



ANNUAL REPORT 2012 SECURING A STRONGER FUTURE



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ABOUT IMB

IMB is one of Australia's largest building societies with assets of more than \$4.7 billion and over 180,000 members. Established in 1880, we are also the longest standing mutual building society in NSW.

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

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

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

OUR VISION

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

OUR MISSION

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

This will be achieved by offering Better Value Banking, which is based on our staff being empowered and equipped to deliver our members value and superior service.

OUR VALUES

IMB's values reflect the way we do things at IMB. They are the guiding principles by which we run the business and conduct ourselves in all interactions with our stakeholders.

They comprise:

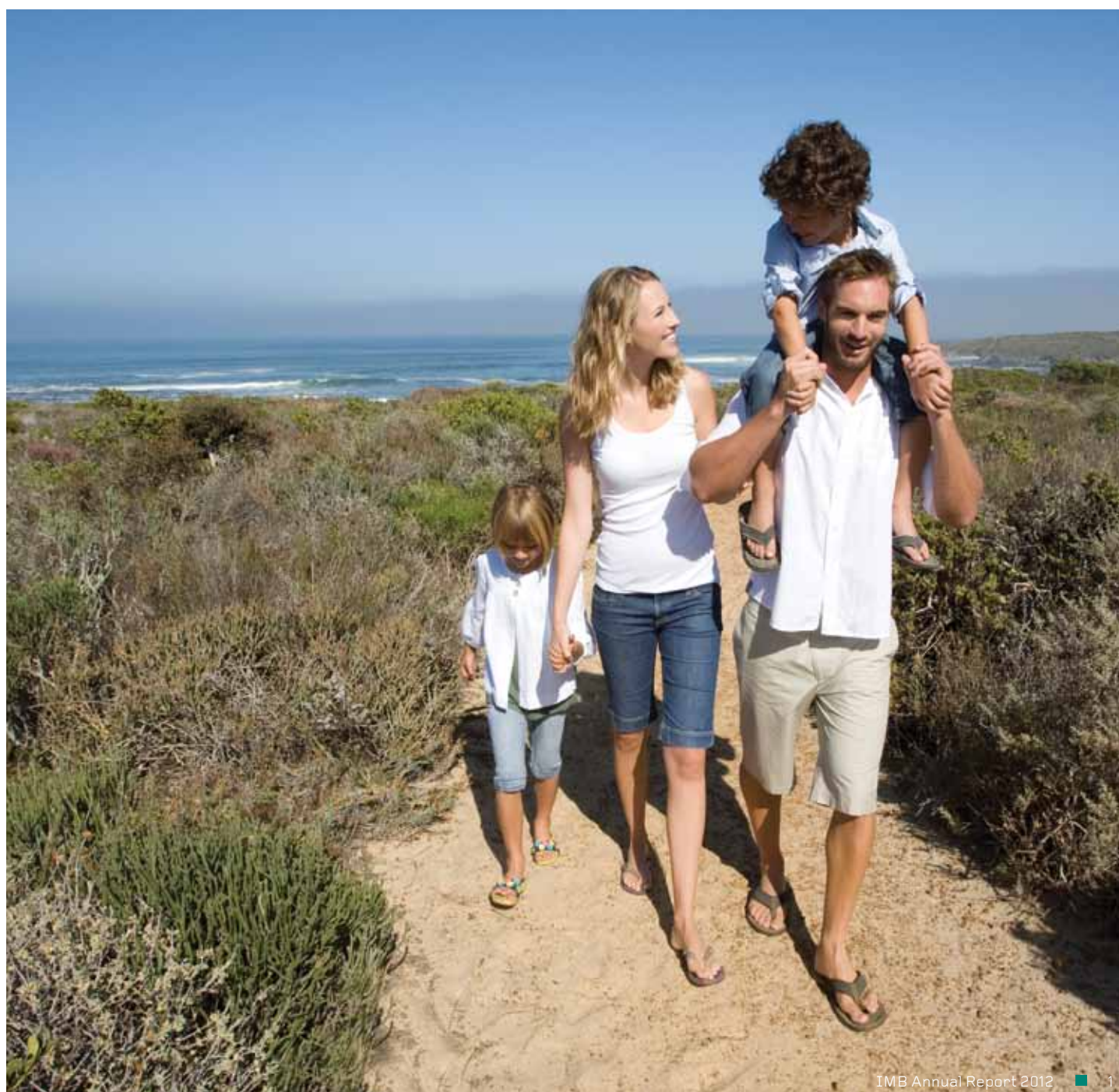
- demonstrating integrity
- showing respect
- valuing performance
- focusing on our members
- striving to offer solutions

Notice of Annual General Meeting

The annual general meeting of IMB Ltd will be held at the Novotel Northbeach Hotel, 2-14 Cliff Road, North Wollongong on Tuesday, 30 October 2012 at 10.00 am.

IMB'S PERFORMANCE DURING
2011-12 HAS DEMONSTRATED
A RESILIENCE BORNE OUT OF A
STRONG MEMBER COMMITMENT,
A CONSERVATIVE RISK APPETITE
AND A WELL CAPITALISED
BALANCE SHEET.

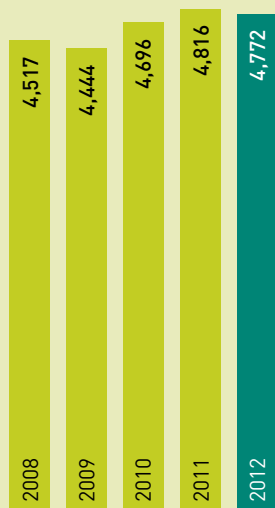
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2012 HIGHLIGHTS

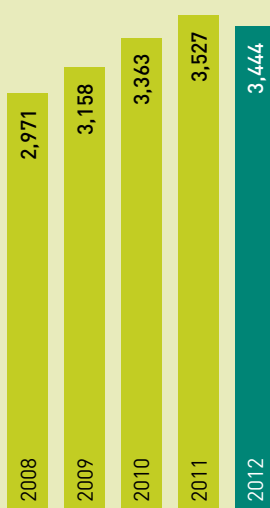
Since 1880, IMB has proved to be a strong and secure alternative to the major banks, committed to mutual success with its valued members. Our focus on better service, products and overall better value will ensure IMB's success continues into the future.

TOTAL ASSETS
\$ MILLION



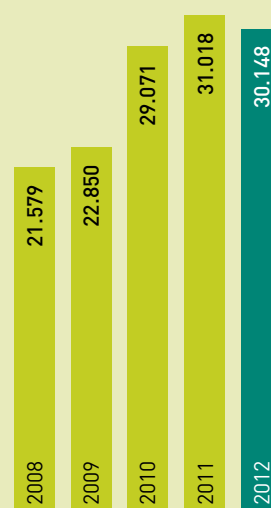
0.8% DECREASE

MEMBERS' DEPOSITS
\$ MILLION



2.4% DECREASE

PROFIT AFTER TAX
\$ MILLION



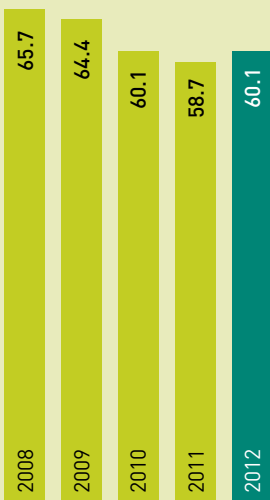
2.8% DECREASE



- We upgraded our Internet Banking system providing members with additional functionality and security, and we also introduced a mobile banking application which provides our members with access to their online banking wherever they may be.
- We relocated our Wynyard branch to Hunter Street and completed a significant refurbishment of the Macarthur Square branch.
- We launched an enhanced Platinum Package and Essentials Home Loan product as well as lending to Self-Managed Super Funds.
- We were awarded 5 stars from CANSTAR for five of our loan products and two deposit products, and our Term Deposits received a Gold Medal in the *Your Money Magazine* Awards.
- Our 2012 member survey showed that 96% of our members are satisfied with IMB.
- We were awarded the Cheapest Home and Contents Insurance Award by Money Magazine in their 2012 Best of the Best Awards.
- We welcomed a further 6 trainees into our successful traineeship program – in seven years since the program has been running we have taken on more than 70 trainees.
- We donated a further \$500,000 in financial support to local community projects – we have now donated more than \$6.0 million to almost 350 projects.
- We acquired ipac's share of IMB Financial Planning, which is now a fully owned subsidiary of IMB and we look forward to benefits this change will deliver to our members.
- We continued to strengthen our balance sheet with our capital adequacy ratio increasing from 12.0% at 30 June 2011 to 15.8% at 30 June 2012.
- IMB received the necessary regulatory approvals, rulings and exemptions to proceed with the first of a series of annual share buybacks with the first buyback announced at the end of July.

EFFICIENCY RATIO

%



1.4% INCREASE

CAPITAL RATIO

%



3.8% INCREASE

MEMBER SATISFACTION

%

96%*

* Discovery Research 2012

FIVE YEAR SUMMARY

	2012	2011	2010	2009	2008
	\$000	\$000	\$000	\$000	\$000
Financial performance					
Interest income	322,595	325,064	266,742	304,007	344,334
Interest expense	227,422	228,585	173,723	227,397	271,222
Interest margin	95,173	96,479	93,019	76,610	73,112
Non interest income	14,320	13,746	14,815	17,141	18,633
Impairment losses	1,989	3,646	3,638	1,790	1,522
Non interest expense	64,629	62,565	62,644	59,264	59,314
Profit before tax	42,875	44,014	41,552	32,698	30,908
Income tax expense	12,727	12,996	12,481	9,848	9,329
Profit after tax	30,148	31,018	29,071	22,850	21,579
Financial position					
Assets					
Loans to members	3,781,358	3,763,503	3,576,564	3,476,040	3,634,913
Liquids	946,407	1,015,406	1,087,047	937,532	851,243
Other	44,651	37,338	32,204	30,611	31,039
	4,772,416	4,816,247	4,695,815	4,444,183	4,517,195
Liabilities					
Deposits	3,443,940	3,526,906	3,362,526	3,158,283	2,971,104
Securitised loans funding	968,609	999,733	1,064,650	1,025,682	1,300,466
Other	98,882	50,000	48,182	61,057	54,869
	4,511,431	4,576,639	4,475,358	4,245,022	4,326,439
Net assets	260,985	239,608	220,457	199,161	190,756
Total assets	4,772,416	4,816,247	4,695,815	4,444,183	4,517,195
Performance ratios					
Capital adequacy	%	15.8	12.0	12.0	11.6
Total asset growth	%	-0.9	2.6	5.7	-1.6
Net asset growth	%	8.9	8.7	10.7	4.4
After tax return on average net assets	%	12.66	13.47	13.92	12.02
Non interest income/average total assets	%	0.30	0.29	0.33	0.39
Non interest expenses/average total assets	%	1.33	1.31	1.40	1.33
Non interest expenses/operating income	%	60.1	58.7	60.1	64.4
Bad debts expense/average loans	%	0.05	0.07	0.10	0.05
Interest margin	%	1.99	2.05	2.11	1.75
Loan approvals	\$m	701.2	826.2	724.9	565.1
					870.7



CHAIRMAN'S LETTER



A review of IMB's performance for the financial year of 2012 must be undertaken against the backdrop of a difficult operating environment. This includes declining domestic interest rates, higher funding costs, subdued residential lending demand, and tighter prudential regulation standards of lower balance sheet leverage and higher liquidity.

IMB's performance at the operating level was solid. An improvement in results against the Key Performance Indicators (KPIs) set out below proved to be a challenge. The exceptions were the Liquidity and Credit Impairment KPIs both of which remained significantly better than peer averages:

- New Lending Approvals exceeded \$700 million;
- Net Interest Margin exceeded 1.9% pa;
- Commission Income was over \$2.1 million;
- Efficiency Ratio was 60.1%; and
- Return on Equity was 12.7%.

The above KPIs combined to generate a net profit after tax of \$30.148 million, a decrease of 2.8% over the previous corresponding period. The annual dividend to shareholder members was maintained at 25 cents per share resulting in a fractional lift in the payout ratio to 33%.

The current operating environment for IMB is satisfactory both in terms of net interest margins and residential lending demand. Operating costs remain well controlled and an improvement in the Efficiency ratio is a priority. Management remains focused on excellent delivery of the business plan.

At the strategic level, IMB recorded significant milestones as it pursues active participation in the continuing rationalisation of the mutual Authorised Deposit-taking Institutions (ADI) sector. The Commonwealth Government's commitment to strengthening the fifth pillar of the financial system will foster growth opportunities for mutual ADI's and accelerate industry rationalisation. The Board considers that this represents the best business value enhancement opportunity for all IMB stakeholders.

The first priority was to de-risk by reducing the financial leverage of the business. At 30 June 2012, IMB's capital adequacy ratio was 15.8%, which is above current regulatory requirements. This was an increase of 3.8% over the previous year.

For the financial year, IMB's profit after tax (net of shareholder member dividend payments), contributed 1.1% of the 3.8% lift in the capital adequacy ratio. The residual increase was due to a combination of the issue of term subordinated debt to the net value of \$35 million, a \$200 million CMBS securitisation and movements in risk weighted assets and liquidity holdings.

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

While current capital levels exceed historical levels, which have ranged from 11.0% to 12.4% since 2006 (30 June ratios), the current capital level now establishes IMB at a similar level to its peer group of the larger building societies and credit unions. This is a necessary precondition to being able to compete effectively in the deposit and lending markets as well as being a credible participant in mutual ADI rationalisation.

The second priority was to finalise a capital structure that would be most consistent with IMB's pursuit of the latter goal.

Following a capital structure review by external advisors, IMB accepted the Grant Samuel/ Watson Mangioni recommendation that IMB commence a buyback programme of existing share capital. Following approval by the various Regulators the buyback programme was recently announced and the full details have been mailed to all shareholders in the Buy Back Booklet. The tender period for the buyback closes on 19 September. The Directors have unanimously recommended the repurchase offer to shareholders.

There were a number of other strategic initiatives that were implemented during the year which will strengthen IMB's ability to service our members in the period ahead. Retail deposits were lifted by \$114 million to over 80% of the IMB deposit base, the IMB Financial Planning business was restructured to 100% ownership and analysis of the alternative ADI structure of converting from a building society to a mutual bank was initiated. A final decision on mutual bank conversion will be made following the completion of the full analysis of the benefits of this change which will include a review of the experiences of a number of our mutual ADI peers who have converted to a mutual bank.

“THE BOARD CONSIDERS THAT A MUTUAL
STRUCTURE WILL BEST DELIVER IMB’S AIMS OF
LONGER-TERM GROWTH AND VIABILITY IN AN
INCREASINGLY COMPETITIVE ENVIRONMENT.”

Lyn Gearing has retired after almost 10 years on the Board. Lyn served with distinction during her directorship with outstanding contributions to the land development and financial planning businesses. We thank Lyn for her valuable work and wish her well for the future. As part of the Board renewal process we welcome James Coleman to the Board, whose appointment brings proven banking and credit skills to the Board after a career with a major trading bank.

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

On behalf of the Directors I would also like to thank Robert Ryan, the executive management team and all the staff at IMB for their continued support and commitment to IMB and for providing outstanding service to our members.

It has been a privilege for all Directors to have actively participated in the work of the IMB Community Foundation. It is a most rewarding aspect of being part of the IMB team.

Finally, I would like to thank all our members for their continuing support of IMB. As IMB enters into its 133rd year of operation, we continue to strive to provide a wide range of quality banking and financial services which meet the ever changing needs of our members.



MJ COLE
CHAIRMAN

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS



OVERVIEW

IMB has delivered a solid performance for 2011/12, notwithstanding ongoing challenges posed by the economy, the cost of capital initiatives implemented ahead of Basel III, decreasing interest rate environment and the highly competitive mortgage and deposit markets.

During the year we have continued to strengthen the balance sheet and have maintained our focus on our members with the introduction of new products and a range of initiatives to improve the member experience.

BUSINESS PERFORMANCE

Group operating profit after tax at \$30.1 million decreased by \$870,000, or 2.8%, over the previous year. Excluding the impairment loss and write down of inventory in relation to IMB's land development activities, as well as impairment losses on an available for sale asset and gains on the sale of IMB Financial Planning, Group profit after tax decreased by \$2.5 million, or 7.6%.

