

Interim Financial Report  
31 December 2008

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# Statistical Highlights

IMB has delivered a solid half-year performance in a difficult market with the Group's net profit after tax of \$9.8 million, which is in line with the previous corresponding period.

During the period IMB attracted \$219 million in retail deposits, with total deposits increasing by \$98 million. Loan approvals for the period totalled \$255 million, \$236 million (48%) below the previous corresponding period. This is a reflection of the stressed housing market and the winding back of the distribution of residential loans through mortgage brokers.

		Consolidated	
At 31 December		2008	2007
Net assets/total assets	%	4.2	4.1
Risk weighted capital adequacy	%	11.4	11.8
Liquid assets/total adjusted liabilities	%	28.7	29.7
Non interest expenses/operating income	%	69.1	68.4
Shares on issue	000	39,912	39,912
<b>for the half year ended 31 December</b>			
Total loans approved	\$m	255	491
– of which residential	\$m	195	401
Annualised after tax return on			
– average total assets	%	0.4	0.4
– average net assets	%	10.3	10.9
Interim dividend per share*	cents	8.0	8.0
Highest share price	\$	3.16	4.20
Lowest share price	\$	2.60	3.00
Average share price	\$	2.94	3.51
Last sale price	\$	2.80	3.70
Shares traded	000	652.6	1,392.5
Turnover	%	1.6	3.5

\* 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.

# Chairman's Review

## Performance

I am pleased to report to Members that IMB has delivered a solid half-year performance in a difficult market with the Group's net profit after tax of \$9.8 million, which is in line with the previous corresponding period.

This is a good result given the unprecedented global market turmoil which began last year and continued into this latest half, sharply intensifying in recent months.

Unlike many of our peers, IMB has no direct exposure to US sub-prime investments, however, IMB's interest margin has been under continual pressure as a result of the downward movement in official interest rates, causing lending and investment returns to decline ahead of deposit cost reductions. There continues to be no discernable deterioration in the credit quality of the loan portfolio.

## Strategic

Financial markets remain extremely turbulent and IMB will continue to focus on improving customer service with an emphasis on deposit growth and further improvements in efficiency. Importantly IMB's improved efficiency has assisted offset increased funding costs and will remain an area of key focus.

The recently introduced Government's Deposit Guarantee was an important initiative at a time of great uncertainty and one which IMB supports. The Australian financial system remains sound, and while adversely affected by the severe market disruption of the global credit crisis, has benefited from the strong regulatory environment.

## Dividend

After taking into consideration the half year performance, the future capital needs of the group and the current difficult conditions in the capital markets, the Board has declared a fully franked interim dividend of eight cents per share, in line with last year's interim dividend. This dividend is payable after close of business on 27 February, 2009 to shareholders as at that date.

## Prudent balance sheet management

As a building society, IMB's balance sheet reflects a focus on retail funding and prudent lending. As a result IMB is relatively less reliant on wholesale markets, sustains a level of arrears which are consistently well below industry norms, and maintains strong liquidity and capital ratios well in excess of regulatory requirements.

During the period IMB attracted \$219 million in retail deposits, with total deposits increasing by \$98 million. This level of funding exceeded our net lending of \$53 million for the period, maintaining our strategy of ensuring that through the credit crisis net lending is funded from retail sources.

Loan approvals for the period totalled \$255 million, \$236 million (48%) below the previous corresponding period. This is a reflection of the stressed housing market and the winding back of the distribution of residential loans through mortgage brokers. As a result balance sheet liquidity has increased to 28.7%.

## Outlook

As a result of the unprecedented turmoil in global financial markets we expect the Australian economy will remain under significant pressure. Economic output has contracted in the second half of 2008, and we expect tough conditions will continue for some time to come. It is difficult to know precisely when conditions will improve materially, but we believe the co-ordinated actions of Governments around the world have helped lay the foundations for future sustainable recovery of financial markets.

We expect the housing market to remain subdued, with market prices likely to remain stagnant in 2009/10. Rate cuts will help to minimise payment difficulties and alleviate payment shock as borrowers reach the end of their existing deals. The reduction experienced in housing prices over the past year will improve affordability, which should bring about a recovery in the first home buyers' market.

