



31 December 2005

IMB Interim Financial Report



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Statistical Highlights

IMB's half-yearly net profit, at \$8.6 million is a record for the first half of a year, an increase of 11% on the same period last year.

These results are a reflection of IMB's ongoing growth and Member-focused performance, marked by the milestone of \$4 billion in assets under management, an 8% increase compared to December 2004.

| at 31 December | | Consolidated | |
|--|-------|--------------|---------|
| | | 2005 | 2004*** |
| Net assets/total assets | % | 3.9 | 4.2 |
| Risk weighted capital adequacy | % | 10.8 | 10.6 |
| Liquid assets/total liabilities | % | 23.5 | 19.5 |
| Non interest expenses/operating income *** | % | 70.1 | 71.7 |
| Shares on issue | 000 | 39,912 | 39,912 |
| Net tangible assets per share* | \$ | 3.96 | 3.86 |
| for the half year ended 31 December | | | |
| Total loans approved | \$m | 522 | 483 |
| - of which residential | \$m | 386 | 384 |
| Annualised after tax return on | | | |
| - average total assets | % | 0.4 | 0.6 |
| - average net assets | % | 11.0 | 10.9 |
| Earnings per share | cents | 21.4 | 19.5 |
| Interim dividend per share** | cents | 7.5 | 7.0 |
| Dividend cover | times | 2.9 | 2.8 |
| Highest share price | \$ | 3.20 | 3.35 |
| Lowest share price | \$ | 3.00 | 2.95 |
| Average share price | \$ | 3.09 | 3.15 |
| Last sale price | \$ | 3.10 | 3.19 |
| Shares traded | 000 | 994.7 | 883.7 |
| Turnover | % | 2.5 | 2.3 |

* 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.

** 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.

*** Not all figures have been adjusted for the effect of Australian equivalents to International Reporting Standards ("AIFRS"). The ratio of non interest expense to operating income for 2004 has been adjusted to reflect loan origination and securitisation expenses being reported as part of net interest income under AIFRS.

Chairman's Review

Performance

I am pleased to report to Members on a successful half-year, with the group's net profit after tax reaching \$8.6 million, being a 10.6% improvement on the previous corresponding period.

The solid result was achieved in a very competitive trading environment with a continuing decline in the housing market and ongoing downward pressures on interest margins.

Strategic

We continue to focus strategic initiatives on product and service quality and diversity, on growth through geographic expansion and on increasing business levels with existing Members. During the half-year we continued our branch expansion strategy across the southern and western regions of Sydney with a new branch opened at Liverpool and the securing of a branch site at Penrith. A site at Tuggeranong has also been obtained to extend our ACT branch network. We are confident the capital investment required to support these initiatives will favourably enhance profits in the mid to longer term.

As stated in the 2005 annual report, IMB was awarded Building Society of the Year for 2005 in the Money Magazine Consumer Finance Awards. In addition eight IMB loan products were awarded the maximum five-star rating from the leading independent reviewer CANNEX. This external recognition of both performance and product has continued in the period under review with IMB's long term investment grade rating being upgraded to BBB by Standard & Poors. This follows from the previous year when IMB was the first non-bank financial institution in Australia to be granted an investment grade rating by Standard & Poors.

The Board continues to address capital management strategies and policies through regular modelling around available options. During the half-year IMB achieved the best level of pricing of a securitisation transaction for a non-bank financial institution.

Dividend

Following consideration of the current performance, future capital needs of the group and the Board's long-standing practice of taking a conservative approach at the half-year, a fully franked interim dividend of seven and a half cents per share has been declared, an increase of 71% over last year's interim dividend. This dividend is payable after close of business on 27 February, 2006 to shareholders as at that date.

Interim Financial Statements

The half-year financial statements are the first prepared under the Australian equivalents to International Financial Reporting Standards (AIFRS) as required under the Australian Accounting Standards.

Accordingly, a number of comparisons to past years' figures are not meaningful and have been omitted.

Lending

Loan approvals totalled \$522 million, \$39 million (8.0%) above the previous corresponding period.

Loans to members increased by \$164 million (5.6%) to \$3.1 billion compared to June 30, 2005.

This level of lending and the growth in the investment portfolio resulted in the group exceeding \$4 billion in total assets during the six months.

Developments

The major focus during the coming period is on increasing market share in a crowded competitive lending market. This will include further geographical expansion, product diversification and continuous improvement in service standards and operating efficiencies.

Governance and Compliance

During my first year in office as Chairman, corporate governance issues have been very much to the fore. The Board has worked extensively on reviewing all recent prudential standards upgrades and risk management protocols to further enhance our best-practice business conduct.

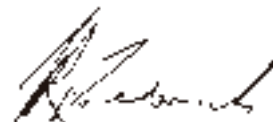
I reported to the Annual General Meeting in September that IMB would be vigorously defending a particular issue brought against it by the Australian Taxation Office regarding a Research and Development project undertaken by the company some years ago. I am pleased to report the ATO has advised that it will take no further action on that particular transaction.

In prior years provision had been made to cover potential costs for this matter. This provision is no longer required and has been written back. This has enabled the commercial loan provision to be increased to our target level of 0.5% of risk weighted commercial loan assets.

Outlook

We are positive about the period ahead notwithstanding mixed economic signals and diverse opinions from expert commentators. Relatively low interest rates continue in a cluttered and competitive marketplace, while we expect lending approvals will continue to improve over the next six months.

Your Board remains confident that the combination of flexible business channels, an even greater emphasis on personal service and new initiatives, together with the much valued and appreciated energy and commitment of our excellent staff will enable IMB to grow profits and improve service benefits to Members.



LR Fredericks
Chairman

Directors' Report

The directors have pleasure in presenting their report together with the consolidated interim financial report for the period ended 31 December 2005 and the independent review report thereon.

