



STRONG FOUNDATIONS. STRONG FUTURE.

ANNUAL REPORT 2011





ABOUT IMB

IMB is one of Australia's largest building societies with assets of more than \$4.8 billion and over 180,000 members. Established in 1880, we are also the longest standing mutual building society in NSW.

IMB offers full-service face-to-face, 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 ABACUS, an independent organisation representing mutual building societies and credit unions.

Notice of Annual General Meeting

The annual general meeting of IMB Ltd will be held at the Crown Pacific Room, Rydges Hotel, 112 Burelli Street, Wollongong on 25 October 2011 at 10:00am.

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 owned 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 include:

- We demonstrate integrity
- We are member focused
- We show respect
- We strive to offer solutions
- We value performance

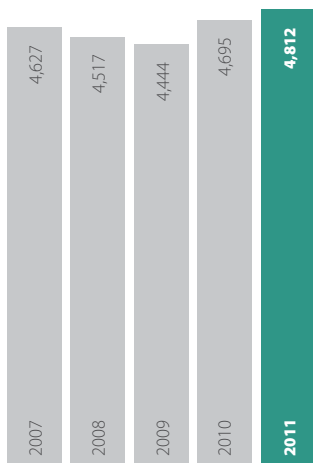
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2011 HIGHLIGHTS

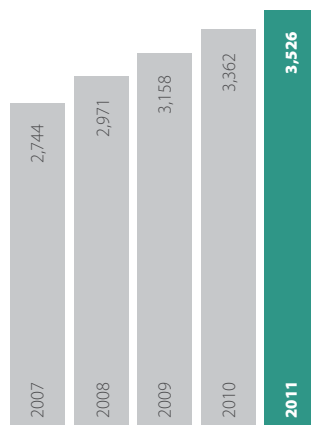


Total assets \$ million



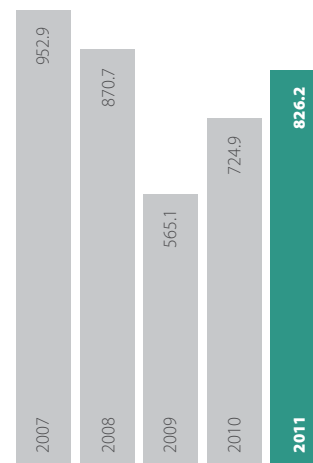
▀ **2.5% INCREASE**

Members' deposits \$ million



▀ **4.9% INCREASE**

Loans approved \$ million



▀ **14.0% INCREASE**

- We opened a new branch on-campus at the University of Wollongong and a sixth ACT branch at Gungahlin.
- Our Members enjoyed some of the most competitive products and services in the marketplace – our standard variable home loan rate has been lower than the major banks for over 2 years.
- We rolled out Customer Relationship Management Software (CRM) to better equip our staff to understand the financial needs and preference of members and deliver more consistent levels of service.
- A member survey showed that 96% of our members are satisfied with the service they receive from IMB.
- To protect our members against the risk of fraud we launched Visa debit chip card and Verified by Visa security features.
- We were awarded 5 stars from CANNEX for outstanding value on our deposit products, and Your Mortgage magazine awarded a gold medal to our very popular Budget Home loan.
- Our DIY Superannuation account was recognised in Money Magazine's *Best of the Best 2011*.
- We again donated more than \$400,000 to local community projects – we have now donated more than \$5.7 million to over 300 projects.



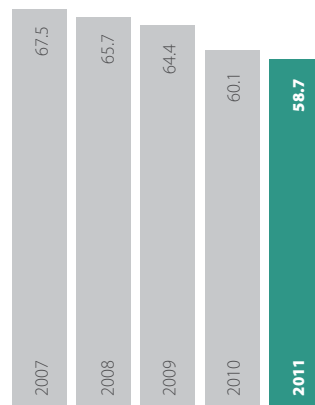
IMB Community Foundation
grant recipients.

Profit after tax \$ million



6.7% INCREASE

Efficiency ratio %



1.4% IMPROVEMENT

96%



96% Member
Satisfaction

IMB remains strong, secure and committed to its vision of being the alternative to the major banks and to giving our members better service, better products and overall better value.

FIVE YEAR SUMMARY

		2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000
Financial performance						
Interest income		325,064	266,742	304,007	344,334	307,500
Interest expense		228,585	173,723	227,397	271,222	235,856
Interest margin		96,479	93,019	76,610	73,112	71,644
Non interest income		13,746	14,815	17,141	18,633	15,846
Impairment losses		3,646	3,638	1,790	1,522	1,221
Non interest expense		62,565	62,644	59,264	59,314	58,232
Profit before tax		44,014	41,552	32,698	30,908	28,037
Income tax expense		12,996	12,481	9,848	9,329	8,078
Profit after tax		31,018	29,071	22,850	21,579	19,959
Financial position						
Assets						
Loans to members		3,763,503	3,576,564	3,476,040	3,634,913	3,499,034
Liquids		1,015,406	1,087,047	937,532	851,243	1,097,825
Other		33,395	32,204	30,611	31,039	30,939
		4,812,304	4,695,815	4,444,183	4,517,195	4,627,798
Liabilities						
Deposits		3,526,906	3,362,526	3,158,283	2,971,104	2,744,737
Securitised loans funding		999,733	1,064,650	1,025,682	1,300,466	1,639,772
Other		46,057	48,182	61,057	54,869	66,101
		4,572,696	4,475,358	4,245,022	4,326,439	4,450,610
Net assets		239,608	220,457	199,161	190,756	177,188
Total assets		4,812,304	4,695,815	4,444,183	4,517,195	4,627,798
Performance ratios						
Capital adequacy	%	12.0	12.0	11.6	11.6	12.4
Total asset growth	%	2.5	5.7	-1.6	-2.4	9.5
Net asset growth	%	8.7	10.7	4.4	7.7	7.7
After tax return on average net assets	%	13.46	13.92	12.02	11.87	11.76
Non interest income/average total assets	%	0.29	0.33	0.39	0.41	0.36
Non interest expenses/average total assets	%	1.31	1.40	1.33	1.32	1.31
Non interest expenses/operating income	%	58.7	60.1	64.4	65.7	67.5
Bad debts expense/average loans	%	0.07	0.10	0.05	0.04	0.04
Cost of funds	%	5.1	4.1	5.4	6.4	5.6
Interest margin	%	2.05	2.11	1.75	1.65	1.63
Total loans approved	\$m	826.2	724.9	565.1	870.7	952.9



Save BIG with
BONUS interest
IMB'S Reward Saver Account



CHAIRMAN'S LETTER



“As it enters its 132nd year, IMB remains a strong and secure mutual financial institution. IMB's strategy continues to deliver a sound risk return outcome.”

A review of IMB's performance for the financial year 2011 must be undertaken against the backdrop of a dramatically changing regulatory environment.

IMB's performance at the operating level was solid. Each of the major Key Performance Indicators (KPIs) matched or exceeded expectations:

- New Lending Approvals exceeded \$826 million, a stretch budget target;
- Net Interest Margin exceeded 2% pa;
- Commission Income was over \$2 million;
- Efficiency Ratio was 58.7%;
- Return on Equity was 13%; and
- Credit impairments were below national industry averages.

The above KPIs combined to generate a record net profit after tax of \$31.018 million, an increase of 6.7% over the previous corresponding period.

The operating environment for IMB remains satisfactory. IMB's strategy continues to deliver a sound risk return outcome. Management remains focused on excellent delivery of the business plan. However, the regulatory environment for IMB presents challenges over the near term.

A post mortem of the Global Financial Crisis (GFC) by global banking regulators has resulted in a significant focus on the capital adequacy and improved asset quality requirements for Authorised Deposit-taking Institutions (ADIs). Whilst the Basel III rules have yet to be fully finalised, an identifiable common theme is that volatility in financial markets is to be lowered by de-risking the activities of participant ADIs.

Specifically, this will entail further de-leveraging of balance sheets, improved asset quality and higher liquidity levels.

At 30 June 2011, IMB's capital adequacy ratio was 12%, above current regulatory requirements, and was unchanged from the prior year. For the financial year, IMB's net profit after tax, and before shareholder member dividend payments, contributed an approximate 1.70% lift in the capital adequacy ratio. However, shareholder member dividend payments reduced this contribution by almost half. The residual increase was almost fully eroded by regulatory treatment of past securitised assets and movements in risk weighted assets.

While current capital levels are in line with historical levels, which have ranged from 11.0% to 12.4% since 2006 (30 June ratios), it is clear to the Board that this level of capital will need to increase in light of the changing regulatory environment, ongoing market volatility and limited access to efficient capital instruments.

In consideration of these factors, IMB's Board have set a target to lift IMB's capital ratio over the medium term to 15% to ensure that it continues to be well capitalised having regard to regulatory requirements and volatile market conditions. Core to this strategy will be increasing IMB's Tier 1 capital ratio.

IMB has a number of alternatives available to achieve this capital adequacy goal. These include slowing loan asset growth, optimising liquidity levels and using capital instruments such as subordinated debt and securitisation. All these options are being systematically explored. To this end, IMB will conclude a \$200 million Commercial Mortgage Backed Securitisation issue in late August 2011 which will lift the capital adequacy ratio by around 1%.

However, any analysis of capital adequacy ratios must inevitably include a review of dividends paid to shareholder members. As a result the Board has resolved a final dividend for the 2010/11 financial

year of 15 cents (compared to 19 cents last year). This will result in a total dividend for FY 2011 of 25 cents per share. The resultant payout ratio is 32%. If this total payout is referenced against the mid-point of the shareholder members contributed funding, the payout ratio to shareholder members adjusts to 74%.

Whilst it had previously been thought that any downward adjustment in the payout ratio may have still been accompanied by a lift in dividends, this is no longer an option for IMB given the new regulatory environment in which we now find ourselves.

It is fully understood by the Directors that the dividend reduction will have an immediate negative cash flow impact on IMB shareholder members. However, the positive outcome is that these funds will be retained within IMB to strengthen the business model. The mutual members already reinvest all of their contributed funding allocation back into the business.

It is now widely appreciated in Australian markets that the potential return for shareholders investing in banks has changed post-GFC. The reduced level of gearing required to operate banking businesses will result in lower Returns on Equity (ROE) and reduced shareholder returns.

The global bank regulators have concluded that the benefits which banks receive from unique access to the deposit, lending and payment systems impose heavy reciprocal responsibilities. This means that, across the board, shareholder returns will more closely emulate heavily regulated public utilities going forward. It appears likely that banking regulation will continue to increase for the foreseeable future.

This point was recently highlighted in a comment in May 2011 by Stefan Walter, Secretary General of the Basel Committee for Banking Supervision: "Obviously, Returns on Equity will be lower than before the crisis. But, I think what one could say is that those higher expectations for Return on Equity were also correlated with higher risk. And, if risk comes down and capital goes up, if an institution is less volatile through good cycles and bad cycles because of less leverage, you would expect lower return expectations from investors. What exactly those are I cannot say."

The impact of this recent regulatory stance has been to highlight to Directors the difficulties for IMB operating a business with external shareholders in a peer group universe made up of predominantly pure mutual ADIs. The mutual ADIs should be able to improve their capital ratios annually by retaining all net profits given their zero payout ratios. For this reason alone, IMB will be subject to additional regulatory scrutiny on an ongoing basis.

As a consequence, the Board has initiated a broad based review of capital structure options, against a background of what would be acceptable to the local regulators. Grant Samuel (corporate advisors) and Watson Mangioni (lawyers) have been appointed to advise on the review. It is anticipated that their preliminary work should be completed by the time of the half year results.

During the year, we farewelled two directors, George Edgar and Steve McKerihan. George retired after almost 10 years on the Board. He served with distinction during his directorship with his lasting legacy being the OH&S culture that is ingrained throughout IMB. Steve served for only a short time on the Board with ill health forcing him to stand down. We thank Steve for his valuable contribution and wish him well for the future.

Noel Cornish was appointed as a director following George's retirement in September 2010 and Margaret Towers was appointed in May this year. Noel and Margaret bring a range of skills and their appointment strengthens the diversity of the Board.

Noel's appointment was ratified by members at the 2010 Annual General Meeting and members will be asked to support Margaret's appointment at this year's AGM.

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 support and commitment to IMB and most particularly to our members.

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



MJ Cole
Chairman

CHIEF EXECUTIVE'S REVIEW

OF OPERATIONS



“This result is a testament to IMB’s strong financial position and the Board and management’s ability to effectively manage through difficult times.”

Overview

Despite challenging conditions, IMB has again delivered a solid full year result, driven by the efficiency and resilience of the core banking operation. Against a backdrop of increasingly volatile global markets, IMB’s performance has been achieved despite waning consumer confidence, increasingly subdued housing activity and continued competition in the mortgage and deposit markets.

Group operating profit before tax was \$44.0 million, an increase of 5.9% compared to the prior year. Excluding one off gains and losses, Group profit before tax was up 7.1% compared to the previous year.

Profit

Group operating profit after tax at \$31.0 million increased by \$1.9 million, or 6.7%, over the previous year. Excluding impairment losses, the sale of Visa shares and the write down of IMB’s land inventory, Group profit after tax increased by \$2.4 million, up 7.8%. This result is a testament to IMB’s strong financial position and the Board and management’s ability to effectively manage through difficult times, a fact heightened by the extreme volatility in global financial markets in recent months. Now in its 132nd year, IMB remains a strong and secure mutual financial institution providing a real alternative to the banks.

The increase in operating profit was driven by increased loan writings and management of the balance sheet composition. Interest margin stabilised and was sustained above 2.00%, with an average of 2.05%, compared to 2.11% for 2009-10. IMB continues to have high funding levels although funding costs remain high due to the aggressive pricing structures adopted by many of our competitors.

IMB’s non-interest income decreased by \$1.1 million compared to the previous year as a consequence of deliberately lower overall fees to members (only 18% of members pay transaction fees), as well as lower levels of break fees due to the changed interest rate cycle. This decline was largely offset by the profit on the sale of the Visa shares.

Impairment losses were \$3.6 million, the same level as the prior year which included an increase in the collective provision as a contingency

for any future loan defaults. Impairment expenses for the current year included impairment losses in relation to IMB’s land development activities and an available for sale asset. Despite several increases in the official RBA cash rate since July 2009, credit quality remains exceptional across IMB’s secured and unsecured loan portfolios, the recent natural disasters in Queensland and Victoria having minimal impact on credit quality.

