



# Branch Locations

## **Head Office**

492 Olive Street, Albury NSW 2640  
Phone: (02) 6051 3211, Fax: (02) 6051 3255  
Email: [hume@humebuild.com.au](mailto:hume@humebuild.com.au)  
Website: [www.humebuild.com.au](http://www.humebuild.com.au)

## **Service Centres**

**Myer City Centre**  
David & Swift Streets, Albury NSW 2640  
Phone: (02) 6051 3300, Fax: (02) 6051 3322

**West End Plaza**  
487 Kiewa Street, Albury NSW 2640  
Phone: (02) 6051 3399, Fax: (02) 6051 3366

**Lavington Shopping Centre**  
Griffith Road, Lavington NSW 2641  
Phone: (02) 6025 7877, Fax: (02) 6040 3508

**Wodonga Central**  
131 High Street, Wodonga VIC 3690  
Phone: (02) 6022 9088, Fax: (02) 6022 9066

**Wodonga Plaza**  
Elgin Street, Wodonga VIC 3690  
Phone: (02) 6022 9000, Fax: (02) 6022 9022

**Corowa**  
79 Sanger Street, Corowa NSW 2646  
Phone: (02) 6033 2688, Fax: (02) 6033 4312

**Culcairn**  
31 Railway Parade, Culcairn NSW 2660  
Phone: (02) 6029 8083, Fax: (02) 6029 8121

**Yackandandah**  
18 High Street, Yackandandah VIC 3749  
Phone: (02) 6027 1171

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**Hume Building Society Ltd**

ABN 85 051 868 556

Website: [www.humebuild.com.au](http://www.humebuild.com.au)

Email: [hume@humebuild.com.au](mailto:hume@humebuild.com.au)

# Board of Directors



**Ulf Ericson**

B Ec, B Comm, Grad Dip Tax Law, CA, Dip Law, Barrister-at-Law (NSW & High Court)

**Chairman**

Occupation: Chartered Accountant.

Responsibilities: Board member for 13 years and Chairman since 1998. Member of the Audit and Human Resources Committees.

Other Activities: Ulf is Chairman of the Albury-Wodonga branch of the Australian Institute of Management and the Albury-Wodonga Area Consultative Committee.

Age: 54 years.



**John Knobel**

CPA

**Deputy Chairman**

Occupation: Certified Practising Accountant.

Responsibilities: Board member for 26 years and Deputy Chairman for 16 years. Chairman of the Audit Committee.

Other Activities: John has a wide range of community involvements throughout the local region.

Age: 63 years.



**Leo O'Reilly**

FCA

**Director**

Occupation: Retired. (Formerly Partner in KPMG Chartered Accountants.)

Responsibilities: Board member for 3 years. Member of the Audit Committee.

Other Activities: Leo has an active involvement in furthering the development of e-commerce in the region.

Age: 57 years.



**Joy Stocker**

B Ed, M Ed (Adult Ed), MCES

**Director**

Occupation: Head of Studies, Business, IT & Arts, Riverina Institute of TAFE.

Responsibilities: Board member for 8 years. Chairperson of the Human Resources Committee.

Other Activities: Joy serves on the Charles Sturt University Advisory Committee and Joint Hospitals Ethics Committee. She has prior Board-level experience with the Albury City Council and Murray River Electricity.

Age: 54 years.



**Les Boyes**

**Director**

Occupation: Grazier and local businessman.

Responsibilities: Board member for 16 years.

Other Activities: Les is serving in his 30th year as a Councillor of the Rural City of Wodonga, including two terms as Mayor. Les was also a Commissioner on the Kiewa Murray Water Board.

Age: 69 years.



**Lou Lieberman**

MP, Dip Law (SAB), FAICD, Barrister and Solicitor (VIC & NSW)

**Director**

Occupation: Federal Member for Indi (since 1993).

Responsibilities: Board member since October 1998.

Other Activities: Lou has had a long career in business, the community and politics, including a range of Ministries in the Victorian Parliament.

Age: 62 years.



**Bill Hanrahan**

B Bus, Cost Acc P Cert, FCA, FSIA, FCPA, FCIS, B R Studies, B Leg S, Barrister-at-Law (NSW)

**Managing Director**

Responsibilities: CEO for 19 years and a Board member for 16 years. Member of the Audit Committee.

Other Activities: Bill is Chairperson of the Albury-Wodonga Development Corporation. He also serves on the Charles Sturt University Advisory Committee and the Albury-Wodonga Committee of the Institute of Chartered Accountants.

Age: 58 years.

# The Year in Review

The year 2000 was the golden year for Australia. The start (or was it the end?) of the millennium, it reached its peak in September with the outstanding success that was the Olympic Games. A sense of euphoria rightly permeated every corner of the country. A buoyant economy, partly internal and partly influenced by a surging United States economy, indicated that the trend would continue. Confidence was generally strong, and it is this positive sentiment that prompted continuity, or failing it, directional change.

Regional centres were part of this national optimism, but to a lesser extent. Certainly it seemed more temporary than permanent. In an Annual Report some years ago, we commented on the misleading nature of statistics with their emphasis on averaging. This was especially true in the year 2000. Interestingly, the Governor of the Reserve Bank of Australia in his Statement to the Parliamentary Committee in Wagga on 1 December 2000, made another qualifying statement on the use of statistics with these words: *"If we rely only on these statistics to form our view of the outlook, we run the risk of regularly swinging from optimism to pessimism and back again, depending on relatively short-term variations in the data."* (Page 9) The world we live and work in is more than statistics. However, the Governor went on to make another interesting comment:

*"... we have, in my opinion, avoided the boom-bust cycle in economic policy, and hence have an excellent outlook for the coming year."* (Page 11)

Such is the nature of our complex world, that a situation can change so quickly.

The optimism that pervaded most of the past financial year was dramatically coming to an end as the Society ended its financial year on 31 March 2001, witnessed by interest rate decreases in February, in March (and again in April). A necessary ingredient of optimism was diminishing: confidence was waning. Yet anecdotal evidence is now suggesting that rural Australia is becoming more buoyant. The final months of 2000-2001 must also be seen in this contradictory light.

Having said this, the summary position for Hume Building Society was a year of good growth in assets, strong profitability, and in the circumstances a satisfactory result in loans advanced. However, lending could remain difficult in the coming financial year. With this and decreasing margins, profitability must necessarily contract. Yet Directors believe strongly in the quality of the work that Hume is doing, so that the immediate future will represent only a modest downturn in the Society's long and successful tradition. Having painted the scenario in which Hume operated, we now move on to

more detail as we examine the highlights of the year just concluded.

