Celebrating 130 years

Annual Report **2010**

Better Value Banking

IMB Ltd 92 087 651 974

About IMB

IMB is one of Australia's largest building societies with assets more than $4.6 billion and around 180,000 members. Established in 1880, we are also the longest standing mutual building society in NSW.

IMB offers full-service face-to-face and electronic 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 41 branches throughout the Illawarra, Sydney, NSW South Coast, the 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 and are a member of ABACUS, an independent organisation representing mutual building societies and credit unions.

Our Vision

IMB's vision is to be the alternative to the Bank's in regions in which we operate.

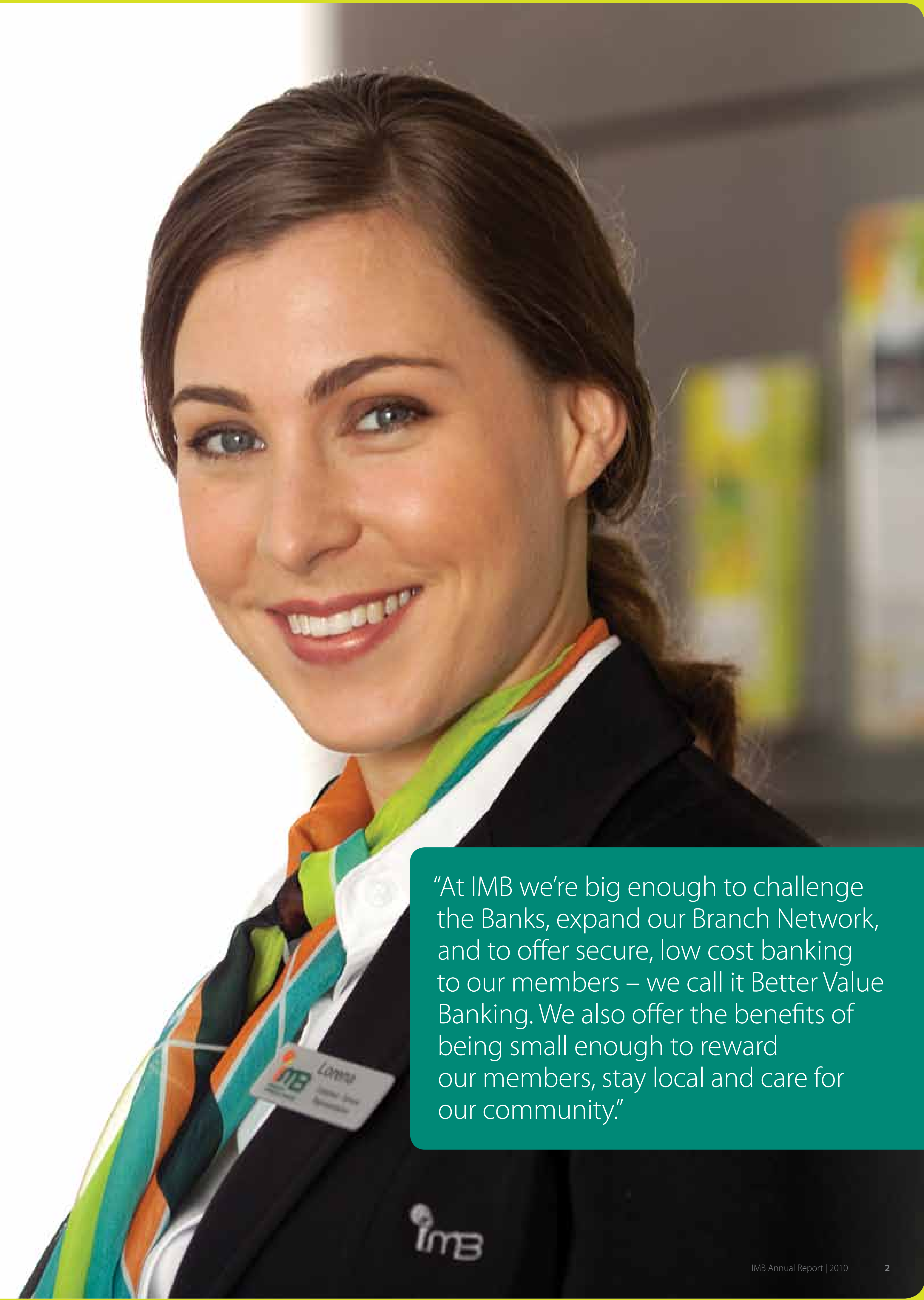
Our Mission

IMB will continue as a profitable, independent mutual building society providing excellent financial services and solutions to its members for the advancement and welfare of all its stakeholders.

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 Integrity, Community, Co-operation, Excellence & Respect.

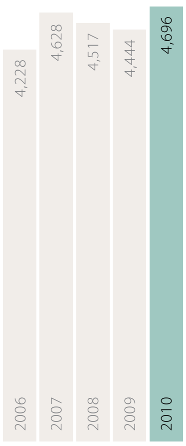
Notice of Annual General Meeting
The annual general meeting of IMB Ltd will be held at the Hoskins Room, Novotel Northbeach, 2-14 Cliff Road, Wollongong on Tuesday, 26 October 2010.



"At IMB we're big enough to challenge the Banks, expand our Branch Network, and to offer secure, low cost banking to our members – we call it Better Value Banking. We also offer the benefits of being small enough to reward our members, stay local and care for our community."

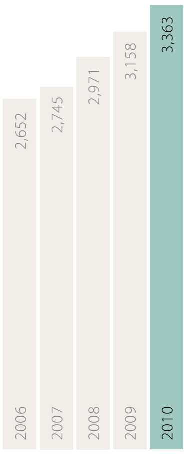
Highlights of 2010

In its 130th year, IMB secured back-to-back recognition, retaining the highest honours in the prestigious *Money* magazine Consumer Finance Awards 2010. IMB won the Building Society of the Year 2010 award for the second year running, the fourth time IMB has won the award in six years.



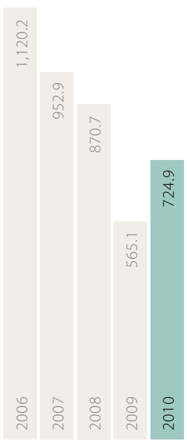
5.7% increase

Total assets $ million



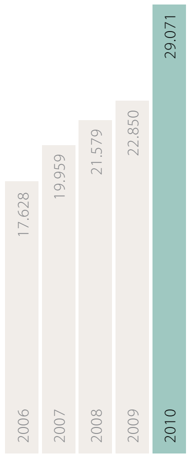
6.5% increase

Members' deposits $ million



28.3% increase

Loans approved $ million



27.2% increase

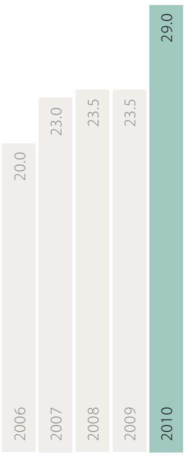
Profit after tax $ million

4.3% improvement

Efficiency ratio %

15.8% increase

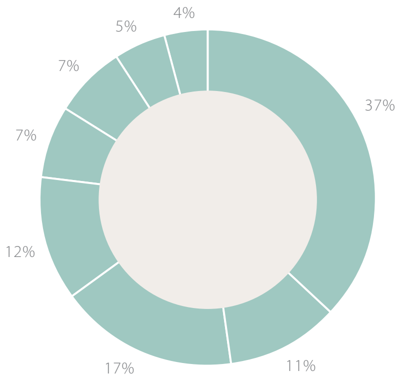
Return on average equity %



5.5 cents per share increase

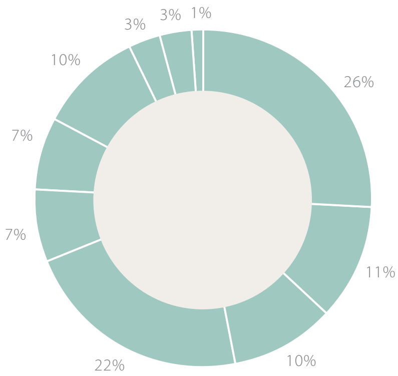
Dividends cents per share

Deposits by location



37%	Illawarra	12%	Sydney
11%	NSW Southern Highlands	7%	Other NSW
		7%	ACT
17%	NSW South Coast	5%	Victoria
		4%	Other

Loans by location



26%	Illawarra	7%	Other NSW
11%	NSW Southern Highlands	7%	ACT
		10%	Victoria
10%	NSW South Coast	3%	WA
		3%	QLD
22%	Sydney	1%	Other

- A number of our lending and deposit products were awarded the top rating by independent reviewers, including the CANNEX First Home Buyer Award for NSW and ACT.
- We introduced a number of new products including the *Kick Start* savings accounts – a total banking solution for U18's or full time students under 23, a bank bill linked loan for business members and a *New Car* loan.
- We rolled out Visa 'chip' cards to provide increased card security.
- We launched our upgraded website.
- We converted our Narellan loan centre to a full service branch and relocated our branch at Albion Park.
- We were named exclusive provider for the ACT Housing Shared Equity scheme.
- We continued our successful traineeship program, with the recruitment of 8 new trainees in addition to the 55 that have already been trained since its introduction in 2005.
- Our commitment to our entry level employment and training programs were recognised, with IMB receiving the top award for the Illawarra and South East NSW region in the Minister's Awards for Excellence.
- We allocated a further $440,000 to the IMB Community Foundation, bringing the total amount of funds granted to the community to $4.75 million since 2000.
- We again received the Illawarra Business Chamber's award for the best Professional and Commercial Service Business – the third year in succession, as well as an award for Workplace Safety and OH&S.

Five Year Summary

		2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Financial performance						
Interest income		**266,742**	304,007	344,334	307,500	260,874
Interest expense		**173,723**	227,397	271,222	235,856	194,101
Interest margin		**93,019**	76,610	73,112	71,644	66,773
Non interest income		**14,815**	17,141	18,633	15,846	16,262
Bad and doubtful debts expense		**3,638**	1,790	1,522	1,221	1,075
Non interest expense		**62,644**	59,264	59,314	58,232	56,868
Profit before tax		**41,552**	32,698	30,908	28,037	25,092
Income tax expense		**12,481**	9,848	9,329	8,078	7,464
Profit after tax		**29,071**	22,850	21,579	19,959	17,628
Financial position						
Assets						
Loans to members		**3,576,564**	3,476,040	3,634,913	3,499,034	3,308,138
Liquids		**1,087,047**	937,532	851,243	1,097,825	889,024
Other		**32,204**	30,611	31,039	30,939	30,579
		4,695,815	4,444,183	4,517,195	4,627,798	4,227,741
Liabilities						
Deposits		**3,362,526**	3,158,283	2,971,104	2,744,737	2,652,087
Securitised loans funding		**1,064,650**	1,025,682	1,300,466	1,639,772	1,346,436
Other		**48,182**	61,057	54,869	66,101	64,631
		4,475,358	4,245,022	4,326,439	4,450,610	4,063,154
Net assets		**220,457**	199,161	190,756	177,188	164,587
Total assets		**4,695,815**	**4,444,183**	**4,517,195**	**4,627,798**	**4,227,741**
Performance ratios						
Capital adequacy	%	**12.0**	11.6	11.6	12.4	11.0
Total asset growth	%	**5.7**	-1.6	-2.4	9.5	14.5
Net asset growth	%	**10.7**	4.4	7.7	7.7	6.5
After tax return on average net assets	%	**13.92**	12.02	11.87	11.76	11.16
Non interest income/average total assets	%	**0.33**	0.39	0.41	0.36	0.40
Non interest expenses/average total assets	%	**1.40**	1.33	1.32	1.31	1.41
Non interest expenses/operating income	%	**60.1**	64.4	65.7	67.5	69.4
Bad debts expense/average loans	%	**0.10**	0.05	0.04	0.04	0.03
Cost of funds	%	**4.1**	5.4	6.4	5.6	5.1
Interest margin	%	**2.11**	1.75	1.65	1.63	1.65
Total loans approved	$m	**724.9**	565.1	870.7	952.9	1,120.2
	No	**6,257**	6,258	8,961	9,809	11,549
Home loans approved	$m	**582.4**	456.2	718.0	781.4	883.2
	No	**2,873**	2,499	4,128	4,776	5,444
Average home loan approved	$000	**202.7**	182.6	173.9	163.6	162.2

In 2010, IMB proudly celebrated its 130th anniversary. From our humble beginnings, we have expanded to be one of the largest Building Societies in Australia with more than 180,000 members, 470 staff and over 40 branches. Our 130 years of operation is a testament to our strength and security as we continue to deliver Better Value Banking to our members.

Chairman's Letter

"Our long history has deeply engrained in our culture awareness that stakeholder returns must be balanced with business risk considerations. This has assisted us cope with the volatile conditions over the last few years and indeed the past 130 years."

MJ Cole, Chairman

Economic Backdrop

For the year ending 30th June, 2010 (FY2010) the Australian economy performed better than was expected post the Global Financial Crisis (GFC). Real GDP lifted 2.75% to record its eighteenth consecutive year of growth. New job creation was impressive with unemployment declining from its peak of 5.8% in mid-2009 to 5.1% by the end of FY2010. Among the major contributing factors to the improved performance were the expansionary fiscal stimulus package and robust demand for Australian commodities from Asia.

Although the Australian economy remains well placed to continue with strong growth relative to its global peers, uncertainty still exists over the pace of recovery elsewhere (especially in US, Europe and Japan). The risk of a global double dip recession and deflation remain and are having a negative impact on domestic business and consumer confidence.

The outlook in the Australian real estate sector strengthened and housing prices rebounded strongly. The demand for new loans lifted but the competition for retail funding intensified as major Approved Deposit Institutions (ADIs) sought to increase domestic market share.

IMB Performance

Our long history has deeply engrained in our culture awareness that stakeholder returns must be balanced with business risk considerations. This has assisted us cope with the volatile conditions over the last few years and indeed the past 130 years. It is evident in how we manage the business as we continue to stick to our conservative business model and strive to consolidate financial strength.

This approach is reflected in the financial performance of the company for the year.

We have recorded a strong profit performance with group profit after tax increasing by $6.2 million or 27.1% to $29.1 million. Key to this result has been IMB's ability to increase our net interest margin over the year from 1.75% to 2.11% despite rising cost of funds pressures. While the rising domestic interest rate environment has assisted our margin expansion, it also reflects the diligent management of the assets and liability book exposures, our exit from the residential broker market and the marked contraction in competition from the securitisation alternatives.

For IMB the net interest margin expansion is a good news story as it is the first time since FY2005 it has exceeded 2.0%. In the intervening period it had been significantly eroded by the combined competitive lending pressures of larger ADIs and securitisation. Having reversed the declining margin trend IMB management is focused on initiatives to preserving it above 2.0%.

