



# the new IMB

IMB Ltd ABN 92 087 651 974

Annual Report 2002

contents

the new **IMB**  
represents  
**our future,**  
builds on  
**our past** and is  
the way  
**it should be**

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# highlights

## Financial

Profit after tax up 6% to \$10.5 million.

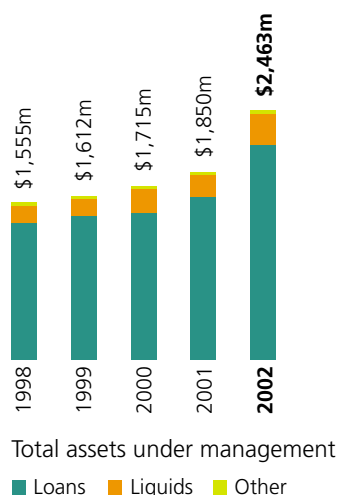
Total assets under management increased by a record \$613 million or 33.1% up to \$2.5 billion.

Record lending approvals of \$1.19 billion up by 49%.

Bad and doubtful debt expense was 0.05% of average loans, down 0.02%.

Deposits grew by a record 21.9% to \$2.04 billion.

A further \$500,000 was allocated to the IMB Community Foundation. This brings to \$1.5 million the amount of funds granted through the Foundation to the community.



## Products and Services

New Miranda sales centre opened and the Wynyard sales centre refurbished.

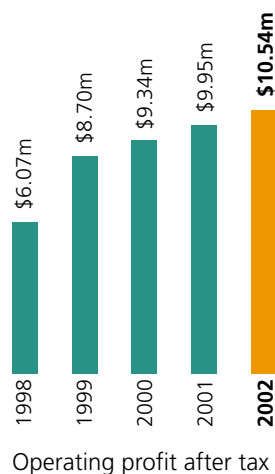
Free Bpay service introduced through the ATM network.

Entered into alliance with Australian Unity providing IMB members access to Australian Unity's 36 outlets located in Victoria, Adelaide and Brisbane as well as their range of insurance products.

Commercial lending operations established outside of NSW through links with an established network of brokers.

Appointed by ClubsNSW as their preferred supplier of investment and call account facilities for registered clubs in NSW.

Secured 6 awards in the 14th Personal Investor Awards for Excellence in Financial Services 2002.



## Corporate

Australian Unity Building Society Limited acquired and integrated into IMB Group.

Name of company changed to IMB Ltd and undertook rebranding which included launch of new logo and corporate identity.

Acquired a majority interest in King Financial Services Pty Ltd (as a subsidiary of IMB Financial Planning Limited) in conjunction with our financial planning joint venture partner ipac securities limited.

Launched funds management business IMB Matrix Asset Management.



**front row (L-R)**

Peter Bolt  
Harold Hanson  
Ken McKinnon (Chairman)

**back row (L-R)**

Bryce Wauchope  
Vivien Twyford  
George Edgar  
Russell Fredericks

# letter from the chairman

dear members

## The Company's results for 2002 complete five consecutive years of profit improvement.

Loan approvals approached \$1.2 billion for the year, assets under management increased by a record \$613.0 million (33.1%) and net profit reached \$10.5 million (an increase of 6.0%). This is a good outcome.

IMB Ltd, the new formal company name (which reflects the Company's common marketplace name) adopted at the last Annual General Meeting, and the new logo launched in February have underlined the renewed vigour of the Company in offering expanded banking and financial services through a wider area of operations. Our new Miranda sales centre and the refurbished Wynyard sales centre are showpieces for the industry. Growth initiatives especially in the Victorian and Sydney market places have reflected this enhanced vigour and modernisation.

Not only did IMB achieve record lending and record retail deposit growth, it also acquired the Australian Unity Building Society Limited and a majority interest in King Financial Services Pty Ltd (as a subsidiary of IMB Financial Planning Limited, in conjunction with our financial planning joint venture partner ipac securities limited). In addition IMB acquired a majority interest in Callidus Group Investments Pty Limited, trading as IMB Matrix Asset Management. The strategic alliances with ipac and the Australian Unity group will realise ongoing benefits in the

future. IMB Matrix Asset Management, which was initiated right at the end of the financial year with an experienced team of expert funds managers, will, as it develops, create a new revenue stream for IMB.

Ongoing product development continues to be a focus for IMB and is highlighted by the commercial lending writings and the announcement in May that IMB led the market in the introduction of a free Bpay service through the ATM network, complementing the existing internet banking service through access imb.

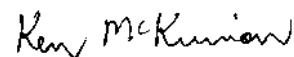
The annual result was achieved despite volatile interest rate movements and unremitting pressure on margins. Six decreases in official interest rates, totalling 2.0% over the last calendar year were followed by two rises of 0.25% each in May and June of 2002. It is satisfying to have achieved a significant increase in market share notwithstanding the interest rate movements, competition from mortgage managers and the increasing array of products and distribution channels available to customers.

In short, the re-positioning of the Company has already delivered improvements and better services for customers. Benefits for members and shareholders can be expected to further increase in future years. The increase in dividend reflects the Company's improved position.

A further \$500,000 was allocated to the IMB Community Foundation for 2002 to support seventeen projects as far apart as Wollongong and Bega and inland to Canberra. Reports back from recipients of foundation grants highlight the importance of Foundation activities. The prosperity of the communities that are recipients of grants is fundamental to the Company's well being; they are for mutual benefit.

As I write, the world's stock markets are volatile and in sharp decline. We do not believe it is prudent to rely on the economy being as healthy next year as it has been in recent years. Nevertheless, IMB does anticipate continuing growth in the coming year. The Chief Executive's report comments in more detail on activities that will strengthen IMB's range of products, its level of service to members, and its efficiency. The re-positioning of IMB will have greater impact, taking IMB further towards its vision of being a strong and successful financial institution, regionally based, but with a national focus.

One of the pleasures of this last year has been the breadth of contributions made. In particular, I have appreciated the energetic, creative and most importantly, successful way in which Wayne Morris and his executive team, the whole of the IMB staff and my fellow directors have risen to the challenge.



Prof KR McKinnon AO  
Chairman



# the new **IMB** represents **our future**

## our national presence

The growth of IMB to be a provider of banking and financial services, based in Wollongong, but with a growing national presence, is a key strategy for our future. Our Miranda sales centre and the refurbished Wynyard sales centre are showpieces for the industry. Growth initiatives especially in the Victorian and Sydney market places have reflected our enhanced vigour and modernisation.



elizabeth st, melbourne  
australian unity sales centre agency



george st, sydney

# chief executive's review of operations

**IMB continues to be a force in the banking and financial services sector of Australia. We believe that is the way it should be.**

## Overview

As noted in the Chairman's letter in the year just completed there have been a significant number of strategic initiatives implemented. These include the acquisition of a building society in Victoria, the acquisition, in conjunction with our financial planning joint venture partner, of another financial planning business in Canberra, and the acquisition of a majority equity interest in a funds management company based in Sydney. Geographical expansion into most states, product diversification and a strengthening of the distribution channels and alliance opportunities available throughout Australia continue.

The longer term benefits of these efforts will ensure that IMB continues to be a force in the banking and financial services sector of Australia. We believe that is the way it should be.

## Profit

Group operating profit after tax at \$10.5 million was a record for IMB, a further improvement of \$0.6 million over the previous year. In the second half, the board declared a fully franked final dividend of 11.5 cents per share. This brings the total for the year to 18.5 cents per share, an increase of 1.0 cent per share compared to the previous year. As anticipated, the return on average equity, at 8.9% is at a similar level to the previous year. The 6.0% increase in net profit for the year under review is a very satisfying outcome in the light of competitive forces faced by IMB.

## Net interest income

Net interest income for the year was \$47.0 million, up \$0.9 million on the previous year. The improvement reflects the strategies implemented to counter intense competition in the housing finance market and the market for retail deposits in an extremely low interest rate environment. With the increase in official rates in the latter part of the year net interest margins improved slightly giving an improved platform for 2002–2003. Nevertheless an increasingly competitive marketplace will dictate that tightening net interest margins, albeit at a slower rate of contraction than over the last five years, will continue.

## Non interest income

Non interest income improved by \$4.7 million, or approximately 33.4% on the previous year and is the highest ever achieved by IMB. Non interest income sources are primarily revenue from land development, transaction cost recoveries, loan fees, commissions on insurance, investment product sales and loan securitisation income. It should be noted that less than 24% of our members pay any transaction fees each month, a slightly lower percentage than that for the previous year. Ongoing and new initiatives relating to key alliances and joint ventures will see significant ongoing improvement in this area.

## \$1 billion customers

Mr and Mrs Jackson from Fairy Meadow New South Wales helped IMB achieve history. The Illawarra couple's home loan pushed IMB over the \$1 billion lending mark for the first time in a financial year.

During the year IMB helped 6,646 people own their own home.





chief executive's **review of operations** continued**Bad and doubtful debts expense**

Bad and doubtful debts expense was \$0.9 million, a similar level to last year. This is an excellent result, in light of the significant increase in the loan book. Part of this expense was the raising of a general provision of \$0.4 million against the commercial loan book, irrespective of the fact that at June 30, no commercial loans were in arrears more than 90 days. Overall, IMB's level of mortgage arrears continues to be well below national averages in all categories.

**Non interest expense**

Non interest expense increased to \$50.4 million, from \$44.6 million in 2001, an increase of \$5.8 million or 13.0%. Most of the increase is attributable to initiatives viewed as investments in the future of IMB. The 13.0% increase in expenses compares favourably to the 33.1% increase in assets under management.

Personnel costs have increased by \$1.4 million or 6.9% during the year, occupancy costs have increased by \$0.1 million or 2.2% and land development expenses have increased by \$0.5 million or 41.9%. Payment system charges have increased by \$0.6 million or 15.4%, marketing expenses have increased by \$0.8 million or 29.8%, data processing expenses have increased by \$0.2 million or 17.5% and other expenses have increased by \$2.2 million or 22.0%.

The ratio of non interest expense to operating income for the group increased from 75.5% in 2001 to 77.9% in 2002. Non interest expense, as a proportion of average total assets for the group, improved from 2.5% in 2001 to 2.4% in 2002.

The growth of IMB to be a provider of banking and financial services with a national presence is a key strategy for the future. Implementation of the strategy is on track as are the results of the efforts and costs attributable to the strategy. This strategy is providing demonstrable results and the investment in current and future initiatives will provide a significantly stronger IMB for the benefit of all stakeholders.

## Even easier to do banking with

At IMB we offer a broad range of banking and financial services when and where our members want them. As an IMB Member you are always welcome at an IMB Sales Centre, an IMB Mobile Lender can come to you, you can bank 24 hours a day on-line through access imb or you can use our phone banking service IMB Direct.



chief executive's **review of operations** continued

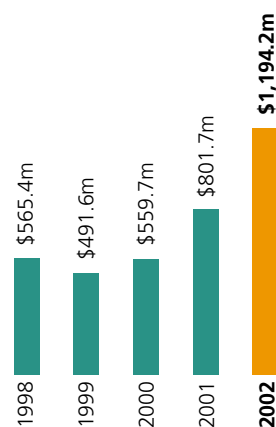
**IMB has achieved excellent loan approval levels of \$1.2 billion for the year. This record level of lending is an increase of \$0.4 billion or 49.0% compared to last year.**

**Statement of Financial Position**

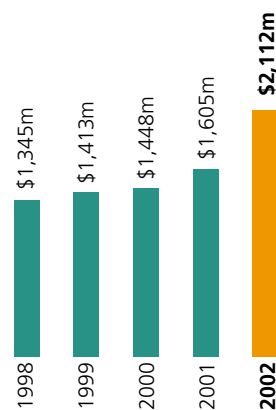
IMB has achieved excellent loan approval levels of \$1.2 billion for the year. This record level of lending is an increase of \$0.4 billion or 49.0% compared to last year.

Loans outstanding increased to \$1.8 billion, up \$0.3 billion, or 18.2% over the previous year. Total loans under management, including securitised loans increased by \$0.5 billion or 31.6% compared to last year.

Equally important is the increase in deposits to \$2.0 billion, up \$0.4 billion, or 21.9% over the previous year. This record growth, both in dollars and percentage, highlights the fact that the initiatives implemented by IMB recognise that to achieve sustainable, profitable growth, then all parts of the company need to grow at a similar and controlled pace. The record deposit growth has been sourced from both the retail and wholesale sector. Other wholesale debt strategies have also been implemented to ensure future growth strategies will not be curtailed.



Total loans approved



Total loans under management

# the new **IMB** builds on our past

## Supporting the community

The IMB has had a long tradition of working closely with the community. The IMB Community Foundation is an important way of maintaining this tradition into the future. Since it was launched in 1999, with grants totalling \$1.5m so far, we have seen 48 community projects make a difference through addressing issues that benefit many communities.



The Pelican Room Youth Art Gallery at Lake Illawarra PCYC, an art gallery for young people run by young people, was a recipient of a grant from the IMB Community Foundation.

chief executive's **review of operations** continued

**Business strategies**

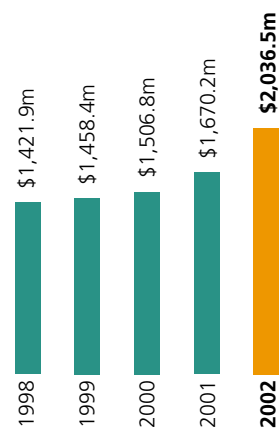
During the year the acquisition of Australian Unity Building Society Limited was announced. This purchase, along with a strategic alliance entered into with Australian Unity Limited, means that IMB has now entered the Victorian, Adelaide and Brisbane marketplaces offering lending and deposit products. In addition IMB now offers Australian Unity insurance products on an agency basis through its sales centres in NSW and ACT. The full integration of Australian Unity Building Society Limited into IMB Ltd was completed in March, 2002 with the integration project being finalised on time and within budget. IMB continues to invest significant effort and costs into the Victorian marketplace and the results to date have been most encouraging.

IMB will continue to look for other acquisition opportunities to profitably grow the business. Our philosophy of being able to offer banking and financial services is reflected in the acquisitions throughout the year. These acquisitions assisted us to enter or further grow in the authorised deposit taking (ADI), financial planning and funds management arenas. Each of these acquisitions will continue to develop in the coming year. Similarly IMB will continue to source alliance partners to widen the products and services available.

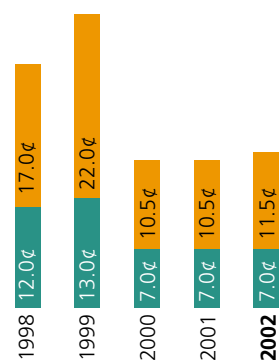
**IMB will continue to look for other acquisition opportunities to profitably grow the business. Our philosophy of being able to offer banking and financial services is reflected in the acquisitions throughout the year.**

IMB opened a new sales centre in Miranda in December 2001. This centre, along with the recently refurbished Wynyard sales centre, combines some of the new Sydney distribution and image strategies of IMB. The new look not only promotes the new logo, imagery and design of the new IMB, but also promotes the wider array of products and services offered by IMB, both in a face to face way and utilising the most up to date e-commerce technology and strategies available.

Ongoing reviews of products and services have resulted in the launch of a number of new deposit and lending products, along with a number of improved insurance products. By continually reviewing the product offerings of our alliance partners, IMB is able to ensure all products offered by IMB, whether our products or on behalf of another institution are not just competitive but also supportable. This has meant a number of products are now sourced from alternative suppliers.



