Chairman's Address

Michael Cole

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

Key to IMB's formation was the ability to provide support to members and assist them pursue their financial goals. This is still the focus today 130 years on, and at the core of our values.

Regardless of recent turbulent times IMB has now entered its 11th year of giving which has now reached $5.2 million in donations. In the most recent financial year, the IMB Community Foundation provided $440,000 to worthwhile community-initiated projects that promote sustainability and self-help amongst community members

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

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

Financial Performance

For the year ending 30th June, 2010 (FY2010) the Australian economy performed better than was expected post the Global Financial Crisis (GFC). Real GDP lifted 2.75% to record its eighteenth consecutive year of growth. New job creation was impressive with unemployment declining from its peak of 5.8% in mid-2009 to 5.1% by the end of FY2010.

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

Against this improving economic backdrop the IMB has recorded a strong profit performance with Group profit after tax increasing by $6.2 million or 27.1% to $29.1 million.

Key to this result has been IMB's ability to increase the net interest margin from 1.75% to 2.11% despite rising cost of funds pressures.

For IMB the net interest margin expansion is a good news story as it is the first time since FY 2005 it has exceeded 2.0%. In the intervening period the interest margin had been significantly eroded by the combined competitive lending pressures of ADIs and securitisation. Having reversed the declining margin trend IMB management is focussed on initiatives to maintain it above 2.0%.

Despite the contribution by the improved margin level there has also been continued attention on cost to income ratio improvement which Rob will talk about in further detail.

The combined impact of the improvement in net interest margin to 2.11% and the continued reduction in the efficiency ratio to around 60% has generated a net return on assets (ROA) of

0.65. This is an all time record level for IMB since the financial sector was deregulated in the early 1980's. It is significantly above the ROA of over a decade ago, before the severe structural competitive forces were unleashed. After having regard to the level of IMB balance sheet leverage (including securitised assets), the after tax return on average net assets (ROE) is a very impressive 13.92%.

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

Importantly IMB's asset quality has been maintained and remains under constant management focus. There is no evidence of rising credit stress among IMB borrowers. The credit quality of the loan portfolio remains excellent and reflects IMB's sound underwriting practices, low risk loan book and the strength of the economy and employment in general. Mortgage arrears levels continue to deliver well below industry averages in all categories.

I will leave the detailed commentary on IMB financial performance to Rob in the following CEO presentation and move to answering questions that have been submitted including recent correspondence from shareholders. I would also like to preface answering these questions by saying we have, again this year, received many excellent and thought provoking questions.

Member Questions

So with your permission I would like to start addressing your questions and concerns by broadly grouping them into the following categories and dealing with them systematically in that order.

- Removal of Disclosures from the Financial Statements/ Annual Report;
- The Payout Ratio/ Level of Dividend Distribution, Franking Credits and the DRP.
- Mergers and the Wind-up Rule;
- Mutual Member Equity Contributions and Entitlements;
- Capital Structure of IMB (ordinary share buy back) ;
- Stakeholder Engagement;
- Director Remuneration and Age Disclosure;
- New Branch Location;
- Bad and Doubtful Debt Expense and Land Development Mark to Market.
- IMB product and Services;

Removal of Disclosures from the Financial Statements/ Annual Report

The first issue relates to the disclosures that have been removed from the annual accounts. As an overall statement, it is important that I confirm to members that IMB's Accounts continue to be prepared on a basis that complies with the AASB Accounting Standards and the requirements of other legislation applicable to IMB, including the Corporations Act.

With respect to the Earnings Per Share and Net Tangible Assets per share calculations, IMB has reviewed these closely with its Auditors KPMG to determine whether they can be meaningfully calculated in IMB's case because there are both mutual and shareholder members. Further, more recently, the Earnings per share requirement became applicable only to those entities whose "ordinary shares were publicly traded". During the 2009 financial year our Auditors revisited the definition of “publicly traded” and formed the view that IMB’s shares are not publicly traded and therefore do not fall within the application of AASB133 and there is no requirement to disclose an EPS figure.

The removal of this information is in no way intended to affect the relationship between IMB and its various stakeholders – the decision is purely based on the Board’s desire to ensure the utmost reliability of the information that is included in IMB’s Annual Report.