Firstly, structure. It was reported last year that the Society (and the industry) had changed its corporate structure to that of a company limited by shares and guarantee under Corporations Law, with a change in prudential supervision to the Australian Prudential Regulation Authority (APRA). At the Annual General Meeting of the Society in July 2000, the previous rules were replaced by a new Constitution. In November, we had a very satisfactory routine inspection by APRA, which enabled both the Society and its supervisor to better understand the expectations of one of the other. At the same time, APRA was introducing new harmonised prudential standards, requiring a rewrite of policies and procedures by all Authorised Deposit-taking Institutions (ADIs). The Society has successfully completed this process, and forwarded these documents to APRA. A close working relationship between an ADI and APRA is essential for the overall success of the new regulatory environment.

At the same time, the Society joined other corporations in their corporate dealings with the Australian Securities and Investments Commission (ASIC). ASIC also has a responsibility for consumer issues (except credit)

# The Year in Review

that arise with ADIs. Hence it has a keen interest in how ADIs relate with their members and customers, particularly when the consumer spotlight remains firmly on the major banks.

Hume Board meetings throughout the year were heavily involved in strategic discussions, with themes like independence, mutuality (ownership by members), risk aversion, and the need to balance technology with a caring personal tradition, seen as building-blocks for these discussions. Directors recognised that success was linked to a highly motivated team, and loyal members who are well looked after.

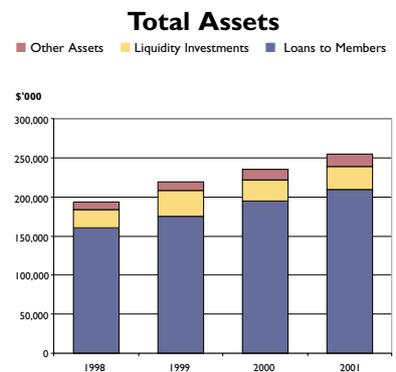
Translating this to the world of practice, the branches at West End Plaza and Lavington Shopping Centre were refurbished and revitalised during the year, with more work to be done in Lavington. At the same time, the world trend into further e-commerce was pivotal, as witnessed by the Society's introduction of BankLink and more recently BPAY. The scope for internet banking was extended and is proving increasingly popular. The software that underpins both technological advances and quality service was upgraded with the introduction of the Ultracs suite of programs from Ultradata. Extensive preparations took place throughout 2000, with the Society going live in early

December. A sincere vote of thanks goes to the project team, to all of Hume's staff, and to the specialists from Ultradata who cooperated with us on a daily basis as we worked towards this major change. Sound preparatory work usually means sound results, and this changeover was no exception. Hume has an excellent software platform to continue its tradition into the future.

More than ever quality human resources determine the success of a business. Hume has always been extremely proud of its staff, of their commitment to the Society through their commitment to its members. This continued to be a feature of the past financial year. A necessary concomitant is good working conditions, remuneration and ongoing training. The first important matter was facilitated by means of the refurbishment program. Directors enthusiastically paid a bonus to staff at Christmas to express their appreciation. Regarding training, this continues as a major item both internally and externally (and includes Directors). Staff were strongly encouraged to pursue formal studies, with financial support offered as part of this encouragement.

At year's end, total assets of the Society were \$254.6 million. A very successful profit figure of \$2.3 million (before abnormal items and income tax) increased

members' funds to \$20.6 million, resulting in a capital adequacy ratio of 15.09%, almost twice that currently required by law. Thus a sound financial platform is present as the Society moves into what will be a very challenging year.



We have conscientiously worked to provide quality products, both technological and traditional, to our members, and appreciate the excellent support we receive in return. It is the determination of all at Hume to continue this in the coming year and beyond. The close relationship that exists between the Society and the community through satisfactory mutual business and sponsorships should ensure another successful year for both.

Ulf Ericson     Bill Hanrahan  
Chairman     Managing Director

# Branches and Marketing

## Branches

The year has seen the Society actively reinforcing its commitment to its branch network. We have continued, in line with our mission, to ensure that the Society provides an ethical, personalised and efficient service to our members.

Consistent with this we have remodelled our branch in the new West End Plaza complex. A new, state-of-the-art ATM has been installed at this branch for the further convenience of members. This brings the Society's total number of ATMs to six in the Border region.



Lavington, our largest branch, has been refurbished and will be further enhanced in the coming year to provide members with greatly improved access to the Society's full range of financial services.

In the coming year we will continue our program of upgrading branch facilities. A major project will be to further improve the security at all branches. An unfortunate consequence of our region's growth and the changes in our

general society is a need for a greater awareness of security. Hume is committed to providing a safe environment for its staff and members and this is the catalyst for a number of changes that will take place.

## Marketing

The main focus of the Society's marketing efforts is in determining the needs of our members and providing products and services to meet these needs. The message from our members has been clear. They expect a personalised branch service and at the same time the convenience that electronic banking can provide. Members also expect Hume to maintain its active role in the community and provide assistance to worthwhile educational, cultural, social and sporting activities.

We have responded to these clear messages. Our commitment to our branch network has been discussed. In the arena of electronic banking we have significantly upgraded our internet banking service. I-Bank now offers a useful and increasingly popular tool for members wishing to perform a wide range of banking tasks. The recent introduction of BPAY now makes I-Bank a complete internet banking package.

In response to members' requests we have created an in-house insurance department to provide the same personalised

and friendly service to insurance that members have come to expect when performing their general banking.



The Society's strong community commitment has again been displayed through our sponsorship of Albury's Carols by Candlelight, the Ovens and Murray Football League and Albury Umpires League, as well as the many other smaller but no less important events in Albury-Wodonga's community calendar.

A handwritten signature in black ink that reads "W. Schwarz".

Wolfgang Schwarz  
Business Review Manager

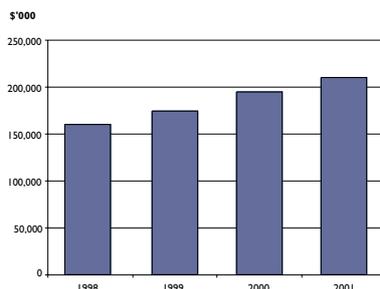
# Lending

## Overview

Once again, the lending environment was highly competitive during the year. In line with predictions, the real estate market was volatile, being affected by the GST and the First Home Owners' Grant (FHOG), both introduced on 1 July 2000. The period immediately after GST implementation saw a significant slow-down in lending approvals after a period of intense activity in housing construction prior to 30 June 2000. Advances for the year totalled \$72.2 million.

Total loans and overdrafts outstanding grew during the year from \$194.9 million to \$210 million, an increase of just over \$15 million or 7.7%. This is a pleasing result in the light of prevailing market conditions.