Directors

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

| Name | Period of directorship |
|--------------------------------------|--|
| Lindsay Russell Fredericks, Chairman | Director since 1990, appointed Chairman 2004 |
| Michael John Cole | Director since 2003 |
| George Anthony Edgar | Director since 2000 |
| Lynette Therese Gearing | Director since 2003 |
| Harold Hanson AM | Director since 1990 |
| Lynton Patrick Nicholas | Director since 2004 |
| Vivien Jennifer Twyford | Director since 1990 |

Review of operations

Members and shareholders are referred to the Chairman's Review.

Interim dividend

Members and shareholders are referred to the Chairman's Review.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

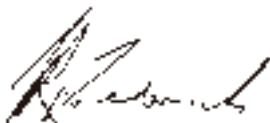
The lead auditor's independence declaration is set out on page 24 and forms part of the directors' report for the half-year ended 31 December 2005.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated July 10, 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 thirty-first day of January 2006.

Signed in accordance with a resolution of the directors:



LR Fredericks
Chairman



MJ Cole
Director

Directors' Particulars

Lindsay Russell Fredericks

FPNA FAICD FAIM

Mr Fredericks has been a director since 1990, and was elected Chairman in 2004. He is Chairman of the Nomination and Governance, and Remuneration and CEO Evaluation Committees, and ex-officio member of the Audit and Risk Management Committee and IMB Community Foundation Committee.

Michael John Cole

BEc (Syd) MEc (Syd) ASIA.

Mr Cole has been a director since 2003. He is Chairman of the Audit and Risk Management Committee, and a member of the Remuneration and CEO Evaluation Committee.

George Anthony Edgar

BSc (Tech Met)

Mr Edgar has been a director since 2000. He is a member of the Remuneration and CEO Evaluation Committee, and the Nomination and Governance Committee.

Lynette Therese Gearing

B.Comm Dip Valuations Cert Bus.Studies (Real Estate) FASFA

Ms Gearing has been a director since 2003. She is a member of the Audit and Risk Management Committee, the Centenary Estates Joint Venture Committee, and the Nomination and Governance Committee.

Harold Hanson AM

Dip.Law (Sydney)

Mr Hanson has been a director since 1990. He is a member of the Centenary Estates Joint Venture Committee, the Nomination and Governance Committee, the Audit and Risk Management Committee and the IMB Community Foundation Committee.

Lynton Patrick Nicholas

FCPA FCIS

Mr Nicholas has been a director since 2004. He is a member of the Audit and Risk Management Committee and the IMB Community Foundation Committee.

Vivien Jennifer Twyford

BA Grad Dip Com (Mgmt)

Ms Twyford has been a director since 1990 and is Chairperson of the IMB Community Foundation Committee, and a member of the Remuneration and CEO Evaluation Committee.

Condensed Interim Income Statement

for the six months ended 31 December 2005

| | Note | Consolidated | |
|--|--------|---------------|---------------|
| | | 2005 \$000 | 2004 \$000 |
| Interest revenue | 8a, 9c | 129,121 | 117,282 |
| Interest expense | 8a, 8c | (95,833) | (84,647) |
| Net interest income | | 33,288 | 32,635 |
| Bad and doubtful debts expense | | (794) | (295) |
| Net interest income after bad and doubtful debts | | 32,494 | 32,340 |
| Revenue from land development | | 130 | 1,850 |
| Other revenue from ordinary activities | 9c | 7,686 | 8,921 |
| Net ordinary income before non interest expenses | | 40,310 | 43,111 |
| Personnel expense | | (13,949) | (13,138) |
| Occupancy expense | | (4,828) | (4,648) |
| Cost of land development sales | | (103) | (422) |
| Payment system charges | | (2,484) | (2,358) |
| Marketing expense | | (2,182) | (2,254) |
| Data processing charges | | (871) | (802) |
| Postages and printing expense | | (819) | (812) |
| Loan origination and securitisation expense | 9c, 9d | - | (2,090) |
| Other expenses from ordinary activities | | (3,011) | (4,988) |
| Share of losses of associates and joint ventures accounted for using the equity method | | - | (4) |
| Profit before income tax | | 12,063 | 11,595 |
| Income tax expense | | (3,508) | (3,860) |
| Profit for the period | | 8,555 | 7,735 |
| | | ₹ | ₹ |
| Basic and diluted earnings per share | | 21.4 | 19.5 |

The condensed interim income statement is to be read in conjunction with the notes set out on pages 9 to 23.

Condensed Interim Balance Sheet

as at 31 December 2005

| | Note | Consolidated | |
|--------------------------------|--------|-------------------------|-------------------------|
| | | 31 Dec 2005 \$000 | 30 Jun 2005 \$000 |
| ASSETS | | | |
| Cash and cash equivalents | | 43,827 | 34,226 |
| Trading securities | 9b | - | 131,741 |
| Sundry debtors | | 3,223 | 1,701 |
| Investment securities | 9b | - | 552,780 |
| Available for sale investments | 9a, 9b | 595,535 | - |
| Loans and receivables | 9b, 9c | 3,368,763 | 2,929,149 |
| Other financial assets | 9a | 10,552 | 10,074 |
| Equity accounted investments | | 1,329 | 1,239 |
| Inventories | | 2,867 | 258 |
| Property, plant and equipment | | 21,270 | 22,040 |
| Other assets | 9c, 9d | 578 | 9,193 |
| Total Assets | | 4,047,944 | 3,692,401 |
| LIABILITIES | | | |
| Payables | | 44,165 | 36,493 |
| Deposits | | 2,601,195 | 2,534,727 |
| Notes payable | 9d | 1,226,796 | 948,358 |
| Derivative liability | 9a | 58 | - |
| Interest bearing liabilities | | 10,000 | 10,000 |
| Current tax liabilities | | 1,289 | 2,271 |
| Provisions | | 5,593 | 5,192 |
| Net deferred tax liability | | 877 | 823 |
| Total Liabilities | | 3,889,973 | 3,537,864 |
| Net Assets | | 157,971 | 154,537 |
| EQUITY | | | |
| Issued capital | | 46,936 | 46,936 |
| Reserves | 9a | 25,823 | 25,255 |
| Retained profits | 8h | 85,212 | 82,346 |
| Total Equity | | 157,971 | 154,537 |

The condensed interim balance sheet is to be read in conjunction with the notes set out on pages 9 to 23.