Overall, IMB’s level of mortgage arrears continues to be well below the national average in all categories. The residential loan book continues to perform among the best in the Australian banking sector, a view substantiated by the current quarterly benchmarking review by the mortgage insurance company, QBE Mortgage Insurance Ltd.

Total non-interest expenses amounted to \$62.6 million, a reduction of \$0.1 million on the prior year. Excluding the write down of IMB’s land inventory in the current and prior years, expenses on a like for like basis increased by \$1.0 million or 1.7% compared to the previous year. This is a pleasing result which is largely due to productivity increases, continued improved efficiency measures and prudent expense management despite substantial ongoing investment in the business.

The ratio of non-interest expense to operating income for the Group improved from 60.1% in 2009-10 to 58.7% in 2010-11. Non-interest expense, as a proportion of average total assets for the Group reduced slightly over the previous year to 1.3%.

Balance Sheet

IMB has a strong and diversified balance sheet. Loan growth was funded largely from growth in retail deposits with a strong liquidity ratio maintained over the financial year, well in excess of current regulatory requirements. Deposit funding grew by \$164 million or 4.9% to close at \$3.5 billion. Although predominantly retail funded, IMB also has a diverse middle markets and wholesale funding capability.

Loan approval levels for the year were \$826.2 million, 14.0% higher than the previous year. This continued improvement is a result of IMB’s highly competitive loan product pricing and various initiatives which have been implemented to generate a higher level of loan writings

by our branches and lenders. Loans outstanding, including loans to Authorised Deposit-taking Institutions, increased by \$64 million (or 1.6%) to \$4.2 billion. Assets increased by \$116 million (or 2.5%) to be over \$4.8 billion at the end of the financial year.

The capital adequacy ratio of 12.0% at balance date is above current regulatory minimum requirements and is consistent with historical levels.

Strategy

During the year, the Board and management refreshed IMB's business strategy to ensure that it remained appropriate in the rapidly changing conditions. The review confirmed IMB's strategic goal to be the first choice alternative to the banks in the areas in which we operate and to remain a profitable, independent, member owned 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.

We have continued to deliver initiatives over the past 12 months that improve our members' experience, expand our footprint and increase our member numbers.

Focusing on our Members

IMB's Better Value Banking proposition encapsulates our aim to provide our members with better service, products and value and better support of the local community. IMB seeks to provide members with the lowest possible fees compared to its competitors; in fact around 82% of IMB members do not pay any transaction fees. We will continue to review our product range to ensure that it remains competitive and meets the changing needs of our members.

Consistent with our service ethos, IMB is committed to providing our members with full service branches and continues to invest in enhancements and refurbishments for our existing branch network. We also opened 2 branches during the year. A new branch at the University of Wollongong campus will build relationships with the savers and home-buyers of tomorrow. A second new branch at Gungahlin will provide additional access for our ACT members and is well positioned in one of the region's key growth areas. We continue to look for new sites in both the ACT and the South Western corridor of Sydney and hope to open a further 2 branches in the year ahead, as well as increase the number of mobile banking specialists in all of our regions.

During the year, IMB rolled out Customer Relationship Management Software (CRM) to our branch network. This initiative means that our staff are better equipped to understand the financial needs and preferences of individual members, which will result in more consistent, and higher, levels of service across our channels and branch network.

Many of our members are spending more time online and are using the internet for their shopping and banking. Our refreshed website has received wonderful feedback, and we will soon launch an updated internet banking platform, as well as a new mobile banking application that will allow members to bank online using their smartphones and other mobile devices.

To protect our members against the risk of fraud, all Visa cards held by members have been replaced with EMV chip cards. We have also implemented the Verified by Visa online protection service and we will continue to invest in systems to guard against fraud.

Recognition

The best source of praise comes from external sources. Once again, IMB has been recognised by numerous external organisations as well as our own members.

A recent member survey showed that 96% of members are satisfied with the service they receive from IMB, which compares very favourably to the banks.

In addition to being named Building Society of the Year in the 2 previous years, our suite of banking products are amongst the most competitive in Australia, with IMB recently receiving the following awards:

CANNEX's 5 star rating for outstanding value on our deposit products;

- Your Mortgage magazine awarding IMB a gold medal for our Budget Home Loan; and
- Money Magazine's recognition of IMB's DIY Superannuation account in their *Best of the Best* edition.

Commitment to the Community

Consistent with our member focus, IMB continues to support the communities in the areas where we operate.

2011 marked the 11th year of IMB's Community Foundation. This year, the Foundation donated more than \$400,000 to 45 local community projects. Since 1999, the IMB Community Foundation has supported over 300 projects with funding of \$5.7 million.

Outlook

As it enters its 132nd year of operation, IMB remains strong, secure and committed to serving its members.

The strength and efficiency of the core banking operation will continue to underpin IMB's future performance. However market conditions are again increasingly volatile and uncertain for all retail financial service providers. IMB is preparing for upcoming regulatory changes, including Basel III and the implications for capital.

Despite the challenging environment, IMB remains cautiously optimistic about future financial performance. While IMB intends to deliver strong financial results in the coming year, this will be influenced heavily by the ability to maintain interest margin and the continuation of sound credit conditions. Asset growth will be dictated by broader economic conditions.

Conclusion

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

IMB is fortunate to have a skilled and committed Board of Directors as it navigates the changing external and regulatory environment.

Finally, I would like to thank all of our loyal members for their continued support and for making IMB the wonderful organisation that it is.



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, and the Capital Committee and 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 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, except for IMB Land Pty Ltd and IMB Land No. 2 Pty Ltd, of which Mr Cole is a director.



Kieran Robert Biddle

DIPLAW SAB SPEC – ACC BUS GAICD

Mr Biddle, who is a lawyer, has been a non executive director since 2007. He is a member of the Audit and Risk Management Committee, Remuneration and CEO Evaluation Committee, the Land Development Committee and the Securitisation 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 a member 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.



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 director of NorthstarBSL LLC, a member of the Council of University of Wollongong, Chairman of The Salvation Army Illawarra Advisory Board, member of the Board of the Illawarra Business Chamber and a member of the National Executive of the Australian Industry 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.



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.



Lynette Therese Gearing

B.COMM DIP VALUATIONS CERT BUS.STUDIES (REAL ESTATE) FAICD

Ms Gearing has been a non executive director since 2003. Ms Gearing has business experience in superannuation, funds management, corporate finance and management consulting. She is currently a director of QIC, Global Mining Investments Limited and Hancock Natural Resource Group Australasia Pty Limited. As well as being a director of IMB Ltd, Ms Gearing is a director of all entities wholly owned by IMB Ltd, is Chairperson of IMB Land Pty Ltd and IMB Land No. 2 Pty Ltd, Chairperson of IMB Financial Planning Ltd and alternate director of King Financial Services Pty Ltd. She is also Chairperson of the Land Development Committee and a member of the Nominations and Governance Committee.



Margaret Elizabeth Towers

CA GAICD

Ms Towers is a Chartered Accountant with over 25 years experience in the Australian finance sector. Ms Towers was appointed as a non executive director to fill a casual vacancy in May 2011 and is a member of the Audit and Risk Management 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 (a not-for-profit that uses funds raised to provide micro-finance loans to the poor throughout Asia). 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.



Lynton Patrick Nicholas

FCPA FCIS

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 and past President of Port Kembla Golf Club Limited. He is a business consultant to a number of major Australian companies. Mr Nicholas is also Chairman of the Flagstaff Group Limited and a member 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.

RETIRED THIS YEAR

George Anthony Edgar

BSC (TECH MET)

Mr Edgar, whose expertise is business management, had been a non executive director since 2000 and retired in September 2010. Prior to his retirement Mr Edgar was a member of the Nominations and Governance Committee, Remuneration and CEO Evaluation Committee, IMB Community Foundation Committee, and the Land Development Committee. Mr Edgar is the Chairman of the Illawarra Health and Medical Research Institute, the former President of BHP Flat Products and former Chief Executive Officer of BHP Integrated Steel. He is a former Councillor of the University of Wollongong, a director of Shin Investments Pty Ltd and former Chairman of Mainteck Services Australia. As well as being a director of IMB Ltd, Mr Edgar was also a director of all entities wholly owned by IMB Ltd.

Steven George McKerihan

B.COMM (HONS) MBA CPA

Mr McKerihan, a Certified Practising Accountant, had been a non executive director since 2009 and retired in February 2011. Prior to his retirement Mr McKerihan was a member of the Audit and Risk Management Committee. Mr McKerihan has worked as an executive professional in the finance industry for more than 25 years with his former roles being the Chief Executive Officer of the Sydney Diocesan Secretariat of the Anglican Church and Glebe Administration Board, Chief Financial Officer and Group Executive of St George Bank responsible for Finance and Risk Management. As well as being a director of IMB Ltd, Mr McKerihan was also a director of all entities wholly owned by IMB Ltd.

OUR COMMUNITY



“I am convinced of the invaluable contribution each and every project we’ve supported has had on the community, and I look forward to watching each of this year’s supported projects flourish.”

Lynton Nicholas
IMB Community Foundation
Committee Chairman

During our 131 years of operation IMB has placed significant value on supporting the communities in which it operates. IMB’s commitment today remains as strong as ever and we continue to play an active role in the communities where IMB members live and work.

IMB Community Foundation

The IMB Community Foundation was established in 1999 as a way for IMB to assist community groups in building community assets.

Now in its 11th year, the Foundation has provided more than \$5.7 million to support over 300 projects within our local communities. The Community Foundation supports a diverse range of project themes with a wide variety of objectives throughout “IMB communities”.

This year the IMB Community Foundation donated a further \$420,000 to 45 projects including disadvantaged youth, senior community involvement, mental health groups and projects and educational opportunities.

Other community support

IMB also supports a variety of charity, community and sporting organisations and numerous other community grass roots projects and events, including the provision of marquees for use by the region’s sporting clubs, schools, charities and other community groups.



Community and other sponsorships during the year included:

- Wollongong Hawks
- Illawarra Cricket Club
- NSW Gridion
- Penrith Panthers
- Wollongong Symphony Orchestra
- Wollongong Lions Football Club
- Illawarra Business Chamber
- Spring into Corrimal
- Wollongong Australia Day Celebration
- Cook Community Classic
- Cedars Christian College – Duke of Edinburgh Sponsorship
- Albion Park Spring Festival
- Dapto Carols
- Dapto Public School
- Illawarra Police Ball
- Kioloa Volunteer Rural Fire Brigade
- Shoalhaven Business Chamber
- Bowral Relay for Life
- Bega High School Sports Awards
- Camden Festival
- Picton Chamber of Commerce
- Canberra Ice Dragons Boat Racing Club
- Woden Community Festival
- Queanbeyan Men of League Golf Day
- Fishers Ghost Fun Run
- Penrith Chamber of Commerce
- Berrima Rotary Sponsorship
- Tradies Flood Fundraising Dinner
- Belconnen Community Festival
- Tuggeranong Community Festival
- Federal Budget Breakfast Sponsorship
- Tuggeranong Valley Cricket Club
- Liverpool Business Chamber
- Illawarra Disability Trust – Bandage Bear 2010
- Wollongong City Surf Life Saving Club Junior Board Sponsorship
- Lions Club of Woonona
- Illawarra Division of General Practice – Mens Health Evening
- Wollongong New Year's Eve Celebrations

IMB COMMUNITY

FOUNDATION PROJECTS

Region	Organisation	Project Name	Project Description
Sutherland Shire	GyMEA Rotary Club Inc	Challenging Anxiety and Depression	Aid development of mental health programmes to support individuals with anxiety and depression.
	Lioness Club of Sutherland Shire	Emergency Medical Info Book	Acquire and distribute emergency medical information books in the Shire.
	Woronora River Public School	Frogonora Garden project	Build a sustainable vegetable garden to provide educational hands on – workshops for children to increase their understanding of the environment, the food cycle, green recycling and sustainable gardening.
Goulburn/ACT	Canberra Police and Citizens Youth Clubs	CPCYC Futsal	Organising teams into Futsal comp in ACT. This aims to build the character of kids with low levels of resilience, self confidence and self esteem.
	Canberra Rotary Club	RYDA Programme	Run young driver road safety awareness programmes in ACT High Schools.
	FCCCI Inc Chinese School	Web Portal for Learning Chinese Culture	Build a Chinese learning portal (website) to help the community (especially young people) to learn Chinese and understand Chinese culture.
	Goulburn and District Arts and Crafts	Refurbish Old Train Drivers Barracks	Restore heritage building into community arts, crafts and workshop centre and gallery.
	Goulburn Regional Art Gallery	Art Workshops for Disabled	Weekly art workshops for the disabled.
	Goulburn Rotary Club	U-Turn-The-Wheel	Organise and promote a U-Turn-The-Wheel project to develop positive attitudes and increase safety amongst young drivers.
South Coast	Batemans Bay Patchwork and Quilting Guild	Charity Quilts	Purchase resources for quilts to be donated to charities and institutions.
	Bega Valley Genealogy Society	Recording Kameruka History	Purchase equipment to record historical data of Kameruka Estate.
	Berry Railway	Berry Railway	Develop facilities and train and equip volunteers to increase tourist activity.
	Clyde River and Batemans Bay Historical Society	From Sheds to Showcase	Converting sheds into viable museum space to show and store artefacts significant to local heritage.
	Combined Probus Clubs of Jervis Bay	"Catch Up" project for Retirees	Provide equipment and resources to enable retirees to access social and financial benefits online.
	Community Tech. Centre Ulladulla	Restore and Digitalise Memories	Run training courses on converting old photos, slides and negatives to digital media.
	Lions Club of Narooma and District	Men's Shed Management	Fit out and develop Men's Shed as a meeting hall for community use.
	Merimbula Public School	Men's Shed Management	Mentoring programme between youth and seniors by engaging in Men's Shed woodcraft activities.
	Sapphire Coast Historic Vehicle Club	Battery Electric Car Conversion	Conversion of Electric Car as a promotion for public awareness and student education.
	SKYDS – Shoalhaven City Council	SKYDS and Beyond	Driving experience for youth aimed at road safety and reducing road trauma.
	Sthn Shoalhaven Youth Services	Healthy Minds Healthy Bodies	Programmes for youth to move them to independence by creating opportunities and building resilience.
	Stroke Recovery Association of NSW	Southern NSW Stroke Olympics	Train members in mental and hand sports to assist with rehabilitation of stroke recoverers.
	Strzelecki Lions Club	Cows Create Careers	Teach students about the dairy industry through schools assisting with the raising of a calf.
	Tathra Surf Life Saving Club	Community Education and Training Centre	Provide a facility for the club and community to use in conducting education/training certifications and assessments.