## Total Outstanding Loans



## Interest Rates

After passing on the drop in official cash rates announced following the Reserve Bank's meeting on 3 April 2001, the Society's standard variable rate was at 6.70%. Looking back to

Christmas 1999, the rate was a similar 6.69%. The intervening period of less than 16 months, however, has seen a total of seven changes in rates – four increases and three decreases. Throughout this period, the Society has been careful to ensure that it has provided its members with a market-leading standard variable rate.

The recent falls in rates have seen the repayment on a typical \$100,000 housing loan drop by over \$80 per month, representing great news for the Society's borrowers. There are signs that the falling rates are starting to have a positive effect on the housing construction market locally.

## Staff Changes

During the latter part of the financial year, the Society was very fortunate to employ some highly experienced personnel in the lending area, including Olympia Andronicos to manage the retail lending operation.

## Loan Account Fees

The Society remains committed to the principle of low cost banking services and has resisted pressures to introduce various fees associated with loan account operation. This includes the retention of loan accounts free of account keeping fees, together with the offer of fee-free transaction accounts to members with home loans.

## The Year Ahead

At the time of writing, the financial markets are anticipating at least one further fall in official cash rates. Coupled with the increase in the FHOG to \$14,000 for new dwellings, the coming financial year may well see an increase in housing construction activity.



There will be significant challenges arising from ever-tightening margins. However, with the current staff resources and the excellent support of the rest of the Society, the Lending Department is very well placed to meet the challenges of the coming year.

Mike Halsey  
Financial Services Manager

# Information Technology

## Ultracs

In December 2000, Hume Building Society commenced live operation of one of the most advanced retail banking systems available to building societies – Ultracs 2.3.

Almost six months of planning, testing and development went into ensuring a smooth transition from Facts 5.5 to the Ultracs platform.

Ultracs offers superior member identification and cross-linking to all areas of retail banking. It also provides state-of-the-art lending functions, and advanced linkages to peripheral systems such as internet banking, direct entry, and ATM services.

Ultracs will provide a solid platform on which to build our banking applications and services into the future.

## BPAY

BPAY was successfully introduced to the Society at the beginning of March. It has immediately proved its worth

with a strong take up through each of the three processing channels: 1) I-Bank – internet banking; 2) Hume Connect – telephone banking; and 3) over the counter at Hume branches. It has certainly shown to be a product that gives immense benefit to members by providing a single point from which the majority of bills can be paid.

## BankLink

BankLink, a service to provide statement information in electronic format to members' accountants, was established in July 2000. This project was managed by Darren Stuart, Hume's Support Analyst. BankLink has been of particular benefit to members running business accounts with the Society, as it has streamlined their accounting processes.

## Other Developments

The Society upgraded its website ([www.humebuild.com.au](http://www.humebuild.com.au)) in April 2000. Development of

the new website was performed internally by Frank Sergi, Systems Analyst, in conjunction with a local graphic designer. The new web design provides a modern, functional interface with enhanced capabilities.

Significant improvements to I-Bank include the provision of BPAY services, and the transfer of funds to accounts at other financial institutions. I-Bank also now has the facility to download statement data electronically for use in financial applications such as Microsoft Excel and Money.

A new ATM has been installed at West End Plaza, Albury. This ATM will provide additional access to funds for members, with its location very convenient for shopping.

## The Year Ahead

In the coming year, there will be significant focus on the consolidation and development of the Ultracs system. This will ensure that the system that underpins the day-to-day operations is working efficiently and effectively for the Society.

Hume will continue to look for opportunities to enhance and develop the services provided to members through the use of technology.



David Rowe

Information Technology Manager



# Human Resources

## Overview

It is through the efforts of individual employees that an organisation meets its objectives. Our focus on strategic human resources management recognises that the future of the Society is largely dependent on the performance of each individual. As part of this focus, the Society launched a new Performance Management System in 2000. This system is critical to ensuring we have the skills and knowledge required to reach short and long-term business objectives.

The purpose of the Performance Management System is to ensure open communication across the organisation and to clarify accountabilities and specify performance standards. Additionally, opportunities for professional and personal development are identified through the process. The Society's employees have embraced the concept and have gained rewards such as improved direction and opportunities for advancement.

Our investment in further education has continued with employees completing studies through university, TAFE, and other higher education providers.

The Human Resources Committee has provided invaluable support and direction in the areas of policy and procedures development and staff training and development issues. In the coming year the

Committee will contribute to establishing a Human Resources Strategy and continue to channel employee attitudes and suggestions on HR issues.

## Staff Appointments

A number of key appointments were made during the year. My employment as Human Resources Manager commenced in February 2001. I am optimistic about the future for the Society and anticipate a full year ahead in our efforts to reach Hume's long-term business goals.

Kylie Shanahan has been instrumental in her role as Human Resources Assistant. Kylie moved into this role from her position as a Customer Service Officer. This experience coupled with her degree in industrial relations has made her an invaluable asset to the Society.

Shane Evans was appointed Insurance Manager in June 2000 following extensive financial services experience.

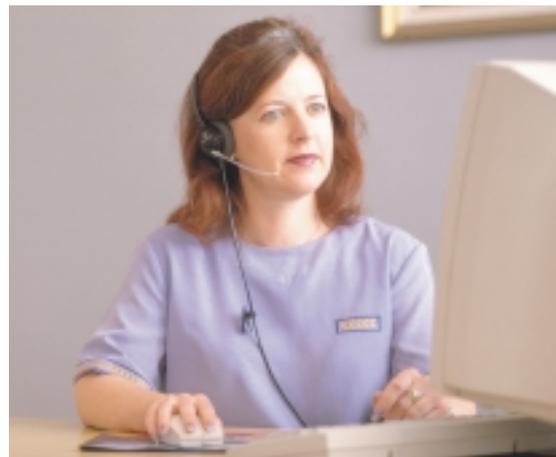
A review and restructure of the lending team took place in March 2001. Olympia Andronicos joined the Society as the Manager - Retail Lending. As part of the increased focus on business banking, Nick Toole has been appointed Manager - Commercial Lending, to be assisted by Carol Bahr.

Kerry Houghton, Megan Forelli, Nina Barlow, Kathy Arnold, Elaine McGowan, Louise Maxwell, Caroline Kaye, Janelle

Batrouney, Sue Pitman, Lisa Martin and Raielene Hynes joined the Society as Customer Service Officers. These appointments are vital to ensuring the Society maintains a high level of personal and friendly service.

## Congratulations

The Society congratulates Debra Sawyer on achieving 20 years service in December 2000. Debra joined Hume's Administration Department at Olive St, Albury in 1980.



Debra is currently employed as an Accounts Assistant with the Society, responsible for the processing and preparation of financial information.