Despite the contribution by the improved margin level we believe there is also a continued need for attention on cost to income improvement. As a result of this focus the overall efficiency ratio has improved from 64.4% to 60.1%.

The combined impact of the improvement in net interest margin to 2.11% and the continued reduction in the efficiency ratio to around 60% has generated a net return on assets (ROA) of 0.65%. It is significantly above the ROA of the past fifteen years, before the severe structural competitive forces were unleashed. After having regard to the level of IMB balance sheet leverage (including securitised assets), the after tax return on average net assets (ROE) is a very impressive 13.92%.

A strong liquidity ratio of around 30% has also been held throughout the year, relative to industry averages and well in excess of regulatory requirement.

Importantly IMB's asset quality has been maintained and remains under constant management focus. There is no evidence of rising credit stress among IMB borrowers. The credit quality of the loan portfolio remains excellent and reflects IMB's sound underwriting practices, low risk loan book and the strength of the economy and employment in general. Mortgage arrears levels continue to be well below industry averages in all categories. In addition, the movement in the bad and doubtful debts expense is largely reflective of IMB's approach in maintaining a conservative buffer as contingency for future loan defaults.

IMB Future Growth Challenges

All the above has demonstrated that IMB is in great shape and well equipped for the future in an Australian economy that is forecast by Commonwealth Treasury to lift real GDP growth to 3.25% in FY2011. On this basis it might be reasonable to conclude that for IMB it is business as usual. Nothing could be further from our view of the future of ADIs in the Australian finance sector.

The International Monetary Fund (IMF) estimated that large US and European Banks lost more than $1 trillion on toxic assets and bad loans from January 2007 to September 2009. These losses are expected to top $2.8 trillion by 2010. As a result the Basel Accord is to be updated with proposed changes to take effect in late 2012 in an attempt make sure this problem is never repeated. In Europe, bank officials say there is a gap of $1.2 trillion between the bank's current capital and liquidity buffers and those required under the new Accord. In comparison 10 of the largest US banks were required by the US Government to raise $76.4 billion in capital to cushion themselves.

ADIs in Australia have been told to expect tougher general prudential requirements and in particular the tightening of capital adequacy requirements. As a result the future health and growth of IMB will require a focus on the preservation of existing capital or the generation of new capital.

Therefore taking into account a profit increase of 27%, tempered with the above needs to preserve capital, the Directors have considered an increase in the absolute level of the dividend appropriate. Along with the interim dividend of 10.0 cents per share (an increase of 2.0 cents per share on prior year), a final dividend of 19 cents per share has been declared (an increase of 3.5 cents per share on the final dividend paid last year). This provides for a dividend payout ratio of 40% and is an increase of 23% compared to the dividend per share paid in relation to the prior financial year.

It should be noted that the PWC report on Stakeholder Contributed Funding estimated the mid point of contributed funding by Shareholders to be 43.5%. A payout ratio of 40% at the corporate level is the equivalent of 92% payout ratio at the shareholder contributed funding level. This level still significantly exceeds the payout ratio of all ASX listed ADIs.

In the future IMB shareholders may have to make a greater contribution to the capital requirements of IMB if it is to be able to pursue balance sheet expansion. As a result the dividend payout ratio may decline below 40% at the corporate level. However Director's expect that the level of dividends per share will continue to increase but at a lesser rate than net earnings growth.

Over the past year IMB's share price has exhibited sound performance with the closing value at 30 June, 2010 being $3.30, up 24.5% on the prior year's closing value of $2.65. The key attraction of IMB shares is that it remains a high yield investment with some prospects for dividend growth combined with low volatility.

IMB's 130th Anniversary

In 2010 IMB celebrates its 130th birthday. IMB was formed in 1880 and has had considerable growth over that period as today it manages assets in excess of $4.6b, with 41 branches and more than 180,000 members throughout the Illawarra, NSW South Coast, Southern Highlands, Sydney, ACT and Melbourne.

Key to IMB's formation was the ability to provide support to members and assist them in getting ahead financially. This is still the focus today 130 years on, and at the core of our values.

Regardless of turbulent times IMB has also entered its 11th year of giving, with the Community Foundation providing $440,000 to worthwhile and community-initiated projects that promote sustainability and self-help amongst community members.

Future Opportunities

Despite the continued challenges of recent market conditions IMB remains well positioned to respond positively to members needs and continue to grow. IMB's balance sheet is well capitalised, with high levels of liquidity and a strong retail deposit base. However competition from larger ADIs for retail deposits will remain intense and upward pressure on term rates will continue. Domestic banks seem committed to lift their domestic deposits up toward the 60% level and the same time increasing the average maturity term to reduce their exposure to volatile overseas funding sources.

While it was disappointing that IMB's proposed merger with Community Alliance Credit Union did not complete we still believe that there are opportunities to supplement IMB's organic growth with merger activity in the mutual financial services sector. IMB remains committed to being the competitive alternative to the banks.

Appreciation

On behalf of the Directors and all IMB members I would like to thank staff for their outstanding contribution to the achievements of the past year. The Board has been greatly assisted by CEO Rob Ryan who has worked tirelessly to meet the challenges of the year.

Finally, the Board and management would like to thank our members and shareholders for continuing to support the IMB.

MJ Cole, Chairman

Chief Executive's Review of Operations

"This result is a testament to the strong financial position of IMB and the Board and management's ability to effectively manage through difficult times. Now in its 130th year, IMB remains a strong and secure mutual financial institution providing a real alternative to the banks."

RJ Ryan, Chief Executive

Overview

IMB has again delivered a strong overall performance in a difficult trading environment. The effects of the volatile global credit markets continued to be felt throughout the year and while the Australian economy fared significantly better than other similar economies, the continued volatility led to increased funding costs and increased competition for retail funding. IMB's strategies over the last 3 years have responded well to these challenges and it is pleasing to be able to report further improved performance for the financial year.

Group operating profit before tax was $41.5 million, an increase of 27.1% compared to the prior year. Excluding the write down of IMB's land inventory, Group profit before tax was up 32.9% compared to the previous year.

Profit

Group operating profit after tax at $29.1 million increased by $6.2 million or 27.1% over the previous year. Excluding the write down of IMB's land inventory, Group profit after tax increased by $7.5 million, up 33.0%. This result is a testament to the strong financial position of IMB and the Board and management's ability to effectively manage through difficult times. Now in its 130th 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 improved net interest margin, increased loan writings and management of our balance sheet composition. Interest margin recovered from an average of 1.75% in 2008-09 to 2.11% for the current year. The pressures which impacted margin in 2008-09 have abated somewhat, however competition for retail funds continues to impact interest margins. IMB's net interest margin finished the year at 2.02%, the same level it was at the start of the financial year. We consider that this current margin level is sustainable for the next 12 months.

IMB's non interest income decreased by $2.3 million compared to the previous year as a result of lower loan break fee income compared to the prior year and a reduction in transaction fee income associated with the Reserve Bank direct charging reforms relating to ATM transactions. This was slightly offset by an increase in commission received from the growth in sales of loan protection and other insurance products.

Bad and doubtful debts expense was $3.6 million, an increase of $1.8 million on the previous year. The increase in bad debt expense during the year has been largely due to the increase in a specific provision on one impaired loan and a conservative approach taken in relation to the collective provision to ensure a larger buffer is maintained as a contingency for any future loan defaults. Credit quality remains exceptional across IMB's secured and unsecured loan portfolios. This reflects not only the comparative strength of the economy and employment in general, but also the sound underwriting standards and low-risk nature of IMB's portfolio.

Overall, IMB's level of mortgage arrears continues to be well below the national averages 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 expenses amounted to $62.6 million representing an increase of 5.7% over the prior year. Excluding the write down of IMB's land inventory and written off costs associated with the merger negotiations with Community Alliance Credit Union, expenses on a like for like basis increased by $1.1 million or 1.8% compared to the previous year. This is a pleasing result which is largely owing to continued improved efficiency measures and prudent expense management.

The write down of IMB's land inventory relates to a land equity investment that has been reclassified from inventory to non current asset held for sale and as such is required to be disclosed at market value.

The ratio of non interest expense to operating income for the Group decreased from 64.4% in 2008-09 to 60.1% in 2009-10. Non interest expense, as a proportion of average total assets for the Group remained the same as the previous year at 1.3%.

Balance Sheet

IMB has a strong and diversified balance sheet. We maintained a strong liquidity ratio over the financial year in excess of current regulatory requirements and favourable in comparison with averages across the industry. Deposit funding grew by $204 million or 6.5% to close at $3.4 billion.

Although predominantly retail funded, IMB also has a diverse wholesale funding capability. Wholesale funding grew by $108 million or 14.1% over the period. In addition, IMB successfully launched a $300 million Residential Mortgage Backed Securities (RMBS) issue in March.

Loan approval levels for the year were $724.9 million, 28.3% higher than the previous year. This strong improvement was assisted by the Government first home buyers scheme and IMB's highly competitive loan product pricing. Loan writings from our branches and lenders have also increased over recent years as a result of various initiatives which have been implemented to generate a higher level of loan writings. Loans outstanding, including loans to Authorised Deposit taking Institutions, increased by $230 million (or 5.9%) to $4.1 billion. Assets increased by $252 million (or 5.7%) to be slightly under $4.7 billion at the end of the financial year.

The Group's capital position remains strong and robust. The capital adequacy ratio of 12.0% at balance date is well above regulatory requirements.

Strategy

IMB is committed to achieving its vision of being the alternative to the banks in the areas in which we operate. We have implemented many initiatives over the past 12 months to improve our Members experience with IMB, including the upgrade of our website, the rollout of Visa 'chip' cards to increase card security and reviews of our fees and charges.

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 continues to ensure its members enjoy the lowest possible fees compared to its competitors; in fact around 80% of IMB members do not pay any transaction fees.

IMB always strives to deliver the highest levels of personal service to its members with a recent member survey showing that 97% of members are satisfied with the service they receive from IMB. This was a 2% improvement on the previous year's results and compares very favourably to the banks.

During the year we converted our Narellan loan centre to a full service branch and relocated our branch at Albion Park. Minor refurbishments were carried out at a majority of our branches. IMB remains committed to providing full service branches for our Members and during the coming year we aim to open a new branch in the ACT and a further branch in the Sutherland Shire – both new branches will complement the existing branches that we have in these areas and provide a further banking alternative to existing and new members.

A number of new products have been introduced including the *Kick Start* savings account aimed at the secondary and tertiary student demographic, a bank bill linked loan for our business members and a *New Car* personal loan. We will continue to review our product range to ensure that it remains competitive and ensures that IMB continues to meet the changing needs of our members.

In December 2009 we announced that the proposed merger with Community Alliance Credit Union would not be proceeding and that both institutions would remain independent mutual financial institutions. Despite this disappointing outcome, IMB believes that in an environment of continually changing regulatory requirements and challenging market conditions, mergers with other mutual financial institutions present an opportunity to create a stronger banking alternative and increased benefits to members.

Community

In our 130th year, IMB has continued to support the communities in which we operate through the IMB Community Foundation. Funding of $440,000 has recently been announced in support of 40 projects. Since 1999, the IMB Community Foundation has supported 254 projects with funding of $5.2 million. In addition, IMB also supports a variety of charity, community and sporting organisations.

External Recognition

During the year IMB retained the highest honours in the prestigious Money magazine Consumer Finance Awards. IMB was awarded Building Society of the Year 2010, the second year running and the fourth time in six years. This award again affirms that IMB represents a strong and credible alternative to the major banks.

IMB was also named Best Business in the *Professional and Commercial* category in the 2009 Integral Energy Illawarra Business Awards as well as the award for *Workplace Safety and OH&S*. During the year a number of IMB's lending and deposit products were awarded the top rating by independent reviewers, including Cannex's Non Bank *First Home Buyer Award* for NSW and ACT.

Management and Staff

Finally I would like to thank all IMB's management and staff for their ongoing commitment and dedication. During a year that presented many challenges, IMB's staff have made a significant contribution to our improved result and the improvement in IMB's member satisfaction rating. Through the efforts of our staff IMB continues to deliver better value banking for its members and distinguishes itself from its competitors.

Outlook

IMB's performance during 2009-10 has demonstrated a resilience borne out of a strong member commitment, a conservative risk appetite and a well capitalised balance sheet. These factors continue to underpin IMB's performance, but market conditions remain both challenging and uncertain for all retail financial service providers.

IMB remains cautiously optimistic about future financial performance. While IMB expects to deliver strong financial results in the coming year – supported mainly by a stable net interest margin and sound credit conditions – asset growth will continue to be dictated by broader economic conditions.

RJ Ryan
Chief Executive

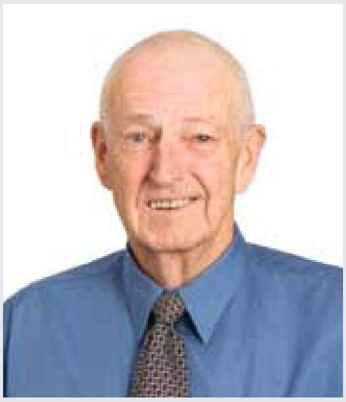
Directors' Particulars

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 and Nominations and Governance 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 Challenger Listed Investments Ltd. He is Chairman of Ironbark Capital Limited and Platinum Asset Management Limited. 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
DIP.LAW 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, a member of the Wollongong Diocesan Finance Committee of the Catholic Diocese of Wollongong 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.



George Anthony Edgar
BSC (TECH MET)

Mr Edgar, whose expertise is business management, has been a non executive director since 2000. He is a member of the Nominations and Governance Committee, Remuneration and CEO Evaluation Committee, IMB Community Foundation Committee, Centenary/One Tree Bay Joint Venture 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 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 Land Development Committee and the Securitisation 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, 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 Centenary/One Tree Bay Joint Venture Committee and Land Development Committee and a member of the Nominations and Governance Committee.

Steven George McKerihan

B.COMM (HONS) MBA CPA

Mr McKerihan, a Certified Practicing Accountant, has been a non executive director since 2009 and is 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 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. 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 Council. As well as being a director of IMB Ltd, Mr Nicholas is also a director of all entities wholly owned by IMB Ltd.

Our Community

During our 130 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 $5m across 254 community initiated projects. This year alone the IMB Community Foundation received over 265 requests for funding. After rigorous analysis the Foundation Committee narrowed down these requests to 40 successful projects. These projects are scattered throughout the Illawarra, South Coast, Southern Highlands, Southern and Western Sydney as well as the ACT and will share in total funding of $440,000.

The IMB Community Foundation focuses on projects which are of lasting benefit, involving a wide range of issues to a broad cross section of local communities.

