - | - | 68,538 | 6,168 | - | - | 74,706 | - |
| | 2012 | 67,726 | - | - | 67,726 | 6,095 | - | - | 73,821 | - |
| **Total non executive directors** | 2013 | 558,633 | - | - | 558,633 | 50,275 | - | - | 608,908 | - |
| | 2012 | 552,015 | - | - | 552,015 | 49,190 | - | - | 601,205 | - |

| | | Short Term | | | | Post Employment | 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 | 2013 | 502,611 | 190,035 | 41,689 | 734,335 | 140,239[3] | - | 13,415 | 887,989 | 25.9 |
| | 2012 | 485,792 | 104,100 | 43,331 | 633,223 | 121,219[3] | - | 27,543 | 781,985 | 16.4 |
| Mr CJ Goodwin | 2013 | 298,524 | 94,287 | 17,082 | 409,893 | 23,890 | - | 6,244 | 440,027 | 23.0 |
| | 2012 | 297,467 | 55,825 | 17,140 | 370,432 | 26,910 | - | 7,231 | 404,573 | 15.1 |
| Mr M Brannon | 2013 | 235,514 | 59,194 | 18,670 | 313,378 | 43,878[3] | - | 6,008 | 363,264 | 18.9 |
| | 2012 | 212,173 | 21,350 | 30,460 | 263,983 | 36,972[3] | - | 9,443 | 310,398 | 8.1 |
| Mr CA Rumble | 2013 | 258,294 | 67,053 | 74,235 | 399,582 | 23,160 | - | 5,553 | 428,295 | 19.8 |
| | 2012 | 246,051 | 54,458 | 57,685 | 358,194 | 22,522 | - | 5,909 | 386,625 | 15.2 |
| **Total executives** | 2013 | 1,294,943 | 410,569 | 151,676 | 1,857,188 | 231,167 | - | 31,220 | 2,119,575 | 22.9 |
| | 2012 | 1,241,483 | 235,733 | 148,616 | 1,625,832 | 207,623 | - | 50,126 | 1,883,581 | 14.5 |
| **Total remuneration** | 2013 | 1,853,576 | 410,569 | 151,676 | 2,415,821 | 281,442 | - | 31,220 | 2,728,483 | 17.4 |
| | 2012 | 1,793,498 | 235,733 | 148,616 | 2,177,847 | 256,813 | - | 50,126 | 2,484,786 | 10.8 |

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 27 August 2013 (28 August 2012) after performance reviews were completed and approved by the Remuneration and CEO Evaluation 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.

# 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 four named executives are detailed below.

| Executives | $ included in remuneration[(A)] | % vested in year | % forfeited in year[(B)] |
|---|---|---|---|
| Mr RJ Ryan | 190,035 | 52 | 48 |
| Mr M Brannon | 59,194 | 41 | 59 |
| Mr CJ Goodwin | 94,287 | 56 | 44 |
| Mr CA Rumble | 67,053 | 48 | 52 |

(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 2013 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 its wholly owned subsidiaries held by the directors during the year ended 30 June 2013 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 | 3 | 3 | 1 | 1 | 2 | 2 |
| Mr KR Biddle | 12 | 12 | 3 | 3 | 1 | 1 | 2 | 2 |
| Mr JR Coleman | 12 | 12 | 3 | 3 | 1 | 1 | 2 | 2 |
| Mr NH Cornish | 12 | 12 | 3 | 3 | 1 | 1 | 2 | 2 |
| Mr RHP Elvy | 12 | 12 | 3 | 3 | 1 | 1 | 2 | 2 |
| Mr LP Nicholas | 12 | 12 | 3 | 3 | 1 | 1 | 2 | 2 |
| Ms M Towers | 12 | 12 | 3 | 3 | 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 | 3 | 3 |
| Mr KR Biddle | 2 | 2 | 2 | 2 | 3 | 3 |
| Mr JR Coleman | 2 | 2 | 2 | 2 | 3 | 3 |
| Mr NH Cornish | 2 | 2 | 2 | 2 | 3 | 3 |
| Mr RHP Elvy | 2 | 2 | 2 | 2 | 3 | 3 |
| Mr LP Nicholas | 2 | 2 | 2 | 2 | 3 | 3 |
| Ms M Towers | 2 | 2 | 2 | 2 | 3 | 3 |

^ For the year ended 30 June 2013, the proceedings of directors in respect of this entity were discharged via Circular Resolution as is permitted by the constitution of that entity.

The following table sets out the number of committee meetings of the Company's directors held during the year ended 30 June 2013 and the number of meetings attended by each director.

| | IMB Financial Planning | | Audit & Risk Management | | Land Development | | Remuneration & CEO Evaluation | |
|---|---|---|---|---|---|---|---|---|
| | Attended | Eligible to attend# | Attended | Eligible to attend# | Attended | Eligible to attend# | Attended | Eligible to attend# |
| Mr MJ Cole (a) | 3 | 3 | 4 | 4 | 1* | - | 1 | 1 |
| Mr KR Biddle | - | - | 4* | 1 | 2 | 2 | 1 | 1 |
| Mr JR Coleman | - | - | 3 | 3 | 1 | 2 | - | - |
| Mr NH Cornish | - | - | 2* | - | 2 | 2 | 1 | 1 |
| Mr RHP Elvy | - | - | 3 | 4 | 2 | 2 | - | - |
| Mr LP Nicholas | - | - | 4 | 4 | - | - | 1* | - |
| Ms M Towers | 3 | 3 | 4 | 4 | - | - | - | - |

| | Nominations & Governance | | IMB Community Foundation | | Securitisation | | Capital | |
|---|---|---|---|---|---|---|---|---|
| | Attended | Eligible to attend# | Attended | Eligible to attend# | Attended | Eligible to attend# | Attended | Eligible to attend# |
| Mr MJ Cole (a) | 1 | 1 | 2 | 2 | 1 | 1 | 2 | 2 |
| Mr KR Biddle | 1 | 1 | - | - | 1 | 1 | - | - |
| Mr JR Coleman | 1* | - | - | - | - | - | - | - |
| Mr NH Cornish | 1* | - | - | - | - | - | 2 | 2 |
| Mr RHP Elvy | 1 | 1 | - | - | - | - | - | - |
| Mr LP Nicholas | 1 | 1 | 2 | 2 | - | - | 2 | 2 |
| Ms M Towers | 1* | - | 1 | 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.
(a) Mr Cole is an ex-officio member of the Audit and 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 2013.

## 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 27th day of August 2013

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

KPMG

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 2013 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

KPMG

Richard Drinnan
Partner

Dated at Wollongong this 27th day of August 2013

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 STATEMENTS

## CONTENTS

# STATEMENTS OF
# PROFIT OR LOSS

## FOR THE YEAR ENDED 30 JUNE 2013

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2013<br>$000 | 2012<br>$000 | 2013<br>$000 | 2012<br>$000 |
| Interest revenue | 2 | 272,746 | 322,595 | 272,845 | 323,296 |
| Interest expense | 2 | (180,272) | (227,422) | (180,402) | (227,992) |
| Net interest income | | 92,474 | 95,173 | 92,443 | 95,304 |
| Impairment losses | 2 | (849) | (1,989) | (1,637) | (3,791) |
| Net interest income after impairment losses | | 91,625 | 93,184 | 90,806 | 91,513 |
| Revenue from land development | 2 | 4,587 | - | - | - |
| Share of profit of joint venture entity | 2, 28 | - | 928 | - | - |
| Fee and commission income | | 13,433 | 12,546 | 12,416 | 12,546 |
| Other income | | 557 | 846 | 406 | 568 |
| Net operating income | | 110,202 | 107,504 | 103,628 | 104,627 |
| Land development expense | 3 | (4,943) | (1,048) | - | - |
| Operating expenses | 3 | (64,481) | (63,581) | (63,387) | (63,486) |
| **Profit before tax** | | 40,778 | 42,875 | 40,241 | 41,141 |
| Income tax expense | 4 | (12,268) | (12,727) | (12,095) | (12,627) |
| **Profit for the year attributable to members of the Company** | | **28,510** | **30,148** | **28,146** | **28,514** |

The statements of profit or loss are to be read in conjunction with the notes to the financial statements set out in pages 48 to 92.

# STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2013

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Profit for the year** | 28,510 | 30,148 | 28,146 | 28,514 |
| **Other comprehensive income/(expense)** | | | | |
| **Items that will not be reclassified to profit or loss** | - | - | - | - |
| **Items that may be reclassified subsequently to profit or loss:** | | | | |
| Net change in fair value of available for sale investments | 3,661 | 1,333 | 3,661 | 1,333 |
| Net change in fair value of cash flow hedges | 153 | 12 | 153 | 12 |
| Net change in fair value of available for sale investments transferred to profit and loss | (110) | (138) | (110) | (138) |
| *Total items that may be reclassified subsequently to profit or loss* | 3,704 | 1,207 | 3,704 | 1,207 |
| **Total other comprehensive income/(expense) for the year, net of income tax** | 3,704 | 1,207 | 3,704 | 1,207 |
| **Total comprehensive income for the year** | 32,214 | 31,355 | 31,850 | 29,721 |

*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 in pages 48 to 92.

# STATEMENTS OF
# FINANCIAL POSITION
## AS AT 30 JUNE 2013

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 29 | 37,822 | 44,846 | 13,900 | 11,920 |
| Available for sale investments | 6 | 554,641 | 517,629 | 554,641 | 517,629 |
| Loans and receivables to ADIs | 7 | 540,865 | 383,932 | 540,865 | 383,932 |
| Loans and receivables to members | 8 | 3,722,492 | 3,781,358 | 3,731,112 | 3,794,121 |
| Equity accounted investments | 28 | - | - | - | - |
| Other financial assets | 9 | 538 | 505 | 5,570 | 5,570 |
| Assets held for sale | 11 | 1,250 | 1,765 | - | - |
| Inventories | 13 | 6,899 | 9,825 | - | - |
| Property, plant and equipment | 14 | 12,180 | 12,498 | 12,142 | 12,497 |
| Intangible assets | 15 | 416 | 625 | 416 | 625 |
| Net deferred tax assets | 4 | 2,883 | 4,398 | 2,998 | 4,575 |
| Other assets | 16 | 13,972 | 15,035 | 17,613 | 19,189 |
| **Total assets** | | **4,893,958** | **4,772,416** | **4,879,257** | **4,750,058** |
| **LIABILITIES** | | | | | |
| Trade and other payables | 17 | 39,435 | 44,242 | 19,464 | 16,224 |
| Deposits | 18 | 3,598,296 | 3,443,940 | 3,603,653 | 3,449,896 |
| Securitised loans funding | 19 | 926,706 | 968,609 | 926,706 | 968,609 |
| Interest bearing liabilities | 20 | 44,872 | 44,921 | 44,872 | 44,921 |
| Derivative liabilities | 12 | 94 | 312 | 94 | 312 |
| Current tax liabilities | 4 | 3,554 | 1,762 | 3,554 | 1,171 |
| Provisions | 21 | 7,881 | 7,645 | 7,826 | 7,608 |
| Loans and other borrowings | 31 | - | - | 3,234 | 3,234 |
| **Total liabilities** | | **4,620,838** | **4,511,431** | **4,609,403** | **4,491,975** |
| **Net assets** | | **273,120** | **260,985** | **269,854** | **258,083** |
| **EQUITY** | | | | | |
| Share capital | 22 | 43,502 | 46,936 | 43,502 | 46,936 |
| Reserves | | 32,579 | 28,725 | 32,579 | 28,725 |
| Retained earnings | | 197,039 | 185,324 | 193,773 | 182,422 |
| **Total equity attributable to members of the Company** | | **273,120** | **260,985** | **269,854** | **258,083** |

The statements of financial position are to be read in conjunction with the notes to the financial statements set out in pages 48 to 92.