The decrease in operating profit was driven by reductions in interest margins flowing from the Reserve Bank's reduction in official rates. Funding conditions have remained challenging due to the aggressive pricing structures adopted by many of our competitors and this has also had an impact on margins. IMB's average interest margin for the year was 1.99% compared to 2.05% in 2010/11. Interest margins improved over the last quarter, reflecting IMB's sustainable business model.

IMB's non interest income increased by \$574,000 compared to the previous year as a result of IMB's share of IMB Financial Planning profit and an increase in commissions received from alliance products compared to the prior year.

Bad and doubtful debts expense was \$2.0 million, a decrease of \$1.7 million on the previous year. Credit quality remains exceptionally good across IMB's secured and unsecured loan portfolios. 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 \$64.6 million, an increase of \$2.1 million on the prior year. Excluding the write down of IMB's land inventory in the current and prior years, expenses on a like for like basis increased by \$2.2 million or 3.6% compared to the previous year. With the ongoing tight market conditions IMB has continued with a disciplined approach to cost containment.

The ratio of non interest expense to operating income for the Group was 60.1% in 2011-12, with non interest expense as a proportion of average total assets for the Group improving to 1.4% compared to 1.3% for the previous year.

BALANCE SHEET

IMB has a strong and diversified balance sheet. Loan growth was funded largely from growth in retail deposits with a strong liquidity ratio maintained over the financial year well in excess of regulatory requirements. Retail deposits increased by \$114 million, or 4.3%, over the year. Retail deposits now make up more than 80% of IMB's deposit base, up from 75% last year. In addition, IMB has a diverse middle markets and wholesale funding capability as well as access to a \$2 billion debt issuance programme.

Loan approval levels for the year were \$701.2 million, 15.1% lower than the previous year. IMB's approval levels reflect the low demand for credit and the subdued consumer sentiment that prevailed during the year. Notwithstanding the slowdown in lending, IMB has maintained its stringent lending criteria and has not relaxed any lending policies in order to increase lending. Loans outstanding, including loans to Authorised Deposit-taking Institutions, remained at \$4.2 billion.

Total assets were \$4.8 billion at the end of the financial year.

During the year IMB issued \$45 million of subordinated debt (\$10 million of which replaced a maturing subordinated debt issue) to support IMB's capital base ahead of the implementation of Basel III requirements which will come into effect on 01 January 2013. The Group's capital adequacy ratio at 30 June was 15.8%, up from 12.0% last year, and well above regulatory requirements. Taking into account the share buyback that is currently underway, IMB's capital adequacy ratio will continue to exceed 15%, providing a strong platform for IMB's business going forward.

STRATEGY

IMB's strategic goal is to be the first choice alternative to the banks in the areas in which we operate and to remain a profitable, independent, member-owned financial institution that will focus on identifying and fulfilling the needs of its members. This will be achieved by offering *Better Value Banking*, which is based on our staff being empowered and equipped to deliver member value and superior service. Over the past 12 months we have continued to deliver initiatives that improve our members' experience.



We upgraded our Internet Banking system, providing members with additional functionality and security. We also introduced a mobile banking application which provides our members with access to their online banking wherever they may be. These initiatives have been well received by members choosing to conduct their banking online.

We also relocated our Sydney CBD branch from George Street to Hunter Street, providing members with a new, contemporary flagship branch conveniently located in the city centre. We also undertook a significant refurbishment of our Macarthur Square branch providing a more modern space for our members to conduct their banking. These activities have reaffirmed our commitment to not only our Sydney based members, but also to multi-channel distribution.

We have continued to review our product range and have introduced a number of new products including the Platinum Package and Essentials Home Loan product as well as a lending product for Self-Managed Super Funds. We are currently reviewing our deposit products to ensure that the range meets the changing needs of our members.

Five of our loan products were awarded 5 stars from CANSTAR, together with two deposit products, and our Term Deposits received a Gold Medal in the *Your Money Magazine* Awards. We were also awarded the Cheapest Home and Contents Insurance Award by Money Magazine in their 2012 Best of the Best Awards.

On 29 June 2012, IMB acquired ipac Group Services Limited's 50 per cent share of IMB Financial Planning Pty Ltd with IMB Financial Planning now a wholly owned subsidiary of IMB Ltd. We are confident that this change will provide a great opportunity for both IMB Financial Planning and IMB.

As our Vision and Mission both reference, IMB is a member-owned financial institution. We consider that our mutual structure provides us with a key point of differentiation in a very competitive financial services market and will support IMB's goals of longer term growth and viability.

Our mutual structure will be strengthened through the longer term strategy of the buyback of our ordinary shares which will reduce the cash cost of IMB's capital, whilst at the same time simplifying our structure and improving our ability to merge with other mutual financial institutions.

It is a testament to the strength of IMB's business model, and balance sheet, that IMB is able to proceed with a strategy to buyback the ordinary shares.

COMMUNITY

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

In 2012 and in its 12th year, the IMB Community Foundation donated more than \$500,000 to 46 local community projects. Since 1999, the IMB Community Foundation has supported over 350 projects with funding of \$6.0 million. The support that the Foundation provides benefits not only the recipients, but also the extended community in which they operate. IMB, through the IMB Community Foundation, is very proud of the benefits realised from the funding provided.

In addition, IMB also supports a variety of charity, community and sporting organisations.

OUTLOOK

IMB's performance during 2011-12 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, however this will be largely dictated by being able to maintain net interest margins, sound credit and improved economic conditions.

CONCLUSION

I would like to thank all of IMB's management and staff for their ongoing commitment and dedication. Their contribution has ensured that IMB continues to deliver *Better Value Banking* to our members and provides a strong alternative to the major banks.

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

RJ RYAN
CHIEF EXECUTIVE

DIRECTORS' PARTICULARS

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

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

LYNTON PATRICK NICHOLAS FCPA FCIS FCSA

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

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

Mr Biddle, who is a lawyer, has been a non executive director since 2007. He is the Chairperson of the Land Development Committee and is a member of the Nominations and Governance Committee, Remuneration and CEO Evaluation Committee and the Securitisation Committee. Until August 2012, he was also a member of the Audit and Risk Management Committee. Mr Biddle has been a principal solicitor in private practice in Wollongong since 1978, is a solicitor of the High Court of Australia and the Supreme Court of New South Wales, an Accredited Specialist in Business Law and a Public Notary. He is a director and Chair of the Finance Committee of Catholic Care, and Chair of the Catholic Diocese of Wollongong Finance Committee and also a director of Australian Industry World Limited, a local not-for-profit

company and acts as an honorary solicitor for a number of charities. As well as being a director of IMB Ltd, Mr Biddle is also a director of all entities wholly owned by IMB Ltd.

JAMES RANDOLPH COLEMAN BA MBA

Mr Coleman is a career banker with extensive experience in risk management, commercial and corporate banking. Mr Coleman was appointed as a non executive director to fill a casual vacancy on 1 July 2012. Mr Coleman was formerly Group Chief Credit Officer of Westpac Banking Corporation where he had previously held the roles of General Manager Risk Management, General Manager Corporate Finance and General Manager Corporate Banking in the Westpac Institutional Bank. Mr Coleman has previously been a director of Delhi Petroleum and has acted as an expert witness in relation to credit and banking related matters. Mr Coleman is a member of the Audit and Risk Management Committee and Land Development Committee. As well as being a director of IMB Ltd, Mr Coleman is also a director of all entities wholly owned by IMB Ltd.

NOEL HAROLD CORNISH BSC (MET) M ENGSC

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

ROBERT HILLIS PAGE ELVY

B SCI(ENG) B COM(ACCY) FIEAUST FCPA FCIS FAICD

Mr Elvy, whose expertise is business management particularly in the building and construction industry, has been a non executive director since 2008 and is a member of the Audit and Risk Management Committee, the Nominations and Governance Committee and the Land Development Committee. Mr Elvy is CEO and a director of the Cleary Bros Group, Chairman of Illawarra Sports Stadium Ltd, former Chairman of the Port Kembla Port Corporation and has also served on the Boards of other sporting and charitable organisations. As well as being a director of IMB Ltd, Mr Elvy is also a director of all entities wholly owned by IMB Ltd.



From top (L-R): Michael John Cole, Lynton Patrick Nicholas, Kieran Robert Biddle, James Randolph Coleman, Noel Harold Cornish, Robert Hillis Page Elvy, Margaret Elizabeth Towers.

MARGARET ELIZABETH TOWERS CA GAICD

Ms Towers is a Chartered Accountant with over 25 years experience in the Australian finance sector. Ms Towers was appointed as a non executive director to fill a casual vacancy in May 2011 and is a member of the Audit and Risk Management Committee and the IMB Community Foundation Committee. Ms Towers was previously with Price Waterhouse and was an Executive Vice President at Bankers Trust Australia. She is currently a non-executive Director and Chairperson of the Audit and Risk Management Committees of both Platinum Asset Management Limited and Opportunity International Australia (a not for profit that uses funds raised to provide micro-finance loans to the poor throughout Asia). Ms Towers also provides independent consulting services to the finance sector. As well as being a director of IMB Ltd, Ms Towers is also a director of all entities wholly owned by IMB Ltd.

RETIRED THIS YEAR

LYNETTE THERESE GEARING

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

Ms Gearing had been a non executive director since 2003 and retired in June 2012. Ms Gearing has business experience in superannuation, funds management, corporate finance and management consulting. She is currently a director of QIC, Commonwealth Superannuation Corporation Limited, Garvan Medical Research Foundation and Global Mining Investments Limited. Prior to her retirement Ms Gearing was 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 was also Chairperson of the Land Development Committee and a member of the Nominations and Governance Committee.

OUR COMMUNITY



Since the beginning of its operations in 1880 IMB has placed significant value on supporting the communities in which it operates. Today, IMB's commitment to the community 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 12th year, the Foundation has provided more than \$6 million to support almost 350 projects within our local communities. The Community Foundation supports a diverse range of project themes with a wide variety of objectives throughout IMB communities.

This year the IMB Community Foundation donated a further \$500,000 to support 46 projects including disadvantaged youth, senior community involvement, mental health groups and educational opportunities.

OTHER COMMUNITY SUPPORT

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

“IMB IS TRULY DELIGHTED TO BE ABLE TO GIVE BACK TO THE COMMUNITIES THAT HAVE SUPPORTED IMB SINCE THE VERY START OF OPERATIONS.”

LYNTON NICHOLAS,
IMB COMMUNITY FOUNDATION CHAIRMAN



COMMUNITY AND OTHER SPONSORSHIPS DURING THE YEAR INCLUDED:

Illawarra

- Wollongong City Council – New Years Eve
- Wollongong Hawks – School Hoops Program
- Wollongong TAFE – Moonlight Movies
- Wollongong Garden Cinemas
- Illawarra Cricket Association
- Russell Vale Golf & Social Club Ltd
- Towradgi Public School
- Wollongong University
- Wollongong Police
- Woonona Shamrocks Rugby Union
- Spring into Corrimal
- Warilla Public School Fete
- Albion Park Spring Fair
- Dapto Carols
- Illawarra Business Awards
- Rotary Club of Fairy Meadow
- Kiama Junior Knights
- Wollongong Golf Club
- Illawarra Business Chamber
- Jamberoo Golf Club
- The Disability Trust
- Wollongong Small Business Club
- Illawarra Women in Business

South Coast

- Bega High School
- Eden Whale Festival
- Narooma Charity Bowls Day
- Merimbula Public School
- Ulladulla High School
- St George Bass
- Kioloa Volunteer Rural Fire Brigade
- Eden Gardens Ladies Golf Club
- Bega Country Club
- South Coast Business Awards
- Marine Rescue Ulladulla

Sutherland Shire

- Cook Community Classic
- Sydney Home Show
- Sylvania Heights Public School
- Cronulla Spring Festival
- St George Girls High School
- NSW Gridiron
- Day of Heroes

West Sydney and Southern Highlands

- Sydney Home Show
- Penrith Panthers
- Picton Music and Harvest Festival
- Camden Business Awards
- Campbelltown Business Awards
- Penrith Business Expo

ACT & Melbourne

- Belconnen Ice Dragons
- Queanbeyan Art Show
- Goolabri Golf Club
- Lanyon High School
- Men Of League Golf Day
- Queanbeyan Women's Bowling Club
- Woden Valley Festival
- Goulburn Mayoral Charity Golf Day
- Canberra Multicultural Festival
- Christmas in Gungahlin
- Gungahlin Bulls
- Queanbeyan Childrens Special Needs Group Inc
- Downer Pre School Fete
- Dandenong Basketball Club
- St Simons Community Football Club

IMB COMMUNITY FOUNDATION PROJECTS

2012 FUNDING RECIPIENTS

Region	Organisation	Project Name	Project Description
ACT/ Goulburn	Australian Chinese Culture Exchange	Happy Singing & Dancing	Conduct Chinese music and dance workshops to alleviate social isolation and enhance community cohesion.
	CareFlight Ltd	MediSim: Trauma Care Training	Deliver high quality trauma-related care through training with "interactive" MediSim at voluntary emergency services workshops.
	Communities @ Work	Tuggeranong Men's Shed	Provide members with OH&S safety training and acquire equipment for the shed.
	Lions Club of Strzelecki	Cows Create Careers	Introduce students to careers in the dairy industry with an academic and hands-on training module.
	Mulwaree Arts Inc.	Marulan Art & Kite Festival	Offer art sessions to the community and encourage creativity in kids with a permanent display for artwork at the annual Art and Kite Show.
	Rotary Club of Goulburn	U-Turn The Wheel	Run safe driving courses for high school students with an emphasis on peer pressure and risk taking.
	St John Ambulance Aust (ACT)	IMB Bicycle Emergency Response Team	Provide bicycles specially fitted with medical equipment and supplies to improve response times and patient access at large-crowd outdoor events in the ACT.
	U3A Goulburn Mulwaree Inc.	Memories of Goulburn	Produce a book containing the collective memories of senior Goulburn residents who grew up in the area.
Illawarra	Wollongong Conservatorium of Music	IMB-Roger Soden Scholarship	Implement a new musical Scholarship.
	Albion Park Anglican Church	Albion Park Men's Shed	Fit out existing shed to allow seniors and youth to assist with community projects.
	House With No Steps	Volunteer Garden Project	Develop garden project for people with disabilities in Woonona and Albion Park Rail.
	Lawrence Hargrave Centre	Educational Trailer	Take Hargrave working airplane models to schools and community groups.
	Lions Club of Kiama	Children's Audio Theatre	Expand production and distribution of full-cast dramatised children's audio stories.
	Marine Rescue NSW (Shellharbour)	Marine T-rescue Night Vision	Enhance community safety at sea by training volunteers.
	Mind Blank Inc.	SCUBA Initiative & Mind Blank 101	Improve mental health awareness in young people through interactive theatre performances at schools.
	Raise The Gong Inc.	First Aid for Parents	Deliver baby and toddler first aid courses for parents.
	Rotary Club of Illawarra Sunrise	Smith's Hill Battery	Restore underground exhibits and update website.
	Rotary Club of Kiama	Mental Health First Aid	Run two free, nationally certified mental health first aid courses for youth and seniors.
	SCARF Inc.	Staying Safe on Land & Sea	Run workshops for refugee residents on water and driving safety.
	The Scout Association of Australia	Mt Keira Camp Promotional Booklet	Produce a booklet aimed at promoting camp as eco-tourist destination.
	Thirroul Surf Life Saving Club	Education/Training Programme	Upgrade facilities to improve and introduce community surf life saving programs.
	University of Wollongong	Supporting the Volunteers of the Science Centre and Planetarium Workshop	Expand outreach programmes through developing new exhibits and updating workshop.