Cindy Mundy  
Human Resources Manager

# Financial Report

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**Financial Report**  
**for the year ended**  
**31 March 2001**

# Financial Report

## Directors' Report

The Directors present their report, together with the financial report of Hume Building Society Ltd, for the year ended 31 March 2001 and the Auditors' report thereon.

### Directors

The names of the Directors of the Society at any time during or since the end of the financial year are:

Ulf Olof Ericson (Chairman)  
John Albert Knobel (Deputy Chairman)  
William Thomas Hanrahan (Managing Director)  
Leslie Charles Boyes  
Feynella Joy Stocker  
Leo Francis O'Reilly  
Louis Stuart Lieberman

Details of Directors' qualifications, experience and special responsibilities are contained on page 2 of the Annual Report.

### Directors' meetings

The numbers of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	<i>Board of Directors</i>	<i>Audit Committee</i>	<i>Human Resources Committee</i>
<i>Number of meetings held:</i>	17	6	4
<i>Number of meetings attended:</i>			
Ulf Olof Ericson	17	6	Leave of absence
John Albert Knobel	17	6	n/a
William Thomas Hanrahan	16	6	n/a
Leslie Charles Boyes	15	n/a	n/a
Feynella Joy Stocker	15	n/a	4
Leo Francis O'Reilly	17	6	n/a
Louis Stuart Lieberman	16	n/a	n/a

### Principal activities

The principal activities of the Society during the course of the financial year were those of an Authorised Deposit-taking Institution providing financial services to its members.

There were no significant changes in the nature of these activities during the year.

### Trading results

The operating profit for the financial year before abnormal items and income tax was \$2.352 million (2000 - \$1.803 million). Abnormal items were \$460,000 (2000 - \$0) and income tax was \$842,000 (2000 - \$684,000) for the financial year.

### Review of operations

With a number of increases in the official interest rate during the past year, margins were improved. With subsequent decreases in official interest rates towards the end of the financial year and into the new financial year, margins have deteriorated. Net profit before abnormal items and tax increased by 30.4% and total assets grew by 8.3%. The Society advanced \$72.2 million of loans during the year, maintaining a market-leading fixed introductory rate throughout the year. This, together with a strong refinancing package, saw good growth in the lending portfolio. The Society maintained its commitment to quality lending. The quality of our loans portfolio is our major asset.

The introduction of the GST during the year saw the addition of another major expense to the Society, due to its 'Input Taxed' status. GST paid and not recouped during the year amounted to \$148,000. Of this amount, \$43,000 was capitalised as part of the Society's assets and is being depreciated.

# Financial Report

## State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Society during the financial year under review.

## Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the Directors, to substantially affect the operations of the Society, the results of those operations, or the state of affairs of the Society in future financial years.

With recent reductions in the official interest rate, margins have been reduced significantly. Profitability in the first half of the new financial year has been forecast to decrease accordingly.

## Likely developments

The Society intends to continue to provide a range of savings, investment and loan products together with ancillary services to meet the needs of its members, and will monitor its branch and agency network, as well as e-commerce technology, to ensure these services are delivered in the most efficient manner.

The Society intends to proceed with its branch refurbishment program as well as continue to upgrade its information technology services. A new ATM was operating at West End Plaza in mid-April 2001. This will provide enhanced services to members.

## Directors' benefits

During or since the end of the financial year, no Director of the Society has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments paid or payable to the Directors as shown on page 25 of the general purpose financial statements) by reason of a contract entered into by the Society (or an entity that the Society controlled, or a body corporate that was related to the Society when the contract was made, or when the Director received, or became entitled to receive, the benefit) with:

- a Director, or
- a firm of which a Director is a member, or
- an entity in which a Director has a substantial financial interest.

## Indemnification and insurance of Directors and Officers

The Society has agreed to indemnify, by taking insurance cover, any past, present or future Director, Secretary or Executive Officer of the Society in respect of liabilities to other persons (other than the Society) that may arise from their position as Director, Secretary or Executive Officer of the Society, except where the liability arises out of conduct involving a lack of good faith. The Directors' and Officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

## Rounding

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

Signed in accordance with a resolution of the Directors:



U.O. Ericson  
Chairman



W.T. Hanrahan  
Managing Director

Albury, 27 April 2001

# Financial Report

## Profit & Loss Statement

for the year ended 31 March 2001

	Note	2001 \$'000	2000 \$'000
Interest revenue	2	17,238	14,098
Interest expense	2	(8,940)	(6,986)
Net interest revenue		8,298	7,112
Non-interest revenue	3	1,059	939
Total operating income		9,357	8,051
Bad and doubtful debts	3	(35)	(88)
Other expenses	3	(6,970)	(6,160)
<b>Operating profit before abnormal items and income tax</b>		2,352	1,803
Abnormal items	4	(460)	-
<b>Operating profit before income tax</b>		1,892	1,803
Income tax attributable to operating profit	5	(842)	(684)
<b>Operating profit after income tax</b>		1,050	1,119
Retained profits at the beginning of the financial year		17,390	16,271
Aggregate of amounts transferred from reserves	16	-	-
<b>Retained profits at the end of the financial year</b>		18,440	17,390

The profit & loss statement is to be read in conjunction with the accompanying notes set out on pages 14 to 30.

## Balance Sheet

as at 31 March 2001

	Note	2001 \$'000	2000 \$'000
<b>Assets</b>			
Cash and liquid assets	6	7,119	5,609
Investment securities	7	29,886	27,363
Loans and advances	8	209,343	194,746
Other investments	10	2,491	2,103
Property, plant and equipment	11	5,278	4,930
Other	12	451	375
<b>Total assets</b>		254,568	235,126
<b>Liabilities</b>			
Deposits and short-term borrowings	13	231,457	213,999
Accounts payable and other liabilities	14	1,468	654
Provisions	15	1,050	981
<b>Total liabilities</b>		233,975	215,634
<b>Net assets</b>		20,593	19,492
<b>Members' funds</b>			
Reserves	16	2,153	2,102
Retained profits		18,440	17,390
<b>Total members' funds</b>		20,593	19,492

The balance sheet is to be read in conjunction with the accompanying notes set out on pages 14 to 30.