IMB is well placed to maintain its strong financial position providing security and a safe haven to investors and depositors in uncertain times.



**MJ Cole**  
Chairman

# Directors' Report

The directors have pleasure in presenting their report together with the consolidated interim financial report for the six months ended 31 December 2008 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 2008 are:

Name	Period of directorship
Michael John Cole, Chairman	Director since 2003, appointed Chairman October 2007
Kieran Robert Biddle	Director since August 2007
George Anthony Edgar	Director since 2000
Robert Hillis Page Elvy	Director since March 2008
Lynette Therese Gearing	Director since 2003
Steven George McKerihan	Appointed Director January 2009
Lynton Patrick Nicholas	Director since 2004
Lindsay Russell Fredericks	Director since 1990, retired December 2008

## 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 12 and forms part of the directors' report for the six months ended 31 December 2008.

## 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 seventh day of January 2009.

Signed in accordance with a resolution of the directors:



**MJ Cole**  
Chairman



**LP Nicholas**  
Director

# Interim Income Statement

For the six months ended 31 December 2008

	Consolidated	
	31 Dec 2008 \$000	31 Dec 2007 \$000
Interest revenue	177,389	167,036
Interest expense	(140,135)	(130,964)
Net interest income	37,254	36,072
Bad and doubtful debts expense	(904)	(519)
Net interest income after bad and doubtful debts	36,350	35,553
Revenue from land development	100	–
Share of profits of equity accounted investee	14	107
Other income	8,654	8,494
Net income	45,118	44,154
Land development expense	(68)	–
Other expenses	(31,063)	(30,212)
<b>Profit before tax</b>	<b>13,987</b>	13,942
Income tax expense	(4,232)	(4,173)
<b>Profit for the period attributable to members of the Company</b>	<b>9,755</b>	9,769

The interim income statement is to be read in conjunction with the condensed notes set out on pages 8 to 9.

# Interim Balance Sheet

As at 31 December 2008

		Consolidated	
	Note	31 Dec 2008 \$000	30 June 2008 \$000
<b>ASSETS</b>			
Cash and cash equivalents		57,410	47,605
Available for sale investments		525,231	538,306
Loans and receivables to ADI's		325,038	265,332
Loans and receivables to members		3,538,116	3,634,913
Equity accounted investments		1,839	1,826
Other financial assets		1,834	1,915
Derivative assets	9	–	3,947
Inventories		7,128	3,838
Property, plant and equipment		15,976	16,365
Intangible assets		857	1,331
Other assets		2,654	1,817
Net deferred tax assets		3,097	–
<b>Total Assets</b>		<b>4,479,180</b>	<b>4,517,195</b>
<b>LIABILITIES</b>			
Sundry creditors		38,605	35,483
Deposits		3,068,960	2,971,104
Securitised loans funding		1,156,337	1,300,466
Interest bearing liabilities		10,000	10,000
Derivative liabilities	9	8,418	–
Current tax liabilities		2,589	2,898
Provisions		6,266	5,819
Net deferred tax liabilities		–	669
<b>Total Liabilities</b>		<b>4,291,175</b>	<b>4,326,439</b>
<b>Net Assets</b>		<b>188,005</b>	<b>190,756</b>
<b>EQUITY</b>			
Issued capital		46,936	46,936
Reserves	9	23,279	29,426
Retained profits		117,790	114,394
<b>Total equity attributable to members of the Company</b>		<b>188,005</b>	<b>190,756</b>

The interim balance sheet is to be read in conjunction with the condensed notes set out on pages 8 to 9.