The projects this year being funded by the IMB Community Foundation cover a range of themes, from computer education for seniors to building edible community gardens. However the theme of 'Youth' remains the most predominant amongst projects receiving funding from the IMB Community Foundation this year. Some 2010 'youth' based projects include young driver education, career and employment education for young people and out reach support for at-risk young people.

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:

- 2010 International Women's Day
- 2010 Rock Eisteddfod – St Joseph's Catholic High School
- Albion Park Spring Festival
- Austinmer Primary School
- Batemans Bay Rugby Club
- Bega Chamber of Commerce
- Bega Sports Awards
- Ben Donohoe Run and Walk for Fun
- Best Catch Foundation
- Camden Festival
- Canberra Players League
- Coledale Public School
- Corrimal 20th Anniversary Ball
- Corrimal Public School
- Crown St Mall Awards Night
- Dapto Carols
- Dapto Public School
- Eden Ladies Golf Club
- Eden Marine High School
- Eden Swimming Club
- Fairy Meadow Netball
- Glen Waverly Hawks Cricket Club
- Ice Dragons
- Illawarra Bandage Bear Benefit Night
- Illawarra Business Chamber
- Illawarra Police Ball
- Illawarra Relay for Life
- Keira High School
- Kiama Lions
- Kioloa Rural Fire Brigade Iron Man Series
- Lions Club of Pambula
- Macarthur Square Mayor Ball
- Marine Rescue
- McCue Ball
- Merimbula Inc – Fairyway Golf Tourament 2009
- Merimbula Public School
- Penrith PCYC Boxing Fundraiser
- Picton Chamber of Commerce
- Port Kembla Lady Golfers
- Queanbeyan Men of League Golf Day
- Rotary Club of Berrima District
- Russell Vale Golf Club
- Sapphire Coast Kennel and Obedience Award
- Savvy Fitness
- Shoalhaven Business Chamber
- The Salvation Army 2010 Red Shield Appeal
- Thirroul RSL Bowling Club
- Towradgi Public School
- Tuggeranong Community Festival
  Tuggeranong Valley Bowls Club
- Tuggeranong Valley Cricket Club
- Ulladulla Fireworks
- Ulladulla High School
- VintageFM – Rock & Weir
- WAVE FM Rock School Breakfasts
- Woden Community Festival
- Wollongong Hawks
- Wollongong Lions Football Club
- Wollongong Symphony Orchestra
- Woonona Public School

IMB Community Foundation Projects

Group	Project Name	Project Description	Funding Provided
Albion Park Youth & Community Care Inc	Growing Together	Funds will be used to develop a community garden and run workshops that teach knowledge of gardening and food production	$10,000
Beacon Foundation	Polish	Funds will be used to enable 75 Illawarra students to participate in a one day workshop to help them prepare for careers	$11,250
Churches of Christ Community Care	The Shed	Funds will be used to provide a men's workshop and associated tools as an extension to existing Day Therapy Program	$3,700
Corrimal Community Men's Shed	IMB Wednesday – Community Jobs Day	Funds will be used to help the shed open on Wednesday's to complete community focused jobs	$14,650
DRUG ARM Australasia	Wollongong Street Outreach Service	Funds will be used to train more volunteers to help with outreach and support for at risk young people	$12,000
Eden Community Radio Inc	2SEA Live Outdoor Broadcasting	Funds will be used to purchase equipment for outdoor broadcasting	$2,825
Eden Mens Shed Incorporated	Eden Men's Shed Garden Area	Funds will be used to provide a facility that will allow plants to be grown at the existing shed	$3,000
EuroSCUG Inc	Cyber Classrooms for Seniors	Funds will be used to purchase equipment to create 'cyber classrooms' for seniors	$11,260
Goulburn Rotary Club	U-Turn the Wheel Program 2010	Funds required to assist with the costs of running a 2 day young driver road safety awareness program – local high schools	$3,600
Gudhuga Employment & Training Aboriginal Corporation	Unlocking My Future	Funds will be used to run workshops for identified youth to help lower their disengagement in school at an early age	$20,000
Hawkesbury Church Vineyard	Starting off on the right foot	Funds will be used to run workshops for high school students to teach them about the value of working, how to get a job, keep it, money mangement etc	$7,200
Illawarra Division of General Practise Ltd	Headspace Youth Shed	Funds will be used to develop, implement and evaluate a Youth Shed with resume building, activities, music, drama etc	$10,200
Illawarra Feltmakers Incorporated	A Community of Feltmakers	Funds will be used to purchase felt making equipment which will allow demonstrations and workshops for the local community and school kids	$2,000
Kiama Baptist Church	Red Frogs, Kiama	Funds will be used to implement a Red Frogs program in Kiama on a weekly basis in order to protect and educate young people on the dangers of binge drinking	$5,000
Lawrence Hargrave Centre Inc	Expansion of the Schools Living Lesson Kite Day	Funds will be used to build models of Hargrave Flying Machines and develop a supporting resource website	$15,000
Lifeline South Coast NSW	Personal Leadership Program	Funds will be used to develop a leadership program for Lifeline interns to deliver to High School Students	$25,000
Liverpool Uniting Church	Living Garden	Funds will be used to create a memorial walkway	$5,000
Maranatha Lodge	Investing in My Brain (IMB)	Funds will be used to purchase 3 Wii's and TV's to help residents benefit from the social and physical benefits of being involved i.e. improved self-esteem, memory, concentration and social interaction	$5,000
Marymead Child and Family Centre	Outdoor Recreation	Funds will be used to purchase camping and outdoor equipment to be used by disadvantaged young people in a series of group sport and outdoor activities	$13,000
Menai Community Services Inc	Injury Prevention Program	Funds will be used to run a series of education sessions and exercise programs for frail older people and people with disabilities	$13,500

Group	Project Name	Project Description	Funding Provided
Nordoff- Robbins Music Therapy Australia	Music Therapy for 'at risk' children	Funds will be used to provide at risk children with music therapy to encourage self-sufficiency and social skills	$8,640
PCYC Campbelltown	IMB PCYC Youth Booth	Funds will be used to create a community drop in space for local youth	$36,800
Rotary Club of Caringbah	U-Turn the Wheel Accreditation Project	Funds will be used to research and write a driver safety programme, develop session plans, outcome analysis and preparation of assessment materials for Shire Schools	$10,000
Rotary Club of Moss Vale	U-Turn the Wheel Program 2010	Funds will be used to assist with the costs of running a 2 day young driver road safety awareness program for 6 high schools	$5,500
Sailability NSW Inc – Penrith Lakes Branch	Freedom Afloat Sail Training	Funds will be used to provide a sailing program designed specifically for people with disabilities	$5,000
Schizophrenia Fellowship of NSW Inc	Computer Club PHaMs Shoalhaven	Funds will be used to help people with a mental illness learn computer skills	$5,000
Shoalhaven City Council	SKYDS – Skilled or Killed Young Driver Safety and SKYDS Onwards	Funds will be used to fund road safety workshops for year 10 and 11 students in the Shoalhaven area	$8,000
Shoalhaven Heads Bowling & Recreation Club	Heads Senior Computer Club	Funds will be used to educate seniors on computer use for internet banking, email, shopping etc	$14,000
SHYAC	SHYAC PODcast Channel	Funds required to launch an internet based video and audio program that is regularly produced by and webcast to youth in the region	$12,000
Special Olympics Australia – New South Wales	Community Sports-Link	Funds will be used to provide year round sports training and competition in a variety of sports for children and adults in the Illawarra living with an intellectual disability.	$10,000
Staton Music School	South Sydney Youth Orchestra	Funds will be used to cover the costs of running/setting up a youth orchestra in southern Sydney	$5,500
Strzelecki Lions Club	Cows Create Careers	Funds will be used to supply schools with a calf to rear	$8,000
Sylvania Heights Public School	Edible School Garden	Funds will be used to develop a sustainable, edible garden planted and maintained by students	$7,000
Thirroul Neighbourhood Centre	Resilient	Funds will be used to teach disadvantaged young people leadership and communication skills	$9,340
Thirroul Neighbourhood Centre	Capacity to Earn	Funds will be used to run employment courses for young people teaching them to write resumes and application forms as well as provide them with interview skills and teach them about money matters such as taxes and superannuation	$13,000
University of Sydney Students in Free Enterprise (USYD SIFE)	'For the Community' School Gardens	Funds will be used to purchase materials to establish an organic community garden at Parramatta West Public School	$1,000
Vision Australia	Bridging the Information Divide in the ACT	Funds will be used to provide 50 digital accessible information system playback devices to people who are blind, have low vision or a print disability living in the ACT	$22,500
Volunteering Wingecarribee Inc	Volwing Outreach Program	Funds will be used to set up a mobile volunteer recruitment service which will provide information and recruit volunteers in the outlying villages of the Wingecarribee Shire.	$7,000
Wollondilly Shire Council	Drives for Learners in Wollondilly	Funds will be used to assist in running an existing road safety project	$7,500

Our Staff

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.

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 customer 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 organizational succession planning efforts, to provide for the longer term needs of individuals and IMB.

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. Once again our trainees and cadets have performed well both on the job and in their studies, and have contributed strongly to IMB's success. IMB Trainee Rachael Taylor was awarded the Illawarra Region Trainee of the Year Award for the Certificate 3 in Business Studies, while Bryar Beale received a Special Recognition Award from the Illawarra Vocational Training and Education Committee for her outstanding progress and contribution during her traineeship period. We congratulate Rachael and Bryar on their outstanding efforts, and look forward to their continued success with IMB.

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 2009 winner, Alby Salido, has built a team that is customer focused and supportive of all the individual business units in the organisation. Alby implemented a number of key initiatives which brought efficiencies and cost savings to the business across a number of areas. Alby is described as someone who treats all team members with respect, and lives the IMB values in his day to day work. He leads the way with integrity and respect and has worked hard to build effective relationships with the business, he has an exceptional work ethic and a wonderful sense of humour. We congratulate Alby on his award, and on his continuing high standards of service and performance.

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, winery tours, trivia nights, 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 Cancer Council Relay for Life and local community festivals, along with 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 2010

This statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2010.

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 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 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 and compliance. Submissions are circulated in advance to directors. Executives 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 consolidated entity 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 23 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.

- 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-elected.

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 11 and 12 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 from February 2010)

Mr GA Edgar (Chairman until February 2010)

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 three times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 29.

Remuneration and CEO Evaluation Committee

The Remuneration and CEO Evaluation Committee reviews and make recommendations to the board on remuneration packages 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

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 the development and implementation of a Remuneration Policy for the Board, Chief Executive and Senior Managers to meet APRA's new 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 six times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 29.

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

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 five times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 29.

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 2010 comply with accounting standards, international financial reporting standards, and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The responsibilities of the Audit and Risk Management Committee include:

- reviewing the annual and half year reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether financial information is adequate for member needs;
- assessing management processes supporting external reporting;
- assessing the corporate risk assessment processes;
- assessing the performance and objectivity of the risk and audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Prudential Regulation Authority and the Australian Securities and Investment Commission.

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

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

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 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.

Assessment of effectiveness of risk management

Internal Audit

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

Ethical Standards

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

Conflict of Interest

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

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

Code of Conduct

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

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

The board applies the following policy in respect of dealings in securities of the Company by directors, selected officers and their associates.

- Purchase or sale of IMB Ltd ("Company") shares is permitted within six weeks after announcements (a "trading window") subject to prior advice by the Director or Selected Officer to the Company Secretary who will notify the Chairman (or in the case of proposed trade by the Chairman or a related entity of the Chairman, the Chairman of the Audit and Risk Management Committee).
- Purchase or sale of Company shares is permitted outside a trading window only with the prior consent of the board who will examine the transaction (and any information known by the director or officer) prior to giving approval, to ensure that the transaction is not related to inside information, nor could be seen to be related to such information.
- Generally transactions in Company shares within a period of two months leading up to an announcement will not be approved.
- The above guidelines extend to sale and purchase of Company shares by directors and selected officers personally, by directors' and selected officers' spouses and dependent children, and by any company in which a director or selected officer holds a majority of the shares. It will also extend to any company in which a director or selected officer is an officer (director, secretary, executive officer or employee), unless effective conflict of interest arrangements are in place. It is the responsibility of each Director and selected officer to avoid or manage a conflict of interest. As guidance, a conflict of this nature may be able to be effectively avoided or managed by:
  - i) the Director or Selected Officer not being present at any meeting in which the purchase or sale of Company shares is discussed or approved;
  - ii) the Director or Selected Officer not taking part in the company's decision to buy or sell the Company shares; and
  - iii) 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 (www.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 members are requested to vote on the appointment and aggregate remuneration of directors as prescribed by the constitution. Copies of the constitution are available to any member who requests it.

Directors' Report

For the year ended 30 June 2010

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 2010 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
George Anthony Edgar
Robert Hillis Page Elvy
Lynette Therese Gearing
Steven George McKerihan
Lynton Patrick Nicholas

All of the directors are independent directors.

The particulars of the qualifications, experience and special responsibilities of each director holding office at the date of this report are set out on pages 11 to 12 of this report.

At the annual general meeting of the Company on 26 October 2010, two directors, Mr MJ Cole and Mr KR Biddle, will retire in accordance with the constitution of the Company and, being eligible, offer themselves for re-election.

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. Prior to joining IMB, Ms Wise worked for 5 years in private legal practice with a focus on commercial law.

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 2010.

Operating and Financial Review

Consolidated profit for the year attributable to members was $29.1 million (2009: $22.9 million), an increase of $6.2 million or 27% over 2009.

Total deposits grew to $3,363 million up by $204 million or 6.5% on the previous year. Securitised loan funding increased by $39 million or 3.8% to $1,065 million.

Loan approvals increased by $160 million to $725 million (2009: $565 million). This was due to a higher level of residential lending approvals which increased by $126 million on 2009 levels, and an increase in other lending of $34 million.

Net interest income for the year was $93 million, up $16.4 million on the previous year. This improvement was due to a 36 basis points increase in interest margin to 2.11% and an increase in average net interest bearing assets of $33 million to $4,413 million.

Bad and doubtful debts expense increased by $1.8 million to $3.6 million (2009: $1.8 million) primarily due to an increase in the collective provision for loans.

Non interest income decreased by $2.3 million or 13.6% to $14.8 million as a result of decreased loan fee income and transaction fees.

Non interest expense increased by 5.6% or $3.3 million to $62.6 million (2009: $59.3 million) due primarily to a write down in land development assets and costs associated with merger negotiations with Community Alliance Credit Union.

The non interest expense to operating income ratio decreased from 64.4% in 2009 to 60.1% in 2010.