Member deposits

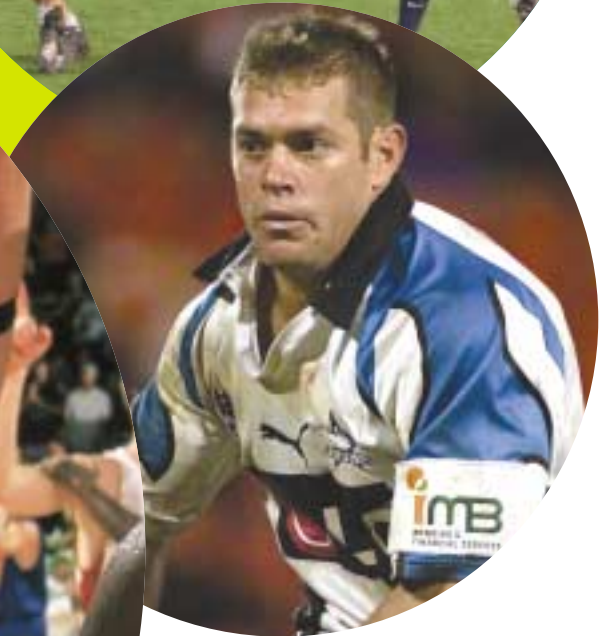
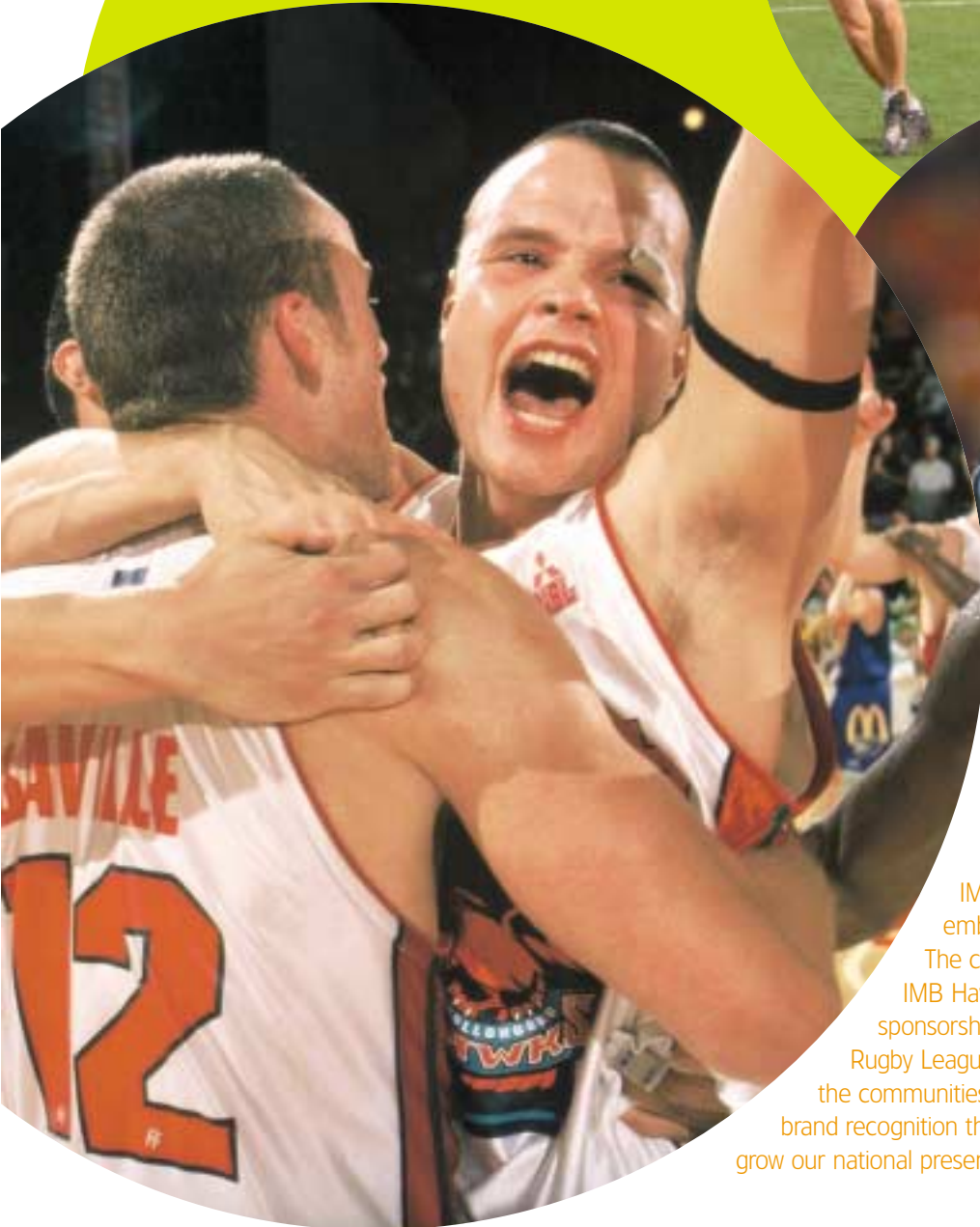


Dividends per share\*

■ Interim ■ Final

\* 1998 and 1999 figures are prior to the bonus share issue and share split which were completed in the 2000 financial year.





## IMB scores with sponsorships

IMB's sporting sponsorships continue to embody a strong community focus.

The continued sponsorship of the Wollongong IMB Hawks, AFL team Carlton and the new sponsorship arrangement with the Cronulla Sharks Rugby League team enhances our association with the communities in which we operate, and helps build brand recognition throughout the country as we continue to grow our national presence.

chief executive's **review of operations** continued

Again IMB has provided **another three year university academic scholarship to a worthy recipient this year. A total of three recipients are currently enjoying IMB support for their pursuit of academic excellence.**

### **A mutual interest in the community**

The Chairman has referred to the allocation of a further \$500,000 to the IMB Community Foundation. This is but one of many examples of IMB supporting the community in which it serves. Projects supported were not just geographically diverse, but also diverse in nature and size of support requested. Examples of larger projects include the Scouts Australia for its SATlink program with TAFE NSW arranging placement for TAFE students in Scout groups throughout the NSW south coast and southern highlands. This program will increase the resources available for Scout groups and students gain assessments of their leadership skills. Another project will assist the Wollongong Conservatorium of Music make new digital recording technology available to students and a wide range of musicians throughout the Illawarra community. Southern Oceans Seabird Study Association Inc were the recipient of support to develop an interpretive display on the unique seabirds of the Illawarra as was Port Kembla Heritage Park Tourism and Education Centre to develop displays and education resources for the centre. The Capital Region Enterprise and Employment Development Association was a recipient for its small towns project, seeking to develop new ways of supporting small rural towns on business and community revitalisation by combining small business creation with community capacity building.

Again IMB has provided another three year university academic scholarship to a worthy recipient this year. A total of three recipients are currently enjoying IMB support for their pursuit of academic excellence.

This is in addition to the wide ranging sponsorship support for a number of community and sporting bodies. The naming rights sponsorship of the Wollongong IMB Hawks has assisted the Hawks in making the playoffs in the National Basketball League following their successful quest to become League champions in 2001. This sponsorship and the achievements of the Hawks continue to assist IMB in brand recognition throughout the country as we continue growing our national profile. IMB also has significant mutually beneficial sponsorship relationships in place with Carlton in the Australian Football League and Cronulla in the National Rugby League. Each of these sponsorships is strategic and will successfully improve IMB's presence and profile both from a geographic and also a demographic perspective.

# the new **IMB** the way it should be

## IMB goes the extra mile

The strenuous efforts of our staff continue to ensure IMB's success. In December 2001 we introduced the Chief Executive's Award to recognise and reward staff for "going the extra mile" above and beyond the normal requirements of the job. The Award is based on nominations by staff and external contacts that have a business relationship with IMB and provides an avenue for people who provide an exceptional service to either internal or external customers to be recognised for their efforts.



"Employee of the Year" Michael Ward (right) from Lending Services (Intermediaries) was nominated by Rob Legge, National Broker Manager (left) for "going the extra mile and then some". Their commitment and teamwork have contributed to the rapid growth IMB have achieved in the loan intermediary market.

chief executive's **review of operations** continued

### Centenary Estates Joint Venture

IMB is now in its fifteenth year of involvement with a residential land development joint venture at Albion Park. In recent years the joint venture has recorded marginal performance. This year it has shown an improvement, with the joint venture's land development activities contributing \$418,000 to the group's pre-tax performance.

### Research and development

IMB has now concluded its involvement with the four research and development syndicates from past years. We are continuing to work with the relevant statutory authorities to ensure all outstanding issues are resolved. These are commented on further in the annual financial report.

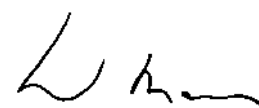
### Management and Staff

During the year under review, there have been no changes in the IMB executive. There has been significant strengthening of the middle management ranks. The skilled and experienced senior staff joining IMB has and will complement the existing staff to ensure the strategic initiatives contemplated will continue to be successfully implemented.

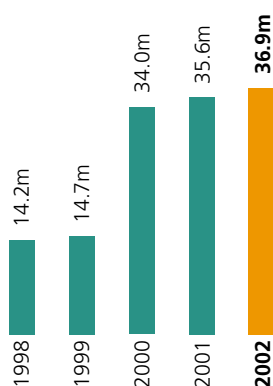
As I do regularly on a personal basis, I publicly thank our staff most sincerely for their strenuous and successful efforts as well as personal support during the year under review. Once again they have responded in excellent fashion to overcome the many different challenges put before them. In a continuing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

### Outlook

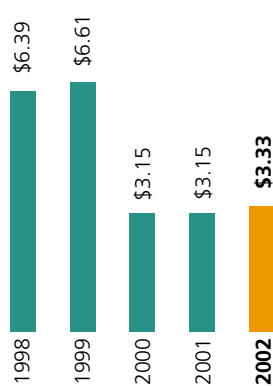
As contemplated last year, the improved performance and efficiencies achieved over the last few years, in a sometime difficult economic climate, as well as the significant investment in the development of our staff and systems, constitute the strategic platform for future growth. We will continue to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



PW Morris  
Chief Executive



No. of shares on issue\*



Net assets per share\*

\* 1998 and 1999 figures are prior to the bonus share issue and share split which were completed in the 2000 financial year.



# directors' and executives' particulars



Senior executives from left: Robert Ryan, Mark Anderson, Bob Turnbull and chief executive, Wayne Morris

## Executives

### Peter Wayne Morris

ACIS ACIM MNIA AIMM AIFS AMP (Harv)

Mr Morris is the chief executive. Since joining the Company in 1977, he has held a number of positions in both the sales network and administration, as well as a range of management positions. Mr Morris is a director of IMB DB Fund Pty Ltd, IMB SAS Fund Pty Ltd and IMB Financial Planning Limited, King Financial Services Pty Ltd and Callidus Group Investments Pty Limited. He is also a director of Australian Settlements Limited and Illawarra Regional Information Service Limited. Mr Morris is also a deputy chairman and a councillor of the Australian Association of Permanent Building Societies.

### Robert James Ryan

BEC MCommLaw FCIS FCIM ACA FTIA AICD

Mr Ryan is the chief financial officer/company secretary and joined the Company in 1999. He is responsible for the overall management of the Company's finance, treasury, compliance, strategic project and corporate services. Prior to joining IMB, Mr Ryan held the positions of Managing Director, Chief Financial Officer and Company Secretary at Australian Resources Limited.

### Robert Stewart Turnbull

Mr Turnbull is head of retail distribution and joined the Company in 2000. As head of retail distribution he is responsible for the overall management of the Company's sales and retail operations, IMB direct, marketing and product development. Prior to joining IMB, Mr Turnbull was a director of RAMS Home Loans and held senior management positions with Advance Bank Ltd.

### Mark Leonard Anderson

B.Com (Land Economy) AICD, AICUM, AMIAA, LICM

Mr Anderson is general manager operations and joined the Company in 1999. He has 29 years experience in credit and risk management, insurance, commercial and consumer lending in the financial services industry. As general manager operations, Mr Anderson is responsible for IMB share trading, cards, insurances and transaction processing; lending and loans administration; information systems and technology; property and support services. Mr Anderson also serves on the executive committee of the Australian division of Visa International.

## Directors

### Kenneth Richard McKinnon AO

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

Professor McKinnon was appointed chairman in December 2000, after being deputy chairman from 1996. He has been a non executive director since 1993 and is a member of the Remuneration committee. Professor McKinnon is a higher education consultant. He is also a chairman of the Australian Press Council and a director of the College of Law. As well as being chairman of IMB Ltd, Professor McKinnon is chairman of the following IMB subsidiary and associated companies: IMB Land Pty Ltd, IMB Funeral Fund Management Pty Ltd, Lophaver Pty Ltd, Lafoten Pty Ltd, Vesteralen Pty Ltd, IMB Community Foundation Pty Ltd, Callidus Group Investments Pty Limited and IMB DB Fund Pty Ltd.

### Peter Francis Bolt OAM

Mr Bolt, whose area of expertise is business and local government management has been a non executive director since 1993. He is a member of the Centenary Estate Joint Venture and Audit and Risk Management committees. Mr Bolt is also treasurer of the Wollongong Sportsground Trust and vice president of the Illawarra Retirement Trust. He is a former alderman of Wollongong City Council, and former chairman of Illawarra Electricity, Illawarra Regional Information Service, NSW Association of Coal Related Councils and Premeure Local Government Joint Insurance Authority. As well as being a director of IMB Ltd, Mr Bolt is also a director of the following IMB subsidiary and associated companies: IMB Land Pty Ltd, IMB Funeral Fund Management Pty Ltd, Lophaver Pty Ltd, Lafoten Pty Ltd, Vesteralen Pty Ltd, IMB Community Foundation Pty Ltd and IMB DB Fund Pty Ltd.



## George Anthony Edgar

Mr Edgar, whose expertise is business management, has been a non executive director since 2000. Mr Edgar is the former president of BHP Flat Products and former chief executive officer of BHP Integrated Steel. He is a member of the Remuneration committee. He is also deputy chancellor, University of Wollongong, chairman of the Stakeholders Reference Group for the Innovation Campus Development at Brandon Park, member of the Illawarra Regional Development Board and past chairman of Mainteck Services Australia. As well as being a director of IMB Ltd, Mr Edgar is also a director of the following IMB subsidiary and associated companies: IMB Land Pty Ltd, IMB Funeral Fund Management Pty Ltd, Loppnaver Pty Ltd, Lafoten Pty Ltd, Vesteralen Pty Ltd, IMB Community Foundation Pty Ltd and Callidus Group Investments Pty Limited.

## Lindsay Russell Fredericks

FPNA FAICD FAIM

Mr Fredericks, whose area of expertise is accounting and management consulting, has been a non executive director since 1990. He is a member of the Audit and Risk Management and IMB Community Foundation committees. Mr Fredericks is a management consultant specialising in accounting, administrative and financial projects for small business and business writing. He networks with other consultants in sales automation, client relationship management systems and strategic planning projects. He is managing director of Moresground Pty Ltd and has had 28 years experience as chief executive of business enterprises. His former positions include: general manager of Shoalhaven Dairy Co Ltd, director of the Co-operative Federation of NSW, chairman NSW Dairy and Food Industry Training Committee, deputy chairman of the National Committee and general manager of Miltonbrook Pty Ltd.

Mr Fredericks is a 26 year member of the Lions Service Organisation. As well as being a director of IMB Ltd, Mr Fredericks is also a director of the following IMB subsidiary and associated companies: IMB Funeral Fund Management Pty Ltd, Loppnaver Pty Ltd, Lafoten Pty Ltd, Vesteralen Pty Ltd, IMB Community Foundation Pty Ltd and IMB DB Fund Pty Ltd.