# STATEMENTS OF
# CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2013

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2013<br>$000 | 2012<br>$000 | 2013<br>$000 | 2012<br>$000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Interest received | | 273,118 | 323,690 | 273,216 | 324,391 |
| Dividends received | | - | 2 | - | 2 |
| Other cash receipts in the course of operations | | 19,084 | 13,901 | 13,840 | 13,512 |
| Interest paid on deposits | | (186,439) | (232,324) | (186,565) | (232,892) |
| Income taxes paid | | (8,958) | (12,889) | (8,134) | (13,720) |
| Net loans funded | | 58,016 | (19,843) | 61,371 | (22,964) |
| Net increase/(decrease) in deposits | | 160,520 | (78,068) | 159,920 | (74,658) |
| Other cash payments in the course of operations | | (67,576) | (58,319) | (56,950) | (65,050) |
| Net cash flows from operating activities | 29 | 247,765 | (63,850) | 256,698 | (71,379) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| (Payments for)/Redemptions of available for sale investments | | (190,905) | 77,470 | (190,878) | 83,646 |
| Expenditure on property, plant and equipment, and intangibles | 14,15 | (2,103) | (1,688) | (2,059) | (1,687) |
| Proceeds from sale of property, plant and equipment | | 250 | 260 | 250 | 260 |
| Net cash flows from investing activities | | (192,758) | 76,042 | (192,687) | 82,219 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Net repayments from securitised loans funding | | (41,903) | (31,124) | (41,903) | (39,650) |
| Net (repayments)/proceeds from interest bearing liabilities | | (49) | 34,922 | (49) | 34,922 |
| Own shares acquired | | (10,392) | - | (10,392) | - |
| Dividends paid | 5 | (9,687) | (9,978) | (9,687) | (9,978) |
| Net cash flows from financing activities | | (62,031) | (6,180) | (62,031) | (14,706) |
| Net (decrease)/increase in cash and cash equivalents held | | (7,024) | 6,012 | 1,980 | (3,866) |
| Cash and cash equivalents at the beginning of the year | | 44,846 | 38,834 | 11,920 | 15,786 |
| **Cash and cash equivalents at the end of the year** | 29 | **37,822** | **44,846** | **13,900** | **11,920** |

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out in pages 48 to 92.

# STATEMENTS OF
# CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2013

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| *In thousands of AUD* | 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 2011 | 46,936 | 58 | (230) | 1,827 | 25,255 | 165,762 | 239,608 |
| **Total comprehensive income for the year** | | | | | | | |
| Profit after tax | - | - | - | - | - | 30,148 | 30,148 |
| **Other comprehensive income** | | | | | | | |
| Net revaluation movement due to change in fair value | - | 1,333 | 12 | - | - | - | 1,345 |
| Net change in fair value transferred to profit and loss | - | (138) | - | - | - | - | (138) |
| Total other comprehensive income | - | 1,195 | 12 | - | - | - | 1,207 |
| Total comprehensive income for the year | - | 1,195 | 12 | - | - | 30,148 | 31,355 |
| Transfer from retained profits | - | - | - | 608 | - | (608) | - |
| **Transactions with owners, recorded in equity** | | | | | | | |
| Dividends to shareholder members | - | - | - | - | - | (9,978) | (9,978) |
| **Balance at 30 June 2012** | **46,936** | **1,253** | **(218)** | **2,435** | **25,255** | **185,324** | **260,985** |
| 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** |

*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 92.

| *In thousands of AUD* | Share capital | Available for sale investments revaluation reserve | Cash flow hedge reserve | General reserve for credit losses | General reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | | | | **Company** | | | |
| Balance at 1 July 2011 | 46,936 | 58 | (230) | 1,827 | 25,255 | 164,494 | 238,340 |
| **Total comprehensive income for the year** | | | | | | | |
| Profit after tax | - | - | - | - | - | 28,514 | 28,514 |
| **Other comprehensive income** | | | | | | | |
| Net revaluation movement due to change in fair value | - | 1,333 | 12 | - | - | - | 1,345 |
| Net change in fair value transferred to profit and loss | - | (138) | - | - | - | - | (138) |
| Total other comprehensive income | - | 1,195 | 12 | - | - | - | 1,207 |
| Total comprehensive income for the year | - | 1,195 | 12 | - | - | 28,514 | 29,721 |
| Transfer from retained profits | - | - | - | 608 | - | (608) | - |
| **Transactions with owners, recorded in equity** | | | | | | | |
| Dividends to shareholder members | - | - | - | - | - | (9,978) | (9,978) |
| **Balance at 30 June 2012** | **46,936** | **1,253** | **(218)** | **2,435** | **25,255** | **182,422** | **258,083** |
| 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** |

*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 92.

# NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

## FOR THE YEAR ENDED 30 JUNE 2013

## 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 2013 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 27 August 2013.

**(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 1f), available for sale investments (note 1e 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 1i and 10);
- Consolidation of special purpose entities (notes 1c and 9);
- Valuation of financial instruments (notes 1i, 6, 9 and 12); and
- Defined benefit fund liability (notes 1q 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 1i and 10);
- Assets held for sale (note 11); and
- Inventories (notes 1o and 13).

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by Group entities.

**(v) Changes in accounting policy**
**(i) Presentation of transactions recognised in other comprehensive income**
From 1 July 2012 the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.* The change in accounting policy only relates to disclosures and has had no impact on consolidated net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of comprehensive income.

### (c) 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. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiaries are carried at cost.

**(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 incident 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**
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### (d) 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.

### (e) 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 1i.

**(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.

### (f) Derivatives

**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 or loss.

### (g) 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.

### (h) 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.

### (i) 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 debt 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 equity 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 1k), 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.

### (j) 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.

### (k) Income tax

Income tax expense for the year comprises current and deferred tax. Current and deferred tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to shareholders.

**(i) Tax consolidation**

The Company is the head entity in a tax consolidated group comprising the Company and all its wholly-owned subsidiaries. As a consequence, all members of the tax consolidated group have been taxed as a single entity from 1 July 2003. Current tax expense/benefit, deferred tax 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.

### (l) 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 1i).

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.

### (m) 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

### (n) 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.

### (o) 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 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.

### (p) Dividends payable

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

### (q) Employee benefits

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss in the year during which services are rendered by employees. 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**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted.

The discount rate is the yield at the reporting date on Australian state, territory and federal government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average year until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

In respect of actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets at the beginning of the financial year, that portion is recognised in profit or loss over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Past service cost is the increase in the present value of the defined benefit obligation for employees' services in prior years, resulting in the current year from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

**(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 recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

### (r) 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.

### (s) 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.

### (t) 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.

### (u) 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.

### (v) 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 seperate 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.

### (w) 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.

### (x) 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.

### (y) 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 2012, and have not been applied in preparing these consolidated financial statements. Those standards with the most significant potential impact on the financial statements are outlined below:

AASB 9 *Financial Instruments* (2010), AASB 9 *Financial Instruments* (2009)

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 additions relating to financial liabilities. The IASB currently has an active project that may result in 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 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of AASB 9 (2010) is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities* (2011)

AASB 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Note 1(c)(iv)).

Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

The Group may need to reclassify its joint arrangements, which may lead to changes in current accounting for these interests (see Note 1(c)(iv)).

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

AASB 13 *Fair Value Measurement* (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The Group is currently reviewing its methodologies in determining fair values. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

AASB 119 *Employee Benefits* (2011).

AASB 119 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any significant impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of expected return on plan assets. AASB 119 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2013

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| 2 OPERATING INCOME | Note | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Interest revenue** | | | | | |
| Loans | | | | | |
| - to members | | 228,821 | 263,318 | 228,821 | 263,318 |
| - consolidated entities, key management personnel, and related entities | | 794 | 874 | 893 | 1,033 |
| - ADI's | | 27,019 | 27,738 | 27,019 | 27,738 |
| Available for sale investments | | 16,112 | 30,665 | 16,112 | 31,207 |
| | | 272,746 | 322,595 | 272,845 | 323,296 |
| **Interest expense** | | | | | |
| Deposits | | | | | |
| - from members | | 136,334 | 167,194 | 136,334 | 167,194 |
| - consolidated entities | | - | - | 130 | 31 |
| - subordinated debt | | 3,410 | 1,216 | 3,410 | 1,216 |
| Securitised loans funding | | 40,524 | 59,008 | 40,524 | 59,547 |
| Other interest expense | | 4 | 4 | 4 | 4 |
| | | 180,272 | 227,422 | 180,402 | 227,992 |
| **Net interest income** | | 92,474 | 95,173 | 92,443 | 95,304 |
| **Impairment losses** | | | | | |
| Impairment of available for sale investments | | - | 251 | - | 251 |
| Impairment of other financial assets | | - | - | - | 358 |
| Impairment of loans and receivables to members | | 849 | 1,738 | 1,637 | 3,182 |
| **Net interest income after impairment losses** | | **91,625** | **93,184** | **90,806** | **91,513** |
| **Revenue from land development** | | 4,587 | - | - | - |
| **Share of profits of joint venture entity** | 28 | - | 928 | - | - |
| **Fees and commission income** | | | | | |
| Loan switch and breakout fees | | 651 | 775 | 651 | 775 |
| Transaction fees | | 7,609 | 7,909 | 7,609 | 7,909 |
| Payment system fees | | 1,755 | 1,687 | 1,755 | 1,687 |
| Financial planning revenue | | 1,016 | - | - | - |
| Commissions | | 2,402 | 2,175 | 2,402 | 2,175 |
| | | 13,433 | 12,546 | 12,417 | 12,546 |
| **Other income** | | | | | |
| Dividends | | - | 2 | - | 2 |
| Profit from sale of property, plant and equipment | | 34 | 64 | 34 | 64 |
| Impairment losses recovered | | 130 | 177 | 130 | 177 |
| Property income | | 139 | 158 | 139 | 158 |
| Other | | 254 | 445 | 102 | 167 |
| | | 557 | 846 | 405 | 568 |
| **Net operating income** | | **110,202** | **107,504** | **103,628** | **104,627** |