Region	Organisation	Project Name	Project Description
South Coast	Alzheimer's Australia NSW	IMB Dementia Awareness Campaign	Use a Memory Van and Community Educator to raise awareness of dementia and promote healthy brain lifestyle.
	Bay & Basin Cancer Support Group	Bay & Basin Cancer Support	Upgrade and provide facilities for local cancer patients.
	Eden Visitors Centre	Heritage Walk Through Eden	Enable volunteers to produce a Heritage Walk and brochures with information on historic buildings and monuments.
	Heads Sports and Social Club	Seniors Computer Training	Expand computer training for Shoalhaven Heads seniors.
	Lady Denman Heritage Complex Inc.	Stories of Jervis Bay	Collect and preserve stories on Jervis Bay history and produce DVD for museum and schools.
	Life Education NSW	Far South Coast Mobile Learning Centre	Deliver programs to school children regarding health, behaviour and community concerns.
	Milton Ulladulla Model Railway Club Assoc Inc.	Model Building	Hold workshops for youth and seniors to teach model-building.
	Milton Ulladulla Pre-School Assoc Inc.	Training, Learning, Teaching	Train childcare workers and teachers for accreditation.
	Shoalhaven Neighbourhood Services Inc.	Singing Out, Linking Up	Engage women from disadvantaged areas in a choir.
	Teensafe Committee	Safe Driver Training	Train volunteer instructors on behind-the-wheel driving education and safety awareness.
	U3A Bermagui Inc.	U3A IT Project	Provide equipment to expand and modernise operations enabling greater efficiency in communications.
	Ulladulla & District Community Resource Centre	Saving Lives on Rural Roads	Partnering with Ulladulla Rotary to run safe driving courses for schools.
	U3A Batemans Bay	Facilities for Seniors Education	Provide equipment for educating and training seniors.
	Anglicare	Moss Vale Men's Shed Equipment	Provide a range of woodworking and metal working tools and equipment to undertake specific projects for the local community.
	Berrima District Family Historical Society	Web-based Image Library	Digitalise important WWI photographic collections and run training workshops.
Southern Highlands	Rotary Club of Moss Vale	U-Turn The Wheel	Run courses for high school students in safe driving with an emphasis on road safety awareness, peer pressure and risk taking.
	Yamanda Aboriginal Association Inc.	Guthawah Homework Centre	Help young Aboriginal children to complete set homework by identifying learning gaps.
Sydney	Camden Council Equestrian Park Management Committee	Zero-turn Mower & Training	Train members in safety and maintenance of Equestrian Park.
	Menai Community Services Inc.	Shed Connections	Develop relationships with youth and seniors through local Men's Shed to improve their skill set and reduce depression.
	NSW Sports Federation	Training for Volunteers in Sport	Deliver new Certificate of Sports Club Administration to sports clubs.
	PCYC Liverpool	Empowering Youth	Target disengaged youth through fitness classes and crime prevention workshops.
	Rainbow Club Australia Inc.	Bluone Pool Lift and Fencing	Make changes to fencing to enable pool lift for the disabled to operate.
	Victor Chang Cardiac Research Institute Ltd	Health Check Booth	Allow communities to access a range of free personal heart health checks.

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 member service, sales skills, deposits, personal and home loan lending, alliance products, induction and necessary compliance training.

In addition, we have increased our focus on activities to support individual career development and organisational succession planning efforts, to provide for the longer term needs of individuals and IMB. It is again pleasing to report that our internal promotion rate, the number of promotional opportunities filled by internal appointments, was above 60% for the year.

Our Traineeship and Cadetship programs continue to be important areas of focus for us as we grow and develop the next generation of IMB leaders. Our trainees and cadets have again performed well both on the job and in their studies, and have contributed strongly to IMB's success.

EMPLOYEE RECOGNITION

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

The Chief Executives Award recognises staff members who perform their job above and beyond normal expectations and requirements, and exemplify the IMB Values.

2011 saw joint winners of the award, with Clare Gough, Assistant Manager of our Wollongong Branch, and Greg Dowd, Manager of our Property Services team, recognised for their significant contributions over the year. Both Clare and Greg have consistently stepped up to take on additional and sometimes unforeseen challenges, and delivered excellent results, whilst always maintaining a positive approach.

We congratulate Clare and Greg on their awards, and on their continuing high standards of service and performance.

IMB'S ACHIEVEMENTS REFLECT
THE DEDICATION AND HARD WORK
OF EACH AND EVERY ONE OF OUR
INVALUABLE STAFF MEMBERS.



The IMB Trainee of the Year Award recognises one of the IMB trainees who excels in all aspects of their role. This may include member relationships, service orientation, sales and referrals, or other work based achievements, as well as their off the job studies. The winner must demonstrate motivation, commitment, initiative, the ability to work well in a team and community involvement. The 2011 winner of this award was Jade Andrews from our Ulladulla Branch. Jade demonstrated outstanding on the job and academic achievements throughout her traineeship, and was recognised for her exceptional customer service, her initiative in preparing and conducting training for her colleagues, and for her wider community involvement and contributions.

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

COMMUNITY INVOLVEMENT

IMB is committed to building positive relationships with the community. Community involvement has included participation in activities such as The World's Greatest Shave and Breakfast on the Beach events, and staff involvement in many of the IMB Community Foundation sponsored projects. Individual branches also play a large role in local communities, supporting fundraisers and local events, attending school information sessions and being active participants in the business community.

ZERO HARM

IMB is committed to providing the highest possible level of workplace health and safety for our staff and customers – IMB has continued to promote a culture of Zero Harm, where safety underpins all that we do, and the health and safety of others is the responsibility of all staff. We have developed a comprehensive Zero Harm management system aligned with Australian Standards. Staff are trained in areas such as robbery and fire procedure and office and branch premises are inspected regularly to ensure that our workplaces are safe for our staff and the public. We have an active OH&S Committee responsible for regularly reviewing Zero Harm policies and practice, raising awareness of Zero Harm, and recommending training for employees. These measures ensure that Zero Harm policies, procedures and practice remain relevant and effective.

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

CORPORATE GOVERNANCE

This statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2012.

BOARD OF DIRECTORS

Board of Directors and its Committees

Role of the Board

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

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

Board Processes

To assist in the execution of its responsibilities, the board has established a number of board committees including a Remuneration and CEO Evaluation Committee, a Nominations and Governance Committee, an Audit and Risk Management Committee, a Land Development Committee, an IMB Community Foundation Committee, a Capital Committee and a Securitisation Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

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

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

Director Education

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

Independent Professional Advice and access to Company Information

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

Composition of the Board

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

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

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

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

In general, up to three full terms are considered to be the maximum period of time to serve on the board. 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 10 and 11 of this report.

Nominations and Governance Committee

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

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

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

Mr MJ Cole (Chairman)
Mr KR Biddle (appointed August 2012)
Mr RHP Elvy
Ms LT Gearing (ceased June 2012)
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 30.

Remuneration and CEO Evaluation Committee

The Remuneration and CEO Evaluation Committee reviews and make recommendations to the board on remuneration packages and policies applicable to the Chief Executive and senior managers and the board. A key part of the committee's role is to ensure that such remuneration arrangements promote prudent risk taking in the management of IMB and to seek input from the Chairperson of the Audit and Risk Management Committee and the Senior Manager Risk as appropriate. From time to time the committee will obtain independent advice on the appropriateness of remuneration packages.

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

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

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

The committee is responsible for the selection, appointment and succession planning process of the Company's Chief Executive.

The committee also conducts an annual review of the performance of the Chief Executive and makes appropriate recommendations to the board in respect of such performance evaluations.

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

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

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

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

CORPORATE GOVERNANCE (CONT.)

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 (ceased August 2012)
Mr JR Coleman (appointed August 2012)
Mr RHP Elvy
Ms ME Towers

The internal and external auditors, the Chief Executive, Chief Financial Officer and the Senior Manager Risk, are invited to Audit and Risk Management Committee meetings at the discretion of the committee. The committee met four times during the year and committee member attendance is disclosed in the table of Directors' meetings on page 30.

The Chief Executive and the Chief Financial Officer declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial statements for the year ended 30 June 2012 comply with accounting standards, international financial reporting standards, and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The responsibilities of the Audit and Risk Management Committee include:

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

- providing advice to the board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Prudential Regulation Authority and the Australian Securities and Investment Commission.

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

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

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

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

Oversight of Risk Management Framework

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

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

Three Lines of Defence

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

- Line 1 - Business units including the front line, working within defined limits, are responsible for risk identification, risk management and maintaining effective controls;
- Line 2 - Risk function supported by business unit risk areas and the Executive Risk Committee responsible for establishing and maintaining the risk management framework and providing independent risk oversight; and
- Line 3 - Internal Audit responsible for providing independent assurance on the adequacy of the Group's risk management processes and controls.

Risk Profile

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

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

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

Risk Management Function

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

Risk Management and Compliance and Control

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

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

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

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

CORPORATE GOVERNANCE (CONT.)

Assessment of effectiveness of risk management

Internal Audit

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

ETHICAL STANDARDS

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

Conflict of Interest

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

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

Code of Conduct

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

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

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

- Purchase or sale of IMB Ltd ("Company") shares is permitted within six weeks after announcements (a "trading window") subject to prior advice by the Director or Selected Officer to the Company Secretary who will notify the Chairman (or in the case of proposed trade by the Chairman or a related entity of the Chairman, the Chairman of the Audit and Risk Management Committee).
- Purchase or sale of Company shares is permitted outside a trading window only with the prior consent of the board who will examine the transaction (and any information known by the director or officer) prior to giving approval, to ensure that the transaction is not related to inside information, nor could be seen to be related to such information.
- Generally transactions in Company shares within a period of two months leading up to an announcement will not be approved.
- The above guidelines extend to sale and purchase of Company shares by directors and selected officers personally, by directors' and selected officers' spouses and dependent children, and by any company in which a director or selected officer holds a majority of the shares. It will also extend to any company in which a director or selected officer is an officer (director, secretary, executive officer or employee), unless effective conflict of interest arrangements are in place. It is the responsibility of each Director and selected officer to avoid or manage a conflict of interest. As guidance, a conflict of this nature may be able to be effectively avoided or managed by:
 - the Director or selected officer not being present at any meeting in which the purchase or sale of Company shares is discussed or approved;
 - the Director or selected officer not taking part in the company's decision to buy or sell the Company shares; and
 - the Director or selected officer ensuring that they do not pass inside information to those in the company making the decision in relation to the sale or purchase of Company shares.
- It is the responsibility of the director or selected officer to ensure the order to purchase or sell expires no more than six weeks after the relevant announcement is made.
- The above guidelines also apply to transactions in debentures, stocks, bonds, notes, options and other securities of the Company, but will not apply to any election made to acquire shares or other securities under the terms of any plan for the reinvestment of dividends or the issue of bonus shares in lieu of dividends or the issue of shares under the employee share scheme.
- These guidelines do not apply to transfers between a Director or selected officer and their associated entities that do not change the aggregate holding of the parties to the transaction.
- These guidelines also apply to Selected Officers. "Selected Officer", means a member of the executive group and other person or persons in the employ of the Company nominated by the Chief Executive.



Communication with Members

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

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

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

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

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

- All disclosures of "price sensitive" information are made via the IMB website, together with media releases, public announcements and other information concerning the Group's operations.
- Public release of performance results, plus declared dividends as soon as available.
- A full copy of the annual report is made available to all members via the Company's website and upon request.
- The annual report is distributed to all members who have elected to receive this document. This document is also available to any other member upon request. The board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, in addition to the other disclosures required by the Corporations Act 2001.

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

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

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

DIRECTORS' REPORT

For the year ended 30 June 2012

The directors have pleasure in presenting their report, together with the financial statements of IMB Ltd, ("the Company") and of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2012 and the auditor's report thereon.

DIRECTORS

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

Michael John Cole, Chairman
Lynton Patrick Nicholas, Deputy Chairman
Kieran Robert Biddle
Noel Harold Cornish
Robert Hillis Page Elvy
Lynette Therese Gearing (retired 30 June 2012)
Margaret Elizabeth Towers
James Randolph Coleman (appointed 1 July 2012)

All of the directors are independent directors.

The particulars of the qualifications, experience and special responsibilities of each director holding office at any time during the year are set out on pages 10 to 11 of this report.

At the annual general meeting of the Company on 30 October 2012, one director Mr JR Coleman, will retire in accordance with the constitution of the Company and, being eligible, offer himself for re-appointment.

COMPANY SECRETARY

Ms Lauren Wise (BA LLB Grad Dip. Legal Practice) was appointed to the position of Company Secretary in 2007 and also continues as IMB's Senior Manager Legal Services, a position which she has held with IMB since 2004.

PRINCIPAL ACTIVITIES

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

There has been no significant change in the nature of these activities during the year ended 30 June 2012.

OPERATING AND FINANCIAL REVIEW

Consolidated profit after tax for the year attributable to members was \$30.1 million (2011: \$31.0 million), a decrease of \$0.9 million or 2.8% on 2011.

Total deposits decreased to \$3,444 million down by \$83 million or 2.4% on the previous year. Securitised loan funding decreased by \$31 million or 3.1% to \$969 million.

Loan approvals decreased by \$125 million to \$701 million (2011: \$826 million). This was due to a lower level of residential lending approvals which decreased by \$66 million on 2011 levels, and a decrease in other lending of \$59 million.

Net interest income for the year was \$95.2 million, down \$1.3 million on the previous year. This reduction was due to a decrease in net interest margin by 5bps.

Impairment losses were \$2.0 million, a decrease of \$1.7 million on the previous year (2011: \$3.6 million).

Non interest income increased by \$0.6 million or 4.2% to \$14.3 million as a result of increased profit from the financial planning joint venture following the sale of a financial planning business.

Non interest expense increased by 3.3% or \$2.1 million to \$64.6 million (2011: \$62.5 million) due to an increase in personnel and occupancy expense in the current year.

The non interest expense to operating income ratio increased from 58.7% in 2011 to 60.1% in 2012.

DIVIDENDS

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

- a final ordinary dividend of \$0.15 per share amounting to \$5,987,000 franked to 100% at a tax rate of 30%, declared on 29 August 2011, in respect of the year ended 30 June 2011, paid on 8 September 2011;
- an interim dividend of \$0.10 per share amounting to \$3,991,000 franked to 100% at a tax rate of 30%, declared on 24 January 2012, in respect of the year ended 30 June 2012, paid on 28 February 2012; and
- a final ordinary dividend of \$0.15 per share amounting to \$5,987,000 franked to 100% at a tax rate of 30%, declared on 31 July 2012, in respect of the year ended 30 June 2012, payable on 7 September 2012.

Total dividends paid or declared in respect of the year ended 30 June 2012 were \$0.25 per share (2011: dividend of \$0.25) amounting to \$9,978,000 (2011: \$9,978,000).

EVENTS SUBSEQUENT TO REPORTING DATE

It is noted that on 31 July 2012, IMB announced a buy back of up to \$14 million worth of IMB Ordinary Shares through an off market tender. The tender period opened on 16 August 2012 and closes on 19 September 2012. Details on the buy back price, the number of shares being bought back and any scale back will be announced on the Company's website on 27 September 2012. All shareholders eligible to participate in the buy back have been mailed the necessary buy back documents. 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 6 to 9 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 6 to 9 of the annual report.

DIRECTORS' INTERESTS

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

Director	Holding at 28 August 2012
Mr MJ Cole	-
- related party	59,895
Mr KR Biddle	5,325
- related party	17,878
Mr NH Cornish	2,000
Mr RHP Elvy	5,454
Mr LP Nicholas	2,000
- related party	43,890
Ms ME Towers	-
- related party	2,000
Mr JR Coleman	-

The Constitution of the Group includes specific eligibility requirements to qualify as a Director that relate to minimum holdings of share capital of, or deposits with, the Company. All Directors' have satisfied these eligibility requirements.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

Indemnification

Every director and executive officer of the Company and its controlled entities is indemnified out of the property of the Company against any liability which the director or executive officer may incur while acting as a director or executive officer.

Insurance Premium

During the year, the Company paid a premium in respect of a contract insuring the current and former directors and executive officers of the Company and its controlled entities against certain liabilities that may be incurred in discharging their duties as directors and executive officers. The contract of insurance prohibits the disclosure of the nature of the liabilities insured and premium payable.

Environmental Regulation

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

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT – AUDITED

Principles of compensation

Remuneration is referred to as compensation throughout this report.

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

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

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

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

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

Fixed compensation

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

Compensation levels are reviewed annually by the Remuneration and CEO Evaluation Committee. External consultants may be invited to provide analysis and advice to ensure the directors' and executives' compensation is

competitive in the market place. The committee also seeks input from the Chairperson of the Audit & Risk Management Committee and Senior Manager Risk when making recommendations in relation to remuneration arrangements.

Short term Incentive Bonus

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

Each year the Remuneration and CEO Evaluation Committee sets the performance indicators for the key management personnel. In setting these performance indicators consideration is given to the desired strategic outcomes of the business, the risks related to business activities (having considered the input of the Chairperson of the Audit & Risk Management Committee and Senior Manager Risk) and the time necessary for the outcomes of those business activities to be reliably measured.

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

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

For the Chief Executive and senior executives the performance based incentive payment is based on both financial and non-financial performance objectives of the Group. At the end of the year the Board approves the performance based incentive payment for the Chief Executive and senior executives based on the recommendation of the Remuneration and CEO Evaluation Committee (which has considered the input of the Chairperson of the Audit & Risk Management Committee and Senior Manager Risk).

