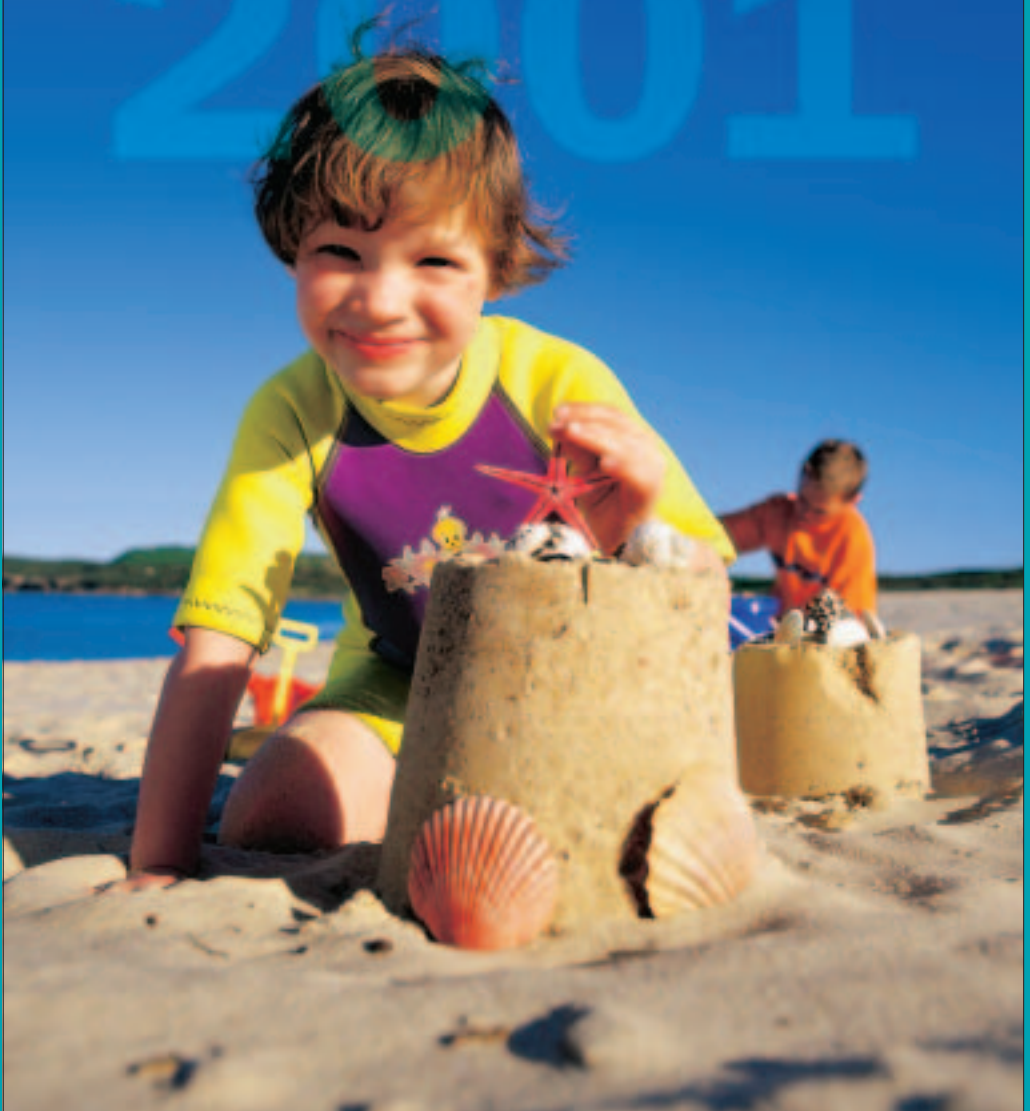


2001



This year we've been building for
our future...

Illawarra Mutual Building Society Ltd **Concise Financial Report 2001**
ABN 92 087 651 974

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The financial statements and other specified disclosures have been derived from Illawarra Mutual Building Society Ltd and its Controlled Entities ("consolidated entity") full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report.

The concise report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

A copy of the consolidated entity's 2001 Annual Financial Report, including the independent audit report, is available to members, and will be sent to members without charge on request. The 2001 Annual Financial Report can be requested by calling 133IMB (133462) or by visiting our web site at www.imb.com.au.

The Year in Review



This year IMB has further consolidated its position as one of Australia's **best financial institutions**. By focusing on **customer service, efficient** and **ethical** business practices and a **forward looking** stance we have been able to achieve our **best ever results**.

Loan approvals, predominantly mortgages, totalled \$802 million, an increase of 43.2 percent from last year.

Total assets increased by \$134.2 million or 8.1 percent from the previous year.

At just under \$10 million, group profit from ordinary activities is another record, up \$0.6 million or 6.6 percent compared to last year.

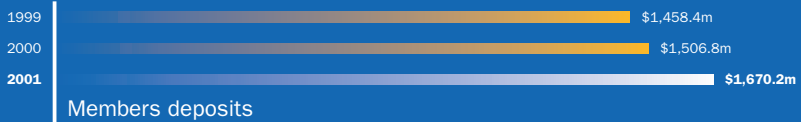
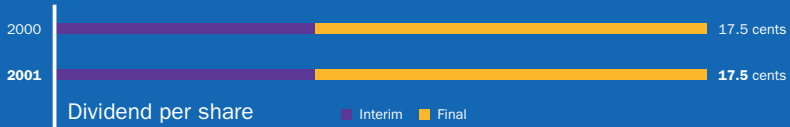
Net interest income increased by \$2.6 million to \$46.1 million, a result of strategies implemented to counter intense competition in the housing finance market.

The ratio of non interest expense (including individually significant items) to ordinary income improved from 76.3 percent to 75.5 percent reflecting the emphasis on profitable growth.

Bad and doubtful debts decreased \$0.4 million or 30.4 percent from the previous year. IMB's level of mortgage arrears continues to be well below the national averages in all categories.

The IMB community foundation continued its good work with a further allocation of \$500,000 on top of the initial allocation of \$500,000 in 2000.

Significant re-positioning in the market this year has seen IMB open two new sales centres in the ACT, launch a new internet banking package, expand into the Perth mortgage market and form a joint venture financial planning business with ipac securities limited.



Chairman's Letter

With **profits up 6.6 percent** on last year and total assets **increasing 8.1 percent**, we have achieved strong results. We are now beginning to **reap the rewards** of all the hard work put in over the last few years, and the **future looks brighter** than ever.

Dear Members

IMB has had a good year. It has increased its assets by over \$134 million (8.1 percent) and produced a record net profit of just under \$10.0 million which is up 6.6 percent over the previous year. This result completes four consecutive years of profit improvement.

The result was achieved despite volatile interest rate movements and unremitting pressure on margins.