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| **3 OPERATING EXPENSES** | Note | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Personnel expense** | | | | | |
| Salaries | | 29,788 | 28,852 | 29,185 | 28,852 |
| Payroll tax | | 1,742 | 1,645 | 1,699 | 1,645 |
| Fringe benefits tax | | 428 | 409 | 423 | 409 |
| Superannuation | | 3,190 | 2,996 | 3,142 | 2,996 |
| | | 35,148 | 33,902 | 34,449 | 33,902 |
| **Occupancy expense** | | | | | |
| Repairs and maintenance | | 595 | 658 | 594 | 658 |
| Rental on operating leases | | 5,408 | 5,660 | 5,378 | 5,660 |
| Other | | 2,050 | 1,873 | 1,990 | 1,873 |
| | | 8,053 | 8,191 | 7,962 | 8,191 |
| **Payment system expense** | | 2,528 | 2,789 | 2,528 | 2,789 |
| **Marketing expense** | | 5,150 | 5,079 | 5,150 | 5,079 |
| **Data processing expense** | | 2,275 | 2,310 | 2,251 | 2,310 |
| **Postage and printing expense** | | 1,534 | 1,544 | 1,523 | 1,544 |
| **Contributions to IMB Community Foundation** | | 500 | 500 | 500 | 500 |
| **Goods and services tax not recovered** | | 2,087 | 2,166 | 2,087 | 2,166 |
| **Sundry expenses** | | | | | |
| Depreciation and amortisation | | | | | |
| - plant and equipment | | 1,937 | 2,126 | 1,931 | 2,126 |
| - buildings | | 147 | 147 | 147 | 147 |
| - intangibles | | 295 | 324 | 295 | 324 |
| Loss from sale of property, plant and equipment | | 61 | 28 | 61 | 28 |
| Auditors' remuneration (KPMG) | | | | | |
| - audit and review of financial statements | | 346 | 316 | 295 | 269 |
| - other services | | | | | |
| - other assurance services | | 73 | 87 | 73 | 68 |
| - taxation services | | 37 | 43 | 37 | 41 |
| - advisory services* | | 46 | 13 | 46 | 13 |
| Other | | 4,266 | 4,016 | 4,052 | 3,989 |
| | | 7,206 | 7,100 | 6,937 | 7,005 |
| **Total operating expenses** | | 64,481 | 63,581 | 63,387 | 63,486 |
| **Land development expense** | 11 | 4,943 | 1,048 | - | - |
| **Total non interest expense** | | **69,424** | **64,629** | **63,387** | **63,486** |

* KPMG provided additional services to the value of $201,202 during 2013. These additional costs were deferred as part of the Illawarra Series 2013-1 RMBS Trust ($23,369) and the share buyback ($177,833).

| 4 TAXATION | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **a) Income tax expense** | | | | |
| **Current tax expense** | | | | |
| - current year | 12,338 | 12,514 | 12,100 | 12,779 |
| - adjustment for prior years | 2 | 117 | 5 | 117 |
| | 12,340 | 12,631 | 12,105 | 12,896 |
| **Deferred tax expense** | | | | |
| - origination and reversal of temporary differences | (72) | 96 | (10) | (269) |
| **Total income tax expense** | **12,268** | **12,727** | **12,095** | **12,627** |
| **Reconciliation between income tax expense and profit before tax** | | | | |
| Profit before tax | 40,778 | 42,875 | 40,241 | 41,141 |
| Prima facie income tax expense at 30% on operating profit | 12,234 | 12,862 | 12,072 | 12,342 |
| Increase in income tax expense due to: | | | | |
| - income tax under provided for in prior year | 2 | 117 | 5 | 117 |
| - other non deductible expenses | - | - | - | 107 |
| - depreciation of buildings | 44 | 44 | 44 | 44 |
| - non deductible entertainment | 38 | 35 | 38 | 35 |
| - other | 38 | 11 | 24 | 11 |
| Decrease in income tax expense due to: | | | | |
| - other deductible expenses | (88) | (29) | (88) | (29) |
| - other | - | (313) | - | - |
| **Income tax expense** | **12,268** | **12,727** | **12,095** | **12,627** |
| **Income tax recognised directly in other comprehensive income** | | | | |
| Relating to available for sale investments | 1,522 | 512 | 1,522 | 512 |
| Relating to cashflow hedges | 65 | 5 | 65 | 5 |
| | **1,587** | **517** | **1,587** | **517** |

**b) Current tax liabilities**

The current tax liability for the Group of $3,554,000 (2012: $1,762,000) and for the Company of $3,554,000 (2012: $1,171,000) 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.

| 4 TAXATION (CONT.) | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Deferred tax assets/(liabilities)** | | | | |
| Deferred tax assets and liabilities are attributable to the following: | | | | |
| Provisions and accrued expenses | 2,649 | 3,010 | 3,310 | 3,239 |
| Employee benefits | 2,224 | 2,128 | 2,208 | 2,128 |
| Unearned income | 187 | 442 | 187 | 442 |
| Derivative liabilities | 28 | 94 | 28 | 94 |
| Freehold land held for development | 516 | 42 | - | - |
| Consulting and legal fees | 30 | 41 | 16 | 31 |
| Property, plant and equipment | 26 | 3 | 26 | 3 |
| Other | 3 | 1 | 3 | 1 |
| **Total deferred tax assets** | **5,663** | **5,761** | **5,778** | **5,938** |
| Deferred expenditure | (593) | (441) | (593) | (441) |
| Deferred lending fees | (128) | (385) | (128) | (385) |
| Available for sale investments | (2,059) | (537) | (2,059) | (537) |
| **Total deferred tax liabilities** | **(2,780)** | **(1,363)** | **(2,780)** | **(1,363)** |
| **Net deferred tax assets** | **2,883** | **4,398** | **2,998** | **4,575** |

| 5 DIVIDENDS | Cents per Share | Total amount $000 | % Franked | Date of payment |
|---|---|---|---|---|
| Dividends recognised in current year by the Company are: | | | | |
| **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 | | |
| **2012** | | | | |
| 2012 interim dividend | 10.0 | 3,991 | 100% | 28-Feb-12 |
| 2011 final dividend | 15.0 | 5,987 | 100% | 08-Sep-11 |
| | | 9,978 | | |

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

**Subsequent events**
On 27 August 2013 the Board declared a final ordinary dividend of 15.0 cents per share amounting to $5,550,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2013. The dividend is payable on 5 September 2013. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2013 and will be recognised in subsequent financial statements. The declaration and subsequent payment of dividends has no income tax consequences.

| 5 DIVIDENDS (CONT.) | Company 2013 $000 | Company 2012 $000 |
|---|---|---|
| **Dividend franking account** | | |
| 30% franking credits available to members of the Company for dividends in subsequent financial years | 86,614 | 81,700 |

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 (2012: $nil) franking credits.

| 6 AVAILABLE FOR SALE INVESTMENTS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Available for sale investments* | | | | |
| - certificates of deposit issued by banks | 99,663 | 79,851 | 99,663 | 79,851 |
| - floating rate notes | 454,978 | 437,778 | 454,978 | 437,778 |
| **Total investments** | **554,641** | **517,629** | **554,641** | **517,629** |

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

The Group's exposure to credit risk and interest rate risk is disclosed in note 34.

| 7 LOANS AND RECEIVABLES TO ADI'S | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Loans to Authorised Deposit-taking Institutions ("ADI's") | 540,865 | 383,932 | 540,865 | 383,932 |
| **Total loans and receivables to ADI's** | 540,865 | 383,932 | 540,865 | 383,932 |
| LOANS BY MATURITY | | | | |
| - up to three months | 465,316 | 347,396 | 465,316 | 347,396 |
| - from three to six months | 10,266 | 10,126 | 10,266 | 10,126 |
| - from six to nine months | 21,559 | 20,352 | 21,559 | 20,352 |
| - from nine to twelve months | 17,565 | 5,047 | 17,565 | 5,047 |
| - from one to five years | 26,159 | 1,011 | 26,159 | 1,011 |
| **Total loans and receivables to ADI's** | **540,865** | **383,932** | **540,865** | **383,932** |

| 8 LOANS AND RECEIVABLES TO MEMBERS | Note | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|---|
| Loans to | | | | | |
| - members* | | 3,727,654 | 3,787,354 | 3,727,654 | 3,787,299 |
| - consolidated entities, key management personnel and related entities | 30,31 | 1,094 | 825 | 11,946 | 15,087 |
| Provision for impairment | 10 | (6,256) | (6,821) | (8,488) | (8,265) |
| **Total loans net of provision for impairment** | | **3,722,492** | **3,781,358** | **3,731,112** | **3,794,121** |
| LOANS BY MATURITY | | | | | |
| Loans maturing | | | | | |
| - revolving credit | | 11,805 | 12,826 | 15,110 | 16,679 |
| - up to three months | | 21,894 | 21,539 | 21,894 | 21,482 |
| - from three to six months | | 22,258 | 21,860 | 22,258 | 21,860 |
| - from six to nine months | | 23,206 | 22,794 | 23,206 | 22,794 |
| - from nine to twelve months | | 23,609 | 23,106 | 23,609 | 23,106 |
| - from one to five years | | 361,706 | 358,508 | 369,075 | 368,915 |
| - over five years | | 3,264,270 | 3,327,550 | 3,264,448 | 3,327,550 |
| Provision for impairment | 10 | (6,256) | (6,821) | (8,488) | (8,265) |
| **Total loans net of provision for impairment** | | **3,722,492** | **3,781,358** | **3,731,112** | **3,794,121** |

* Includes $740,283,000 of securitised residential loans and $188,417,000 of securitised commercial loans (2012: $713,994,000 of securitised residential loans and $256,162,000 of securitised commercial loans).

| 9 OTHER FINANCIAL ASSETS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Other equity investments – at cost* | 538 | 505 | 505 | 505 |
| Investments in controlled entities | - | - | 5,065 | 5,065 |
| **Total other financial assets** | **538** | **505** | **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 2013

| 10 PROVISION FOR IMPAIRMENT OF LOANS AND RECEIVABLES TO MEMBERS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Specific provision** | | | | |
| Opening balance | 3,035 | 2,208 | 4,479 | 2,208 |
| Additions to specific provision | 464 | 1,465 | 1,252 | 2,909 |
| Loans written off, previously provided for | (941) | (214) | (941) | (214) |
| Reversal of provision | (88) | (424) | (88) | (424) |
| Closing balance | 2,470 | 3,035 | 4,702 | 4,479 |
| **Collective provision** | | | | |
| Opening balance | 3,786 | 3,786 | 3,786 | 3,786 |
| Additions to collective provision | - | 480 | - | 480 |
| Loans written off | - | - | - | - |
| Reversal of provision | - | (480) | - | (480) |
| Closing balance* | 3,786 | 3,786 | 3,786 | 3,786 |
| **Total provision for impairment** | **6,256** | **6,821** | **8,488** | **8,265** |
| **Impairment of loans and receivables to members** | | | | |
| Movement in specific provision | 376 | 1,041 | 1,164 | 2,485 |
| Movement in collective provision | - | - | - | - |
| Impairment losses written off directly | 473 | 697 | 473 | 697 |
| | **849** | **1,738** | **1,637** | **3,182** |

* 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 34.

| 11 ASSETS HELD FOR SALE | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Assets classified as held for sale** | | | | |
| Freehold land | 1,250 | 1,765 | - | - |

Land held by IMB Land Pty Ltd is presented as an asset held for sale following the commitment of the Group's management to sell the land. Efforts to sell the land continue.