Region	Organisation	Project Name	Project Description
South Coast	Teensafe	Teensafe Driver Training for Teenagers	Safe driver awareness and behavioural change for teenagers (L&P platers).
	The Tulgeen Group	Riverside Nursery Expansion	Upgrades to the nursery to increase employment opportunities for disabled.
	Uniting Church Berry Gateway	Computers for Seniors	Acquire computers and ancillary equipment and train seniors in computer use.
Illawarra	Beacon Foundation	Beacon Business Blackboard	Enhance knowledge of career pathways and exposure to positive business role models through business mentors.
	Historical Aircraft Restoration Society	Enhance HARS Tour Experience	Acquire equipment and resources to enhance visitor experience on HARS tours.
	Illawarra Bird Observers Club	Birds of Illawarra Brochure	Upgrade and reprint brochure to inform community of diverse bird life.
	Mission Australia	Bags of Rags	Establish rag cutting business to provide employment opportunities and income for other projects.
	Peterborough School	School Resources	Purchase various resources to support severely disabled children.
	St Pius X Catholic School	Helping Hands	Improve equipment, resources, signage at school for the disabled.
	The DENNY Foundation	Spectrum Education and Streetbeat	Early intervention service for children with developmental disorders and improve outreach service.
	The Lions Club of Kiama	Children's Audio Theatre	Produce and provide audio CDs for visually impaired children.
	The Science Centre and Planetarium	Immersive Dome for Science Outreach	Provide accessible science experiences.
	Thirroul Men's Shed	Thirroul Men's Shed	Provide tools and equipment to assist in the undertaking of personal and community projects in woodworking and craft as well as providing socialising opportunities and addressing issues of like interest.
Western Sydney	Camden District Activity Centre	Mobility Access – Wheelchairs	Provide mobility access for disabled, frail and elderly.
	Forum on Australia's Islamic Relations	Next Gen Community Ambassadors	Programme to develop leadership and reduce discrimination, amongst marginalised Muslim youth.
	Highlands Community Centres	Digital Expression	Set up laptop and editing programmes for film and photo editing to widen skills of disengaged young people.
	Macarthur Drug and Alcohol Services Committee	Youth Solutions (Participation)	Develop and evaluate small scale activities for youth to encourage participation and involvement in community.
	NSW Justices Association Southern Highlands Support Group	JP Community Services	Provide resources for a "JP" desk enabling access by community to relevant services.
	PCYC Liverpool	Activate Kids for Life	Provide equipment and instructors to work with schools to target all children, but especially the obese sector in disadvantaged areas.
	Robert Townson High School	Volunteers and Trainee Tradies	Provide trades and work skills for youth with a mobile work trailer.
	Rotary Club of Moss Vale	U-Turn-The-Wheel	Organise and promote a U-Turn-The-Wheel project to develop positive attitudes amongst young drivers
	Wollondilly Seniors Advisory Group	Balancing Ageing and Health	Provide workshops for seniors that refresh skills, provide networks and strengthen the community.

OUR STAFF



“The significant achievements of the past year have been made possible by the hard work and commitment of our employees.”

Robert Ryan
Chief Executive

Engaged and satisfied staff are a key to IMB's ongoing growth and success. We seek to recruit the best available people, provide them with meaningful and satisfying work, support their growth and development, reward and recognise their contributions and achievements, and provide them with a safe and healthy workplace. This in turn enhances our ability to provide the highest levels of member service and experience.

Staff Survey

Each year IMB conducts a staff survey to identify how our staff feel about working for IMB, with the aim of improving workplace practices, policies and culture and making IMB an even better place to work. The 2010 staff survey found that our staff continue to be highly committed to the success of the organisation, and report high levels of job satisfaction.

Learning and Development

IMB's Learning and Development focus is about ensuring our staff have the skills and knowledge to meet immediate business needs, and the opportunity to develop capabilities to provide career progression and help the business achieve its longer term goals.

Our Learning and Development focus in the last 12 months has continued to be in the areas of member service, sales skills, deposits, personal and home loan lending, alliance products, induction and necessary compliance training.

In addition we have increased 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. Our trainees and cadets have again performed well both on the job and in their studies, and have contributed strongly to IMB's success.

Employee Recognition

The achievements of our staff are recognised through formal awards, including the annual Chief Executives Award, Sales Awards, Outstanding Service Awards and Trainee of the Year Award. As in previous years, the annual IMB Night of Excellence provides an opportunity to celebrate the success of our high achievers and recognise their contribution to IMB.



The Chief Executives Award recognises staff members who perform their job above and beyond normal expectations and requirements, and exemplify the IMB values. The 2010 winner was Ashlee O'Kane. Ashlee's enthusiastic approach to her work is always an example to others. She has shown strong commitment and dedication to key business projects. Ashlee always brings a positive attitude to new challenges and leads by example in her desire to achieve quality outcomes that are in the best interests of IMB and its members.

We congratulate Ashlee on her award, and on her continuing high standards of service and performance.

The IMB Trainee of the Year Award recognises one of the IMB trainees who excels in all aspects of their role. This may include member relationships, service orientation, sales and referrals, or other work based achievements, as well as their off the job studies. The winner must demonstrate motivation, commitment, initiative, the ability to work well in a team and community involvement. The 2010 winner of this award was Rebecca Round from our Wynyard branch. Rebecca demonstrated outstanding academic achievements receiving 6 Student of the Month nominations from the Australian College of Commerce and Management. On the job Rebecca is a strong team player who has a flair for meeting members needs by always going the extra mile and displaying a positive, can-do attitude.

We congratulate Rebecca on her outstanding efforts and look forward to her enjoying a long and successful career with IMB.

Staff Social Events

IMB recognises that there is an important social aspect in work, and during the year staff members attended and participated in events such as the staff Christmas party, the IMB Family Picnic, and various activities organised by the IMB Social Club, including sports days, theatre events, family barbeques and the annual social club dinner.

Community Involvement

IMB is committed to building positive relationships with the community. Community involvement has included participation in activities such as The World's Greatest Shave and Breakfast on the Beach events, 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.

Zero Harm

IMB is committed to providing the highest possible level of workplace health and safety for our staff and customers – IMB has continued 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 have developed a comprehensive Zero Harm management system aligned with Australian Standards. Staff are trained in areas such as robbery and 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 OH&S Committee responsible for regularly reviewing Zero Harm policies and practice, raising awareness of Zero Harm, and recommending training for employees. These measures ensure that Zero Harm policies, procedures and practice remain relevant and effective.

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.

CORPORATE GOVERNANCE

For the year ended 30 June 2011

This statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2011.

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 executives, 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 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 and a Securitisation 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 report, financial reports, governance, risk management and compliance. Submissions are circulated in advance to directors. Executives and Managers are regularly involved in board discussions and directors have other opportunities including visits to business operations, for contact with a wider group of employees.

Director Education

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

Independent Professional Advice and Access to Company Information

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

A copy of the advice received is made available to all other members of the board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in the Directors' Report on page 24 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 any applicable legislation.

- 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.

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-appointed.

In the normal course of events up to three full terms are considered to be the maximum period of time to serve on the board. 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 12 and 13 of this financial 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 GA Edgar (retired 28 September 2010)
Mr RHP Elvy
Ms LT Gearing
Mr LP Nicholas

The Nominations and Governance Committee meets a minimum of two times annually and more frequently as required. The committee met four times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 30.

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. For senior executives this follows receipt of appropriate recommendations from the Chief Executive. The committee obtains 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 GA Edgar (retired 28 September 2010)
Mr NH Cornish (appointed 28 September 2010)

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 APS 510 Governance.

The Remuneration and CEO Evaluation Committee meets a minimum of three times annually and more frequently as required. The committee met three times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 30.

The aggregate base emoluments for all directors are approved by members at the 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 Related Party Disclosures in note 30 to the financial 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 KR Biddle
Mr RHP Elvy
Mr SG McKerihan (retired 7 February 2011)
Ms ME Towers (appointed 26 May 2011)

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 30.

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 reports for the year ended 30 June 2011 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.

CORPORATE GOVERNANCE (CONT)

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 report, and recommend board approval of the financial report; 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 System

The board oversees the establishment, implementation and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group.

The Audit and Risk Management Committee ensures the Group has 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.

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.

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 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 above mentioned 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 other person or persons in the employ of the Company nominated by the Chief Executive.

Communication with Members

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

- identify matters that may have a material effect on the price or value of IMB shares or any quoted and unquoted securities; and
- ensure disclosure of such matters to ASIC or the ASX, in relation to listed debt securities, as the case may be, with subsequent disclosure to IMB members.

In summary, the Company's Continuous Disclosure Policy operates as follows:

- On a weekly basis the Company's Executive Group examines all areas of the Group's internal and external environment to determine whether any "price sensitive" matters exist.
- The Executive Group is responsible for interpreting the Company's Continuous Disclosure Policy, and where necessary, informing the board so that the board can determine if disclosure is necessary. The board will then appoint a representative who is responsible for any necessary communications with the ASX, in relation to listed debt securities, or ASIC and subsequently with members.

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

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

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

DIRECTORS' REPORT

For the year ended 30 June 2011

The directors have pleasure in presenting their report, together with the financial report of IMB Ltd, ("the Company") and of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2011 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
Kieran Robert Biddle
Noel Harold Cornish (appointed 28 September 2010)
George Anthony Edgar (retired 28 September 2010)
Robert Hillis Page Elvy
Lynette Therese Gearing
Steven George McKerihan (retired 7 February 2011)
Lynton Patrick Nicholas
Margaret Elizabeth Towers (appointed 26 May 2011)

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 12 to 13 of this report.

At the annual general meeting of the Company on 25 October 2011, three directors, Mr RHP Elvy, Mr LP Nicholas and Ms ME Towers, will retire in accordance with the constitution of the Company and, being eligible, offer themselves for re-appointment.

COMPANY SECRETARY

Ms Lauren Wise (BA LLB Grad Dip. Legal Practice) was appointed to the position of Company Secretary in 2007 and also continues as IMB's Senior Manager Legal Services, a position which she has held with IMB since 2004. Ms Wise commenced parental leave in May 2011 and the Board have appointed Ms Kelli Halling (B Comm CPA SA Fin) as Company Secretary. Ms Halling has been employed by IMB for 17 years.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were the provision to members of banking and financial services, including lending, savings, insurance and investment products.

There has been no significant change in the nature of these activities during the year ended 30 June 2011.

OPERATING AND FINANCIAL REVIEW

Consolidated profit after tax for the year attributable to members was \$31.0 million (2010: \$29.1 million), an increase of \$1.9 million or 6.7% over 2010.

Total deposits grew to \$3,527 million up by \$164 million or 4.9% on the previous year. Securitised loan funding decreased by \$65 million or 6.1% to \$1,000 million.

Loan approvals increased by \$101 million to \$826 million (2010: \$725 million). This was due to a higher level of residential lending approvals which increased by \$111 million on 2010 levels, and a decrease in other lending of \$10 million.

Net interest income for the year was \$96.5 million, up \$3.5 million on the previous year. This improvement was due to an increase in average net interest bearing assets of \$311 million to \$4,724 million.

Impairment losses were \$3.6 million, the same level as the previous year (2010: \$3.6 million), with a write down in an available for sale investment offset by a decrease in the collective provision for loans.

Non interest income decreased by \$1.1 million or 7.2% to \$13.7 million as a result of decreased loan fee income and transaction fees.

Non interest expense decreased by 0.1% or \$0.08 million to \$62.56 million (2010: \$62.64 million) due primarily to a write down in land development assets in the prior year partly offset by an increase in personnel and marketing expense in the current year.

The non interest expense to operating income ratio decreased from 60.1% in 2010 to 58.7% in 2011.

DIVIDENDS

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

- a final ordinary dividend of \$0.19 per share amounting to \$7,584,000 franked to 100% at a tax rate of 30%, declared on 24 August 2010, in respect of the year ended 30 June 2010, paid on 3 September 2010;
- an interim dividend of \$0.10 per share amounting to \$3,990,000 franked to 100% at a tax rate of 30%, declared on 28 January 2011, in respect of the year ended 30 June 2011, paid on 27 February 2011; and
- 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 29 August 2011, in respect of the year ended 30 June 2011, payable on 8 September 2011.

Total dividends paid or declared in respect of the year ended 30 June 2011 were \$0.25 per share (2010: dividend of \$0.29) amounting to \$9,978,000 (2010: \$11,574,000).

EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

LIKELY DEVELOPMENTS

Details of likely developments in the operations of the Group in subsequent financial years are disclosed in the Chairman's Letter and Chief Executive's Review of Operations on pages 8 to 11 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 11 of the annual report.

DIRECTORS' INTERESTS

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

Director	Holding at 29 August 2011
Mr MJ Cole	–
– related party	59,895
Mr KR Biddle	5,325
– related party	17,878
Mr NH Cornish	2,000
Mr RHP Elvy	5,454
Ms LT Gearing	4,000
Mr LP Nicholas	2,000
– related party	43,890

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. 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. 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; 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.

DIRECTORS' REPORT (CONT)



Compensation levels are reviewed annually by the Remuneration and CEO Evaluation Committee. External consultants provide analysis and advice to ensure the directors' and executives' compensation is competitive in the market place.

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 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 and organisation 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.

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 approved by members at the 2009 AGM was \$563,320, the amount currently payable to directors on an aggregate basis is \$580,782 inclusive of superannuation.

The remuneration payable to Directors for the 2012 financial year will increase by 3.6% in line with the movement in CPI for the 12 months to June 2011.

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 the growth in profits in recent years despite the prevailing economic conditions. In the current year the Group achieved its forecast results in most areas. Lending targets were exceeded as a result of IMB's highly competitive loan product offerings and a continued focus on the efficiency of the distribution network. Retail deposit growth targets were also achieved in a highly competitive retail deposit market.