After five increases in official rates, a total of 1.50 percent in the preceding eighteen months to December 2000, there were three decreases in official interest rates, totalling 1.25 percent, in the second half of the year. We are pleased to have achieved a significant increase in loan writings notwithstanding the interest rate movements, increased competition from mortgage managers and an increasing array of products and distribution channels.

On the deposit side, the low interest rate environment has increased competition within and between traditional retail and wholesale markets, the share market and funds managers. A delay in the reduction of deeming rates for pensioners, following the reduction in interest rates, had a significant adverse comparative impact on the interest costs in the second half of the year.

During the year, the IMB has significantly re-positioned itself in the market. It opened a further two new sales centres in the ACT, launched its internet banking package, access.imb, expanded into the Perth mortgage market, and commenced a joint venture financial planning business with ipac securities limited. In July 2001, the announcement of the purchase of Australian Unity Building Society Limited and the formation of a strategic alliance with the Australian Unity group further enhanced IMB's expanded focus.

Growth was achieved despite the burden imposed by further regulatory amendments. The burdensome Goods and Services Tax commenced on 1 July 2000. The new constitution was adopted at the October annual general meeting as required by Corporations Law; and extensive work continues to ensure compliance with the yet to be finalised Financial Services Reform Bill, due to be implemented sometime in the coming year.

The chief executive officer, Wayne Morris and the new senior staff appointed during the year and last year have effected significant changes energetically and enthusiastically, and by their leadership, influencing IMB staff to strive for similarly effective and satisfying results. We will continue to emphasise the recruitment and development of top quality staff. The desired levels of personal service to customers depend upon success in this sphere.

All in all the re-positioning is already delivering improvements that can be expected to increase shareholder value and benefits to members in future years.

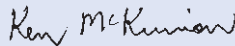
In 2000 IMB initiated the IMB Community Foundation as a tangible benefit to members. It supports economic and social development activities in the various communities that we serve. It has had a successful first year. A further \$500,000 has been allocated to the foundation for 2001 to support seventeen projects as far apart as Wollongong and Bermagui and inland to Goulburn and Canberra. Their prosperity is fundamental to our well being; it is for mutual benefit.

The year saw changes on the Board. Mr David Waters retired on 20 December 2000 after seventeen years as a director, the last eight of which as chairman. During Mr Waters' time on the Board, IMB had sustainable growth from an asset base of \$400 million to a level exceeding \$1.7 billion. Mr Waters made a valuable contribution to the IMB over an extended period of time. I wish him a long and healthy retirement.

Mr George Edgar accepted an invitation to join the board in December. Mr Edgar, who had then recently retired as President Flat Products, BHP Port Kembla, is well known and respected in the Illawarra community. I welcome Mr Edgar to the board and look forward to his contribution to the IMB.

For the coming year IMB anticipates modest continuing growth. The chief executive's report comments on a number of activities that will further strengthen IMB's range of products, its level of service to members, and its efficiency. The re-positioning of the IMB will have greater impact, taking the IMB further towards achievement of its vision of being a strong and successful financial institution, regionally based, but with a national focus.

These are challenging times. Thankfully the executive team, the staff and my fellow directors are meeting these challenges energetically, creatively and most importantly, successfully.



Prof KR McKinnon AO Chairman

Pictured opposite from left:

Peter Bolt
Ken McKinnon
Russell Fredericks
Bryce Wauchope
Vivien Twyford
Harold Hanson
George Edgar (seated)



This year our net profit was **\$9.95m**,
a group record

In an ever tougher marketplace, we have proven that our approach of providing a great service to our members at fair and sustainable prices sets us apart from the competition. While others are tightening their belts, we're expanding. **Thank you for making our year such a big success.**



18,000,000

This year all **18,000,000** Australians are now able to access IMB

We're proud that we're making IMB more accessible to every Australian. By developing a national presence through local brokers and our online banking service, everyone can benefit from our outstanding service, products and interest rates. **More new members benefits us all.**

Chief Executive's Review of Operations

With our emphasis on **sustainable profit growth**, and the **successful implementation of strategies** to counter intense competition, we have built **better results** than ever in a **fiercely competitive** market.

Overview

The year just completed has seen the implementation of a significant number of strategic initiatives. These initiatives, discussed further in this report, include geographical expansion into most states, product diversification into the secured commercial lending market and small business markets, increased use of mortgage brokers, the launch of the IMB internet banking package access.imb, and a financial planning joint venture with ipac securities limited.

IMB has continued its positive trend of improving profits and sustaining asset growth. This performance reflects IMB's strong growth in total loans outstanding, its ability to compete successfully in its areas of operation and strong support from the community it serves. The increase in profit for the year is even more satisfying because the initiatives mentioned above have involved substantial effort, time and costs and moreover they will have significant longer term positive impact.

External economic conditions resulted in an increase in official interest rates in the first half of the year, only to be followed by significant decreases in the second half. Substantial additional effort was required to maintain adequate net interest margins while maintaining a competitive market position.

Profit

Group profit from ordinary activities at just under \$10.0 million was a record for IMB, an improvement of \$0.6 million over the previous year. In the second half, the board declared a fully franked final dividend of 10.5 cents per share. This brings the total for the year to 17.5 cents per share, the same rate as the previous year. As anticipated, the return on average equity, at 9.2 percent is at a similar level to the previous year. The 6.6 percent increase in profit for the year under review is a very satisfying outcome in the light of competitive forces faced by the IMB.

At IMB we're always looking for ways to **improve** our **business**. By focusing on **minimising bad and doubtful debt levels** we have been able to decrease it by **30.4 percent**, bringing it down to **\$0.9 million** – with our **mortgage arrears well below the national average**.

Net interest income

Net interest income for the year was \$46.1 million, up \$2.6 million on the previous year. The improvement reflects the strategies implemented to counter intense competition in the housing finance market and the market for retail deposits. While the net interest margin may further reduce in 2001 to 2002, albeit at a slower rate of contraction than over the last five years, continuing growth in loans outstanding will help to grow the net interest income.

Non interest income

Excluding revenue from the land development joint venture, non interest income improved by \$1.7 million or approximately 16.1 percent on the previous year and is the highest ever achieved by IMB.

Including revenue from land development non interest income reduced by \$0.7 million or approximately 5.0 percent on the previous year. In addition to revenue from the land development joint venture, non interest income sources are primarily transaction cost recoveries, loan fees, commissions on insurance and investment product sales. It should be noted that less than 25 percent of our members pay any transaction fees each month. New initiatives relating to key alliances and joint ventures will see significant ongoing improvement in this area.

Bad and doubtful debts expense

Bad and doubtful debts expense was \$0.9 million, a decrease of \$0.4 million or 30.4 percent on the previous year. Significant management focus will ensure bad debts expense will be kept under control. Overall, IMB's level of mortgage arrears continues to be well below the national averages in all categories.