In relation to removal of Top Twenty Shareholder Members from the Annual Report, this was done together with the removal of other information in the interests of reducing the bulk of the document. It was confirmed that the disclosure of this information is a requirement for ASX listed companies and is not required as part of the IMB Annual Accounts, but is of course available to a member on request. In the absence of a requirement by IMB to disclose this in its annual report, it is not appropriate for IMB to include information of this nature within a public document.

If any member wishes to obtain a copy of the Top Twenty Shareholder Members, the Company Secretary, Lauren Wise will make it available following the close of the AGM.

The Payout Ratio / Level of Dividend Distribution, Franking Credits and the DRP

The second issue relates to the decline in the payout ratio over the last three financial years notwithstanding the increases in the ordinary dividend per share.

Shareholders Members would be aware that the Directors have accepted the PWC Report on Contributed Funding Conclusions as a benchmark in considering the payout ratio. However the final setting of dividends is always at the sole discretion of the Directors and subject to their primary responsibility which is the ongoing financial stability and viability of IMB. It would be inconsistent with Directors’ fiduciary responsibilities to target a payout ratio as an independent variable. Rather it will always be a dependent variable which is the outcome of the above deliberations.

In Australia the Regulators of the Approved Deposit taking Institutions (ADIs) have made it clear banks, building societies and credit unions should de-risk by reducing balance sheet leverage whilst the final outcome of the new Basel III guidelines are awaited. Against this backdrop the Directors have already determined that IMB’s minimum capital ratio should be lifted to respond to the higher requirements of Basel III. After the IMB capital ratio was increased to the required internal level the final dividend based on the FY2010 27% net profit increase was determined. The 5.5 cent increase in the total dividend to 29 cents per share per share is 23% higher than the prior period. As a result the payout ratio declined to 40%

It should be noted that the PWC Report estimated the mid-point of contributed funding by Shareholders to be 42.5%. A payout ratio of 40% at the corporate level is the equivalent of 94% payout ratio at the shareholder member stakeholder level. This significantly exceeds the payout ratio of all ASX listed ADIs.

In relation to my FY2008 statement that the payout ratio might stabilise around 45% for the foreseeable future I would now add what was not foreseeable was the timing and severity of the Global Financial Crisis (GFC) together with the Regulators subsequent response of lifting prudential standards for Australian ADIs. The final regulatory outcome remains a work in progress.

In the future IMB shareholder members may have to make a greater contribution to the capital requirements of IMB if it is to pursue balance sheet expansion after having regard to new higher prudential standards and the opportunities available for IMB to grow the traditional residential and mortgage lending businesses. In short, IMB wishes to continue to grow total assets but with a lower leverage ratio.

As a result the dividend payout ratio may decline below 40% at the corporate level. However Director's expect that the level of dividends per share will continue to increase but at a lesser rate than net earnings growth.

With respect to the growth in the IMB share value, as long as IMB continues to manage the business well I am confident that IMB shares will continue to provide a high yielding and low volatility investment return. The level of the IMB share price will ultimately be determined by the market and it is encouraging that IMB share price outperformed the ASX Financials Index by over 10% in FY2010.

Finally there are no current plans to reinstate the Dividend Reinvestment Plan. Tier 1 Share Capital is a costly form of capital for IMB to service and there are more efficient forms of capital available that IMB can access in accordance with its Capital Management Policy.

Mergers and the Wind-up Rule

The third major issue relates to comments made in relation to future merger prospects with other ADIs and the IMB wind-up rule.

The Directors have undertaken a post mortem on the failure to complete the CACU merger. We concluded that although the structure IMB put in place to mitigate any perceived adverse consequences for the reserves of a merging mutual ADI in the unlikely event of IMB winding up was acceptable from a regulatory perspective, it added complexity to the process of finalising the deal and the time taken for regulatory consideration. When deal momentum was lost, both IMB and CACU identified a range of potential operational obstacles (such as the merging of IT platforms) that caused both parties to cease merger discussions.

I have no doubt that had the wind-up rule been amended in a matter previously sought by IMB's Directors in 2007, the probability of the proposed merger with CACU closing would have been significantly greater. The opportunity cost of failing to close the CACU merger is that IMB has forgone access to nearly $40 million of capital at no cost to existing IMB members. This merger would have driven significant benefits for all stakeholders including a stronger rate of dividend growth in the future.