Dividends

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

- a final ordinary dividend of $0.155 per share amounting to $6,187,000 franked to 100% at a tax rate of 30%, declared on 12 August 2009, in respect of the year ended 30 June 2009, paid on 30 August 2009;
- an interim dividend of $0.10 per share amounting to $3,990,000 franked to 100% at a tax rate of 30%, declared on 27 January 2010, in respect of the year ended 30 June 2010, paid on 27 February 2010; and
- a final ordinary dividend of $0.19 per share amounting to $7,583,000 franked to 100% at a tax rate of 30%, declared on 24 August 2010, in respect of the year ended 30 June 2010, payable on 3 September 2010.

Total dividends paid or declared in respect of the year ended 30 June 2010 were $0.29 per share (2009: dividend of $0.235) amounting to $11,573,000 (2009: $9,380,000).

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 7 to 10 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 7 to 10 of the annual report.

Directors' Interests

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

Director	Holding at 24 August 2010
Mr MJ Cole	–
– related party	59,895
Mr KR Biddle	5,325
– related party	23,056
Mr GA Edgar	3,000
– related party	38,976
Mr RHP Elvy	5,454
Ms LT Gearing	4,000
Mr SG McKerihan	5,000
Mr LP Nicholas	2,000
– related party	43,890

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.

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

Base remuneration and superannuation contributions for all directors, last voted upon by members at the 2009 Annual General Meeting, is not to exceed $760,000. However, as recorded in the minutes of the 2009 IMB Ltd Annual General Meeting (AGM), notwithstanding that the amount of $760,000 has been approved, the Board intends to increase the remuneration payable to Directors each year in line with any increases in the consumer price index (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 2008 AGM was $555,000, the amount currently payable to directors on an aggregate basis is $563,322. Each director receives superannuation contributions at the prescribed rate of the Superannuation Guarantee Act.

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, the First Home Buyers grant and a focus on the efficiency of the distribution network. Deposit growth targets were not achieved due to high levels of liquidity reducing the need to compete aggressively in the 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.

	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Net profit after tax	**29,071**	22,850	21,579	19,959	17,628

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.

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 $	STI cash bonus $	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 *Chairman*	**2010**	**121,800**	**-**	**-**	**121,800**	**10,962**	**-**	**-**	**132,762**	**-**
	2009	120,000	-	-	120,000	10,800	-	-	130,800	-
Mr KR Biddle	**2010**	**63,406**	**-**	**-**	**63,406**	**5,707**	**-**	**-**	**69,113**	**-**
	2009	62,470	-	-	62,470	5,622	-	-	68,092	-
Mr GA Edgar	**2010**	**63,406**	**-**	**-**	**63,406**	**5,707**	**-**	**-**	**69,113**	**-**
	2009	62,470	-	-	62,470	5,622	-	-	68,092	-
Mr RHP Elvy	**2010**	**63,406**	**-**	**-**	**63,406**	**5,707**	**-**	**-**	**69,113**	**-**
	2009	62,470	-	-	62,470	5,622	-	-	68,092	-
Mr LR Fredericks	**2010**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2009	31,235	-	-	31,235	2,811	-	-	34,046	-
Ms LT Gearing	**2010**	**63,406**	**-**	**-**	**63,406**	**5,707**	**-**	**-**	**69,113**	**-**
	2009	62,470	-	-	62,470	5,622	-	-	68,092	-
Mr SG McKerihan	**2010**	**63,406**	**-**	**-**	**63,406**	**5,707**	**-**	**-**	**69,113**	**-**
	2009	31,235	-	-	31,235	2,811	-	-	34,046	-
Mr LP Nicholas	**2010**	**77,977**	**-**	**-**	**77,977**	**7,018**	**-**	**-**	**84,995**	**-**
	2009	76,825	-	-	76,825	6,914	-	-	83,739	-
Total non executive directors	**2010**	**516,807**	**-**	**-**	**516,807**	**46,515**	**-**	**-**	**563,322**	**-**
	2009	509,175	-	-	509,175	45,824	-	-	554,999	-

		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[6]	Total	Proportion of remuneration performance related
		$	$	$	$	$	$	$	$	%
Executives										
Mr RJ Ryan	**2010**	**383,958**	**230,256**	**38,165**	**652,379**	**88,985[5]**	**-**	**10,939**	**752,303**	**35.3**
	2009	408,825	100,000	38,160	546,985	85,084[5]	-	20,934	653,003	18.3
Mr M Brannon[3]	**2010**	**176,208**	**62,129**	**29,635**	**267,972**	**43,058[5]**	**-**	**10,379**	**321,409**	**23.2**
Mr CJ Goodwin	**2010**	**247,118**	**98,313**	**17,140**	**362,571**	**22,506**	**-**	**5,049**	**390,126**	**27.1**
	2009	240,809	60,000	-	300,809	22,639	-	4,369	327,817	19.9
Mr MJ Harley[7]	**2010**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2009	264,778	46,415	35,374	346,567	23,076	278,767	4,820	653,230	13.4
Mr CA Rumble	**2010**	**228,371**	**85,003**	**55,865**	**369,239**	**23,912**	**-**	**5,466**	**398,617**	**23.0**
	2009	214,255	50,000	40,152	304,407	22,173	-	4,549	331,129	16.4
Mr M Workman[4]	**2010**	**131,225**	**61,948**	**27,385**	**220,558**	**26,861[5]**	**-**	**3,749**	**251,168**	**28.1**
	2009	131,556	60,450	27,943	219,949	30,062[5]	-	4,113	254,124	27.5
Total executives	**2010**	**1,166,880**	**578,262**	**168,190**	**1,913,332**	**205,322**	**-**	**35,582**	**2,154,236**	**30.2**
	2009	1,260,223	316,865	141,629	1,718,717	183,034	278,767	38,785	2,219,303	18.4
Total remuneration	**2010**	**1,683,687**	**578,262**	**168,190**	**2,430,139**	**251,837**	**-**	**35,582**	**2,717,558**	**23.8**
	2009	1,769,398	316,865	141,629	2,227,892	228,858	278,767	38,785	2,774,302	14.2

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 pages 24 and 25. The amount was finally determined on 24 August 2010 (28 July 2009) after performance reviews were completed and approved by the Remuneration and CEO Evaluation Committee and the Board.
3 Appointed to a key management personnel position 3 May 2010 having acted in this capacity from 1 July 2009.
4 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.
5 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.
6 Includes movements in accrued long service leave entitlements.
7 Ceased employment 1 July 2009.

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	**230,256**	78	22
Mr M Brannon	**62,129**	53	47
Mr CJ Goodwin	**98,313**	72	28
Mr CA Rumble	**85,003**	70	30
Mr M Workman	**61,948**	100	-

(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 2010 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 2010 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**	5	**8***	-	**6**	6
Mr KR Biddle	**14**	14	**5**	5	**9***	10	**6**	6
Mr GA Edgar	**12~**	14	**3***	-	**8~**	11	**6**	6
Mr RHP Elvy	**14**	14	**5**	5	**8***	2	**-**	-
Ms LT Gearing	**13~**	14	**3***	-	**10~**	11	**-**	-
Mr SG McKerihan	**10~**	14	**5**	5	**4***	-	**-**	-
Mr LP Nicholas	**14**	14	**5**	5	**4***	-	**-**	-

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

\# 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.

~ SG McKerihan was provided leave of absence for four meetings. GA Edgar was provided leave of absence for two meetings. Ms LT Gearing was provided leave of absence for one meeting.

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

The following table sets out the number of meetings of the Company's wholly owned subsidiaries' directors held during the year ended 30 June 2010 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	**13**	13	**3**	3	**4**	4	**2**	2	**2**	2
Mr KR Biddle	**12**	13	**3**	3	**3**	4	**2**	2	**2**	2
Mr GA Edgar	**11~**	13	**3**	3	**4**	4	**2**	2	**2**	2
Mr RHP Elvy	**13**	13	**3**	3	**4**	4	**2**	2	**2**	2
Ms LT Gearing	**12~**	13	**3**	3	**4**	4	**2**	2	**2**	2
Mr SG McKerihan	**9~**	13	**2~**	3	**3~**	4	**2**	2	**2**	2
Mr LP Nicholas	**13**	13	**3**	3	**4**	4	**2**	2	**2**	2

~ SG McKerihan was provided leave of absence for three IMB Land Pty Ltd meetings, one IMB Land No.2 Pty Ltd meeting and one IMB Securitisation Services Pty Ltd meeting. GA Edgar was provided leave of absence for two IMB Land Pty Ltd meetings. Ms LT Gearing was provided leave of absence for one IMB Land Pty Ltd meeting.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 31 and forms part of the directors' report for the financial year ended 30 June 2010.

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 24th day of August 2010

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 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Richard Drinnan
Partner

Dated at Wollongong this 24th day of August 2010

Financial Statements

Income Statements

For the year ended 30 June 2010

		Consolidated		Company	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Interest revenue	2	**266,742**	304,007	**268,441**	305,813
Interest expense	2	**(173,723)**	(227,397)	**(175,296)**	(229,095)
Net interest income		**93,019**	76,610	**93,145**	76,718
Bad and doubtful debts expense	2	**(3,638)**	(1,790)	**(3,638)**	(1,790)
Net interest income after bad and doubtful debts		**89,381**	74,820	**89,507**	74,928
Revenue from land development	2	**-**	100	**-**	-
Shares of profits of joint venture entity	2, 28	**217**	27	**-**	-
Fee and commission income	2	**13,130**	16,178	**13,130**	16,178
Other income	2	**1,468**	836	**1,216**	507
Net operating income		**104,196**	91,961	**103,853**	91,613
Land development expense	2	**(1,891)**	(73)	**-**	-
Operating expenses	2	**(60,753)**	(59,190)	**(60,692)**	(59,121)
Profit before tax	2	**41,552**	32,698	**43,161**	32,492
Income tax expense	3	**(12,481)**	(9,848)	**(13,029)**	(9,795)
Profit for the period attributable to members of the Company		**29,071**	22,850	**30,132**	22,697

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 39 to 85.

Statements of Comprehensive Income

For the year ended 30 June 2010

	Consolidated		Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Profit for the period	**29,071**	22,850	**30,132**	22,697
Other comprehensive income/(expense):				
Net change in fair value of available for sale investments	**(229)**	1,895	**(229)**	1,895
Net change in fair value of cash flow hedges	**2,457**	(6,286)	**2,457**	(6,286)
Net change in fair value of equity investments	**205**	4	**205**	4
Net change in fair value of available for sale investments transferred to profit and loss	**(31)**	(678)	**(31)**	(678)
Total other comprehensive income/(expense) for the period, net of income tax	**2,402**	(5,065)	**2,402**	(5,065)
Total comprehensive income for the period	**31,473**	17,785	**32,534**	17,632

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 39 to 85.

Statements of Financial Position

As at 30 June 2010

	Note	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
ASSETS					
Cash and cash equivalents	29	**40,685**	48,753	**16,720**	16,005
Available for sale investments	6	**476,472**	448,506	**507,242**	470,749
Loans and receivables to ADI's	7	**569,890**	440,273	**569,890**	440,273
Loans and receivables to members	8	**3,576,564**	3,476,040	**3,586,296**	3,483,352
Equity accounted investments	28	**2,070**	1,853	**-**	-
Other financial assets	9	**505**	505	**3,087**	3,087
Non-current assets held for sale	11	**2,500**	-	**-**	-
Inventories	13	**5,508**	7,418	**-**	-
Property, plant and equipment	14	**13,765**	14,769	**13,765**	14,769
Intangible assets	15	**372**	629	**372**	629
Net deferred tax assets	3	**3,880**	2,994	**3,684**	3,189
Other assets	16	**3,604**	2,443	**9,573**	7,646
Total assets		**4,695,815**	4,444,183	**4,710,629**	4,439,699
LIABILITIES					
Trade and other payables	17	**26,073**	35,272	**8,343**	7,644
Deposits	18	**3,362,526**	3,158,283	**3,365,344**	3,161,289
Securitised loans funding	19	**1,064,650**	1,025,682	**1,095,420**	1,047,925
Interest bearing liabilities	20	**10,000**	10,000	**10,000**	10,000
Derivative liabilities	12	**1,522**	5,033	**1,522**	5,033
Current tax liabilities	3	**3,764**	4,525	**3,764**	4,525
Provisions	21	**6,823**	6,227	**6,823**	6,227
Total liabilities		**4,475,358**	4,245,022	**4,491,216**	4,242,643
Net assets		**220,457**	199,161	**219,413**	197,056
EQUITY					
Share capital	22	**46,936**	46,936	**46,936**	46,936
Reserves		**27,203**	24,801	**27,203**	24,801
Retained earnings	4	**146,318**	127,424	**145,274**	125,319
Total equity attributable to members of the Company		**220,457**	199,161	**219,413**	197,056

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 39 to 85.

Statements of Cash Flows

For the year ended 30 June 2010

	Note	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		**269,970**	308,826	**271,670**	310,632
Dividends received		**10**	8	**10**	8
Other cash receipts in the course of operations		**13,236**	16,767	**12,000**	19,811
Interest paid on deposits		**(168,175)**	(233,827)	**(169,748)**	(235,514)
Income taxes paid		**(14,127)**	(11,885)	**(14,284)**	(11,866)
Net loans (funded)/repaid		**(104,162)**	157,082	**(106,582)**	153,340
Net increase in deposits		**198,694**	193,600	**198,506**	193,929
Other cash payments in the course of operations		**(73,192)**	(64,436)	**(60,752)**	(63,683)
Net cash flows from operating activities	29	**122,254**	366,135	**130,820**	366,657
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for available for sale investments		**(157,440)**	(79,269)	**(165,750)**	(79,210)
Expenditure on property, plant and equipment, and intangibles	14,15	**(1,897)**	(1,853)	**(1,897)**	(1,853)
Proceeds from sale of property, plant and equipment		**224**	299	**224**	299
Net cash flows from investing activities		**(159,113)**	(80,823)	**(167,423)**	(80,764)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds/(repayments) from securitised loans funding		**38,968**	(274,784)	**47,495**	(274,807)
Dividends paid	5	**(10,177)**	(9,380)	**(10,177)**	(9,380)
Net cash flows from financing activities		**28,791**	(284,164)	**37,318**	(284,187)
Net (decrease)/increase in cash and cash equivalents held		**(8,068)**	1,148	**715**	1,706
Cash and cash equivalents at the beginning of the period		**48,753**	47,605	**16,005**	14,299
Cash and cash equivalents at the end of the period	29	**40,685**	48,753	**16,720**	16,005

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out in pages 39 to 85.