This year over **75 percent** of our members enjoyed fee free banking

As a mutual organisation, IMB is run for the benefit of you, our members. So rather than cutting services, we're looking for ways to improve them. We believe in providing a fantastic service to our members at a competitive price, so we'll show you how to minimise fees. **And we all reap the rewards of a better, more profitable IMB.**



This year we helped **6,171** people own their own home

Nothing is more important to most people than the satisfaction of owning their own home. At IMB we are providing a viable alternative to the big banks, with more personalised service, competitive rates and flexibility in approach. **And this year loan approvals have grown 43.2 percent.**

Loan approvals continue to be our primary area of business activity and **profitability**. This year we've increased **loan approvals** by a massive **43.2 percent** to **\$801.7 million**.

Non interest expense

Non interest expense, including individually significant items, increased to \$44.6 million, from \$43.4 million in 2000, an increase of \$1.2 million or 2.8 percent. Most of the increase is attributable to initiatives viewed as investments in the future of IMB.

Personnel costs have increased by \$2.5 million or 13.9 percent during the year and occupancy costs have also increased by 2.1 percent. The increase in personnel costs included remuneration reviews and an increase in staffing levels. This is primarily due to the expansion to the ACT, Victoria and Western Australia, an increase in loan writing and processing personnel reflecting the increased lending volume and a significant increase in training throughout IMB. This commitment to training, expanded in last year's report, is ongoing and represents the need to have well trained and experienced staff. Additional senior staff have also been added in key positions throughout our sales division to assist IMB reach its operational goals as defined in its strategic plan.

General expenses reduced by \$0.5 million or 2.6 percent. Costs attributable to land development sales reduced by \$2.5 million. Increases include \$1.2 million, which is the direct unrecoverable goods and services tax ("GST") impost for the year following its implementation on 1 July, 2000. This has been slightly offset by a reduction in income tax payable of \$0.3 million attributable to the reduction in corporate income tax rates as part of the GST implementation, resulting in an after tax cost this year of \$0.9 million. A further reduction in income tax rates commencing on 1 July 2001 still will not fully offset the ongoing direct unrecoverable costs of the GST to IMB.

The ratio of non interest expense (including individually significant items) to ordinary income for the group improved from 76.3 percent in 2000 to 75.5 percent in 2001. Non interest expense (including individually significant items) as a proportion of average total assets for the group, maintained at 2.6 percent a similar ratio in 2001 to that in 2000.

Loan approvals

IMB has achieved excellent loan approval levels of \$801.7 million, of which mortgage secured loans were \$769.3 million. This is an increase of \$242.0 million or 43.2 percent compared to last year, mostly in the second half (up \$525.3 million or 90.1 percent compared to the first half).

Loans outstanding increased to \$1.6 billion, up \$156.4 million, or 11.2 percent over the previous year.

Prevailing low interest rates mean that home loans continue to be extremely affordable. In the year under review, our borrowers maintained the practice of repaying their loans at much faster rates than the contracted minimum repayments. There was also a further increase in the annual rate of discharges in 2001. Significant effort is being expended on ensuring this discharge ratio reduces to a more satisfactory level in an environment where mortgage loans have become much more commoditised. An emphasis not just on retention, but members' ongoing needs, will see the implementation of an effective customer relationship management strategy.

Just like the **Wollongong IMB Hawks**, we aim to be **national leaders** in our field, that's why we have **diversified** our **business** and our **lending operations** are branching out across the country. We aim to **grow** our **customer base** and distribution network to provide a **national presence**.

Business strategies

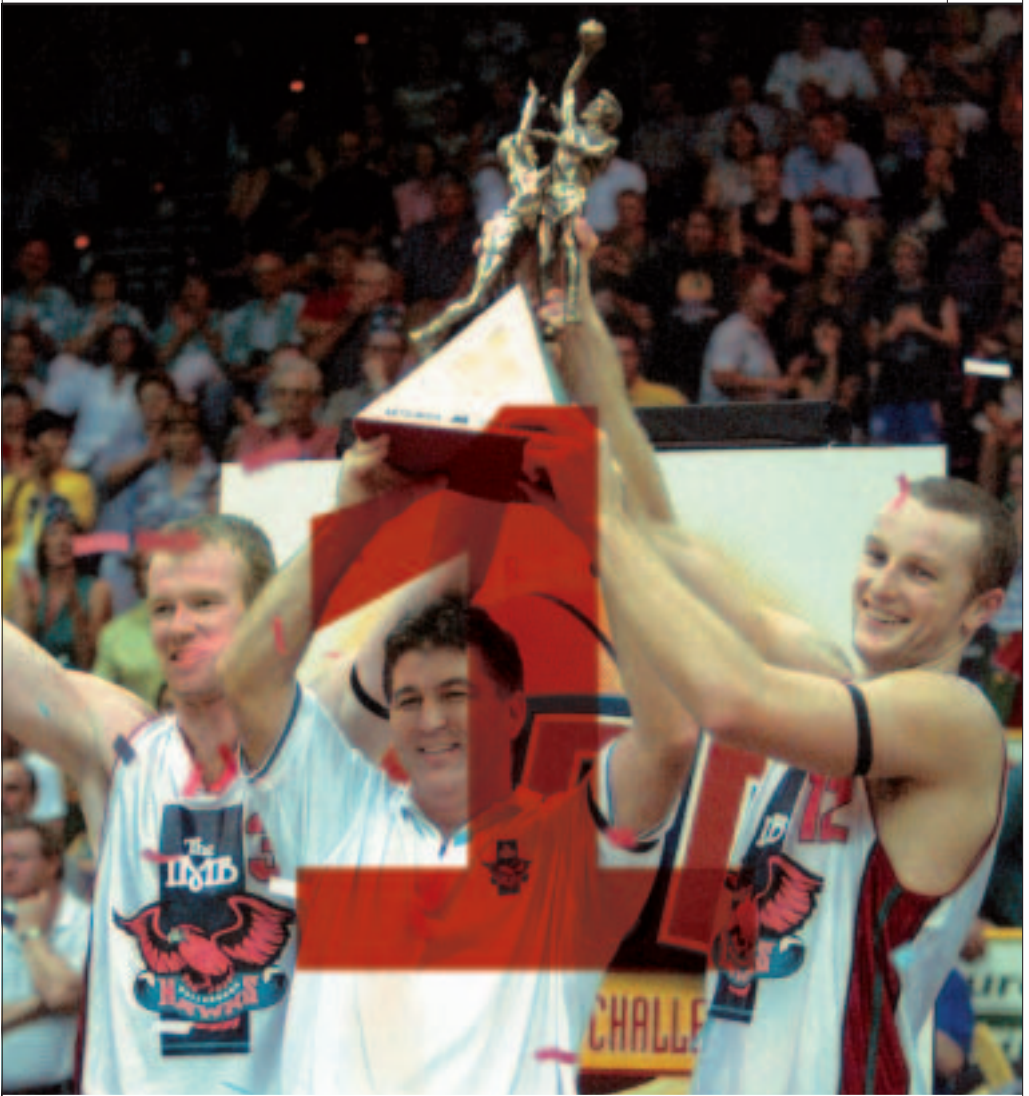
Over the last 12 months IMB has successfully diversified in a number of ways. Geographically we have launched lending operations in Perth and Melbourne to complement our lending operations in south east Queensland and our full service centres throughout key areas of NSW and ACT.