## Harold Hanson AM

Dip.Law (Sydney)

Mr Hanson, whose area of expertise is the legal field, has been a non executive director since 1990. He is a member of the Remuneration and IMB Community Foundation committees. He has practised as a solicitor in private practice in Wollongong since 1960 and is now a private legal consultant. He is a former chairman and a life member of Tourism Wollongong, and was a commissioner and board member of the NSW Tourism Commission and Tourism NSW from 1988 to 1997. Mr Hanson is a life member of Apex, a board member of the Australian College for Seniors, fellow of the University of Wollongong and chairman of the Wollongong University Foundation. He is also a former member of the Salvation Army Community Advisory Board for the Illawarra, a former alderman of Wollongong City Council, former deputy chairman of Illawarra Electricity. He was the 1987 New South Wales Lawyer of the Year and the 1998 winner of the NSW award for excellence in regional tourism. As well as being a director of IMB Ltd, Mr Hanson is also a director of the following IMB subsidiaries: IMB Land Pty Ltd, IMB Funeral Fund Management Pty Ltd, Loppnaver Pty Ltd, Lafoten Pty Ltd, Vesteralen Pty Ltd and IMB Community Foundation Pty Ltd.

## Vivien Jennifer Twyford

BA Grad Dip Com (Mgmt) FAICD

Ms Twyford, whose area of expertise is business consulting, has been a non executive director since 1990. She is chairperson of the IMB Community Foundation committee. Ms Twyford is managing director of Twyford Consulting and has been a consultant in the area of business improvement, people and strategy for 22 years, now specialising in community consultation. In 2002, the University of Wollongong awarded her a fellowship. She is inaugural president of the Australasian Chapter of the International Association of Public Participation (IAP2) and is vice president of the International Board of IAP2. Ms Twyford is an accredited mediator with the Australian Commercial Disputes Centre. She is a member of the Illawarra Advisory Board of the Salvation Army and was chairperson of the Illawarra Branch of the Australasian Institute of Management for 4 years. Ms Twyford was a member of the Illawarra Regional Development Board from 1993 to 1996. As well as being a director of IMB Ltd and IMB Community Foundation Pty Ltd, Ms Twyford is also a director of the following IMB subsidiaries: IMB Land Pty Ltd, IMB Funeral Fund Management Pty Ltd, Loppnaver Pty Ltd, Lafoten Pty Ltd and Vesteralen Pty Ltd.

## Bryce Edward Wauchope

FCA FAICD

Mr Wauchope has been a non executive director since 1992 and is chairman of the Audit and Risk Management committee and chairman of IMB Financial Planning Limited. He is a director of Helix Resources NL, former chairman of BA Australia Ltd and past immediate president of the Financial Executives Institute of Australia. As well as being a director of IMB Ltd and chairman of IMB Financial Planning Ltd, Mr Wauchope is also a director of the following IMB subsidiaries: IMB Land Pty Ltd, IMB Funeral Fund Management Pty Ltd, Loppnaver Pty Ltd, Lafoten Pty Ltd Vesteralen Pty Ltd and IMB Community Foundation Pty Ltd.

# corporate governance statement

This statement outlines the main corporate governance practices that were in place throughout the financial year. These practices are dealt with under the following headings: Board of Directors and its Committees, Internal Control Framework and The Role of Members.

## Board of Directors and its Committees

The board is responsible for the overall corporate governance of the Company and its controlled entities ("the consolidated entity") including the strategic direction, establishing goals for management and monitoring the achievement of these goals. To give further effect, it has established a number of board committees to assist in the execution of its responsibilities including the remuneration committee, the audit and risk management committee, and the land development committee.

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

The agenda for meetings is prepared in conjunction with the chairman and the chief executive officer. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities including visits to operations, for contact with a wider group of employees.

## Board Composition

The composition of the board is prescribed by the Company's constitution, and details of the directors of the Company in office at the date of this statement appear on pages 16 and 17 of this report.

The board comprises seven non executive directors. The size and composition of the board is determined by the full board, subject to the limits imposed by the constitution.

- Only the board may nominate an employee for election as a director.
- The chairman of the board must be a 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 at which meeting the retiring director is eligible for election.

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.

## Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's constitution directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The board has developed procedures to assist directors to disclose potential conflicts of interest.

## Independent Professional Advice

Each director has the right to seek independent professional advice for Company related matters at the consolidated entity's expense provided that prior approval is received from the chairman and a copy of the advice received is made available to all other members of the board.

## Policy regarding Directors' Interests

In February 1993 the board adopted the following policy in respect of dealings in securities of the Company by directors, officers and their associates.

- Purchase or sale of Company shares is permitted within 2 months after announcements subject to prior advice to the chairman who will notify the board.
- Purchase or sale of Company shares is permitted at other times 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 officers personally, by directors' and officers' spouses and dependent children, and by any company in which a director or officer holds a majority of the shares. It will also extend to any company in which a director or officer is an officer (director, secretary, executive officer or employee), unless appropriate arrangements are in place within that company to ensure that the director or officer takes no part in the company's decision to buy or sell the Company shares, and further to ensure that the director or officer could not have passed inside information to those making the

## corporate governance statement continued

decision. Usually, this can be done by the director or officer not being present at any meeting in which the purchase or sale of Company shares is discussed or approved.

- It is the responsibility of the director or officer to ensure the order to purchase or sell expires no more than 2 months 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.
- “Selected officer” or “officer”, means a member of the executive group and other person or persons in the employ of the Company nominated by the chief executive.
- This policy applies only to transactions of a material nature. For these purposes, transactions by any one person (or associates thereof) of less than 5,000 shares in aggregate in any period of six months shall be deemed to be not material.

### Remuneration Committee

The role of the remuneration committee is to review and make recommendations to the board on remuneration packages and policies applicable to the chief executive and senior executives. For senior executives this follows receipt of appropriate recommendations from the chief executive. The remuneration committee obtains independent advice on the appropriateness of remuneration packages.

The members of the remuneration committee during the year were:

Prof KR McKinnon AO (Chairman)

Mr GA Edgar

Mr H Hanson AM

The chief executive Mr PW Morris is invited to remuneration committee meetings as required to discuss management performance and remuneration packages. The remuneration committee meets as required.

Total remuneration for all non executive directors, approved by members at the 2001 annual general meeting, is not to exceed \$317,745.

Further details of directors’ and executives’ remuneration, superannuation and retirement payments are set out in Notes 29 and 30 to the financial report.

### Audit and Risk Management Committee

The primary purpose of the committee is to assist the board of IMB in fulfilling its supervisory responsibilities by:

- serving as an independent and objective party to monitor the IMB’s financial reporting process, risk management and internal control systems;
- reviewing and appraising the audit efforts of the IMB’s external auditors and the internal audit department; and

- providing an open avenue of communication among the external auditor, financial and senior management, the internal auditing department, and the board of IMB.

Consistent with this function, the committee should encourage continuous improvement of, and should foster adherence to, the IMB’s policies, procedures and practices at all levels.

The members of the audit and risk management committee during the year were:

Mr BE Wauchope (Chairman)

Mr PF Bolt

Mr LR Fredericks

Prof KR McKinnon AO (ex officio member)

### Internal Control Framework

The board acknowledges that it 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 quarterly. The consolidated entity 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 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

## corporate governance statement continued

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 consolidated entity 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 consolidated entity 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 established such that occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.

### Internal Audit

The internal auditors assist the board in ensuring compliance with these internal controls. The audit and risk management committee is responsible for approving the program of internal audit visits to be conducted each financial year and for the scope of the work to be performed at each location.

### The Role of Members

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

- Public release of performance results, plus declared dividend as soon as available.
- The concise report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document) and is available on request for other members. The board ensures that the concise report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act 2001. The Board ensures that the full annual financial report is available to all shareholders and members should they request it.

- The half-yearly report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document) and is available on request for other members. This document contains summarised financial information and a review of the operations of the consolidated entity during the period. Half-year financial statements are prepared in accordance with Accounting Standards and relevant legislation and contain an independent review report from the external auditors.
- Proposed changes to the constitution of the consolidated entity 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 consolidated entity's strategies and goals. Important issues are presented to the members as separate resolutions.

The members are responsible for voting on the election of directors as prescribed by the constitution.

# directors' report

## FOR THE YEAR ENDED 30 JUNE 2002

The directors have pleasure in presenting their report, together with the financial report of IMB Ltd, ("the Company"), formerly Illawarra Mutual Building Society Ltd, and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2002 and the auditor's report thereon.

### Trading Results

The profit after tax from ordinary activities attributable to members of the consolidated entity for the financial year was \$10,544,000 (2001 \$9,951,000). Income tax of the consolidated entity for the financial year was \$3,716,000 (2001 \$4,529,000).

### Dividends

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

- a final dividend of \$0.105 per share amounting to \$3,743,000 franked to 100% at a tax rate of 30%, in respect of the year ended 30 June 2001, paid on 30 August 2001;
- an interim dividend of \$0.07 per share amounting to \$2,554,000 franked to 100% at a tax rate of 30%, in respect of the year ended 30 June 2002, paid on 27 February 2002;
- a final dividend of \$0.115 per share amounting to \$4,247,000 franked to 100% at a tax rate of 30%, declared on 31 July 2002, in respect of the year ended 30 June 2002, payable on 30 August 2002.

Total dividends paid or declared in respect of the year ended 30 June 2002 were \$0.185 per share (2001 \$0.175) amounting to \$6,801,000 (2001 \$6,189,000).

### Directors

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

Kenneth Richard McKinnon AO, Chairman

Peter Francis Bolt OAM

George Anthony Edgar

Lindsay Russell Fredericks

Harold Hanson AM

Vivien Jennifer Twyford

Bryce Edward Wauchope

The particulars of the qualifications, experience and special responsibilities of each director are set out on pages 16 and 17 of this report.

At the annual general meeting of the Company on 25 September 2002, three directors, Messrs KR McKinnon, PF Bolt and BE Wauchope will retire in accordance with the constitution of the Company and, being eligible, offer themselves for re-election.

### Principal Activities

The principal activities of the consolidated entity 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 2002.

### Review of Operations

Consolidated profit after tax from ordinary activities attributable to members was \$10,544,000 (2001 \$9,951,000), an increase of \$593,000 or 6.0% over 2001.

Loan approvals were \$1,194,246,000 (2001 \$801,704,000). Net interest income increased to \$46,948,000 representing an improvement of \$876,000 resulting mainly from the growth in earning assets, which increased by 21.5% or \$37,182,000 to \$2,133,944,000, offset by a reduction in interest margin of 0.38% to 2.35%.

Bad and doubtful debts expense decreased by \$41,000 to \$898,000 (2001 \$939,000). Non interest income increased by \$4,664,000 and non interest expense increased by \$5,801,000 to provide a profit from ordinary activities before tax of \$14,260,000. This is a decrease of \$220,000 or 1.5% over the previous year.

The increase in non interest income is primarily due to the growth in lending and associated increase in loan fee and loan securitisation income. The increase in non interest expense resulted primarily from the costs associated with the implementation of several major strategic initiatives and market re-positioning.

The contribution to consolidated profit after tax from land development activities increased from a profit of \$243,000 in 2001 to a profit of \$391,000 in 2002.

Research and development activities resulted in a \$221,000 (2001 \$221,000) profit after tax from ordinary activities attributable to members.

During the year, the Company purchased Australian Unity Building Society Limited. The full integration of Australian Unity Building Society Limited was completed in March 2002.

In June 2002, the Company acquired a majority interest in a funds management business, Callidus Group Investments Pty Limited (trading as IMB Matrix Asset Management).

### Events Subsequent to Balance Date

The directors are not aware of any item, transaction or event of a material and unusual nature that has arisen in the interval between 30 June 2002 and the date of this report likely to affect significantly:

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



## directors' report continued

### Likely Developments

Details of the likely developments in the operations of the consolidated entity in subsequent financial years are disclosed in the Chairman's letter and Chief Executive's Review of Operations on pages 3 to 15 of the financial report.

### State of Affairs

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

### Directors' Interests

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

Director	Holding at 31 July 2002
Prof KR McKinnon	16,894
Mr PF Bolt	8,099
Mr GA Edgar	22,418
Mr LR Fredericks	4,004
– associates	25,696
Mr H Hanson	9,337
Ms VJ Twyford	2,200
Mr BE Wauchope	1,000
– associates	9,902

### Directors' and Senior Executives' Emoluments

Directors' and senior executives' emoluments are set out in notes 29 and 30 to the financial statements.

### Directors' and Officers' Indemnification and Insurance

#### Indemnification

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

#### Insurance

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

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

### Meetings of Directors

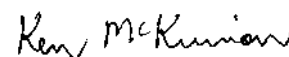
The following table sets out the number of meetings of the Company's directors (including meetings of committees of directors) held during the year ended 30 June 2002 and the number of meetings attended by each director.

	Directors' Meetings	Meetings of Committees			
		Audit and Risk Management	Centenary Estate JV	Remuneration	IMB Community Foundation
Number of meetings held	13	4	8	2	3
Number of meetings attended					
Prof KR McKinnon	13	4	–	2	–
Mr PF Bolt	13	4	8	–	–
Mr GA Edgar	13	–	–	2	–
Mr LR Fredericks	13	4	–	–	3
Mr H Hanson	11	–	–	2	3
Ms VJ Twyford	11	–	–	–	3
Mr BE Wauchope	13	4	–	–	–

### Rounding of Amounts

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

Signed in accordance with a resolution of the directors.



KR McKinnon AO, Chairman



H Hanson AM, Director

Wollongong, 31 July 2002

# financial statements

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# statements of financial performance

## FOR THE YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Company	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
Interest revenue	3	119,346	123,596	119,622	123,338
Interest expense	3	(72,398)	(77,524)	(72,540)	(77,720)
Net interest income		46,948	46,072	47,082	45,618
Bad and doubtful debts expense	3	(898)	(939)	(898)	(939)
Net interest income after bad and doubtful debts		46,050	45,133	46,184	44,679
Revenue from land development	3	2,233	1,437	–	–
Other revenue from ordinary activities	3	16,377	12,509	16,361	12,357
Net ordinary income before non interest expenses		64,660	59,079	62,545	57,036
Personnel expense	3	(21,570)	(20,181)	(21,570)	(19,963)
Occupancy expense	3	(5,129)	(5,021)	(5,129)	(4,990)
Land development expense	3	(1,815)	(1,279)	–	–
Payment system charges	3	(4,219)	(3,655)	(4,219)	(3,655)
Marketing expense	3	(3,614)	(2,784)	(3,614)	(2,776)
Data processing expense	3	(1,621)	(1,380)	(1,621)	(1,377)
Other expenses from ordinary activities	3	(12,148)	(10,209)	(12,113)	(10,291)
Share of losses of associates and joint ventures accounted for using the equity method	27	(284)	(90)	–	–
<b>Profit from ordinary activities before income tax expense</b>	3	14,260	14,480	14,279	13,984
Income tax expense relating to ordinary activities	4	(3,716)	(4,529)	(3,723)	(4,382)
<b>Net profit attributable to members of the parent entity</b>		10,544	9,951	10,556	9,602
		\$	\$		
Basic earnings per share		0.29	0.28		

The calculation for earnings per share was based on the weighted average number of permanent shares being 36,491,000 (2001 35,005,000). Nil (2001 60,949) shares have been issued since 30 June 2002 and before the signing of this report.

The consolidated entity does not have any potential ordinary shares on issue that may be considered dilutive therefore diluted earnings per share is not shown.

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 27 to 59.