Condensed Interim Statement of Cash Flows

for the six months ended 31 December 2005

| | Note | Consolidated | |
|--|------|------------------|------------------|
| | | 2005 \$000 | 2004 \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Interest received | 8a | 127,790 | 117,599 |
| Dividends received | | 11 | - |
| Other cash receipts in the course of operations | 8a | 6,188 | 7,166 |
| Interest paid on deposits | 8a | (93,653) | (85,076) |
| Other cash payments in the course of operations | 8a | (21,275) | (15,001) |
| Income taxes paid | | (4,437) | (4,245) |
| Net loans funded | | (555,054) | (297,537) |
| Net increase in deposit accounts | | 64,288 | 43,856 |
| Net cash flows from operating activities | | (476,142) | (233,238) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Redemptions of / (payments for) other financial assets | | 50,713 | (126,931) |
| Expenditure on property, plant and equipment | | (1,268) | (3,458) |
| Proceeds from sale of property, plant and equipment | | 76 | - |
| Net cash flows from investing activities | | 49,521 | (130,389) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from the issue of note liabilities | 3 | 440,812 | 374,425 |
| Dividends paid | | (4,590) | (2,773) |
| Net cash flows from financing activities | | 436,222 | 371,652 |
| Net increase in cash held | | 9,601 | 8,025 |
| Cash at the beginning of the financial period | 8a | 34,226 | 40,098 |
| Cash at the end of the financial period | 4 | 43,827 | 48,123 |

The condensed interim statement of cash flows is to be read in conjunction with the notes set out on pages 9 to 23.

Condensed Interim Statement of Changes in Equity

for the six months ended 31 December 2005

| | Note | Consolidated | |
|---|------|----------------|---------------|
| | | 2005 \$000 | 2004 \$000 |
| Total equity at the beginning of the interim period | | 154,537 | 145,116 |
| Adjustments on adoption of AASB 132 and AASB 139 net of tax: | | | |
| - Retained profits | 8h | (1,098) | - |
| - Reserves | 9a | 112 | - |
| Available for sale investments net of tax | | 241 | - |
| Cash flow hedges net of tax | | 214 | - |
| Net income recognised directly in equity | | (531) | - |
| Profit for the period | | 8,555 | 7,735 |
| Total recognised income and expense for the interim period attributable to members | | 8,024 | 7,735 |
| Transactions with ordinary shareholders in their capacity as ordinary shareholders: | | | |
| - Dividends paid | 2 | (4,590) | (5,283) |
| - Shares issued through the dividend re-investment plan | | - | 2,510 |
| Total equity at the end of the interim period | | 157,971 | 150,078 |

The condensed interim statement of changes in equity is to be read in conjunction with the notes set out on pages 9 to 23.

Notes to the Condensed Consolidated Interim Financial Report

for the six months ended 31 December 2005

1 Significant accounting policies

IMB Ltd (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities.

The condensed consolidated interim financial report was authorised for issue by the directors on 31 January 2006.

A) STATEMENT OF COMPLIANCE

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First Time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made by IMB Ltd during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 8. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian Generally Accepted Accounting Principles (previous AGAAP) to those reported for those periods under AIFRS.

B) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

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

Current period policy

- derivative financial instruments and financial instruments classified as available-for-sale.

Comparative period policy

- trading securities.

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

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRS in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ended 30 June 2006. The entity has not elected to early adopt any revised accounting standards in these interim financial statements, except for AASB 119 *Employee Benefits* as described in note 1n.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the year ended 30 June 2006 are still subject to change, and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

1 Significant accounting policies (continued)

B) BASIS OF PREPARATION (CONTINUED)

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous AGAAP. Except for the change in accounting policy relating to classification and measurement of financial instruments (see note 9), the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, as required by AASB 1. The impact of the transition from previous AGAAP to AIFRS is explained in note 8.

Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the consolidated entity for the purposes of this condensed consolidated interim financial report.

C) PRINCIPLES OF CONSOLIDATION SUBSIDIARIES

The consolidated financial report includes the financial statements of the Company, being the parent entity, and all its subsidiaries ("the consolidated entity"). Subsidiaries are all those entities over which the Company has the power to govern directly or indirectly decision making in relation to financial and operating policies, so as to require that entity to conform with the Company's objectives. 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. Subsidiaries are all those entities excluding Special Purpose Entities ("SPEs") described below.

SECURITISATIONS

Securitised positions are held through a number of SPEs. As the Company is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the consolidated entity's balance sheet and income statement.

D) CASH AND CASH EQUIVALENTS

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

E) LOANS

Current period policy

Loans are recognised at amortised cost under the effective interest rate method (see note 1p), after assessing required provisions for impairment as described in note 1j.

Comparative period policy

Loans are recognised at recoverable amount, after assessing required provisions for impairment as described in note 1j.

F) DERIVATIVE FINANCIAL INSTRUMENTS

Current period policy

The consolidated entity uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1g).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

F) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Comparative period policy

The consolidated entity is exposed to changes in interest rates from its activities. The consolidated entity uses interest rate swaps to hedge these risks. Derivative financial instruments are not held for speculative purposes. The quantitative effect of the change in accounting policy is set out in note 9a.

G) CASH FLOW HEDGES

Current period policy

For a derivative designated as hedging a cash flow exposure arising from a recognised asset or liability (or highly probable forecast transaction), the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity in the cash flow hedge reserve and reclassified into the income statement when the hedged item is brought to account. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

Comparative period policy

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.

H) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see note 1j). The cost of such assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site at which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to AIFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. These items had a total fair value of \$8,320,000.

DEPRECIATION

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

| | |
|--------------------------|---------------|
| ■ Buildings | 40 years |
| ■ Leasehold Improvements | up to 7 years |
| ■ Plant and equipment | 3 – 15 years |

I) INVESTMENTS IN DEBT AND EQUITY SECURITIES

Current period policy

Investment securities available for sale consist of securities that are not actively traded and are intended to be held for an indefinite period of time. Such securities are available for sale and may be sold should the need arise, including liquidity needs, or impacts of changes in interest rates, or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity, until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the income statement. Fair values of quoted investments in active markets are based on current mid-prices. If the relevant market is not considered active, or other methods of determining fair value do not result in a reasonable estimate, then the investment is measured at cost less impairment losses.

Comparative period policy

Financial instruments were either classified as held for trading or held to maturity. Those classified as held for trading were revalued to reflect fair values at the balance sheet date, with the revaluation increment or decrement for the period being taken to the income statement for that period. Those designated as held to maturity were carried at cost plus accrued interest, with the accrued interest being recognised in the income statement for the period. All equity securities were held at cost unless there was considered to be a permanent diminution in value.

The quantitative effect of the change in accounting policy is set out in notes 9a and 9b.

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

1 Significant accounting policies (continued)

J) IMPAIRMENT

The carrying amounts of the consolidated entity's assets, other than inventories and deferred tax assets (see note 1t), are reviewed at each reporting date (if not more regularly) to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

LOAN IMPAIRMENT

All loan assets are subject to recurring review and assessed for possible impairment. All bad debts are written off in the period in which they are identified.

Current period policy

Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

Specific provisions are recognised where specific impairment is identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

Comparative period policy

Provision for impaired assets is made in respect of loans, revolving credit facilities outstanding and overdrawn accounts where there is reasonable doubt that not all the principal and interest can be collected. A specific 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 several loan categories.

Additional specific provisions are made for any particular loan that is identified as being doubtful of recovery.

A general provision is maintained to cover any unidentified losses within the loan portfolio. The level of the general provision is made having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors. The Company's policy is to maintain an appropriate additional general provision.

CALCULATION OF RECOVERABLE AMOUNT – OTHER ASSETS

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

K) JOINT VENTURE OPERATIONS

The consolidated entity's interests in unincorporated joint ventures are brought to account by including its interest in the following amounts in the appropriate categories in the balance sheet and income statement:

- 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 equity accounting principles. 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 income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

L) 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.

M) DIVIDENDS PAYABLE

Dividends payable are recognised when declared.

N) EMPLOYEE BENEFITS

i) DEFINED CONTRIBUTION PLAN

Obligations for contributions to the defined contribution superannuation plan are recognised as an expense in the income statement as incurred.

ii) DEFINED BENEFIT PLAN

The consolidated entity has early adopted the revised AASB 119 *Employee Benefits*.

The consolidated entity's net obligation in respect of the defined benefit superannuation plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

All actuarial gains and losses as at 1 July 2004, the date of transition to AIFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 July 2004 in calculating the consolidated entity's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

When the calculation results in plan assets exceeding liabilities to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

iii) SALARIES, REDUNDANCY COSTS AND ANNUAL LEAVE

Liabilities for employee benefits for wages, salaries, and annual leave expected to be settled within 12 months of the reporting period represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

1 Significant accounting policies (continued)

N) EMPLOYEE BENEFITS (CONTINUED)

iv) LONG SERVICE LEAVE

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

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

(O) DIRECTORS' RETIREMENT BENEFITS

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

P) REVENUE RECOGNITION

i) INTEREST INCOME AND FEES FOR SERVICES RENDERED

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The principal sources of revenue are interest income, commission income and fee income.

Interest income arising from loans is brought to account using the effective interest rate method. Other interest income, commission and fee income is recognised in the income statement when earned (except as described in part (ii) below).

ii) LOAN ORIGATION INCOME

Current period policy

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

Comparative period policy

Revenue received in relation to the origination of loans is recognised in the income statement net of GST as it is received.

iii) DIVIDEND INCOME

Dividends and distributions from controlled entities are brought to account in the income statement when they are declared. Dividends and distributions from other parties are brought to account in the income statement when they are received.

Q) EXPENSES

i) OPERATING LEASE PAYMENTS

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

ii) LOAN ORIGATION EXPENSES

Current period policy

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

Comparative period policy

Expenses relating to the origination of loans are recognised in the income statement net of GST as they are incurred.

iii) SECURITISATION SET-UP EXPENSES

Current period policy

Expenses incurred directly in the establishment and marketing of securitisation vehicles are deferred and recognised in the income statement on a yield basis over the expected life of the relevant liability to note holders. The balance outstanding of deferred securitisation expenses is recognised in the balance sheet as a reduction in the funding liability for the securitised assets.

Q) EXPENSES (CONTINUED)

iii) SECURITISATION SET-UP EXPENSES (CONTINUED)

Comparative period policy

Expenses incurred directly in the establishment and marketing of securitisation vehicles are deferred and recognised in the income statement on a straight line basis over the expected life of the securitised loans. The balance outstanding of deferred securitisation expenses is recognised in the balance sheet as an asset.

R) PAYABLES

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

S) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"). 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 balance sheet.

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.

T) INCOME TAX

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates current at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates current at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities have been netted off in the balance sheet in accordance with AASB 112.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

TAX CONSOLIDATION

The Company is the head entity in the tax-consolidated group comprising the Company and all its wholly-owned subsidiaries. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a "stand alone basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/ revenue.