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, net profit after tax is considered the most appropriate measure to enable the assessment of the performance of the Group. The following table shows the net profit after tax for the last 5 years.

	2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000
Net profit after tax	31,018	29,071	22,850	21,579	19,959

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 commencing 1 November 2007 with the Company. This current contract will terminate on 31 October 2014. 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 2014, 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 (CONT)

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

Short Term					Post Employment	Other				
		Salary and fees ¹	STI cash bonus ²	Non-monetary benefits	Total	Super-annuation benefits	Termination benefits	Other long term benefits	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
Non executive directors										
Mr MJ Cole <i>Chairman</i>	2011	125,576	-	-	125,576	11,302	-	-	136,878	-
	2010	121,800	-	-	121,800	10,962	-	-	132,762	-
Mr KR Biddle	2011	65,372	-	-	65,372	5,883	-	-	71,255	-
	2010	63,406	-	-	63,406	5,707	-	-	69,113	-
Mr NH Cornish	2011	54,027	-	-	54,027	-	-	-	54,027	-
Mr GA Edgar	2011	15,852	-	-	15,852	1,427	-	-	17,279	-
	2010	63,406	-	-	63,406	5,707	-	-	69,113	-
Mr RHP Elvy	2011	65,372	-	-	65,372	5,883	-	-	71,255	-
	2010	63,406	-	-	63,406	5,707	-	-	69,113	-
Ms ME Towers	2011	6,438	-	-	6,438	579	-	-	7,017	-
Ms LT Gearing	2011	65,372	-	-	65,372	5,883	-	-	71,255	-
	2010	63,406	-	-	63,406	5,707	-	-	69,113	-
Mr SG McKerihan	2011	49,029	-	-	49,029	4,413	-	-	53,442	-
	2010	63,406	-	-	63,406	5,707	-	-	69,113	-
Mr LP Nicholas	2011	80,394	-	-	80,394	7,236	-	-	87,630	-
	2010	77,977	-	-	77,977	7,018	-	-	84,995	-
Total non executive directors	2011	527,432	-	-	527,432	42,606	-	-	570,038	-
	2010	516,807	-	-	516,807	46,515	-	-	563,322	-

		Short Term				Post Employment	Other			
		Salary and fees ¹	STI cash bonus ²	Non- monetary benefits	Total	Super- annuation benefits	Termination benefits	Other long term benefits ⁵	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
Executives										
Mr RJ Ryan	2011	397,292	176,715	44,743	618,750	133,556 ⁴	-	11,699	764,005	28.6
	2010	383,958	230,256	38,165	652,379	88,985 ⁴	-	10,939	752,303	35.3
Mr CJ Goodwin	2011	267,402	81,375	17,140	365,917	24,496	-	6,013	396,426	22.2
	2010	247,118	98,313	17,140	362,571	22,506	-	5,049	390,126	27.1
Mr M Brannon	2011	198,213	69,375	30,460	298,048	52,861 ⁴	-	6,301	357,210	23.3
	2010	176,208	62,129	29,635	267,972	43,058 ⁴	-	10,379	321,409	23.2
Mr CA Rumble	2011	245,408	81,875	73,739	401,022	21,314	-	6,252	428,588	20.4
	2010	228,371	85,003	55,865	369,239	23,912	-	5,466	398,617	23.0
Mr M Workman ³	2011	163,129	67,735	27,385	258,249	40,316 ⁴	-	7,365	305,930	26.2
	2010	131,225	61,948	27,385	220,558	26,861 ⁴	-	3,749	251,168	28.1
Total executives	2011	1,271,444	477,075	193,467	1,941,986	272,543	-	37,630	2,252,159	24.6
	2010	1,166,880	537,649	168,190	1,872,719	205,322	-	35,582	2,113,623	28.7
Total remuneration	2011	1,798,876	477,075	193,467	2,469,418	315,149	-	37,630	2,822,197	19.3
	2010	1,683,687	537,649	168,190	2,389,526	251,837	-	35,582	2,676,945	22.5

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 26. The amount was finally determined on 23 August 2011 (24 August 2010) after performance reviews were completed and approved by the Remuneration and CEO Evaluation Committee and the Board.

3 Disclosure of remuneration is required by S300A(1)(c) of the Corporations Act 2001 which requires details of remuneration in relation to each of the five most highly paid company executives.

4 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.

5 Includes movements in accrued long service leave entitlements.

DIRECTORS' REPORT (CONT)

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 five named executives and other key management personnel are detailed below.

Executives	Included in remuneration ^(A) \$	% vested in year	% forfeited in year ^(B)
Mr RJ Ryan	176,715	58	42
Mr M Brannon	69,375	56	44
Mr CJ Goodwin	81,375	54	46
Mr CA Rumble	81,875	63	37
Mr M Workman	67,735	97	3

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2011 financial year.

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

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors (including meetings of committees of directors) held during the year ended 30 June 2011 and the number of meetings attended by each director.

	Directors' Meetings		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)	14	14	4*	-	-	-	3	3
Mr KR Biddle	14	14	4	4	2	2	3	3
Mr NH Cornish	11	12	-	-	2	2	1	1
Mr GA Edgar	3	3	-	-	-	-	2	2
Mr RHP Elvy	13	13	4	4	1	2	-	-
Ms LT Gearing	14	14	-	-	2	2	-	-
Mr SG McKerihan	7	7	3	3	-	-	-	-
Mr LP Nicholas	14	14	4	4	1*	-	-	-
Ms M Towers	2	2	1*	-	-	-	-	-

	Nominations & Governance		IMB Community Foundation		Securitisation	
	Attended	Eligible to attend [#]	Attended	Eligible to attend [#]	Attended	Eligible to attend [#]
Mr MJ Cole (a)	4	4	2*	-	3	3
Mr KR Biddle	-	-	-	-	3	3
Mr NH Cornish	-	-	-	-	-	-
Mr GA Edgar	-	-	-	-	-	-
Mr RHP Elvy	4	4	-	-	-	-
Ms LT Gearing	4	4	-	-	-	-
Mr SG McKerihan	-	-	2	2	1	1
Mr LP Nicholas	4	4	2	2	-	-
Ms M Towers	-	-	-	-	-	-

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.

A Capital Committee was formed on 28 June 2011 however no meetings were held during the year.

The following table sets out the number of meetings of the Company's wholly owned subsidiaries' directors held during the year ended 30 June 2011 and the number of meetings attended by each director.

	IMB Land Pty Ltd		IMB Land No. 2 Pty Ltd		IMB Securitisation Services Pty Ltd		IMB Funeral Fund Management Pty Ltd		IMB Community Foundation Pty Ltd	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Mr MJ Cole	7	7	2	2	3	3	3	3	3	3
Mr KR Biddle	7	7	2	2	3	3	3	3	3	3
Mr NH Cornish	5	5	1	1	2	2	2	2	2	2
Mr GA Edgar	2	2	1	1	1	1	1	1	1	1
Mr RHP Elvy	6	7	2	2	3	3	3	3	3	3
Ms LT Gearing	7	7	2	2	3	3	3	3	3	3
Mr SG McKerihan	4	4	1	1	2	2	2	2	2	2
Mr LP Nicholas	7	7	2	2	3	3	3	3	3	3
Ms M Towers	1	1	1	1	1	1	1	1	1	1

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

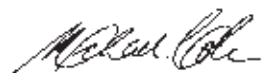
The lead auditor's independence declaration is set out on page 32 and forms part of the Directors' Report for the financial year ended 30 June 2011.

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 report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Wollongong this 29th day of August 2011

Signed in accordance with a resolution of the directors:



MJ Cole
Chairman



LP Nicholas
Director

LEAD AUDITOR'S

INDEPENDENCE DECLARATION

Under Section 307C of the Corporations Act 2001



To: the directors of IMB Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 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.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Richard Drinnan'.

Richard Drinnan
Partner

Dated at Wollongong this 29th day of August 2011

FINANCIAL STATEMENTS

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INCOME STATEMENTS

For the year ended 30 June 2011

		Consolidated		Company	
	Note	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Interest revenue	2	325,064	266,742	327,073	268,441
Interest expense	2	(228,585)	(173,723)	(230,482)	(175,296)
Net interest income		96,479	93,019	96,591	93,145
Impairment losses	2	(3,646)	(3,638)	(4,039)	(3,638)
Net interest income after impairment losses		92,833	89,381	92,552	89,507
Revenue from land development	2	80	-	-	-
Shares of profits of joint venture entity	2,28	282	217	-	-
Fee and commission income		12,000	13,130	12,000	13,130
Other income		1,384	1,468	1,279	1,216
Net operating income		106,579	104,196	105,831	103,853
Land development expense	3	(802)	(1,891)	-	-
Operating expenses	3	(61,763)	(60,753)	(61,705)	(60,692)
Profit before tax		44,014	41,552	44,126	43,161
Income tax expense	4	(12,996)	(12,481)	(13,332)	(13,029)
Profit for the year attributable to members of the Company		31,018	29,071	30,794	30,132

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 40 to 86.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Profit for the year	31,018	29,071	30,794	30,132
Other comprehensive income/(expense):				
Net change in fair value of available for sale investments	(392)	(229)	(392)	(229)
Net change in fair value of cash flow hedges	835	2,457	835	2,457
Net change in fair value of equity investments	(36)	205	(36)	205
Net change in fair value of available for sale investments transferred to profit and loss	(82)	(31)	(82)	(31)
Net change in fair value of equity investments transferred to profit and loss	(618)	-	(618)	-
Total other comprehensive expense/(income) for the year, net of income tax	(293)	2,402	(293)	2,402
Total comprehensive income for the year	30,725	31,473	30,501	32,534

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 40 to 86.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2011

		Consolidated		Company	
	Note	2011 \$000	2010 \$000	2011 \$000	2010 \$000
ASSETS					
Cash and cash equivalents	29	38,834	40,685	15,786	16,720
Available for sale investments	6	529,133	476,472	537,660	507,242
Loans and receivables to ADIs	7	447,439	569,890	447,439	569,890
Loans and receivables to members	8	3,763,503	3,576,564	3,774,589	3,586,296
Equity accounted investments	28	2,352	2,070	-	-
Other financial assets	9	505	505	2,694	3,087
Non-current assets held for sale	11	2,103	2,500	-	-
Inventories	13	6,871	5,508	-	-
Property, plant and equipment	14	14,083	13,765	14,083	13,765
Intangible assets	15	209	372	209	372
Net deferred tax assets	4	4,989	3,880	4,823	3,684
Other assets	16	2,283	3,604	7,254	9,573
Total assets		4,812,304	4,695,815	4,804,537	4,710,629
LIABILITIES					
Trade and other payables	17	25,640	26,073	8,068	8,343
Deposits	18	3,526,906	3,362,526	3,529,453	3,365,344
Securitised loans funding	19	999,733	1,064,650	1,008,259	1,095,420
Interest bearing liabilities	20	10,000	10,000	10,000	10,000
Derivative liabilities	12	329	1,522	329	1,522
Current tax liabilities	4	2,512	3,764	2,512	3,764
Provisions	21	7,576	6,823	7,576	6,823
Total liabilities		4,572,696	4,475,358	4,566,197	4,491,216
Net assets		239,608	220,457	238,340	219,413
EQUITY					
Share capital	22	46,936	46,936	46,936	46,936
Reserves		26,910	27,203	26,910	27,203
Retained earnings		165,762	146,318	164,494	145,274
Total equity attributable to members of the Company		239,608	220,457	238,340	219,413

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 40 to 86.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2011

		Consolidated		Company	
	Note	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		329,589	269,970	331,598	271,670
Dividends received		11	10	11	10
Other cash receipts in the course of operations		14,990	13,236	15,521	12,000
Interest paid on deposits		(224,206)	(168,175)	(226,101)	(169,748)
Income taxes paid		(15,357)	(14,127)	(15,723)	(14,284)
Net loans funded		(189,485)	(104,162)	(190,839)	(106,582)
Net increase in deposits		160,000	198,694	159,728	198,506
Other cash payments in the course of operations		(64,304)	(73,192)	(62,323)	(60,752)
Net cash flows from operating activities	29	11,238	122,254	11,872	130,820
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemptions of/(payments for) available for sale investments		66,248	(157,440)	88,774	(165,750)
Expenditure on property, plant and equipment, and intangibles	14,15	(3,191)	(1,897)	(3,191)	(1,897)
Proceeds from sale of property, plant and equipment		345	224	345	224
Net cash flows from investing activities		63,402	(159,113)	85,928	(167,423)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net (repayments)/proceeds from securitised loans funding		(64,917)	38,968	(87,160)	47,495
Dividends paid	5	(11,574)	(10,177)	(11,574)	(10,177)
Net cash flows from financing activities		(76,491)	28,791	(98,734)	37,318
Net (decrease)/increase in cash and cash equivalents held		(1,851)	(8,068)	(934)	715
Cash and cash equivalents at the beginning of the year		40,685	48,753	16,720	16,005
Cash and cash equivalents at the end of the year	29	38,834	40,685	15,786	16,720

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out in pages 40 to 86.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Share capital	Available for sale investments revaluation reserve	Cash flow hedge reserve	Consolidated Available for sale equity investments revaluation reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
<i>In thousands of AUD</i>								
Balance at 1 July 2009	46,936	792	(3,522)	449	1,827	25,255	127,424	199,161
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	29,071	29,071
Other comprehensive income								
Net revaluation movement due to change in fair value	-	(229)	2,457	205	-	-	-	2,433
Net change in fair value transferred to profit and loss	-	(31)	-	-	-	-	-	(31)
Total other comprehensive income	-	(260)	2,457	205	-	-	-	2,402
Total comprehensive income for the year	-	(260)	2,457	205	-	-	29,071	31,473
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(10,177)	(10,177)
Balance at 30 June 2010	46,936	532	(1,065)	654	1,827	25,255	146,318	220,457
Balance at 1 July 2010	46,936	532	(1,065)	654	1,827	25,255	146,318	220,457
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	31,018	31,018
Other comprehensive income								
Net revaluation movement due to change in fair value	-	(392)	835	(36)	-	-	-	407
Net change in fair value transferred to profit and loss	-	(82)	-	(618)	-	-	-	(700)
Total other comprehensive income	-	(474)	835	(654)	-	-	-	(293)
Total comprehensive income for the year	-	(474)	835	(654)	-	-	31,018	30,725
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(11,574)	(11,574)
Balance at 30 June 2011	46,936	58	(230)	-	1,827	25,255	165,762	239,608

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 40 to 86.