An impairment loss of $888,000 (2012: $1,014,000) is included in the land development expense in the income statement.

| 12 DERIVATIVE LIABILITIES | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Interest rate swaps at fair value** | **94** | **312** | **94** | **312** |

| 13 INVENTORIES | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Freehold land held for development and sale | | | | |
| - acquisition costs | 2,868 | 4,465 | - | - |
| - development costs capitalised | 3,153 | 4,195 | - | - |
| - rates, taxes and interest capitalised | 878 | 1,165 | - | - |
| **Total inventories** | **6,899** | **9,825** | **-** | **-** |

| 14 PROPERTY, PLANT AND EQUIPMENT | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| *Freehold land* | | | | |
| - at cost | 3,165 | 3,165 | 3,165 | 3,165 |
| *Freehold buildings* | | | | |
| - at cost | 5,892 | 5,892 | 5,892 | 5,892 |
| - accumulated depreciation | (2,062) | (1,915) | (2,062) | (1,915) |
| | 3,830 | 3,977 | 3,830 | 3,977 |
| **Total land and buildings** | **6,995** | **7,142** | **6,995** | **7,142** |
| *Plant and equipment* | | | | |
| - at cost | 32,045 | 30,600 | 31,920 | 30,599 |
| - accumulated depreciation | (27,422) | (25,808) | (27,335) | (25,808) |
| **Total plant and equipment** | **4,623** | **4,792** | **4,585** | **4,791** |
| **Work in progress – at cost** | **562** | **564** | **562** | **564** |
| **Total property, plant and equipment – at cost** | **41,664** | **40,221** | **41,539** | **40,220** |
| **Total accumulated depreciation** | **(29,484)** | **(27,723)** | **(29,397)** | **(27,723)** |
| **Total property, plant and equipment – carrying amount** | **12,180** | **12,498** | **12,142** | **12,497** |
| **Reconciliations** | | | | |
| Reconciliations of the carrying amount for each class of property, plant and equipment are set out below: | | | | |
| *Freehold land* | | | | |
| **Carrying amount at the beginning and end of the year** | **3,165** | **3,165** | **3,165** | **3,165** |
| *Buildings* | | | | |
| Carrying amount at the beginning of the year | 3,977 | 4,124 | 3,977 | 4,124 |
| Depreciation | (147) | (147) | (147) | (147) |
| **Carrying amount at the end of the year** | **3,830** | **3,977** | **3,830** | **3,977** |

| 14 PROPERTY, PLANT AND EQUIPMENT (CONT.) | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| *Plant and equipment* | | | | |
| Carrying amount at the beginning of the year | 4,792 | 6,161 | 4,791 | 6,161 |
| Additions | 1,119 | 276 | 1,076 | 275 |
| Transfers from work in progress | 899 | 741 | 899 | 741 |
| Disposals | (250) | (260) | (250) | (260) |
| Depreciation | (1,937) | (2,126) | (1,931) | (2,126) |
| **Carrying amount at the end of the year** | **4,623** | **4,792** | **4,585** | **4,791** |
| *Work in progress* | | | | |
| Carrying amount at the beginning of the year | 564 | 633 | 564 | 633 |
| Additions | 897 | 672 | 897 | 672 |
| Transfers to plant and equipment | (899) | (741) | (899) | (741) |
| **Carrying amount at the end of the year** | **562** | **564** | **562** | **564** |

| 15 INTANGIBLE ASSETS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| *Intangible computer software* | | | | |
| - at cost | 7,624 | 8,076 | 7,624 | 8,076 |
| - accumulated amortisation | (7,208) | (7,451) | (7,208) | (7,451) |
| Total Intangible computer software | 416 | 625 | 416 | 625 |
| **Reconciliation** | | | | |
| *Intangible computer software* | | | | |
| Carrying amount at the beginning of the year | 625 | 209 | 625 | 209 |
| Additions | 86 | 740 | 86 | 740 |
| Amortisation | (295) | (324) | (295) | (324) |
| **Carrying amount at the end of the year** | **416** | **625** | **416** | **625** |

| 16 OTHER ASSETS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Sundry debtors** | **13,972** | **15,035** | **17,613** | **19,189** |

| 17 TRADE AND OTHER PAYABLES | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Trade creditors | 19,682 | 16,407 | 19,464 | 16,224 |
| Distributions payable by SPEs | 19,497 | 27,579 | - | - |
| Fees payable by SPEs | 256 | 256 | - | - |
| **Total trade and other payables** | **39,435** | **44,242** | **19,464** | **16,224** |

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 34.

| 18 DEPOSITS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Retail deposits | 2,790,156 | 2,758,759 | 2,795,513 | 2,764,715 |
| Middle markets | 575,487 | 652,308 | 575,487 | 652,308 |
| Wholesale deposits | 205,943 | - | 205,943 | - |
| Accrued interest | 26,710 | 32,873 | 26,710 | 32,873 |
| **Total deposits** | **3,598,296** | **3,443,940** | **3,603,653** | **3,449,896** |
| **CONCENTRATION OF DEPOSITS** | | | | |
| New South Wales | 3,086,278 | 3,014,718 | 3,091,635 | 3,020,674 |
| Australian Capital Territory | 169,614 | 162,070 | 169,614 | 162,070 |
| Queensland | 85,729 | 32,105 | 85,729 | 32,105 |
| South Australia | 39,473 | 14,218 | 39,473 | 14,218 |
| Victoria | 130,363 | 148,739 | 130,363 | 148,739 |
| Western Australia | 31,953 | 5,485 | 31,953 | 5,485 |
| Tasmania | 16,974 | 28,286 | 16,974 | 28,286 |
| Northern Territory | 37,912 | 38,319 | 37,912 | 38,319 |
| **Total deposits** | **3,598,296** | **3,443,940** | **3,603,653** | **3,449,896** |

The Group's exposure to liquidity risk related to deposits is disclosed in note 34.

| 19 SECURITISED LOANS FUNDING | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Notes payable | 926,706 | 968,609 | - | - |
| Loans from securitisation trusts | - | - | 926,706 | 968,609 |
| **Total securitised loans funding** | **926,706** | **968,609** | **926,706** | **968,609** |

The Group's exposure to liquidity risk related to securitised loans funding is disclosed in note 34.

| 20 INTEREST BEARING LIABILITIES | Note | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|---|
| **Subordinated floating rate notes** | 1s | | | | |
| - Series 1 | | 14,976 | 14,960 | 14,976 | 14,960 |
| - Series 2 | | 29,896 | 29,961 | 29,896 | 29,961 |
| **Total interest bearing liabilities** | | **44,872** | **44,921** | **44,872** | **44,921** |

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 (2012: 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 (2012: 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 34.

| 21 PROVISIONS | Note | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|---|
| *Make good provision* | | | | | |
| Balance at the beginning of the year | | 515 | 515 | 515 | 515 |
| Provisions used during the year | | (48) | - | (48) | - |
| Balance at the end of the year | | 467 | 515 | 467 | 515 |
| *Employee benefits* | | | | | |
| Balance at the beginning of the year | | 7,130 | 7,061 | 7,093 | 7,061 |
| Provisions made during the year | | 3,153 | 3,393 | 3,092 | 3,280 |
| Provisions used during the year | | (2,869) | (3,324) | (2,826) | (3,248) |
| Balance at the end of the year | 23 | 7,414 | 7,130 | 7,359 | 7,093 |
| **Total provisions** | | **7,881** | **7,645** | **7,826** | **7,608** |

| 22 SHARE CAPITAL AND RESERVES | Note | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|---|
| **Share capital – Ordinary shares** | | | | | |
| On issue at 1 July (39,911,640 ordinary shares) | | 46,936 | 46,936 | 46,936 | 46,936 |
| Own shares acquired (2,909,642 ordinary shares) | | (3,434) | - | (3,434) | - |
| On issue at 30 June (37,001,998 ordinary shares) | | 43,502 | 46,936 | 43,502 | 46,936 |

On 27 September 2012 the Company bought back 2.9 million shares for a total cash consideration, including transaction costs, of $10.3 million. The buyback was not subject to a scale back and all tenders 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 1i. The general reserve for credit losses together with the amounts calculated in accordance with note 1i must be adequate to comply with prudential requirements.