Statements of Changes in Equity

For the year ended 30 June 2010

In thousands of AUD	Consolidated							
	Share capital	Available for sale investments revaluation reserve	Cash flow hedge reserve	Available for sale equity investments revaluation reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
Balance at 1 July 2008	46,936	(425)	2,764	445	1,387	25,255	114,394	190,756
Total comprehensive income for the period								
Profit after tax	-	-	-	-	-	-	22,850	22,850
Other comprehensive income								
Net revaluation movement due to change in fair value	-	1,895	(6,286)	4	-	-	-	(4,387)
Net change in fair value transferred to profit and loss	-	(678)	-	-	-	-	-	(678)
Total other comprehensive income	-	1,217	(6,286)	4	-	-	-	(5,065)
Total comprehensive income for the period	-	1,217	(6,286)	4	-	-	22,850	17,785
Transfer from retained profits	-	-	-	-	440	-	(440)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(9,380)	(9,380)
Balance at 30 June 2009	**46,936**	**792**	**(3,522)**	**449**	**1,827**	**25,255**	**127,424**	**199,161**
Balance at 1 July 2009	46,936	792	(3,522)	449	1,827	25,255	127,424	199,161
Total comprehensive income for the period								
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 period	-	(260)	2,457	205	-	-	29,071	31,473
Transfer from retained profits	-	-	-	-	-	-	-	-
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**

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 39 to 85.

	Company							
In thousands of AUD	Share capital	Available for sale investments revaluation reserve	Cash flow hedge reserve	Available for sale equity investments revaluation reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
Balance at 1 July 2008	46,936	(425)	2,764	445	1,387	25,255	112,442	188,804
Total comprehensive income for the period								
Profit after tax	-	-	-	-	-	-	22,697	22,697
Other comprehensive income								
Net revaluation movement due to change in fair value	-	1,895	(6,286)	4	-	-	-	(4,387)
Net change in fair value transferred to profit and loss	-	(678)	-	-	-	-	-	(678)
Total other comprehensive income	-	1,217	(6,286)	4	-	-	-	(5,065)
Total comprehensive income for the period	-	1,217	(6,286)	4	-	-	22,697	17,632
Transfer from retained profits	-	-	-	-	440	-	(440)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(9,380)	(9,380)
Balance at 30 June 2009	**46,936**	**792**	**(3,522)**	**449**	**1,827**	**25,255**	**125,319**	**197,056**
Balance at 1 July 2009	46,936	792	(3,522)	449	1,827	25,255	125,319	197,056
Total comprehensive income for the period								
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 period	-	(260)	2,457	205	-	-	30,132	32,534
Transfer from retained profits	-	-	-	-	-	-	-	-
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**

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 39 to 85.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2010

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 2010 comprises the Company and its controlled entities (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) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply 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 24 August 2010.

(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), listed equity investments (note 9) and defined benefit fund liability (notes 1r and 23).

(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 AASBs 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 period in which the estimate is revised and in any future periods 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 periods 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 SPE's and is exposed to the majority of the residual risk associated with these SPE's, 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

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 period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

The fair value of derivative financial instruments is determined by reference to market rates for similar instruments.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the cashflow hedge reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period 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 period 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 period 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 period, 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 period 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 bad debts 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 periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Deposits and interest expense

Deposits are the Group's source of debt funding. Deposits are initially recorded at fair value plus any directly attributable transaction costs and subsequently measured at their amortised cost using the effective interest method. Interest expense on deposits is calculated daily based on the closing balance for each day and is brought to account on an accruals basis.

(k) Income tax

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

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

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

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

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

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

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

(i) Tax consolidation

The Company is the head entity in a tax consolidated group comprising the Company and all its wholly-owned subsidiaries. As a consequence, all members of the tax consolidated group 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 period 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 periods 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 periods 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 period in which they are declared.

(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 period 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 periods; 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 period 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 periods, resulting in the current period 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 period 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) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

(aa) 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 2010, 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 2009-5 *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 2011 financial statements, are not expected to have a significant 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.

2 Profit before tax

	Note	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Interest revenue					
Loans					
– to members		**219,808**	251,175	**219,808**	251,175
– consolidated entities, key management personnel, and related entities		**413**	409	**587**	595
– ADI's		**20,240**	18,375	**20,240**	18,375
Available for sale investments		**26,281**	34,047	**27,806**	35,668
		266,742	304,007	**268,441**	305,813
Interest expense					
Deposits					
– from members		**128,261**	160,740	**128,261**	160,740
– controlled entities		**-**	-	**49**	75
– subordinated debt		**624**	779	**624**	779
Securitised loans funding		**44,837**	65,868	**46,361**	67,491
Other interest expense		**1**	10	**1**	10
		173,723	227,397	**175,296**	229,095
Net interest income		**93,019**	76,610	**93,145**	76,718
Bad and doubtful debts expense					
– bad debts written off		**1,103**	1,892	**1,103**	1,892
– increase/(decrease) in provision for impairment		**2,535**	(102)	**2,535**	(102)
	10	**3,638**	1,790	**3,638**	1,790
Net interest income after bad and doubtful debts		**89,381**	74,820	**89,507**	74,928
Share of profits of joint venture entity	28	**217**	27	**-**	-

2 Profit before tax (continued)

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Other income				
Dividends	**10**	8	**10**	8
Profit from sale of property, plant and equipment	**14**	32	**14**	32
Loan switch and breakout fees	**1,394**	2,702	**1,394**	2,702
Transaction fees	**8,135**	10,386	**8,135**	10,386
Payment system fees	**1,636**	1,586	**1,636**	1,586
Property income	**135**	143	**135**	143
Bad debts recovered	**799**	127	**799**	127
Commissions	**1,965**	1,504	**1,965**	1,504
Other	**510**	526	**258**	197
	14,598	17,014	**14,346**	16,685
Revenue from land development	**-**	100	**-**	-
Other income	**14,598**	17,114	**14,346**	16,685
Net income	**104,196**	91,961	**103,853**	91,613
Personnel expense				
Salaries	**26,473**	25,912	**26,473**	25,912
Payroll tax	**1,562**	1,605	**1,562**	1,605
Fringe benefits tax	**390**	370	**390**	370
Superannuation	**2,629**	2,498	**2,629**	2,498
	31,054	30,385	**31,054**	30,385
Occupancy expense				
Repairs and maintenance	**850**	410	**850**	410
Rental on operating leases	**4,925**	4,696	**4,925**	4,696
Other	**1,775**	1,587	**1,775**	1,587
	7,550	6,693	**7,550**	6,693
Payment system expense	**2,449**	3,881	**2,449**	3,881
Marketing expense	**5,161**	4,404	**5,161**	4,404
Data processing expense	**2,157**	1,897	**2,157**	1,897
Postages and printing expense	**1,535**	1,507	**1,535**	1,507
Contributions to IMB Community Foundation	**440**	450	**440**	450
Goods and services tax not recovered	**2,125**	1,867	**2,125**	1,867

2 Profit before tax (continued)

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Sundry expenses				
Depreciation and amortisation				
– plant and equipment	**2,347**	2,829	**2,347**	2,829
– buildings	**147**	147	**147**	147
– intangibles	**431**	869	**431**	869
Loss from sale of property, plant and equipment	**23**	40	**23**	40
Auditors' remuneration (KPMG)				
– audit and review of financial reports	**295**	286	**248**	250
– other services				
– other assurance services	**70**	30	**27**	25
– taxation services	**27**	47	**27**	47
– advisory services*	**36**	51	**36**	51
Other	**4,906**	3,807	**4,935**	3,779
	8,282	8,106	**8,221**	8,037
Total other expenses	**60,753**	59,190	**60,692**	59,121
Land development expense	**1,891**	73	**-**	-
Total non interest expense	**62,644**	59,263	**60,692**	59,121
Profit before tax	**41,552**	32,698	**43,161**	32,492

* KPMG provided additional services to the value of $100,082 during 2009. These additional costs were deferred as part of the proposed merger with Community Alliance Credit Union Limited. As the merger did not proceed, these costs have been written back during 2010 and are now reflected in the income statement, within the other expenses classification.

3 Taxation

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
(a) Income tax expense				
Current tax expense				
– current year	**14,461**	11,295	**14,557**	11,275
– adjustment for prior years	**(63)**	47	**(5)**	47
	14,398	11,342	**14,552**	11,322
Deferred tax expense – origination and reversal of temporary differences	**(1,917)**	(1,494)	**(1,523)**	(1,527)
Total income tax expense	**12,481**	9,848	**13,029**	9,795

3 Taxation (continued)

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Reconciliation between income tax expense and profit before tax				
Profit before tax	**41,552**	32,698	**43,161**	32,492
Prima facie income tax expense at 30% on operating profit	**12,466**	9,809	**12,948**	9,747
Increase in income tax expense due to:				
– income tax under provided for in prior year	**-**	1	**-**	1
– depreciation of buildings	**44**	44	**44**	44
– non deductible entertainment	**37**	31	**37**	31
– other	**4**	-	**4**	-
Decrease in income tax expense due to:				
– other deductible expenses	**(3)**	(28)	**(3)**	(28)
– other	**(67)**	(9)	**(1)**	-
Income tax expense	**12,481**	9,848	**13,029**	9,795
Income tax recognised directly in equity				
Relating to equity investments	**88**	2	**88**	2
Relating to available for sale investments	**(111)**	521	**(111)**	521
Relating to cash flow hedges	**1,053**	(2,694)	**1,053**	(2,694)
	1,030	(2,171)	**1,030**	(2,171)

(b) Current tax liabilities

The current tax liability for the Group of $3,764,000 (2009: $4,525,000) and for the Company of $3,764,000 (2009: $4,525,000) represents the amount of income taxes payable in respect of current and prior financial periods 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	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Deferred tax (liabilities)/assets				
Deferred tax liabilities and assets are attributable to the following:				
Deferred expenditure	**(376)**	(382)	**(376)**	(382)
Deferred lending fees	**(826)**	(1,166)	**(826)**	(1,166)
Property, plant and equipment	**(132)**	(216)	**(132)**	(216)
Available for sale investments	**(228)**	(340)	**(228)**	(340)
Other equity investments	**(195)**	(107)	**(195)**	(107)
Freehold land held for development	**-**	(207)	**-**	-
Other	**-**	(16)	**-**	(16)
Total deferred tax liabilities	**(1,757)**	(2,434)	**(1,757)**	(2,227)

3 Taxation (continued)

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Provisions and accrued expenses	**2,427**	1,635	**2,427**	1,635
Employee benefits	**1,892**	1,710	**1,892**	1,710
Unearned income	**550**	413	**550**	413
Derivative liabilities	**457**	1,510	**457**	1,510
Freehold land held for development	**178**	-	**-**	-
Consulting and legal fees	**123**	160	**105**	148
Other	**10**	-	**10**	-
Total deferred tax assets	**5,637**	5,428	**5,441**	5,416
Net deferred tax assets	**3,880**	2,994	**3,684**	3,189

4 Retained earnings

	Note	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Retained earnings at the beginning of the year		**127,424**	114,394	**125,319**	112,442
Profit for the year attributable to members of the Company		**29,071**	22,850	**30,132**	22,697
Dividends recognised during the year	5	**(10,177)**	(9,380)	**(10,177)**	(9,380)
Transfers to general reserve for credit losses		**-**	(440)	**-**	(440)
Retained earnings at the end of the year		**146,318**	127,424	**145,274**	125,319

5 Dividends

	Cents per Share	Total amount $000	% Franked	Date of payment
Dividends recognised in current year by the Company are:				
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		
2009				
2009 interim dividend	**8.0**	3,193	**100%**	27-Feb-09
2008 special dividend	**0.5**	200	**100%**	30-Aug-08
2008 final dividend	**15.0**	5,987	**100%**	30-Aug-08
		9,380		

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

Subsequent events

On 24 August 2010 the Board declared a final ordinary dividend of 19.0 cents per share amounting to $7,583,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2010. The dividend is payable on 3 September 2010. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports. The declaration and subsequent payment of dividends has no income tax consequences.

	Company	
	2010 $000	2009 $000

5 Dividends (continued)

Dividend franking account		
30% franking credits available to members of the Company for dividends in subsequent financial years	**63,588**	53,554

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 $3,250,000 (2009: $2,652,000). 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 (2009: $56,000) of franking credits.

6 Available for sale investments

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Available for sale investments *				
- government and semi-government securities	**9,729**	17,593	**9,729**	17,593
- certificates of deposit issued by banks	**65,198**	81,218	**65,198**	81,218
- deposits with banks	**-**	15,019	**-**	15,019
- floating rate notes	**397,768**	315,334	**428,538**	337,577
- commercial paper	**-**	4,997	**-**	4,997
- equity investments	**1,707**	1,415	**1,707**	1,415
- other bonds **	**2,070**	12,930	**2,070**	12,930
Total investments	**476,472**	448,506	**507,242**	470,749

* 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.

7 Loans and receivables to ADI's

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Loans to Authorised Deposit-taking Institutions ("ADI's")	**569,890**	440,273	**569,890**	440,273
Total loans and receivables to ADI's	**569,890**	440,273	**569,890**	440,273
LOANS BY MATURITY				
– up to three months	**545,654**	394,117	**545,654**	394,117
– from three to six months	**24,236**	46,156	**24,236**	46,156
Total loans and receivables to ADI's	**569,890**	440,273	**569,890**	440,273

8 Loans and receivables to members

	Note	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Loans to					
– members*		**3,581,019**	3,477,414	**3,581,019**	3,477,414
– consolidated entities, key management personnel and related entities		**430**	976	**10,162**	8,288
Provision for impairment	10	**(4,885)**	(2,350)	**(4,885)**	(2,350)
Total loans net of provision for impairment		**3,576,564**	3,476,040	**3,586,296**	3,483,352
LOANS BY MATURITY					
Loans maturing					
– revolving credit		**13,385**	13,307	**17,218**	17,140
– up to three months		**14,072**	17,014	**14,072**	17,014
– from three to six months		**14,270**	17,310	**14,270**	17,310
– from six to nine months		**15,184**	18,145	**15,184**	18,145
– from nine to twelve months		**14,871**	18,448	**14,871**	18,448
– from one to five years		**222,517**	272,342	**228,416**	275,821
– over five years		**3,287,150**	3,121,824	**3,287,150**	3,121,824
Provision for impairment	10	**(4,885)**	(2,350)	**(4,885)**	(2,350)
Total loans net of provision for impairment		**3,576,564**	3,476,040	**3,586,296**	3,483,352

* Includes $909,081,000 of securitised residential loans and $187,768,000 of securitised commercial loans (2009: $823,306,000 of securitised residential loans and $225,853,000 of securitised commercial loans).