	Share capital	Available for sale investments revaluation reserve	Cash flow hedge reserve	Company Available for sale equity investments revaluation reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
<i>In thousands of AUD</i>								
Balance at 1 July 2009	46,936	792	(3,522)	449	1,827	25,255	125,319	197,056
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	30,132	30,132
Other comprehensive income								
Net revaluation movement due to change in fair value	-	(229)	2,457	205	-	-	-	2,433
Net change in fair value transferred to profit and loss	-	(31)	-	-	-	-	-	(31)
Total other comprehensive income	-	(260)	2,457	205	-	-	-	2,402
Total comprehensive income for the year	-	(260)	2,457	205	-	-	30,132	32,534
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(10,177)	(10,177)
Balance at 30 June 2010	46,936	532	(1,065)	654	1,827	25,255	145,274	219,413
Balance at 1 July 2010	46,936	532	(1,065)	654	1,827	25,255	145,274	219,413
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	30,794	30,794
Other comprehensive income								
Net revaluation movement due to change in fair value	-	(392)	835	(36)	-	-	-	407
Net change in fair value transferred to profit and loss	-	(82)	-	(618)	-	-	-	(700)
Total other comprehensive income	-	(474)	835	(654)	-	-	-	(293)
Total comprehensive income for the year	-	(474)	835	(654)	-	-	30,794	30,501
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(11,574)	(11,574)
Balance at 30 June 2011	46,936	58	(230)	-	1,827	25,255	164,494	238,340

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 40 to 86.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2011

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 report of the Company as at and for the year ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. The Group is 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 report is a general purpose financial report which has 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 report complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial report was approved by the directors on 29 August 2011.

(ii) Basis of measurement

The consolidated financial report is 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), listed equity investments (note 9), defined benefit fund liability (notes 1r and 23) and non-current assets held for sale (note 11).

(iii) Functional and presentation currency

This consolidated financial report is presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group. 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 report 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 amount 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 1r and 23).

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

(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 SPE's 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 income statement.

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.

(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 (including assets designated at fair value through profit or loss) 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 securities that are not actively traded and are intended to be held for an indefinite period of time. 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

(i) Cash flow hedges

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

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 cash flow 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 held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity 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 held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity 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.

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 asset's 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 through the unwinding of the discount. 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. For goodwill the recoverable amount is estimated each year at the same time.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

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 are taxed as a single entity from that date. Current tax expense/income, 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 'separate taxpayer within group' 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. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

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) Goodwill

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but tested annually for impairment. For joint venture entities, the consolidated financial statements include the carrying amount of goodwill in the equity accounted investment carrying amounts.

(ii) 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.

(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) Joint venture entity

The Group's interest in an incorporated joint venture is brought to account using equity accounting principles and is initially recognised at cost. The investment in the incorporated joint venture entity is carried at the lower of the equity accounted amount and recoverable amount. The Group's share of the incorporated joint venture entity's net profit or loss is recognised in the consolidated profit or loss from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

(p) Inventories

(i) Valuation

Inventories, consisting of freehold land held for development are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost includes expenses directly attributable to the cost of acquisition, development and holding costs including borrowing costs, rates and taxes. Capitalisation of borrowing costs is ceased during extended years in which active development is interrupted. When a development is completed and ceases to be a qualifying asset, borrowing costs and other costs are expensed. Independent valuations for development properties are obtained on an annual basis.

(ii) Recognition of income

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

(q) Dividends payable

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

(r) 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 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, 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 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.

(s) Directors' retirement benefits

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

(t) Interest bearing liabilities

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

(u) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or Group. Payables are stated at cost and are normally settled within 30 days.

(v) Provision for make good costs

The provision for make good costs represents the present value of the estimated future cash outflows to be made by the Company arising from its obligations as a lessee should the relevant lease not be renewed.

The provision is calculated using estimated costs required to return leased premises to the condition in which they were initially provided, by using the Company's cost of capital as at reporting date.

The expected timing of the outflows is dependent upon whether the relevant lease is renewed.

(w) 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 part of the 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.

(x) 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.

(y) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, 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, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. 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.

(z) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement - AASB 14* make amendments to Interpretation 14 AASB 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements.

AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Note	Consolidated 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
2 OPERATING INCOME					
Interest revenue					
Loans					
– to members		261,348	219,808	261,348	219,808
– consolidated entities, key management personnel, and related entities		696	413	862	587
– ADIs		29,601	20,240	29,601	20,240
Available for sale investments		33,419	26,281	35,262	27,806
		325,064	266,742	327,073	268,441
Interest expense					
Deposits					
– from members		171,149	128,261	171,149	128,261
– controlled entities		-	-	55	49
– subordinated debt		737	624	737	624
Securitised loans funding		56,697	44,837	58,539	46,361
Other interest expense		2	1	2	1
		228,585	173,723	230,482	175,296
Net interest income		96,479	93,019	96,591	93,145
Impairment losses					
Impairment of available for sale investments		1,100	-	1,100	-
Impairment of other financial assets		-	-	393	-
Impairment of loans and receivables to members					
– amounts written off during the year	10	1,437	1,103	1,437	1,103
– increase in provision for impairment	10	1,109	2,535	1,109	2,535
		3,646	3,638	4,039	3,638
Net interest income after impairment losses		92,833	89,381	92,552	89,507
Share of profits of joint venture entity	28	282	217	-	-

2 OPERATING INCOME (CONTINUED)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Other income				
Dividends	11	10	11	10
Profit from sale of property, plant and equipment	67	14	67	14
Loan switch and breakout fees	668	1,394	668	1,394
Transaction fees	7,666	8,135	7,666	8,135
Payment system fees	1,627	1,636	1,627	1,636
Property income	157	135	157	135
Impairment losses recovered	155	799	155	799
Commissions	2,039	1,965	2,039	1,965
Gain on sale of Visa shares transferred from equity	789	-	789	-
Other	205	510	100	258
	13,384	14,598	13,279	14,346
Revenue from land development	80	-	-	-
Net operating income	106,579	104,196	105,831	103,853

3 OPERATING EXPENSES

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Personnel expense				
Salaries	27,540	26,473	27,540	26,473
Payroll tax	1,559	1,562	1,559	1,562
Fringe benefits tax	430	390	430	390
Superannuation	3,082	2,629	3,082	2,629
	32,611	31,054	32,611	31,054
Occupancy expense				
Repairs and maintenance	612	850	612	850
Rental on operating leases	5,025	4,925	5,025	4,925
Other	1,800	1,775	1,800	1,775
	7,437	7,550	7,437	7,550
Payment system expense	2,714	2,449	2,714	2,449
Marketing expense	5,502	5,161	5,502	5,161
Data processing expense	2,181	2,157	2,181	2,157
Postage and printing expense	1,462	1,535	1,462	1,535
Contributions to IMB Community Foundation	424	440	424	440
Goods and services tax not recovered	2,213	2,125	2,213	2,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
3 OPERATING EXPENSES (CONTINUED)				
Sundry expenses				
Depreciation and amortisation				
– plant and equipment	2,374	2,347	2,374	2,347
– buildings	148	147	148	147
– intangibles	190	431	190	431
Loss from sale of property, plant and equipment	44	23	44	23
Auditors' remuneration (KPMG)				
– audit and review of financial reports	304	295	256	248
– other services				
– other assurance services	33	70	28	27
– taxation services	14	27	14	27
– advisory services	120	36	107	36
Other	3,992	4,906	4,000	4,935
	7,219	8,282	7,161	8,221
Total operating expenses	61,763	60,753	61,705	60,692
Land development expense	802	1,891	-	-
Total non interest expense	62,565	62,644	61,705	60,692

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
4 TAXATION				
(a) Income tax expense				
Current tax expense				
– current year	13,705	14,461	14,340	14,557
– adjustment for prior years	416	(63)	5	(5)
	14,121	14,398	14,345	14,552
Deferred tax expense – origination and reversal of temporary differences	(1,125)	(1,917)	(1,013)	(1,523)
Total income tax expense	12,996	12,481	13,332	13,029

4 TAXATION (CONTINUED)

Reconciliation between income tax expense and profit before tax

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Profit before tax	44,014	41,552	44,126	43,161
Prima facie income tax expense at 30% on operating profit	13,204	12,466	13,238	12,948
Increase in income tax expense due to:				
– depreciation of buildings	44	44	44	44
– non deductible entertainment	46	37	46	37
– other	8	4	8	4
Decrease in income tax expense due to:				
– income tax over provided for in prior year	(2)	-	(2)	-
– other deductible expenses	-	(3)	-	(3)
– other	(304)	(67)	(2)	(1)
Income tax expense	12,996	12,481	13,332	13,029
Income tax recognised directly in equity				
Relating to equity investments	(280)	88	(280)	88
Relating to available for sale investments	(203)	(111)	(203)	(111)
Relating to cash flow hedges	358	1,053	358	1,053
	(125)	1,030	(125)	1,030

(b) Current tax liabilities

The current tax liability for the Group of \$2,512,000 (2010: \$3,764,000) and for the Company of \$2,512,000 (2010: \$3,764,000) represents the amount of income taxes payable in respect of current and prior financial years due to the relevant tax authority. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Deferred tax (liabilities)/assets				
Deferred tax liabilities and assets are attributable to the following:				
Deferred expenditure	(248)	(376)	(248)	(376)
Deferred lending fees	(569)	(826)	(569)	(826)
Property, plant and equipment	(62)	(132)	(62)	(132)
Available for sale investments	-	(228)	-	(228)
Other equity investments	-	(195)	-	(195)
Total deferred tax liabilities	(879)	(1,757)	(879)	(1,757)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
4 TAXATION (CONTINUED)				
Provisions and accrued expenses	2,528	2,427	2,528	2,427
Employee benefits	2,118	1,892	2,118	1,892
Unearned income	581	550	581	550
Available for sale investments	305	-	305	-
Derivative liabilities	99	457	99	457
Freehold land held for development	158	178	-	-
Consulting and legal fees	74	123	66	105
Other	5	10	5	10
Total deferred tax assets	5,868	5,637	5,702	5,441
Net deferred tax assets	4,989	3,880	4,823	3,684

	Cents per Share	Total amount \$000	% Franked	Date of payment
5 DIVIDENDS				
Dividends recognised in current year by the Company are:				
2011				
2011 interim dividend	10.0	3,990	100	27-Feb-11
2010 final dividend	19.0	7,584	100	03-Sep-10
		11,574		
2010				
2010 interim dividend	10.0	3,990	100	27-Feb-10
2009 final dividend	15.5	6,187	100	30-Aug-09
		10,177		

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

Subsequent events

On 29 August 2011 the Board declared a final ordinary dividend of 15.0 cents per share amounting to \$5,987,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2011. The dividend is payable on 8 September 2011. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial reports. The declaration and subsequent payment of dividends has no income tax consequences.

5 DIVIDENDS (CONTINUED)

Dividend franking account

30% franking credits available to members of the Company for dividends in subsequent financial years

Company

2011
\$000

2010
\$000

72,750

63,588

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 there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$2,566,000 (2010: \$3,250,000). 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 (2010: \$nil) of franking credits.

6 AVAILABLE FOR SALE INVESTMENTS

Available for sale investments*

- government and semi-government securities
- certificates of deposit issued by banks
- floating rate notes
- equity investments
- other bonds**

Total investments

Consolidated

2011
\$000

2010
\$000

Company

2011
\$000

2010
\$000

103,979

9,729

103,979

9,729

24,852

65,198

24,852

65,198

400,302

397,768

408,829

428,538

-

1,707

-

1,707

-

2,070

-

2,070

529,133

476,472

537,660

507,242

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

** Other bonds are domestic securities of foreign sovereigns, supranationals, and government agencies. These instruments have been approved by the Australian Prudential Regulation Authority ("APRA") who has assigned them either a 0% or 20% risk weighting for capital adequacy purposes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
7 LOANS AND RECEIVABLES TO ADIS				
Loans to Authorised Deposit-taking Institutions ("ADIs")	447,439	569,890	447,439	569,890
Total loans and receivables to ADIs	447,439	569,890	447,439	569,890
LOANS BY MATURITY				
– up to three months	426,362	545,654	426,362	545,654
– from three to six months	20,065	24,236	20,065	24,236
– from six to nine months	1,012	-	1,012	-
Total loans and receivables to ADIs	447,439	569,890	447,439	569,890

	Note	Consolidated		Company	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000
8 LOANS AND RECEIVABLES TO MEMBERS					
Loans to					
– members*		3,766,524	3,581,019	3,766,524	3,581,019
– consolidated entities, key management personnel and related entities	30,31	2,973	430	14,059	10,162
Provision for impairment	10	(5,994)	(4,885)	(5,994)	(4,885)
Total loans net of provision for impairment		3,763,503	3,576,564	3,774,589	3,586,296
LOANS BY MATURITY					
Loans maturing					
– revolving credit		6,021	13,385	17,107	17,218
– up to three months		16,911	14,072	16,911	14,072
– from three to six months		17,378	14,270	17,378	14,270
– from six to nine months		18,240	15,184	18,240	15,184
– from nine to twelve months		18,358	14,871	18,358	14,871
– from one to five years		291,472	222,517	291,472	228,416
– over five years		3,401,117	3,287,150	3,401,117	3,287,150
Provision for impairment	10	(5,994)	(4,885)	(5,994)	(4,885)
Total loans net of provision for impairment		3,763,503	3,576,564	3,774,589	3,586,296

* Includes \$894,413,000 of securitised residential loans and \$114,809,000 of securitised commercial loans (2010: \$909,081,000 of securitised residential loans and \$187,768,000 of securitised commercial loans).

9 OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Other equity investments – at cost*	505	505	2,333	2,333
Investments in controlled entities	-	-	361	754
Total other financial assets	505	505	2,694	3,087

* 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.