# Financial Report

## Statement of Cash Flows

for the year ended 31 March 2001

	Note	2001 \$'000	2000 \$'000
<b>Cash flows from operating activities</b>			
Interest and bill discounts received		17,191	14,118
Borrowing costs		(8,454)	(6,634)
Dividends received		39	55
Other non-interest income received		967	818
Cash paid to suppliers and employees		(5,537)	(5,595)
Fees and commissions paid		(24)	(22)
Income tax paid		(893)	(760)
<b>Net cash flows from operating activities</b>	17	<u>3,289</u>	<u>1,980</u>
<b>Cash flows from investing activities</b>			
Net (increase)/decrease in loans		(15,087)	(20,011)
Net (increase)/decrease in investment securities		(2,165)	3,878
Payments for property, plant and equipment		(825)	(609)
Proceeds from sale of property, plant and equipment		29	35
<b>Net cash flows used in investing activities</b>		<u>(18,048)</u>	<u>(16,707)</u>
<b>Cash flows from financing activities</b>			
Net increase in deposits and short-term borrowings		16,967	14,364
<b>Net cash flows from financing activities</b>		<u>16,967</u>	<u>14,364</u>
<b>Net increase/(decrease) in cash held</b>			
Cash at the beginning of the financial year		2,596	2,959
<b>Cash at the end of the financial year</b>	17	<u>4,804</u>	<u>2,596</u>

The statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 14 to 30.

## Notes to the Financial Statements

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of accounting**

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Law.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

#### **Loans and advances**

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. Based on APRA's Prudential Standards, a general provision for impairment of 0.5% of risk weighted loans is maintained.

The loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. All housing loans are secured by registered mortgages.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the profit and loss account.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

- Non-accrual loans - are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
- Restructured loans - arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required.
- Assets acquired through the enforcement of security - are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.
- Past-due loans - are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If a provision for impairment is required, the loan is included in non-accrual loans.

#### **Recoverable amount**

Assets are not revalued to an amount above their recoverable amount, and where carrying values of a class of assets exceed the recoverable amount, assets are written down. In determining the recoverable amount the expected net cash flows have not been discounted to their present value.

#### **Derivative financial instruments – interest rate swaps**

From time to time the Society enters into interest rate swaps that are used to convert the fixed interest rate on medium-term lending to medium-term variable interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates. It is the Society's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest income.

# Financial Report

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### **Property, plant and equipment**

#### *Acquisition*

Items of property, plant and equipment are initially recorded at cost and depreciated as outlined below.

#### *Revaluations*

Land and buildings are independently valued every two years on an existing use basis of valuation and included in the financial statements at the revalued amounts. A provision for capital gains tax is only provided when it is known that the asset will eventually be sold.

#### *Disposal of revalued assets*

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in the results in the year of disposal. Any related revaluation increment standing in the asset revaluation reserve at the time of disposal is transferred to the capital profits reserve.

#### *Depreciation*

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land.

Major depreciation periods are:

- Freehold buildings: 40 years
- Leasehold improvements: the lease term
- Plant and equipment: 3 to 15 years

### **Investment securities**

Investment securities are intended to be held to maturity, and are recorded at the lower of cost (adjusted for premium or discount) and recoverable amount.

### **Employee entitlements**

#### *Wages, salaries and annual leave*

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the Society has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at non-discounted amounts based on current wage and salary rates and include related on-costs.

#### *Long service leave*

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the Society resulting from employees' services provided up to the balance date. Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attached to national government securities at balance date, which most closely match the terms of maturity of the related liabilities. In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Society's experience with staff departures. Related on-costs have also been included in the liability.

#### *Superannuation plan*

Contributions to the employees' superannuation fund are charged against operating profit.

### **Leases**

Leases are classified at their inception as either operating or financial leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

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

### **Income recognition**

#### *Dividend income*

Dividend income is taken into profit as received.

#### *Fees and commissions*

Fees and commissions are recognised as revenues or expenses on an accrual basis.

# Financial Report

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Cash and liquid assets

For the purposes of the statement of cash flows, cash includes cash on hand and at bank.

### Income tax

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

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. The tax effect of capital losses is not recorded unless realisation is virtually certain.

### Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current 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.

## 2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are monthly averages. Daily or weekly averages are also used provided they are representative of the Society's operations during the period.

	Average balance \$'000	Interest \$'000	Average interest rate %
<b>Interest revenue 2001</b>			
Investment securities	34,101	2,119	6.21
Loans and advances	201,663	15,119	7.50
	<b>235,764</b>	<b>17,238</b>	<b>7.31</b>
<b>Interest expense 2001</b>			
Customer deposits	217,784	8,940	4.10
Short-term borrowings	-	-	-
	<b>217,784</b>	<b>8,940</b>	<b>4.10</b>
<b>Interest revenue 2000</b>			
Investment securities	33,542	1,763	5.26
Loans and advances	184,866	12,335	6.67
	<b>218,408</b>	<b>14,098</b>	<b>6.45</b>
<b>Interest expense 2000</b>			
Customer deposits	202,749	6,984	3.44
Short-term borrowings	24	2	8.10
	<b>202,773</b>	<b>6,986</b>	<b>3.44</b>

Refer to note 24 for interest expense and revenues disclosure for related parties.

# Financial Report

	Note	2001 \$'000	2000 \$'000
<b>3. OPERATING PROFIT</b>			
<b>The operating profit before income tax is arrived at after charging/(crediting) the following items:</b>			
Bad and doubtful debts - other persons/bodies corporate	9	<u>35</u>	<u>88</u>
Amortisation - leasehold improvements		6	3
Depreciation			
- Plant and equipment		437	321
- Buildings		<u>64</u>	<u>64</u>
		501	385
Fees and commissions		23	22
Personnel costs			
- Provision for employee entitlements		88	89
- Superannuation contributions		312	304
- Salaries and wages		2,623	2,299
- Other		384	406
Other administration expenses		2,787	2,409
Rental - operating leases		246	243
Total other expenses		<u>6,970</u>	<u>6,160</u>
<b>Included in the operating profit are the following items of operating revenue:</b>			
Interest revenue	2	<u>17,238</u>	<u>14,098</u>
<i>Non-interest revenue</i>			
Dividends - other corporations		39	55
Fees and commissions			
- Loan fee income		146	135
- Other fee income		505	350
- Insurance commissions		119	111
- Other commissions		43	36
Bad debts recovered		-	1
Net profit on disposal of property, plant and equipment		7	15
Other revenue			
- Income from property		198	206
- Other		<u>2</u>	<u>30</u>
Total non-interest revenue		1,059	939
Total operating revenue		<u>18,297</u>	<u>15,037</u>
Proceeds on sale of assets		<u>29</u>	<u>35</u>

# Financial Report

	2001 \$'000	2000 \$'000
<b>4. ABNORMAL ITEMS</b>		
Additional provision for impairment of loans	(460)	-
Income tax effect	-	-
	<u>(460)</u>	<u>-</u>

In line with its prudent and conservative approach, the Society adopted a new policy to maintain a general provision for impairment of loans of 0.5% of risk weighted loans. This policy is based on the new APRA Prudential Standards. The additional provision required under this policy has been treated as an abnormal item.

