



STRONG FOUNDATIONS. STRONG FUTURE.
INTERIM FINANCIAL REPORT | 31 DECEMBER 2011

IMB is one of Australia's largest building societies with assets of more than \$4.8 billion and over 180,000 members. Established in 1880, we are also the longest standing mutual building society in NSW.

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CHAIRMAN'S REVIEW

Performance

The IMB Group recorded a small increase in net profit after tax to \$15.14 million for the half year to 31st December. The Directors consider this a satisfactory result in a challenging period.

IMB commenced the period with a very high level of liquidity of over 27% and was well placed to fund lending growth from that source. Over the six months new lending was constrained whilst retail deposit growth continued to remain strong. This dynamic, together with a small securitisation issue, resulted in the level of liquidity increasing to 29% by period close.

The effective management of IMB's funding base and asset book were significant components in maintaining the average interest margin at 2.02%, broadly in line with the average margin of last financial year. This focus on the margin has been an important contributor to solid profit performance.

Operating expenses, at \$32.6 million, increased slightly compared to that of the prior period. This small growth in expense levels combined with the stabilisation of net interest income and low bad debts has resulted in a relatively stable cost to income ratio of 60.7%.

IMB's credit experience in the residential loan portfolio continues to be very strong, however we continue to take a conservative approach in relation to loan provisioning and valuing land development assets.

Following the completion of a number of transactions to increase capital levels, including a small securitisation issue and subordinated debt transaction, IMB's total capital adequacy is now 14.0%, a significant lift on the 12.0% at 30 June 2011. Our stated goal is to continue to grow capital to 15% as both domestic and international regulators are lifting banking capital requirements post Basel III.

As noted in IMB's 2011 Annual Report, the Board has initiated a broad based review of IMB's capital structure options. This review is being undertaken by IMB's advisers, Grant Samuel and Watson Mangioni. The review is well progressed and it is expected that it will be finalised in the coming months.

Dividend

The Board have declared an interim dividend of 10.0 cents per share fully franked which is in line with the interim dividend of the previous corresponding period. The dividend will be paid on 28th February 2012.

Outlook

While interest rate decreases have occurred, housing lending growth continues to be subdued by consumer caution. It is expected that there will be continued pressure on interest margins over the next half year as credit growth slows and the competition for retail deposits remains. To assist in countering any effects at this level IMB will continue to focus on costs and management of the assets and liability books.



MJ Cole,
Chairman

DIRECTORS' REPORT

As at 31 December 2011

The directors have pleasure in presenting their report together with the consolidated interim financial report for the six months ended 31 December 2011 and the auditor's review report thereon.

Directors

The directors of the Company at any time during or since the six months ended 31 December 2011 are:

| Name | Period of directorship |
|-----------------------------|--|
| Michael John Cole, Chairman | Director since 2003, appointed Chairman October 2007 |
| Kieran Robert Biddle | Director since 2007 |
| Noel Harold Cornish | Director since 2010 |
| Robert Hillis Page Elvy | Director since 2008 |
| Lynette Therese Gearing | Director since 2003 |
| Lynton Patrick Nicholas | Director since 2004 |
| Margaret Elizabeth Towers | Appointed 26 May 2011 |

Review of operations

Members are referred to the Chairman's Review.

Interim dividend

Members are referred to the Chairman's Review.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 11 and forms part of the directors' report for the six months ended 31 December 2011.

Rounding off

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

Dated at Wollongong this twenty fourth day of January 2012.

Signed in accordance with a resolution of the directors:



MJ Cole,
Chairman



LP Nicholas,
Director

CONDENSED INTERIM INCOME STATEMENT

For the six months ended 31 December 2011

| | Consolidated | |
|---|----------------------|----------------------|
| | 31 Dec 2011 \$000 | 31 Dec 2010 \$000 |
| Interest revenue | 168,632 | 159,604 |
| Interest expense | (119,420) | (112,391) |
| Net interest income | 49,212 | 47,213 |
| Impairment losses | (1,139) | (128) |
| Net interest income after impairment losses | 48,073 | 47,085 |
| Share of profits of joint venture entity | 112 | 147 |
| Fee and commission income | 6,277 | 6,091 |
| Other income | 395 | 255 |
| Net operating income | 54,857 | 53,578 |
| Land development expense | (733) | (161) |
| Operating expenses | (32,583) | (31,914) |
| Profit before tax | 21,541 | 21,503 |
| Income tax expense | (6,404) | (6,447) |
| Profit for the period attributable to members of the Company | 15,137 | 15,056 |