# statements of financial position

AT 30 JUNE 2002

	Note	Consolidated		Company	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>ASSETS</b>					
Cash assets	28	18,630	13,042	17,556	12,798
Trading securities	8	48,146	139,651	48,146	139,651
Receivables	7	1,902	1,944	1,403	1,081
Investment securities	8	248,554	62,563	248,534	62,563
Loans	9	1,837,244	1,554,548	1,843,519	1,562,224
Investments accounted for using the equity method	8	1,091	185	–	–
Other financial assets	8	977	622	13,690	2,402
Inventories	11	5,386	6,397	–	–
Property, plant and equipment	12	18,543	17,383	18,543	17,366
Intangible assets	13	1,247	20	690	–
Tax assets	4	2,405	1,870	1,892	1,427
Other	14	3,794	1,782	3,779	1,152
<b>Total Assets</b>		<b>2,187,919</b>	<b>1,800,007</b>	<b>2,197,752</b>	<b>1,800,664</b>
<b>LIABILITIES</b>					
Payables	16	9,831	6,699	14,811	2,080
Deposits	15	2,036,491	1,670,240	2,044,069	1,677,825
Interest bearing liabilities	17	10,000	–	10,000	–
Tax liabilities	4	3,699	3,884	2,787	3,000
Provisions	18	3,814	7,177	3,814	7,110
<b>Total Liabilities</b>		<b>2,063,835</b>	<b>1,688,000</b>	<b>2,075,481</b>	<b>1,690,015</b>
<b>Net Assets</b>		<b>124,084</b>	<b>112,007</b>	<b>122,271</b>	<b>110,649</b>
<b>EQUITY</b>					
Contributed equity	19	37,627	34,007	37,627	34,007
Reserves	20	30,880	30,880	30,880	30,880
Retained profits	5	55,126	47,120	53,764	45,762
<b>Total parent entity interest</b>		<b>123,633</b>	<b>112,007</b>	<b>122,271</b>	<b>110,649</b>
Outside equity interests	26	451	–	–	–
<b>Total Equity</b>		<b>124,084</b>	<b>112,007</b>	<b>122,271</b>	<b>110,649</b>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 27 to 59.

# statements of cash flows

## FOR THE YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Company	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Interest received		118,797	123,263	119,073	123,005
Dividends received		38	10	38	10
Non interest income					
– land development		2,557	1,916	–	–
– other		16,057	12,354	16,001	12,242
Interest paid					
– deposits		(71,285)	(77,835)	(71,427)	(78,059)
– borrowings		(10)	(19)	(10)	(19)
Non interest expense					
– personnel		(20,742)	(19,521)	(20,673)	(19,371)
– occupancy		(5,129)	(5,021)	(5,129)	(4,990)
– land development		(952)	(2,186)	–	–
– payment system charges		(4,219)	(3,655)	(4,219)	(3,655)
– marketing		(3,614)	(2,784)	(3,614)	(2,776)
– data processing		(1,621)	(1,380)	(1,621)	(1,377)
– other		(8,967)	(6,485)	(8,682)	(6,271)
Income taxes paid	4	(4,538)	(7,983)	(4,401)	(7,587)
Net cash provided by operating activities	28	16,372	10,674	15,336	11,152
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Net increase in loans		(508,744)	(157,280)	(507,341)	(157,371)
Net (increase)/decrease in investments		(86,474)	14,906	(86,556)	14,656
Payments for controlled entities (net of cash acquired)		(9,464)	–	(10,540)	–
Payment for intangible assets		–	(24)	–	–
Expenditure on property, plant and equipment		(4,299)	(3,240)	(4,316)	(3,220)
Proceeds from sale of property, plant and equipment		861	127	861	127
Net cash used in investing activities		(608,120)	(145,511)	(607,892)	(145,808)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Net increase in deposits		365,148	163,736	365,142	163,316
Proceeds from sale of securitised loans		225,000	–	225,000	–
Net increase/(decrease) in interest bearing liabilities		10,000	(33,000)	10,000	(33,000)
Dividends paid		(2,828)	(2,591)	(2,828)	(2,591)
Transfer of business		16	(16)	–	–
Net cash provided by financing activities		597,336	128,129	597,314	127,725
Net increase/(decrease) in cash held		5,588	(6,708)	4,758	(6,931)
Cash at the beginning of the financial year		13,042	19,750	12,798	19,729
<b>Cash at the end of the financial year</b>	28	18,630	13,042	17,556	12,798

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 27 to 59.



# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 1 Statement of Significant Accounting Policies

### Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. It has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, as set out in note 2, are consistent with those of the previous year.

### Principles of Consolidation

The consolidated financial report includes the financial statements of the Company, being the parent entity, and all its controlled entities ("the consolidated entity"). 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.

### Revenue Recognition

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, investment income, commission income and fee income.

Interest income on loans is calculated daily based on the closing balance for each day and charged at the end of each month. Commission income is recognised on an accruals basis net of the amount of goods and services tax ("GST"). Fee income is recognised net of GST as it accrues.

Dividends and distributions from controlled entities are brought to account in the statements of financial performance when they are declared. Dividends and distributions from other parties are brought to account in the statements of financial performance when they are received.

### Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Goodwill is amortised on a straight-line basis over three to ten years.

### Loans

Loans are recognised at recoverable amount, after assessing required provisions for doubtful debts.

### Bad Debts Written Off and Provision for Doubtful Debts

All known bad debts are written off in the year in which they are identified as bad. Provision for doubtful debts is made in respect of loans, revolving credit facility outstandings and overdrawn accounts where there is reasonable doubt that not all the principal and interest can be collected.

A general provision is made in accordance with the minimum requirements of the prudential standards, with an additional provision being made in excess of the minimum prudential requirements in the following loan categories:

	IMB	
	General Provision	Prudential Standards
<b>Personal loans</b>		
9 to 12 months	100%	80%
6 to 9 months	100%	60%
3 to 6 months	100%	40%
2 to 3 months	30%	0%
1 to 2 months	5%	0%
0 to 1 month	2%	0%
<b>Revolving credit facilities</b>		
9 to 12 months	100%	80%
6 to 9 months	100%	60%
3 to 6 months	100%	40%
<b>Overdrawn accounts</b>		
2 to 3 months	60%	40%
1 to 2 months	60%	40%

### Revolving credit facilities

9 to 12 months	100%	80%
6 to 9 months	100%	60%
3 to 6 months	100%	40%

### Overdrawn accounts

2 to 3 months	60%	40%
1 to 2 months	60%	40%

Specific provisions are made for any particular loan that is identified as being doubtful of recovery. Where a general provision for a loan is greater than the specific provision, a general provision is made for the additional amount.

An additional general provision is maintained to cover any unidentified losses with the commercial loan portfolio. The level of the additional general provision is made having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors. It is the Company's intention to increase the additional general provision over the next five years to achieve a level equivalent to 0.5% of the commercial loan portfolio.

### Investments

Securities held for trading purposes are recorded at market value. Unrealised gains and losses on revaluation are taken to the statements of financial performance.

Investment securities and other investments not held for trading purposes are recorded at cost adjusted for premium or discount amortisation. Interest income is accrued and premiums and discounts are deferred and amortised from the date of purchase to maturity. Changes in market values of such securities are not taken into account unless there is considered to be a permanent diminution in value.

### Deposits and Interest Expense

Deposits are recorded at the principal amount. Interest expense on deposits is calculated daily based on the closing balance for each day and is brought to account on an accruals basis.

### Income Tax

The consolidated entity adopts the liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

# notes to the financial statements

## FOR THE YEAR ENDED 30 JUNE 2002

### 1 Statement of Significant Accounting Policies continued

#### Recoverable Amount

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amounts at balance date. If the carrying amount of a non-current asset materially exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

#### Property, Plant and Equipment

Property is recorded at cost. The Company's policy is to obtain an independent valuation of freehold land and buildings every three years. Plant and equipment is recorded at cost.

Costs incurred on property, plant and equipment that do not meet the criteria of capitalisation are expensed as incurred.

Depreciation/amortisation is provided on a straight-line basis on all property, plant and equipment, other than freehold land. The useful life of each category of property, plant and equipment is:

Freehold buildings	40 years
Leasehold improvements	The lease term
Plant and equipment	4 to 15 years

Assets are depreciated/amortised from the date of acquisition or from the time an asset is completed and held ready for use. The gain or loss on disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

#### Operating Leases

Payments made under operating leases are charged against profit in equal instalments over the accounting periods covered by the lease term.

#### Joint Venture Operations

The consolidated entity's interests in unincorporated joint ventures is brought to account by including its interest in the following amounts in the appropriate categories in the statements of financial position and statements of financial performance:

- the individual assets employed in the joint venture;

- liabilities incurred by the consolidated entity in relation to the joint venture and the liabilities for which it is jointly and/or severally liable; and
- the income and expenses in relation to the joint venture.

The consolidated entity's interests in incorporated joint ventures is brought to account using the equity method of accounting. Investments in incorporated joint venture entities are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's share of the incorporated joint venture entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

#### Investment in Land Development Project

##### Valuation

Development properties are carried at the lower of cost and net realisable value. Cost includes expenses incidental to the cost of acquisition, development and holding costs including borrowing costs, rates and taxes. Independent valuations for development properties are obtained on an annual basis.

##### 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.

#### Investment in Research and Development Projects

Investments by the consolidated entity in research and development syndicates are included in other assets in the statement of financial position.

Income is brought to account on a straight-line basis over the term of the investment. Accordingly, taxation benefits derived are deferred and brought to account over the term of the investment. The capitalised research and development expenditure is amortised on a

straight-line basis over the same period.

Deferred expenditure and core technology is reviewed in accordance with the policy set out under the heading "Recoverable Amount". The impact of this review on the recognition of income tax benefits and income earned on the investment is also assessed at this time.

#### Dividends Payable

Dividends payable are recognised when declared.

#### Deferred Expenses

##### Establishment fees

The Company provided a home loan product whereby the member did not pay any initial establishment fees. The out of pocket costs the Company incurred in relation to setting up the loan (ie valuation and legal costs), were deferred as assets. These costs become payable by the member if the loan balance is reduced, within the first three years of the loan being settled, to less than half of the amount advanced. The deferred fees are amortised on a straight-line basis over this three year period, being the period during which the Company receives a benefit from the asset. If the costs become payable by the borrower during this time, the funds received are credited to the deferred costs asset.

##### Loan referral fees

Payments are made to third parties for the referral of loan business to the Company. These amounts are deferred as assets and amortised on a straight-line basis over three years.

##### Costs of acquisitions and mergers

Costs may be incurred by the Company as a direct result of the acquisition of other businesses. These costs relate to the investigation, negotiation and amalgamation phases of the purchase of other businesses. These amounts are deferred as assets and amortised on a straight-line basis over the period of time during which benefits are expected to be realised.

#### Employee Entitlements

##### Salaries, redundancy costs and annual leave

The provisions for employee entitlements to salaries, redundancy costs and annual leave represent the amounts which the consolidated

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 1 Statement of Significant Accounting Policies *continued*

entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on current salary rates and include related on-costs.

### Long service leave

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

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in salary rates and the consolidated entity's experience with staff departures. Related on-costs have also been included in the liability.

### Superannuation plan

The Company contributes to employee superannuation funds. These contributions are charged against profit in the period in which they are incurred. Further information is set out in note 21.

### Directors' Retirement Benefits

A provision for directors' retirement benefits is made in accordance with the Company's constitution.

### Derivative Financial Instruments

Derivative financial instruments are used to manage interest rate exposure. The consolidated entity uses interest rate swaps to hedge interest rate risks. Income or expenses on these instruments are recorded on an accruals basis as an adjustment to interest income on loans over the periods covered by the contracts. Further information is set out in note 35.

### Securitisation

The Company, through its securitisation program, packages and sells residential mortgage loans. In consideration for the sale the Company receives an amount equivalent to the unpaid balances of the loans.

Under the securitisation program the Company is appointed as servicer of the securitised loans. The duties of the servicer include the origination, servicing, administration and collection duties relating to the mortgage portfolio in accordance with the Company's normal practices. The Company receives a monthly fee for performing these duties in relation to the purchased loans. This fee is earned over the period in which the relevant income is earned. In addition the Company is entitled to residual income from the program, comprising interest received on securitised loans less interest due to the purchaser and other expenses of the securitisation program. The timing and amount of these residual income receipts cannot be readily measured because of the significant uncertainties inherent in estimating future movements in repayment rates on the underlying mortgage loans and interest margins. Consequently, the residual income receivable is not recognised as an

asset and no gain is recognised on the transfer of the loans. The residual income is therefore being recognised when receivable.

### Payables

Liabilities are recognised for amounts to be paid for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 30 days.

### 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 acquisition of the asset or as an 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.

### Comparative Amounts

Where necessary, comparative amounts have been adjusted to conform with changes in presentation for the current year.

Where additional disclosure is made for the first time and the past year's comparative amounts are not available, no amounts are shown.

## 2 Change in Accounting Policies

### Provisions

The consolidated entity has applied the requirements of Australian Accounting Standard AASB1044 Provisions, Contingent Liabilities and Contingent Assets for the first time from 1 July 2001. The standard introduces rules for the recognition, measurement and disclosure of provisions and includes detailed requirements for contingent assets and liabilities.

The company has applied AASB1044 as follows:

### Dividends

In accordance with the requirements of AASB1044, the Company has not recognised a provision for the final dividend in the financial report as the Company did not declare the dividend on or before 30 June 2002. A final dividend of 11.5 cents per share was declared on 31 July 2002. The adjustment to the financial report if AASB1044 had not been applied would be to recognise a provision for a final dividend of \$4,247,000. This would reduce retained profits at the end of the year to \$50,879,000 for the consolidated entity and \$49,517,000 for the Company.

### IMB Community Foundation

The Company has recognised a provision in the financial report for its contribution to the IMB Community Foundation amounting to \$500,000 for the year. On the adoption of AASB1044, contributions to the Foundation will be provided for on an accruals basis once the directors have determined the amount to be contributed for the financial year. In prior years, the Company's contribution has been recognised as an expense when the grant recipients were approved. The change in accounting policy has no financial effect in the current or prior period.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>3 Revenue, Expenses and Profit from Ordinary Activities</b>				
<b>REVENUE FROM ORDINARY ACTIVITIES</b>				
<b>Interest revenue</b>				
Loans				
– related entities	–	–	485	647
– other	107,561	107,509	106,367	106,604
Trading securities	4,253	9,300	4,253	9,300
Investment securities	7,532	6,787	8,517	6,787
	119,346	123,596	119,622	123,338
<b>Non interest income</b>				
Dividends	38	10	38	10
Profit from sale of property, plant and equipment*	195	3	195	3
Land development	2,233	1,437	–	–
Fees				
– loans	3,302	1,882	3,302	1,882
– other	7,080	6,679	7,080	6,679
Payment system income	1,894	1,632	1,894	1,632
Property income	156	130	156	130
Bad debts recovered	278	261	278	261
Commissions				
– insurance	638	629	638	629
– other	285	522	281	377
Securitisation	1,713	264	1,713	264
Other	798	497	786	490
	18,610	13,946	16,361	12,357
<b>Total Revenue from ordinary activities</b>	137,956	137,542	135,983	135,695

All the above income is from operating activities. There were no sources of income from outside operating activities.