A percentage of each executive's Total Fixed Remuneration (TFR) is the basis for the performance based incentive payment depending upon the performance and results. No bonus is payable if the performance is below the minimum agreed objectives (which is 90 percent of the key performance indicators). If the agreed budget and targets are met then a performance based incentive bonus of 30 percent of TFR is payable to the Chief Executive and 25 percent of TFR is payable to senior executives. When these targets are exceeded the maximum performance based incentive bonus payable is



60 percent of TFR for the Chief Executive and 50 percent of TFR for senior executives (which is payable on achieving 125 percent of the key performance indicators). The Board has discretion to adjust the performance based payments downwards if such adjustment is necessary to respond to significant adverse unexpected or unintended consequences affecting the Group.

Directors

In line with the commitment made at the 2009 AGM, the Board intends to limit the increase to the total aggregate remuneration payable to Directors each year in line with movements in the All Groups Consumer Price Index (CPI) (in the absence of members having approved an increase of a different amount in a general meeting). Accordingly, as the aggregate amount of remuneration payable following the 2009 AGM was \$563,320, the amount currently payable to directors on an aggregate basis is \$601,690 inclusive of superannuation. The remuneration payable to Directors for the 2013 financial year will increase by 1.2% in line with the movement in CPI for the 12 months to June 2012.

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 sustained profit levels in recent years despite the challenging economic conditions. In the current year the Group achieved satisfactory results in most areas. Lending was constrained due to the subdued economic environment while retail deposit growth targets were achieved in a highly competitive retail deposit market. Interest margin was broadly in line with last year despite the decreasing interest rate environment and the cost of capital raising activities.

Consequences of performance on non-shareholder wealth and shareholder wealth

Due to the structure of IMB, in particular the existence of non-shareholder members and shareholder members, 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.

	2012	2011	2010	2009	2008
	\$000	\$000	\$000	\$000	\$000
Net profit after tax	30,148	31,018	29,071	22,850	21,579

Other benefits

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

Service contracts

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

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

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

The service contracts for Mr Chris Goodwin, Chief Financial Officer, Mr Michael Brannon, General Manager Sales and Marketing and Mr Craig Rumble, General Manager Business Systems, provide for the following separation payments:

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

DIRECTORS' REPORT (CONT.)

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

Short Term						Post Employment	Other			
		Salary and fees ¹ \$	STI cash bonus ² \$	Non- monetary benefits \$	Total \$	Super- annuation benefits \$	Termination benefits ⁵ \$	Other long term benefits ⁴ \$	Total \$	Proportion of remuneration performance related %
Non-Executive Directors										
Mr MJ Cole <i>Chairman</i>	2012	130,096	-	-	130,096	11,709	-	-	141,805	-
	2011	125,576	-	-	125,576	11,302	-	-	136,878	-
Mr KR Biddle	2012	67,726	-	-	67,726	6,095	-	-	73,821	-
	2011	65,372	-	-	65,372	5,883	-	-	71,255	-
Mr NH Cornish	2012	67,726	-	-	67,726	5,605	-	-	73,331	-
	2011	54,027	-	-	54,027	-	-	-	54,027	-
Mr GA Edgar	2012	-	-	-	-	-	-	-	-	-
	2011	15,852	-	-	15,852	1,427	-	-	17,279	-
Mr RHP Elvy	2012	67,726	-	-	67,726	6,095	-	-	73,821	-
	2011	65,372	-	-	65,372	5,883	-	-	71,255	-
Ms LT Gearing	2012	67,726	-	-	67,726	6,095	-	-	73,821	-
	2011	65,372	-	-	65,372	5,883	-	-	71,255	-
Mr SG McKerihan	2012	-	-	-	-	-	-	-	-	-
	2011	49,029	-	-	49,029	4,413	-	-	53,442	-
Mr LP Nicholas	2012	83,289	-	-	83,289	7,496	-	-	90,785	-
	2011	80,394	-	-	80,394	7,236	-	-	87,630	-
Ms ME Towers	2012	67,726	-	-	67,726	6,095	-	-	73,821	-
	2011	6,438	-	-	6,438	579	-	-	7,017	-
Total non-executive directors	2012	552,015	-	-	552,015	49,190	-	-	601,205	-
	2011	527,432	-	-	527,432	42,606	-	-	570,038	-

		Short Term				Post Employment	Other			
		Salary and fees ¹	STI cash bonus ²	Non-monetary benefits	Total	Super-annuation benefits	Termination benefits ⁵	Other long term benefits ⁴	Total	Proportion of remuneration performance related
		\$	\$	\$	\$	\$	\$	\$	\$	%
Executives										
Mr RJ Ryan	2012	485,792	104,100	43,331	633,223	121,219 ³	-	27,543	781,985	16.4
	2011	397,292	176,715	44,743	618,750	133,556 ³	-	11,699	764,005	28.6
Mr CJ Goodwin	2012	297,467	55,825	17,140	370,432	26,910	-	7,231	404,573	15.1
	2011	267,402	81,375	17,140	365,917	24,496	-	6,013	396,426	22.2
Mr M Brannon	2012	212,173	21,350	30,460	263,983	36,972 ³	-	9,443	310,398	8.1
	2011	198,213	69,375	30,460	298,048	52,861 ³	-	6,301	357,210	23.3
Mr CA Rumble	2012	246,051	54,458	57,685	358,194	22,522	-	5,909	386,625	15.2
	2011	245,408	81,875	73,739	401,022	21,314	-	6,252	428,588	20.4
Total executives	2012	1,241,483	235,733	148,616	1,625,832	207,623	-	50,126	1,883,581	14.5
	2011	1,108,315	409,340	166,082	1,683,737	232,227	-	30,265	1,946,229	24.6
Total remuneration	2012	1,793,498	235,733	148,616	2,177,847	256,813	-	50,126	2,484,786	10.8
	2011	1,635,747	409,340	166,082	2,211,169	274,833	-	30,265	2,516,267	19.3

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

2 The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 26. The amount was finally determined on 28 August 2012 (23 August 2011) after performance reviews were completed and approved by the Remuneration and CEO Evaluation Committee and the Board.

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

4 Includes movements in accrued long service leave entitlements.

5 Excludes amounts already provided for.

DIRECTORS' REPORT (CONT.)

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the performance based incentive cash bonuses awarded as remuneration to each of the four 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	104,100	33	67
Mr M Brannon	21,350	17	83
Mr CJ Goodwin	55,825	37	63
Mr CA Rumble	54,458	51	49

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on satisfaction of specified performance criteria approved by the Board. No amounts vest in future financial years in respect of the bonus schemes for the 2012 financial year.

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

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 2012 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)	12	12	4	4	3*	-	4	4
Mr KR Biddle	12	12	4	4	3	3	4	4
Mr NH Cornish	12	12	2*	-	3	3	4	4
Mr RHP Elvy	12	12	4	4	3	3	-	-
Ms LT Gearing	12	12	3*	-	3	3	-	-
Mr LP Nicholas	12	12	4	4	3*	-	-	-
Ms M Towers	12	12	4	4	2*	-	-	-

	Nominations & Governance		IMB Community Foundation		Securitisation		Capital	
	Attended	Eligible to attend [#]	Attended	Eligible to attend [#]	Attended	Eligible to attend [#]	Attended	Eligible to attend [#]
Mr MJ Cole (a)	3	3	2	2	4	4	5	5
Mr KR Biddle	-	-	-	-	4	4	-	-
Mr NH Cornish	-	-	-	-	-	-	5	5
Mr RHP Elvy	3	3	-	-	-	-	-	-
Ms LT Gearing	3	3	-	-	-	-	-	-
Mr LP Nicholas	3	3	2	2	-	-	5	5
Ms M Towers	-	-	2	2	-	-	-	-

[#] Number of meetings eligible to attend in a formal capacity as a committee member.

* Includes meetings attended as an observer, not in the capacity as a committee member.

(a) Mr Cole is an ex-officio member of the Audit and Risk Management 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 2012 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	4	4	-	-	2	2	1	1	1	1
Mr KR Biddle	4	4	-	-	2	2	1	1	1	1
Mr NH Cornish	4	4	-	-	2	2	1	1	1	1
Mr RHP Elvy	4	4	-	-	2	2	1	1	1	1
Ms LT Gearing	4	4	-	-	2	2	1	1	1	1
Mr LP Nicholas	4	4	-	-	2	2	1	1	1	1
Ms M Towers	4	4	-	-	2	2	1	1	1	1

[^] For the year ended 30 June 2012, the proceedings of directors in respect of this entity were discharged via Circular Resolution as is permitted by the constitution of that entity.

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

The lead auditor's independence declaration is set out on page 32 and forms part of the directors' report for the financial year ended 30 June 2012.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Wollongong this 28th day of August 2012

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 2012 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 28th day of August 2012

FINANCIAL STATEMENTS

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INCOME STATEMENTS

For the year ended 30 June 2012



	Note	Consolidated		Company	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Interest revenue	2	322,595	325,064	323,296	327,073
Interest expense	2	(227,422)	(228,585)	(227,992)	(230,482)
Net interest income		95,173	96,479	95,304	96,591
Impairment losses	2	(1,989)	(3,646)	(3,791)	(4,039)
Net interest income after impairment losses		93,184	92,833	91,513	92,552
Revenue from land development	2	-	80	-	-
Share of profits of joint venture entity	2, 28	928	282	-	-
Fee and commission income		12,546	12,000	12,546	12,000
Other income		846	1,384	568	1,279
Net operating income		107,504	106,579	104,627	105,831
Land development expense	3	(1,048)	(802)	-	-
Operating expenses	3	(63,581)	(61,763)	(63,486)	(61,705)
Profit before tax		42,875	44,014	41,141	44,126
Income tax expense	4	(12,727)	(12,996)	(12,627)	(13,332)
Profit for the year attributable to members of the Company		30,148	31,018	28,514	30,794

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 40 to 84.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2012



	Consolidated		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Profit for the year	30,148	31,018	28,514	30,794
Other comprehensive income/(expense):				
Net change in fair value of available for sale investments	1,333	(392)	1,333	(392)
Net change in fair value of cash flow hedges	12	835	12	835
Net change in fair value of equity investments	-	(36)	-	(36)
Net change in fair value of available for sale investments transferred to profit and loss	(138)	(82)	(138)	(82)
Net change in fair value of equity investments transferred to profit and loss	-	(618)	-	(618)
Total other comprehensive income/(expense) for the year, net of income tax	1,207	(293)	1,207	(293)
Total comprehensive income for the year	31,355	30,725	29,721	30,501

Amounts are stated net of tax

The statements of comprehensive income are to be read in conjunction with the notes to the financial statements set out in pages 40 to 84.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2012



		Consolidated		Company	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
ASSETS					
Cash and cash equivalents	29	44,846	38,834	11,920	15,786
Available for sale investments	6	517,629	529,133	517,629	537,660
Loans and receivables to ADI's	7	383,932	447,439	383,932	447,439
Loans and receivables to members	8	3,781,358	3,763,503	3,794,121	3,774,589
Equity accounted investments	28	-	2,352	-	-
Other financial assets	9	505	505	5,570	2,694
Non-current assets held for sale	11	1,765	2,103	-	-
Inventories	13	9,825	6,871	-	-
Property, plant and equipment	14	12,498	14,083	12,497	14,083
Intangible assets	15	625	209	625	209
Net deferred tax assets	4	4,398	4,989	4,575	4,823
Other assets	16	15,035	6,226	19,189	11,197
Total assets		4,772,416	4,816,247	4,750,058	4,808,480
LIABILITIES					
Trade and other payables	17	44,242	29,583	16,224	12,011
Deposits	18	3,443,940	3,526,906	3,449,896	3,529,453
Securitised loans funding	19	968,609	999,733	968,609	1,008,259
Interest bearing liabilities	20	44,921	10,000	44,921	10,000
Derivative liabilities	12	312	329	312	329
Current tax liabilities	4	1,762	2,512	1,171	2,512
Provisions	21	7,645	7,576	7,608	7,576
Loans and other borrowings	31	-	-	3,234	-
Total liabilities		4,511,431	4,576,639	4,491,975	4,570,140
Net assets		260,985	239,608	258,083	238,340
EQUITY					
Share capital	22	46,936	46,936	46,936	46,936
Reserves		28,725	26,910	28,725	26,910
Retained earnings		185,324	165,762	182,422	164,494
Total equity attributable to members of the Company		260,985	239,608	258,083	238,340

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 40 to 84.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2012



		Consolidated		Company	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		323,690	329,589	324,391	331,598
Dividends received		2	11	2	11
Other cash receipts in the course of operations		13,901	14,990	13,512	15,521
Interest paid on deposits		(232,324)	(224,206)	(232,892)	(226,101)
Income taxes paid		(12,889)	(15,357)	(13,720)	(15,723)
Net loans funded		(19,843)	(189,485)	(22,964)	(190,839)
Net (decrease)/increase in deposits		(78,068)	160,000	(74,658)	159,728
Other cash payments in the course of operations		(58,319)	(64,304)	(65,050)	(62,323)
Net cash flows from operating activities	29	(63,850)	11,238	(71,379)	11,872
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemptions of available for sale investments		77,470	66,248	83,646	88,774
Expenditure on property, plant and equipment, and intangibles	14,15	(1,688)	(3,191)	(1,687)	(3,191)
Proceeds from sale of property, plant and equipment		260	345	260	345
Net cash flows from investing activities		76,042	63,402	82,219	85,928
CASH FLOWS FROM FINANCING ACTIVITIES					
Net repayments from securitised loans funding		(31,124)	(64,917)	(39,650)	(87,160)
Net proceeds from interest bearing liabilities		34,922	-	34,922	-
Dividends paid	5	(9,978)	(11,574)	(9,978)	(11,574)
Net cash flows from financing activities		(6,180)	(76,491)	(14,706)	(98,734)
Net increase/(decrease) in cash and cash equivalents held		6,012	(1,851)	(3,866)	(934)
Cash and cash equivalents at the beginning of the year		38,834	40,685	15,786	16,720
Cash and cash equivalents at the end of the year	29	44,846	38,834	11,920	15,786

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out in pages 40 to 84.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2012



Consolidated								
<i>In thousands of AUD</i>	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 2010	46,936	532	(1,065)	654	1,827	25,255	146,318	220,457
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	31,018	31,018
Other comprehensive income								
Net revaluation movement due to change in fair value	-	(392)	835	(36)	-	-	-	407
Net change in fair value transferred to profit and loss	-	(82)	-	(618)	-	-	-	(700)
Total other comprehensive income	-	(474)	835	(654)	-	-	-	(293)
Total comprehensive income for the year	-	(474)	835	(654)	-	-	31,018	30,725
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(11,574)	(11,574)
Balance at 30 June 2011	46,936	58	(230)	-	1,827	25,255	165,762	239,608
Balance at 1 July 2011	46,936	58	(230)	-	1,827	25,255	165,762	239,608
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	30,148	30,148
Other comprehensive income								
Net revaluation movement due to change in fair value	-	1,333	12	-	-	-	-	1,345
Net change in fair value transferred to profit and loss	-	(138)	-	-	-	-	-	(138)
Total other comprehensive income	-	1,195	12	-	-	-	-	1,207
Total comprehensive income for the year	-	1,195	12	-	-	-	30,148	31,355
Transfer from retained profits	-	-	-	-	608	-	(608)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(9,978)	(9,978)
Balance at 30 June 2012	46,936	1,253	(218)	-	2,435	25,255	185,324	260,985

Amounts are stated net of tax

Refer to note 22 for details on each of the reserves.

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out in pages 40 to 84.



Company								
<i>In thousands of AUD</i>	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 2010	46,936	532	(1,065)	654	1,827	25,255	145,274	219,413
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	30,794	30,794
Other comprehensive income								
Net revaluation movement due to change in fair value	-	(392)	835	(36)	-	-	-	407
Net change in fair value transferred to profit and loss	-	(82)	-	(618)	-	-	-	(700)
Total other comprehensive income	-	(474)	835	(654)	-	-	-	(293)
Total comprehensive income for the year	-	(474)	835	(654)	-	-	30,794	30,501
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(11,574)	(11,574)
Balance at 30 June 2011	46,936	58	(230)	-	1,827	25,255	164,494	238,340
Balance at 1 July 2011	46,936	58	(230)	-	1,827	25,255	164,494	238,340
Total comprehensive income for the year								
Profit after tax	-	-	-	-	-	-	28,514	28,514
Other comprehensive income								
Net revaluation movement due to change in fair value	-	1,333	12	-	-	-	-	1,345
Net change in fair value transferred to profit and loss	-	(138)	-	-	-	-	-	(138)
Total other comprehensive income	-	1,195	12	-	-	-	-	1,207
Total comprehensive income for the year	-	1,195	12	-	-	-	28,514	29,721
Transfer from retained profits	-	-	-	-	608	-	(608)	-
Transactions with owners, recorded in equity								
Dividends to shareholder members	-	-	-	-	-	-	(9,978)	(9,978)
Balance at 30 June 2012	46,936	1,253	(218)	-	2,435	25,255	182,422	258,083

Amounts are stated net of tax

Refer to note 22 for details on each of the reserves.