The condensed interim income statement is to be read in conjunction with the condensed notes set out on pages 7 to 8.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

| | Consolidated | |
|---|----------------------|----------------------|
| | 31 Dec 2011 \$000 | 31 Dec 2010 \$000 |
| Profit for the period | 15,137 | 15,056 |
| Other comprehensive income/(expense): | | |
| Net change in fair value of available for sale investments | 1,702 | 286 |
| Net change in fair value of cash flow hedges | 12 | 620 |
| Net change in fair value of available for sale equity investments | - | (157) |
| Net change in fair value of available for sale investments transferred to profit and loss | (100) | (1) |
| Total other comprehensive income for the period, net of income tax | 1,614 | 748 |
| Total comprehensive income for the period | 16,751 | 15,804 |
| Amounts are stated net of tax | | |

The condensed interim statement of comprehensive income is to be read in conjunction with the condensed notes set out on pages 7 to 8.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Consolidated | |
|--|----------------------|-----------------------|
| | 31 Dec 2011 \$000 | 30 June 2011 \$000 |
| ASSETS | | |
| Cash and cash equivalents | 47,756 | 38,834 |
| Available for sale investments | 504,462 | 529,133 |
| Loans and receivables to ADIs | 533,252 | 447,439 |
| Loans and receivables to members | 3,768,217 | 3,763,503 |
| Equity accounted investments | 2,464 | 2,352 |
| Other financial assets | 505 | 505 |
| Non-current assets held for sale | 1,766 | 2,103 |
| Inventories | 8,394 | 6,871 |
| Property, plant and equipment | 12,728 | 14,083 |
| Intangible assets | 779 | 209 |
| Net deferred tax assets | 4,914 | 4,989 |
| Other assets | 2,500 | 2,283 |
| Total Assets | 4,887,737 | 4,812,304 |
| LIABILITIES | | |
| Trade and other payables | 31,241 | 25,640 |
| Deposits | 3,502,241 | 3,526,906 |
| Securitised loans funding | 1,077,872 | 999,733 |
| Interest bearing liabilities | 14,951 | 10,000 |
| Derivative liabilities | 312 | 329 |
| Current tax liabilities | 2,787 | 2,512 |
| Provisions | 7,961 | 7,576 |
| Total Liabilities | 4,637,365 | 4,572,696 |
| Net Assets | 250,372 | 239,608 |
| EQUITY | | |
| Share capital | 46,936 | 46,936 |
| Reserves | 28,524 | 26,910 |
| Retained earnings | 174,912 | 165,762 |
| Total equity attributable to members of the Company | 250,372 | 239,608 |

The condensed interim statement of financial position is to be read in conjunction with the condensed notes set out on pages 7 to 8.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

| | Consolidated | |
|---|--------------|-----------------|
| | Note | 31 Dec 2010 |
| | | \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Interest received | | 168,518 |
| Dividends received | | 2 |
| Other cash receipts in the course of operations | | 6,547 |
| Interest paid on deposits | | (120,506) |
| Net (decrease)/increase in deposits | | (23,584) |
| Income taxes paid | | (6,054) |
| Net loans funded | | (5,853) |
| Other cash payments in the course of operations | | (27,187) |
| Net cash flows from operating activities | | (8,117) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for available for sale investments | | (59,543) |
| Expenditure on property, plant and equipment, and intangibles | | (772) |
| Proceeds from sale of property, plant and equipment | | 251 |
| Net cash flows from investing activities | | (60,064) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds/(payments) from securitised loans funding | | 78,139 |
| Net proceeds from interest bearing liabilities | | 4,951 |
| Dividends paid | 5 | (5,987) |
| Net cash flows from financing activities | | 77,103 |
| Net increase in cash and cash equivalents held | | 8,922 |
| Cash and cash equivalents at 1 July | | 38,834 |
| Cash and cash equivalents at 31 December | 6 | 47,756 |