The Board has to reconsider approaching the IMB members to seek an amendment to the wind-up rule with a particular focus on quarantining Member Reserves of a mutual ADI entering into a merger with IMB. I hope to be able to convince shareholder members that a wind-up of IMB is an extremely remote possibility and rather than see this as a disenfranchisement of their existing rights it will open new opportunities for IMB to grow for the benefit of all stakeholders.

Mutual Member Equity Contributions and Entitlements

The fourth point relates to perceptions about the respective contributions of the mutual members and the shareholder members to the current IMB capital structure. Firstly, let me comment that the IMB shareholder members have been a significant contributor to the growth in IMB's Tier 1 capital over the past 20 years. However the recent comments by shareholder members of the limited significance of the funding contribution to the Tier 1 capital of IMB by the mutual members is inconsistent with the facts.

In 1989 the Reserves of IMB built up over 109 years totalled $37.5 million prior to the $10 million Share Issue. In the subsequent 21 years the mutual members have not received any dividend distributions on that original contribution. Assuming that mutual member contribution earned an ROE of 8.85 % pa over the 21 year period the compounded amount would equal 100% of FY2010 $220.5 million Total Equity Attributable to Members of the Company. As the IMB ROE has exceeded this rate over the 21 years these facts support the view that shareholder members have been well rewarded with dividend distributions over the entire 20 year period.

Over the same period IMB mutual members have always reinvested 100% of their retained earnings back into the business.

In relation to mutual membership rights, let me correct a misunderstanding of their entitlements as an IMB stakeholder. Firstly IMB has extensive legal advice that no stakeholder has an equitable interest in the net tangible assets of IMB, including the existing pool of franking credits, while IMB is a going concern.

Secondly mutual members join IMB by providing a nominal guarantee of $1 in order to obtain the benefit of the products and services provided by the mutual organisation as a continuing entity. Upon death or deciding to cease membership, the nominal guarantee of $1 is released and the mutual business continues to operate for the exclusive benefit of the continuing membership base.

To suggest that membership of a mutual confers a specific entitlement in the Reserves of an ongoing mutual business is not correct. Such an entitlement may only be crystallised in the case of existing members of a mutual at the time that is being de-mutualised or being wound up.

I would not expect that a mutual member would make the decision to join IMB based primarily on the notion of an entitlement to the Reserves in the unlikely event of a windup. The motivation for mutual members to join IMB is to become a part of a community and member focussed financial institution which directs over half its profits back into the design of products and services that meet the specific needs of the membership, and to obtain access to better rates, fairer fees, responsible lending principles and outstanding customer service.

IMB's capital structure (ordinary share buy back)

I am addressing this issue in response to suggestions from shareholder members that if IMB does not wish to de-mutualise, its stakeholder interests may be better served by reverting to a traditional mutual structure by repurchasing all the issued shares. In response to this suggestion I can state that the IMB Directors continually review all corporate structure alternatives and at this time have no intention to alter the status quo.

The attraction for IMB to be mutual with only depositor and borrower members is clear cut but the difficulties to achieving that result are many and most options are extremely challenging. The key point is that IMB would have to issue an alternative Tier 1 Capital instrument to replace the ordinary shares currently on issue. This is further complicated by the fact IMB shares currently contribute $46.9 million to Tier 1 Capital but have a market value of approximately $150 million (assuming a $3.80 share price) which would have to be paid out of existing total contributed equity. Thus IMB would have to raise at least $150 million through a non participation Tier 1 Capital instrument to maintain contributed equity at its current level.

To date neither IMB nor expert advisors have been able to come up with a viable replacement Capital instrument. I have also received comments about the use of franking credits, and it is possible that the existing pool of franking credits could be used as an element in a share repurchase structure. However the franking credit contribution relates to establishing an acceptable market buy-back price rather than the substance of the replacement Tier 1 Capital instrument.