Distribution of our lending products has become more diversified. An increasing number of mortgage brokers and a widespread team of mobile lenders complement our network of sales centres. A good relationship with the broker marketplace is a key strategy to achieve an increased share of the national mortgage market. Our lending results also reflect a satisfactory entry into the secured commercial lending market. Each of these factors combined with competitive mortgage lending products give a platform for further improvements in market share in coming years. We expect a growing profit contribution to IMB's overall performance from the lending book.

A review of the savings and investment products and services resulted in the launch of a number of new and improved products. These included a new commercial loan product, a small business package, further focus into the middle markets for high net worth depositors with senior dedicated personnel and new products as well as improvements to the Wisdom Savers product. Other improvements in products and services will be implemented over the next 12 months.

On 17 July 2001 the acquisition of Australian Unity Building Society Limited was announced. This purchase, along with a strategic alliance entered into with Australian Unity Limited means that IMB has now entered the Victorian marketplace offering lending and deposit products. In addition IMB will offer Australian Unity insurance products on an agency basis through its service centres in NSW and ACT.

Our service focus continues to concentrate on the creation of differentiation between IMB and its competition. We try to provide better member service and satisfaction levels than our competitors. We are easy to do business with. We continually review how well we are achieving that aim using independent advice and through discussions with our members. Our members are the cornerstones of the business.



This year the Wollongong IMB Hawks
are **Number 1** in the NBL

At IMB we believe in supporting the communities in which we operate and encouraging excellence wherever it may be. That's why we are so proud to be the major sponsor of the Wollongong IMB Hawks Basketball team – NBL National Champions for 2000-2001. **IMB slamdunks another fantastic year.**



This year IMB donated a further
\$500,000 to community projects

This year IMB added a further \$500,000 to the IMB Community Foundation making a total donation of \$1 million since commencement. We believe that by investing in programs such as the Science Centre at Wollongong University we can help to encourage a better, smarter Australia. With over 65,000 visitors using the IMB funded resource package a year, we all benefit. **Feels good, doesn't it?**

This year IMB has **donated a further \$500,000** to the **IMB Community Foundation** to be used in a variety of community based projects in widely varying areas. From **educational** programs to the **unemployed**, from **tourism and industry development** to **indigenous culture**. IMB actively **supports** the community in all its **variety**.

A mutual interest in the community

The Chairman has referred to the allocation of a further \$500,000 to the IMB Community Foundation. This is but one of many examples of IMB supporting the community in which it serves. Projects supported were not just geographically diverse, but also diverse in nature and size of support requested. Examples of larger projects include the Wollongong Conservatorium of Music for its Children's Music Education Program, The Wollongong Science Centre for its School and Community Education Officer Project, the Wollongong University for its Managing Energy Balance for Longer Life Project and Southern Skills Kiama for its Youth Job Creation Initiative. Smaller projects include support to Volunteering Illawarra for its Volunteering Skills – Mature Unemployed Project, Volunteering ACT for its Helping Hand Community Business Project and The Crossing Land Education Centre at Bermagui for its Young People Learning by Doing Project.

Other support for the community includes sports scholarships given to three very deserving recipients. A further three year university academic scholarship has also been given to another recipient this year. This brings to three the number of recipients currently enjoying IMB support for their pursuit of academic excellence.

This is in addition to the wide ranging sponsorship support for a number of community and sporting bodies. The much acclaimed sponsorship of the Wollongong IMB Hawks has assisted the Hawks in their successful quest to become National Basketball League champions. This sponsorship and the achievements of the Hawks have assisted IMB in brand recognition throughout the country as we continue growing our national profile.

Centenary Estates Joint Venture

IMB is now in its fourteenth year of involvement with a residential land development joint venture at Albion Park. It has been profitable, but in recent years has recorded marginal performance. This year has been similar to recent history, with the joint venture's land development activities contributing \$243,000 to the group's after tax performance. A large number of blocks of land were sold in the last quarter and not brought to account in the year under review as this stage was not registered until July 2001. This will assist an improved performance in the coming year.

Research and development

IMB remains an investor in four research and development projects, each of which has concluded the research phase. IMB continues its active work with the researcher of one project who now undertakes the role of marketer of the successful technology. In the other projects IMB continues working with the relevant statutory authorities to achieve, where appropriate, an orderly exit from those projects. This is either where the technology has not proved successful, or commercial reward is unlikely. Two of these projects were finalised in July 2001.

In a consistently **challenging** and **competitive marketplace**, we have been able to build on our **strategic platform** for future growth as well as **investing** in our staff, our products and our distribution channels. By continuing to focus on **maximising growth** and maintaining our excellent levels of **service**, we will continue to **build** on our **success**.

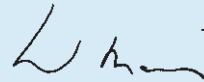
Management and Staff

During the year under review, there has been a further addition to the IMB executive team. Mr Robert Turnbull has joined IMB as General Manager Sales. Mr Turnbull brings extensive experience in the financial services sector and complements the skills and experience of the management team in developing and implementing the agreed strategic initiatives.

As I do regularly on a personal basis, I publicly thank our staff most sincerely for their strenuous and successful efforts as well as personal support during the year under review. Once again they have responded in excellent fashion to overcome the many different challenges put before them. In a continuing environment of change and ever-increasing demands, service levels continue to be not only maintained, but improved.

Outlook

The improved performance and efficiencies achieved over the last two years, in an often difficult economic climate, as well as the significant investment in the development of our staff, constitute the strategic platform for future growth. We will continue to focus strongly on the key drivers to maximise performance and strengthen the IMB to the benefit of all its stakeholders; being our members, our shareholders, our staff, as well as the communities in which we serve.



PW Morris Chief Executive



This year with our new **strategic alliances**, we're stronger than ever

At IMB we're looking outwards not inwards, which is why we have recently entered into two new strategic alliances to provide an increased range of products and better service enabling us to make IMB more accessible to everyone. By working with other companies we can benefit from their expertise, after all, two heads are better than one. **IMB helps you reach your goals.**

Chief Executive and Senior Executives



Directors' Report

The directors have pleasure in presenting their report, together with the concise financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2001 and the auditor's report thereon.

Trading Results

The profit after tax from ordinary activities attributable to members of the consolidated entity for the financial year was \$9,951,000 (2000 \$9,339,000). Income tax of the consolidated entity for the financial year was \$4,529,000 (2000 \$4,112,000).