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

| | Dec 2005 \$000 | Dec 2004 \$000 |
|--|----------------------|----------------------|
| 2 Dividends | | |
| Fully franked final dividend declared on 31 July 2004 | | |
| - \$0.115 per share franked to 100% at a tax rate of 30% paid on 30 August 2004 on 39,129,831 shares | - | 4,500 |
| Fully franked special dividend declared on 31 July 2004 | | |
| - \$0.02 per share franked to 100% at a tax rate of 30% paid on 30 August 2004 on 39,129,831 shares | - | 783 |
| Fully franked final dividend declared on 2 August 2005 | | |
| - \$0.115 per share franked to 100% at a tax rate of 30% paid on 30 August 2005 on 39,911,640 shares | 4,590 | - |
| | 4,590 | 5,283 |

Subsequent events:

On 31 January 2006, the Board declared an interim dividend of 7.5 cents per share amounting to \$2,993,000 franked to 100% at a tax rate of 30%, in respect to the period ended 31 December 2005. The dividend is payable on 27 February 2006. The financial effect of this interim dividend has not been brought to account in the consolidated entity's financial statements for the half-year ended 31 December 2005 and will be recognised in subsequent financial statements.

3 Notes payable

As part of the consolidated entity's securitisation activities, notes are issued in the capital markets by each special purpose entity ("SPE") to fund the purchase of loan assets from the company. These SPEs form part of the consolidated entity. Details of these debt issuances are shown below:

| | | |
|---|----------------|----------------|
| Proceeds from the issue of note liabilities | 442,314 | 375,401 |
| Transaction costs | (1,502) | (976) |
| Net proceeds | 440,812 | 374,425 |

4 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:

| | | |
|------------------------|---------------|---------------|
| Cash assets | 50,698 | 50,561 |
| Secured bank overdraft | (6,871) | (2,438) |
| | 43,827 | 48,123 |

5 Change in the composition of the consolidated entity

ILLAWARRA SERIES 2005-1 RMBS TRUST

On 19 August 2005 a subsidiary of the Company, IMB Securitisation Services Pty Ltd, established the Illawarra Series 2005-1 RMBS Trust and paid an amount of \$200 to constitute the trust. The purpose of establishing this entity was to raise funds to allow the securitisation of residential mortgage loans. In September 2005 the entity issued \$500,000,000 of Residential Mortgage Backed Securities in the Australian bond market.

6 Changes in contingent liabilities

AUSTRALIAN TAXATION OFFICE – RESEARCH AND DEVELOPMENT (“R&D”) SYNDICATE

In November 2004, the Company received a letter from the ATO offering settlement terms in relation to the involvement of Sonoridad Pty Ltd in an R&D syndicate. In response, the Company presented its arguments supporting its deductions claimed in relation to this syndicate. This matter was disclosed as a contingent liability in the 30 June 2005 annual financial report.

On 9 January 2006, a further letter was sent by the ATO advising that no further action would be taken in relation to this matter. The directors therefore no longer consider this matter to be a contingent liability.

7 Segment reporting

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

8 Explanation of transition to AIFRS

As stated in note 1a, these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRS.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

8 Explanation of transition to AIFRS (continued)

CONSOLIDATED BALANCE SHEETS

| \$000 | Note | 1 July 2004 | | |
|--------------------------------|-------------|--------------------|--------------------|------------------|
| | | AGAAP | Adjustments | AIFRS |
| ASSETS | | | | |
| Cash and cash equivalents | 8a | 11,466 | 28,633 | 40,099 |
| Trading securities | 9b | 49,912 | - | 49,912 |
| Sundry debtors | 8a | 6,714 | (4,689) | 2,025 |
| Available for sale investments | 9a, 9b | - | - | - |
| Investment securities | 8a, 9b | 759,104 | (22,200) | 736,904 |
| Loans and receivables | 8a, 9b, 9c | 1,794,810 | 828,700 | 2,623,510 |
| Other financial assets | 9a | 565 | - | 565 |
| Equity accounted investments | 8d | 1,136 | - | 1,136 |
| Inventories | | 642 | - | 642 |
| Deferred tax assets | 8f | 1,896 | (1,555) | 341 |
| Property, plant and equipment | 8c | 22,389 | 237 | 22,626 |
| Other assets | 9c, 9d | 7,782 | - | 7,782 |
| Total assets | | 2,656,416 | 829,126 | 3,485,542 |
| LIABILITIES | | | | |
| Payables | 8a | 8,136 | 23,245 | 31,381 |
| Deposits | | 2,483,154 | - | 2,483,154 |
| Notes payable | 8a, 9d | - | 807,199 | 807,199 |
| Interest bearing liabilities | | 10,000 | - | 10,000 |
| Current tax liabilities | | 3,696 | - | 3,696 |
| Provisions | 8b, 8c | 4,517 | 479 | 4,996 |
| Deferred tax liabilities | 8g | 1,526 | (1,526) | - |
| Derivative liability | 9a | - | - | - |
| Total Liabilities | | 2,511,029 | 829,397 | 3,340,426 |
| Net Assets | | 145,387 | (271) | 145,116 |
| EQUITY | | | | |
| Issued capital | | 44,426 | - | 44,426 |
| Reserves | 8e, 9a | 30,880 | (5,625) | 25,255 |
| Retained profits | 8h | 70,081 | 5,354 | 75,435 |
| Total Equity | | 145,387 | (271) | 145,116 |