**General reserve**

The general reserve includes retained profits from prior years.

| 23 EMPLOYEE BENEFITS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Current** | | | | |
| Liability for annual leave | 2,834 | 2,882 | 2,796 | 2,854 |
| Liability for banked time | 3 | 3 | 3 | 3 |
| Liability for long service leave | 2,713 | 2,367 | 2,713 | 2,367 |
| Liability for purchased annual leave | 1 | - | 1 | - |
| | 5,551 | 5,252 | 5,513 | 5,224 |
| **Non Current** | | | | |
| Present value of defined benefit fund obligations | 6,861 | 6,583 | 6,861 | 6,583 |
| Fair value of defined benefit fund assets | (5,911) | (4,697) | (5,911) | (4,697) |
| Present value of net obligations | 950 | 1,886 | 950 | 1,886 |
| Unrecognised actuarial losses | (215) | (1,177) | (215) | (1,177) |
| Recognised liability for defined benefit obligations | 735 | 709 | 735 | 709 |
| Liability for long-service leave | 1,089 | 1,130 | 1,072 | 1,121 |
| Liability for directors' retirement benefits | 39 | 39 | 39 | 39 |
| | 1,863 | 1,878 | 1,846 | 1,869 |
| **Total employee benefits** | **7,414** | **7,130** | **7,359** | **7,093** |

**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 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 (2012: 11) in the plan. An actuarial assessment of the plan at 30 June 2013 was carried out by Ms SA Sweeney FIAA on 11 July 2013.

| 23 EMPLOYEE BENEFITS (CONT.) | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Movements in the net liability for defined benefit obligations recognised in the statement of financial position** | | | | |
| Net liability for defined benefit obligations at the beginning of the year | 709 | 761 | 709 | 761 |
| Contributions received from employer | (415) | (404) | (415) | (404) |
| Expenses recognised in the income statement | 441 | 352 | 441 | 352 |
| **Net liability for defined benefit obligations at the end of the year** | **735** | **709** | **735** | **709** |
| **Movement in the present value of the defined benefit obligations are as follows:** | | | | |
| Defined benefit obligation at the beginning of the year | 6,583 | 5,435 | 6,583 | 5,435 |
| Service cost | 393 | 355 | 393 | 355 |
| Interest cost | 285 | 300 | 285 | 300 |
| Actuarial (gains)/losses | (365) | 499 | (365) | 499 |
| Contributions by employees | 96 | 106 | 96 | 106 |
| Benefits paid | - | - | - | - |
| Other | (131) | (112) | (131) | (112) |
| **Defined benefit obligation at the end of the year** | **6,861** | **6,583** | **6,861** | **6,583** |
| **Movement in the present value of fund assets are as follows:** | | | | |
| Fair value of fund assets at the beginning of the year | 4,697 | 4,323 | 4,697 | 4,323 |
| Actual return | 832 | (24) | 832 | (24) |
| Contributions by employer | 417 | 404 | 417 | 404 |
| Contributions by employees | 96 | 106 | 96 | 106 |
| Benefits paid | - | - | - | - |
| Other | (131) | (112) | (131) | (112) |
| **Fund assets at the end of the year** | **5,911** | **4,697** | **5,911** | **4,697** |
| **The major categories of fund assets as a percentage of total fund assets are as follows:** | % | % | % | % |
| Australian shares | 30 | 30 | 30 | 30 |
| International shares | 30 | 30 | 30 | 30 |
| Property/alternate investments | 15 | 15 | 15 | 15 |
| Fixed interest | 20 | 20 | 20 | 20 |
| Cash | 5 | 5 | 5 | 5 |
| **Total** | **100** | **100** | **100** | **100** |

The trustee's investment policies and strategies for the defined benefit superannuation funds and post retirement benefits funds do not use target allocations for the individual asset categories. The trustee's investment goals are to maximise returns subject to specific risk management policies. Its risk management policies permit investment in mutual funds, and prohibit direct investment in debt and equity securities and derivative financial instruments. The trustee addresses diversification by the use of mutual fund investments whose underlying investments are in domestic and international fixed interest securities and domestic and international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

| 23 EMPLOYEE BENEFITS (CONT.) | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **Expenses recognised in the profit or loss** | | | | |
| Current service costs | 393 | 355 | 393 | 355 |
| Interest on obligation | 285 | 300 | 285 | 300 |
| Expected return on fund assets | (283) | (303) | (283) | (303) |
| Actuarial losses | 46 | - | 46 | - |
| Settlement losses | - | - | - | - |
| **Total** | **441** | **352** | **441** | **352** |

The expense is recognised in the income statement in "personnel expenses".

The actual return on fund assets was a $832,000 profit (2012: $24,000 loss).

| | Consolidated 2013 % | Consolidated 2012 % | Company 2013 % | Company 2012 % |
|---|---|---|---|---|
| **Actuarial assumptions** | | | | |
| Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows: | | | | |
| Discount rate at 30 June | 4.5 | 4.1 | 4.5 | 4.1 |
| Expected return on fund assets at 30 June | 4.5 | 5.6 | 4.5 | 5.6 |
| Future salary increases | 4.0 | 4.0 | 4.0 | 4.0 |

The overall expected long-term rate of return on assets is 4.5%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

| **Historic information** | 2013 $000 | 2012 $000 | 2011 $000 | 2010 $000 | 2009 $000 |
|---|---|---|---|---|---|
| **Amounts for the current and previous annual years relating to both the Company and Group are as follows:** | | | | | |
| Present value of defined benefit obligation | 6,861 | 6,583 | 5,435 | 6,189 | 5,107 |
| Fair value of fund assets | (5,911) | (4,697) | (4,323) | (4,922) | (4,012) |
| Deficit/(Surplus) in the plan | 950 | 1,886 | 1,112 | 1,267 | 1,095 |
| Experience adjustments (gain)/loss arising on plan liabilities | (106) | 304 | (246) | (77) | (235) |
| Experience adjustments (gain)/loss arising on plan assets | (549) | 327 | 89 | (171) | 1,003 |

The Company expects $501,000 in contributions to be paid to the funded defined benefit plan during the year ended 30 June 2014.

**Defined contribution superannuation funds**
The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was $2,439,000 for the financial year (2012: $2,347,000) and is included in personnel expense in Note 3.

| 24 CAPITAL AND OTHER COMMITMENTS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Loan commitments approved but not advanced | | | | |
| - not later than one year | 280,337 | 272,369 | 280,337 | 272,369 |
| - later than one year | 7,167 | 8,003 | 7,167 | 8,003 |
| **Total** | **287,504** | **280,372** | **287,504** | **280,372** |
| Capital expenditure commitments not taken up in the financial statements | | | | |
| - not later than one year | 306 | 121 | 306 | 121 |
| Non cancellable operating lease rentals payable | | | | |
| - not later than one year | 5,524 | 5,423 | 5,524 | 5,423 |
| - later than one year but not later than five years | 9,329 | 8,997 | 9,329 | 8,997 |
| - later than five years | 207 | - | 207 | - |
| **Total** | **15,060** | **14,420** | **15,060** | **14,420** |

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.

| 25 FINANCING ARRANGEMENTS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| Bank overdraft available | 2,500 | 2,500 | 2,500 | 2,500 |
| Bank overdraft utilised | - | - | - | - |
| **Facilities not utilised** | **2,500** | **2,500** | **2,500** | **2,500** |

The overdraft facility when drawn is secured by a charge over mortgage loans made by the Company to members. This facility is subject to annual review. The facility is subject to an annual interest rate of 9.23% (2012: 9.86%).

## 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 $4,681,000 (2012: $3,152,000) 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.

## 27 CONSOLIDATED ENTITIES

| | Principal Activity | Ownership interest 2013 % | 2012 % |
|---|---|---|---|
| **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 2003-1 Trust | 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 | | |

*Refer note 1c. These entities are consolidated on the basis of risk exposure, not control or ownership.

All entities are incorporated in Australia.

**Change in the composition of the consolidated entity**
On 15 May 2013 a subsidiary Company, IMB Securitisation Services Pty Limited, established the Illawarra Series 2013-1 RMBS Trust and paid an amount of $300 to constitute the trust. The purpose of establishing this entity was to allow the securitisation of residential mortgage loans. In May 2013 the entity issued $300,000,000 in notes.

## 28 EQUITY ACCOUNTED INVESTMENTS

| | Nature of activities | Joint venture reporting date 2013 | Joint venture reporting date 2012 | Percentage interest 2013 % | Percentage interest 2012 % |
|---|---|---|---|---|---|
| Details of the interest in an incorporated joint venture is as follows: | | | | | |
| **Name** | | | | | |
| IMB Financial Planning Limited | Financial planning | 30 June | 30 June | 100.0 | 100.0 |
| **Country of incorporation** | | | | | |
| Australia | | | | | |

On 29 June 2012 the Group obtained control of IMB Financial Planning Limited, a financial planning business by acquiring the joint venture partner's 50 per cent interest in the shares and voting rights of the company. As a result, the Group's equity interest in IMB Financial Planning Limited increased from 50 per cent to 100 per cent.

| *Results of incorporated joint venture* | 2013 $000 | 2012 $000 | Consolidated share 2013 $000 | Consolidated share 2012 $000 |
|---|---|---|---|---|
| The joint venture entity's result consists of: | | | | |
| Operating revenue | - | 2,899 | - | 1,449 |
| Gain on sale of subsidiary | - | 2,107 | - | 1,054 |
| Expenses* | - | (2,354) | - | (1,177) |
| Profit before income tax expense | - | 2,652 | - | 1,326 |
| Income tax expense* | - | (796) | - | (398) |
| **Net profit accounted for using the equity method** | **-** | **1,856** | **-** | **928** |
| ***Share of post-acquisition retained profits attributable to joint venture entity*** | | | | |
| Share of joint venture entity's retained profits at the beginning of the year | - | 571 | | |
| Share of joint venture entity's net profit | - | 282 | | |
| **Share of joint venture entity's retained profits at the end of the year** | **-** | **1,499** | | |
| ***Movement in carrying amount of investment in incorporated joint venture entity*** | | | | |
| Carrying amount at the beginning of the year | - | 2,352 | | |
| Share of joint venture entity's net profit | - | 928 | | |
| **Disposal of equity share in joint venture** | **-** | **(3,280)** | | |
| **Carrying amount at the end of the year** | **-** | **-** | | |

*Includes amortisation of intangible assets recognised on a straight line basis over fifteen years in relation to the purchase of two client books. This expense is not deductible for tax purposes.

| 29 NOTES TO THE STATEMENTS OF CASH FLOWS | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **RECONCILIATION OF CASH** | | | | |
| Cash and cash equivalents at the end of the year as shown in the statements of cash flows is reconciled to the related item in the balance sheets: | | | | |
| Cash controlled by the Group | 13,903 | 11,922 | 13,900 | 11,920 |
| Cash controlled by SPEs | 23,919 | 32,924 | - | - |
| **Total** | **37,822** | **44,846** | **13,900** | **11,920** |

The Group's exposure to interest rate risk for financial assets and liabilities is disclosed in note 34.

| | Consolidated 2013 $000 | Consolidated 2012 $000 | Company 2013 $000 | Company 2012 $000 |
|---|---|---|---|---|
| **RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit for the year attributable to members of the Company | 28,510 | 30,148 | 28,146 | 28,514 |
| Net loss/(gain) on sale of property, plant and equipment | 27 | (36) | 27 | (36) |
| Impairment of loans and receivables to members | 849 | 1,738 | 1,637 | 3,182 |
| Impairment of non-current assets held for sale | 888 | 1,014 | - | - |
| Impairment of other financial assets | - | - | - | 358 |
| Impairment of available for sale assets | - | 251 | - | 251 |
| Depreciation of property, plant and equipment, and amortisation of intangibles | 2,379 | 2,597 | 2,373 | 2,597 |
| Operating profit before changes in assets and liabilities | 32,653 | 35,712 | 32,183 | 34,866 |
| **Changes in assets and liabilities:** | | | | |
| Decrease in accrued interest on investments | 387 | 867 | 392 | 866 |
| Decrease/(Increase) in loans and receivables | 58,017 | (19,593) | 61,372 | (22,714) |
| Decrease/(Increase) in inventories | 2,038 | (3,968) | - | - |
| Decrease in non-current assets held for sale | 515 | 338 | - | - |
| Decrease/(Increase) in sundry debtors | 1,063 | (8,809) | 1,576 | (7,992) |
| Decrease in net deferred tax asset | 1,515 | 591 | 1,577 | 248 |
| (Decrease) in accrued interest on members' deposits | (6,163) | (4,899) | (6,163) | (4,899) |
| (Decrease)/Increase in trade and other payables | (4,807) | 14,659 | 3,240 | 4,213 |
| Increase/(Decrease) in deposits | 160,519 | (78,067) | 159,920 | (74,658) |
| Increase in provision for employee benefits | 284 | 69 | 266 | 32 |
| Increase/(Decrease) in provision for income tax | 1,792 | (750) | 2,383 | (1,341) |
| (Decrease) in other provisions | (48) | - | (48) | - |
| **Net cash flows from operating activities** | **247,765** | **(63,850)** | **256,698** | **(71,379)** |

### 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.

## 30 RELATED PARTY DISCLOSURES

The following were key management personnel of the Group and Company at any time during the year and unless otherwise indicated were key management personnel for the entire year.