\* The gross proceeds from the sale of property, plant and equipment amounted to \$865,000 (2001 \$127,000) which includes the gross proceeds of \$566,000 from the sale of a property during the year.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>3 Revenue, Expenses and Profit from Ordinary Activities</b> continued				
<b>EXPENSES</b>				
<b>Interest expense</b>				
Deposits				
– controlled entities	–	–	142	218
– other	72,388	77,505	72,388	77,483
Borrowings	10	19	10	19
	72,398	77,524	72,540	77,720
<b>Bad and doubtful debts expense</b>				
– bad debts written off	749	1,024	749	1,024
– increase/(decrease) in provision	149	(85)	149	(85)
	898	939	898	939
<b>Non interest expense</b>				
<b>Personnel</b>				
Salaries	18,487	17,141	18,487	16,999
Payroll tax	1,053	981	1,053	981
Fringe benefits tax	238	145	238	145
Superannuation	1,343	1,254	1,343	1,246
Increase in provisions for employee entitlements	449	660	449	592
	21,570	20,181	21,570	19,963
<b>Occupancy</b>				
Depreciation and amortisation				
– buildings	153	153	153	153
– leasehold improvements	397	411	397	411
Repairs and maintenance	297	325	297	324
Rental on operating leases	3,202	2,958	3,202	2,958
Other	1,080	1,174	1,080	1,144
	5,129	5,021	5,129	4,990



# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>3 Revenue, Expenses and Profit from Ordinary Activities</b> continued				
<b>Non interest expense</b> continued				
<b>General</b>				
Depreciation and amortisation				
– goodwill	187	4	167	–
– deferred expenses	1,129	233	1,137	225
– furniture, fixtures, fittings and other equipment	1,297	1,101	1,297	1,101
– computer equipment	593	552	593	550
– investment in controlled entities	–	–	592	593
– deferred research and development expenditure	592	593	–	–
Loss from sale of property, plant and equipment	56	140	56	140
Auditor's remuneration				
– audit of the financial statements	170	175	164	154
– other services				
– other assurance services	65	35	65	32
– taxation services	198	244	198	244
– legal services	229	66	229	90
– consultancy services	1	40	1	36
Consultancy	919	630	919	630
Data processing	1,621	1,380	1,621	1,377
Supervision levies	212	203	212	203
Land development	1,815	1,279	–	–
Marketing	3,614	2,784	3,614	2,776
Payment system charges	4,219	3,655	4,219	3,655
Printing and stationery	1,106	1,093	1,106	1,093
Telecommunications	922	800	922	800
Contributions to IMB Community Foundation	500	500	500	500
Other	4,256	3,890	3,955	3,900
	23,701	19,397	21,567	18,099
Total non interest expense	50,400	44,599	48,266	43,052
<b>Total Expenses</b>	123,696	123,062	121,704	121,711
<b>Profit from ordinary activities before income tax expense</b>	14,260	14,480	14,279	13,984

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>4 Income Tax</b>				
The income tax expense shown in the financial statements varies from the prima facie tax payable on the pre tax accounting profit as follows:				
Profit from ordinary activities	14,260	14,480	14,279	13,984
Prima facie income tax expense at 30% (2001 34%) of profit from ordinary activities	4,277	4,923	4,284	4,755
Increase in income tax expense due to:				
– depreciation of buildings	46	52	46	52
– amortisation/write-off of investment in controlled entities	–	–	186	201
– amortisation/write-off of deferred research and development expenditure	186	201	–	–
– other	23	47	23	40
Decrease in income tax expense due to:				
– dividends received	(11)	(3)	(11)	(3)
– tax deductions from research and development investments	(811)	(803)	(811)	(803)
Restatement of deferred tax balances due to changes in company tax rates	–	112	–	140
Income tax under/(over) provided in prior year	6	–	6	–
Income tax expense attributable to profit from ordinary activities	3,716	4,529	3,723	4,382
Income tax attributable to profit from ordinary activities is made up of:				
Provision attributable to current year	3,952	5,015	3,823	4,932
Deferred income tax	239	(294)	207	(419)
Future income tax benefit	(637)	(172)	(465)	(111)
Tax refund due	109	–	105	–
Under/(over) provision in prior year	53	(20)	53	(20)
	3,716	4,529	3,723	4,382

# notes to the financial statements

## FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>4 Income Tax</b> continued				
<b>TAX LIABILITIES</b>				
<b>Provision for income tax</b>				
Balance at beginning of the year	424	3,412	420	3,095
Income tax paid	(4,538)	(7,983)	(4,401)	(7,587)
Current year's income tax provision on profit from ordinary activities	3,952	5,015	3,823	4,932
Tax refund due	109	–	105	–
Under/(over) provision in prior year	53	(20)	53	(20)
Balance at end of the year	–	424	–	420
<b>Provision for deferred income tax</b>				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following item:				
Expenditure currently deductible for tax but deferred and amortised for accounting purposes	3,699	3,460	2,787	2,580
<b>Total tax liabilities</b>	3,699	3,884	2,787	3,000
<b>TAX ASSETS</b>				
<b>Future income tax benefit</b>				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:				
Provisions and accrued employee entitlements not currently deductible	2,108	1,823	1,595	1,380
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	297	47	297	47
<b>Total tax assets</b>	2,405	1,870	1,892	1,427
<b>Future income tax benefit not taken to account</b>				
The potential future income tax benefit in a controlled entity, which is a company, arising from tax losses has not been recognised as an asset because recovery of tax losses is not virtually certain:				
Tax losses carried forward	838	838	–	–

The potential future tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Company	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>5 Retained Profits</b>					
Retained profits at the beginning of the year		47,120	43,374	45,762	42,349
Net profit attributable to members of the parent entity		10,544	9,951	10,556	9,602
Net transfers to and from retained profits		16	(16)	–	–
Dividends	6	(2,554)	(6,189)	(2,554)	(6,189)
<b>Retained profits at the end of the year</b>		<b>55,126</b>	<b>47,120</b>	<b>53,764</b>	<b>45,762</b>

## 6 Dividends

Fully franked interim dividend provided on 31 December 2000					
– \$0.07 per share franked to 100% at a tax rate of 34% paid on 27 February 2001 on 34,937,793 shares		–	2,446	–	2,446
Fully franked final dividend provided on 30 June 2001					
– \$0.105 per share franked to 100% at a tax rate of 30% paid on 30 August 2001 on 35,580,928 shares		–	3,743	–	3,743
Fully franked interim dividend declared on 23 January 2002					
– \$0.07 per share franked to 100% at a tax rate of 30% paid on 27 February 2002 on 36,482,890 shares		2,554	–	2,554	–
		<b>2,554</b>	<b>6,189</b>	<b>2,554</b>	<b>6,189</b>

On 31 July 2002, the Board declared a final dividend of 11.5 cents per share amounting to \$4,247,000 franked to 100% at a tax rate of 30%, in respect to the year ended 30 June 2002. The dividend is payable on 30 August 2002.

### DIVIDEND FRANKING ACCOUNT

30% franking credits available to shareholders of IMB Ltd for subsequent financial years		44,596	41,784
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The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of dividends recognised as a liability at the year end
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to use the franking account credits is dependent on there being sufficient available profits to declare dividends.

From 1 July 2002 the new Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after-tax profits. As a result the "franking credits available" were converted from \$44,596,000 to \$19,113,000 as at 1 July 2002. This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

## 7 Receivables

Sundry debtors	1,902	1,944	1,403	1,081
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Receivables are carried at nominal amounts due and are under normal business terms and conditions.

# notes to the financial statements

## FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>8 Investments</b>				
Trading securities at market value				
– bills of exchange accepted or endorsed by a bank	10,895	9,453	10,895	9,453
– certificates of deposit issued by banks	36,823	122,422	36,823	122,422
– deposits with banks	428	7,776	428	7,776
	48,146	139,651	48,146	139,651
Investment securities at cost plus accrued income				
– government and semi-government securities	199,690	–	199,690	–
– bills of exchange accepted or endorsed by a bank	9,948	9,982	9,948	9,982
– deposits with banks	30,189	6,829	30,169	6,829
– deposits with other financial institutions	8,727	45,752	8,727	45,752
	248,554	62,563	248,534	62,563
Shares in entities and other investments				
Investments accounted for using the equity method	1,091	185	–	–
Other financial assets	977	622	2,419	807
Investment in controlled entities				
– at cost	–	–	20,701	10,432
– accumulated amortisation	–	–	(9,430)	(8,837)
	2,068	807	13,690	2,402
<b>Total Investments</b>	<b>298,768</b>	<b>203,021</b>	<b>310,370</b>	<b>204,616</b>
<b>MATURITY SCHEDULE OF INVESTMENTS</b>				
Securities maturing				
– up to three months	288,114	172,125	288,094	172,125
– from three to twelve months	8,586	20,074	8,586	20,074
– from one to five years	–	10,015	–	10,015
– over five years	2,068	807	13,690	2,402
<b>Total Investments</b>	<b>298,768</b>	<b>203,021</b>	<b>310,370</b>	<b>204,616</b>
<b>VALUATION OF INVESTMENTS</b>				
Investment and trading securities – at market value	296,637	202,214	296,637	202,214
Shares in entities and other investments – at cost	2,419	807	2,419	807
Investment in controlled entities – at written down value	–	–	11,271	1,595
	310,327	203,021	310,327	204,616

Oakvale Capital Limited independently provided yields to assist in the valuation of the Company's investment securities at 30 June 2002. Shares in controlled entities are valued at cost net of amortisation where applicable.

	Average maturity		Effective interest rates	
	2002 (mths)	2001 (mths)	2002 (%)	2001 (%)
<b>TERMS OF TRADING AND INVESTMENT SECURITIES</b>				
Government and semi-government securities	<1	–	4.66	–
Bills of exchange accepted or endorsed by a bank	2	1	4.89	4.97
Certificates of deposit issued by banks	2	3	4.97	5.05
Deposits with banks	<1	1	4.69	4.84
Deposits with building societies	3	1	4.95	5.52



# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Company	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>9 Loans</b>					
Loans to					
– controlled entities		–	–	6,275	7,676
– other persons		1,838,364	1,555,519	1,838,364	1,555,519
Provision for doubtful debts	10	(1,120)	(971)	(1,120)	(971)
<b>Total Loans</b>		<b>1,837,244</b>	<b>1,554,548</b>	<b>1,843,519</b>	<b>1,562,224</b>
<b>LOANS BY SECURITY</b>					
Secured by mortgage		1,786,620	1,498,273	1,792,895	1,505,949
Unsecured		51,744	57,246	51,744	57,246
Provision for doubtful debts		(1,120)	(971)	(1,120)	(971)
<b>Total Loans</b>		<b>1,837,244</b>	<b>1,554,548</b>	<b>1,843,519</b>	<b>1,562,224</b>
<b>LOANS BY PURPOSE</b>					
Residential loans		1,453,106	1,366,110	1,453,106	1,366,110
Personal loans		61,198	87,793	61,198	87,793
Commercial loans		314,537	92,092	320,812	99,768
Revolving credit		9,523	9,524	9,523	9,524
Provision for doubtful debts		(1,120)	(971)	(1,120)	(971)
<b>Total Loans</b>		<b>1,837,244</b>	<b>1,554,548</b>	<b>1,843,519</b>	<b>1,562,224</b>
<b>LOANS BY MATURITY</b>					
Loans maturing					
– revolving credit		9,523	9,524	9,523	9,524
– up to three months		10,840	12,568	10,888	13,096
– from three to twelve months		34,340	39,734	34,485	41,318
– from one to five years		177,796	195,003	183,878	200,567
– over five years		1,605,865	1,298,690	1,605,865	1,298,690
Provision for doubtful debts		(1,120)	(971)	(1,120)	(971)
<b>Total Loans</b>		<b>1,837,244</b>	<b>1,554,548</b>	<b>1,843,519</b>	<b>1,562,224</b>
<b>CONCENTRATION OF LOANS</b>					
New South Wales					
– Illawarra		377,455	401,806	383,730	409,482
– South Coast		152,047	160,622	152,047	160,622
– Southern Highlands		234,467	217,003	234,467	217,003
– Sydney		621,867	458,158	621,867	458,158
– Other*		128,213	–	128,213	–
Australian Capital Territory*		91,922	–	91,922	–
Queensland		75,261	69,101	75,261	69,101
Victoria*		112,418	–	112,418	–
Western Australia*		32,815	–	32,815	–
Other Australia*		11,899	248,829	11,899	248,829
Provision for doubtful debts		(1,120)	(971)	(1,120)	(971)
<b>Total Loans</b>		<b>1,837,244</b>	<b>1,554,548</b>	<b>1,843,519</b>	<b>1,562,224</b>

Excludes \$275,000,000 (2001 \$50,000,000) of securitised residential loans. Total loans under management are \$2,112,244,000 (2001 \$1,604,548,000).

\* Comparatives for 2001 are not available. These amounts were formerly included in Other Australia.

# notes to the financial statements

## FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>10 Provision for Doubtful Debts</b>				
<b>General provision</b>				
Balance at the beginning of the financial year	756	815	756	815
Movement in provision	134	(59)	134	(59)
Balance at the end of the financial year	890	756	890	756
<b>Specific provision</b>				
Balance at the beginning of the financial year	215	241	215	241
Movement in provision	15	(26)	15	(26)
Balance at the end of the financial year	230	215	230	215
<b>Total Provision for Doubtful Debts</b>	<b>1,120</b>	<b>971</b>	<b>1,120</b>	<b>971</b>
Statutory provision	376	484	376	484
Movement in general provision	134	(59)	134	(59)
Movement in specific provision	15	(26)	15	(26)
Bad debts recognised directly	749	1,024	749	1,024
Bad and doubtful debts expense	898	939	898	939
<b>Non accrual loans</b>				
Total non accrual loans	1,074	1,029	1,074	1,029
Specific provision	(230)	(215)	(230)	(215)
Net non accrual loans	844	814	844	814
Restructured loans	-	-	-	-
Property assets acquired through enforcement of security	965	-	965	-
Past due loans	1,138	1,382	1,138	1,382
Interest revenue on non accrual loans	99	104	99	104
Interest foregone on non accrual loans	-	14	-	14

The specific provision includes the Company's provision for loans specifically identified as doubtful of recovery. The general provision includes additional provision required under the Prudential Standards at 30 June 2002, and the additional provision required to meet the Company's provisioning policy.

Non accrual loans are loans where the recovery of all interest and principal is considered to be reasonably doubtful, hence provisions are recognised.

Restructured loans arise when the member is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non accrual loans when provisions are required.

Property assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past due loans are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If a provision is required, the loan is included in non accrual loans.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>11 Inventories</b>				
Freehold land held for development and sale				
– acquisition costs	842	2,897	–	–
– development costs capitalised	2,868	1,546	–	–
– rates, taxes and interest capitalised	1,676	1,954	–	–
<b>Total Inventories</b>	<b>5,386</b>	<b>6,397</b>	<b>–</b>	<b>–</b>

In June 2002, Mr K Jackson JP, Dip Bus (Val) FAPI Registered No. 2240, provided an independent market valuation on an englobo basis of the undeveloped land component of the above inventories. The consolidated entity's interest in this land, which is carried at a cost of \$5,386,000 (2001 \$5,097,000), was valued at \$12,235,000 (2001 \$10,625,000).