10 PROVISION FOR IMPAIRMENT OF LOANS AND RECEIVABLES TO MEMBERS

Specific provision

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Opening balance	1,003	640	1,003	640
Additions to specific provision	2,313	475	2,313	475
Loans written off, previously provided for	(888)	(23)	(888)	(23)
Reversal of provision	(220)	(89)	(220)	(89)
Closing balance	2,208	1,003	2,208	1,003

Collective provision

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Opening balance	3,882	1,710	3,882	1,710
Additions to collective provision	331	2,826	331	2,826
Loans written off	(366)	(654)	(366)	(654)
Reversal of provision	(61)	-	(61)	-
Closing balance*	3,786	3,882	3,786	3,882

Total provision for impairment

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Impairment of loans and receivables to members				
Movement in specific provision	1,205	363	1,205	363
Movement in collective provision	(96)	2,172	(96)	2,172
Impairment losses written off directly	1,437	1,103	1,437	1,103
	2,546	3,638	2,546	3,638

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
11 NON-CURRENT ASSETS HELD FOR SALE				
Assets classified as held for sale				
Freehold land	2,103	2,500	-	-

Inventory related to 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 have commenced, and a sale is expected to be realised within twelve months.

An impairment loss of \$800,000 (2010: \$1,878,000) is included in the land development expense in the income statement.

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
12 DERIVATIVE LIABILITIES				
Interest rate swaps at fair value	329	1,522	329	1,522

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
13 INVENTORIES				
Freehold land held for development and sale				
– acquisition costs	4,465	4,541	-	-
– development costs capitalised	1,730	579	-	-
– rates, taxes and interest capitalised	676	388	-	-
Total inventories	6,871	5,508	-	-

14 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$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	(1,768)	(1,620)	(1,768)	(1,620)
	4,124	4,272	4,124	4,272
Total land and buildings	7,289	7,437	7,289	7,437
Plant and equipment				
– at cost	32,333	31,043	32,333	31,043
– accumulated depreciation	(26,172)	(25,217)	(26,172)	(25,217)
Total plant and equipment	6,161	5,826	6,161	5,826
Work in progress – at cost	633	502	633	502
Total property, plant and equipment – at cost	42,023	40,602	42,023	40,602
Total accumulated depreciation	(27,940)	(26,837)	(27,940)	(26,837)
Total property, plant and equipment – carrying amount	14,083	13,765	14,083	13,765
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	4,272	4,419	4,272	4,419
Depreciation	(148)	(147)	(148)	(147)
Carrying amount at the end of the year	4,124	4,272	4,124	4,272
Plant and equipment				
Carrying amount at the beginning of the year	5,826	7,081	5,826	7,081
Additions	1,372	642	1,372	642
Transfers from work in progress	1,661	683	1,661	683
Disposals	(324)	(233)	(324)	(233)
Depreciation	(2,374)	(2,347)	(2,374)	(2,347)
Carrying amount at the end of the year	6,161	5,826	6,161	5,826
Work in progress				
Carrying amount at the beginning of the year	502	104	502	104
Additions	1,792	1,081	1,792	1,081
Transfers to plant and equipment	(1,661)	(683)	(1,661)	(683)
Carrying amount at the end of the year	633	502	633	502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
15 INTANGIBLE ASSETS				
Intangible computer software				
– at cost	7,337	7,310	7,337	7,310
– accumulated amortisation	(7,128)	(6,938)	(7,128)	(6,938)
Total Intangible computer software	209	372	209	372
Reconciliation				
Intangible computer software				
Carrying amount at the beginning of the year	372	629	372	629
Additions	27	174	27	174
Amortisation	(190)	(431)	(190)	(431)
Carrying amount at the end of the year	209	372	209	372

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
16 OTHER ASSETS				
Sundry debtors	2,283	3,604	7,254	9,573

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
17 TRADE AND OTHER PAYABLES				
Trade creditors	8,110	8,412	8,068	8,343
Distributions payable by SPEs	17,253	17,361	-	-
Fees payable by SPEs	277	300	-	-
Total trade and other payables	25,640	26,073	8,068	8,343

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

18 DEPOSITS

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Retail deposits	2,644,844	2,456,768	2,647,391	2,459,586
Middle markets	844,290	872,367	844,290	872,367
Accrued interest	37,772	33,391	37,772	33,391
Total deposits	3,526,906	3,362,526	3,529,453	3,365,344

CONCENTRATION OF DEPOSITS

New South Wales	3,045,562	2,855,881	3,048,109	2,858,699
Australian Capital Territory	192,490	228,596	192,490	228,596
Queensland	68,641	34,341	68,641	34,341
South Australia	25,659	5,464	25,659	5,464
Victoria	144,392	172,429	144,392	172,429
Western Australia	12,469	5,698	12,469	5,698
Tasmania	28,334	25,768	28,334	25,768
Northern Territory	9,359	34,349	9,359	34,349
Total deposits	3,526,906	3,362,526	3,529,453	3,365,344

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

19 SECURITISED LOANS FUNDING

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Notes payable	999,733	1,064,650	-	-
Loans from securitisation trusts	-	-	1,008,259	1,095,420
Total securitised loans funding	999,733	1,064,650	1,008,259	1,095,420

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

Note	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
20 INTEREST BEARING LIABILITIES				
Subordinated floating rate notes	1t	10,000	10,000	10,000

Subordinated Floating Rate Notes were issued for a ten year period maturing 2012 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 240 basis points (2010: 240 basis points). 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.

Note	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
21 PROVISIONS				
Make good provision				
Balance at the beginning of the year	515	526	515	526
Provisions used during the year	-	(11)	-	(11)
Balance at the end of the year	515	515	515	515
Employee benefits				
Balance at the beginning of the year	6,308	5,701	6,308	5,701
Provisions made during the year	3,304	2,482	3,304	2,482
Provisions used during the year	(2,551)	(1,875)	(2,551)	(1,875)
Balance at the end of the year	7,061	6,308	7,061	6,308
Total provisions	7,576	6,823	7,576	6,823

22 SHARE CAPITAL AND RESERVES

Share capital

39,911,640 (2010: 39,911,640) ordinary shares, fully paid

Consolidated		Company	
2011 \$000	2010 \$000	2011 \$000	2010 \$000
46,936	46,936	46,936	46,936

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 investments until the investment is derecognised, 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.

Available for sale equity investments revaluation reserve

The available for sale equity investments revaluation reserve relates to the cumulative net change in the fair value of investments in listed shares, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
23 EMPLOYEE BENEFITS				
Current				
Liability for annual leave	2,618	2,477	2,618	2,477
Liability for banked time	2	2	2	2
Liability for directors' retirement benefits	-	139	-	139
Liability for long service leave	2,720	2,217	2,720	2,217
	5,340	4,835	5,340	4,835
Non current				
Present value of defined benefit fund obligations	5,435	6,189	5,435	6,189
Fair value of defined benefit fund assets	(4,323)	(4,922)	(4,323)	(4,922)
Present value of net obligations	1,112	1,267	1,112	1,267
Unrecognised actuarial losses	(351)	(716)	(351)	(716)
Recognised liability for defined benefit obligations	761	551	761	551
Liability for long service leave	856	818	856	818
Liability for directors' retirement benefits	104	104	104	104
	1,721	1,473	1,721	1,473
Total employee benefits	7,061	6,308	7,061	6,308

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 (2010: 13) in the plan. An actuarial assessment of the plan at 1 July 2011 was carried out by Ms SA Sweeney FIAA on 13 July 2011.

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$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	551	512	551	512
Contributions received from employer	(382)	(318)	(382)	(318)
Expenses recognised in the income statement	592	357	592	357
Net liability for defined benefit obligations at the end of the year	761	551	761	551

23 EMPLOYEE BENEFITS (CONTINUED)

Movement in the present value of the defined benefit obligations are as follows:

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Defined benefit obligation at the beginning of the year	6,189	5,107	6,189	5,107
Service cost	503	372	503	372
Interest cost	329	277	329	277
Actuarial gains	(366)	310	(366)	310
Contributions by employees	150	247	150	247
Benefits paid	(1,241)	-	(1,241)	-
Other	(129)	(124)	(129)	(124)
Defined benefit obligation at the end of the year	5,435	6,189	5,435	6,189

Movement in the present value of fund assets are as follows:

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Fair value of fund assets at the beginning of the year	4,922	4,012	4,922	4,012
Actual return	239	469	239	469
Contributions by employer	382	318	382	318
Contributions by employees	150	247	150	247
Benefits paid	(1,241)	-	(1,241)	-
Other	(129)	(124)	(129)	(124)
Fund assets at the end of the year	4,323	4,922	4,323	4,922

The major categories of fund assets as a percentage of total fund assets are as follows:

	Consolidated		Company	
	2011 %	2010 %	2011 %	2010 %
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

23 EMPLOYEE BENEFITS (CONTINUED)

Expenses recognised in the profit or loss

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current service costs	503	372	503	372
Interest on obligation	329	277	329	277
Expected return on fund assets	(328)	(298)	(328)	(298)
Actuarial losses	8	6	8	6
Settlement losses	80	-	80	-
Total	592	357	592	357

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

The actual return on fund assets was a \$239,000 gain (2010: \$469,000 gain).

	Consolidated		Company	
	2011 %	2010 %	2011 %	2010 %
Actuarial assumptions				
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:				
Discount rate at 30 June	5.3	5.1	5.3	5.1
Expected return on fund assets at 30 June	6.5	6.3	6.5	6.3
Future salary increases	5.0	5.0	5.0	5.0

The overall expected long-term rate of return on assets is 6.5%. 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.

	2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000
Historic information					
Amounts for the current and previous annual periods relating to both the Company and Group are as follows:					
Present value of defined benefit obligation	5,435	6,189	5,107	4,635	6,454
Fair value of fund assets	(4,323)	(4,922)	(4,012)	(4,743)	(7,238)
Deficit/(Surplus) in the plan	1,112	1,267	1,095	(108)	(784)
Experience adjustments (gain)/loss arising on plan liabilities	(246)	(77)	(235)	137	(293)*
Experience adjustments loss/(gain) arising on plan assets	89	(171)	1,003	810	(659)

* Actuarial (gains)/losses shown as experience (gains)/ losses not available.

The Company expects \$353,000 in contributions to be paid to the funded defined benefit plan during the year ended 30 June 2012.

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was \$2,319,000 for the financial year (2010: \$2,048,000).

24 CAPITAL AND OTHER COMMITMENTS

Loan commitments approved but not advanced

– not later than one year

– later than one year

	Consolidated 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
Total	293,932	288,854	293,932	288,854

Capital expenditure commitments not taken up in the financial statements

– not later than one year

Non cancellable operating lease rentals payable

– not later than one year

– later than one year but not later than five years

– later than five years

	Consolidated 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
Total	14,387	10,368	14,387	10,368

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

Bank overdraft available

Bank overdraft utilised

	Consolidated 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
Facilities not utilised	2,444	2,500	2,444	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 10.96% (2010: 10.61%).

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 \$3,020,000 (2010: \$1,695,000) issued on behalf of clients' supporting performance, rental and other commercial obligations. The Company holds either term deposits or real estate as security against these performance guarantees.

These facilities are established on the basis that the beneficiary of the Guarantee can call up the guarantee at any time and IMB is obliged to make good the value within the guarantee. In such circumstances the value of the payment under the guarantee is recovered from the security or a loan supported by the security.

Considering the contingent liability imposed upon IMB, fees are charged for the establishment and ongoing management of such facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

27 CONSOLIDATED ENTITIES

Parent entity

IMB Ltd

Subsidiaries

	Principal Activity	Ownership interest 2011 %	2010 %
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

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

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

All entities are incorporated in Australia.

28 EQUITY ACCOUNTED INVESTMENTS

Details of the interest in an incorporated joint venture is as follows:

Name	Nature of activities	Joint venture reporting date		Percentage interest	
		2011	2010	2011 %	2010 %
IMB Financial Planning Limited	Financial planning	30 June	30 June	50.0	50.0
Country of incorporation					
Australia					

	2011		2010	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Results of incorporated joint venture				
The joint venture entity's result consists of:				
Revenues	3,154	3,092	1,577	1,546
Expenses*	(2,382)	(2,468)	(1,191)	(1,234)
Profit before income tax expense	772	624	386	312
Income tax expense*	(208)	(190)	(104)	(95)
Net profit accounted for using the equity method	564	434	282	217
Balance sheet				
The joint venture entity's assets and liabilities consists of:				
Current assets	3,460	3,080	1,730	1,540
Non-current assets	3,710	3,968	1,855	1,984
Total assets	7,170	7,048	3,585	3,524
Current liabilities	866	698	433	349
Non-current liabilities	1,290	1,888	645	944
Total liabilities	2,156	2,586	1,078	1,293
Net assets accounted for using the equity method	5,014	4,462	2,507	2,231
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	289	72		
Share of joint venture entity's net profit	282	217		
Share of joint venture entity's retained profits at the end of the year	571	289		
Movement in carrying amount of investment in incorporated joint venture entity				
Carrying amount at the beginning of the year	2,070	1,853		
Share of joint venture entity's net profit	282	217		
Carrying amount at the end of the year	2,352	2,070		
Share of non-capital commitments attributable to joint venture entity				
Non-cancellable operating leases				
Payable not later than 1 year	10	49		
Share of joint venture entity's non-capital operating leases	10	49		

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

29 NOTES TO THE STATEMENTS OF CASH FLOWS

RECONCILIATION OF CASH

Cash and cash equivalents at the end of the year as shown in the statements of cash flows is reconciled to the related item in the balance sheets:

	Consolidated 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
Cash controlled by the Group	15,790	16,729	15,786	16,720
Cash controlled by SPEs	23,044	23,956	-	-
Total	38,834	40,685	15,786	16,720

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

	Consolidated 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year attributable to members of the Company	31,018	29,071	30,794	30,132
Net (gain)/loss on sale of property, plant and equipment	(23)	9	(23)	9
Impairment of loans and receivables to members	2,546	3,638	2,546	3,638
Impairment of non-current assets held for sale	800	1,878	-	-
Impairment of other financial assets	-	-	393	-
Impairment of available for sale assets	1,100	-	1,100	-
Depreciation of property, plant and equipment, and amortisation of intangibles	2,712	2,925	2,712	2,925
Operating profit before changes in assets and liabilities	38,153	37,521	37,522	36,704
Changes in assets and liabilities:				
Decrease/(Increase) in accrued interest on investments	676	(1,469)	674	(1,469)
(Increase) in loans and receivables	(189,485)	(104,162)	(190,839)	(106,582)
(Increase)/Decrease in inventories	(2,163)	32	-	-
Decrease/(Increase) in non-current assets held for sale	397	(2,500)	-	-
Decrease in deferred expenditure	-	395	-	395
Decrease/(Increase) in sundry debtors	1,321	(1,556)	2,319	(2,322)
(Increase) in net deferred tax asset	(1,109)	(886)	(1,139)	(495)
Increase in accrued interest on members' deposits	4,381	5,549	4,381	5,549
(Decrease)/Increase in trade and other payables	(433)	(9,199)	(275)	699
Increase in deposits	159,999	198,694	159,728	198,506
Increase in provision for employee benefits	753	607	753	607
(Decrease) in provision for income tax	(1,252)	(761)	(1,252)	(761)
(Decrease) in other provisions	-	(11)	-	(11)
Net cash flows from operating activities	11,238	122,254	11,872	130,820

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 KR Biddle
 Mr RHP Elvy
 Ms LT Gearing
 Mr LP Nicholas
 Mr NH Cornish (appointed 28 September 2010)
 Mr GA Edgar (retired 28 September 2010)
 Mr SG McKerihan (retired 7 February 2011)
 Ms ME Towers (appointed 26 May 2011)

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 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
The key management personnel compensation included in "personnel expense" (see note 3) is as follows:				
Short-term employee benefits	2,211,169	2,168,968	2,211,169	2,168,968
Post employment benefits	274,833	224,976	274,833	224,976
Other long-term benefits	30,265	31,833	30,265	31,833
Total	2,516,267	2,425,777	2,516,267	2,425,777

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.