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out in pages 40 to 84.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

IMB Ltd (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 253-259 Crown Street, Wollongong NSW. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. The Group is a for-profit entity primarily involved in the provision to members of banking and financial services, including lending, savings, insurance and investment products.

(b) Basis of preparation

(i) Statement of compliance

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

The consolidated financial statements were authorised for issue by the directors on 28 August 2012.

(ii) Basis of measurement

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

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

(iii) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

(iv) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Loan impairment (notes 1i and 10);
- Consolidation of special purpose entities (notes 1c and 9);
- Valuation of financial instruments (notes 1i, 6, 9 and 12); and
- Defined benefit fund liability (notes 1q and 23).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Loan impairment (notes 1i and 10);
- Non-current assets held for sale (note 11); and
- Inventories (notes 1o and 13).

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

(c) Basis of consolidation

(i) Transactions eliminated on consolidation

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

(ii) Subsidiaries

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

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

(iii) Special Purpose Entities (SPEs)

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

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

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

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

(v) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances in the Group's bank accounts and cash on hand. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flows.

(e) Non-derivative financial assets

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only

when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group has the following non-derivative financial assets: loans and receivables and available for sale investments.

(i) Loans and receivables

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

(ii) Available for sale investments

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

Available for sale investments are initially recognised at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When the investment is derecognised the cumulative gain or loss in equity is transferred to profit or loss. Fair values of quoted investments in active markets are based on current mid-prices. If the relevant market is not considered active, and other methods of determining fair value do not result in a reasonable estimate, then the investment is measured at cost less impairment losses. Available for sale investments are accounted for on the date of settlement.

(f) Derivatives

Cash flow hedges

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

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

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

(g) Revenue recognition

(i) Interest income and fees for services rendered

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

(ii) Loan origination income

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

(iii) Dividend income

Dividends and distributions from controlled entities are brought to account in profit or loss when they are declared. Dividends and distributions from other parties are brought to account in profit or loss when they are received.

(h) Expenses

(i) Loan origination expenses

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

(ii) Securitisation set-up expenses

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

(i) Impairment

(i) Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and available for sale investment securities at both a specific asset and collective level. All individually significant receivables and available for sale investment securities are assessed for specific impairment. All individually significant receivables and available for sale investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and available for sale investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and available for sale investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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



If, in a subsequent year, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iii) Loan impairment

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

Specific provisions are recognised where specific impairment is identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified. The Group makes judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a portfolio of loans. The evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a group, or national or local economic conditions that are likely to have triggered a worsening of the loan quality, which will eventually lead to losses. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio. The methodology and assumptions used for estimating likely future losses are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in the assumptions used for estimating likely future losses could result in a change in provisions for loan losses and have a direct impact on the impairment charge.

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

(iii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets (see note 1k), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of other non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Deposits and interest expense

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

(k) Income tax

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

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

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

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

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

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

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

(i) Tax consolidation

The Company is the head entity in a tax consolidated group comprising the Company and all its wholly-owned subsidiaries. As a consequence, all members of the tax consolidated group have been taxed as a single entity from 1 July 2003. Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised by the Company as amounts payable (receivable) to (from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The head entity recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent year adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-company receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-company receivables/(payables) are at call. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities. The head entity in conjunction with other members of the tax consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (see note 1i).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives in the current and comparative years are as follows:

- | | |
|--------------------------|---------------|
| • Buildings | 40 years |
| • Leasehold Improvements | up to 7 years |
| • Plant and Equipment | 3 – 15 years |

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(m) Intangibles

(i) Goodwill

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

(ii) Computer software

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls. The Group carries capitalised computer software assets at cost less accumulated amortisation and any accumulated impairment losses. These assets are amortised over the estimated useful lives of the computer software (being between 3 and 5 years) on a straight-line basis. Computer software maintenance costs are expensed as incurred. Any impairment loss is recognised in the profit or loss when incurred.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is calculated over the cost of the asset, less residual value. Amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Client book costs - 10 years



(n) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, spread over the lease term.

(i) Determining whether an arrangement contains a finance lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of the specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

(o) Inventories

(i) Valuation

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

(ii) Recognition of income

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

(p) Dividends payable

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

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plan

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

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

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

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

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

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Long service leave

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

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

(v) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

(r) Directors' retirement benefits

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

(s) Interest bearing liabilities

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

(t) Trade and other payables

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

(u) Provision for make good costs

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

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

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

(v) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of the asset or as a separate expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(w) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a liability in the year in which they are declared.

(x) Non-current assets held for sale

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

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these consolidated

financial statements. Those standards with the most significant potential impact on the financial statements are outlined below:

AASB 9 Financial Instruments 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 and retrospective application is generally required. The Group has not yet determined the potential effect of the standard.

AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised and fair value. The guidance in AASB 139 on impairment of financial assets and on hedge accounting continues to apply. The amendments become mandatory for the Group's 30 June 2016 financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements, removes the requirements to include individual key management personnel disclosures in the notes to the financial statements. Key management personnel disclosures will still be provided in the Remuneration Report under s.300A of the Corporations Act 2001. The amendments, which will become mandatory for the Group's 30 June 2014 financial statements, are not expected to have any significant impact on the financial statements.

AASB 10 Consolidated Financial Statements, introduces a new approach to determining which investees should be consolidated. The standard, which will become mandatory for the Group's 30 June 2014 financial statements, is not expected to have any significant impact on the financial statements.

AASB 11 Joint Arrangements, considers if the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise, the joint arrangement is considered a joint venture and the equity method must be applied. The standard, which will become mandatory for the Group's 30 June 2014 financial statements, is not expected to have any significant impact on the financial statements.

AASB 12 Disclosure of Interests in Other Entities, contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The standard, which will become mandatory for the Group's 30 June 2014 financial statements, is not expected to have any significant impact on the financial statements.

AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119, AASB 119 Employee Benefits is amended focusing on but not limited to the accounting for defined benefit plans. In addition, it changes the definition of short-term and other long-term employee benefits and some disclosure requirements. The potential impacts include the removal of the corridor method and will require immediate recognition of all actuarial gains and losses in the income statement. The Group has not yet quantified the impact of the amendments, which will become mandatory for the Group's 30 June 2014 financial statements.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income, makes a number of changes to the presentation of other comprehensive income. The amendments, which will become mandatory for the Group's 30 June 2013 financial statements, are not expected to have any significant impact on the financial statements.



		Consolidated		Company	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
2 OPERATING INCOME					
Interest revenue					
Loans					
- to members		263,318	261,348	263,318	261,348
- consolidated entities, key management personnel, and related entities		874	696	1,033	862
- ADI's		27,738	29,601	27,738	29,601
Available for sale investments		30,665	33,419	31,207	35,262
		322,595	325,064	323,296	327,073
Interest expense					
Deposits					
- from members		167,194	171,149	167,194	171,149
- consolidated entities		-	-	31	55
- subordinated debt		1,216	737	1,216	737
Securitised loans funding		59,008	56,697	59,547	58,539
Other interest expense		4	2	4	2
		227,422	228,585	227,992	230,482
Net interest income		95,173	96,479	95,304	96,591
Impairment losses					
Impairment of available for sale investments		251	1,100	251	1,100
Impairment of other financial assets		-	-	358	393
Impairment of loans and receivables to members					
- amounts written off during the year	10	911	1,437	911	1,437
- increase in provision for impairment	10	827	1,109	2,271	1,109
		1,989	3,646	3,791	4,039
Net interest income after impairment losses		93,184	92,833	91,513	92,552
Revenue from land development		-	80	-	-
Share of profits of joint venture entity	28	928	282	-	-
Other income					
Dividends		2	11	2	11
Profit from sale of property, plant and equipment		64	67	64	67
Loan switch and breakout fees		775	668	775	668
Transaction fees		7,909	7,666	7,909	7,666
Payment system fees		1,687	1,627	1,687	1,627
Property income		158	157	158	157
Impairment losses recovered		177	155	177	155
Commissions		2,175	2,039	2,175	2,039
Gain on sale of Visa shares transferred from equity		-	789	-	789
Other		445	205	167	100
		13,392	13,384	13,114	13,279
Net operating income		107,504	106,579	104,627	105,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
3 OPERATING EXPENSES				
Personnel expense				
Salaries	28,852	27,540	28,852	27,540
Payroll tax	1,645	1,559	1,645	1,559
Fringe benefits tax	409	430	409	430
Superannuation	2,996	3,082	2,996	3,082
	33,902	32,611	33,902	32,611
Occupancy expense				
Repairs and maintenance	658	612	658	612
Rental on operating leases	5,660	5,025	5,660	5,025
Other	1,873	1,800	1,873	1,800
	8,191	7,437	8,191	7,437
Payment system expense	2,789	2,714	2,789	2,714
Marketing expense	5,079	5,502	5,079	5,502
Data processing expense	2,310	2,181	2,310	2,181
Postage and printing expense	1,544	1,462	1,544	1,462
Contributions to IMB Community Foundation	500	424	500	424
Goods and services tax not recovered	2,166	2,213	2,166	2,213
Sundry expenses				
Depreciation and amortisation				
- plant and equipment	2,126	2,374	2,126	2,374
- buildings	147	148	147	148
- intangibles	324	190	324	190
Loss from sale of property, plant and equipment	28	44	28	44
Auditors' remuneration (KPMG)				
- audit and review of financial statements**	316	304	269	256
- other services				
- other assurance services**	87	33	68	28
- taxation services	43	14	41	14
- advisory services*	13	120	13	107
Other	4,016	3,992	3,989	4,000
	7,100	7,219	7,005	7,161
Total operating expenses	63,581	61,763	63,486	61,705
Land development expense	1,048	802	-	-
Total non interest expense	64,629	62,565	63,486	61,705

* KPMG provided additional services to the value of \$141,250 during 2012. These additional costs were deferred as part of the Illawarra Series 2011-1 CMBS Trust (\$18,000) and the proposed share buy-back (\$123,250).

** Included within profit from equity accounted investments is the Group's share of audit and other advisory services of \$17,200 and \$3,200 provided by KPMG.



	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
4 TAXATION				
a) Income tax expense				
Current tax expense				
- current year	12,514	13,705	12,779	14,340
- adjustment for prior years	117	416	117	5
	12,631	14,121	12,896	14,345
Deferred tax expense				
- origination and reversal of temporary differences	96	(1,125)	(269)	(1,013)
Total income tax expense	12,727	12,996	12,627	13,332
Reconciliation between income tax expense and profit before tax				
Profit before tax	42,875	44,014	41,141	44,126
Prima facie income tax expense at 30% on operating profit	12,862	13,204	12,342	13,238
Increase in income tax expense due to:				
- income tax under provided for in prior year	117	-	117	-
- other non deductible expenses	107	-	107	-
- depreciation of buildings	44	44	44	44
- non deductible entertainment	35	46	35	46
- other	11	8	11	8
Decrease in income tax expense due to:				
- income tax over provided for in prior year	-	(2)	-	(2)
- other deductible expenses	(29)	-	(29)	-
- other	(420)	(304)	-	(2)
Income tax expense	12,727	12,996	12,627	13,332
Income tax recognised directly in equity				
Relating to equity investments	-	(280)	-	(280)
Relating to available for sale investments	512	(203)	512	(203)
Relating to cashflow hedges	5	358	5	358
	517	(125)	517	(125)

b) Current tax liabilities

The current tax liability for the Group of \$1,762,000 (2011: \$2,512,000) and for the Company of \$1,171,000 (2011: \$2,512,000) represents the amount of income taxes payable in respect of current and prior financial years due to the relevant tax authority. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
4 TAXATION (CONT.)				
Deferred tax (liabilities)/assets				
Deferred tax liabilities and assets are attributable to the following:				
Deferred expenditure	(441)	(248)	(441)	(248)
Deferred lending fees	(385)	(569)	(385)	(569)
Available for sale investments	(537)	305	(537)	305
Total deferred tax liabilities	(1,363)	(512)	(1,363)	(512)
Provisions and accrued expenses	3,010	2,528	3,239	2,528
Employee benefits	2,128	2,118	2,128	2,118
Unearned income	442	581	442	581
Derivative liabilities	94	99	94	99
Freehold land held for development	42	158	-	-
Consulting and legal fees	41	74	31	66
Property, plant and equipment	3	(62)	3	(62)
Other	1	5	1	5
Total deferred tax assets	5,761	5,501	5,938	5,335
Net deferred tax assets	4,398	4,989	4,575	4,823

	Cents per share	Total amount \$000	% Franked	Date of payment
5 DIVIDENDS				
Dividends recognised in current year by the Company are:				
2012				
2012 interim dividend	10.0	3,991	100%	28-Feb-12
2011 final dividend	15.0	5,987	100%	08-Sep-11
		9,978		
2011				
2011 interim dividend	10.0	3,990	100%	27-Feb-11
2010 final dividend	19.0	7,584	100%	03-Sep-10
		11,574		

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

Subsequent events

On 31 July 2012 the Board declared a final ordinary dividend of 15.0 cents per share amounting to \$5,987,000 franked at 100% at a tax rate of 30%, in respect of the year ended 30 June 2012. The dividend is payable on 7 September 2012. The financial effect of the dividend has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial statements. The declaration and subsequent payment of dividends has no income tax consequences.



	Company	
	2012	2011
	\$000	\$000
5 DIVIDENDS (CONT.)		
Dividend franking account		
30% franking credits available to members of the Company for dividends in subsequent financial years	81,700	72,750

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;

(b) franking debits that will arise from the payment of dividends recognised as a liability at year end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at year end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to use the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$nil (2011: \$nil) of franking credits.

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
6 AVAILABLE FOR SALE INVESTMENTS				
Available for sale investments *				
- government and semi-government securities	-	103,979	-	103,979
- certificates of deposit issued by banks	79,851	24,852	79,851	24,852
- floating rate notes	437,778	400,302	437,778	408,829
Total investments	517,629	529,133	517,629	537,660

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

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

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
7 LOANS AND RECEIVABLES TO ADI'S				
Loans to Authorised Deposit-taking Institutions (ADI's)	383,932	447,439	383,932	447,439
Total loans and receivables to ADI's	383,932	447,439	383,932	447,439
LOANS BY MATURITY				
- up to three months	347,396	426,362	347,396	426,362
- from three to six months	10,126	20,065	10,126	20,065
- from six to nine months	20,352	1,012	20,352	1,012
- from nine to twelve months	5,047	-	5,047	-
- from one to five years	1,011	-	1,011	-
Total loans and receivables to ADI's	383,932	447,439	383,932	447,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

		Consolidated		Company	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
8 LOANS AND RECEIVABLES TO MEMBERS					
Loans to					
- members *		3,787,354	3,766,524	3,787,299	3,766,524
- consolidated entities, key management personnel and related entities	30,31	825	2,973	15,087	14,059
Provision for impairment	10	(6,821)	(5,994)	(8,265)	(5,994)
Total loans net of provision for impairment		3,781,358	3,763,503	3,794,121	3,774,589
LOANS BY MATURITY					
Loans maturing					
- revolving credit		3,067	6,021	16,679	17,107
- up to three months		21,539	16,911	21,482	16,911
- from three to six months		21,860	17,378	21,860	17,378
- from six to nine months		22,794	18,240	22,794	18,240
- from nine to twelve months		23,106	18,358	23,106	18,358
- from one to five years		368,263	291,472	368,915	291,472
- over five years		3,327,550	3,401,117	3,327,550	3,401,117
Provision for impairment	10	(6,821)	(5,994)	(8,265)	(5,994)
Total loans net of provision for impairment		3,781,358	3,763,503	3,794,121	3,774,589

* Includes \$713,994,000 of securitised residential loans and \$256,162,000 of securitised commercial loans (2011: \$894,413,000 of securitised residential loans and \$114,809,000 of securitised commercial loans).