**Directors**

Mr MJ Cole (Chairman)
Mr LP Nicholas (Deputy Chairman)
Mr KR Biddle
Mr JR Coleman
Mr NH Cornish
Mr RHP Elvy
Ms ME Towers

**Executives**

Mr RJ Ryan (Chief Executive Officer)
Mr M Brannon (General Manager, Sales and Marketing)
Mr CJ Goodwin (Chief Financial Officer)
Mr CA Rumble (General Manager, Business Systems)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| The key management personnel compensation included in "personnel expense" (see note 3) is as follows: | | | | |
| Short-term employee benefits | 2,355,052 | 2,177,847 | 2,355,052 | 2,177,847 |
| Post employment benefits | 281,442 | 256,813 | 281,442 | 256,813 |
| Other long-term benefits | 31,220 | 50,126 | 31,220 | 50,126 |
| **Total** | **2,667,714** | **2,484,786** | **2,667,714** | **2,484,786** |

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 | 2013 | 168,796 | 168,694 | - | 9,786 | 168,809 |
| | 2012 | 168,913 | 168,796 | - | 11,346 | 168,946 |
| Mr NH Cornish | 2013 | 92,971 | - | - | 1,714 | 92,971 |
| | 2012 | 2,503,897 | 92,971 | - | 75,367 | 2,503,897 |
| Mr LP Nicholas | 2013 | 221,164 | 229,708 | - | 13,256 | 232,242 |
| | 2012 | 223,445 | 221,164 | - | 14,589 | 223,474 |
| Mr M Brannon | 2013 | 110,656 | 290,537 | - | 10,503 | 926,350 |
| | 2012 | 194,216 | 110,656 | - | 9,218 | 202,974 |
| Mr CA Rumble | 2013 | 448,427 | 402,401 | - | 23,824 | 448,431 |
| | 2012 | - | 448,427 | - | 751 | 448,427 |

## 30 RELATED PARTY DISCLOSURES (CONT.)

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 2013** | **1,042,014** | **1,091,340** | **59,083** | **5** |
| Total for key management personnel and their related parties 2012 | 3,090,471 | 1,042,014 | 111,272 | 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.

**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 | 2013 | - | 2,000 | - | 2,000 |
| | 2012 | - | - | - | - |
| - related party | 2013 | 59,895 | 121,187 | 59,895 | 121,187 |
| | 2012 | 59,895 | - | - | 59,895 |
| Mr KR Biddle | 2013 | 5,325 | - | - | 5,325 |
| | 2012 | 5,325 | - | - | 5,325 |
| - related party | 2013 | 17,878 | - | 5,000 | 12,878 |
| | 2012 | 17,878 | - | - | 17,878 |
| Mr JR Coleman | 2013 | - | 2,000 | - | 2,000 |
| | 2012 | - | - | - | - |
| Mr NH Cornish | 2013 | 2,000 | - | - | 2,000 |
| | 2012 | 2,000 | - | - | 2,000 |
| Mr RHP Elvy | 2013 | 5,454 | 4,800 | 3,454 | 6,800 |
| | 2012 | 5,454 | - | - | 5,454 |
| - related party | 2013 | - | 3,454 | - | 3,454 |
| | 2012 | - | - | - | - |
| Ms LT Gearing* | 2013 | 4,000 | - | - | 4,000 |
| | 2012 | 4,000 | - | - | 4,000 |
| Mr LP Nicholas | 2013 | 2,000 | - | - | 2,000 |
| | 2012 | 2,000 | - | - | 2,000 |
| - related party | 2013 | 43,890 | 30,300 | 20,000 | 54,190 |
| | 2012 | 43,890 | - | - | 43,890 |
| Ms ME Towers | 2013 | 2,000 | - | 2,000 | - |
| - related party | 2012 | - | 2,000 | - | 2,000 |

## 30 RELATED PARTY DISCLOSURES (CONT.)

| Executives | | Opening balance | Purchases | Sales | Closing balance |
|---|---|---|---|---|---|
| Mr RJ Ryan | 2013 | 4,000 | - | - | 4,000 |
| | 2012 | 4,000 | - | - | 4,000 |
| Mr CA Rumble | 2013 | 100 | - | - | 100 |
| | 2012 | 100 | - | - | 100 |
| Mr M Brannon | 2013 | 4,954 | - | - | 4,954 |
| | 2012 | 4,954 | - | - | 4,954 |

No shares were granted to key management personnel during the year as compensation (2012: nil).

* Represents shareholdings at the time of retirement.

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 $19,701 (2012: $8,097).

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 $79,257 (2012: $68,572).

Mr MJ Cole has received a performance guarantee from the Company. Under the terms of the performance guarantee an amount of $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.

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

## 31 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 1k. The aggregate amount provided by the Company to subsidiaries under the agreement is:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| IMB Land Pty Ltd | (336) | (412) |
| IMB Land No. 2 Pty Ltd | (434) | (490) |
| IMB Securitisation Services Pty Ltd | 147 | 115 |
| IMB Financial Planning Pty Ltd | 19 | - |
| | **(604)** | **(787)** |

## 31 OTHER RELATED PARTY DISCLOSURES (CONT.)

### IMB Land Pty Ltd

IMB Land Pty Ltd, a controlled entity has deposits with the Company amounting to $3,000 (2012: $321,000). 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 $6,608,000 at 30 June 2013 (2012: $7,699,000). The Group share of these loans is 50%. During the year there were repayments of $1,519,000 (2012: $621,000) and advances of $nil (2012: $nil). Aggregate interest of $428,000 (2012: $576,000) was charged during the year. A provision for doubtful debts of $4,285,000 at 30 June 2013 (2012: $3,208,000) has been recognised in relation to the loans with a bad debt expense of $1,077,000 (2012: $1,806,000) 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 $14,000 (2012: $169,000). 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 $8,380,000 at 30 June 2013 (2012: $13,942,000). The Group share of these loans is 70%. During the year there were repayments of $6,572,000 (2012: $nil) and advances of $301,000 (2012: $2,710,000). Aggregate interest of $709,000 (2012: $927,000) was charged during the year. The Company has advanced an additional $848,000 (2012: $654,000) to IMB Land No. 2 Pty Ltd as an unsecured loan. There was no interest charged on the loan which will be repaid as 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 $3,638,000 (2012: $3,891,000). 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 (2012: $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 (2012: $14,000). The Company also provides premises for IMB Financial Planning Limited. The Company has received $30,000 (2012: $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 $8,000 (2012: $15,000) to IMB Financial Planning Limited during the year.

As at the reporting date a net receivable of $174,000 (2012: $62,000) 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:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Proceeds from securitisation of loans | 171,160 | 202,560 |
| Servicing fees received | 2,271 | 2,610 |
| Management fees received | 273 | 313 |
| Excess income received | 12,198 | 8,241 |
| Other | 210 | 239 |

## 32 SEGMENT REPORTING

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

## 33 AVERAGE BALANCE SHEET AND RELATED INTEREST

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Average Balance $000 | Interest $000 | Average Rate % | Average Balance $000 | Interest $000 | Average Rate % |
| **INTEREST BEARING ASSETS** | | | | | | |
| Loans and receivables to members | 3,748,664 | 229,615 | 6.13 | 3,767,210 | 264,192 | 7.01 |
| Loans and receivables to ADI's | 439,313 | 27,019 | 6.15 | 482,375 | 27,738 | 5.75 |
| Available for sale investments | 512,223 | 16,112 | 3.15 | 523,574 | 30,665 | 5.86 |
| **Total interest bearing assets** | **4,700,200** | **272,746** | | **4,773,159** | **322,595** | |
| **Impairment losses** | **-** | **(849)** | **-** | **-** | **(1,989)** | **-** |
| **NON INTEREST BEARING ASSETS** | | | | | | |
| Inventories | 8,772 | - | - | 10,875 | - | - |
| Property, plant and equipment | 12,600 | - | - | 13,511 | - | - |
| Other assets | 43,805 | - | - | 52,757 | - | - |
| **Total non interest bearing assets** | **65,177** | **-** | **-** | **77,143** | **-** | **-** |
| **Total assets** | **4,765,377** | **271,897** | **-** | **4,850,302** | **320,606** | **-** |
| **INTEREST BEARING LIABILITIES** | | | | | | |
| Deposits | 3,537,987 | 136,338 | 3.85 | 3,476,337 | 167,198 | 4.81 |
| Notes payable | 883,479 | 40,524 | 4.59 | 1,058,358 | 59,008 | 5.58 |
| Subordinated floating rate notes | 44,857 | 3,410 | 7.60 | 29,936 | 1,216 | 4.06 |
| **Total interest bearing liabilities** | **4,466,323** | **180,272** | | **4,564,631** | **227,422** | |
| **NON INTEREST BEARING LIABILITIES** | | | | | | |
| Other liabilities | 38,058 | - | - | 47,614 | - | - |
| **Total liabilities** | **4,504,381** | **180,272** | **-** | **4,612,245** | **227,422** | **-** |
| **Net assets** | **260,996** | **-** | **-** | **238,057** | **-** | **-** |
| **Net interest income after impairment losses** | **-** | **91,625** | **-** | **-** | **93,184** | **-** |

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from its use of financial instruments

Credit Risk
Liquidity Risk
Market Risk
Operational Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### Risk management framework

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established the Audit and Risk Management Committee which is responsible for developing and monitoring Group risk management policies. The Audit and Risk Management 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 Audit and Risk Management 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 Audit and Risk Management Committee is assisted in its oversight of these functions by 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 and Risk Management Committee.

In addition to the Audit and Risk Management Committee, the Group has a number of senior management committees where specific risk management information is overseen. These include the 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; and
- 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.