This summary table differs from the remuneration disclosures in the Directors' Report on page 24 for the following reasons:

- The amounts in this table exclude Mr M Workman as he is not classified as key management personnel and is only included in the remuneration report as one of the top 5 highest paid executives in accordance with Corporations Act requirements.

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 material contract with the Group or the Company since the end of the previous financial year and there were no material 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	2011	168,872	168,913	-	11,644	168,946
	2010	168,651	168,872	-	9,824	168,872
Mr NH Cornish	2011	-	2,503,897	-	34,489	2,508,112
	2010	-	-	-	-	-
Mr M Brannon	2011	271,524	194,216	-	14,824	276,276
	2010	315,406	271,524	-	16,172	330,507
Mr MJ Cole – related party*	2011	-	-	-	-	-
	2010	970,294	-	-	-	970,294

* Loan to related party was fully repaid on 1 July 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

30 RELATED PARTY DISCLOSURES (CONTINUED)

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 2011	440,396	2,867,026	60,957	3
Total for key management personnel 2010	484,057	440,396	25,996	2
Total for other related parties 2011	-	-	-	0
Total for other related parties 2010	970,294	-	-	1
Total for key management personnel and their related parties 2011	440,396	2,867,026	60,957	3
Total for key management personnel and their related parties 2010	1,454,351	440,396	25,996	3

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:

		Opening balance	Purchases	Sales	Closing balance
Directors					
Mr MJ Cole	2011	-	-	-	-
	2010	7,131	2,869	10,000	-
- related party	2011	59,895	-	-	59,895
	2010	-	59,895	-	59,895
Mr KR Biddle	2011	5,325	-	-	5,325
	2010	5,000	325	-	5,325
- related party	2011	23,056	-	5,178	17,878
	2010	23,381	-	325	23,056
Mr GA Edgar*	2011	3,000	-	-	3,000
	2010	3,000	-	-	3,000
- related party*	2011	38,976	-	-	38,976
	2010	38,976	-	-	38,976
Mr RHP Elvy	2011	5,454	-	-	5,454
	2010	5,454	-	-	5,454
Ms LT Gearing	2011	4,000	-	-	4,000
	2010	4,000	-	-	4,000
Mr NH Cornish	2011	1,000	1,000	-	2,000
	2010	-	1,000	-	1,000
Mr SG McKerihan*	2011	5,000	-	-	5,000
	2010	5,000	-	-	5,000
Mr LP Nicholas	2011	2,000	-	-	2,000
	2010	2,000	-	-	2,000
- related party	2011	43,890	-	-	43,890
	2010	38,890	5,000	-	43,890

Key management personnel holdings of shares and deposits (continued)

		Opening balance	Purchases	Sales	Closing balance
Executives					
Mr RJ Ryan	2011	4,000	-	-	4,000
	2010	4,000	-	-	4,000
Mr CA Rumble	2011	100	-	-	100
	2010	-	100	-	100
Mr M Brannon	2011	4,954	-	-	4,954
	2010	4,954	-	-	4,954

* Closing balance represents shareholdings at the time of retirement.

No shares were granted to key management personnel during the reporting year as compensation in 2011 or 2010.

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 \$358 (2010: \$2,848).

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 \$60,997 (2010: \$84,704).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

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:

	2011 \$000	2010 \$000
IMB Land Pty Ltd	(307)	(221)
IMB Land No. 2 Pty Ltd	(296)	(147)
IMB Securitisation Services Pty Limited	76	64
Total	(527)	(304)

IMB Land Pty Ltd, a controlled entity has deposits with the Company amounting to \$1,041,000 (2010: \$1,323,000). 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 \$7,744,000 at 30 June 2011 (2010: \$7,666,000). The Group share of these loans is 50%. During the year there were repayments of \$538,000 (2010: \$650,000) and advances of \$9,000 (2010: \$120,000). Aggregate interest of \$607,000 (2010: \$531,000) was charged during the year.

IMB Land No. 2 Pty Ltd, a controlled entity has deposits with the Company amounting to \$44,000 (2010: \$90,000). 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 \$10,305,000 at 30 June 2011 (2010: \$8,426,000). The Group share of these loans is 70%. During the year there were repayments of \$nil (2010: \$nil) and advances of \$1,167,000 (2010: \$3,035,000). Aggregate interest of \$712,000 (2010: \$421,000) was charged during the year.

Joint Venture Entity

IMB Financial Planning Limited has related party transactions with the Company. Deposits with the Company by IMB Financial Planning Limited amount to \$2,797,000 (2010: \$2,308,000). These amounts are received on normal commercial terms and conditions.

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 \$14,000 (2010: \$14,000). The Company also provides premises for IMB Financial Planning Limited. The Company has received \$30,000 (2010: \$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 \$15,000 (2010: \$15,000) to IMB Financial Planning Limited during the year.

As at the reporting date a net receivable of \$47,000 (2010: \$61,000) 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.

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.

The Company holds rated securities in two of the Trusts as part of its normal investment activities. At 30 June 2011, the Company held \$nil (2010: \$22,200,000) in the Illawarra Series 2004-1 CMBS Trust and \$8,500,000 (2010: \$8,500,000) in the Illawarra Series 2010-1 RMBS Trust.

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

	2011 \$000	2010 \$000
Proceeds from securitisation of loans	132,000	261,000
Servicing fees received	2,628	2,603
Management fees received	315	312
Excess income received	7,013	6,223
Other	240	251

32 SEGMENT REPORTING

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

33 AVERAGE BALANCE SHEET AND RELATED INTEREST

	Consolidated					
	2011			2010		
	Average Balance \$000	Interest \$000	Average Rate %	Average Balance \$000	Interest \$000	Average Rate %
INTEREST BEARING ASSETS						
Loans and receivables to members	3,666,170	262,044	7.15	3,502,608	220,221	6.29
Loans and receivables to ADIs	476,115	29,601	6.22	430,693	20,240	4.70
Available for sale investments	581,831	33,419	5.74	480,073	26,281	5.47
Total interest bearing assets	4,724,116	325,064		4,413,374	266,742	
Impairment losses	-	(3,646)	-	-	(3,638)	-
NON INTEREST BEARING ASSETS						
Inventories	8,356	-	-	5,686	-	-
Property, plant and equipment	14,048	-	-	14,223	-	-
Other assets	33,938	-	-	26,979	-	-
Total non interest bearing assets	56,342	-	-	46,888	-	-
Total assets	4,780,458	321,418	-	4,460,262	263,104	-
INTEREST BEARING LIABILITIES						
Deposits	3,476,470	171,151	4.92	3,193,576	128,262	4.02
Notes payable	1,018,628	56,697	5.57	1,009,970	44,837	4.44
Subordinated floating rate notes	10,000	737	7.37	10,000	624	6.24
Total interest bearing liabilities	4,505,098	228,585		4,213,546	173,723	
NON INTEREST BEARING LIABILITIES						
Other liabilities	45,095	-	-	37,857	-	-
Total liabilities	4,550,193	228,585	-	4,251,403	173,723	-
Net assets	230,265	-	-	208,859	-	-
Net interest income after impairment losses	-	92,833	-	-	89,381	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

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. Larger facilities require approval by the Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Origination Services assesses all credit exposures prior to facilities being committed to members. Any facilities in excess of designated limits are escalated through to the appropriate approval level. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposures to certain board approved asset classes.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Treasury is responsible for managing IMB's liquidity investments including making investments, ensuring investment policies are adhered to and ensuring compliance with investment guidelines. These include limiting concentrations of exposures to duration, asset class and counterparties. IMB's Accounting Department is responsible for reviewing compliance with these limits.

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

Exposure to credit risk

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

		Loans & receivables to Members		Loans & receivables to ADIs		Available for sale investments		Cash and cash equivalents	
	Note	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
CONSOLIDATED									
Carrying Amount	6,7,8,29	3,763,503	3,576,564	447,439	569,890	529,133	476,472	38,834	40,685
Individually impaired									
Gross amount		8,214	1,806	-	-	-	-	-	-
Provision for impairment		(2,208)	(1,003)	-	-	-	-	-	-
Carrying amount		6,006	803	-	-	-	-	-	-
Past due but not impaired									
Days in arrears:									
Less than one month		88,538	73,010	-	-	-	-	-	-
Greater than one month and less than two months		12,254	8,753	-	-	-	-	-	-
Greater than two months and less than three months		4,092	1,408	-	-	-	-	-	-
Greater than three months		1,799	3,346	-	-	-	-	-	-
Carrying amount		106,683	86,517	-	-	-	-	-	-
Neither past due nor impaired									
Secured by mortgage		3,582,220	3,427,838	-	-	-	-	-	-
Government securities		-	-	-	-	103,979	9,729	-	-
Investment grade		-	-	235,679	347,864	425,154	465,036	38,834	40,685
Unrated		-	-	205,279	217,018	-	-	-	-
Other		72,419	64,367	6,481	5,008	-	1,707	-	-
Net deferred income & expense		(39)	921	-	-	-	-	-	-
Carrying amount		3,654,600	3,493,126	447,439	569,890	529,133	476,472	38,834	40,685
Collective impairment provision	10	(3,786)	(3,882)	-	-	-	-	-	-
Total carrying amount	6,7,8,29	3,763,503	3,576,564	447,439	569,890	529,133	476,472	38,834	40,685
Includes restructured loans		17,429	11,018	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Exposure to credit risk

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

	Note	Loans & receivables to Members		Loans & receivables to ADIs		Available for sale investments		Cash and cash equivalents	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
COMPANY									
Carrying Amount	6,7,8,29	3,774,589	3,586,296	447,439	569,890	537,660	507,242	15,786	16,720
Individually impaired									
Gross amount		8,214	1,806	-	-	8,527	-	-	-
Provision for impairment		(2,208)	(1,003)	-	-	-	-	-	-
Carrying amount		6,006	803	-	-	8,527	-	-	-
Past due but not impaired									
Days in arrears:									
Less than one month		88,538	73,010	-	-	-	-	-	-
Greater than one month and less than two months		12,254	8,753	-	-	-	-	-	-
Greater than two months and less than three months		4,092	1,408	-	-	-	-	-	-
Greater than three months		1,799	3,346	-	-	-	-	-	-
Carrying amount		106,683	86,517	-	-	-	-	-	-
Neither past due nor impaired									
Secured by mortgage		3,593,306	3,435,504	-	-	-	-	-	-
Government securities		-	-	-	-	103,979	9,729	-	-
Investment grade		-	-	235,679	347,864	425,154	495,806	15,786	16,720
Unrated		-	-	205,279	217,018	-	-	-	-
Other		72,419	66,433	6,481	5,008	-	1,707	-	-
Net deferred income & expense		(39)	921	-	-	-	-	-	-
Carrying amount		3,665,686	3,502,858	447,439	569,890	529,133	507,242	15,786	16,720
Collective impairment provision	10	(3,786)	(3,882)	-	-	-	-	-	-
Total carrying amount	6,7,8,29	3,774,589	3,586,296	447,439	569,890	537,660	507,242	15,786	16,720
Includes restructured loans		17,429	11,018	-	-	-	-	-	-

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 (2010: \$nil).

IMB issues guarantees to business banking clients with a maximum credit exposure of \$3,020,000 (2010: \$1,695,000). Refer note 26 for more details.

Impaired loans and securities

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

Past due loans but not impaired loans

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

Restructured loans

Restructured loans have renegotiated terms due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category subject to satisfactory performance after restructuring for a period of at least six months.

Allowance for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures subject to individual assessment for impairment, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are not subject to individual assessment for impairment.

Write off policy

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

Collateral and other credit enhancements

The Group holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets, and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to other ADIs and available for sale investments.

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

Loans and receivables to Members				
	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Against individually impaired				
Property value	6,237	1,000	8,707	1,000
Against past due but not impaired				
Property value	168,224	106,915	168,224	106,915
Other	1,525	1,870	1,525	1,870
Total	175,986	109,785	178,456	109,785

Reposessed collateral

In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Company does not usually hold any real estate or other assets acquired through the enforcement of security.