9 Other financial assets

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Other equity investments – at cost*	**505**	505	**2,333**	2,333
Investments in controlled entities – at cost	**-**	-	**754**	754
Total other financial assets	**505**	505	**3,087**	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

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Specific provision				
Opening balance	**640**	736	**640**	736
Additions to specific provision	**475**	931	**475**	931
Loans written off, previously provided for	**(23)**	(888)	**(23)**	(888)
Reversal of provision	**(89)**	(139)	**(89)**	(139)
Closing balance	**1,003**	640	**1,003**	640
Collective provision				
Opening balance	**1,710**	1,716	**1,710**	1,716
Additions to collective provision	**2,172**	386	**2,172**	386
Reversal of provision	**-**	(392)	**-**	(392)
Closing balance *	**3,882**	1,710	**3,882**	1,710
Total provision for impairment	**4,885**	2,350	**4,885**	2,350
Bad debt expense				
Additions to collective provision	**2,172**	(6)	**2,172**	(6)
Additions to specific provision	**363**	(96)	**363**	(96)
Bad debts written off directly	**1,103**	1,892	**1,103**	1,892
Total bad debt expense	**3,638**	1,790	**3,638**	1,790

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

The Group's exposure to credit risk and impairment losses related to loans and receivables is disclosed in note 34.

11 Non-current assets held for sale

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Assets classified as held for sale				
Freehold land	**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 in June 2010 to sell the land. Efforts to sell the land have commenced, and a sale is expected to be realised within twelve months.

Prior to reclassifying the land from inventory to a non-current asset held for sale, an impairment loss on the remeasurement of the land to the lower of its cost or net realisable value had been recognised in the income statement.

12 Derivative liabilities

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Interest rate swaps at fair value	**1,522**	5,033	**1,522**	5,033

13 Inventories

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Freehold land held for development and sale				
– acquisition costs	**4,541**	5,779	**–**	–
– development costs capitalised	**579**	753	**–**	–
– rates, taxes and interest capitalised	**388**	886	**–**	–
Total inventories	**5,508**	7,418	**–**	–

The above inventory amount includes two developed properties which are currently for sale with an inventory value of $153,000 (2009: $178,000). The remaining freehold land held for sale is not expected to be realised within the next twelve months.

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
14 Property, plant and equipment				
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	**(1,620)**	(1,473)	**(1,620)**	(1,473)
	4,272	4,419	**4,272**	4,419
Total land and buildings	**7,437**	7,584	**7,437**	7,584
Plant and equipment				
– at cost	**31,043**	30,820	**31,043**	30,820
– accumulated depreciation	**(25,217)**	(23,739)	**(25,217)**	(23,739)
Total plant and equipment	**5,826**	7,081	**5,826**	7,081
Work in progress – at cost	**502**	104	**502**	104
Total property, plant and equipment – at cost	**40,602**	39,981	**40,602**	39,981
Total accumulated depreciation	**(26,837)**	(25,212)	**(26,837)**	(25,212)
Total property, plant and equipment	**13,765**	14,769	**13,765**	14,769

Valuations of land and buildings

Independent valuations were carried out as at 30 June 2008 by Mr H Zweep AICMV FREI on the open market value of the properties based on their existing use. The independent valuation valued freehold land and buildings at $15,210,000. The Company's policy is to obtain an independent valuation of freehold land and buildings every three years. As freehold land and buildings are carried at cost, the valuation has not been brought to account.

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
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 period	**3,165**	3,165	**3,165**	3,165
Buildings				
Carrying amount at the beginning of the period	**4,419**	4,566	**4,419**	4,566
Depreciation	**(147)**	(147)	**(147)**	(147)
Carrying amount at the end of the period	**4,272**	4,419	**4,272**	4,419
Plant and equipment				
Carrying amount at the beginning of the period	**7,081**	7,827	**7,081**	7,827
Additions	**642**	847	**642**	847
Transfers from work in progress	**683**	1,542	**683**	1,542
Disposals	**(233)**	(306)	**(233)**	(306)
Depreciation	**(2,347)**	(2,829)	**(2,347)**	(2,829)
Carrying amount at the end of the period	**5,826**	7,081	**5,826**	7,081
Work in progress				
Carrying amount at the beginning of the period	**104**	807	**104**	807
Additions	**1,081**	839	**1,081**	839
Transfers to plant and equipment	**(683)**	(1,542)	**(683)**	(1,542)
Carrying amount at the end of the period	**502**	104	**502**	104

15 Intangible assets

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Intangible computer software				
– at cost	**7,393**	7,219	**7,393**	7,219
– accumulated amortisation	**(7,021)**	(6,590)	**(7,021)**	(6,590)
Total Intangible computer software	**372**	629	**372**	629
Reconciliation				
Intangible computer software				
Carrying amount at the beginning of the period	**629**	1,331	**629**	1,331
Additions	**174**	167	**174**	167
Amortisation	**(431)**	(869)	**(431)**	(869)
Carrying amount at the end of the period	**372**	629	**372**	629

16 Other assets

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Sundry debtors	**3,604**	2,048	**9,573**	7,251
Other deferred costs	**-**	395	**-**	395
Total other assets	**3,604**	2,443	**9,573**	7,646

17 Trade and other payables

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Trade creditors	**8,412**	7,760	**8,343**	7,644
Distributions payable by SPEs	**17,361**	27,224	**-**	-
Fees payable by SPEs	**300**	288	**-**	-
Total trade and other payables	**26,073**	35,272	**8,343**	7,644

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

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000

18 Deposits

Retail deposits	**2,456,768**	2,365,962	**2,459,586**	2,368,968
Wholesale deposits	**872,367**	764,479	**872,367**	764,479
Accrued interest	**33,391**	27,842	**33,391**	27,842
Total deposits	**3,362,526**	3,158,283	**3,365,344**	3,161,289
CONCENTRATION OF DEPOSITS				
New South Wales	**2,855,881**	2,733,475	**2,858,699**	2,736,481
Australian Capital Territory	**228,596**	177,621	**228,596**	177,621
Queensland	**34,341**	33,760	**34,341**	33,760
South Australia	**5,464**	16,151	**5,464**	16,151
Victoria	**172,429**	165,691	**172,429**	165,691
Western Australia	**5,698**	5,071	**5,698**	5,071
Tasmania	**25,768**	26,170	**25,768**	26,170
Northern Territory	**34,349**	344	**34,349**	344
Total deposits	**3,362,526**	3,158,283	**3,365,344**	3,161,289

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

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000

19 Securitised loans funding

Notes payable	**1,064,650**	1,025,682	**-**	-
Loans from securitisation trusts	**-**	-	**1,095,420**	1,047,925
Total securitised loans funding	**1,064,650**	1,025,682	**1,095,420**	1,047,925

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

	Note	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
20 Interest bearing liabilities					
Subordinated floating rate notes	1t	**10,000**	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 (2009: 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 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
21 Provisions					
Make good provision					
Balance at the beginning of the period		**526**	541	**526**	541
Provisions made during the period		**-**	-	**-**	-
Provisions used during the period		**(11)**	(15)	**(11)**	(15)
Balance at the end of the period		**515**	526	**515**	526
Employee benefits					
Balance at the beginning of the period		**5,701**	5,278	**5,701**	5,278
Provisions made during the period		**2,482**	2,366	**2,482**	2,366
Provisions used during the period		**(1,875)**	(1,943)	**(1,875)**	(1,943)
Balance at the end of the period	23	**6,308**	5,701	**6,308**	5,701
Total provisions		**6,823**	6,227	**6,823**	6,227

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000

22 Share capital and reserves

Share capital

39,911,640 (2009: 39,911,640) ordinary shares, fully paid	**46,936**	46,936	**46,936**	46,936

Under its constitution, the Company may issue new shares at any time. Further, members who hold a minimal level of deposits are able to purchase shares by lodging a share application with the Company. Also 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 shares. 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 bad debts, above that calculated in accordance with note 1i. The general reserve for credit losses together with the amounts calculated in accordance with note 1i must be adequate to comply with prudential requirements.

General reserve
The general reserve includes retained profits from prior years.

23 Employee benefits

	Consolidated		Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Current				
Liability for annual leave	**2,477**	2,338	**2,477**	2,338
Liability for banked time	**2**	2	**2**	2
Liability for directors' retirement benefits	**139**	-	**139**	-
Liability for long service leave	**2,217**	1,096	**2,217**	1,096
	4,835	3,436	**4,835**	3,436
Non current				
Present value of defined benefit fund obligations	**6,189**	5,107	**6,189**	5,107
Fair value of defined benefit fund assets	**(4,922)**	(4,012)	**(4,922)**	(4,012)
Present value of net obligations	**1,267**	1,095	**1,267**	1,095
Unrecognised actuarial (losses)	**(716)**	(583)	**(716)**	(583)
Recognised liability for defined benefit obligations	**551**	512	**551**	512
Liability for long service leave	**818**	1,509	**818**	1,509
Liability for directors' retirement benefits	**104**	244	**104**	244
Total employee benefits	**6,308**	5,701	**6,308**	5,701

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 13 members (2009: 13) in the plan. An actuarial assessment of the plan at 1 July 2010 was carried out by Ms SA Sweeney FIAA on 12 July 2010.

Movements in the net liability for defined benefit obligations recognised in the statement of financial position.

	Consolidated		Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Net liability for defined benefit obligations at the beginning of the period	**512**	475	**512**	475
Contributions received from employer	**(318)**	(250)	**(318)**	(250)
Expenses recognised in the income statement	**357**	287	**357**	287
Net liability for defined benefit obligations at the end of the period	**551**	512	**551**	512

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

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Defined benefit obligation at the beginning of the period	**5,107**	4,635	**5,107**	4,635
Service cost	**372**	365	**372**	365
Interest cost	**277**	288	**277**	288
Actuarial gains	**310**	154	**310**	154
Contributions by employees	**247**	208	**247**	208
Benefits paid	**-**	(434)	**-**	(434)
Other	**(124)**	(109)	**(124)**	(109)
Defined benefit obligation at the end of the period	**6,189**	5,107	**6,189**	5,107

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

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Fair value of fund assets at the beginning of the period	**4,012**	4,743	**4,012**	4,743
Actual return	**469**	(646)	**469**	(646)
Contributions by employer	**318**	250	**318**	250
Contributions by employees	**247**	208	**247**	208
Benefits paid	**-**	(434)	**-**	(434)
Other	**(124)**	(109)	**(124)**	(109)
Fund assets at the end of the period	**4,922**	4,012	**4,922**	4,012

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

	Consolidated		Company	
	2010 %	2009 %	**2010 %**	2009 %
Australian shares	**30**	30	**30**	30
International shares	**30**	30	**30**	30
Property/alternate investments	**15**	15	**15**	15
Fixed interest	**20**	20	**20**	20
Cash	**5**	5	**5**	5
Total	**100**	100	**100**	100

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

23 Employee benefits (continued)

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
Expenses recognised in the profit or loss				
Current service costs	372	365	372	365
Interest on obligation	277	288	277	288
Expected return on fund assets	(298)	(357)	(298)	(357)
Actuarial losses/(gains)	6	(9)	6	(9)
Total	357	287	357	287

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

The actual return on fund assets was a $469,000 gain (2009: $646,000 loss).

Actuarial assumptions

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

	Consolidated 2010 %	Consolidated 2009 %	Company 2010 %	Company 2009 %
Discount rate at 30 June	5.1	5.5	5.1	5.5
Expected return on fund assets at 30 June	6.3	7.2	6.3	7.2
Future salary increases	5.0	5.0	5.0	5.0

The overall expected long-term rate of return on assets is 6.3%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Historic information

	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Amounts for the current and previous annual periods relating to both the Company and Group are as follows:					
Present value of defined benefit obligation	6,189	5,107	4,635	6,454	6,982
Fair value of fund assets	(4,922)	(4,012)	(4,743)	(7,238)	(6,905)
Deficit/(Surplus) in the plan	1,267	1,095	(108)	(784)	77
Experience adjustments (gain)/loss arising on plan liabilities	(310)	(235)	137	192	(310)
Experience adjustments loss/(gain) arising on plan assets	(171)	1,003	810	(659)	(315)

The Company expects $389,000 in contributions to be paid to the funded defined benefit plan during the year ended 30 June 2011.

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was $2,048,000 for the financial year (2009: $2,026,000).

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
24 Capital and other commitments				
Loan commitments approved but not advanced				
– not later than one year	**279,045**	294,471	**279,045**	294,471
– later than one year	**9,809**	5,628	**9,809**	5,628
Total	**288,854**	300,099	**288,854**	300,099
Capital expenditure commitments not taken up in the financial statements				
– not later than one year	**560**	25	**560**	25
Non cancellable operating lease rentals payable				
– not later than one year	**4,341**	4,351	**4,341**	4,351
– later than one year but not later than five years	**6,027**	8,024	**6,027**	8,024
– later than five years	**-**	10	**-**	10
Total	**10,368**	12,385	**10,368**	12,385

The Company leases property under operating leases for terms up to seven years. Leases generally provide the Company with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

	Consolidated 2010 $000	Consolidated 2009 $000	Company 2010 $000	Company 2009 $000
25 Financing arrangements				
Bank overdraft available	**2,500**	2,500	**2,500**	2,500
Facilities not utilised	**2,500**	2,500	**2,500**	2,500

The overdraft facility when drawn is secured by a charge over mortgage loans made by the Company to members. This facility is subject to annual review. The facility is subject to an annual interest rate of 10.61% (2009: 9.2%).

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 also include guarantees of $1,695,000 (2009: $1,727,000) issued on behalf of clients supporting performance, rental and other commercial obligations. The Company holds either term deposits or real estate as security against these performance guarantees.