		Consolidated		Company	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
9 OTHER FINANCIAL ASSETS					
Other equity investments – at cost *		505	505	505	2,333
Investments in controlled entities		-	-	5,065	361
Total other financial assets		505	505	5,570	2,694

* 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.



	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
10 PROVISION FOR IMPAIRMENT OF LOANS AND RECEIVABLES TO MEMBERS				
Specific provision				
Opening balance	2,208	1,003	2,208	1,003
Additions to specific provision	1,465	2,313	2,909	2,313
Loans written off, previously provided for	(214)	(888)	(214)	(888)
Reversal of provision	(424)	(220)	(424)	(220)
Closing balance	3,035	2,208	4,479	2,208
Collective provision				
Opening balance	3,786	3,882	3,786	3,882
Additions to collective provision	480	331	480	331
Loans written off	-	(366)	-	(366)
Reversal of provision	(480)	(61)	(480)	(61)
Closing balance *	3,786	3,786	3,786	3,786
Total provision for impairment	6,821	5,994	8,265	5,994
Impairment of loans and receivables to members				
Movement in specific provision	827	1,205	2,271	1,205
Movement in collective provision	-	(96)	-	(96)
Impairment losses written off directly	911	1,437	911	1,437
	1,738	2,546	3,182	2,546

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

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

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
11 NON-CURRENT ASSETS HELD FOR SALE				
Assets classified as held for sale				
Freehold land	1,765	2,103	-	-

Inventory related to land held by IMB Land Pty Ltd is presented as an asset held for sale following the commitment of the Group's management to sell the land. Efforts to sell the land have commenced, and a sale is expected to be realised within twelve months.

An impairment loss of \$1,014,000 (2011: \$800,000) is included in the land development expense in the income statement.

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
12 DERIVATIVE LIABILITIES				
Interest rate swaps at fair value	312	329	312	329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
13 INVENTORIES				
Freehold land held for development and sale				
- acquisition costs	4,465	4,465	-	-
- development costs capitalised	4,195	1,730	-	-
- rates, taxes and interest capitalised	1,165	676	-	-
Total inventories	9,825	6,871	-	-
	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
14 PROPERTY, PLANT AND EQUIPMENT				
<i>Freehold land</i>				
- at cost	3,165	3,165	3,165	3,165
<i>Freehold buildings</i>				
- at cost	5,892	5,892	5,892	5,892
- accumulated depreciation	(1,915)	(1,768)	(1,915)	(1,768)
	3,977	4,124	3,977	4,124
Total land and buildings	7,142	7,289	7,142	7,289
<i>Plant and equipment</i>				
- at cost	30,600	32,333	30,599	32,333
- accumulated depreciation	(25,808)	(26,172)	(25,808)	(26,172)
Total plant and equipment	4,792	6,161	4,791	6,161
Work in progress – at cost	564	633	564	633
Total property, plant and equipment – at cost	40,221	42,023	40,220	42,023
Total accumulated depreciation	(27,723)	(27,940)	(27,723)	(27,940)
Total property, plant and equipment – carrying amount	12,498	14,083	12,497	14,083
Reconciliations				
Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:				
<i>Freehold land</i>				
Carrying amount at the beginning and end of the year	3,165	3,165	3,165	3,165
<i>Buildings</i>				
Carrying amount at the beginning of the year	4,124	4,272	4,124	4,272
Depreciation	(147)	(148)	(147)	(148)
Carrying amount at the end of the year	3,977	4,124	3,977	4,124
<i>Plant and equipment</i>				
Carrying amount at the beginning of the year	6,161	5,826	6,161	5,826
Additions	276	1,372	275	1,372
Transfers from work in progress	741	1,661	741	1,661
Disposals	(260)	(324)	(260)	(324)
Depreciation	(2,126)	(2,374)	(2,126)	(2,374)
Carrying amount at the end of the year	4,792	6,161	4,791	6,161
<i>Work in progress</i>				
Carrying amount at the beginning of the year	633	502	633	502
Additions	672	1,792	672	1,792
Transfers to plant and equipment	(741)	(1,661)	(741)	(1,661)
Carrying amount at the end of the year	564	633	564	633



	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
15 INTANGIBLE ASSETS				
<i>Intangible computer software</i>				
- at cost	8,076	7,337	8,076	7,337
- accumulated amortisation	(7,451)	(7,128)	(7,451)	(7,128)
Total Intangible computer software	625	209	625	209
Reconciliation				
<i>Intangible computer software</i>				
Carrying amount at the beginning of the year	209	372	209	372
Additions	740	27	740	27
Amortisation	(324)	(190)	(324)	(190)
Carrying amount at the end of the year	625	209	625	209

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
16 OTHER ASSETS				
Sundry debtors	15,035	6,226	19,189	11,197

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
17 TRADE AND OTHER PAYABLES				
Trade creditors	16,407	12,053	16,224	12,011
Distributions payable by SPEs	27,579	17,253	-	-
Fees payable by SPEs	256	277	-	-
Total trade and other payables	44,242	29,583	16,224	12,011

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
18 DEPOSITS				
Retail deposits	2,758,759	2,644,844	2,764,715	2,647,391
Middle markets	652,308	844,290	652,308	844,290
Accrued interest	32,873	37,772	32,873	37,772
Total deposits	3,443,940	3,526,906	3,449,896	3,529,453
CONCENTRATION OF DEPOSITS				
New South Wales	3,014,718	3,045,562	3,020,674	3,048,109
Australian Capital Territory	162,070	192,490	162,070	192,490
Queensland	32,105	68,641	32,105	68,641
South Australia	14,218	25,659	14,218	25,659
Victoria	148,739	144,392	148,739	144,392
Western Australia	5,485	12,469	5,485	12,469
Tasmania	28,286	28,334	28,286	28,334
Northern Territory	38,319	9,359	38,319	9,359
Total deposits	3,443,940	3,526,906	3,449,896	3,529,453

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

	Consolidated		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
19 SECURITISED LOANS FUNDING				
Notes payable	968,609	999,733	-	-
Loans from securitisation trusts	-	-	968,609	1,008,259
Total securitised loans funding	968,609	999,733	968,609	1,008,259

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



		Consolidated		Company	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
20 INTEREST BEARING LIABILITIES					
Subordinated floating rate notes	1s				
- Series 2002-1		-	10,000	-	10,000
- Series 1		14,960	-	14,960	-
- Series 2		29,961	-	29,961	-
Total interest bearing liabilities		44,921	10,000	44,921	10,000

Subordinated Floating Rate Notes Series 2002-1 was redeemed on 27 September 2011. Series 1 was issued for a ten year period maturing 2021 with an option to redeem at par after five years, subject to Australian Prudential Regulation Authority ("APRA") approval. Interest is paid quarterly in arrears based on the 90 day Bank Bill Rate plus a margin of 400 basis points (2011: nil basis points). Series 2 was issued for a ten year period maturing 2022 with an option to redeem at par after five years subject to APRA approval. Interest is paid quarterly in arrears based on the 90 day Bank Bill Rate plus a margin of 425 basis points (2011: nil).

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.

		Consolidated		Company	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
21 PROVISIONS					
<i>Make good provision</i>					
Balance at the beginning of the year		515	515	515	515
Provisions used during the year		-	-	-	-
Balance at the end of the year		515	515	515	515
<i>Employee benefits</i>					
Balance at the beginning of the year		7,061	6,308	7,061	6,308
Provisions made during the year		3,393	3,304	3,280	3,304
Provisions used during the year		(3,324)	(2,551)	(3,248)	(2,551)
Balance at the end of the year	23	7,130	7,061	7,093	7,061
Total provisions		7,645	7,576	7,608	7,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
22 SHARE CAPITAL AND RESERVES				
Share capital				
39,911,640 (2011: 39,911,640) ordinary shares, fully paid	46,936	46,936	46,936	46,936

The Company does not have authorised capital or par value in respect of its issued shares. Under the constitution of the Company, no person may hold an entitlement in ordinary shares of more than five percent (5%) of the nominal value of all shares of that class. The Company has Members by way of guarantee and Shareholders Members by way of both shares and guarantee. Subject to basic voting qualifications, a Member of the Company is entitled to one vote only, irrespective of the number of shares or the number or amounts of deposits held. The holders of ordinary shares are entitled to receive dividends as declared from time to time. In assessing the dividend to be paid, the Board has regard to the Company's status as a mutual entity. All Members have an interest in the assets and earnings of the Company.

Available for sale investments revaluation reserve

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

Cashflow hedging reserve

The cashflow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow hedging instruments, net of applicable income tax.

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 until the investment is derecognised or impaired, net of applicable income tax.

General reserve for credit losses

The general reserve for credit losses contains an additional allowance for impairment losses, above that calculated in accordance with note 1i. The general reserve for credit losses together with the amounts calculated in accordance with note 1i must be adequate to comply with prudential requirements.

General reserve

The general reserve includes retained profits from prior years.



	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
23 EMPLOYEE BENEFITS				
<i>Current</i>				
Liability for annual leave	2,882	2,618	2,854	2,618
Liability for banked time	3	2	3	2
Liability for long service leave	2,367	2,720	2,367	2,720
	5,252	5,340	5,224	5,340
<i>Non Current</i>				
Present value of defined benefit fund obligations	6,583	5,435	6,583	5,435
Fair value of defined benefit fund assets	(4,697)	(4,323)	(4,697)	(4,323)
Present value of net obligations	1,886	1,112	1,886	1,112
Unrecognised actuarial losses	(1,177)	(351)	(1,177)	(351)
Recognised liability for defined benefit obligations	709	761	709	761
Liability for long-service leave	1,130	856	1,121	856
Liability for directors' retirement benefits	39	104	39	104
	1,878	1,721	1,869	1,721
Total employee benefits	7,130	7,061	7,093	7,061

Directors' Retirement Benefits

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

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

Liability for the IMB Staff Defined Benefit Superannuation Plan Obligations

The Company makes contributions in respect of each plan member based on a fixed percentage of the member's salary. Each member is also required to contribute 5 percent of their salary during each financial year. The plan provides defined benefits on retirement based on years of service and the final average salary. In accordance with Superannuation Industry (Supervision) Regulations – Reg 9.04D, due to the membership of the fund being less than fifty on 12 May 2004, no new members have been accepted to the plan since that date. There are currently 11 members (2011: 11) in the plan. An actuarial assessment of the plan at 30 June 2012 was carried out by Ms SA Sweeney FIAA on 13 August 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
23 EMPLOYEE BENEFITS (CONT.)				
Movements in the net liability for defined benefit obligations recognised in the statement of financial position				
Net liability for defined benefit obligations at the beginning of the year	761	551	761	551
Contributions received from employer	(404)	(382)	(404)	(382)
Expenses recognised in the income statement	352	592	352	592
Net liability for defined benefit obligations at the end of the year	709	761	709	761
Movement in the present value of the defined benefit obligations are as follows:				
Defined benefit obligation at the beginning of the year	5,435	6,189	5,435	6,189
Service cost	355	503	355	503
Interest cost	300	329	300	329
Actuarial losses/(gains)	499	(366)	499	(366)
Contributions by employees	106	150	106	150
Benefits paid	-	(1,241)	-	(1,241)
Other	(112)	(129)	(112)	(129)
Defined benefit obligation at the end of the year	6,583	5,435	6,583	5,435
Movement in the present value of fund assets are as follows:				
Fair value of fund assets at the beginning of the year	4,323	4,922	4,323	4,922
Actual return	(24)	239	(24)	239
Contributions by employer	404	382	404	382
Contributions by employees	106	150	106	150
Benefits paid	-	(1,241)	-	(1,241)
Other	(112)	(129)	(112)	(129)
Fund assets at the end of the year	4,697	4,323	4,697	4,323
The major categories of fund assets as a percentage of total fund assets are as follows:	%	%	%	%
Australian shares	30	30	30	30
International shares	30	30	30	30
Property/alternate investments	15	15	15	15
Fixed interest	20	20	20	20
Cash	5	5	5	5
Total	100	100	100	100

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



	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
23 EMPLOYEE BENEFITS (CONT.)				
Expenses recognised in the profit or loss				
Current service costs	355	503	355	503
Interest on obligation	300	329	300	329
Expected return on fund assets	(303)	(328)	(303)	(328)
Actuarial losses	-	8	-	8
Settlement losses	-	80	-	80
Total	352	592	352	592

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

The actual return on fund assets was a \$24,000 loss (2011: \$239,000 gain).

	Consolidated		Company	
	2012	2011	2012	2011
	%	%	%	%
Actuarial assumptions				
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:				
Discount rate at 30 June	4.1	5.3	4.1	5.3
Expected return on fund assets at 30 June	5.6	6.5	5.6	6.5
Future salary increases	4.0	5.0	4.0	5.0

The overall expected long-term rate of return on assets is 5.6%. 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.

	2012	2011	2010	2009	2008
	\$000	\$000	\$000	\$000	\$000
Historic information					
Amounts for the current and previous annual years relating to both the Company and Group are as follows:					
Present value of defined benefit obligation	6,583	5,435	6,189	5,107	4,635
Fair value of fund assets	(4,697)	(4,323)	(4,922)	(4,012)	(4,743)
Deficit/(Surplus) in the plan	1,886	1,112	1,267	1,095	(108)
Experience adjustments (gain)/loss arising on plan liabilities	304	(246)	(77)	(235)	137
Experience adjustments (gain)/loss arising on plan assets	327	89	(171)	1,003	810

The Company expects \$393,000 in contributions to be paid to the funded defined benefit plan during the year ended 30 June 2013.

Defined contribution superannuation funds

The Company makes contributions to defined contribution superannuation funds. The amount recognised as expense was \$2,347,000 for the financial year (2011: \$2,319,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
24 CAPITAL AND OTHER COMMITMENTS				
Loan commitments approved but not advanced				
- not later than one year	272,369	283,405	272,369	283,405
- later than one year	8,003	10,527	8,003	10,527
Total	280,372	293,932	280,372	293,932
Capital expenditure commitments not taken up in the financial statements				
- not later than one year	121	32	121	32
Non cancellable operating lease rentals payable				
- not later than one year	5,423	5,049	5,423	5,049
- later than one year but not later than five years	8,997	9,254	8,997	9,254
- later than five years	-	84	-	84
Total	14,420	14,387	14,420	14,387

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

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
25 FINANCING ARRANGEMENTS				
Bank overdraft available	2,500	2,500	2,500	2,500
Bank overdraft utilised	-	(56)	-	(56)
Facilities not utilised	2,500	2,444	2,500	2,444

The overdraft facility when drawn is secured by a charge over mortgage loans made by the Company to members. This facility is subject to annual review. The facility is subject to an annual interest rate of 9.86% (2011: 10.96%).

26 CONTINGENT LIABILITIES

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities considered remote

Guarantees given by IMB Ltd

Business Banking clients

Contingent liabilities include guarantees of \$3,152,000 (2011: \$3,020,000) 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.



		Ownership interest	
27 CONSOLIDATED ENTITIES		2012	2011
	Principal Activity	%	%
Parent entity			
IMB Ltd			
Subsidiaries			
IMB Funeral Fund Management Pty Ltd	Trustee	100.0	100.0
IMB Land Pty Ltd	Land development	100.0	100.0
IMB Land No. 2 Pty Ltd	Land development	100.0	100.0
IMB Community Foundation Pty Ltd	Dormant	100.0	100.0
IMB Securitisation Services Pty Limited	Securitisation trust management	100.0	100.0
IMB Financial Planning Limited	Financial Planning	100.0	50.0
Securitisation SPEs *			
Illawarra Warehouse Trust No. 1	Securitisation trust		
Illawarra Warehouse Trust No. 2	Securitisation trust		
Illawarra Series 2003-1 Trust	Securitisation trust		
Illawarra Series 2004-1 RMBS Trust	Securitisation trust		
Illawarra Series 2005-1 RMBS Trust	Securitisation trust		
Illawarra Series 2006-1 RMBS Trust	Securitisation trust		
Illawarra Series 2007-1 CMBS Trust	Securitisation trust		
Illawarra Series 2010-1 RMBS Trust	Securitisation trust		
Illawarra Series 2011-1 CMBS Trust	Securitisation trust		

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

All entities are incorporated in Australia.

Change in the composition of the consolidated entity

On 24 August 2011 a subsidiary Company, IMB Securitisation Services Pty Limited, established the Illawarra Series 2011-1 CMBS Trust and paid an amount of \$300 to constitute the trust. The purpose of establishing this entity was to allow the securitisation of commercial mortgage loans. In August 2011 the entity issued \$202,560,000 in notes.