| Consolidated | | | | | | | | |
|----------------------------------|-------------|-----------|--------------|-------------|-----------|--|-------------|-----------|
| AIFRS adjustments – refer note 8 | | | | | | Accounting policy changes – refer note 9 | | |
| 31 December 2004 | | | 30 June 2005 | | | 1 July 2005 | | |
| AGAAP | Adjustments | AIFRS | AGAAP | Adjustments | AIFRS | AIFRS except 132/139 | Adjustments | AIFRS |
| 12,148 | 35,976 | 48,124 | 10,872 | 23,354 | 34,226 | 34,226 | - | 34,226 |
| 128,003 | - | 128,003 | 131,741 | - | 131,741 | 131,741 | (131,741) | - |
| 9,821 | (6,574) | 3,247 | 8,318 | (6,617) | 1,701 | 1,701 | - | 1,701 |
| - | - | - | - | - | - | - | 448,579 | 448,579 |
| 807,626 | (22,200) | 785,426 | 579,498 | (26,718) | 552,780 | 552,780 | (552,780) | - |
| 1,716,999 | 1,047,462 | 2,764,461 | 1,954,077 | 975,072 | 2,929,149 | 2,929,149 | 239,649 | 3,168,798 |
| 565 | - | 565 | 10,074 | - | 10,074 | 10,074 | 418 | 10,492 |
| 1,079 | 53 | 1,132 | 1,112 | 127 | 1,239 | 1,239 | - | 1,239 |
| 228 | - | 228 | 258 | - | 258 | 258 | - | 258 |
| 1,742 | (1,742) | - | 1,795 | (1,795) | - | - | - | - |
| 26,977 | 205 | 27,182 | 21,871 | 169 | 22,040 | 22,040 | - | 22,040 |
| 5,039 | - | 5,039 | 9,193 | - | 9,193 | 9,193 | (8,624) | 569 |
| 2,710,227 | 1,053,180 | 3,763,407 | 2,728,809 | 963,592 | 3,692,401 | 3,692,401 | (4,499) | 3,687,902 |
| 13,800 | 29,330 | 43,130 | 19,759 | 16,734 | 36,493 | 36,493 | - | 36,493 |
| 2,526,582 | - | 2,526,582 | 2,534,727 | - | 2,534,727 | 2,534,727 | - | 2,534,727 |
| - | 1,025,334 | 1,025,334 | - | 948,358 | 948,358 | 948,358 | (3,458) | 944,900 |
| 10,000 | - | 10,000 | 10,000 | - | 10,000 | 10,000 | - | 10,000 |
| 2,084 | - | 2,084 | 2,271 | - | 2,271 | 2,271 | - | 2,271 |
| 4,740 | 574 | 5,314 | 4,527 | 665 | 5,192 | 5,192 | - | 5,192 |
| 2,598 | (1,712) | 886 | 2,606 | (1,783) | 823 | 823 | (420) | 403 |
| - | - | - | - | - | - | - | 365 | 365 |
| 2,559,804 | 1,053,526 | 3,613,330 | 2,573,890 | 963,974 | 3,537,864 | 3,537,864 | (3,513) | 3,534,351 |
| 150,423 | (346) | 150,077 | 154,919 | (382) | 154,537 | 154,537 | (986) | 153,551 |
| 46,936 | - | 46,936 | 46,936 | - | 46,936 | 46,936 | - | 46,936 |
| 30,880 | (5,625) | 25,255 | 30,880 | (5,625) | 25,255 | 25,255 | 112 | 25,367 |
| 72,607 | 5,279 | 77,886 | 77,103 | 5,243 | 82,346 | 82,346 | (1,098) | 81,248 |
| 150,423 | (346) | 150,077 | 154,919 | (382) | 154,537 | 154,537 | (986) | 153,551 |

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

8 Explanation of transition to AIFRS (continued)

RECONCILIATION OF PROFIT

| | | Consolidated | | | | | |
|--|------------|----------------------------------|-------------|----------|--------------|-------------|-----------|
| | | AIFRS adjustments – refer note 8 | | | | | |
| \$000 | Note | 31 December 2004 | | | 30 June 2005 | | |
| | | AGAAP | Adjustments | AIFRS | AGAAP | Adjustments | AIFRS |
| Interest revenue | 8a | 83,665 | 33,617 | 117,282 | 168,909 | 68,764 | 237,673 |
| Interest expense | 8a, 8c | (56,355) | (28,292) | (84,647) | (114,101) | (58,119) | (172,220) |
| Net interest income | | 27,310 | 5,325 | 32,635 | 54,808 | 10,645 | 65,453 |
| Bad and doubtful debts expense | | (295) | - | (295) | (902) | - | (902) |
| Net interest income after bad and doubtful debts | | 27,015 | 5,325 | 32,340 | 53,906 | 10,645 | 64,551 |
| Revenue from land development | | 1,850 | - | 1,850 | 1,850 | - | 1,850 |
| Other revenue from ordinary activities | 8a | 14,043 | (5,122) | 8,921 | 27,338 | (10,251) | 17,087 |
| Net ordinary income before non interest expenses | | 42,908 | 203 | 43,111 | 83,094 | 394 | 83,488 |
| Cost of land development sales | | (422) | - | (422) | (674) | - | (674) |
| Other expenses from ordinary activities | 8a, 8b, 8c | (30,760) | (330) | (31,090) | (60,372) | (648) | (61,020) |
| Share of profits/(losses) of associates and joint ventures accounted for using the equity method | 8d | (57) | 53 | (4) | (24) | 127 | 103 |
| Profit before income tax | | 11,669 | (74) | 11,595 | 22,024 | (127) | 21,897 |
| Income tax expense | 8g | (3,860) | - | (3,860) | (6,926) | (12) | (6,938) |
| Profit for the period | | 7,809 | (74) | 7,735 | 15,098 | (139) | 14,959 |

Notes to the reconciliation of the consolidated balance sheets and income statements

The impact on deferred tax of the adjustments described below is set out in notes 8f and 8g.

- a) Under previous AGAAP, a number of SPE's were not consolidated. Under AIFRS, a different interpretation of the consolidation rules applicable to SPE's required a reassessment of the accounting for the consolidated entity's existing securitisations. All the consolidated entity's mortgage securitisation SPE's are now consolidated by the consolidated entity, because the consolidated entity is exposed to the majority of the residual income and/or residual risk associated with the SPE.