The condensed interim statement of cash flows is to be read in conjunction with the condensed notes set out on pages 7 to 8.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

| <i>In thousands of AUD</i> | Consolidated | | | | | | | |
|---|---------------|--|-------------------------|---|-----------------------------------|-----------------|-------------------|----------------|
| | Share capital | Available for sale investments revaluation reserve | Cash flow hedge reserve | Available for sale equity investments revaluation reserve | General reserve for credit losses | General reserve | Retained earnings | Total equity |
| Balance at 1 July 2010 | 46,936 | 532 | (1,065) | 654 | 1,827 | 25,255 | 146,318 | 220,457 |
| Total comprehensive income for the period | | | | | | | | |
| Profit after tax | - | - | - | - | - | - | 15,056 | 15,056 |
| Other comprehensive income | | | | | | | | |
| Net revaluation movement due to change in fair value | - | 286 | 620 | (157) | - | - | - | 749 |
| Net change in fair value transferred to profit and loss | - | (1) | - | - | - | - | - | (1) |
| Total other comprehensive income | - | 285 | 620 | (157) | - | - | - | 748 |
| Total comprehensive income for the period | - | 285 | 620 | (157) | - | - | 15,056 | 15,804 |
| Transactions with owners, recorded in equity | | | | | | | | |
| Dividends to shareholder members | - | - | - | - | - | - | (7,583) | (7,583) |
| Balance at 31 December 2010 | 46,936 | 817 | (445) | 497 | 1,827 | 25,255 | 153,791 | 228,678 |
| Balance at 1 July 2011 | 46,936 | 58 | (230) | - | 1,827 | 25,255 | 165,762 | 239,608 |
| Total comprehensive income for the period | | | | | | | | |
| Profit after tax | - | - | - | - | - | - | 15,137 | 15,137 |
| Other comprehensive income | | | | | | | | |
| Net revaluation movement due to change in fair value | - | 1,702 | 12 | - | - | - | - | 1,714 |
| Net change in fair value transferred to profit and loss | - | (100) | - | - | - | - | - | (100) |
| Total other comprehensive income | - | 1,602 | 12 | - | - | - | - | 1,614 |
| Total comprehensive income for the period | - | 1,602 | 12 | - | - | - | 15,137 | 16,751 |
| Transactions with owners, recorded in equity | | | | | | | | |
| Dividends to shareholder members | - | - | - | - | - | - | (5,987) | (5,987) |
| Balance at 31 December 2011 | 46,936 | 1,660 | (218) | - | 1,827 | 25,255 | 174,912 | 250,372 |

Amounts are stated net of tax

The condensed interim statement of changes in equity is to be read in conjunction with the condensed notes set out on pages 7 to 8.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

For the six months ended 31 December 2011

1 Reporting entity

IMB Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at 253-259 Crown Street, Wollongong or at imb.com.au

2 Statement of compliance

The consolidated interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*. The consolidated interim financial report complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2011.

This consolidated interim financial report was approved by the Board of Directors on 24 January 2012.

3 Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2011.

4 Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2011.

5 Dividends

| | Dec 2011 \$000 | Dec 2010 \$000 |
|---|-------------------|-------------------|
| Fully franked final dividend declared on 24 August 2010 - \$0.19 per share franked to 100% at a tax rate of 30% paid on 3 September 2010 on 39,911,640 shares | - | 7,583 |
| Fully franked final dividend declared on 29 August 2011 - \$0.15 per share franked to 100% at a tax rate of 30% paid on 8 September 2011 on 39,911,640 shares | 5,987 | - |
| | 5,987 | 7,583 |

Subsequent events:

On 24 January 2012, the Board declared an interim dividend of 10.0 cents per share amounting to \$3,991,000 franked to 100% at a tax rate of 30%, in respect to the six months ended 31 December 2011. The dividend is payable on 28 February 2012. The financial effect of this interim dividend has not been brought to account in the Group's financial report for the six months ended 31 December 2011 and will be recognised in the subsequent financial report.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 31 December 2011

6 Notes to the statement of cash flows

Reconciliation of cash

Cash as at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | 31 Dec 2011 \$000 | 31 Dec 2010 \$000 |
|------------------------------|----------------------|----------------------|
| Cash controlled by the Group | 16,672 | 17,562 |
| Cash controlled by SPEs | 31,084 | 25,367 |
| Total | 47,756 | 42,929 |

7 Related parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2011 annual financial report.

8 Change in the composition of the consolidated entity

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

9 Events subsequent to reporting date

Dividends

For dividends declared by IMB Ltd after 31 December 2011 refer to note 5.

Other

There were no other events subsequent to balance date.

DIRECTORS' DECLARATION

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

1. the financial statements and notes set out on pages 3 to 8, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2011 and of its performance, for the six months ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
2. 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 twenty fourth day of January 2012.