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

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

27 Consolidated entities

	Principal Activity	Ownership interest 2010 %	Ownership interest 2009 %
Parent entity			
IMB Ltd			
Subsidiaries			
IMB Funeral Fund Management Pty Ltd	Trustee	**100.0**	100.0
IMB Land Pty Ltd	Land development	**100.0**	100.0
IMB Land No. 2 Pty Ltd	Land development	**100.0**	100.0
IMB Community Foundation Pty Ltd	Dormant	**100.0**	100.0
IMB Securitisation Services Pty Limited	Securitisation trust management	**100.0**	100.0
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 2004-1 CMBS 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 2010	Joint venture reporting date 2009	Percentage interest 2010 %	Percentage interest 2009 %
IMB Financial Planning Limited	Financial planning	**30 June**	30 June	**50.0**	50.0
Country of incorporation					
Australia					

	2010 $000	2009 $000	Consolidated share 2010 $000	Consolidated share 2009 $000
Results of incorporated joint venture				
The joint venture entity's result consists of:				
Revenues	**3,092**	**2,894**	**1,546**	1,447
Expenses*	**(2,468)**	**(2,690)**	**(1,234)**	(1,345)
Profit before income tax expense	**624**	**204**	**312**	102
Income tax expense*	**(190)**	**(150)**	**(95)**	(75)
Net profit accounted for using the equity method	**434**	**54**	**217**	27
Balance sheet				
The joint venture entity's assets and liabilities consists of:				
Current assets	**3,080**	**2,576**	**1,540**	1,288
Non-current assets	**3,968**	**4,288**	**1,984**	2,144
Total assets	**7,048**	**6,864**	**3,524**	3,432
Current liabilities	**698**	**900**	**349**	450
Non-current liabilities	**1,888**	**1,926**	**944**	963
Total liabilities	**2,586**	**2,826**	**1,293**	1,413
Net assets accounted for using the equity method	**4,462**	**4,038**	**2,231**	2,019
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	**72**	45		
Share of joint venture entity's net profit	**217**	27		
Share of joint venture entity's retained profits at the end of the year	**289**	72		
Movement in carrying amount of investment in incorporated joint venture entity				
Carrying amount at the beginning of the year	**1,853**	1,826		
Share of joint venture entity's net profit	**217**	27		
Carrying amount at the end of the year	**2,070**	1,853		
Share of non-capital commitments attributable to joint venture entity				
Non-cancellable operating leases				
Payable not later than 1 year	**49**	**49**		
Share of joint venture entity's non-capital operating leases	**49**	**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.

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		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Cash controlled by the Group	**16,729**	16,014	**16,720**	16,005
Cash controlled by SPEs	**23,956**	32,739	**-**	-
Total	**40,685**	48,753	**16,720**	16,005

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

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year attributable to members of the Company	**29,071**	22,850	**30,132**	22,697
Net loss on sale of property, plant and equipment	**9**	8	**9**	8
Bad debts expense	**3,638**	1,790	**3,638**	1,790
Inventory write down	**1,878**	-	**-**	-
Depreciation of property, plant and equipment, and amortisation of intangibles	**2,925**	3,845	**2,925**	3,845
Operating profit before changes in assets and liabilities	**37,521**	28,493	**36,704**	28,340
Changes in assets and liabilities:				
(Increase) in accrued interest on investments	**(1,469)**	(573)	**(1,469)**	(573)
(Increase)/Decrease in loans and receivables	**(104,162)**	157,082	**(106,582)**	153,340
(Increase) in inventories	**(2,468)**	(3,580)	**-**	-
Decrease/(Increase) in deferred expenditure	**395**	(293)	**395**	(293)
(Increase)/Decrease in sundry debtors	**(1,556)**	(334)	**(2,322)**	3,167
(Increase) in net deferred tax asset	**(886)**	(3,664)	**(495)**	(3,699)
Increase/(Decrease) in accrued interest on members' deposits	**5,549**	(6,420)	**5,549**	(6,420)
(Decrease)/Increase in trade and other payables	**(9,199)**	(211)	**699**	(3,170)
Increase in deposits	**198,694**	193,599	**198,506**	193,929
Increase in provision for employee benefits	**607**	424	**607**	424
(Decrease)/Increase in provision for income tax	**(761)**	1,627	**(761)**	1,627
(Decrease) in other provisions	**(11)**	(15)	**(11)**	(15)
Net cash flows from operating activities	**122,254**	366,135	**130,820**	366,657

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 reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors	Executives
Mr MJ Cole (Chairman)	Mr RJ Ryan (Chief Executive Officer)
Mr KR Biddle	Mr M Brannon (General Manager, Sales and Marketing) (appointed 3 May 2010)
Mr GA Edgar	Mr MR Harley (General Manager, Sales and Marketing) (ceased employment 1 July 2009)
Mr RHP Elvy	Mr CA Rumble (General Manager, Business Systems)
Ms LT Gearing	Mr CJ Goodwin (Chief Financial Officer)
Mr SG McKerihan	
Mr LP Nicholas	

	Consolidated		Company	
	2010 $	2009 $	**2010 $**	2009 $
The key management personnel compensation included in "personnel expense" (see note 2) is as follows:				
Short term employee benefits	**2,168,968**	2,007,943	**2,168,968**	2,007,943
Post employment benefits	**224,976**	198,796	**224,976**	198,796
Termination benefits	**-**	278,767	**-**	278,767
Other long-term benefits	**31,833**	34,672	**31,833**	34,672
Total	**2,425,777**	2,520,178	**2,425,777**	2,520,178

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 pages 27 and 28 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 period $	Highest balance in period $
Mr MJ Cole – related party*	**2010**	**970,294**	**-**	**-**	**-**	**970,294**
	2009	981,471	970,294	-	82,308	981,766
Mr KR Biddle – related parties	**2010**	**4,012**	**3,941**	**-**	**249**	**4,013**
	2009	4,087	4,012	-	296	4,084
Mr KR Biddle	**2010**	**168,651**	**168,872**	**-**	**9,824**	**168,872**
	2009	180,000	168,651	-	3,138	180,000
Mr M Brannon	**2010**	**312,905**	**259,782**	**-**	**15,789**	**312,905**
	2009	-	-	-	-	-

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

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 period $	Number in group at 30 June
Total for key management personnel 2010	**481,556**	**428,654**	**25,613**	**2**
Total for key management personnel 2009	212,519	199,575	4,269	2
Total for other related parties 2010	**974,306**	**3,941**	**249**	**1**
Total for other related parties 2009	1,368,521	974,306	98,250	3
Total for key management personnel and their related parties 2010	**1,455,862**	**432,595**	**25,862**	**3**
Total for key management personnel and their related parties 2009	1,581,040	1,173,881	102,519	5

All loans to key management personnel and their related parties are made on an arms length basis, on the same terms and conditions and at the same interest rates available to members. All loans are secured by residential mortgage, and no amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

Key management personnel holdings of shares and deposits

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

		Opening balance	Purchases	Sales	Closing balance
Directors					
Mr MJ Cole	**2010**	**7,131**	**2,869**	**10,000**	**-**
	2009	7,131	-	-	7,131
- related party	**2010**	**-**	**59,895**	**-**	**59,895**
	2009	-	-	-	-
Mr KR Biddle	**2010**	**5,000**	**325**	**-**	**5,325**
	2009	5,000	-	-	5,000
- related party	**2010**	**23,381**	**-**	**325**	**23,056**
	2009	23,381	-	-	23,381
Mr GA Edgar	**2010**	**3,000**	**-**	**-**	**3,000**
	2009	3,000	-	-	3,000
- related party	**2010**	**38,976**	**-**	**-**	**38,976**
	2009	38,976	-	-	38,976
Mr RHP Elvy	**2010**	**5,454**	**-**	**-**	**5,454**
	2009	-	5,454	-	5,454
Ms LT Gearing	**2010**	**4,000**	**-**	**-**	**4,000**
	2009	2,000	2,000	-	4,000
Mr SG McKerihan	**2010**	**5,000**	**-**	**-**	**5,000**
	2009	-	5,000	-	5,000
Mr LP Nicholas	**2010**	**2,000**	**-**	**-**	**2,000**
	2009	2,000	-	-	2,000
- related party	**2010**	**38,890**	**5,000**	**-**	**43,890**
	2009	38,890	-	-	38,890

Key management personnel holdings of shares and deposits (continued)

		Opening balance	Purchases	Sales	Closing balance
Executives					
Mr RJ Ryan	**2010**	**4,000**	**-**	**-**	**4,000**
	2009	4,000	-	-	4,000
Mr C Rumble	**2010**	**-**	**100**	**-**	**100**
	2009	-	-	-	-
Mr M Brannon	**2010**	**4,954***	**-**	**-**	**4,954**
	2009	-	-	-	-

* Represents shareholdings at the time of appointment to a key management personnel position.

No shares were granted to key management personnel during the reporting period as compensation in 2009 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 and are trivial or domestic in nature.

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 period. 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 $2,848 (2009: $nil).

Mr LP Nicholas is the chairman 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 $84,704 (2009: $77,107).

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:

	2010 $000	2009 $000
IMB Land Pty Ltd	**(221)**	(148)
IMB Land 2 Pty Ltd	**(147)**	-
IMB Securitisation Services Pty Ltd	**64**	176
Total	**(304)**	28

IMB Land Pty Ltd, a controlled entity has deposits with the Company amounting to $1,323,000 (2009: $1,609,000). 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 $7,666,000 at 30 June 2010 (2009: $7,665,000). During the year there were repayments of $650,000 (2009: $186,000) and advances of $120,000 (2009: $123,000). Aggregate interest of $531,000 (2009: $590,000) was charged during the year.

IMB Land No. 2 Pty Ltd, a controlled entity has deposits with the Company amounting to $90,000 (2009: $19,000). These amounts are received on normal commercial terms and conditions. IMB Land No. 2 Pty Ltd and its joint venture partner also have borrowings from the Company advanced during the course of land development. In accordance with normal commercial terms and conditions, the interest rate is set on the first working day of the month for the ensuing month at a fixed margin above the applicable bank bill rate. The aggregate amount of these loans is $8,426,000 at 30 June 2010 (2009: $4,970,000). During the year there were repayments of $nil (2009: $nil) and advances of $3,035,000 (2009: $4,689,000). Aggregate interest of $421,000 (2009: $281,000) 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 $2,308,000 (2009: $1,957,000). 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 (2009: $14,000). The Company also provides premises for IMB Financial Planning Limited. The Company has received $30,000 (2009: $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 (2009: $15,000) to IMB Financial Planning Limited during the year.

As at the reporting date a net receivable of $61,000 (2009: $62,000) was due from IMB Financial Planning Limited.

Securitisation

The Company through its loan securitisation program, securitises residential and commercial mortgage loans to the Illawarra Trusts ("the Trusts") which in turn issue rated securities to investors. The Company holds income and capital units in the Trusts. These income and capital units are held at nominal values. The income units entitle the Company to receive excess income, if any, generated by the securitised assets, whilst the capital unitholder receives upon termination of the Trust, the capital remaining after all other outgoings have been paid. Investors in the Trusts have no recourse against the Company if cash flows from the securitised loans are inadequate to service the obligations of the Trusts.

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 2010, the Company held $22,200,000 (2009: $22,200,000) in the Illawarra Series 2004-1 CMBS Trust and $8,500,000 (2009: nil) 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:

	2010 $000	2009 $000
Proceeds from securitisation of loans	**261,000**	Nil
Servicing fees received	**2,603**	2,997
Management fees received	**312**	360
Excess income received	**6,223**	7,808
Other	**251**	280

32 Segment reporting

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

33 Average balance sheet and related interest

	Consolidated					
	2010			2009		
	Average Balance $000	Interest $000	Average Rate %	Average Balance $000	Interest $000	Average Rate %
INTEREST BEARING ASSETS						
Loans and receivables to members	**3,502,608**	**220,221**	**6.29**	3,542,244	251,585	7.10
Loans and receivables to ADI's	**430,693**	**20,240**	**4.70**	328,481	18,375	5.59
Available for sale investments	**480,073**	**26,281**	**5.47**	509,701	34,047	6.68
Total interest bearing assets	**4,413,374**	**266,742**		4,380,426	304,007	
Bad and doubtful debts expense	**-**	**(3,638)**	**-**	-	(1,790)	-
NON INTEREST BEARING ASSETS						
Inventories	**5,686**	**-**	**-**	7,273	-	-
Property, plant and equipment	**14,223**	**-**	**-**	16,724	-	-
Other assets	**26,979**	**-**	**-**	45,588	-	-
Total non interest bearing assets	**46,888**	**-**	**-**	69,585	-	-
Total assets	**4,460,262**	**263,104**	**-**	4,450,011	302,217	-
INTEREST BEARING LIABILITIES						
Deposits	**3,193,576**	**128,262**	**4.02**	3,041,445	160,750	5.29
Notes payable	**1,009,970**	**44,837**	**4.44**	1,152,866	65,868	5.71
Subordinated floating rate notes	**10,000**	**624**	**6.24**	10,000	779	7.79
Total interest bearing liabilities	**4,213,546**	**173,723**		4,204,311	227,397	
NON INTEREST BEARING LIABILITIES						
Other liabilities	**37,857**	**-**	**-**	55,539	-	-
Total liabilities	**4,251,403**	**173,723**	**-**	4,259,850	227,397	-
Net assets	**208,859**	**-**	**-**	190,161	-	-
Net interest income after bad and doubtful debts	**-**	**89,381**	**-**	-	74,820	-

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 & 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 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 oversight of the Group's credit risk, 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:

	Note	Loans & receivables to Members 2010 $000	Loans & receivables to Members 2009 $000	Loans & receivables to ADI's 2010 $000	Loans & receivables to ADI's 2009 $000	Available for sale investments 2010 $000	Available for sale investments 2009 $000	Cash and cash equivalents 2010 $000	Cash and cash equivalents 2009 $000
CONSOLIDATED									
Carrying Amount	6,7,8,29	**3,576,564**	3,476,040	**569,890**	440,273	**476,472**	448,506	**40,685**	48,753
Individually impaired									
Gross amount		**1,806**	1,778	**-**	-	**-**	-	**-**	-
Provision for impairment		**(1,003)**	(640)	**-**	-	**-**	-	**-**	-
Carrying amount		**803**	1,138	**-**	-	**-**	-	**-**	-
Past due but not impaired									
Days in arrears:									
Less than one month		**73,010**	63,108	**-**	-	**-**	-	**-**	-
Greater than one month and less than two months		**8,753**	6,773	**-**	-	**-**	-	**-**	-
Greater than two months and less than three months		**1,408**	2,748	**-**	-	**-**	-	**-**	-
Greater than three months		**3,346**	5,302	**-**	-	**-**	-	**-**	-
Carrying amount		**86,517**	77,931	**-**	-	**-**	-	**-**	-
Neither past due nor impaired									
Secured by mortgage		**3,427,838**	3,332,809	**-**	-	**-**	-	**-**	-
Government securities		**-**	-	**-**	-	**9,729**	17,593	**-**	-
Investment grade		**-**	-	**347,864**	237,676	**465,036**	415,808	**40,685**	48,753
Unrated		**-**	-	**217,018**	200,012	**-**	-	**-**	-
Other		**64,367**	63,360	**5,008**	2,585	**1,707**	15,105	**-**	-
Net deferred income & expense		**921**	2,512	**-**	-	**-**	-	**-**	-
Carrying amount		**3,493,126**	3,398,681	**569,890**	440,273	**476,472**	448,506	**40,685**	48,753
Collective impairment provision	10	**(3,882)**	(1,710)	**-**	-	**-**	-	**-**	-
Total carrying amount	6,7,8,29	**3,576,564**	3,476,040	**569,890**	440,273	**476,472**	448,506	**40,685**	48,753
Includes restructured loans		**11,018**	3,591	**-**	-	**-**	-	**-**	-