Stakeholder Engagement

The sixth point I would like to touch on is IMB's stakeholder engagement process. The Directors consider this is an important activity in seeking to align the sometimes competing priorities of stakeholders. I have gleaned from correspondence a view that the scale of past stakeholder engagement undertaken has not adequate. On the basis that IMB has over 180,000 mutual members and over 4,000 shareholder members I agree that a sample of less than 100 members that attended meetings in the past should be revisited. The challenge we have faced in the past is to get maximum attendance at these gatherings from stakeholders with a broad range of interests and who are reflective of IMB's membership profile. We have had a very low strike rate from the much larger number of invitations extended. As we are about to embark on this exercise very shortly any input you might have in relation to this topic would be appreciated.

Director Remuneration and Age Disclosure

The seventh point relates to the issue of Director's Fees and comments received that any increase should be subject to shareholder approval each year. IMB members approve a cap on the maximum annual fees paid to the IMB Board until next determined at an AGM. Directors can increase annual Board fees as long as the total paid does not exceed the member approved maximum.

At the 2009 AGM, members approved by way of ordinary resolution, an increase in the maximum aggregate payable for non- executive directors from $555,000 (inclusive of superannuation) to $760,000.

The size of the increase was to provide flexibility for the IMB Board to increase from 7 to 10 members in the event the CACU merger was successfully concluded by having three of their existing Board members join the IMB Board.

At that time, I made the undertaking that if the CACU transaction did not proceed, any future IMB Director's fees increases would be limited to the CPI benchmark to maintain the real value of directorship fees. I have complied with that undertaking which is specified in the AGM minutes. The fees this year have been increased by the CPI rate of 3.1 % within the maximum limit set last year when the CACU transaction was in progress.

In summary the maximum amount of annual fees payable to IMB non executive Director's continues to be determined in accordance with the decision of IMB members made at an AGM.

There has been a request that the age of directors be listed in the Annual Report. When each director is put forward for re-election by members, IMB includes the age of the director within the Notice of Annual General Meeting. On the basis this information is in the public domain IMB does not propose to list the ages of each director in the annual report,

New Branch Locations

The eighth issue relates to requests by members for opening of new IMB branches at particular locations. By way of background IMB has a corporate policy to expand on average by a net 2 branches each year. This policy is subject to the caveat that the most appropriate location is able to be leased within the preferred current branch expansion focus of the ACT and South and South Western Sydney. Accordingly the Riverina area of Cowra, Griffith and

Wagga and Macquarie district of Ryde, Top Ryde and Rhodes which have been suggested by members do not currently fit within the current branch expansion footprint.

Members have also suggested that IMB consider opening a branch at the University of Wollongong. The University of Wollongong (UOW) is one of a number of potential branch locations that is under active consideration by IMB, subject of course to the University's view. A branch on a university campus would provide good opportunities to expand the young adult segment IMB's membership and to forge a strong partnership with mutual benefits for both IMB and the UOW.

Bad and Doubtful Debt Expense

A series of very detailed questions were submitted by a member about actual bad debt write-offs totalling $2.995 million in FY2009 and FY2010 and the increase in IMB's collective provision in FY2010.

With respect to the actual write offs, it is primarily 2 commercial loans that make up this figure. Neither of these loans were related to property development, with one loan being for an existing office premises and the other being secured by an existing residential property. Both loans were in the commercial lending portfolio and neither was mortgaged insured.

In the first case, after a loss was recorded following the sale of the security property, it was identified that the original valuation on which IMB had relied to approve the loan was professionally incompetent. IMB successfully sued the valuer, and a professional indemnity insurance payment has been received for a significant proportion of the loss and written back to FY2010's profit.

In relation to the second asset, IMB was able to achieve the sale of the security property at better than the written down value, which has also resulted in a write-back to current year's profit of $210,000. In each case personal guarantees were held and pursued but in each case the borrowers were bankrupted.

With respect to the increase in the collective provision, this was a conservative position taken by IMB to meet the expectations of APRA by including the 2 losses I have just spoken about, notwithstanding that these losses were due to a unique set of circumstances not representative of the entire loan book.

One member has suggested that the "conservative buffer for future loan defaults is really a way of burying profit so that the dividend payout ratio appears even worse than it is". This suggestion suggests lack of understanding of the key roles of both the Regulator, APRA, and our Auditor, KPMG in determining appropriate loan impairment provisioning and write-offs. Further IMB does not apologise for taking a conservative approach in this area in the knowledge that any upside will be reflected in the profit statement in a future period as has recently been the case. The outlook for credit impairment to the IMB loan portfolio continues to be benign.