# Interim Statement of Cash Flows

For the six months ended 31 December 2008

		Consolidated	
	Note	31 Dec 2008 \$000	31 Dec 2007 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		177,965	168,698
Dividends received		3	12
Other cash receipts in the course of operations		7,909	8,248
Interest paid on deposits		(136,481)	(130,002)
Net increase in deposits		94,199	38,118
Income taxes paid		(8,308)	(5,089)
Net loans repaid/(funded)		95,890	(58,198)
Other cash payments in the course of operations		(31,509)	(30,925)
<b>Net cash flows from operating activities</b>		<b>199,668</b>	<b>(9,138)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Payments for)/Redemptions of available for sale investments		(38,269)	217,988
Expenditure on property, plant and equipment, and intangibles		(1,342)	(1,051)
Proceeds from sale of property, plant and equipment		64	139
<b>Net cash flows from investing activities</b>		<b>(39,547)</b>	<b>217,076</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net payments from securitised loans funding		(144,129)	(201,253)
Dividends paid	6	(6,187)	(5,987)
<b>Net cash flows from financing activities</b>		<b>(150,316)</b>	<b>(207,240)</b>
<b>Net increase in cash held</b>		<b>9,805</b>	<b>698</b>
<b>Cash and cash equivalents at 1 July</b>		<b>47,605</b>	<b>56,024</b>
<b>Cash and cash equivalents at 31 December</b>	8	<b>57,410</b>	<b>56,722</b>

The interim statement of cash flows is to be read in conjunction with the condensed notes set out on pages 8 to 9.

# Interim Statement of Changes in Equity

For the six months ended 31 December 2008

## Consolidated

In thousands of AUD	Note	Issued capital	Available for sale revaluation reserve	Cash flow hedge reserve	Equity investments revaluation reserve	General reserve for credit losses	General reserve	Retained earnings	Total equity
Balance at 1 July 2007		46,936	(526)	1,792	349	99	25,255	103,283	177,188
Revaluation movement due to change in fair value		–	(400)	651	(349)	–	–	–	(98)
Transfer from retained profits		–	–	–	–	920	–	(920)	–
Net change in fair value transferred to profit and loss		–	15	–	–	–	–	–	15
<b>Net income recognised directly in equity</b>		–	(385)	651	(349)	920	–	(920)	(83)
<b>Profit after tax for the six month period</b>		–	–	–	–	–	–	9,769	9,769
<b>Total recognised income and expense for the year</b>		–	(385)	651	(349)	920	–	8,849	9,686
Dividends to shareholders		–	–	–	–	–	–	(5,987)	(5,987)
<b>Balance at 31 December 2007</b>		<b>46,936</b>	<b>(911)</b>	<b>2,443</b>	<b>–</b>	<b>1,019</b>	<b>25,255</b>	<b>106,145</b>	<b>180,887</b>
Balance at 1 July 2008		46,936	(425)	2,764	445	1,387	25,255	114,394	190,756
Revaluation movement due to change in fair value	9	–	2,699	(8,657)	(56)	–	–	–	(6,014)
Transfer from retained profits		–	–	–	–	172	–	(172)	–
Net change in fair value transferred to profit and loss		–	(305)	–	–	–	–	–	(305)
<b>Net income recognised directly in equity</b>		–	2,394	(8,657)	(56)	172	–	(172)	(6,319)
<b>Profit after tax for the six month period</b>		–	–	–	–	–	–	9,755	9,755
<b>Total recognised income and expense for the year</b>		–	2,394	(8,657)	(56)	172	–	9,583	3,436
Dividends to shareholders		–	–	–	–	–	–	(6,187)	(6,187)
<b>Balance at 31 December 2008</b>		<b>46,936</b>	<b>1,969</b>	<b>(5,893)</b>	<b>389</b>	<b>1,559</b>	<b>25,255</b>	<b>117,790</b>	<b>188,005</b>

### Amounts are stated net of tax

The interim statement of changes in equity is to be read in conjunction with the condensed notes set out on pages 8 to 9.

# Condensed Notes to the Consolidated Interim Financial Report

For the six months ended 31 December 2008

## 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 2008 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 2008 is available upon request from the Company's registered office at 253-259 Crown Street, Wollongong or at [www.imb.com.au](http://www.imb.com.au).

## 2 Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

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 2008.

This consolidated interim financial report was approved by the Board of Directors on 27 January 2009.

The Group 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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 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 2008.

## 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 2008.

## 5 Earnings per share

Australian Accounting Standards requires earnings per share to be calculated with reference to the profit or loss attributable to ordinary equity holders of the parent entity. Due to the structure of IMB, in particular the existence of shareholder members and non-shareholder members, the amount of profit or loss attributable to ordinary equity holders is not able to be reliably measured. As a result earnings per share has not been calculated.