Acquisition of Subsidiary

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

Taking control of IMB Financial Planning Limited will provide the Group with greater flexibility in relation to its future business strategies.

In the two days to 30 June 2012 IMB Financial Planning Limited contributed profit of \$nil to the Group's result. If the acquisition had occurred on 1 July 2011, management estimates that IMB Financial Planning Limited would have contributed revenue of \$910,920 and profit of \$36,920 to the Group's results.

In accordance with the terms of the Sale Agreement, the Group paid cash consideration of \$3,233,994 to the selling shareholder for the business combination. There was no other consideration transferred in relation to the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

27 CONSOLIDATED ENTITIES (CONT.)

\$000

The recognised amount of assets acquired and liabilities assumed at the acquisition date were:

Cash and cash equivalents	3,928
Loan to associate	3,234
Other assets	208
Provision for tax	(591)
Other payables	(151)
Total net identifiable assets	6,628

The recognised amount of other assets is considered representative of fair value.

Other assets comprise gross contractual amounts due of \$95,621, of which nil was expected to be uncollectible at the acquisition date.

Discount on acquisition was recognised as follows:

\$000

Total consideration paid	3,234
Fair value of pre-existing interest in IMB Financial Planning Limited	3,314
Fair value of identifiable assets	(6,628)
Discount on acquisition	(80)

The discount on acquisition of IMB Financial Planning Limited of \$80,000 has been recognised in Other Income in the Income Statement.

The discount is attributable to the potential additional costs involved in sourcing replacement services provided at cost by the previous joint venture partner.

The remeasurement to fair value of the Group's existing 50 per cent interest in IMB Financial Planning Limited resulted in a gain of \$34,658 which has been recognised in Other Income in the Income Statement.



		Joint venture reporting date		Percentage interest	
	Nature of activities	2012 \$000	2011 \$000	2012 \$000	2011 \$000
28 EQUITY ACCOUNTED INVESTMENTS					
Details of the interest in an incorporated joint venture is as follows:					
Name					
IMB Financial Planning Limited	Financial planning	30 June	30 June	100.0	50.0
Country of incorporation					
Australia					
		Consolidated share			
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
<i>Results of incorporated joint venture</i>					
The joint venture entity's result consists of:					
Operating revenue		2,899	3,154	1,449	1,577
Gain on sale of subsidiary		2,107	-	1,054	-
Expenses*		(2,354)	(2,382)	(1,177)	(1,191)
Profit before income tax expense		2,652	772	1,326	386
Income tax expense*		(796)	(208)	(398)	(104)
Net profit accounted for using the equity method		1,856	564	928	282
Balance sheet					
The joint venture entity's assets and liabilities consists of:					
Current assets		-	3,460	-	1,730
Non-current assets		-	3,710	-	1,855
Total assets		-	7,170	-	3,585
Current liabilities		-	866	-	433
Non-current liabilities		-	1,290	-	645
Total liabilities		-	2,156	-	1,078
Net assets accounted for using the equity method		-	5,014	-	2,507
<i>Share of post-acquisition retained profits attributable to joint venture entity</i>					
Share of joint venture entity's retained profits at the beginning of the year		571	289		
Share of joint venture entity's net profit		928	282		
Share of joint venture entity's retained profits at the end of the year		1,499	571		
<i>Movement in carrying amount of investment in incorporated joint venture entity</i>					
Carrying amount at the beginning of the year		2,352	2,070		
Share of joint venture entity's net profit		928	282		
Disposal of equity share in joint venture		(3,280)	-		
Carrying amount at the end of the year		-	2,352		
<i>Share of non-capital commitments attributable to joint venture entity</i>					
Non-cancellable operating leases					
Payable not later than 1 year		-	10		
Share of joint venture entity's non-capital operating leases		-	10		

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
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:				
Cash controlled by the Group	11,922	15,790	11,920	15,786
Cash controlled by SPEs	32,924	23,044	-	-
Total	44,846	38,834	11,920	15,786

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

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year attributable to members of the Company	30,148	31,018	28,514	30,794
Net (gain) on sale of property, plant and equipment	(36)	(23)	(36)	(23)
Impairment of loans and receivables to members	1,738	2,546	3,182	2,546
Impairment of non-current assets held for sale	1,014	800	-	-
Impairment of other financial assets	-	-	358	393
Impairment of available for sale assets	251	1,100	251	1,100
Depreciation of property, plant and equipment, and amortisation of intangibles	2,597	2,712	2,597	2,712
Operating profit before changes in assets and liabilities	35,712	38,153	34,866	37,522
Changes in assets and liabilities:				
Decrease in accrued interest on investments	867	676	866	674
(Increase) in loans and receivables	(19,593)	(189,485)	(22,714)	(190,839)
(Increase) in inventories	(3,968)	(2,163)	-	-
Decrease in non-current assets held for sale	338	397	-	-
(Increase)/Decrease in sundry debtors	(8,809)	1,321	(7,992)	2,319
Decrease/(Increase) in net deferred tax asset	591	(1,109)	248	(1,139)
(Decrease)/Increase in accrued interest on members' deposits	(4,899)	4,381	(4,899)	4,381
Increase/(Decrease) in trade and other payables	14,659	(433)	4,213	(275)
(Decrease)/Increase in deposits	(78,067)	159,999	(74,658)	159,728
Increase in provision for employee benefits	69	753	32	753
(Decrease) in provision for income tax	(750)	(1,252)	(1,341)	(1,252)
Net cash flows from operating activities	(63,850)	11,238	(71,379)	11,872

CASH FLOWS PRESENTED ON A NET BASIS

Cash flows arising from loan advances and repayments, member deposits and withdrawals and from sales and purchases of investment securities have been presented on a net basis in the statements of cash flows.

30 RELATED PARTY DISCLOSURES

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

Directors

Mr MJ Cole (Chairman)
 Mr LP Nicholas (Deputy Chairman)
 Mr KR Biddle
 Mr NH Cornish
 Mr RHP Elvy
 Ms LT Gearing (retired 30 June 2012)
 Ms ME Towers
 Mr JR Coleman (appointed 1 July 2012)

Executives

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

	Consolidated		Company	
	2012	2011	2012	2011
The key management personnel compensation included in "personnel expense" (see note 3) is as follows:				
Short-term employee benefits	2,177,847	2,146,288	2,177,847	2,146,288
Post employment benefits	256,813	268,993	256,813	268,993
Other long-term benefits	50,126	30,265	50,126	30,265
Total	2,484,786	2,445,546	2,484,786	2,445,546

The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the Company in relation to their services rendered to the Group.

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report. Apart from the details disclosed in this note, no director has entered into a material contract with the Group or the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties

		Opening balance \$	Closing balance \$	Write downs \$	Interest and fees paid in the reporting year \$	Highest balance in year \$
Mr KR Biddle	2012	168,913	168,796	-	11,346	168,946
	2011	168,872	168,913	-	11,644	168,946
Mr NH Cornish	2012	2,503,897	92,971	-	75,367	2,503,897
	2011	-	2,503,897	-	34,489	2,508,112
Mr M Brannon	2012	194,216	110,656	-	9,218	202,974
	2011	271,524	194,216	-	14,824	276,276
Mr CA Rumble	2012	-	448,427	-	751	448,427
	2011	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

30 RELATED PARTY DISCLOSURES (CONT.)

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel and their related parties, and the number of individuals in each group, are as follows:

	Opening balance \$	Closing balance \$	Interest and fees paid in the reporting year \$	Number in group at 30 June
Total for key management personnel and their related parties 2012	2,867,026	820,850	96,682	4
Total for key management personnel and their related parties 2011	440,396	2,867,026	60,957	3

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

Key management personnel holdings of shares and deposits

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

		Opening balance	Purchases	Sales	Closing balance
Directors					
Mr MJ Cole	2012	59,895	-	-	59,895
- related party	2011	59,895	-	-	59,895
Mr KR Biddle	2012	5,325	-	-	5,325
	2011	5,325	-	-	5,325
- related party	2012	17,878	-	-	17,878
	2011	23,056	-	5,178	17,878
Mr RHP Elvy	2012	5,454	-	-	5,454
	2011	5,454	-	-	5,454
Ms LT Gearing*	2012	4,000	-	-	4,000
	2011	4,000	-	-	4,000
Mr NH Cornish	2012	2,000	-	-	2,000
	2011	1,000	1,000	-	2,000
Mr LP Nicholas	2012	2,000	-	-	2,000
	2011	2,000	-	-	2,000
- related party	2012	43,890	-	-	43,890
	2011	43,890	-	-	43,890
Ms ME Towers	2012	-	2,000	-	2,000
- related party	2011	-	-	-	-
Executives					
Mr RJ Ryan	2012	4,000	-	-	4,000
	2011	4,000	-	-	4,000
Mr CA Rumble	2012	100	-	-	100
	2011	100	-	-	100
Mr M Brannon	2012	4,954	-	-	4,954
	2011	4,954	-	-	4,954

No shares were granted to key management personnel during the reporting year as compensation in 2012 or 2011.

* Represents shareholdings at the time of retirement.



30 RELATED PARTY DISCLOSURES (CONT.)

The Company has also received deposits from key management personnel and their related entities. These amounts were received on the same terms and conditions as are applicable to members generally.

Key management personnel transactions with the Company or its controlled entities

A number of directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Three of these entities transacted with the Company or its controlled entities in the reporting year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis. Details of the transactions are as follows:

Mr KR Biddle is a principal solicitor at Hansons Lawyers, which has, at times, provided legal services to IMB Land Pty Ltd, a controlled entity. Fees paid during the year were \$8,097 (2011: \$358).

Mr LP Nicholas is the chairman, and Mr RJ Ryan a director, of The Flagstaff Group Limited (a not for profit organisation providing employment for people with disabilities), which has provided services to the Company throughout the year under normal commercial terms. Purchases during the year under this arrangement were \$68,572 (2011: \$60,997).

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

31 OTHER RELATED PARTY DISCLOSURES

Subsidiaries

Due to the Company and its wholly owned subsidiaries forming a tax consolidated group, the liability for payments of income tax for all members of the tax consolidated group are the liability of the Company. However, the tax consolidated group has entered into a tax funding agreement as described in note 1k. The aggregate amount provided by the Company to subsidiaries under the agreement is:

	2012 \$000	2011 \$000
IMB Land Pty Ltd	(412)	(307)
IMB Land No. 2 Pty Ltd	(490)	(296)
IMB Securitisation Services Pty Ltd	115	76
	(787)	(527)

IMB Land Pty Ltd

IMB Land Pty Ltd, a controlled entity has deposits with the Company amounting to \$321,000 (2011: \$1,041,000). 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 \$7,699,000 at 30 June 2012 (2011: \$7,744,000). The Group share of these loans is 50%. During the year there were repayments of \$621,000 (2011: \$538,000) and advances of \$nil (2011: \$9,000). Aggregate interest of \$576,000 (2011: \$607,000) was charged during the year. A provision for doubtful debts of \$3,208,000 at 30 June 2012 (2011: \$1,402,000) has been recognised in relation to the loans with a bad debt expense of \$1,806,000 (2011: \$1,402,000) recognised in the Income Statement.

IMB Land No. 2 Pty Ltd

IMB Land No. 2 Pty Ltd, a controlled entity has deposits with the Company amounting to \$169,000 (2011: \$44,000). 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 \$13,942,000 at 30 June 2012 (2011: \$10,305,000). The Group share of these loans is 70%. During the year there were repayments of \$nil (2011: \$nil) and advances of \$2,710,000 (2011: \$1,167,000). Aggregate interest of \$927,000 (2011: \$712,000) was charged during the year. The Company has advanced an additional \$654,000 (2011: nil) to IMB Land No. 2 Pty Ltd as an unsecured loan. There was no interest charged on the loan which will be repaid as lots are sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

31 OTHER RELATED PARTY DISCLOSURES (CONT.)

IMB Financial Planning Limited

IMB Financial Planning Limited has related party transactions with the Company. Deposits with the Company by IMB Financial Planning Limited amount to \$3,891,000 (2011: \$2,797,000). These amounts are received on normal commercial terms and conditions.

The Company also has borrowings from IMB Financial Planning Limited associated with the remaining equity purchase on 29 June 2012 of \$3,234,000 (2011: \$nil).

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 (2011: \$14,000). The Company also provides premises for IMB Financial Planning Limited. The Company has received \$30,000 (2011: \$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 (2011: \$15,000) to IMB Financial Planning Limited during the year.

As at the reporting date a net receivable of \$62,000 (2011: \$47,000) 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 Securitisation Trusts as part of its normal investment activities. At 30 June 2012, the Company held \$nil (2011: \$8,500,000) in the Illawarra Series 2010-1 RMBS Trust.

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

	2012 \$000	2011 \$000
Proceeds from securitisation of loans	202,560	132,000
Servicing fees received	2,610	2,628
Management fees received	313	315
Excess income received	8,241	7,013
Other	239	240

32 SEGMENT REPORTING

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

33 AVERAGE BALANCE SHEET AND RELATED INTEREST

Consolidated						
	2012			2011		
	Average balance \$000	Interest \$000	Average rate %	Average balance \$000	Interest \$000	Average rate %
INTEREST BEARING ASSETS						
Loans and receivables to members	3,767,210	264,192	7.01	3,666,170	262,044	7.15
Loans and receivables to ADI's	482,375	27,738	5.75	476,115	29,601	6.22
Available for sale investments	523,574	30,665	5.81	581,831	33,419	5.74
Total interest bearing assets	4,773,159	322,595		4,724,116	325,064	
Impairment losses	-	(1,989)	-	-	(3,646)	-
NON INTEREST BEARING ASSETS						
Inventories	10,875	-	-	8,356	-	-
Property, plant and equipment	13,511	-	-	14,048	-	-
Other assets	52,757	-	-	33,938	-	-
Total non interest bearing assets	77,143	-	-	56,342	-	-
Total assets	4,850,302	320,606	-	4,780,458	321,418	-
INTEREST BEARING LIABILITIES						
Deposits	3,476,337	167,198	4.81	3,476,470	171,151	4.92
Notes payable	1,058,358	59,008	5.58	1,018,628	56,697	5.57
Subordinated floating rate notes	29,936	1,216	4.06	10,000	737	7.37
Total interest bearing liabilities	4,564,631	227,422		4,505,098	228,585	
NON INTEREST BEARING LIABILITIES						
Other liabilities	47,614	-	-	45,095	-	-
Total liabilities	4,612,245	227,422	-	4,550,193	228,585	-
Net assets	238,057	-	-	230,265	-	-
Net interest income after impairment losses	-	93,184	-	-	92,833	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

Credit Risk
Liquidity Risk
Market Risk
Operational Risk

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

Risk management framework

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established the Audit and Risk Management Committee which is responsible for developing and monitoring Group risk management policies. The Audit and Risk Management Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company and Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and Risk Management Committee is responsible for monitoring compliance with the Company and Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company and Group. The Audit and Risk Management Committee is assisted in its oversight of these functions by a centralised risk management function and an independent internal audit department. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

In addition to the Audit and Risk Management Committee, the Group has a number of senior management committees where specific risk management information is overseen. These include the Risk Management Committee which oversees the risk management framework, the Assets and Liabilities Committee which is responsible for managing liquidity and market risk, and the Credit Committee which is responsible for credit approvals which fall outside individual delegated authorities.

Credit Risk

Credit risk is the risk of financial loss to the Group if a member or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to members, other authorised deposit-taking institutions and available for sale investments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).