## 5. INCOME TAX

The prima facie income tax on operating profit differs from the income tax provided in the accounts as follows:

Prima facie income tax expense calculated at 34% (2000 - 36%) on the operating profit after abnormal items	643	649
<i>Tax effect of permanent differences</i>		
Depreciation and amortisation	12	12
Rebateable dividend income	(13)	(19)
General provision for impairment	158	-
Other	2	2
	<u>802</u>	<u>644</u>
Effect of change in tax rate	4	41
FITB on general provisions transferred	36	-
Income tax over/(under) provided in prior year	-	(1)
Income tax expense attributable to operating profit	<u>842</u>	<u>684</u>

Income tax expense attributable to operating profit is made up of:

Provision for tax	873	721
Future income tax benefit	(31)	(37)
	<u>842</u>	<u>684</u>

The general provision for impairment is treated as a permanent difference, as the provision does not relate to specific doubtful accounts for which a tax deduction would be available in the event of a loss. Realisation is not virtually certain.

## 6. CASH AND LIQUID ASSETS

Cash on hand and at bank	4,804	2,596
Deposits at call	2,315	3,013
	<u>7,119</u>	<u>5,609</u>

# Financial Report

	Note	2001 \$'000	2000 \$'000
<b>7. INVESTMENT SECURITIES</b>			
Bills of exchange		2,487	4,963
Negotiable certificates of deposit		27,399	22,400
		<u>29,886</u>	<u>27,363</u>
<b>Maturity analysis</b>			
Not longer than 3 months		22,918	21,426
Longer than 3 and not longer than 12 months		4,950	5,937
Longer than 1 and not longer than 5 years		2,018	-
Longer than 5 years		-	-
		<u>29,886</u>	<u>27,363</u>
<b>8. LOANS AND ADVANCES</b>			
Overdrafts		1,486	1,812
Term loans		208,120	192,673
Loans to Directors	24(b)	403	456
Provision for impairment	9	(666)	(195)
Net loans and advances		<u>209,343</u>	<u>194,746</u>
<b>Maturity analysis</b>			
Overdrafts		1,486	1,812
Not longer than 3 months		2,214	2,235
Longer than 3 and not longer than 12 months		7,937	6,716
Longer than 1 and not longer than 5 years		38,240	30,940
Longer than 5 years		160,132	153,238
		<u>210,009</u>	<u>194,941</u>
<b>Concentration of risk</b>			
The loan portfolio of the Society does not include any loan which represents 10% or more of capital.			
The Society has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:			
- Albury-Wodonga region (including Corowa and Culcairn)		193,660	178,159
- Other - non-concentrated		16,349	16,782
		<u>210,009</u>	<u>194,941</u>
<b>9. IMPAIRMENT OF LOANS AND ADVANCES</b>	I		
<b>Provision for impairment</b>			
<b>General provision</b>			
Opening balance		104	104
Bad debts previously provided for written off during the year		(5)	(13)
Bad and doubtful debts provided for during the year		9	13
Abnormal item	4	460	-
Closing balance		<u>568</u>	<u>104</u>

# Financial Report

	2001 \$'000	2000 \$'000
<b>9. IMPAIRMENT OF LOANS AND ADVANCES (cont'd)</b>		
<b><i>Specific provision</i></b>		
Opening balance	91	51
Bad debts previously provided for written off during the year	(19)	(35)
Bad and doubtful debts provided for during the year	26	75
Closing balance	98	91
Total provision for impairment	<u>666</u>	<u>195</u>
<b><i>Bad and doubtful debts expense comprises:</i></b>		
Specific provision	26	75
General provision	9	13
Bad debts recognised directly	-	-
Total bad debts expense	<u>35</u>	<u>88</u>
<b><i>Non-accrual loans</i></b>		
Balances with specific provisions for impairment	72	173
Specific provision for impairment	(50)	(64)
Net non-accrual loans	<u>22</u>	<u>109</u>
<b><i>Restructured loans</i></b>		
Balance	-	-
<b><i>Assets acquired through enforcement of security</i></b>		
Assets acquired through enforcement of security	154	183
Specific provision for impairment	-	(24)
	<u>154</u>	<u>159</u>
<b><i>Past-due loans</i></b>		
Balance	<u>1,852</u>	1,250
Interest revenue on non-accrual and restructured loans	6	14
Interest foregone on non-accrual and restructured loans	-	-
Other revenue on assets acquired through security enforcement	-	-
Net fair value of assets acquired through the enforcement of security during the financial year. These assets include land and buildings which have since been sold or are in the process of being sold.	168	183
<b>10. OTHER INVESTMENTS</b>		
Listed shares and securities	1,301	1,224
Unlisted shares	241	228
Other	949	651
Total other investments	<u>2,491</u>	<u>2,103</u>

# Financial Report

	Note	2001 \$'000	2000 \$'000
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>			
<i>Land</i>			
Freehold land at independent valuation - March 2001	11(a)	<u>1,480</u>	1,460
		<u>1,480</u>	1,460
<i>Buildings on freehold land</i>			
At independent valuation - March 2001	11(a)	2,410	2,510
Add additions at cost		-	10
		<u>2,410</u>	2,520
Provision for depreciation		-	(78)
		<u>2,410</u>	2,442
Total freehold land and buildings		<u>3,890</u>	3,902
<i>Leasehold improvements</i>			
At cost		149	167
Provision for amortisation		(129)	(139)
Total leasehold improvements		<u>20</u>	28
<i>Plant and equipment</i>			
At cost		3,300	2,601
Provision for depreciation		(1,932)	(1,601)
Total plant and equipment		<u>1,368</u>	1,000
Total property, plant and equipment at written down value		<u>5,278</u>	4,930

## (a) Valuations

The freehold land and buildings were independently valued in March 2001 by Robert L. Baird AAPI, Consultant Valuer, on the basis of open market value of the properties concerned and their existing use. In the opinion of the Directors there have been no significant changes in market value since this date.

All valuations are estimates of the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date. The Society has a set policy for regular valuation of freehold land and buildings at least once every two financial years. Freehold land and buildings include strategically located properties with a book value of \$1,770,000 which are subject to long-term leases and provide an investment return to the Society.