## 12 Property, Plant and Equipment

Freehold land				
– at cost	3,165	3,330	3,165	3,330
	3,165	3,330	3,165	3,330
Freehold buildings				
– at cost	5,892	5,974	5,892	5,974
– accumulated depreciation	(442)	(153)	(442)	(153)
	5,450	5,821	5,450	5,821
Total land and buildings	8,615	9,151	8,615	9,151
Plant and equipment				
– at cost	26,762	24,212	26,762	24,193
– accumulated depreciation	(17,354)	(16,170)	(17,354)	(16,168)
Total plant and equipment	9,408	8,042	9,408	8,025
Work in progress – at cost	520	190	520	190
<b>Total Property, Plant and Equipment</b>	<b>18,543</b>	<b>17,383</b>	<b>18,543</b>	<b>17,366</b>

### VALUATIONS

Independent valuations were carried out on 30 June 2002 by Mr H Zweep AICMV FREI on the open market value of the properties based on their existing use. The independent valuation valued freehold land and buildings at \$10,510,000. The Company's policy is to obtain an independent valuation of freehold land and buildings every three years. As freehold land and buildings are valued at cost, the valuation has not been brought to account.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>12 Property, Plant and Equipment</b> continued				
<b>Reconciliations</b>				
Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:				
<b>Freehold land</b>				
Carrying amount at the beginning of year	3,330	3,330	3,330	3,330
Disposals	(165)	–	(165)	–
Carrying amount at the end of year	3,165	3,330	3,165	3,330
<b>Buildings</b>				
Carrying amount at the beginning of year	5,821	5,974	5,821	5,974
Disposals	(218)	–	(218)	–
Depreciation	(153)	(153)	(153)	(153)
Carrying amount at the end of year	5,450	5,821	5,450	5,821
<b>Plant and Equipment</b>				
Carrying amount at the beginning of year	8,042	6,595	8,025	6,595
Additions	3,967	3,773	3,984	3,756
Disposals	(314)	(265)	(314)	(265)
Depreciation	(2,287)	(2,061)	(2,287)	(2,061)
Carrying amount at the end of year	9,408	8,042	9,408	8,025
<b>Work in progress</b>				
Carrying amount at the beginning of year	190	726	190	726
Additions	1,824	1,706	1,824	1,706
Transfers to plant and equipment	(1,494)	(2,242)	(1,494)	(2,242)
Carrying amount at the end of year	520	190	520	190

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>13 Intangible Assets</b>				
Goodwill – at cost	1,438	24	857	–
Accumulated amortisation	(191)	(4)	(167)	–
<b>Total Intangible Assets</b>	<b>1,247</b>	<b>20</b>	<b>690</b>	<b>–</b>
<b>14 Other Assets</b>				
Capitalised research and development expenditure – at cost	6,859	6,859	–	–
Accumulated amortisation	(6,859)	(6,267)	–	–
	–	592	–	–
<b>Deferred expenditure</b>				
Loan referral fees – at cost	4,329	906	4,329	860
Accumulated amortisation	(982)	(65)	(982)	(57)
	3,347	841	3,347	803
Loan establishment fees – at cost	194	194	194	194
Accumulated amortisation	(147)	(71)	(147)	(71)
	47	123	47	123
Company set up expenses – at cost	15	–	–	–
Accumulated amortisation	–	–	–	–
	15	–	–	–
Securitisation costs	618	323	618	323
Accumulated amortisation	(233)	(97)	(233)	(97)
	385	226	385	226
Total deferred expenditure	3,794	1,190	3,779	1,152
<b>Total Other Assets</b>	<b>3,794</b>	<b>1,782</b>	<b>3,779</b>	<b>1,152</b>

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>15 Deposits</b>				
Members' deposits	2,023,656	1,658,508	2,031,234	1,666,093
Accrued interest	12,835	11,732	12,835	11,732
<b>Total Deposits</b>	<b>2,036,491</b>	<b>1,670,240</b>	<b>2,044,069</b>	<b>1,677,825</b>
<b>DEPOSITS BY MATURITY</b>				
Deposits maturing				
– on call	706,421	611,848	713,999	619,433
– up to three months, excluding those on call	917,567	796,416	917,567	796,416
– from three to six months	215,981	128,005	215,981	128,005
– from six to twelve months	173,245	108,618	173,245	108,618
– from one to five years	23,277	25,353	23,277	25,353
<b>Total Deposits</b>	<b>2,036,491</b>	<b>1,670,240</b>	<b>2,044,069</b>	<b>1,677,825</b>
<b>CONCENTRATION OF DEPOSITS</b>				
New South Wales				
– Illawarra	747,489	668,021	755,067	675,606
– South Coast	355,477	305,674	355,477	305,674
– Southern Highlands	250,994	215,295	250,994	215,295
– Sydney	253,387	175,440	253,387	175,440
– Other*	196,939	–	196,939	–
Australian Capital Territory*	109,620	–	109,620	–
Queensland	16,746	14,853	16,746	14,853
Victoria*	91,726	–	91,726	–
Western Australia*	912	–	912	–
Other Australia*	13,201	290,957	13,201	290,957
<b>Total Deposits</b>	<b>2,036,491</b>	<b>1,670,240</b>	<b>2,044,069</b>	<b>1,677,825</b>

\* Comparatives for 2001 are not available. These amounts were formerly included in Other Australia.



# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Company	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>16 Payables</b>					
Sundry creditors and accruals					
– controlled entities		–	–	9,509	–
– other persons		9,831	6,699	5,302	2,080
<b>Total Payables</b>		9,831	6,699	14,811	2,080
<b>17 Interest Bearing Liabilities</b>					
Subordinated Debt		10,000	–	10,000	–

Floating Rate Notes were issued for a ten year period maturing 2012 with an option to redeem at par after five years subject to Australian Prudential Regulatory Authority approval. Interest is paid quarterly in arrears based on the 90 day Bank Bill Rate plus a margin.

In line with the Australian Prudential Regulation Authority's capital adequacy measurement rules the floating rate notes are included in lower tier 2 capital.

## 18 Provisions

Dividends payable	6	–	3,743	–	3,743
Employee entitlements	21	3,814	3,434	3,814	3,367
<b>Total Provisions</b>		3,814	7,177	3,814	7,110

# notes to the financial statements

## FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>19 Contributed Equity</b>				
Share capital				
36,932,864 (2001 35,580,928) ordinary shares, fully paid	37,627	34,007	37,627	34,007

Under its constitution, the Company may issue new shares at any time. Also under the constitution of the Company, no person may hold an entitlement in any class of shares of more than five percent (5%) of the nominal value of all shares of that class. Subject to the constitution, a member of the Company is entitled to vote and has one vote only, irrespective of the number of shares or the number or amounts of deposits held. Under the Company's constitution, depositors have an equity interest in the net assets of the consolidated entity upon its winding up. Therefore, in the event of a surplus on winding up, the amount attributable to shareholders would be reduced by an amount equal to the equity interest of depositors at that time.

### MOVEMENTS IN ORDINARY SHARE CAPITAL

Balance at the beginning of the financial year	34,007	30,577	34,007	30,577
Issue on 30 August 2000 of 897,013 shares under the dividend re-investment plan	–	2,028	–	2,028
Issue on 27 February 2001 of 643,135 shares under the dividend re-investment plan	–	1,402	–	1,402
Issue on 18 July 2001 of 60,949 shares to Australian Unity Ltd as part payment for the purchase of Australian Unity Building Society Limited	150	–	150	–
Issue on 30 August 2001 of 841,013 shares under the dividend re-investment plan	2,111	–	2,111	–
Issue on 27 February 2002 of 449,974 shares under the dividend re-investment plan	1,359	–	1,359	–
Balance at the end of the financial year	37,627	34,007	37,627	34,007

### 20 Reserves

Asset revaluation	5,625	5,625	5,625	5,625
General	25,255	25,255	25,255	25,255
<b>Total Reserves</b>	<b>30,880</b>	<b>30,880</b>	<b>30,880</b>	<b>30,880</b>

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
<b>21 Employee Entitlements</b>				
Aggregate employee entitlements, including on-costs	3,814	3,434	3,814	3,367
The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:	%	%	%	%
Assumed rate of increase in salary rates	5.00	5.00	5.00	5.00
Discount rate	5.81	5.74	5.81	5.74

## Directors' Retirement Benefits

Under the Company's constitution, benefits are payable on retirement to directors. The amount paid is equal to the amount permitted to be payable by the Corporations Act 2001 without further approval by members. The Company's liability for directors' retirement benefits has been included in employee entitlements.

## Superannuation Funds

The Company contributes on behalf of its employees to the following superannuation funds:

- The IMB Staff Defined Benefit Superannuation Fund
- The IMB Staff Accumulation Superannuation Fund

### The IMB Staff Defined Benefit Superannuation Fund

The Company pays contributions in respect of each fund member based on a fixed percentage of the member's salary. The fund provides defined benefits based on years of service and the final average salary. An actuarial assessment of the fund at 1 September 1999 was carried out by Mr S Defina, FIAA on 6 December 1999. The assessment concluded that the assets of the fund are sufficient to meet all the benefits payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each fund member. The next actuarial assessment will be carried out on 1 September 2002.

	Fund assets			
	at net market value	Accrued benefits	Excess	Vested benefits
	\$000	\$000	\$000	\$000
The IMB Staff Defined Benefit Fund at 30 June 2002	4,581	2,638	1,943	2,506
The IMB Staff Defined Benefit Fund at 30 June 2001	5,215	2,638	2,577	2,811

Fund assets at market value have been calculated at 30 June 2002, being the date of the most recent financial statements of the fund. Accrued benefits have been obtained from the most recent financial statements of the fund being 30 June 2002, but are based on an actuarial review carried out on 1 September 1999. Accrued benefits are benefits which the fund is presently obliged to pay at some future date, as a result of membership of the fund. Vested benefits have been calculated at 30 June 2002, being the date of the most recent financial statements of the fund. Vested benefits are benefits which are not conditional upon the continued membership of the fund or any factor other than resignation from the fund. Employer contributions to the fund totalled \$232,000 (2001 \$203,000).

### The IMB Staff Accumulation Superannuation Fund

The Company paid contributions in respect of each fund member at the rate of 8% (2001 8%) of each fund member's gross salary. Employees may contribute to the fund on a voluntary basis. In addition, the Company contributes further amounts to members' accounts commensurate with length of service and grade. As the fund is an accumulation fund, benefits provided to fund members are based on the amounts credited to each member's account in the fund. No actuarial assessment is required for this fund. Vested benefits are benefits which are not conditional upon the continued membership of the fund or any factor other than resignation from the fund. All contributions received into the fund are vested. Employer contributions to the fund on behalf of the Company totalled \$1,111,000 (2001 \$1,043,000).

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>22 Commitments</b>				
Loans approved but not advanced, payable				
- not later than one year	285,894	252,965	285,894	252,965
Capital expenditure commitments not taken up in the financial statements, payable				
- not later than one year	2,097	126	2,097	126
Operating lease liabilities, payable				
- not later than one year	2,774	2,638	2,774	2,638
- later than one year but not later than five years	3,440	4,306	3,440	4,306
- later than five years	54	110	54	110
	6,268	7,054	6,268	7,054

The Company leases property under operating leases expiring 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.

## 23 Unused Credit Facilities

Bank overdraft	2,500	2,500	2,500	2,500
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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.

## 24 Contingent Liabilities

### Guarantees given by IMB Ltd

#### Real Estate Development

Guarantee in favour of Shellharbour City Council \$595,000 (2001 \$705,000) in association with real estate development activities undertaken by a controlled entity, IMB Land Pty Ltd and that entity's joint venturer.

Indemnity of \$50,000 (2001 \$50,000) in favour of the Commonwealth Bank of Australia covering guarantees by the bank as part of conditions relating to the purchase of land in association with real estate development activities undertaken by a controlled entity, IMB Land Pty Ltd and that entity's joint venturer.

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

### Pledges

The Company has a pledge in favour of Westpac Banking Corporation of \$10,000,000 (2001 \$10,000,000) securing its cheque clearing facility.

### Australian Taxation Office Audit - Research & Development Syndicates

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

The ATO has issued a position paper on one syndicate. The Company responded to the position paper. No amended tax assessments have been issued by the ATO and the directors

intend to defend the Company's taxation position should any adjustments be proposed by the ATO.

A second syndicate is also being audited by the ATO. At this time, no position paper has been issued by the ATO and no amended assessments have been received. Whilst the directors intend to defend any potential claims, if the ATO was successful in any action then an income tax liability in relation to primary tax of \$3.85 million would arise. This does not take into account interest and penalties. In the event that the ATO was successful, it is the view of the Company that it is entitled to and would seek to recover any liability from third parties.

While the final outcomes of the audits are uncertain, the directors are of the view that no adjustment to the provision for income tax is required as at 30 June 2002.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 25 Controlled Entities

Entity	Principal Activity	2002	2001
		Ownership Interest %	Ownership Interest %
Australian Unity Building Society Limited	Dormant	100.0	–
Callidus Group Investments Pty Limited	Funds management	50.1	–
IMB Funeral Fund Management Pty Ltd	Trustee	100.0	100.0
IMB Land Pty Ltd	Land development	100.0	100.0
IMB Community Foundation Pty Ltd	Dormant	100.0	100.0
Macquarie Syndication (No. 8) Pty Ltd	Research and development	–	100.0
Lophaver Pty Ltd	Investment	100.0	100.0
– Lafoten Pty Ltd*	Research and development	100.0	100.0
– Sonoridad Pty Ltd*	Research and development	–	100.0
– Vesteraleen Pty Ltd*	Research and development	100.0	100.0

\* Controlled entities of Lophaver Pty Ltd which holds 100% of the equity in each of the controlled entities.

Australian Unity Building Society Limited was incorporated in Victoria, Australia. All other entities were incorporated in New South Wales, Australia.

### Acquisition/disposal of controlled entities

The following controlled entities were acquired or disposed of during the financial year:

#### Acquisitions of entities

During the financial year the Company purchased 100% of the voting shares of Australian Unity Building Society Limited.

Details of the acquisition are as follows:

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Consideration				
Cash	9,530	–	9,530	–
Shares	150	–	150	–
	9,680	–	9,680	–
Fair value of net assets of entity acquired:				
Loans	20,967	–	20,967	–
Investments	53,439	–	53,439	–
Other assets	686	–	686	–
Deposits	(64,758)	–	(64,758)	–
Accounts payable	(900)	–	(900)	–
Provisions	(635)	–	(635)	–
	8,799	–	8,799	–
Goodwill on acquisition	881	–	881	–
Consideration	9,680	–	9,680	–

Australian Unity Building Society Limited was acquired on 1 July 2001 and the operating results of the entity from that date have been included in consolidated operating profit.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 25 Controlled Entities continued

During the financial year the consolidated entity purchased 50.1% of the voting shares of Callidus Group Investments Pty Limited.

Details of the acquisition are as follows:

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Consideration				
Cash	–	–	1,010	–
Cash acquired	(66)	–	–	–
(Inflow)/outflow of cash	(66)	–	1,010	–
Fair value of net assets of entity acquired:				
Other assets	15	–	–	–
Accounts payable	(187)	–	–	–
	(172)	–	–	–
Outside equity interest at acquisition	(451)	–	–	–
	(623)	–	–	–
Goodwill on acquisition	557	–	–	–
Consideration (cash)	(66)	–	–	–

Callidus Group Investments Pty Limited was acquired on 24 June 2002 and the operating results from that date have been included in consolidated operating profit.

### Disposal of entities

On 28 December 2001, the Company disposed of all of the ordinary shares of Macquarie Syndication (No. 8) Pty Ltd to Commonwealth Scientific and Industrial Research Organisation (CSIRO). There was no profit on disposal of the company. No interest is now held in the company.

On 22 June 2002, the consolidated entity disposed of all of the ordinary shares of Sonoridad Pty Ltd to The Institution of Respiratory Medicine Ltd. There was no profit on disposal of the company. No interest is now held in the company.

	Consolidated	
	2002 \$000	2001 \$000
Outside equity interests in controlled entities comprise:		
Interest in retained losses at the end of the financial year	(86)	–
Interest in share capital	537	–
<b>Total Outside Equity Interests</b>	<b>451</b>	<b>–</b>



# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 27 Interests in Joint Venture Operations

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

Controlled entity participating in joint venture	Percentage interest		Nature of activities	Contribution to net profit attributable to members	
	2002 %	2001 %		2002 \$000	2001 \$000
IMB Land Pty Ltd	50.0	50.0	Land development	301	81
Macquarie Syndication (No. 8) Pty Ltd	–	36.0	Research and development	–	–
Lafoten Pty Ltd	–	99.9	Research and development	–	–
Sonoridad Pty Ltd	–	63.0	Research and development	221	221
Vesteralen Pty Ltd	–	99.9	Research and development	–	–

Macquarie Syndication (No. 8) Pty Ltd and Sonoridad Pty Ltd were disposed of by the consolidated entity during the year (refer note 25). The research and development activities of Lafoten Pty Ltd and Vesteralen Pty Ltd were wound up during the year, therefore these companies are no longer operating.