34 Risk management and financial instruments (continued)

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:

	Note	Loans & receivables to Members 2010 $000	Loans & receivables to Members 2009 $000	Loans & receivables to ADI's 2010 $000	Loans & receivables to ADI's 2009 $000	Available for sale investments 2010 $000	Available for sale investments 2009 $000	Cash and cash equivalents 2010 $000	Cash and cash equivalents 2009 $000
COMPANY									
Carrying Amount	6,7,8,29	**3,586,296**	3,483,352	**569,890**	440,273	**507,242**	470,749	**16,720**	16,005
Individually impaired									
Gross amount		**1,806**	1,778	**-**	-	**-**	-	**-**	-
Provision for impairment		**(1,003)**	(640)	**-**	-	**-**	-	**-**	-
Carrying amount		**803**	1,138	**-**	-	**-**	-	**-**	-
Past due but not impaired									
Days in arrears:									
Less than one month		**73,010**	63,108	**-**	-	**-**	-	**-**	-
Greater than one month and less than two months		**8,753**	6,773	**-**	-	**-**	-	**-**	-
Greater than two months and less than three months		**1,408**	2,748	**-**	-	**-**	-	**-**	-
Greater than three months		**3,346**	5,302	**-**	-	**-**	-	**-**	-
Carrying amount		**86,517**	77,931	**-**	-	**-**	-	**-**	-
Neither past due nor impaired									
Secured by mortgage		**3,427,838**	3,332,809	**-**	-	**-**	-	**-**	-
Government securities		**-**	-	**-**	-	**9,729**	17,593	**-**	-
Investment grade		**-**	-	**347,864**	237,676	**495,806**	438,051	**16,720**	16,005
Unrated		**-**	-	**217,018**	200,012	**-**	-	**-**	-
Other		**74,099**	70,672	**5,008**	2,585	**1,707**	15,105	**-**	-
Net deferred income & expense		**921**	2,512	**-**	-	**-**	-	**-**	-
Carrying amount		**3,502,858**	3,405,993	**569,890**	440,273	**507,242**	470,749	**16,720**	16,005
Collective impairment provision	10	**(3,882)**	(1,710)	**-**	-	**-**	-	**-**	-
Total carrying amount	6,7,8,29	**3,586,296**	3,483,352	**569,890**	440,273	**507,242**	470,749	**16,720**	16,005
Includes restructured loans		**11,018**	3,591	**-**	-	**-**	-	**-**	-

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 (2009: $nil)

IMB issues guarantees to business banking clients with a maximum credit exposure of $1,695,000 (2009: $1,727,000).

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 independent of satisfactory performance after restructuring.

Allowance for impairment

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

Write off policy

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

Collateral and other credit enhancements

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

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

	Loans and receivables to Members			
	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Against Individually impaired				
Property value	**1,000**	1,400	**1,000**	1,400
Against past due but not impaired				
Property value	**106,915**	100,205	**106,915**	100,205
Other	**1,870**	1,844	**1,870**	1,844
Total	**109,785**	103,449	**109,785**	103,449

Repossessed collateral

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

During the year the Company took possession of property assets with a carrying value of $1,270,000 (2009: $6,654,000).

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 ADI's		Available for sale investments		Cash and cash equivalents	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
CONSOLIDATED								
Carrying amount	**3,576,564**	3,476,040	**569,890**	440,273	**476,472**	448,506	**40,685**	48,753
Concentration by location								
New South Wales	**2,703,074**	2,595,180	**345,096**	223,269	**206,406**	187,605	**39,954**	47,832
Australian Capital Territory	**260,245**	224,242	**5,009**	2,585	**-**	-	**533**	788
Queensland	**129,973**	142,445	**63,874**	58,190	**61,611**	64,776	**-**	-
Victoria	**344,916**	370,694	**23,129**	-	**66,730**	62,311	**198**	133
Western Australia	**129,851**	129,884	**60,331**	54,549	**-**	2,056	**-**	-
South Australia	**11,732**	13,411	**44,287**	74,129	**59,820**	96,668	**-**	-
Other Australia	**1,658**	2,534	**28,164**	27,551	**-**	4,997	**-**	-
Overseas	**-**	-	**-**	-	**81,905**	30,093	**-**	-
Provision for impairment	**(4,885)**	(2,350)	**-**	-	**-**	-	**-**	-
Total loans net of provision for impairment and deferred income and expenses	**3,576,564**	3,476,040	**569,890**	440,273	**476,472**	448,506	**40,685**	48,753
COMPANY								
Carrying amount	**3,586,296**	3,483,352	**569,890**	440,273	**507,242**	470,749	**16,720**	16,005
Concentration by location								
New South Wales	**2,712,806**	2,602,492	**345,096**	223,269	**237,176**	209,848	**15,989**	15,084
Australian Capital Territory	**260,245**	224,242	**5,009**	2,585	**-**	-	**533**	788
Queensland	**129,973**	142,445	**63,874**	58,190	**61,611**	64,776	**-**	-
Victoria	**344,916**	370,694	**23,129**	-	**66,730**	62,311	**198**	133
Western Australia	**129,851**	129,884	**60,331**	54,549	**-**	2,056	**-**	-
South Australia	**11,732**	13,411	**44,287**	74,129	**59,820**	96,668	**-**	-
Other Australia	**1,658**	2,534	**28,164**	27,551	**-**	4,997	**-**	-
Overseas	**-**	-	**-**	-	**81,905**	30,093	**-**	-
Provision for impairment	**(4,885)**	(2,350)	**-**	-	**-**	-	**-**	-
Total loans net of provision for impairment and deferred income and expenses	**3,586,296**	3,483,352	**569,890**	440,273	**507,242**	470,749	**16,720**	16,005

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

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 ADI's, 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 period were as follows:

	2010 %	2009 %
Total liquidity ratios		
At June 30	**31.46**	28.35
Average liquidity for the period	**27.73**	27.25
Minimum liquidity for the period	**24.78**	25.50
Maximum liquidity for the period	**33.13**	28.65

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	
	2010 $000	2009 $000	**2010 $000**	2009 $000	**2010 $000**	2009 $000
Residual contractual maturities of financial liabilities						
CONSOLIDATED						
Financial Liabilities						
Deposits	**974,039**	1,003,309	**1,642,069**	1,635,238	**766,987**	533,377
Trade and other payables	**-**	-	**26,073**	35,272	**-**	-
Securitised loans funding*	**-**	-	**76,044**	92,661	**199,489**	224,286
Subordinated debt	**-**	-	**184**	141	**551**	422
Employee benefits	**-**	-	**4,835**	3,436	**-**	-
Total financial liabilities	**974,039**	1,003,309	**1,749,205**	1,766,748	**967,027**	758,085
COMPANY						
Financial Liabilities						
Deposits	**976,857**	1,006,315	**1,642,069**	1,635,238	**766,987**	533,377
Trade and other payables	**-**	-	**8,343**	7,644	**-**	-
Securitised loans funding*	**-**	-	**76,577**	93,181	**201,067**	225,297
Subordinated debt	**-**	-	**184**	141	**551**	422
Employee benefits	**-**	-	**4,835**	3,436	**-**	-
Total financial liabilities	**976,857**	1,006,315	**1,732,008**	1,739,640	**968,605**	759,096
Consolidated and Company						
Derivative financial instruments						
Interest rate swaps (hedging relationship) net**	**-**	-	**487**	1,622	**1,335**	2,672
Unrecognised loan commitments	**-**	-	**97,517**	98,799	**-**	-

The following table indicates the periods 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 **	**-**	-	**456**	1,533	**1,367**	2,630

* 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	
2010 $000	2009 $000	**2010 $000**	2009 $000	**2010 $000**	2009 $000	**2010 $000**	2009 $000
38,368	37,516	**-**	-	**3,421,463**	3,209,440	**3,362,526**	3,158,283
-	-	**-**	-	**26,073**	35,272	**26,073**	35,272
622,545	710,561	**327,879**	160,891	**1,226,423**	1,188,399	**1,064,650**	1,025,682
10,739	11,129	**-**	-	**11,474**	11,692	**10,000**	10,000
2,333	2,265	**-**	-	**6,308**	5,701	**6,308**	5,701
673,985	761,471	**327,879**	160,891	**4,691,741**	4,450,504	**4,469,557**	4,234,938
38,368	37,516	**-**	-	**3,424,281**	3,212,446	**3,365,344**	3,161,289
-	-	**-**	-	**8,343**	7,644	**8,343**	7,644
647,317	714,963	**358,649**	183,134	**1,283,882**	1,216,575	**1,095,420**	1,047,925
10,739	11,129	**-**	-	**11,474**	11,692	**10,000**	10,000
2,333	2,265	**-**	-	**6,308**	5,701	**6,308**	5,701
698,757	765,873	**358,649**	183,134	**4,734,288**	4,454,058	**4,485,415**	4,232,559
1,928	3,215	**-**	-	**3,750**	7,509	**1,522**	5,033
-	-	**-**	-	**97,517**	98,799	**-**	-
1,754	2,938	**-**	-	**3,577**	7,101	**1,522**	5,033

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.

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's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

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

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

Exposure to market risk

A number of tools are used to measure and control market risk exposure within the Group's banking book including interest rate gap reporting, interest rate sensitivity analysis and Value at Risk (VaR). The VaR of a banking book is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level), expressed as a percentage of regulatory capital. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 20 day holding period. The VaR model used is based on variance/co variance. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

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

- A 20 day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- 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 2009 and during the period is as follows:

	2010 %	2009 %
Interest rate risk		
At June 30	**1.73**	2.02
Average VaR for the period	**1.90**	2.23
Minimum VaR for the period	**1.46**	1.79
Maximum VaR for the period	**2.65**	2.52

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 2010 the term deposit portfolio carrying amount was $2,390,518,000. Using a recognised valuation technique, the impact of interest rate movements on the term loan portfolio would estimate the fair value at $2,396,395,000. The carrying amount of these term deposits in the year ended 30 June 2009 was $2,186,064,000 with an estimated fair value of $2,191,480,000.
- 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 2010 the fixed rate loan portfolio carrying amount was $757,305,000. Using a recognised valuation technique, the impact of interest rate movements on the fixed loan portfolio would estimate the fair value at $769,611,000. The carrying value of these fixed rate loans in the year ended 30 June 2009 was $956,812,000 with an estimated fair value of $979,320,000.

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 $000
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**
30 June 2009				
Available for sale financial assets	1,415	447,091	-	448,506
Derivative financial liabilities held for risk management	-	(5,033)	-	(5,033)
	1,415	442,058	-	443,473

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:

	2010	2009
Derivatives	**4.81% - 5.23%**	3.44% - 5.50%
Loans and borrowings	**4.50% - 5.23%**	3.00% - 5.50%

Capital Management – Regulatory Capital

The Group's regulator (APRA) sets and monitors capital requirements for the Group as a whole. The Group reports to APRA under Basel 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 period.

There have been no material changes in the Group's management of capital during the period.

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 Group submitted its ICAAP document to APRA in 2008 and the PCR was advised in December 2009. The PCR remains confidential between each ADI and APRA in accordance with accepted practice.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect a differing risk profile, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

34 Risk management and financial instruments (continued)

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

	Consolidated		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Tier 1 capital				
Ordinary share capital	**46,936**	46,936	**46,936**	46,936
General reserves	**23,732**	25,255	**23,732**	25,255
Retained earnings*	**121,797**	108,768	**119,693**	106,816
Current year earnings*	**19,246**	12,341	**20,308**	12,188
(Less) Capitalised expenses	**(4,555)**	(5,853)	**(4,555)**	(5,853)
(Less) Other	**(4,057)**	(4,193)	**(3,667)**	(4,048)
Total	**203,099**	183,254	**202,447**	181,294
Tier 2 capital				
Asset revaluation reserves	**3,294**	5,626	**3,294**	5,626
General reserve for credit loss*	**4,417**	2,856	**4,417**	2,856
Subordinated debt**	**4,000**	6,000	**4,000**	6,000
(Less) Other	**(804)**	(798)	**(1,182)**	(799)
Total	**10,907**	13,684	**10,529**	13,683
Total regulatory capital	**214,006**	196,938	**212,976**	194,977
Capital requirements (in terms of risk weighted assets) for:				
Credit risk	**1,557,930**	1,482,910	**1,559,090**	1,483,510
Operational risk	**227,660**	210,020	**226,871**	208,901
Total risk weighted assets	**1,785,590**	1,692,930	**1,785,961**	1,692,411
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**12.0%**	11.6%	**11.9%**	11.5%
Total Tier 1 capital expressed as a percentage of risk weighted assets	**11.4%**	10.8%	**11.4%**	10.7%

* 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 2010 refer to note 5.

Directors' Declaration

For the year ended 30 June 2010

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

(a) the financial statements and notes, set out on pages 33 to 85 and the Remuneration report in the Directors' report, set out on pages 24 to 29, 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 2010 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 24th day of August 2010.

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 2010, the income statements and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 35 and the directors' declaration of 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report comprising the financial statements and notes complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a 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 2010 and of their performance for the 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 29 of the directors' report for the year ended 30 June 2010. 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 2010, complies with Section 300A of the Corporations Act 2001.

KPMG

Richard Drinnan
Partner

Dated at Wollongong, this 24th day of August 2010.

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

ACT

Belconnen	Level 3, Westfield Shopping Town BELCONNEN ACT 2617
Canberra City	Shop CG 04, City Walk CANBERRA CITY ACT 2600
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

Financial Planning

IMB Financial Planning	Level 1, 2-4 Bong Bong Road DAPTO NSW 2530
King Financial Services	Level 1, Engineering House 11 National Circuit BARTON ACT 2600

Corporate Directory

Shareholders' Diary and other information

Payment of final dividend 3 September 2010
Annual General Meeting 26 October 2010 at 10:00am

Notice of Annual General Meeting

The annual general meeting of members of IMB Ltd will be held at the Hoskins Room, Novotel Northbeach, 2-14 Cliff Road, Wollongong on 26 October 2010 at 10:00am

Company Secretary

Lauren Wise (BA LLB Grad Dip. Legal Practice)

Registered Office

253-259 Crown Street
Wollongong NSW 2500

Share Registry

IMB Ltd is not listed on the Australian Stock Exchange.

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

The share register is available for inspection at:

Level 6 Executive Services
253-259 Crown Street
Wollongong NSW 2500

Advisors

Solicitors

Watson Mangioni

Level 13
50 Carrington St
Sydney NSW 2000

Auditors

KPMG
Level 3
63 Market St
Wollongong NSW 2500


SKIDADDLE
Celebrating 130 years

IMB Ltd
253-259 Crown Street
Wollongong NSW 2500

imb.com.au

It all comes back to our members

Credit Union and Building Society group