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

**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 ADI's | | Available for sale investments | | Cash and cash equivalents | |
| | Note | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Carrying Amount** | 6,7,8,29 | 3,722,492 | 3,781,358 | 540,865 | 383,932 | 554,641 | 517,629 | 37,822 | 44,846 |
| *Individually impaired* | | | | | | | | | |
| Gross amount | | 6,802 | 9,769 | - | - | - | - | - | - |
| Provision for impairment | | (2,470) | (3,035) | - | - | - | - | - | - |
| Carrying amount | | 4,332 | 6,734 | - | - | - | - | - | - |
| *Past due but not impaired* | | | | | | | | | |
| Days in arrears: | | | | | | | | | |
| Less than one month | | 88,818 | 100,284 | - | - | - | - | - | - |
| Greater than one month and less than two months | | 10,050 | 8,132 | - | - | - | - | - | - |
| Greater than two months and less than three months | | 2,201 | 4,195 | - | - | - | - | - | - |
| Greater than three months | | 3,452 | 5,266 | - | - | - | - | - | - |
| Carrying amount | | 104,521 | 117,877 | - | - | - | - | - | - |
| *Neither past due nor impaired* | | | | | | | | | |
| Secured by mortgage | | 3,555,662 | 3,592,533 | - | - | - | - | - | - |
| Government securities | | - | - | - | - | - | - | - | - |
| Investment grade | | - | - | 420,846 | 249,758 | 554,641 | 517,629 | 37,822 | 44,846 |
| Unrated | | - | - | 111,480 | 128,526 | - | - | - | - |
| Other | | 61,906 | 68,188 | 8,539 | 5,648 | - | - | - | - |
| Net deferred income & expense | | (143) | (188) | - | - | - | - | - | - |
| Carrying amount | | 3,617,425 | 3,660,533 | 540,865 | 383,932 | 554,641 | 517,629 | 37,822 | 44,846 |
| Collective impairment provision | 10 | (3,786) | (3,786) | - | - | - | - | - | - |
| **Total carrying amount** | 6,7,8,29 | 3,722,492 | 3,781,358 | 540,865 | 383,932 | 554,641 | 517,629 | 37,822 | 44,846 |
| Includes restructured loans | | 198 | 721 | - | - | - | - | - | - |

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

**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:

| | | Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Loans & receivables to Members | | Loans & receivables to ADI's | | Available for sale investments | | Cash and cash equivalents | |
| | Note | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Carrying Amount** | 6,7,8,29 | 3,731,112 | 3,794,121 | 540,865 | 383,932 | 554,641 | 517,629 | 13,900 | 11,920 |
| *Individually impaired* | | | | | | | | | |
| Gross amount | | 10,106 | 13,618 | - | - | - | - | - | - |
| Provision for impairment | | (4,702) | (4,479) | - | - | - | - | - | - |
| Carrying amount | | 5,404 | 9,139 | - | - | - | - | - | - |
| *Past due but not impaired* | | | | | | | | | |
| Days in arrears: | | | | | | | | | |
| Less than one month | | 88,818 | 100,284 | - | - | - | - | - | - |
| Greater than one month and less than two months | | 10,050 | 8,132 | - | - | - | - | - | - |
| Greater than two months and less than three months | | 2,201 | 4,195 | - | - | - | - | - | - |
| Greater than three months | | 3,452 | 5,266 | - | - | - | - | - | - |
| Carrying amount | | 104,521 | 117,877 | - | - | - | - | - | - |
| *Neither past due nor impaired* | | | | | | | | | |
| Secured by mortgage | | 3,563,210 | 3,602,948 | - | - | - | - | - | - |
| Government securities | | - | - | - | - | - | - | - | - |
| Investment grade | | - | - | 420,846 | 249,758 | 554,641 | 517,629 | 13,900 | 11,920 |
| Unrated | | - | - | 111,480 | 128,526 | - | - | - | - |
| Other | | 61,906 | 68,131 | 8,539 | 5,648 | - | - | - | - |
| Net deferred income & expense | | (143) | (188) | - | - | - | - | - | - |
| Carrying amount | | 3,624,973 | 3,670,891 | 540,865 | 383,932 | 554,641 | 517,629 | 13,900 | 11,920 |
| Collective impairment provision | 10 | (3,786) | (3,786) | - | - | - | - | - | - |
| **Total carrying amount** | 6,7,8,29 | 3,731,112 | 3,794,121 | 540,865 | 383,932 | 554,641 | 517,629 | 13,900 | 11,920 |
| Includes restructured loans | | 198 | 721 | - | - | - | - | - | - |

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 ( 2012: $nil ).

IMB issues guarantees to business banking clients with a maximum credit exposure of $4,681,000 (2012:$3,152,000). Refer Note 26 for more details.

# 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

### 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 ADI's 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 | |
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Against Individually impaired** | | | | |
| Property value | 4,793 | 7,638 | 6,043 | 9,723 |
| **Against past due but not impaired** | | | | |
| Property value | 104,566 | 133,252 | 104,566 | 133,252 |
| **Other** | 1,425 | 1,319 | 1,425 | 1,319 |
| **Total** | **110,784** | **142,209** | **112,034** | **144,294** |

**Repossessed 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 $3,905,000 (2012: $6,737,000).

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

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 ADI's | | Available for sale investments | | Cash and cash equivalents | |
|---|---|---|---|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **CONSOLIDATED** | | | | | | | | |
| **Carrying amount** | **3,722,492** | **3,781,358** | **540,865** | **383,932** | **554,641** | **517,629** | **37,822** | **44,846** |
| **Concentration by location** | | | | | | | | |
| New South Wales | 2,868,445 | 2,924,567 | 289,466 | 142,483 | 464,726 | 281,219 | 37,010 | 43,999 |
| Australian Capital Territory | 408,886 | 365,555 | 8,539 | 5,648 | - | - | 607 | 647 |
| Queensland | 105,974 | 120,154 | 102,156 | 110,654 | 64,954 | 54,911 | - | - |
| Victoria | 241,007 | 271,729 | 48,325 | 18,159 | - | 9,994 | 205 | 200 |
| Western Australia | 71,984 | 93,550 | 60,248 | 65,754 | - | 2,049 | - | - |
| South Australia | 9,597 | 11,709 | 7,048 | 18,079 | 24,961 | 14,946 | - | - |
| Tasmania | 22,855 | 915 | 25,083 | 23,155 | - | - | - | - |
| Overseas | - | - | - | - | - | 154,510 | - | - |
| Provision for impairment | (6,256) | (6,821) | - | - | - | - | - | - |
| **Total loans net of provision for impairment and deferred income and expenses** | **3,722,492** | **3,781,358** | **540,865** | **383,932** | **554,641** | **517,629** | **37,822** | **44,846** |
| **COMPANY** | | | | | | | | |
| **Carrying amount** | **3,731,112** | **3,794,121** | **540,865** | **383,932** | **554,641** | **517,629** | **13,900** | **11,920** |
| **Concentration by location** | | | | | | | | |
| New South Wales | 2,879,297 | 2,938,832 | 289,466 | 142,483 | 464,726 | 281,219 | 13,088 | 11,073 |
| Australian Capital Territory | 408,886 | 365,497 | 8,539 | 5,648 | - | - | 607 | 647 |
| Queensland | 105,974 | 120,154 | 102,156 | 110,654 | 64,954 | 54,911 | - | - |
| Victoria | 241,007 | 271,729 | 48,325 | 18,159 | - | 9,994 | 205 | 200 |
| Western Australia | 71,984 | 93,550 | 60,248 | 65,754 | - | 2,049 | - | - |
| South Australia | 9,597 | 11,709 | 7,048 | 18,079 | 24,961 | 14,946 | - | - |
| Tasmania | 22,855 | 915 | 25,083 | 23,155 | - | - | - | - |
| Overseas | - | - | - | - | - | 154,510 | - | - |
| Provision for impairment | (8,488) | (8,265) | - | - | - | - | - | - |
| **Total loans net of provision for impairment and deferred income and expenses** | **3,731,112** | **3,794,121** | **540,865** | **383,932** | **554,641** | **517,629** | **13,900** | **11,920** |

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 ADI's and for available for sale investments is measured based on the location of the counterparty.

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

### 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 ADI's, 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.

### 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 eligibile deposits, as determined by APRA, issued by ADI's. IMB's total liquidity includes HQLA and other deposits with banks or other ADI's 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**<br>At 30 June | 2013<br>% | 2012<br>% |
|---|---|---|
| APRA High Quality Liquid Assets | 16.39 | 16.24 |
| Total liquidity | 29.65 | 25.50 |

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

| | At call | | Excluding call less than 3 months maturity | | Greater than 3 months less than 12 months maturity | |
|---|---|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Residual contractual maturities of financial liabilities** | | | | | | |
| CONSOLIDATED | | | | | | |
| **Financial Liabilities** | | | | | | |
| Deposits | 1,225,470 | 1,075,012 | 1,620,759 | 1,618,047 | 725,184 | 742,380 |
| Trade and other payables | - | - | 39,435 | 44,242 | - | - |
| Securitised loans funding * | - | - | 62,200 | 62,157 | 164,348 | 166,014 |
| Subordinated debt | - | - | 800 | 859 | 2,347 | 2,576 |
| Bank overdraft | - | - | - | - | - | - |
| **Total financial liabilities** | **1,225,470** | **1,075,012** | **1,723,194** | **1,725,305** | **891,879** | **910,970** |
| COMPANY | | | | | | |
| **Financial Liabilities** | | | | | | |
| Deposits | 1,230,826 | 1,080,968 | 1,620,759 | 1,618,047 | 725,184 | 742,380 |
| Trade and other payables | - | - | 19,464 | 16,224 | - | - |
| Securitised loans funding * | - | - | 62,200 | 62,157 | 164,348 | 166,014 |
| Subordinated debt | - | - | 800 | 859 | 2,347 | 2,576 |
| Bank overdraft | - | - | - | - | - | - |
| **Total financial liabilities** | **1,230,826** | **1,080,968** | **1,703,223** | **1,697,287** | **891,879** | **910,970** |
| **Consolidated and Company** | | | | | | |
| **Derivative financial instruments** | | | | | | |
| Interest rate swaps (hedging relationship) net ** | - | - | 22 | 169 | 66 | 168 |
| **Unrecognised loan commitments** | - | - | 109,735 | 114,412 | - | - |

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 | 84 | 52 | 136 |

* 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.