Dividends

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

- a final dividend of \$0.105 per share amounting to \$3,574,000 franked to 100 percent at a tax rate of 34 percent, in respect of the year ended 30 June 2000, paid on 30 August 2000;
- an interim dividend of \$0.07 per share amounting to \$2,446,000 franked to 100 percent at a tax rate of 34 percent, in respect of the year ended 30 June 2001, paid on 27 February 2001; and
- a final dividend of \$0.105 per share amounting to \$3,743,000 franked to 100 percent at a tax rate of 30 percent, in respect of the year ended 30 June 2001, to be paid on 30 August 2001.

Total dividends provided for or paid in respect of the year ended 30 June 2001 were \$0.175 per share (2000 \$0.175) amounting to \$6,189,000 (2000 \$5,918,000).

Directors

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

Kenneth Richard McKinnon AO, chairman
 Peter Francis Bolt OAM
 George Anthony Edgar
 Lindsay Russell Fredericks
 Harold Hanson AM
 Vivien Jennifer Twyford
 David John Waters OAM
 Bryce Edward Wauchope

Mr GA Edgar accepted an invitation to join the board on 20 December 2000 in place of Mr DJ Waters who retired from the board on that date.

At the annual general meeting of the Company on 26 September 2001, two directors, Mr GA Edgar and Ms VJ Twyford will retire in accordance with the constitution of the Company and, being eligible, offer themselves for re-election.

Directors Qualifications

Kenneth Richard McKinnon AO

AUA (Adel) BA BEd (Qld) EdD (Harv) DLitt (Hon) Deakin DLitt (Hon) Wgong DLitt (Hon) UNSW DUniv (Hon) James Cook FACE

Professor McKinnon is 70 years of age and was appointed chairman in December 2000, after being deputy chairman from 1996. He has been a non executive director since 1993 and is a member of the Remuneration committee. Professor McKinnon is a higher education consultant. He is also a chairman of the Australian Press Council and a director of the College of Law.

Opposite from left:

Wayne Morris
 Mark Anderson
 Bob Turnbull
 Robert Ryan

Peter Francis Bolt OAM

Mr Bolt, whose area of expertise is business and local government management, is 70 years of age and has been a non executive director since 1993. He is a member of the Centenary Estate Joint Venture and Audit and Risk Management committees. Mr Bolt is also treasurer of the Wollongong Sportsground Trust, vice president of the Illawarra Retirement Trust and president of the Illawarra Basketball Association. He is a former alderman of Wollongong City Council, and former chairman of Illawarra Electricity, Illawarra Regional Information Service, NSW Association of Coal Related Councils and Premsure Local Government Joint Insurance Authority.

George Anthony Edgar

Mr Edgar, whose expertise is business management, is 59 years of age and was appointed a non executive director in December 2000. Mr Edgar is the former president of BHP Flat Products and former chief executive officer of BHP integrated steel. He is a member of the Remuneration committee. He is also deputy chancellor, University of Wollongong, member of the Illawarra Regional Development Board and director of Mainteck Services Australia.

Lindsay Russell Fredericks

FPNA FAICD FAIM

Mr Fredericks, whose area of expertise is accounting and management consulting, is 61 years of age and has been a non executive director since 1990. He is a member of the Audit and Risk Management and IMB Community Foundation committees. Mr Fredericks is a management consultant specialising in administrative and financial projects and business writing, and networks with other consultants in business re-engineering, client relationship management systems and

strategic planning projects. He is managing director of Moresground Pty Ltd and has had 28 years experience as chief executive of business enterprises. His former positions include: general manager of Shoalhaven Dairy Co-op Ltd, director of the Co-operative Federation of NSW, chairman NSW Dairy and Food Industry Training Committee, deputy chairman of the National Committee and general manager of Miltonbrook Pty Ltd. Mr Fredericks is a 25 year member of the Lions Service Organisation.

Harold Hanson AM

Dip.Law (Sydney)

Mr Hanson, whose area of expertise is the legal field, is 69 years of age. He has been a non executive director since 1990 and is a member of the Remuneration and the IMB Community Foundation committees. He has practised as a solicitor in private practice in Wollongong since 1960 and is now a private legal consultant. He is a former chairman and a life member of Tourism Wollongong, and was a Commissioner and board member of the NSW Tourism Commission and Tourism NSW from 1988 to 1997. Mr Hanson is a life member of Apex and a member of the Salvation Army Community Advisory Board for the Illawarra, a former alderman of Wollongong City Council, former deputy chairman of Illawarra Electricity, a Fellow of the University of Wollongong and chairman of the Wollongong University Foundation. He was the 1987 New South Wales Lawyer of the Year and the 1998 winner of the NSW award for excellence in regional tourism.

Vivien Jennifer Twyford

BA Grad Dip Com (Mgmt) FAICD

Ms Twyford, whose area of expertise is business consulting, is 59 years of age. She has been a non executive director since 1990 and is a member of the IMB Community Foundation committee. Ms Twyford is managing director of Twyford Consulting, a director of Theatre South and a member of the Illawarra Advisory Board of the Salvation Army. She is inaugural president of the Australasian Chapter of the International Association of Public Participation (IAP2) and chairman of the Visiting Committee, Faculty of Commerce, University of Wollongong. She served as chairman of the Illawarra Branch of the Australian Institute of Management for 4 years and was a member of the Illawarra Regional Development Board from 1993 to 1996. She has been a consultant in the area of business improvement, people and strategy for 21 years and now specialises in community consultation.

David John Waters OAM

Mr Waters, whose area of expertise is retail trading, is 71 years of age and was appointed chairman in 1992. He retired from the board on 20 December 2000. He had been a non executive director since 1983 and was a member of the Audit and Risk Management, and Remuneration committees.

Bryce Edward Wauchope

FCA FICA

Mr Wauchope is 66 years of age, has been a non executive director since 1992 and is chairman of the Audit and Risk Management committee and a director of IMB Financial Planning Limited. He is a director of Helix Resources NL, president of the Financial Executives Institute of Australia, and former chairman of BA Australia Ltd.

Principal Activities

The principal activities of the consolidated entity during the financial year were the provision to members of banking 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 2001.

Review of Operations

Loan approvals were \$801,704,000 (2000 \$559,694,000) with group loans under management net of provisions growing to \$1,604,548,000 representing an increase of 10.8 percent (2000 2.5 percent). Net interest income increased to \$46,072,000 representing an improvement of \$2,597,000 resulting mainly from an increase in interest income from investments.

Bad and doubtful debt expense decreased by \$411,000 to \$939,000 (2000 \$1,350,000). Non interest income decreased by \$740,000 and non interest expense increased by \$2,037,000 to provide a profit from ordinary activities before tax of \$14,480,000. This is an increase of \$1,029,000 or 7.7 percent over the previous year.

The decrease in non interest income is primarily due to lower sales of developed land. The increase in non interest expense resulted primarily from an increase in personnel expenses associated with increased lending activity.

The contribution to consolidated operating profit after tax from land development activities decreased from a profit of \$323,000 in 2000 to a profit of \$243,000 in 2001.