IMB product and Services

This final issue raises a number of questions relating to the product and service offerings of IMB to its members.

In relation to IMB launching an online account the product development team continuously examines the opportunities to introduce new products which complement IMB strategic plans. At present IMB's Reward Saver account consistently pays a rate which is competitive with online accounts and encourages members to develop longer term savings habits by paying bonus interest.

A member has observed that the current internal funds transfer system requires the use of whole dollars and a member has requested it should accommodate specific amounts. IMB will consider this suggestion in line with the next scheduled upgrade to the IVR system.

A member has asked why IMB ATMs no longer accept deposits? There were a range of factors leading to IMB's decision to cease accepting deposits through its ATMs including the service was not used by a high volume of members and there were frequently disputes raised by members as to the amount that was deposited. This led to a high staff involvement and increased costs in the opening and verification of ATM deposits.

A member has questioned why is the concentration of loans for Sydney (22%) compared with deposits (12%) greater than the concentration of loans for the Illawarra (26%) compared with deposits (37%)? This concentration of loans shown is based on the total value of loans and not the number of loans. The higher concentration of loans in Sydney flows from, the greater ability to write loans than to take deposits in the absence of a branch network, the higher average value of property prices in the Sydney region, and because IMB previously accepted broker originated residential loans, a high proportion of which were generated in the Sydney region. The broker new loan contribution has now ceased and it is expected that deposits in the Sydney region will grow as IMB brand awareness and branch presence strengthens in the Sydney region.

Finally, some shareholder members requested that IMB review its share purchasing procedures, particularly to allow for cheques to be accepted to cover the cost of shares. The process of requiring a member to have cleared funds in an IMB account to cover the purchase is a requirement specifically imposed by ASIC under the market licence, and it is unlikely we will be successful in changing this requirement.

Future Opportunities

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

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

Appreciation

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

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

CEO Address

Robert Ryan

Thank you Michael. Good morning everyone.

As the Chairman has mentioned, IMB is now in its 130th year of providing banking services and as we emerge from two years of market volatility, I am pleased to report that with the strong guidance of IMB's Board, the ongoing commitment of our management and staff and the continued support of our members, IMB remains in a strong financial position.

IMB's strategies over recent years have responded well to the challenges facing financial markets and have provided a sustainable business model that has delivered improved performance for the 2009/10 financial year. Before I comment on those results I would like to reflect on the key strategies that have been delivered over the last three years.

Delivering Strategy

IMB's strategy is driven by the aims of growing our members, maintaining profitability, maintaining high satisfaction levels and delivering value to all stakeholders.

For those of you who have attended previous AGMs, you will recall that to support our strategic aims, IMB's funding strategies were prioritised as a key area for review. It was evident that retail deposits not only provided a cheaper source of funding but that growth in retail deposits would also drive growth in IMB's member base. Our review commenced prior to the onset of the GFC and placed us in a good position to weather the volatilities that have affected financial markets for the better part of three years.

Our retail funding base has grown by $464 million over the last 3 years and now is 56% of IMB's funding mix, a lift of more than 20% as compared to 2007.

We also reviewed the loan distribution model and made the decision to wind back the distribution of residential loans through mortgage brokers. Whilst this decision has impacted the volume of our loan writings, it has, along with some external factors, assisted in improving our interest margin from 1.63% at the end of 2007 to 2.11% at 30 June 2010, improving the profitability of our business.

In making this decision we recognised the need to increase the loan writings from IMB's direct channels, including our branches, mobile lenders and the call centre. Loan writings from our direct channels have grown from $470 million in 2007 to $623 million in 2009/10, an increase of 33%. This is a strong result and reflects IMB's competitive products, increased empowerment of lenders and the skill of our lenders themselves in meeting member needs. I would like to add that over this time, IMB has not relaxed our credit criteria and credit quality has been maintained.

Over the last 3 years we have expanded our distribution network with new branches opened at Cronulla, Sylvania and a loan centre opened at Narellan, which was recently converted to a full service branch. Also, our mobile lending team now has representation in every region in which we operate.