Signed in accordance with a resolution of the directors:



MJ Cole,
Chairman



LP Nicholas,
Director

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF IMB LTD



We have reviewed the accompanying interim financial report of IMB Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2011, condensed consolidated statement of comprehensive income, condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-yearly financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of IMB Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the interim financial report of IMB Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Richard Drinnan,
Partner

Dated at Wollongong this 24th day of January 2012

LEAD AUDITOR'S INDEPENDENCE DECLARATION

under Section 307C of the Corporations Act 2001 to the Directors of IMB Ltd



I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Richard Drinnan'.

KPMG

A handwritten signature in black ink, appearing to read 'Richard Drinnan'.

**Richard Drinnan,
Partner**

Dated at Wollongong this 24th day of January 2012.

DIRECTORS' PARTICULARS

Michael John Cole

BEC (SYD) MEC (SYD) F.FIN

Mr Cole has been a director since 2003, and was elected Chairman in 2007. He is Chairman of the Remuneration and CEO Evaluation Committee and the Nominations and Governance Committee, a member of the IMB Community Foundation Committee and an ex-officio member of the Audit and Risk Management Committee. As well as being Chairman of IMB Ltd, Mr Cole is also Chairman of all entities wholly owned by IMB Ltd, except for IMB Land Pty Ltd and IMB Land No 2 Pty Ltd, of which Mr Cole is a director.

Kieran Robert Biddle

DIP.LAW SAB SPEC – ACC BUS GAICD

Mr Biddle has been a director since 2007. He is a member of the Audit and Risk Management Committee, the Remuneration and CEO Evaluation Committee, the Land Development Committee and the Securitisation Committee. As well as being a director of IMB Ltd, Mr Biddle is also a director of all entities wholly owned by IMB Ltd.

Noel Harold Cornish

BSC(METALLURGY) M ENGSC

Mr Cornish was appointed as a director on 28 September 2010. He is a member of the Remuneration and CEO Evaluation Committee and the Land Development Committee. As well as being a director of IMB Ltd, Mr Cornish is also a director of all entities wholly owned by IMB Ltd.

Robert Hillis Page Elvy

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

Mr Elvy has been a director since 2008. He is a member of the Audit and Risk Management Committee, the Land Development Committee and the Nominations and Governance Committee. As well as being a director of IMB Ltd, Mr Elvy is also a director of all entities wholly owned by IMB Ltd.

Lynette Therese Gearing

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

Ms Gearing has been a director since 2003. She is Chairperson of the Centenary/One Tree Bay Joint Venture Committee and Land Development Committee, and a member of the Nominations and Governance Committee. As well as being a director of IMB Ltd, Ms Gearing is also a director of all entities wholly owned by IMB Ltd, an alternate director of King Financial Services Limited and is Chairperson of IMB Land Pty Ltd, IMB Land No 2 Pty Ltd and IMB Financial Planning Ltd.

Lynton Patrick Nicholas

FCPA FCIS

Mr Nicholas has been a director since 2004, and was elected Deputy Chairman in 2007. He is Chairman of the Audit and Risk Management Committee, and the IMB Community Foundation Committee, and a member of the Nominations and Governance Committee. As well as being Deputy Chairman of IMB Ltd, Mr Nicholas is also Deputy Chairman of all entities wholly owned by IMB Ltd.

Margaret Elizabeth Towers

CA GAICD

Ms Towers has been a director since May 2011. She is a member of the Audit and Risk Management Committee. As well as being a director of IMB Ltd, Ms Towers is also a director of all entities wholly owned by IMB Ltd.

STATISTICAL HIGHLIGHTS

| | | Consolidated | |
|--|-------|--------------|-------------|
| At 31 December | | 2011 | 2010 |
| Net assets/total assets | % | 5.1 | 4.8 |
| Risk weighted capital adequacy | % | 14.0 | 11.4 |
| Liquid assets/total adjusted liabilities | % | 23.4 | 24.2 |
| Non interest expenses/operating income | % | 60.7 | 59.9 |
| For the half year ended 31 December | | | |
| Total loans approved | \$m | 354 | 419 |
| - of which residential | \$m | 308 | 345 |
| Annualised after tax return on | | | |
| - average total assets | % | 0.6 | 0.6 |
| - average net assets | % | 12.6 | 13.4 |
| Interim dividend per share* | cents | 10.0 | 10.0 |

* Interim dividend relating to the profit for the period was declared after the end of the reporting period but before the signing of this report.

IMB Ltd
253-259 Crown Street
Wollongong NSW 2500

imb.com.au