Research and development activities resulted in a \$221,000 after tax profit compared with a loss of \$58,000 after tax for 2000.

Consolidated profit after tax from ordinary activities attributable to members was a record \$9,951,000, an increase of \$612,000 or 6.6 percent over 2000.

Events Subsequent to Balance Date

The consolidated entity acquired 100 percent of the shares in Australian Unity Building Society Ltd, a Victorian building society and obtained control on 1 July 2001. Consideration provided was \$9,680,000. The fair value of the net assets of Australian Unity Building Society Ltd at the date of acquisition was \$9,430,000.

Other than the matter discussed above, the directors are not aware of any item, transaction or event of a material and unusual nature that has arisen in the interval between 30 June 2001 and the date of this report likely to affect significantly:

- the operations of the consolidated entity;
- the results of those operations; or
- the state of affairs of the consolidated entity in future financial years.

Likely Developments

Details of the likely developments in the operations of the consolidated entity in subsequent financial years are disclosed in the Chairman's letter and Chief Executive's Review of Operations on pages 2 to 14 of the full financial report.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial

years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

State Of Affairs

Otherwise than disclosed in this report, in the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

Directors' Interests

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

Director	Holding at 1 August 2001
Mr PF Bolt	7,598
Mr GA Edgar	21,030
Mr LR Fredericks	3,756
– associates	25,153
Mr H Hanson	8,759
Prof KR McKinnon	15,848
Ms VJ Twyford	2,064
Mr BE Wauchope	1,000
– associates	9,289

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

During the year, the Company paid a premium in respect of a contract insuring the 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.

Details of the premiums paid in respect of individual directors or executive officers are not contained in the insurance policies outlined above.

Environmental Regulations

The consolidated entity's operations are subject to environmental regulations in relation to land development. The consolidated entity complies with Soil and Erosion Control and Water Quality Regulations set by the Department of Land and Water Conservation and Shellharbour City Council.

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 2001 and the number of meetings attended by each director.

Meetings of Committees

	Directors' meetings	Audit and Risk Management	Centenary Estate JV	Remuneration	IMB Community Foundation
Number of meetings held	13	4	12	3	5
Number of meetings attended					
Mr PF Bolt	11	4	11	-	-
Mr GA Edgar*	7	-	-	2	-
Mr LR Fredericks	12	4	-	-	5
Mr H Hanson	12	-	-	2	5
Prof KR McKinnon***	13	2	-	3	-
Ms VJ Twyford	12	-	-	-	5
Mr DJ Waters**	7	2	-	1	-
Mr BE Wauchope	13	4	-	-	-

* Mr GA Edgar was appointed a director and member of the remuneration committee at the board meeting held 20 December 2000.

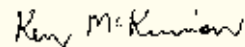
** Mr DJ Waters resigned as chairman at the board meeting held 20 December 2000.

*** Prof KR McKinnon was appointed chairman at the board meeting held 20 December 2000. He was also appointed ex-officio member of the audit and risk management committee at the 20 December 2000 board meeting.

Rounding Of Amounts

The amounts in the financial report have been rounded to the nearest thousand dollars in accordance with ASIC Class Order 98/100 dated 10 July 1998.

Signed in accordance with a resolution of the directors.



KR McKinnon AO Chairman



H Hanson AM Director
Wollongong, 1 August 2001.

Statement of Financial Performance

For the year ended 30 June 2001

	Consolidated	
	2001	2000
	\$'000	\$'000
Interest revenue	123,596	107,767
Interest expense	(77,524)	(64,292)
Net interest income	46,072	43,475
Bad and doubtful debts expense	(939)	(1,350)
Net interest income after bad and doubtful debts	45,133	42,125
Revenue from land development	1,437	3,908
Other revenue from ordinary activities	12,509	10,778
Total ordinary income (after bad and doubtful debts)	59,079	56,811
Personnel expense	(20,181)	(17,725)
Occupancy expense	(5,021)	(4,916)
Land development expense	(1,279)	(3,757)
Payment system charges	(3,655)	(3,521)
Marketing expense	(2,784)	(2,457)
Data processing expense	(1,380)	(1,309)
Other expenses from ordinary activities	(10,299)	(9,675)
Profit from ordinary activities before income tax	14,480	13,451
Income tax expense relating to ordinary activities	(4,529)	(4,112)
Profit from ordinary activities attributable to members	9,951	9,339

The statement of financial performance is to be read in conjunction with the discussion and analysis below and the notes to the financial report set out on pages 26 to 30.

Discussion and Analysis of the Statement of Financial Performance

Net interest income for the consolidated entity increased by \$2,597,000 to \$46,072,000. This increase is mainly due to the increase in the interest earned by the Company on investments.

Non interest income for the consolidated entity decreased by \$740,000 to \$13,946,000. This was primarily due to lower sales of developed land (\$2,471,000 decrease).

Non interest expense for the consolidated entity increased by \$2,037,000 to \$44,599,000. This was largely due to an increase in salaries of \$1,467,000 representing an increase in both salary and staffing levels.

Non interest expenses (including individually significant items) to operating income decreased from 76.3 percent in 2000 to 75.5 percent.

Return on average net assets (after tax) remained constant at 9.2 percent.

After tax return on average total assets remained constant at 0.6 percent.

Non interest expense to average total assets remained constant at 2.6 percent

Statement of Financial Position

At 30 June 2001

	Consolidated	
	2001 \$000	2000 \$000
Assets		
Cash	13,042	19,750
Trading securities	139,651	144,006
Receivables	2,293	2,626
Investment securities	62,563	75,288
Loans	1,554,548	1,398,121
Shares in entities and other financial assets	807	807
Inventories	6,397	5,647
Property, plant and equipment	17,383	16,625
Intangibles	20	–
Tax assets	1,870	1,698
Other	1,433	1,185
Total Assets	1,800,007	1,665,753
Liabilities		
Deposits	1,670,240	1,506,834
Accounts payable	6,699	7,574
Interest bearing liabilities	–	33,000
Tax liabilities	3,884	7,166
Provisions	7,177	6,348
Total Liabilities	1,688,000	1,560,922
Net Assets	112,007	104,831
Equity		
Contributed equity	34,007	30,577
Reserves	30,880	30,880
Retained profits	47,120	43,374
Total Equity	112,007	104,831

The statement of financial position is to be read in conjunction with the discussion and analysis below and the notes to the financial report set out on pages 26 to 30.

Discussion and Analysis of the Statement of Financial Position

The total assets of the consolidated entity increased by \$134,254,000, or 8.1 percent, to \$1,800,007,000 (2000 \$1,665,753,000). The increase in total assets was mainly attributable to an increase in loans. Total loans under management increased to \$1,604,548,000 (2000 \$1,448,121,000), which includes securitised loans of \$50,000,000 (2000 \$50,000,000).