## 12. OTHER ASSETS

Sundry debtors and prepayments	212	167
Future income tax benefit	239	208
	<u>451</u>	375

# Financial Report

	2001 \$'000	2000 \$'000
<b>13. DEPOSITS AND SHORT-TERM BORROWINGS</b>		
Call deposits	97,076	94,991
Term deposits	134,191	118,818
Short-term borrowings	190	190
	<u>231,457</u>	<u>213,999</u>
<b>Maturity analysis</b>		
On call	97,076	94,991
Not longer than 3 months	63,670	51,973
Longer than 3 and not longer than 12 months	61,543	54,517
Longer than 1 and not longer than 5 years	9,168	12,518
	<u>231,457</u>	<u>213,999</u>
<b>Concentration of deposits</b>		
Albury-Wodonga region (including Corowa and Culcairn)	210,869	192,905
Other - non-concentrated	20,588	21,094
	<u>231,457</u>	<u>213,999</u>
The Society's deposit portfolio does not include any deposit which represents 5% or more of total liabilities.		
<b>14. ACCOUNTS PAYABLE AND OTHER LIABILITIES</b>		
Creditors and other liabilities	<u>1,468</u>	<u>654</u>
<b>15. PROVISIONS</b>		
Taxation	345	365
Employee entitlements	705	616
	<u>1,050</u>	<u>981</u>
Included in employee entitlements is a non-current amount of \$312,000 (2000 - \$258,000).		
<b>16. RESERVES</b>		
Capital profits	243	243
Asset revaluation	1,910	1,859
	<u>2,153</u>	<u>2,102</u>
<b>Movements in reserves</b>		
<b>Asset revaluation reserve</b>		
Balance at beginning of year	1,859	1,859
Revaluation increments/(decrements) on revaluation of land and buildings	51	-
Transfer to capital profits reserve	-	-
Transfer to retained profits	-	-
Balance at end of year	<u>1,910</u>	<u>1,859</u>

# Financial Report

	Note	2001 \$'000	2000 \$'000
<b>16. RESERVES (cont'd)</b>			
<b>Capital profits reserve</b>			
Balance at beginning of year		243	243
Transfer from asset revaluation reserve		-	-
Balance at end of year		<u>243</u>	<u>243</u>

## 17. STATEMENT OF CASH FLOWS

### Reconciliation of the operating profit after tax to the net cash flows from operations

Operating profit after tax and abnormal items		1,050	1,119
<i>Non-cash items</i>			
Abnormal items	4	460	-
Charge for bad and doubtful debts		35	88
Depreciation		501	385
Amortisation		6	3
Provision for employee entitlements		88	89
Net (profit)/loss on disposal of plant and equipment		(7)	(15)
<i>Changes in assets and liabilities</i>			
Interest receivable		(47)	19
Other receivables		(45)	(51)
Interest payable		485	352
Tax provision		(20)	(39)
Creditors and accrued expenses		814	67
Future income tax benefit		(31)	(37)
Net cash flow from operating activities		<u>3,289</u>	<u>1,980</u>

### Reconciliation of cash

Cash balance comprises:			
Cash on hand and at bank		<u>4,804</u>	<u>2,596</u>

### Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

- (i) customer deposits to and withdrawals from deposit accounts;
- (ii) borrowings and repayments on loans, advances and other receivables; and
- (iii) sales and purchases of investment securities.

### Bank overdraft facility

The Society has an overdraft facility available to the extent of \$500,000 (2000 - \$500,000). The overdraft facility is secured by a registered first mortgage over property owned by the Society. As at 31 March 2001 this facility was undrawn.

### Special finance line - standby facility

The Society has a special finance line - standby facility with ANZ Bank available to the extent of \$6.0 million (2000 - \$6.0 million). This facility is unsecured. As at 31 March 2001 this facility was undrawn.

# Financial Report

2001  
\$'000

2000  
\$'000

## 18. EXPENDITURE COMMITMENTS

### Capital expenditure commitments

Estimated capital expenditure contracted for at balance date but not provided for:

- payable not later than one year 35 425

### Operating leases (non-cancellable)

- not later than 1 year 166 213

- later than 1 and not later than 2 years 132 26

- later than 2 and not later than 5 years 44 -

Aggregate lease expenditure contracted for at balance date 342 239

### Other

- not later than 1 year - 60

- later than 1 and not later than 2 years - 15

- 75

## 19. SUPERANNUATION

### Superannuation commitments

The Society contributes to the Hume Building Society Staff Superannuation Fund which is an accumulation fund. The benefits provided are based on the amounts credited to each member's account in the fund. No actuarial assessment is required. The Society contributed 8% (7% pre July 2000) of each fund member's gross salary to cover its occupational superannuation obligations. Members may contribute to the fund on a voluntary basis.

## 20. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

In the normal course of business the Society enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers. The Society uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Society holds collateral supporting these commitments where it is deemed necessary.

### Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements:

Approved but undrawn loans and credit limits 9,410 10,468

### Financial guarantees

Financial guarantees written are conditional commitments issued by the Society to guarantee the performance of a customer to a third party. These guarantees are secured by frozen deposits or undrawn loan funds.

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# Financial Report

	2001	2000
	\$	\$
<b>21. AUDITORS' REMUNERATION</b>		
Amounts received or due and receivable by the Auditors of Hume Building Society Ltd for:		
- an audit or review of the financial statements of the Society	33,785	28,091
- other services in relation to the Society	39,947	34,011
	<u>73,732</u>	<u>62,102</u>

## 22. REMUNERATION OF DIRECTORS

### Directors' remuneration

Income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of the Society

<u>500,037</u>	<u>448,386</u>
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The number of Directors of Hume Building Society Ltd whose income (including superannuation contributions) falls within the following bands is:

	No.	No.
\$20,000 - \$29,999	6	6
\$310,000 - \$319,999	-	1
\$360,000 - \$369,999	1	-

Remuneration includes all payments to Directors and benefits, but excludes reimbursements of out of pocket expenses. All remuneration of Directors, except those of employee Directors, was approved by the members at the previous Annual General Meeting of the Society.

There are no amounts paid in connection with the retirement of a Director.

## 23. ECONOMIC DEPENDENCY

The Society has an economic dependency on Cashcard Australia Limited for the provision of ATM network services and Ultradata Australia Pty Ltd for computer software services.

## 24. RELATED PARTY DISCLOSURES

(a) The Directors of Hume Building Society Ltd during the financial year were:

U. O. Ericson	Chairman
J. A. Knobel	Deputy Chairman
W. T. Hanrahan	Managing Director
L. C. Boyes	
F. J. Stocker	
L. F. O'Reilly	
L. S. Lieberman	

(b) The following related party transactions occurred during the financial year:

### Loans to Directors

All loans to Directors by the Society have been made in the normal course of business and on the normal commercial terms and conditions. In the case of employee Directors, all loans advanced have been made on the same terms and conditions as those available to other employees of the Society in accordance with established policy. These terms and conditions have not been breached.

The aggregate amount receivable at 31 March 2001 was \$403,000 (2000 - \$456,000) and relates to loans advanced in the normal course of business to Messrs Knobel and Hanrahan and Mrs Stocker.

During the period loans advanced totalled \$0 (2000 - \$372,000) and repayments totalling \$84,000 (2000 - \$171,000) were made which included repayments of principal of \$53,000 (2000 - \$141,000).