Included in the assets of the consolidated entity are the following items which represent the consolidated entity's interest in the assets employed in the joint ventures, recorded in accordance with the accounting policies described in note 1.

Assets	2002 \$000	2001 \$000
Cash	201	393
Receivables	499	862
Inventories	5,386	6,398
Other	–	113
<b>Total Assets</b>	<b>6,086</b>	<b>7,766</b>

### Investments accounted for using the equity method

The Company also holds an interest in the following incorporated joint venture:

Controlled entity participating in joint venture	Percentage interest		Nature of activities	2002 \$000	2001 \$000
	2002 %	2001 %			
IMB Financial Planning Limited	50.0	50.0	Financial planning		

### Results of incorporated joint venture

Share of loss from ordinary activities before income tax expense	(284)	(90)
Share of income tax benefit relating to loss from ordinary activities	85	25
Share of net loss accounted for using the equity method	(199)	(65)

### Movement in carrying amount of investment in incorporated joint venture

Carrying amount at beginning of year	185	–
Investment in joint venture acquired during the year	1,105	250
Share of net loss	(199)	(65)
Carrying amount at end of year	1,091	185

During the financial year, IMB Financial Planning Limited acquired 100% of the voting shares in Exford Pty Ltd, which holds 80% of the voting shares of King Financial Services Pty Ltd.

# notes to the financial statements

## FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Company	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>28 Notes to the Statements of Cash Flows</b>				
<b>RECONCILIATION OF CASH</b>				
Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related item in the statements of financial position:				
Cash at bank and on hand	18,630	13,042	17,556	12,798
Cash assets	18,630	13,042	17,556	12,798
<b>RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit from ordinary activities after income tax	10,544	9,951	10,556	9,602
Depreciation of property, plant and equipment	2,441	2,217	2,441	2,215
Amortisation of deferred research and development expenditure	592	593	-	-
Amortisation of investment in controlled entities	-	-	592	593
Amortisation of goodwill	187	4	167	-
Amortisation of deferred expenditure	1,129	233	1,137	225
(Profit)/Loss on sale of property, plant and equipment	(164)	137	(164)	137
Bad debts written off	898	939	898	939
Net cash provided by operating activities before changes in assets and liabilities	15,627	14,074	15,627	13,711
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
Increase in accrued interest on investments	(549)	(333)	(549)	(333)
Decrease/(increase) in inventories	1,011	(750)	-	-
Decrease/(increase) in sundry debtors	42	333	(322)	(105)
Increase in future income tax benefit	(535)	(172)	(465)	(111)
Increase/(decrease) in accrued interest on members' deposits	1,103	(330)	1,103	(339)
Increase in deferred expenses	(4,306)	(1,074)	(4,372)	(1,028)
Increase in sundry creditors	3,635	1,633	3,931	1,943
Increase in provision for employee entitlements	380	660	447	593
Decrease in provision for income tax	(424)	(2,988)	(420)	(2,675)
Increase/(decrease) in deferred tax payable	239	(294)	207	(419)
Increase/(decrease) in provision for doubtful debts	149	(85)	149	(85)
Net cash flows from operating activities	16,372	10,674	15,336	11,152
<b>CASH FLOWS PRESENTED ON A NET BASIS</b>				
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.				
<b>NON CASH FINANCING AND INVESTING ACTIVITIES</b>				
Issue of share capital under the dividend re-investment plan	3,470	3,430	3,470	3,430

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

			Company		
			2002	2001	
<b>29 Directors' Remuneration</b>					
<b>Directors' income</b>					
The number of directors of the Company whose income (including superannuation and retirement benefits) from the Company or any related party falls within the following bands:					
\$30,000	-	\$39,999	-	1	
\$50,000	-	\$59,999	4	-	
\$60,000	-	\$69,999	1	-	
\$80,000	-	\$89,999	1	-	
\$90,000	-	\$99,999	-	2	
\$100,000	-	\$109,999	-	2	
\$120,000	-	\$129,999	1	-	
\$130,000	-	\$139,999	-	1	
\$170,000	-	\$179,999	-	1	
\$210,000	-	\$219,999*	-	1	
		Consolidated		Company	
		2002	2001	2002	2001
		\$000	\$000	\$000	\$000
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party		513	996	513	994
Base emoluments		317	309	317	307
Superannuation contributions		26	24	26	24
Retirement benefits accrued		170	481	170	481
Retirement benefits paid		-	182	-	182
		513	996	513	994

\*The directors' remuneration for 2001 includes the retirement benefits paid to the former chairman.

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

			Company		
			2002	2001	
<b>30 Executives' Remuneration</b>					
The number of executive officers of the Company and of controlled entities, whose remuneration (including superannuation and redundancy payments) from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:					
\$150,000	-	\$159,999	-	1	
\$160,000	-	\$169,999	-	1	
\$170,000	-	\$179,999	1	-	
\$180,000	-	\$189,999	1	-	
\$190,000	-	\$199,999	1	-	
\$260,000	-	\$269,999	-	1	
\$270,000	-	\$279,999	1	-	
		\$000	\$000	\$000	\$000
Total income received or due and receivable, (including superannuation and redundancy payments) from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is \$100,000 or more		820	578	820	578

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level. Executives' remuneration does not include insurance premiums paid by the Company in respect of directors' and officers' liabilities and legal expenses contracts, as the insurance policies do not specify premiums paid in respect of individual executives.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 31 Related Party Transactions

### Directors

The names of each person holding the position of director of the Company during the financial year are Prof KR McKinnon, Mr PF Bolt, Mr GA Edgar, Mr LR Fredericks, Mr H Hanson, Ms VJ Twyford and Mr BE Wauchope.

Details of directors' remuneration and retirement payments and benefits are set out in note 29.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests at year end.

The Company participates in a real estate development joint venture through IMB Land Pty Ltd, a controlled entity. The other participant in the joint venture is Miltonbrook Land Pty Ltd. This company is significantly influenced by a relative of Mr LR Fredericks. The Company has advanced secured loans to the joint venture during the course of the development. The interest rate is at a fixed commercial margin above the applicable bank bill rate set on the first working day of the month for the ensuing month. The aggregate amount of these loans is \$12,551,000 at 30 June 2002 (2001 \$15,354,000). During the year there were repayments of \$4,775,000 (2001 \$7,561,000), interest of \$971,000 (2001 \$1,299,000) and advances of \$1,001,000 (2001 \$6,443,000).

Ms VJ Twyford is a director and shareholder in Vivien Twyford Communication Pty Limited, which has provided consultancy services to the Company throughout the year in relation to the IMB Community Foundation. The total cost of these services was \$46,900 (2001 \$43,500). These services were provided under the terms of a contract that was awarded after a competitive tender process involving several applicants.

Loans to directors of the Company are provided in the ordinary course of business and are subject to the terms normally imposed by the Company on members in accordance with the Company's constitution. The aggregate amount of the loans outstanding relating to Mr LR Fredericks and Ms VJ Twyford is \$248,000 (2001 \$256,000). The aggregate amount of repayments on these loans was \$41,000 (2001 \$40,000). The aggregate amount of advances on these loans was \$17,000 (2001 \$57,000). The aggregate amount of interest on these loans was \$16,000 (2001 \$17,000).

The relevant interests of directors and director related entities in the share capital of the Company in aggregate at 30 June 2002 was 99,950 shares (2001 94,497). During the year, directors and director related entities acquired an aggregate of 5,053 shares (2001 21,247). The aggregate amount of dividends paid to directors, or director related entities, was \$15,335 (2001 \$14,000).

The Company has also received deposits from the directors and their related entities. These amounts were received on the same terms and conditions as are applicable to members generally and are trivial or domestic in nature.

Unless otherwise stated in this note, all dealings with related parties are in the ordinary course of business and on normal commercial terms and conditions.

### Wholly Owned Group

The Company participates in research and development projects through a controlled entity, Lophaver Pty Ltd. During the year, the Company amortised its investment in controlled entity, Lophaver Pty Ltd by \$592,000 (2001 \$593,000).

The aggregate amount of the investment in Lophaver Pty Ltd at 30 June is:

	2002 \$000	2001 \$000
Total investment	9,430	9,430
Accumulated amortisation	(9,430)	(8,838)
	-	592

The Company seeks a return on the investment in excess of the Company's normal commercial lending rate which will be earned from the research and development investment.

IMB Land Pty Ltd, a controlled entity has deposits with the Company amounting to \$3,536,000 (2001 \$3,435,000). These amounts are received on normal commercial terms and conditions.

### Other Related Parties

IMB Financial Planning Limited has related party transactions with the Company. Deposits with the Company by IMB Financial Planning Limited amount to \$522,000 (2001 \$263,000). These amounts are received on normal commercial terms and conditions.

The Company provided accounting services to IMB Financial Planning Limited during the year. In return for these services, IMB Financial Planning Limited has paid the Company fees amounting to \$28,000 (2001 \$21,000). The Company also provides premises for IMB Financial Planning Limited. The Company has received \$66,000 (2001 \$38,000) 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 \$9,000 (2001 \$nil) to IMB Financial Planning Limited during the year.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 32 Statement of Operations of Segments

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

## 33 Service Contracts and Economic Dependencies

The Company entered into a service agreement with UBS Global Asset Management (Australia) Limited (formerly UBS Brinson Limited) on 1 October 1998. Under the service agreement, UBS Global Asset Management (Australia) Limited assists the Company in the management of a portion of the Company's trading securities.

On 5 June 1996, the Company entered into a service agreement with Oakvale Capital Limited. Under the service agreement, Oakvale Capital Limited assists the Company in the management of a portion of the Company's trading securities.

On 1 March 2002, the Company entered into a service agreement with Oakvale Capital Limited. Under the service agreement, Oakvale Capital Limited provides asset and liability risk management services.

The Company has an economic dependency on Cashcard Australia Limited for the switching of ATM, Eftpos and other forms of electronic payments.

## 34 Average Statement of Financial Position and Related Interest

	Consolidated					
	2002		2001			
	Average Balance \$000	Interest \$000	Average Rate %	Average Balance \$000	Interest \$000	Average Rate %
<b>INTEREST EARNING ASSETS</b>						
Loans	1,731,585	107,561	6.21	1,430,193	107,509	7.52
Trading securities	93,405	4,253	4.55	155,350	9,300	5.99
Investment securities	175,588	7,532	4.29	101,428	6,787	6.69
Total Interest Earning Assets	2,000,578	119,346	5.97	1,686,971	123,596	7.33
<b>NON INTEREST EARNING ASSETS</b>						
Inventories	5,273			6,022		
Property, plant and equipment	18,013			17,004		
Other assets	26,173			22,765		
Total Non Interest Earning Assets	49,459			45,791		
Total Assets	2,050,037			1,732,762		
<b>INTEREST BEARING LIABILITIES</b>						
Deposits	1,907,738	72,398	3.79	1,588,537	77,524	4.88
<b>NON INTEREST BEARING LIABILITIES</b>						
Other liabilities	18,765			35,924		
Total Liabilities	1,926,503			1,624,461		
Net Assets	123,534			108,301		
Net Interest Income		46,948			46,072	
Interest spread			2.18			2.45
Interest margin			2.35			2.73

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 34 Average Statement of Financial Position and Related Interest continued

	2002 over 2001		
	Increase/(decrease) due to change in		
	Average	Average	Total
	Balance	Rate	
	\$000	\$000	\$000
<b>VOLUME AND RATE ANALYSIS</b>			
<b>Interest Earning Assets</b>			
Loans	22,656	(22,604)	52
Trading securities	(3,708)	(1,339)	(5,047)
Investment securities	4,962	(4,217)	745
Change in interest income	23,910	(28,160)	(4,250)
<b>Interest Bearing Liabilities</b>			
Deposits	15,578	(20,704)	(5,126)
Change in interest expense	15,578	(20,704)	(5,126)
Change in net interest income	8,332	(7,456)	876

## 35 Risk Management and Financial Instruments

Financial institutions face an array of risks, the most important being credit risk, market risk and liquidity risk. The Company's directors recognise that the success or otherwise of the Company depends on its management of these risks. The directors have established a framework of risk management policies and controls, which are implemented and monitored by senior management and specialist committees. The Company's internal audit section is responsible for the continual monitoring of adherence to risk management policies.

### Credit Risk

The Company offers fixed and variable rate mortgage loans, commercial loans, personal loans and revolving credit facilities to members, primarily householders including some small business and corporate clients. Credit risk arises from the possibility that the borrower will not adhere to the repayment terms of the loan contract.

The Company's maximum exposures to credit risk at balance date in relation to each class of financial asset is the carrying amount of those assets as indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or

other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

The Company seeks to minimise this risk by adopting high standards for lending quality, which are incorporated into the loan approval process. Monitoring and management of credit risk is the responsibility of a specialist credit management department.

In relation to unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The consolidated entity'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 \$329,000 (2001 \$nil).

Counterparty risk for investments in financial instruments and derivatives is limited to Australian licensed banks which have a Standard and Poors short term credit rating of A2 or above. The Company also invests in other Authorised Deposit-Taking Institutions subject to specific counterparty risk criteria being met.

### Liquidity Risk

Liquidity risk arises from the mismatch in the maturity of the Company's assets and its liabilities. The Company has in place liquidity risk management policies and procedures designed to ensure it has sufficient funds to meet all its obligations.

Liquidity standards set by the directors ensure that in addition to meeting the minimum requirements set by the Australian Prudential Regulation Authority, further liquid funds are available as required. It is a continuing objective of the Company to maintain a stable funding base through diversification of funding sources and obtaining longer term funding. The Company's liquidity position is monitored on a daily basis.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 35 Risk Management and Financial Instruments continued

### Market Risk

The operations of the Company are subject to risk of interest rate fluctuations to the extent that there is a difference between the amount of the Company's interest earning assets and the amount of interest bearing liabilities that mature or re-price in specific periods. This risk is known as market risk. The market risk is the primary responsibility of the risk management committee. This committee is comprised of senior management who, with the support of sophisticated analysis tools, monitor and implement strategies to manage this risk within limits set by the directors.

During the current financial year this strategy has included the use of interest rate swaps, which are a form of derivative financial instrument. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts calculated by reference to an agreed notional principal amount.

The following table indicates the swaps used and their weighted interest rate at 30 June:

	2002	2001
<b>Pay-fixed swaps</b>		
Notional amount (\$000)	510,000	460,000
Average pay rate (%)	5.96	5.97
Average receive rate (%)	4.82	4.91
<b>Pay-variable swaps</b>		
Notional amount (\$000)	-	15,000
Average pay rate (%)	-	4.89
Average receive rate (%)	-	5.37

The effect of these swaps on maturity dates and interest spread received by the Company at 30 June 2002 is illustrated in the following table:

	Net assets/ (liabilities) pre hedges \$000	Swaps \$000	Net assets/ (liabilities) post hedges \$000
At call	375,433	-	375,433
Maturing 0-2 years	(700,304)	190,000	(510,304)
Maturing 2-3 years	213,386	(130,000)	83,386
Maturing 3-5 years	211,404	(60,000)	151,404
Total	99,919	-	99,919
Interest spread	2.52%	-0.27%	2.25%

The Company does not enter into transactions involving derivative financial instruments other than for hedging market risk.



# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 35 Risk Management and Financial Instruments continued

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

Financial instruments	Note	Floating interest rate		1 year or less		Fixed interest rate maturing in	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000	Over 1 to 5 years 2002 \$000	2001 \$000
<b>FINANCIAL ASSETS</b>							
Cash		-	-	-	-	-	-
Receivables	7	-	-	-	-	-	-
Investments accounted for using the equity method	8	-	-	-	-	-	-
Other financial assets	8	-	-	-	-	-	-
Government & semi-government securities	8	-	-	199,690	-	-	-
Bills of exchange	8	-	-	20,843	19,435	-	-
Certificates of deposits	8	-	-	36,823	112,407	-	10,015
Deposits with banks	8	30,567	14,555	50	50	-	-
Deposits with other financial institutions	8	-	-	8,727	45,752	-	-
Loans to other persons	9	1,077,996	785,523	163,088	203,493	596,160	565,532
<b>Total financial assets</b>		<b>1,108,563</b>	<b>800,078</b>	<b>429,221</b>	<b>381,137</b>	<b>596,160</b>	<b>575,547</b>
<b>FINANCIAL LIABILITIES</b>							
Deposits	15	706,421	611,848	1,306,793	1,033,039	23,277	25,353
Sundry creditors	16	-	-	-	-	-	-
Subordinated debt	17	-	-	10,000	-	-	-
Dividends payable	6	-	-	-	-	-	-
Employee entitlements	18	-	-	-	-	-	-
<b>Total financial liabilities</b>		<b>706,421</b>	<b>611,848</b>	<b>1,316,793</b>	<b>1,033,039</b>	<b>23,277</b>	<b>25,353</b>
<b>Unrecognised financial instruments</b>							
Interest rate swaps		510,000	445,000	(140,000)	(105,000)	(370,000)	(340,000)
Loans approved not advanced		184,176	122,081	49,571	7,824	47,635	88,343

More than 5 years		Non interest bearing		Total carrying amount as per statement of financial position		Weighted average effective interest rate		Financial instruments
2002 \$000	2001 \$000	2002 \$000	2001 \$000	2002 \$000	2001 \$000	2002 %	2001 %	
								<b>FINANCIAL ASSETS</b>
-	-	18,630	13,042	18,630	13,042			Cash
-	-	1,902	1,944	1,902	1,944			Receivables
-	-	1,091	185	1,091	185			Investments accounted for using the equity method
-	-	977	622	977	622			Other financial assets
-	-	-	-	199,690	-	4.66	-	Government & semi- government securities
-	-	-	-	20,843	19,435	4.89	4.97	Bills of exchange
-	-	-	-	36,823	122,422	4.97	5.05	Certificates of deposits
-	-	-	-	30,617	14,605	4.69	4.84	Deposits with banks
-	-	-	-	8,727	45,752	4.95	5.52	Deposits with other financial institutions
-	-	-	-	1,837,244	1,554,548	6.61	7.04	Loans to other persons
-	-	22,600	15,793	2,156,544	1,772,555			<b>Total financial assets</b>
								<b>FINANCIAL LIABILITIES</b>
-	-	-	-	2,036,491	1,670,240	3.86	4.22	Deposits
-	-	9,831	6,699	9,831	6,699			Sundry creditors
-	-	-	-	10,000	-	7.50	-	Subordinated debt
-	-	-	3,743	-	3,743			Dividends payable
-	-	3,814	3,434	3,814	3,434			Employee entitlements
-	-	13,645	13,876	2,060,136	1,684,116			<b>Total financial liabilities</b>
								<b>Unrecognised financial instruments</b>
-	-	-	-					Interest rate swaps
4,512	34,717	-	-			6.31	7.21	Loans approved not advanced

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 35 Risk Management and Financial Instruments continued

The aggregate fair values of financial assets and liabilities of the consolidated entity, both recognised and unrecognised at balance date are as follows:

	<b>Consolidated</b>			
	<b>Total carrying amount as per statement of financial position</b>		<b>Aggregate net fair value</b>	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>FINANCIAL ASSETS</b>				
Cash	18,630	13,042	18,630	13,042
Receivables	1,902	1,944	1,902	1,944
Investments accounted for using the equity method	1,091	185	1,091	185
Other financial assets	977	622	977	622
Government and semi-government securities	199,690	-	199,680	-
Bills of exchange	20,843	19,435	20,841	19,306
Certificates of deposits	36,823	122,422	36,823	122,422
Deposits with banks	30,617	14,605	30,617	14,565
Deposits with other financial institutions	8,727	45,752	8,727	45,752
Loans to other persons	1,837,244	1,554,548	1,860,755	1,581,853
<b>Total financial assets</b>	<b>2,156,544</b>	<b>1,772,555</b>	<b>2,180,043</b>	<b>1,799,691</b>
<b>FINANCIAL LIABILITIES</b>				
Deposits	2,036,491	1,670,240	2,035,409	1,670,524
Sundry creditors	9,831	6,699	9,831	6,699
Subordinated debt	10,000	-	10,008	-
Dividends payable	-	3,743	-	3,743
Employee entitlements	3,814	3,434	3,814	3,434
<b>Total financial liabilities</b>	<b>2,060,136</b>	<b>1,684,116</b>	<b>2,059,062</b>	<b>1,684,400</b>
<b>Net financial assets</b>	<b>96,408</b>	<b>88,439</b>	<b>120,981</b>	<b>115,291</b>
Interest rate swaps	-	-	(2,408)	(2,610)
<b>Net financial assets net of swaps</b>	<b>96,408</b>	<b>88,439</b>	<b>118,573</b>	<b>112,681</b>

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2002

## 35 Risk Management and Financial Instruments *continued*

The following methods and assumptions are used to determine the net fair value of financial assets and liabilities:

### Recognised financial instruments

Cash and receivables: The carrying amount approximates fair value.

Investments: Trading securities are carried at net market/net fair value. For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability.

Loans: The fair values of loans receivable excluding doubtful debts, are estimated using discounted cash flow analysis, based on nominal annual interest rates (paid monthly) derived from domestic swap interest rates. Loan repayments have not been taken into consideration when determining the future cash flows. The nominal interest rates used have been applied to all interest payments received for loans repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis.

Subordinated debt: The fair value of subordinated debt is estimated using discounted cash flow analysis, based on nominal annual interest rates (paid quarterly) derived from domestic swap interest rates.

Deposits: The carrying amount of short term deposits approximates fair value because of their short term to maturity or they are receivable on demand. The fair values of long term deposits are estimated using discounted cash flow analysis, based on nominal annual interest rates (paid monthly) derived from domestic swap interest rates.

Dividends payable, sundry creditors and employee entitlements:  
The carrying amount approximates fair value.

### Unrecognised financial instruments

Interest rate swap arrangements:

The fair values of interest rate swap contracts is determined as the present value of the future interest cash flows, using nominal annual interest rates (paid monthly) derived from domestic swap interest rates.

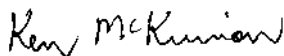
# directors' declaration

## FOR THE YEAR ENDED 30 JUNE 2002

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

- (a) the financial statements and notes, set out on pages 24 to 59 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 consolidated entity as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) 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 31st day of July 2002.  
Signed in accordance with a resolution of the directors.



KR McKinnon AO, Chairman



H Hanson AM, Director  
KR McKinnon AO, Chairman

# independent audit report

to the members of IMB Ltd (formerly Illawarra Mutual Building Society Ltd)  
FOR THE YEAR ENDED 30 JUNE 2002

## Scope

We have audited the financial report of IMB Ltd, ("the Company") for the financial year ended 30 June 2002, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes (1 to 35) and the directors' declaration set out on pages 24 to 60. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

## Audit Opinion

In our opinion, the financial report of IMB Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
  - i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the financial year ended on that date; and
  - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



KPMG

CP Hollis, Partner

Wollongong 31 July 2002

# shareholders' information

AT 31 JULY 2002

IMB Ltd and its controlled entities

<b>Top Twenty Shareholders</b>	<b>Number of Shares</b>	<b>% of Total</b>
<b>Name of Shareholder</b>		
Chase Manhattan Nominees Ltd	1,800,099	4.87
National Nominees Limited	861,360	2.33
UBS Nominees Pty Ltd	588,650	1.59
Cameron Securities	531,893	1.44
Rubicon Nominees Pty Ltd	392,609	1.06
MF Hands	321,370	0.87
FH Rast	287,426	0.78
K O'Connor	224,622	0.61
J Xanthoudakis	215,133	0.58
G & H Custodians Pty Ltd	206,268	0.56
Permanent Trustee Company Limited	201,730	0.55
WC & JA Bradley	189,574	0.51
SJ Bridger	185,011	0.50
HSBC Custody Nominees (Aust) Ltd	180,608	0.49
WL Hughes	176,728	0.48
DL Craker	165,830	0.45
RM Hanbury	165,022	0.45
I & J Polak P/L	164,424	0.45
Warman Investments Pty Ltd	161,671	0.44
GD Carey	157,080	0.43
<b>Total</b>	<b>7,177,108</b>	<b>19.44</b>

	<b>Shareholders</b>	<b>Number of Shares</b>	<b>% of Total</b>
<b>Employee Share Acquisition Scheme</b>	153	335,848	0.91

<b>Distribution of Shareholdings</b>			<b>Shareholders</b>	<b>Number of Shares</b>	<b>% of Total</b>
1	–	100	96	4,248	0.01
101	–	1,000	1,958	1,051,199	2.85
1,001	–	5,000	1,971	5,491,314	14.87
5,001	–	10,000	526	3,987,691	10.80
10,001	–	20,000	323	4,653,489	12.60
20,001	–	50,000	265	7,930,173	21.47
50,001	–	100,000	60	4,316,952	11.69
100,001		and over	39	9,497,798	25.71
<b>Total</b>			<b>5,238</b>	<b>36,932,864</b>	<b>100.00</b>



# five year history and comparison

	2002	2001	2000	1999	1998	
<b>Statistical Highlights</b>	\$000	\$000	\$000	\$000	\$000	
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>						
FOR THE YEAR ENDED 30 JUNE						
Interest income	119,346	123,596	107,767	98,347	95,919	
Interest expense	72,398	77,524	64,292	58,770	56,002	
Interest margin	46,948	46,072	43,475	39,577	39,917	
Non interest income	18,610	13,946	14,686	13,702	12,391	
Bad and doubtful debts expense	898	939	1,350	1,382	602	
Non interest expense	50,400	44,599	42,563	39,455	42,479	
Individually significant items	-	-	797	314	1,592	
Profit from ordinary activities before income tax	14,260	14,480	13,451	12,128	7,635	
Income tax expense	3,716	4,529	4,112	3,432	1,565	
Profit from ordinary activities	10,544	9,951	9,339	8,696	6,070	
<b>STATEMENT OF FINANCIAL POSITION</b>						
AT 30 JUNE						
<b>Assets</b>						
Loans	1,837,244	1,554,548	1,398,121	1,413,266	1,344,681	
Liquids	315,330	215,256	239,044	167,882	171,871	
Other	35,345	30,203	28,588	31,119	38,823	
<b>Total</b>	<b>2,187,919</b>	<b>1,800,007</b>	<b>1,665,753</b>	<b>1,612,267</b>	<b>1,555,375</b>	
<b>Liabilities</b>						
Deposits	2,036,491	1,670,240	1,506,834	1,458,362	1,421,892	
Other	27,344	17,760	54,088	56,782	43,051	
<b>Total</b>	<b>2,063,835</b>	<b>1,688,000</b>	<b>1,560,922</b>	<b>1,515,144</b>	<b>1,464,943</b>	
<b>Shareholders' equity</b>	<b>124,084</b>	<b>112,007</b>	<b>104,831</b>	<b>97,123</b>	<b>90,432</b>	
<b>SHARE INFORMATION</b>						
Shares on issue	000's	36,933	35,581	34,041	14,689	14,152
Earnings per share***	cents	28.9	28.4	28.1	27.0	21.8
Net tangible assets per share *	\$	3.33	3.15	3.08	6.61	6.39
Dividend per share:						
Interim**	cents	7.0	7.0	7.0	13.0	12.0
Final**	cents	11.5	10.5	10.5	22.0	17.0
Dividend cover	times	1.56	1.62	1.58	0.77	1.49
Closing share price **	\$	3.04	2.46	2.39	5.12	3.60
Highest share price **	\$	3.20	2.46	6.50	6.00	4.80
Lowest share price **	\$	2.40	2.10	2.00	3.70	3.10
Average share price **	\$	2.84	2.29	3.31	4.95	3.86
Shares traded	000's	1,855	1,623	1,383	671	717
Turnover	%	5.1	4.6	4.2	4.6	5.1

\* Under the Company's constitution, depositors have an equity interest in the net assets of the consolidated entity upon its winding up. Therefore, in the event of winding up, the amount attributable to shareholders would be reduced by an amount equal to the equity interest of depositors at that time.

\*\* On 30 August 1999, the Company made a bonus share issue, ex-dividend of one fully paid share for every ten held. On 26 October 1999, the share capital of the Company was split with each share being divided into two shares.

\*\*\* Prior year comparatives for 1998 and 1999 have been adjusted to reflect the share split on 26 October 1999.

# five year history and comparison continued

<b>Statistical Highlights</b>		2002	2001	2000	1999	1998
<b>KEY RATIOS</b>						
Capital adequacy	%	11.36	10.55	11.26	10.68	9.93
Total asset growth	%	21.55	8.06	3.32	3.66	10.40
Net asset growth	%	10.78	6.84	7.94	7.40	3.80
Net assets/total assets	%	5.67	6.22	6.29	6.02	5.81
Liquid assets/total liabilities	%	15.28	12.75	15.31	11.08	11.73
After tax return on average net assets	%	8.93	9.18	9.25	9.27	6.84
After tax return on average total assets	%	0.51	0.57	0.57	0.55	0.41
Net interest income/average total assets	%	2.3	2.6	2.7	2.5	2.7
Non interest income/average total assets	%	0.9	0.8	0.9	0.9	0.8
Non interest expenses/average total assets	%	2.4	2.5	2.6	2.5	2.9
Non interest expenses/operating income	%	77.9	75.5	74.9	76.0	82.2
Bad debts expense/average loans	%	0.05	0.07	0.10	0.10	0.05
Return on interest earning assets	%	6.0	7.3	6.8	6.4	6.7
Cost of funds	%	3.8	4.9	4.3	4.1	4.1
Interest margin	%	2.35	2.73	2.73	2.57	2.79
<b>OTHER STATISTICS</b>						
Total loans approved	\$m	1,194.2	801.7	559.7	491.6	565.4
	No	11,512	10,411	10,165	9,059	12,172
Home loans approved	\$m	903.7	769.4	519.1	448.1	502.5
	No	6,646	6,171	4,772	3,875	4,462
Average home loan approved	\$000	136.0	124.7	108.8	115.6	112.6
Members' deposits	\$m	2,036.5	1,670.2	1,506.8	1,458.4	1,421.9
Deposit accounts	000	320.4	289.2	281.1	282.9	287.6
Average balance per deposit account	\$	6,356	5,775	5,360	5,155	4,944
Interest paid to depositors	\$m	72.4	77.5	62.3	57.7	56.0
Number of sales centres	No	35	35	31	30	31
Average deposits per sales centre	\$m	58.2	47.7	48.6	48.6	45.9
Assets per sales centre	\$m	62.5	51.4	53.7	53.7	50.2
Staff (full time equivalent)	No	377	370	357	344	344
Assets per staff member	\$m	5.8	4.9	4.7	4.7	4.5
Staff per million dollars assets	No	0.17	0.21	0.21	0.21	0.22

## Notice of Annual General Meeting

The annual general meeting of members of IMB Ltd will be held at the Hoskins Room, Novotel Northbeach, 2-14 Cliff Rd, Wollongong on Wednesday 25 September 2002 at 10:00am.

## Shareholders' Diary

- Announcement of full year results and final dividend August 2002.
- Annual general meeting 25 September 2002 at 10:00am.

## Registered Office

253-259 Crown Street  
Wollongong, New South Wales 2500