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

| Greater than 1 year less than 5 years maturity | | Greater than 5 years maturity | | Gross nominal outflow | | Total carrying amount | |
|---|---|---|---|---|---|---|---|
| 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| 78,548 | 72,645 | - | - | 3,649,961 | 3,508,084 | 3,598,296 | 3,443,940 |
| - | - | - | - | 39,435 | 44,242 | 39,435 | 44,242 |
| 526,177 | 532,847 | 294,148 | 339,673 | 1,046,873 | 1,100,691 | 926,706 | 968,609 |
| 12,561 | 13,695 | 56,795 | 59,939 | 72,503 | 77,069 | 44,872 | 44,921 |
| - | - | - | - | - | - | - | - |
| 617,286 | 619,187 | 350,943 | 399,612 | 4,808,772 | 4,730,086 | 4,609,309 | 4,501,712 |
| 78,548 | 72,645 | - | - | 3,655,317 | 3,514,040 | 3,603,653 | 3,449,896 |
| - | - | - | - | 19,464 | 16,224 | 19,464 | 16,224 |
| 526,177 | 532,847 | 294,148 | 339,673 | 1,046,873 | 1,100,691 | 926,706 | 968,609 |
| 12,561 | 13,695 | 56,795 | 59,939 | 72,503 | 77,069 | 44,872 | 44,921 |
| - | - | - | - | - | - | - | - |
| 617,286 | 619,187 | 350,943 | 399,612 | 4,794,157 | 4,708,024 | 4,594,695 | 4,479,650 |
| - | 138 | - | - | 88 | 475 | 94 | 312 |
| - | - | - | - | 109,735 | 114,412 | - | - |
| - | 80 | - | - | 73 | 301 | 94 | 312 |

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

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 Audit and Risk Management 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; and
- 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 Audit and Risk Management 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 2013 and during the year is as follows:

| Interest rate risk | 2013 % | 2012 % |
|---|---|---|
| At June 30 | 1.55 | 1.47 |
| Average VaR for the year | 1.89 | 1.57 |
| Minimum VaR for the year | 1.50 | 1.30 |
| Maximum VaR for the year | 2.19 | 2.27 |

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 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 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; and
- Risk mitigation, including insurance where this is effective.

These activities are overseen by the 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 and Risk Management 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 2013 the term deposit portfolio carrying amount was $2,393,264,000. Using a recognised valuation technique, the impact of interest rate movements on the term loan portfolio would estimate the fair value at $2,404,018,000. The carrying amount of these term deposits in the year ended 30 June 2012 was $2,387,552,000 with an estimated fair value of $2,401,449,000.
- 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 2013 the fixed rate loan portfolio carrying amount was $531,323,000. Using a recognised valuation technique, the impact of interest rate movements on the fixed loan portfolio would estimate the fair value at $546,343,000. The carrying value of these fixed rate loans in the year ended 30 June 2012 was $568,852,000 with an estimated fair value of $583,154,000.

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

### Fair value hierarchy

The table below analyses financial instruments carried 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).

| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total consolidated $000 |
|---|---|---|---|---|
| **30 June 2013** | | | | |
| Available for sale financial assets | - | 554,641 | - | 554,641 |
| Derivative financial liabilities held for risk management | - | (94) | - | (94) |
| | **-** | **554,547** | **-** | **554,547** |
| **30 June 2012** | | | | |
| Available for sale financial assets | - | 517,629 | - | 517,629 |
| Derivative financial liabilities held for risk management | - | (312) | - | (312) |
| | - | 517,317 | - | 517,317 |

### 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:

| | 2013 % | 2012 % |
|---|---|---|
| Derivatives | 2.83% - 3.08% | 3.49% - 3.59% |
| Loans and borrowings | 2.75% - 3.60% | 3.49% - 3.50% |

## 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.

## 34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Tier 1 capital** | | | | |
| Ordinary share capital | 43,502 | 46,936 | 43,502 | 46,936 |
| General reserves | 25,255 | 24,942 | 25,255 | 24,942 |
| Asset revaluation reserves* | 12,395 | - | 12,395 | - |
| Retained earnings | 172,740 | 149,763 | 169,840 | 148,890 |
| Current year earnings | 17,378 | 23,813 | 17,013 | 21,785 |
| (Less) Capitalised expenses | (2,538) | (3,456) | (2,538) | (3,456) |
| (Less) Other | (4,357) | (7,183) | (4,476) | (6,261) |
| **Total** | **264,375** | **234,815** | **260,991** | **232,836** |
| **Tier 2 capital** | | | | |
| Asset revaluation reserves* | - | 3,337 | - | 3,337 |
| General reserve for credit loss | 6,050 | 4,873 | 6,050 | 4,873 |
| Subordinated debt | 40,500 | 44,944 | 40,500 | 44,944 |
| (Less) Tier 2 deductions | - | (1,595) | - | (1,597) |
| **Total** | **46,550** | **51,559** | **46,550** | **51,557** |
| **Total regulatory capital** | **310,925** | **286,374** | **307,541** | **284,393** |
| **Capital requirements (in terms of risk weighted assets) for:** | | | | |
| Credit risk | 1,632,381 | 1,551,443 | 1,637,316 | 1,556,741 |
| Operational risk | 264,454 | 257,705 | 259,310 | 256,601 |
| **Total risk weighted assets** | **1,896,835** | **1,809,148** | **1,896,626** | **1,813,342** |
| **Capital ratios** | | | | |
| Total regulatory capital expressed as a percentage of total risk weighted assets | 16.4% | 15.8% | 16.2% | 15.7% |
| Total Tier 1 capital expressed as a percentage of risk weighted assets | 13.9% | 13.0% | 13.8% | 12.8% |

* Movement between Tier 1 and Tier 2 is due to implementation of Basel III.

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.

## 35 EVENTS SUBSEQUENT TO REPORTING DATE

### Dividends

For dividends declared by IMB Ltd after 30 June 2013 refer to note 5.

# DIRECTORS' **DECLARATION**

## FOR THE YEAR ENDED 30 JUNE 2013

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

(a) the financial statements and notes, set out on pages 42 to 92 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 2013 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 27th day of August 2013.

Signed in accordance with a resolution of the directors:

| | |
|---|---|
| MJ Cole<br>Chairman | LP Nicholas<br>Director |

# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF IMB LTD

KPMG

## Report on the financial report

We have audited the accompanying financial report of IMB Ltd (the Company), which comprises the statements of financial position as at 30 June 2013, 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 35 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 report**

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 2013 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 complies 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 2013. 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 2013, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Richard Drinnan
Partner

Dated at Wollongong, this 27th day of August 2013.

*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<br>ALBION PARK NSW 2527 |
| **Batemans Bay** | 21 Orient Street<br>BATEMANS BAY NSW 2536 |
| **Bega** | 193-195 Carp Street<br>BEGA NSW 2550 |
| **Bowral** | Shop 1, 320 Bong Bong Street<br>BOWRAL NSW 2576 |
| **Camden** | Shop 26, 180-186 Argyle Street<br>CAMDEN NSW 2570 |
| **Corrimal** | Shops 2-4, Stocklands Corrimal Shopping Centre, Princes Highway<br>CORRIMAL NSW 2518 |
| **Cronulla** | 80 Cronulla Street<br>CRONULLA NSW 2230 |
| **Dapto** | 2-4 Bong Bong Road<br>DAPTO NSW 2530 |
| **Eden** | 199 Imlay Street<br>EDEN NSW 2551 |
| **Fairy Meadow** | 84B Princes Highway<br>FAIRY MEADOW NSW 2519 |
| **Figtree** | Shop 32 & 33, Westfield Shopping Town<br>Princes Highway<br>FIGTREE NSW 2525 |
| **Goulburn** | Shop 27, Argyle Mall<br>GOULBURN NSW 2580 |
| **Kiama** | 86 Terralong Street<br>KIAMA NSW 2533 |
| **Liverpool** | Shop 19, Liverpool Plaza Macquarie Street<br>LIVERPOOL NSW 2170 |
| **Macarthur Square** | Shop L10, L11 Level 2<br>Macarthur Square Shopping Centre<br>AMBARVALE NSW 2560 |
| **Merimbula** | Cnr Merimbula Drive & Market Street<br>MERIMBULA NSW 2548 |
| **Miranda** | Shop G, 105 Westfield Shoppingtown<br>MIRANDA NSW 2228 |
| **Moruya** | 55 Vulcan Street<br>MORUYA NSW 2537 |
| **Narellan** | Shop 10, 320 Camden Valley Way Road<br>NARELLAN NSW 2567 |
| **Narooma** | 127 Wagonga Street<br>NAROOMA NSW 2546 |
| **Nowra** | 86 Kinghorn Street<br>NOWRA NSW 2541 |
| **Parramatta** | 207 Church Street<br>PARRAMATTA NSW 2150 |
| **Penrith** | 25 Riley Street<br>PENRITH NSW 2750 |
| **Picton** | Shop 1A, 148 Argyle Street<br>PICTON NSW 2571 |
| **Queanbeyan** | Shop 7 Riverside Plaza<br>QUEANBEYAN NSW 2620 |
| **Shellharbour** | Shop 46, Shellharbour Stockland Shopping Centre<br>SHELLHARBOUR NSW 2529 |
| **Sylvania** | Shop 47, Southgate Shopping Centre<br>Cnr Princes Highway and Port Hacking Road<br>SYLVANIA NSW 2224 |
| **Thirroul** | Shop 6, Anita Theatre King Street<br>THIRROUL NSW 2515 |
| **Ulladulla** | 89 Princes Highway<br>ULLADULLA NSW 2539 |
| **Unanderra** | 102 Princes Highway<br>UNANDERRA NSW 2526 |
| **University of Wollongong** | Ground Floor, Building 17<br>UNIVERSITY OF WOLLONGONG NSW 2500 |
| **Vincentia** | Shop 17, Burton Mall<br>VINCENTIA NSW 2540 |
| **Warilla** | 6 George Street<br>WARILLA NSW 2528 |
| **Warrawong** | Shop 114 Westfield Shopping Town<br>WARRAWONG NSW 2502 |
| **Wollongong** | 205 Crown Street<br>WOLLONGONG NSW 2500 |
| **Woonona** | 367 – 369 Princes Highway<br>WOONONA NSW 2517 |
| **Wynyard** | 312 George Street<br>SYDNEY NSW 2000 |

### Australian Capital Territory

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

### Victoria

| | |
|---|---|
| **Glen Waverley** | 55 Railway Parade North<br>GLEN WAVERLEY VIC 3150 |

### Financial Planning

| | |
|---|---|
| **IMB Financial Planning** | Level 1, 205 Crown Street<br>WOLLONGONG NSW 2500 |

# CORPORATE DIRECTORY

### Members' Diary and other information

Payment of final dividend 5 September 2013

Annual general meeting 22 October 2013 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 Tuesday, 22 October 2013 at 10.00.

### Company Secretary

Lauren Wise (BA LLB Grad Dip. Legal Practice)

### Registered Office

253-259 Crown Street
Wollongong NSW 2500

### Share Registry

IMB Ltd is not listed on the Australian Stock Exchange.

Shares are traded under an Australian Market 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 2013

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Better Value Banking