As well as expansion of our branch and lender network, we have also expanded our Business Banking offering into both Sydney and the ACT and we have plans to appoint a Business Banking relationship manager in the ACT in the next 12 months.

Delivering Products

As part of our efforts to provide the full range of financial services to members, our product offering has been reviewed and refreshed with a number of new products introduced, including:

- the Everyday Unlimited account providing another low fee transaction account alternative for members
- a savings account tailored to self managed super funds
- a Business Cash Management Account providing a competitive savings product for our business members as well as a Bank Bill linked loan which provides an alternative lending product for business clients
- A First Home Savers Account in response to the Federal Governments announcement in 2008
- A Personal loan for new cars was launched earlier this year and has driven improved volumes in personal lending
- most recently we introduced our Kick Start package, aimed at secondary and tertiary students which provides our younger members with an account structure that supports the development of saving habits from an early age.

Delivering on Better Value Banking

IMB's Better Value Banking proposition underpins our aim to provide members with better products, better service and overall Better Value. To that end I would like to share with you a few of the initiatives that were implemented over the last 3 years in order to improve the experience of our members.

We continued to review our fees and charges to ensure that they reflected the cost to IMB and that our members enjoy low and fair fee structures as compared to our competitors. Currently, 80% of IMB's members do not pay any transaction fees.

For those of you that visit our website, you will have noticed that we recently refreshed the website providing improved features to help our members compare products, calculate repayments and even develop savings plans. Navigation of the site is now much easier and there is more information on our expanding range of products. We think the new site is a vast improvement and we have received positive feedback from members.

We also upgraded our internet banking system providing additional functionality for online transactions and increased security with the introduction of 2 factor authentication.

As the usage of credit cards increases, the potential for fraudulent transactions also increases. In order to strengthen the security of IMB's Visa cards we have fast tracked the roll out of Visa chip cards to our members prior to our industry mandate. This program is almost complete and we have already seen a reduction in the incidence of fraud.

We entered into a strategic partnership with rediATM providing members with access to 1,400 ATMs nationally free of ATM direct charges. With NAB joining the network, this access has increased to over 3,100 ATMs.

We implemented a 48-hour turnaround on loan decisions and can confirm that this service level was met consistently through the year. This 48 hour guarantee reflects our service promise, provides a competitive advantage against the major banks and has contributed to our strong lending results.

I will now comment o the most recent financial year.

Key Results

- An increase in operating profit after tax of 27.1%;
- total assets grew by $252 million;
- strong growth in retail deposits of $204 million;
- loan approvals increased by 28% over the previous year to $725 million;
- IMB's efficiency ratio improved from 64.4% in 2009 to 60.1% and return on equity improved to 13.9%;
- We maintained high levels of liquidity and capital; and
- IMB's total dividend increased to 29 cents per share reflecting the improved performance

2010 Highlights

Many of you will have seen in recent media coverage that IMB is celebrating our 130th anniversary during 2010. This is a milestone that few other financial institutions have achieved and one of which we are very proud. As part of the continuing celebrations, we recently announced funding of $50,000 to 10 public hospitals in partnership with the IMB Community Foundation and in coming months we will be announcing a further sponsorship in celebration of this achievement.

One of the key drivers of IMB's strategy is to introduce new members. During the last financial year, over 11,000 new members joined IMB.

For the second consecutive year, we were judged Money Magazines Building Society of the Year for 2010 – the fourth time we have won this award since 2005. This award provides independent validation of the quality of IMB's product offering.

IMB was also named best Property & Finance business in the Illawarra in the Integral Energy Illawarra Business Awards – our third award in succession, as well as the award for Workplace Safety and OH&S

During the year IMB was named exclusive provider for the ACT Housing Shared Equity Scheme. This relationship provides us opportunity to further strengthen our presence in the ACT.

We are pleased with the results from recent market research that shows IMB's awareness levels continue to increase in the ACT and we will look to build on this further by opening a new branch at Gungahlin next year.

IMB's overall member satisfaction rating increased to 97% last year. This rating is a testament of the member service provided by our staff and the competitive products offered to our members. We have recently launched our 2010 survey and are confident our high satisfaction levels will be maintained.