The total liabilities of the consolidated entity increased by \$127,078,000 to \$1,688,000,000 (2000 \$1,560,922,000). The movement in total liabilities was mainly due to an increase in members' deposits of \$163,406,000 to \$1,670,240,000 (2000 \$1,506,834,000).

Members' equity for the consolidated entity increased by \$7,176,000, or 6.8 percent, to \$112,007,000 (2000 \$104,831,000). The movement

in members' equity is attributable to the growth in retained profits, which increased by \$3,746,000 to \$47,120,000 (2000 \$43,374,000) and also contributed equity increased by \$3,430,000 to \$34,007,000 (2000 \$30,577,000) resulting from the issue of shares through the dividend re-investment scheme.

Net assets to total assets decreased from 6.3 percent to 6.2 percent.

Statement of Cash Flows

For the year ended 30 June 2001

	Consolidated	
	2001 \$'000	2000 \$'000
Cash flows from operating activities		
Interest received	123,263	107,680
Dividends received	10	13
Non interest income		
– land development	1,916	3,538
– other	12,354	10,392
Interest paid	–	–
– deposits	(77,835)	(59,084)
– borrowings	(19)	(2,011)
Non interest expense		
– personnel	(19,521)	(17,730)
– occupancy	(5,021)	(4,384)
– land development	(2,186)	(2,822)
– payment system charges	(3,655)	(3,521)
– marketing	(2,784)	(2,457)
– data processing	(1,380)	(1,309)
– other	(6,485)	(7,476)
Income tax paid	(7,983)	(5,415)
Net cash flows from operating activities	10,674	15,414
Cash flows from investing activities		
Net increase in loans	(157,280)	(36,205)
Proceeds from sale of securitised loans	–	50,000
Net (increase)/decrease in investments	14,906	(62,838)
Payment for intangible assets	(24)	–
Expenditure on property, plant and equipment	(3,240)	(2,863)
Proceeds from sale of property, plant and equipment	127	1,646
Net cash flows from investing activities	(145,511)	(50,260)
Cash flows from financing activities		
Net increase in deposits	163,736	45,275
Net decrease in interest bearing liabilities	(33,000)	(500)
Dividends paid	(2,591)	(1,289)
Transfer of business	(16)	–
Net cash flows from financing activities	128,129	43,486
Net (decrease)/increase in cash held	(6,708)	8,640
Cash at the beginning of the financial year	19,750	11,110
Cash at the end of the financial year	13,042	19,750

The statement of cash flows is to be read in conjunction with the discussion and analysis below and the notes to the financial report set out on pages 26 to 30.

Discussion and Analysis of the Statement of Cash Flows

Operating Activities

Cash flows from operating activities in relation to the consolidated entity decreased by \$4,740,000 to \$10,674,000 (2000 \$15,414,000). This was mainly due to the decrease in net interest income.

Investing Activities

Cash outflows from investing activities increased by \$95,251,000 to \$145,511,000 (2000 \$50,260,000). This was mainly due to the increase in the amount of loans advanced during the year.

Financing Activities

The increase in the cash flows from financing activities was largely due to the increase in deposits, which was partly offset by a reduction in funding through the repayment of the medium term note.

Notes to the Financial Report

1 Basis of Preparation of Concise Financial Report

The concise financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 Concise Financial Reports and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report for the financial year. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It has been prepared on the basis of historical costs and does not take into account changing money values or, except where stated, fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative amounts have been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

A full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's full financial report.

Reclassification of financial information

Some line items and sub-totals reported in the previous financial year have been reclassified and re-positioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB1018 Statement of Financial Performance, AASB1034 Financial Report Presentation and Disclosures and the new AASB1040 Statement of Financial Position.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing retained profits from the face of the statement of financial performance to note 4.

Revenue and expense items previously disclosed as abnormal items have been reclassified and are now disclosed as individually significant items. These items are no longer identified separately on the face of the statement of financial performance.

The following assets and liabilities have been moved from classifications and are now disclosed as separate line items on the face of the statement of financial position:

- tax assets, previously presented within other assets
- tax liabilities, previously presented within provisions.

Notes to the Financial Report continued

2 Change in Accounting Policies

Revaluation of non-current assets

The consolidated entity has applied AASB 1041 Revaluation of Non-current Assets for the first time from 1 July 2000.

The standard requires each class of non-current asset, other than inventories, deferred tax assets and other assets measured at net market value where the market value movements are recognised in the statement of financial performance, to be measured on either the cost or fair value basis. The consolidated entity has applied AASB 1041 as follows:

Investments

The consolidated entity has continued to use the cost basis for listed and unlisted shares in other corporations. Therefore there is no financial effect in the current period or prior period.

Freehold land and buildings

The consolidated entity has adopted the cost basis for land and buildings and has deemed the cost to be equal to the carrying value of the freehold land and buildings as at 1 July 2000. The carrying value brought forward as at 1 July 2000 of \$9,304,000 is carried at directors' valuation 2000. The change in accounting policy has no financial effect in the current or prior period. As a consequence of making this election on the adoption of AASB 1041, the balance of the asset revaluation reserve at 1 July 2000 related to freehold land and buildings which is no longer available for asset write-downs is \$5,626,000.

Other non-current assets

The consolidated entity has continued to use the cost basis for other non-current assets such as receivables, plant and equipment and research and development expenditure. Therefore there is no financial effect in the current period or prior period.

Deferral of loan referral fees

The consolidated entity has adopted a new accounting policy in relation to loan referral fees. These fees are paid to third parties for the referral of new loans. Previously these fees were expensed as incurred, however the benefit to the consolidated entity for this expenditure is not immediate, rather it is realised over the life of the loan.

The change has been effected to provide closer matching of income and expenses. Loan referral fees and establishment fees are now deferred as an asset and amortised on a straight-line basis over a period of three years. The average loan duration is approximately four years

The change in accounting policy has resulted in an increase in profit from ordinary activities after income tax of \$530,000 in the consolidated entity and the Company for the year ended 30 June 2001.

Notes to the Financial Report continued

	Consolidated	
	2001 \$000	2000 \$000
3 Dividends		
Fully franked dividend provided on 31 December 1999		
– \$0.07 per share franked to 100 percent at a tax rate of 36 percent paid on 28 February 2000 on 33,490,484 shares	–	2,344
Fully franked dividend provided on 30 June 2000		
– \$0.105 per share franked to 100 percent at a tax rate of 34 percent paid on 30 August 2000 on 34,040,780 shares	–	3,574
Fully franked dividend provided on 31 December 2000		
– \$0.07 per share franked to 100 percent at a tax rate of 34 percent paid on 27 February 2001 on 34,937,793 shares	2,446	–
Fully franked dividend provided on 30 June 2001		
– \$0.105 per share franked to 100 percent at a tax rate of 30 percent to be paid on 30 August 2001 on 35,580,928 shares	3,743	–
	6,189	5,918

Dividend franking account

Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements and after deducting franking credits to be used in payment of the above dividends

– class C 30 percent (2000 34 percent) franking credits	39,103	29,177
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The ability to use the franking account credits is dependent on there being sufficient available profits to declare dividends.