## 6 Dividends

	Dec 2008 \$000	Dec 2007 \$000
Fully franked final dividend declared on 14 August 2007 – \$0.15 per share franked to 100% at a tax rate of 30% paid on 30 August 2007 on 39,911,640 shares	–	5,987
Fully franked special dividend declared on 12 August 2008 – \$0.005 per share franked to 100% at a tax rate of 30% paid on 30 August 2008 on 39,911,640 shares	200	–
Fully franked final dividend declared on 12 August 2008 – \$0.15 per share franked to 100% at a tax rate of 30% paid on 30 August 2008 on 39,911,640 shares	5,987	–
	<b>6,187</b>	5,987

### Subsequent events:

On 27 January 2009, the Board declared an interim dividend of 8 cents per share amounting to \$3,193,000 franked to 100% at a tax rate of 30%, in respect to the six months ended 31 December 2008. The dividend is payable on 27 February 2009. 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 2008 and will be recognised in the subsequent financial report.

## 7 Change in the composition of the consolidated entity

On 10 July 2008 the Company established IMB Land No 2 Pty Ltd. The entity was established for the purpose of land development and has entered into a joint venture with Dapto Kanahooka Pty Ltd for this reason.

## 8 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	<b>57,465</b>	56,865
Secured bank overdraft	<b>(55)</b>	(143)
	<b>57,410</b>	56,722

## 9 Derivative financial instruments

The Group uses interest rate swaps to hedge its exposure to interest rate risk. In accordance with Australian Accounting Standard AASB139 *Financial Instruments: Recognition and Measurement*, the interest rates swaps are designated as cash flow hedges and the movements in fair value of the cash flow hedges are recognised in equity in the cash flow hedge reserve. The movement during the interim period is a reflection of the significant reduction in market rates over the period. Under AASB139 movements in the fair value of the Group's fixed rate loan portfolio, the main contributor to interest rate risk, is not recorded in the financial statements as these are carried at amortised cost.

## 10 Segment reporting

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

## 11 Related parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2008 annual financial report.

# Directors' Declaration

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

1. the financial statements and notes set out on pages 4 to 9, 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 2008 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.
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 seventh day of January 2009.

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



## Scope

We have reviewed the accompanying interim financial report of IMB Ltd which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of cash flows and statement of changes in equity for the interim period ended on that date, a description of accounting policies, other explanatory notes (1 to 11) and the directors' declaration as set out on pages 4 to 10 of the Group comprising the Company and the entities it controlled at the period end or from time to time during the interim period.

## Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's 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 Interim and Other Financial Reports 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 2008 and its performance for the interim period 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 2008 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

**Warwick Shanks**  
Partner

Wollongong, 27 January 2009

# 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 2008 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 'Warwick Shanks'.

**KPMG**

A handwritten signature in black ink, appearing to read 'Warwick Shanks'.

**Warwick Shanks**  
Partner

Wollongong, 27 January 2009

# 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 an ex-officio member of the Audit and Risk Management Committee and the IMB Community Foundation 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, 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, and the Land Development Committee. As well as being a director of IMB Ltd, Mr Biddle is also a director of all entities wholly owned by IMB Ltd.

## George Anthony Edgar

**BSC (TECH MET)**

Mr Edgar has been a director since 2000. He is Chairman of the Nominations and Governance Committee, and a member of the Remuneration and CEO Evaluation Committee, the IMB Community Foundation Committee, the Centenary/One Tree Bay Joint Venture Committee and the Land Development Committee. As well as being a director of IMB Ltd, Mr Edgar 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, a director of IMB Financial Planning Ltd, an alternate director of King Financial Services Limited and is Chairperson of IMB Land Pty Ltd and IMB Land No 2 Pty Ltd.

## Steven George McKerihan

**B.COMM (HONS) MBA CPA**

Mr McKerihan, who is CEO of the Sydney Diocesan Secretariat; Anglican Church, was appointed as a non executive director on 1 January 2009. He is a member of the Audit and Risk Management Committee. As well as being a director of IMB Ltd, Mr McKerihan is also a director of all entities wholly owned by IMB 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.

## Robert Hillis Page Elvy

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

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

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[www.imb.com.au](http://www.imb.com.au)



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