I will now take some time to provide further analysis of our financial performance

Operating Profit after Tax

IMB's Group profit after tax was $29.1 million, up $6.2 million or 27% over the previous financial year.

This increase in operating profit was largely driven by:

- improved net interest margin

- increased loan writings
- management of balance sheet composition and
- disciplined cost control.

Underlying profit, excluding the write down of land inventory, grew by 33% over the previous year.

Interest Margin

IMB's net interest income increased by $16.4 million for the year to $93 million, and the interest margin improved from an average of 1.75% last year to 2.11% this year. Strong competition for retail funds will continue to impact interest margins across our sector.

IMB's interest margin at 30 June was 2.02% and we are forecasting that this margin will be sustainable in the year ahead.

Non Interest Income

Non interest income decreased by $2.3 million compared to last year, to $14.8 million. This reduction was predominantly due to a reduction in transaction fee income associated with the Reserve Bank direct charging reforms relating to ATM transactions.

Income from ancillary products, such as credit cards, insurances and travel products, purchased by our members, increased significantly from $1.5 million in 2009 to just under $2 million, reflecting a focus on income diversification.

Non Interest Expenses

Non interest expenses totalled $62.6 million for the year – a 5.7% increase over the previous year. Included in this amount are expenses relating to the write down of IMB's land inventory as well as the costs written off in relation to the merger negotiations with Community Alliance Credit Union. Excluding these items, non-interest expense increased by only $1.1 million or 1.8% as compared to the previous year. This is a great result and reflects management's ongoing focus on prudent cost management.

Efficiency Ratio

IMB's efficiency ratio has improved considerably over the last 5 years with the ratio sitting at 60.1% for the 2009/10 financial year. The improvement in IMB's interest margin has contributed significantly to the reduction in the ratio and management will be aiming to improve on this position through both increased income generation and realising further efficiencies in business operations.

Non-interest expense as a proportion of average total assets remained the same as last year at 1.3%.

Total Assets

Moving onto the balance sheet, IMB's balance sheet grew over the last 12 months to $4.7 billion, an increase of $252 million over the previous year.

The balance sheet growth has been driven by higher loan approval levels, growth in deposits and retention initiatives.

Loan Approvals

Loan approvals reached $725 million this year, an increase of $160 million over the previous year, driven by strong direct loan writings through branches and mobile lenders, which increased by over 28%.

Deposits

IMB's retail deposit base grew by $90 million over the last year. This growth has been driven by increased branch representation, ongoing marketing activity and competitive products and pricing.

Wholesale Funding continues to be a key part of our funding strategy and again performed strongly with growth of $108 million over the last 12 months.

In March this year, IMB undertook a $250 million securitisation issue, backed by Residential Mortgage Backed Securities. This issue was very well received by both international and Australian investors and was IMB's first issue since the GFC impacted world markets in late 2007.

Asset Quality

IMB's asset quality remains very strong and this is reflected once again in our arrears position being significantly less than both the NSW and National averages. At the end of the financial year only 7 of our more than 20,000 residential and commercial loans were in arrears by greater than 90 days – this is a fantastic result reflecting our strong underwriting standards and arrears management.

Liquidity and Capital Adequacy

Throughout the GFC, the Board and management have remained highly focused on ensuring the financial strength of our Balance Sheet. It is pleasing to report that we have maintained very strong levels of both liquidity and capital, with both the liquidity and capital ratios improving over the 12 month period to close the year at 33.3% and 12.0% respectively.

IMB's highly liquid position going into the new financial year reduces IMB's reliance on raising expensive deposit funds in a market that remains highly competitive. This will assist IMB in maintaining our interest margin over the coming 12 months.

IMB's return on equity increased from 12.0% in 2009 to 13.9% for this financial year.

I would now like to provide an overview of our current and future strategic focus areas:

Ongoing Initiatives

IMB's current positioning is to provide a low fee, competitive and secure banking alternative, differentiated by our service. We believe that our 130 year history, high member satisfaction levels and external industry recognition that we continue to receive reflects delivery on this brand promise. We have introduced the tag line of *Better Value Banking* to reflect this positioning and we have also reintroduced the Building Society descriptor to our marketing.

Growth of IMB's member base is a key strategy and is supported by our branch expansion, marketing activities and product initiatives.