The effect in the consolidated entity is to increase *Loans and receivables* by \$828,700,000 at 1 July 2004, by \$1,047,462,000 at 31 December 2004 and by \$975,072,000 at 30 June 2005, *Notes payable* by \$829,399,000 at 1 July 2004, \$1,047,534,000 at 31 December 2004, and \$975,076,000 at 30 June 2005; to increase *Cash and cash equivalents* by \$28,633,000 at 1 July 2004, \$35,976,000 at 31 December 2004, and \$23,354,000 at 30 June 2005, and increase *Payables* by \$27,934,000 at 1 July 2004, \$35,904,000 at 31 December 2004, and \$23,351,000 at 30 June 2005; to decrease *Sundry debtors* and *Payables* by \$4,689,000 at 1 July 2004, \$6,574,000 at 31 December 2004, and \$6,617,000 at 30 June 2005. It will also increase *Interest income* by \$34,520,000 *Interest expense* by \$29,171,000 and decrease *Other revenue from ordinary activities* by \$5,122,000 and increase *Other expenses from ordinary activities* by \$227,000 for the six months ended 31 December 2004 and increase *Interest income* by \$70,414,000 and *Interest expense* by \$59,721,000, and decrease *Other revenue from ordinary activities* by \$10,251,000 and increase *Other expenses from ordinary activities* by

\$442,000 for the year ended 30 June 2005.

The consolidated entity has also invested in some of the notes issued by the SPE's and the effect of eliminating this investment is to reduce *Investment securities* and *Notes payable* by \$22,200,000 at 1 July 2004 and 31 December 2004, and by \$26,718,000 at 30 June 2005; to decrease *Interest income* and *Interest expense* by \$903,000 for the six months ended 31 December 2004, and decrease *Interest income* and *Interest expense* by \$1,650,000 for the year ended 30 June 2005.

The effect on the cashflow statement of consolidating the securitisation SPE's is to increase *Cash at the beginning of the period* by \$28,632,000 *Interest received* by \$33,617,000 and *Interest paid* by \$28,292,000 and to decrease *Other cash receipts* by \$5,618,000 and *Other cash payments* by \$8,288,000 for the half-year ended 31 December 2004.

- b) Under previous AGAAP certain superannuation obligations were recognised on a cash basis. In accordance with AASB 1, the cumulative actuarial gains and losses existing at 1 July 2004 have been recognised for the defined benefit plan.

The effect is to increase *Provision for employee benefits* by \$177,000 at 1 July 2004, by \$244,000 at 31 December 2004 and by \$311,000 at 30 June 2005; increase *Other expenses from ordinary activities* by \$66,000 for the six months ended 31 December 2004, and \$134,000 for the year ended 30 June 2005.

- c) An obligation exists to restore certain sites for the effect of the consolidated entity's operations. Under previous AGAAP the cost of rectification was recognised as an expense when incurred. In accordance with AIFRS, restoration costs should be recognised as part of the cost of assets and as a provision at the time of the obligating events.

The effect in the consolidated entity is to increase *Property, plant and equipment* by \$237,000 at 1 July 2004, \$205,000 at 31 December 2004 and by \$169,000 at 30 June 2005, and *Provision for make good costs* by \$302,000 at 1 July 2004, \$330,000 at 31 December 2004, and \$354,000 at 30 June 2005; to increase *Interest expense* by \$24,000 and *Other expenses from ordinary activities* by \$37,000 for the six months to 31 December 2004, and increase *Interest expense* by \$48,000 and *Other expenses from ordinary activities* by \$72,000 for the year ended 30 June 2005.

- d) Under previous AGAAP investments in associated companies were accounted for using equity accounting principles, with goodwill amortised over the period which financial benefits of the investment were expected to be realised. In accordance with AIFRS, goodwill is no longer amortised and such investments must be assessed at least annually for any impairment in the carrying amount.

The effect in the consolidated entity is to increase *Equity accounted investments* and *Retained profits* by \$53,000 at 31 December 2004, and by \$127,000 at 30 June 2005. This change would have decreased *Share of losses from associates* by \$53,000 for the six months ended 31 December 2004, and \$127,000 for the year ended 30 June 2005 had AIFRS applied at those reporting dates.

- e) At 1 July 2004, 31 December 2004 and 30 June 2005 an amount of \$5,625,000 has been reclassified from a revaluation reserve recognised under previous AGAAP to retained earnings. The amount represents the balance of the revaluation reserve at 1 July 2004 in respect of assets that are measured on the basis of deemed cost under AIFRS.

Notes to the Condensed Consolidated Interim Financial Report (continued)

for the six months ended 31 December 2005

8 Explanation of transition to AIFRS (continued)

f) The changes detailed in notes 8 and 9 increased the deferred tax asset as follows:

| \$000 | AIFRS adjustments | | | Accounting policy changes |
|---------------------------------------|-------------------|-------------|-------------|---------------------------|
| | 1 Jul 2004 | 31 Dec 2004 | 30 Jun 2005 | 1 Jul 2005 |
| Adoption of AASB 139 | - | - | - | 598 |
| Employee Benefits | 53 | 73 | 93 | - |
| Provision for make good costs | - | - | 107 | - |
| Deferred funding costs | - | - | (47) | - |
| Increase in deferred tax asset | 53 | 73 | 153 | 598 |

g) The changes detailed in notes 8 and 9 increased the deferred tax liability as follows:

| \$000 | AIFRS adjustments | | | Accounting policy changes |
|---|-------------------|-------------|-------------|---------------------------|
| | 1 Jul 2004 | 31 Dec 2004 | 30 Jun 2005 | 1 Jul 2005 |
| Property, plant and equipment | 19 | - | 128 | - |
| Adoption of AASB 139 | - | - | - | 178 |
| Deferred funding costs | 63 | 103 | 37 | - |
| Increase in deferred tax liability | 82 | 103 | 165 | 178 |

The effect on the income statement of the tax changes detailed in notes 8f and 8g for the six months ended 31 December 2004 and for the year ended 30 June 2005, was to increase the previously reported tax charge for the period by \$nil and \$12,000 respectively.