During the year the Company took possession of property assets with a carrying value of \$8,886,000 (2010: \$1,270,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The Group monitors concentrations of credit risk by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans & receivables to Members		Loans & receivables to ADIs		Available for sale investments		Cash and cash equivalents	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
CONSOLIDATED								
Carrying amount	3,763,503	3,576,564	447,439	569,890	529,133	476,472	38,834	40,685
Concentration by location								
New South Wales	2,880,068	2,703,074	206,895	345,096	202,440	206,406	37,823	39,954
Australian Capital Territory	316,268	260,245	6,481	5,009	-	-	761	533
Queensland	128,373	129,973	48,459	63,874	-	61,611	-	-
Victoria	315,734	344,916	59,404	23,129	30,605	66,730	250	198
Western Australia	115,297	129,851	71,950	60,331	51,655	-	-	-
South Australia	11,955	11,732	33,207	44,287	4,958	59,820	-	-
Tasmania	1,802	1,658	21,043	28,164	49,238	-	-	-
Overseas	-	-	-	-	190,237	81,905	-	-
Provision for impairment	(5,994)	(4,885)	-	-	-	-	-	-
Total loans net of provision for impairment and deferred income and expenses	3,763,503	3,576,564	447,439	569,890	529,133	476,472	38,834	40,685
COMPANY								
Carrying amount	3,774,589	3,586,296	447,439	569,890	537,660	507,242	15,786	16,720
Concentration by location								
New South Wales	2,891,154	2,712,806	206,895	345,096	210,967	237,176	14,775	15,989
Australian Capital Territory	316,268	260,245	6,481	5,009	-	-	761	533
Queensland	128,373	129,973	48,459	63,874	-	61,611	-	-
Victoria	315,734	344,916	59,404	23,129	30,605	66,730	250	198
Western Australia	115,297	129,851	71,950	60,331	51,655	-	-	-
South Australia	11,955	11,732	33,207	44,287	4,958	59,820	-	-
Tasmania	1,802	1,658	21,043	28,164	49,238	-	-	-
Overseas	-	-	-	-	190,237	81,905	-	-
Provision for impairment	(5,994)	(4,885)	-	-	-	-	-	-
Total loans net of provision for impairment and deferred income and expenses	3,774,589	3,586,296	447,439	569,890	537,660	507,242	15,786	16,720

Concentration by location for loans and receivables to members is measured based on the location of the borrower. Concentration by location for loans and receivables to other ADIs and for available for sale investments is measured based on the location of the counterparty.

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

IMB's Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of liquid investments, largely made up of high quality liquid assets, liquid investment securities, and loans and advances to other ADIs, to ensure that sufficient liquidity is maintained.

The daily liquidity position is monitored 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). Details of the reported Group ratio of liquid assets to total adjusted liabilities at the reporting date and during the reporting year were as follows:

	2011 %	2010 %
Total liquidity ratios		
At June 30	28.37	31.46
Average liquidity for the year	29.92	27.73
Minimum liquidity for the year	27.50	24.78
Maximum liquidity for the year	33.48	33.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

	At call		Excluding call less than 3 months maturity		Greater than 3 months less than 12 months maturity	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Residual contractual maturities of financial liabilities						
CONSOLIDATED						
Financial Liabilities						
Deposits	1,065,750	974,039	1,604,579	1,642,069	880,644	766,987
Trade and other payables	-	-	25,640	26,073	-	-
Securitised loans funding*	-	-	67,110	76,044	221,116	199,489
Subordinated debt	-	-	187	184	10,558	551
Bank overdraft	56	-	-	-	-	-
Employee benefits	-	-	5,340	4,835	-	-
Total financial liabilities	1,065,806	974,039	1,702,856	1,749,205	1,112,318	967,027
COMPANY						
Financial Liabilities						
Deposits	1,068,297	976,857	1,604,579	1,642,069	880,644	766,987
Trade and other payables	-	-	8,068	8,343	-	-
Securitised loans funding*	-	-	67,254	76,577	221,548	201,067
Subordinated debt	-	-	187	184	10,558	551
Bank overdraft	56	-	-	-	-	-
Employee benefits	-	-	5,340	4,835	-	-
Total financial liabilities	1,068,353	976,857	1,685,428	1,732,008	1,112,750	968,605
Consolidated and Company						
Derivative financial instruments						
Interest rate swaps (hedging relationship) net**	-	-	132	487	129	1,335
Unrecognised loan commitments	-	-	119,224	97,517	-	-

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**	-	-	89	456	153	1,367

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

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

Greater than 1 year less than 5 years maturity		Greater than 5 years maturity		Gross nominal outflow		Total carrying amount	
2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
46,370	38,368	-	-	3,597,343	3,421,463	3,526,906	3,362,526
-	-	-	-	25,640	26,073	25,640	26,073
553,119	622,545	325,457	327,879	1,166,802	1,225,957	999,733	1,064,650
-	10,739	-	-	10,745	11,474	10,000	10,000
-	-	-	-	56	-	56	-
1,721	1,473	-	-	7,061	6,308	7,061	6,308
601,210	673,125	325,457	327,879	4,807,647	4,691,275	4,569,396	4,469,557
46,370	38,368	-	-	3,599,890	3,424,281	3,529,453	3,365,344
-	-	-	-	8,068	8,343	8,068	8,343
555,450	647,317	333,984	358,649	1,178,236	1,283,610	1,008,259	1,095,420
-	10,739	-	-	10,745	11,474	10,000	10,000
-	-	-	-	56	-	56	-
1,721	1,473	-	-	7,061	6,308	7,061	6,308
603,541	697,897	333,984	358,649	4,804,056	4,734,016	4,562,897	4,485,415
150	1,928	-	-	411	3,750	329	1,522
-	-	-	-	119,224	97,517	-	-

101	1,754	-	-	343	3,577	329	1,522
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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/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.
- 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 2011 and during the year is as follows:

	2011 %	2010 %
Interest rate risk		
At June 30	1.94	1.73
Average VaR for the year	2.20	1.90
Minimum VaR for the year	1.73	1.46
Maximum VaR for the year	2.72	2.65

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 Treasury 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.
- 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 price 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 2011 the term deposit portfolio carrying amount was \$2,478,306,000. Using a recognised valuation technique, the impact of interest rate movements on the term loan portfolio would estimate the fair value at \$2,485,547,000. The carrying amount of these term deposits in the year ended 30 June 2010 was \$2,390,518,000 with an estimated fair value of \$2,396,395,000.
- 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 2011 the fixed rate loan portfolio carrying amount was \$630,433,000. Using a recognised valuation technique, the impact of interest rate movements on the fixed loan portfolio would estimate the fair value at \$641,078,000. The carrying value of these fixed rate loans in the year ended 30 June 2010 was \$757,305,000 with an estimated fair value of \$769,611,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 2011				
Available for sale financial assets	-	530,233	-	530,233
Derivative financial liabilities held for risk management	-	(329)	-	(329)
	-	529,904	-	529,904
30 June 2010				
Available for sale financial assets	1,707	474,765	-	476,472
Derivative financial liabilities held for risk management	-	(1,522)	-	(1,522)
	1,707	473,243	-	474,950

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an appropriate credit spread, and were as follows:

	2011 %	2010 %
Derivatives	4.91 - 5.07	4.81 - 5.23
Loans and borrowings	4.75 - 5.07	4.50 - 5.23

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 II 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, which includes ordinary share capital, general reserves and retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on readily marketable securities classified as available for sale.

Various limits are applied to elements of the capital base. The amount of fundamental Tier 1 capital must constitute at least 75 percent of net Tier 1 capital. Residual Tier 1 capital is limited to 25 percent of net Tier 1 capital and innovative Tier 1 securities cannot exceed 15 percent of net Tier 1 capital. Net Tier 1 capital must constitute at least 50 percent of capital. Total Tier 2 capital is limited to 100 percent of net Tier 1 capital and total Tier 2 capital net of deductions and amortisation is limited to 50 percent of Tier 1 capital.

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 eight percent. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT)

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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

	Consolidated		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Tier 1 capital				
Ordinary share capital	46,936	46,936	46,936	46,936
General reserves	24,925	23,732	24,925	23,732
Retained earnings*	140,690	121,797	139,648	119,693
Current year earnings*	20,057	19,246	19,833	20,308
(Less) Tier 1 deductions	(16,991)	(8,612)	(16,189)	(24,411)
Total	215,617	203,099	215,153	202,447
Tier 2 capital				
Asset revaluation reserves	2,569	3,294	2,569	3,294
General reserve for credit loss*	4,303	4,417	4,303	4,417
Subordinated debt**	2,000	4,000	2,000	4,000
(Less) Tier 2 deductions	(1,200)	(804)	(1,381)	(1,182)
Total	7,672	10,907	7,491	10,529
Total regulatory capital	223,289	214,006	222,644	212,976
Capital requirements (in terms of risk weighted assets) for:				
Credit risk	1,613,673	1,557,930	1,614,721	1,559,090
Operational risk	245,606	227,660	244,710	226,871
Total risk weighted assets	1,859,279	1,785,590	1,859,431	1,785,961
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	12.0%	12.0%	12.0%	11.9%
Total Tier 1 capital expressed as a percentage of risk weighted assets	11.6%	11.4%	11.6%	11.4%

* These amounts can not be referenced back to the income statement, statement of financial position, or any associated notes due to differences between Australian Accounting Standards and APRA Prudential Standards.

** The subordinated debt matures June 2012. The amount eligible for inclusion in Tier 2 capital is amortised on a straight line basis of 20 percent per annum over the last four years to maturity.

35 EVENTS SUBSEQUENT TO REPORTING DATE

Dividends

For dividends declared by IMB Ltd after 30 June 2011 refer to note 5.

DIRECTORS' DECLARATION

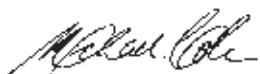
For the year ended 30 June 2011

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

- (a) the financial statements and notes, set out on pages 34 to 86 and the Remuneration report in the Directors' report, set out on pages 24 to 31, 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 2011 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies 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 29th day of August 2011.

Signed in accordance with a resolution of the directors:



MJ Cole
Chairman



LP Nicholas
Director

INDEPENDENT

AUDITOR'S REPORT

To the members of IMB Ltd



REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of IMB Limited (the Company), which comprises the statements of financial position as at 30 June 2011, the income statements and 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 of the Group 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 2011 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 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 25 to 30 of the directors' report for the year ended 30 June 2011. 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 2011, complies with Section 300A of the Corporations Act 2001.

A stylized signature of the KPMG firm, appearing as 'KPMG' in a cursive, handwritten style.

KPMG

A handwritten signature of Richard Drinnan, appearing as 'Richard Drinnan' in a cursive, handwritten style.

Richard Drinnan
Partner

Dated at Wollongong, this 29th day of August 2011.

LOCATIONS

IMB BRANCHES

New South Wales

Albion Park	Shop 14, Centro Shopping Centre ALBION PARK NSW 2527
Batemans Bay	21 Orient Street BATEMANS BAY NSW 2536
Bega	193-195 Carp Street BEGA NSW 2550
Bowral	Shop 1, 320 Bong Bong Street BOWRAL NSW 2576
Camden	Shop 26, 180-186 Argyle Street CAMDEN NSW 2570
Corrimal	Shops 2-4, Stocklands Corrimal Shopping Centre, Princes Highway CORRIMAL NSW 2518
Cronulla	80 Cronulla Street CRONULLA NSW 2230
Dapto	2-4 Bong Bong Road DAPTO NSW 2530
Eden	199 Imlay Street EDEN NSW 2551
Fairy Meadow	84B Princes Highway FAIRY MEADOW NSW 2519
Figtree	Shop 32 & 33 Westfield Shopping Town Princes Highway, FIGTREE NSW 2525
Goulburn	Shop 27, Argyle Mall GOULBURN NSW 2580
Kiama	86 Terralong Street KIAMA NSW 2533
Liverpool	Shop 19, Liverpool Plaza Macquarie Street LIVERPOOL NSW 2170
Macarthur Square	Shop L10, L11 Level 2 Macarthur Square Shopping Centre AMBARVALE NSW 2560
Merimbula	Cnr Merimbula Drive & Market Street MERIMBULA NSW 2548
Miranda	Shop G, 105 Westfield Shoppingtown MIRANDA NSW 2228
Moruya	55 Vulcan Street MORUYA NSW 2537
Narellan	Shop 10, 320 Camden Valley Way Road NARELLAN NSW 2567
Narooma	127 Wagonga Street NAROOMA NSW 2546
Nowra	86 Kinghorn Street NOWRA NSW 2541
Parramatta	207 Church Street PARRAMATTA NSW 2150
Penrith	25 Riley Street PENRITH NSW 2750

Picton	Shop 1A, 148 Argyle Street PICTON NSW 2571
Queanbeyan	Shop 7 Riverside Plaza QUEANBEYAN NSW 2620
Shellharbour	Shop 46, Shellharbour Stockland Shopping Centre, SHELLHARBOUR NSW 2529
Sylvania	Shop 47, Southgate Shopping Centre Cnr Princes Highway and Port Hacking Road SYLVANIA NSW 2224
Thirroul	Shop 6, Anita Theatre King Street THIRROUL NSW 2515
Ulladulla	89 Princes Highway ULLADULLA NSW 2539
Unanderra	102 Princes Highway UNANDERRA NSW 2526
Vincentia	Shop 17, Burton Mall VINCENTIA NSW 2540
Warilla	6 George Street WARILLA NSW 2528
Warrawong	Shop 114 Westfield Shopping Centre WARRAWONG NSW 2502
Wollongong	205 Crown Street WOLLONGONG NSW 2500
Woonona	367-369 Princes Highway WOONONA NSW 2517
Wynyard	312 George Street SYDNEY NSW 2000

Australian Capital Territory

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

Victoria

Glen Waverley	55 Railway Parade North GLEN WAVERLEY VIC 3150
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Financial Planning

IMB Financial Planning	Level 1, 205 Crown Street WOLLONGONG NSW 2500
King Financial Services	Level 1, Engineering House 11 National Circuit BARTON ACT 2600

CORPORATE DIRECTORY

MEMBERS' DIARY AND OTHER INFORMATION

Payment of final dividend 8 September 2011

Annual general meeting 25 October 2011 at 10:00am

Notice of Annual General Meeting

The annual general meeting of members of IMB Ltd will be held at the Crown Pacific Room, Rydges Hotel, 112 Burelli Street, Wollongong on 25 October 2011 at 10:00am

Company Secretary

Kelli Halling (B Com CPA SA Fin)

Lauren Wise (BA LLB Grad Dip. Legal Practice)

Registered Office

253-259 Crown Street

Wollongong NSW 2500

Share Registry

IMB Ltd is not listed on the Australian Stock Exchange.

Shares are traded under an Australian Market License held by the Company.

The share register is available for inspection at:

Level 6 Executive Services

253-259 Crown Street

Wollongong NSW 2500

Advisors

Solicitors

Watson Mangioni

Level 13, 50 Carrington St

Sydney NSW 2000

Auditors

KPMG

Level 3, 63 Market St

Wollongong NSW 2500

IMB Ltd

253-259 Crown Street
Wollongong NSW 2500

imb.com.au