	\$	\$
Basic earnings per share	0.28	0.28

Diluted earnings per share is not different from the basic earnings per share shown above.

The calculation of earnings per share was based on the weighted average number of permanent shares being 35,005,000 (2000 33,235,000). 60,949 (2000 Nil) shares have been issued since 30 June 2001 and before the signing of this report.

	Consolidated	
	2001 \$000	2000 \$000
4 Retained Profits		
Retained profits at the beginning of the year	43,374	39,953
Net profit attributable to members	9,951	9,339
Net transfers to and from retained profits	(16)	–
Dividends	(6,189)	(5,918)
Retained profits at the end of the year	47,120	43,374

Notes to the Financial Report continued

5 Interests in Joint Venture Operations

The consolidated entity holds various interests in a number of unincorporated joint ventures as follows:

Controlled entity participating in Joint venture	Percentage interest		Nature of activities	Contribution to operating profit after tax	
	2001 %	2000 %		2001 \$000	2000 \$000
IMB Land Pty Ltd	50.0	50.0	Land development	81	236
Macquarie Syndication (No. 8) Pty Ltd	36.0	36.0	Research and development	–	(279)
Lafoten Pty Ltd	99.9	99.9	Research and development	–	–
Sonoridad Pty Ltd	63.0	63.0	Research and development	221	221
Vesteralen Pty Ltd	99.9	99.9	Research and development	–	–

The parent entity also holds an interest in an incorporated joint venture as follows:

IMB Financial Planning Pty Ltd	50.0	–	Financial planning	(65)	–
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Included in the assets of the consolidated entity are the following items which represent the consolidated entity's interest in the assets employed in the joint ventures.

	2001 \$000	2000 \$000
Assets		
Cash	393	184
Receivables	862	1,302
Inventories	6,398	5,647
Other	113	–
Total Assets	7,766	7,133

6 Directors' Remuneration

Directors' income

The number of directors whose income (including superannuation and retirement benefits) from the Company or any related party falls within the following bands:

	2001	2000
\$30,000 – \$39,999	1	–
\$40,000 – \$49,999	–	4
\$50,000 – \$59,999	–	2
\$90,000 – \$99,999	2	–
\$100,000 – \$109,999	2	1
\$130,000 – \$139,999	1	–
\$170,000 – \$179,999	1	–
\$210,000 – \$219,999*	1	–
	\$000	\$000

Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	972	405
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*The directors' remuneration for 2001 includes the retirement benefits paid to the former chairman.

Due to changes in the Corporations Law and the adoption of the Company's constitution at the 2000 annual general meeting, the accrued directors' retirement benefits have increased. The result has increased the overall directors' remuneration shown in the above table for 2001 by \$512,000.

Directors' income does not include insurance premiums paid by the Company in respect of directors' and officers' liabilities and legal expenses contracts, as the insurance policies do not specify premiums paid in respect of individual directors.

Notes to the Financial Report continued

7 Contingent Liabilities Guarantees given by Illawarra Mutual Building Society Ltd Real Estate Development

Guarantee in favour of Shellharbour City Council \$705,000 (2000 \$705,000) in association with real estate development activities undertaken by a controlled entity, IMB Land Pty Ltd and that entity's joint venturer.

Indemnity of \$50,000 (2000 \$50,000) in favour of the Commonwealth Bank of Australia covering guarantees by the bank as part of conditions relating to the purchase of land in association with real estate development activities undertaken by a controlled entity, IMB Land Pty Ltd and that entity's joint venturer.

The Company has an agreement with its joint venturer to share equally in losses and liabilities.

Pledges

The Company has a pledge in favour of Westpac Banking Corporation of \$10,000,000 (2000 \$10,000,000) securing its cheque clearing facility.

Australian Taxation Office Audit – Research & Development Syndicates

Over recent years, the Australian Taxation Office ("ATO") has conducted an extensive program of auditing Research and Development syndicates. Under this program, the consolidated entity is currently subject to audits by the ATO on two of its syndicates.

The ATO has issued a position paper on one syndicate. The Company responded to the position paper. No amended tax assessments have been issued by the ATO and the directors intend to defend the Company's taxation position should any adjustments be proposed by the ATO.

A second syndicate is also being audited by the ATO. At this time, no position paper has been issued by the ATO and no amended assessments have been received.

While the final outcomes of the audits are uncertain, the directors believe that all tax deductions claimed in connection with its Research and Development syndicates were appropriate and no adjustment to the provision for income tax is required as at 30 June 2001.

8 Statement of Operations of Segments

The consolidated entity operates predominantly in the financial services industry in Australia.

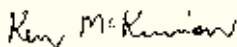
Directors' Declaration

For the year ended 30 June 2001

In the opinion of the directors of Illawarra Mutual Building Society Ltd, the accompanying concise financial report of the consolidated entity, comprising Illawarra Mutual Building Society Ltd and its controlled entities for the year ended 30 June 2001, set out on pages 23 to 30:

- has been derived from or is consistent with the full financial report for the financial year; and
- complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Signed in accordance with a resolution of the directors.



KR McKinnon AO Chairman



H Hanson AM Director

Wollongong 1 August 2001

Independent Audit Report on Concise Financial Report to the Members of Illawarra Mutual Building Society Ltd

For the year ended 30 June 2001

Scope

We have audited the concise financial report of Illawarra Mutual Building Society Ltd and its controlled entities for the financial year ended 30 June 2001, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows, and directors' declaration (set out on pages 23 to 31), in order to express an opinion on them to the members of the Company. The Company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of Illawarra Mutual Building Society Ltd and its controlled entities for the year ended 30 June 2001. Our audit report on the full financial report was signed on 1 August 2001 and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports" issued in Australia.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion the concise financial report of Illawarra Mutual Building Society Ltd and its controlled entities for the year ended 30 June 2001 complies with AASB 1039 "Concise Financial Reports".



KPMG

CP Hollis Partner
Wollongong 1 August 2001

Notice of Annual General Meeting

The annual general meeting of members of Illawarra Mutual Building Society Ltd will be held at the Hoskins Room, Novotel Northbeach, 2-14 Cliff Road, Wollongong on Wednesday 26 September 2001 at 10:00am.

Directors' and Officers' Shareholders' Diary

Annual General Meeting 26 September 2001 at 10:00am.

Announcement of half-yearly results and interim dividend February 2002.

Books close and interim dividend paid 27 February 2002.

Announcement of full year results and final dividend August 2002.

Books close and final dividend paid 30 August 2002.

Registered Office

253-259 Crown Street
Wollongong
New South Wales 2500



2002

...and next year we'll continue to build on our strong foundations...