The deferred tax assets and liabilities have been netted off in the condensed interim balance sheet, and consolidated balance sheets provided in note 8.

h) The effect of the changes detailed in notes 8 and 9 on retained earnings is as follows:

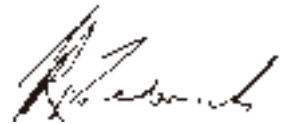
| \$000 | Note | AIFRS adjustments | | | Accounting policy changes |
|--|------------|-------------------|--------------|--------------|---------------------------|
| | | 1 Jul 2004 | 31 Dec 2004 | 30 Jun 2005 | 1 Jul 2005 |
| Equity accounted investments | 8d | - | 53 | 127 | - |
| Property, plant and equipment | 8c | (65) | (125) | (186) | - |
| Employee benefits | 8b | (177) | (244) | (311) | - |
| Adoption of AASB 139 | 9a, 9c, 9d | - | - | - | (1,555) |
| Deferred tax | 8f, 8g, 9a | (29) | (30) | (12) | 457 |
| Asset revaluation reserve | 8e | 5,625 | 5,625 | 5,625 | - |
| Total adjustment to retained earnings | | 5,354 | 5,279 | 5,243 | (1,098) |

Directors' Declaration

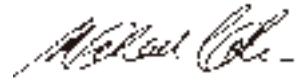
In the opinion of the directors of IMB Ltd ("the Company"):

1. the financial statements and notes set out on pages 5 to 23, are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half-year 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.
- Done at Wollongong this thirty-first day of January 2006.

Signed in accordance with a resolution of the directors:



LR Fredericks
Chairman



MJ Cole
Director

9 Change in accounting policy

In the current financial year the consolidated entity adopted AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement". This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for the financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity (retained earnings, hedging reserve, and fair value reserve) at 1 July 2005. The impact on the balance sheet in the comparative period is set out in the table in note 8 as an adjustment to the opening balance sheet at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

a) In accordance with AASB 139, available-for-sale investments and all derivative financial instruments have been recognised as assets or liabilities at fair value. Under previous AGAAP, all derivatives and many investments were recognised at cost. The effect of measuring available-for-sale investment securities at fair value is to increase *Available for sale investments* by \$64,000 *Available for sale reserve* by \$95,000 and decrease *Retained profits* by \$31,000 at 1 July 2005. The measurement of all derivatives at fair value has increased *Derivative liability* and decreased *Hedging reserve* by \$365,000 at 1 July 2005. The measurement of equity securities at fair value has increased *Other financial assets* and *Available for sale reserve* by \$418,000 at 1 July 2005. The tax relating to these amounts of \$36,000 has also decreased *Reserves*.

b) In accordance with AASB 139, financial assets previously classified as trading or investment securities are now classified as Available for sale investments, except assets that are classified as Loans and receivables which are financial assets that have fixed or determinable payments and are not quoted in an active market. The effect of this change at 1 July 2005 is to decrease *Trading securities* and *Investment securities* by \$131,741,000 and \$552,780,000 respectively, and to increase *Available for sale investments* and *Loans and receivables* by \$448,515,000 and \$236,006,000 respectively.

c) Under previous AGAAP, certain income and expense items relating directly to the origination of loans were recognised in the income statement as received. Broker trail commissions were previously deferred and amortised to the income statement on a straight line basis over the expected life of broker originated loans. Under AIFRS, these income and expense items are capitalised and included in the loan's effective yield and recognised over the expected life of the loan.

The effect in the consolidated entity is to increase *Loans and receivables* by \$3,643,000, decrease *Other assets* by \$4,416,000 and decrease *Retained profits* by \$773,000 at 1 July 2005.

d) Under previous AGAAP, expense items incurred in establishing securitisation vehicles were deferred and amortised to the income statement on a straight line basis over the expected life of the securitised loans. Under AIFRS, these expenses are recognised in the balance sheet as a reduction in the funding raised for the securitised loans, and amortised to the income statement on a yield basis over the expected life of the liabilities to the noteholders.

The effect in the consolidated entity is to decrease *Other assets* by \$4,208,000, *Retained profits* by \$751,000, and *Notes payable* by \$3,458,000 at 1 July 2005.

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 financial period ended 31 December 2005 there have been:

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



KPMG

CP Hollis
Partner

Wollongong, 31 January 2006

Independent Review Report to the Members of IMB Ltd

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim statement of income, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes 1 to 9 to the financial statements, and the directors' declaration set out on pages 5 to 23 for the IMB Ltd consolidated entity ("the consolidated entity"), for the interim period ended 31 December 2005. The consolidated entity comprises IMB Ltd ("the Company") and the entities it controlled during the interim period.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 "First-Time Adoption of Australian Equivalents to International Financial Reporting Standards".

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not represent fairly, in accordance with Australian Accounting Standard AASB 134 "Interim Financial Reporting", the Corporations Act 2001, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and

of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Statement

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

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the interim period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.



KPMG

CP Hollis
Partner

Wollongong, 31 January 2006

Shareholders' Diary and Other Information

Registered Office

253-259 Crown St
Wollongong NSW 2500

Shareholders' diary

- Payment of interim dividend 27 February 2006.
- Announcement of full year results August 2006.

Share registry

IMB Ltd is not listed on the Australian Stock Exchange.
Shares are traded through an exempt market operated by the company.

The share register is available for inspection at:
Level 6 Executive Services
253-259 Crown St
Wollongong NSW 2500

Advisers

Solicitors
Watson Mangioni
Level 13
50 Carrington St
Sydney NSW 2000

Auditors
KPMG
Level 3
63 Market St
Wollongong NSW 2500

IMB Ltd, incorporated and domiciled in Australia, is a public unlisted company limited by shares.