Management of credit risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's credit risk policies. The board has delegated responsibility for the management of credit risk to the IMB Executive. A separate Origination Services Department and Lending Services Department reporting to the IMB Executive, are responsible for the implementation of the Group's credit risk policies, including:

- Drafting credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. Formal approval of Credit Policy is retained by the Board.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Delegated Lending Authority limits are allocated to Credit Officers. Transactions outside delegated lending authority limits and exceptions require approval by the Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Origination Services assesses all credit exposures prior to facilities being committed to members. Any facilities in excess of designated limits are escalated through to the appropriate approval level. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposures to certain board approved asset classes.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

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



34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

Exposure to credit risk

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

Consolidated									
		Loans & receivables to Members		Loans & receivables to ADI's		Available for sale investments		Cash and cash equivalents	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Carrying Amount	6,7,8,29	3,781,358	3,763,503	383,932	447,439	517,629	529,133	44,846	38,834
<i>Individually impaired</i>									
Gross amount		9,769	8,214	-	-	-	-	-	-
Provision for impairment		(3,035)	(2,208)	-	-	-	-	-	-
Carrying amount		6,734	6,006	-	-	-	-	-	-
<i>Past due but not impaired</i>									
Days in arrears:									
Less than one month		100,284	88,538	-	-	-	-	-	-
Greater than one month and less than two months		8,132	12,254	-	-	-	-	-	-
Greater than two months and less than three months		4,195	4,092	-	-	-	-	-	-
Greater than three months		5,266	1,799	-	-	-	-	-	-
Carrying amount		117,877	106,683	-	-	-	-	-	-
<i>Neither past due nor impaired</i>									
Secured by mortgage		3,592,533	3,582,220	-	-	-	-	-	-
Government securities		-	-	-	-	-	103,979	-	-
Investment grade		-	-	249,758	235,679	517,629	425,154	44,846	38,834
Unrated		-	-	128,526	205,279	-	-	-	-
Other		68,188	72,419	5,648	6,481	-	-	-	-
Net deferred income & expense		(188)	(39)	-	-	-	-	-	-
Carrying amount		3,660,533	3,654,600	383,932	447,439	517,629	529,133	44,846	38,834
Collective impairment provision	10	(3,786)	(3,786)	-	-	-	-	-	-
Total carrying amount	6,7,8,29	3,781,358	3,763,503	383,932	447,439	517,629	529,133	44,846	38,834
Includes restructured loans		20,395	17,429	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

Exposure to credit risk

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

	Note	Company							
		Loans & receivables to Members		Loans & receivables to ADI's		Available for sale investments		Cash and cash equivalents	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Carrying Amount	6,7,8,29	3,794,121	3,774,589	383,932	447,439	517,629	537,660	11,920	15,786
<i>Individually impaired</i>									
Gross amount		13,618	8,214	-	-	-	8,527	-	-
Provision for impairment		(4,479)	(2,208)	-	-	-	-	-	-
Carrying amount		9,139	6,006	-	-	-	8,527	-	-
<i>Past due but not impaired</i>									
Days in arrears:									
Less than one month		100,284	88,538	-	-	-	-	-	-
Greater than one month and less than two months		8,132	12,254	-	-	-	-	-	-
Greater than two months and less than three months		4,195	4,092	-	-	-	-	-	-
Greater than three months		5,266	1,799	-	-	-	-	-	-
Carrying amount		117,877	106,683	-	-	-	-	-	-
<i>Neither past due nor impaired</i>									
Secured by mortgage		3,602,948	3,593,306	-	-	-	-	-	-
Government securities		-	-	-	-	-	103,979	-	-
Investment grade		-	-	249,758	235,679	517,629	425,154	11,920	15,786
Unrated		-	-	128,526	205,279	-	-	-	-
Other		68,131	72,419	5,648	6,481	-	-	-	-
Net deferred income & expense		(188)	(39)	-	-	-	-	-	-
Carrying amount		3,670,891	3,665,686	383,932	447,439	517,629	529,133	11,920	15,786
Collective impairment provision	10	(3,786)	(3,786)	-	-	-	-	-	-
Total carrying amount	6,7,8,29	3,794,121	3,774,589	383,932	447,439	517,629	537,660	11,920	15,786
Includes restructured loans		20,395	17,429	-	-	-	-	-	-

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 (2011: \$nil). IMB issues guarantees to business banking clients with a maximum credit exposure of \$3,152,000 (2011:\$3,020,000). Refer Note 26 for more details.

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

Impaired loans and securities

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

Past due loans but not impaired loans

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

Restructured loans

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

Allowance for impairment

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

Write off policy

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

Collateral and other credit enhancements

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

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

	Loans and receivables to Members			
	Consolidated		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Against Individually impaired				
Property value	7,638	6,237	9,723	8,707
Against past due but not impaired				
Property value	133,252	168,224	133,252	168,224
Other	1,319	1,525	1,319	1,525
Total	142,209	175,986	144,294	178,456

Reposessed collateral

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

During the year the Company took possession of property assets with a carrying value of \$6,737,000 (2011: \$8,886,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

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

	Loans & receivables to Members		Loans & receivables to ADI's		Available for sale investments		Cash and cash equivalents	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
CONSOLIDATED								
Carrying amount	3,781,358	3,763,503	383,932	447,439	517,629	529,133	44,846	38,834
Concentration by location								
New South Wales	2,924,567	2,880,068	142,483	206,895	281,219	202,440	43,999	37,823
Australian Capital Territory	365,555	316,268	5,648	6,481	-	-	647	761
Queensland	120,154	128,373	110,654	48,459	54,911	-	-	-
Victoria	271,729	315,734	18,159	59,404	9,994	30,605	200	250
Western Australia	93,550	115,297	65,754	71,950	2,049	51,655	-	-
South Australia	11,709	11,955	18,079	33,207	14,946	4,958	-	-
Tasmania	915	1,802	23,155	21,043	-	49,238	-	-
Overseas	-	-	-	-	154,510	190,237	-	-
Provision for impairment	(6,821)	(5,994)	-	-	-	-	-	-
Total loans net of provision for impairment and deferred income and expenses	3,781,358	3,763,503	383,932	447,439	517,629	529,133	44,846	38,834
COMPANY								
Carrying amount	3,794,121	3,774,589	383,932	447,439	517,629	537,660	11,920	15,786
Concentration by location								
New South Wales	2,938,832	2,891,154	142,483	206,895	281,219	210,967	11,073	14,775
Australian Capital Territory	365,497	316,268	5,648	6,481	-	-	647	761
Queensland	120,154	128,373	110,654	48,459	54,911	-	-	-
Victoria	271,729	315,734	18,159	59,404	9,994	30,605	200	250
Western Australia	93,550	115,297	65,754	71,950	2,049	51,655	-	-
South Australia	11,709	11,955	18,079	33,207	14,946	4,958	-	-
Tasmania	915	1,802	23,155	21,043	-	49,238	-	-
Overseas	-	-	-	-	154,510	190,237	-	-
Provision for impairment	(8,265)	(5,994)	-	-	-	-	-	-
Total loans net of provision for impairment and deferred income and expenses	3,794,121	3,774,589	383,932	447,439	517,629	537,660	11,920	15,786

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

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

Settlement risk

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

Liquidity risk

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

Management of liquidity risk

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

IMB's Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of liquid investments, largely made up of high quality liquid assets, 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 year were as follows:

Total liquidity ratios	2012 %	2011 %
At 30 June	25.60	28.37
Average liquidity for the year	28.38	29.92
Minimum liquidity for the year	24.42	27.50
Maximum liquidity for the year	32.45	33.48

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

	At call		Excluding call less than 3 months maturity		Greater than 3 months less than 12 months maturity	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Residual contractual maturities of financial liabilities						
CONSOLIDATED						
Financial Liabilities						
Deposits	1,075,012	1,065,750	1,618,047	1,604,579	742,380	880,644
Trade and other payables	-	-	44,242	29,583	-	-
Securitised loans funding *	-	-	62,157	67,110	166,014	221,116
Subordinated debt	-	-	859	187	2,576	10,558
Bank overdraft	-	56	-	-	-	-
Total financial liabilities	1,075,012	1,065,806	1,725,305	1,701,459	910,970	1,112,318
COMPANY						
Financial Liabilities						
Deposits	1,080,968	1,068,297	1,618,047	1,604,579	742,380	880,644
Trade and other payables	-	-	16,224	12,011	-	-
Securitised loans funding *	-	-	62,157	67,254	166,014	221,548
Subordinated debt	-	-	859	187	2,576	10,558
Bank overdraft	-	56	-	-	-	-
Total financial liabilities	1,080,968	1,068,353	1,697,287	1,684,031	910,970	1,112,750
Consolidated and Company						
Derivative financial instruments						
Interest rate swaps (hedging relationship) net **	-	-	169	132	168	129
Unrecognised loan commitments	-	-	114,412	119,224	-	-

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

Derivative financial instruments						
Interest rate swaps (hedging relationship) net **	-	-	84	89	136	153

* 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	
2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
72,645	46,370	-	-	3,508,084	3,597,343	3,443,940	3,526,906
-	-	-	-	44,242	29,583	44,242	29,583
532,847	553,119	339,673	325,457	1,100,691	1,166,802	968,609	999,733
57,935	-	-	-	61,370	10,745	44,921	10,000
-	-	-	-	-	56	-	56
663,427	599,489	339,673	325,457	4,714,387	4,804,529	4,501,712	4,566,278
72,645	46,370	-	-	3,514,040	3,599,890	3,449,896	3,529,453
-	-	-	-	16,224	12,011	16,224	12,011
532,847	555,450	339,673	333,984	1,100,691	1,178,236	968,609	1,008,259
57,935	-	-	-	61,370	10,745	44,921	10,000
-	-	-	-	-	56	-	56
663,427	601,820	339,673	333,984	4,692,325	4,800,938	4,479,650	4,559,779
138	150	-	-	374	411	312	329
-	-	-	-	114,412	119,224	-	-
80	101	-	-	301	343	312	329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, at call deposits from members are expected to maintain a stable or increasing balance and unrecognised loan commitments are not expected to be drawn down immediately.

The gross nominal outflow disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled.

Market risk

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

Management of market risk

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

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

Exposure to market risk

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

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

- A 20 day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- 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 2012 and during the year is as follows:

Interest rate risk	2012 %	2011 %
At June 30	1.47	1.94
Average VaR for the year	1.57	2.20
Minimum VaR for the year	1.30	1.73
Maximum VaR for the year	2.27	2.72

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



Exposure to other market risks

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by the Group is subject to regular monitoring by the Risk Management Committee, but is not currently significant in relation to the overall results and financial position of the Group.

Operational risk

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- 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 2012 the term deposit portfolio carrying amount was \$2,387,552,000. Using a recognised valuation technique, the impact of interest rate movements on the term loan portfolio would estimate the fair value at \$2,401,449,000. The carrying amount of these term deposits in the year ended 30 June 2011 was \$2,478,306,000 with an estimated fair value of \$2,485,547,000.
- 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 2012 the fixed rate loan portfolio carrying amount was \$568,852,000. Using a recognised valuation technique, the impact of interest rate movements on the fixed loan portfolio would estimate the fair value at \$583,154,000. The carrying value of these fixed rate loans in the year ended 30 June 2011 was \$630,433,000 with an estimated fair value of \$641,078,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total Consolidated \$000
20 June 2012				
Available for sale financial assets	-	517,629	-	517,629
Derivative financial liabilities held for risk management	-	(312)	-	(312)
	-	517,317	-	517,317
30 June 2011				
Available for sale financial assets	-	530,233	-	530,233
Derivative financial liabilities held for risk management	-	(329)	-	(329)
	-	529,904	-	529,904

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on current market rates at the reporting date which incorporate an appropriate credit spread, and were as follows:

	2012 %	2011 %
Derivatives	3.49 - 3.59	4.91 - 5.07
Loans and borrowings	3.49 - 3.50	4.75 - 5.07



Capital management - regulatory capital

The Group's regulator (APRA) sets and monitors capital requirements for the Group as a whole. The Group reports to APRA under Basel II capital requirements and has adopted the standardised approach for credit risk and operational risk.

In implementing current capital requirements APRA requires the Group to maintain a prescribed ratio of total capital to total risk weighted assets.

The Group's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, general reserves and retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on readily marketable securities classified as available for sale.

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

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised as the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group and Company have complied with all externally imposed capital requirements throughout the year.

APRA sets a prudential capital requirement (PCR) for each ADI that sets capital requirements in excess of the minimum capital requirement of eight percent. A key input into the PCR setting process is the Group's Internal Capital Adequacy Assessment Process (ICAAP). The PCR remains confidential between each ADI and APRA in accordance with accepted practice.

Capital allocation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2012

34 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT.)

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

	Consolidated		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Tier 1 capital				
Ordinary share capital	46,936	46,936	46,936	46,936
General reserves	24,942	24,925	24,942	24,925
Retained earnings*	149,763	140,690	148,890	139,648
Current year earnings*	23,813	20,057	21,785	19,833
(Less) Capitalised expenses	(3,456)	(3,070)	(3,456)	(3,070)
(Less) Other	(7,183)	(13,921)	(6,261)	(13,119)
Total	234,815	215,617	232,836	215,153
Tier 2 capital				
Asset revaluation reserves	3,337	2,569	3,337	2,569
General reserve for credit loss*	4,873	4,303	4,873	4,303
Subordinated debt	44,944	2,000	44,944	2,000
(Less) Tier 2 deductions	(1,595)	(1,200)	(1,597)	(1,381)
Total	51,559	7,672	51,557	7,491
Total regulatory capital	286,374	223,289	284,393	222,644
Capital requirements (in terms of risk weighted assets) for:				
Credit risk	1,551,443	1,613,673	1,556,741	1,614,721
Operational risk	257,705	245,606	256,601	244,710
Total risk weighted assets	1,809,148	1,859,279	1,813,342	1,859,431
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	15.8%	12.0%	15.7%	12.0%
Total Tier 1 capital expressed as a percentage of risk weighted assets	13.0%	11.6%	12.8%	11.6%

* 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.

35 EVENTS SUBSEQUENT TO REPORTING DATE

Share buy back

On 31 July 2012, IMB announced a buy back of up to \$14 million worth of IMB Ordinary Shares through an off market tender. The tender period opened on 16 August 2012 and closes on 19 September 2012. Details on the buy back price, the number of shares being bought back and any scale back will be announced on the Company's website on 27 September 2012. All shareholders eligible to participate in the buy back have been mailed the necessary buy back documents.

Dividends

For dividends declared by IMB Ltd after 30 June 2012 refer to note 5.

DIRECTORS' DECLARATION

For the year ended 30 June 2012



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

- (a) the financial statements and notes, set out on pages 34 to 84 and the Remuneration report in the Directors' report, set out on pages 26 to 30, 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 2012 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1(b);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Wollongong this 28th day of August 2012.

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 STATEMENTS

We have audited the accompanying financial statements of IMB Limited (the Company), which comprises the statements of financial position as at 30 June 2012, the income statements and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company and the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements 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 statements are free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial statements presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial statements of IMB Ltd are 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 2012 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial statements also comply with international Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 26 to 30 of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the Corporations Act 2001.

KPMG

RICHARD DRINNAN
PARTNER

Dated at Wollongong, this 28th day of August 2012.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Liability limited by a scheme approved under Professional Standards Legislation.

LOCATIONS

IMB Branches



NEW SOUTH WALES

Albion Park	Shop 14, Centro Shopping Centre ALBION PARK NSW 2527
Batemans Bay	21 Orient Street BATEMANS BAY NSW 2536
Bega	193-195 Carp Street BEGA NSW 2550
Bowral	Shop 1, 320 Bong Bong Street BOWRAL NSW 2576
Camden	Shop 26, 180-186 Argyle Street CAMDEN NSW 2570
Corrimal	Shops 2-4, Stocklands Corrimal Shopping Centre, Princes Highway CORRIMAL NSW 2518
Cronulla	80 Cronulla Street CRONULLA NSW 2230
Dapto	2-4 Bong Bong Road DAPTO NSW 2530
Eden	199 Imlay Street EDEN NSW 2551
Fairy Meadow	84B Princes Highway FAIRY MEADOW NSW 2519
Figtree	Shop 32 & 33, Westfield Shopping Town Princes Highway FIGTREE NSW 2525
Goulburn	Shop 27, 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
University of Wollongong	Opposite Student Central, Ground Floor, Building 17 UNIVERSITY OF WOLLONGONG NSW 2500
Vincentia	Shop 17, Burton Mall VINCENTIA NSW 2540
Warilla	6 George Street WARILLA NSW 2528
Warrawong	Shop 114 Westfield Shopping Centre WARRAWONG NSW 2502
Wollongong	205 Crown Street WOLLONGONG NSW 2500
Woonona	367-369 Princes Highway WOONONA NSW 2517
Wynyard	312 George Street SYDNEY NSW 2000

AUSTRALIAN CAPITAL TERRITORY

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

VICTORIA

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

IMB Financial Planning	Level 1, 205 Crown Street WOLLONGONG NSW 2500
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MEMBERS' DIARY AND OTHER INFORMATION

Payment of final dividend 7 September 2012

Annual general meeting 30 October 2012 at 10:00am

Notice of Annual General Meeting

The annual general meeting of members of IMB Ltd will be held at the Novotel Northbeach Hotel, 2-14 Cliff Road, North Wollongong on Tuesday, 30 October 2012 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



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