We will continue to expand our branch network with a new branch scheduled to be opened in Gungahlin early next year, strengthening IMB's presence in the ACT. We also have plans to open a further 2 branches in the Sutherland Shire over the next 18 months should suitable sites become available.

To ensure we remain relevant to a dynamic market, we will be reviewing our brand positioning strategies to ensure that they provide us with a platform to continue to grow the business across all regions in which we operate.

The recent Abacus mutual industry advertising campaign promoting the attributes of mutual financial institutions, together with our own refreshed advertising, will improve awareness levels of IMB and support ongoing growth on member numbers.

We are also enhancing our strategies for retaining members. Analysis of, and reduction in, complaints is a key focus and we continue to monitor the reasons members leave, and identify the products, services and appropriate delegations that our staff require to encourage members to stay with IMB.

As has been noted previously today, the market for deposit funding remains highly competitive with deposit rates still at high levels. Through the management of our funding sources, we will be working to reduce IMB's funding cost in order to maintain the interest margins we sustained throughout 2009/10 and into the start of the current financial year.

Our loan writings through our branches and Mobile Lenders increased significantly in 2009/10 and we are budgeting for further increases this year. Expansion of our distribution channels, lead conversion tracking, a focus on business development and training will be key factors in meeting increased lending targets.

Management continue to focus attention on generating commission income through the promotion of ancillary products to provide members a full range of financial services. A number of product, promotional and training initiatives have been implemented in recent years that have assisted IMB in realising almost $2 million in commission income for 2009/10. We will continue to review our commission product range to ensure it meets the ongoing and changing needs of our members.

We are investing in our online channels to provide enhanced functionality, security and useability. The online channels will continue to support IMB's multi channel approach to acquiring new members and service delivery.

Each year we seem to be required to comply with new regulatory requirements and 2010 is no different. We currently have a team working on implementing the requirements of the National Consumer Credit Protection Act, which builds on the previous Uniform Consumer Credit Code and introduces a new national licensing regime and new responsible lending obligations. We are well positioned to meet the regulatory implementation dates.

The Regulatory burden looks set to continue and increase in coming years. As a member of the G20, Australia must adhere to a new and emerging set of requirements that are being developed, predominantly in response to the GFC, in particular the mandatory levels and quality of both capital and liquidity in the banking system. While the Australian banking system stood up well to these difficult years, our regulators have already signalled that Australia will comply with these new changes. While Australian ADIs such as IMB are already well positioned, there will inevitably be further work ahead to ensure our systems and processes are compliant with the new regime.

At last year's AGM we were looking forward to the benefits of the proposed merger with CACU and the benefits that such a merger would provide to all members. Unfortunately the merger did not proceed, however we continue to explore further opportunities for merger and expansion.

We believe that in an environment of challenging market conditions and continually changing regulatory requirements, mergers with other mutual financial institutions present a unique opportunity to create a stronger banking alterative providing increased benefits to members.

2010/11 will certainly be a busy year for management and staff as we implement these strategies to strengthen and grow our business.

IMB remains cautiously optimistic

Looking ahead, we expect to again deliver strong financial results in 2010/11 supported by stable net interest margin, sound credit conditions and a continued disciplined approach to cost containment. Growth in the balance sheet is budgeted but will be dependent on broader economic conditions. Our strong retail deposit base has supported IMB's response to the challenges of recent years and will continue to provide a strong foundation for IMB going forward.

IMB's liquidity and capital positions are well in excess of prudential requirements and our conservative risk appetite has ensured that asset quality remains high.

As I have done in the past, I would also like to acknowledge the ongoing dedication and commitment of our staff. During a year that presented many challenges, IMB's staff have made a significant contribution to our improved results and the maintenance of IMB's high member satisfaction rating. Through the efforts of our staff, IMB continues to deliver *Better Value Banking* to members which distinguishes us from our competitors.

I would also like to thank the Board for their continued support and guidance over the past year. The additional time and effort that our Board members contribute to IMB's business in addition to their other duties is greatly appreciated, particularly in the rapidly changing global environment we are in.

In our 130th year, IMB remains a strong and secure mutual financial institution providing our members with a competitive alternative to the banks and I look forward to building on this year's success in the year ahead.

Thank you.