### Other transactions

From time to time the Directors of the Society may conduct banking related transactions with the Society. These transactions are on the same terms and conditions as those entered into by other members.

### Related parties

All transactions with Director related parties have been conducted on an arm's-length basis. In accordance with ASIC Class Order 98/110, only transactions with the Directors of the Society have been disclosed in the financial statements.

## 25. SEGMENT INFORMATION

The Society operates predominantly in the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans. Specific segmentation of deposits and loans are set out in notes 8 and 13.

# Financial Report

## 26. FINANCIAL INSTRUMENTS

### (a) Terms, conditions and accounting policies

The Society's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised financial instruments	Balance sheet note	Accounting policies	Terms and conditions
<b>(i) Financial assets</b>			
Loans and advances	8	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Loans and advances are recorded at their recoverable amount. For further details on the classification of loans refer to note 1.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis but most are also secured by registered mortgages. Most housing loans are covered by mortgage insurance.
Loans and advances - related parties	8	Amounts receivable from related parties/entities are carried at nominal amounts due.	Details of the terms and conditions are set out in note 24.
Bills of exchange	7	Bills of exchange and promissory notes are stated at cost. Net realisable value is stated in note 26(c). The discount amount is amortised over the life of the bill.	Bills of exchange have an average maturity of 60 days with effective interest rates of 5.22% to 5.66% (2000: 5.53% to 6.07%).
Other investments	10	Other investments are carried at the lower of cost or recoverable amount. Interest is recognised when earned.	
Listed shares and securities	10	Listed shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when received.	
Negotiable certificates of deposit	7	Negotiable certificates of deposit are stated at cost. Interest revenue is recognised when earned.	Negotiable certificates of deposit have an average maturity of 181 days and effective interest rates of 5.00% to 6.82% (2000: 5.40% to 6.33%).
<b>(ii) Financial liabilities</b>			
Deposits and other borrowings	13	Deposits and borrowings are recorded at the principal amount. Interest is calculated on the daily balance outstanding or the minimum monthly balance.	Details of maturity terms are set out in note 13.
Bank overdraft		The bank overdraft is carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate. Details of the security over the bank overdraft are set out in note 17.
Creditors and other liabilities	14	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Society.	Trade liabilities are normally settled on 30-day terms.

## 26. FINANCIAL INSTRUMENTS (cont'd)

### (b) Interest rate risk

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

Financial instruments	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate		
			1 year or less		Over 1 to 5 years		More than 5 years								
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 %	2000 %	
<b>(i) Financial assets</b>															
Cash and liquid assets	2,300	3,000								4,819	2,609	7,119	5,609	5.43	5.43
Loans and advances - related parties	403	41	-	415								403	456	7.41	5.73
Listed shares and securities	697	712								604	512	1,301	1,224	n/a	n/a
Bills of exchange			2,487	4,963								2,487	4,963	5.35	5.76
Negotiable certificates of deposit			25,381	22,400	2,018	-						27,399	22,400	5.79	5.90
Other investments	949	651								241	228	1,190	879	6.14	6.04
Loans and advances	170,838	151,731	28,201	31,148	10,191	11,331	376	275				209,606	194,485	7.40	6.99
Sundry debtors and prepayments										212	167	212	167	n/a	n/a
Total financial assets	175,187	156,135	56,069	58,926	12,209	11,331	376	275		5,876	3,516	249,717	230,183		
n/a - not applicable for non-interest bearing financial instruments.															
<b>(ii) Financial liabilities</b>															
Deposits and borrowings	97,076	94,991	125,213	106,490	9,168	12,518						231,457	213,999	4.24	3.76
Creditors and other liabilities										1,468	654	1,468	654	n/a	n/a
Interest rate swaps	(3,000)	(3,000)			3,000	3,000						***	***	****	****
Total financial liabilities	94,076	91,991	125,213	106,490	12,168	15,518				1,468	654	232,925	214,653		
n/a - not applicable for non-interest bearing financial instruments.															
*** not applicable since financial instruments are not recognised in the financial statements.															
**** the disclosure of effective interest rates is not applicable to derivative financial instruments.															

# Financial Report

## 26. FINANCIAL INSTRUMENTS (cont'd)

### (c) Net fair values

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

Financial instruments	Total carrying amount as per the balance sheet		Aggregate net fair value	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<b>(i) Financial assets</b>				
Cash and liquid assets	7,119	5,609	7,119	5,609
Loans and advances - related parties/entities	403	456	403	456
Listed shares and securities	1,301	1,224	1,733	1,520
Other investments	1,190	879	1,190	879
Bills of exchange	2,487	4,963	2,486	4,961
Negotiable certificates of deposit	27,399	22,400	27,374	22,234
Loans and advances	209,606	194,485	209,606	194,485
Debtors and prepayments	212	167	212	167
<b>Total financial assets</b>	<b>249,717</b>	<b>230,183</b>	<b>250,123</b>	<b>230,311</b>
<b>(ii) Financial liabilities</b>				
Deposits and borrowings	231,457	213,999	231,457	213,999
Creditors and other liabilities	1,468	654	1,468	654
Interest rate swaps	**	**	60	18
<b>Total financial liabilities</b>	<b>232,925</b>	<b>214,653</b>	<b>232,985</b>	<b>214,671</b>

\*\* not applicable since financial instruments are not recognised in the financial statements.

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

#### Recognised financial instruments

##### Cash and liquid assets

The carrying amounts approximate fair value because of their short term to maturity or are receivable on demand.

##### Current securities and investments

Trading securities are carried at net market/net fair value.

##### Debtors and prepayments

The carrying amount approximates fair value as they are short-term in nature.

##### Deposits and borrowings

The carrying amount approximates fair value because of their short term to maturity.

##### Loans and advances

The fair values of loans receivable excluding impaired loans are estimated using a method not materially different from discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements.

The net fair value of impaired loans was calculated by using a method not materially different from discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

# Financial Report

## 26. FINANCIAL INSTRUMENTS (cont'd)

### *Investments/securities*

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

### *Creditors and other liabilities*

The carrying amount approximates fair value as they are short-term in nature.

### *Other financial liabilities*

This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long-term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

### **Unrecognised financial instruments**

#### *Interest rate swap agreements*

The fair values of interest rate swap contracts are determined as the difference in the present value of the future interest cash flows.

#### **(d) Credit risk exposures**

The Society's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

In relation to unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Society's maximum credit risk exposure in relation to interest rate swap contracts is limited to the net fair value of the swap agreement at balance date, being \$60,000 (2000 - \$18,000).

#### **Concentrations of credit risk**

The Society minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of customers within the specified category. However, the majority of customers are concentrated in the Albury-Wodonga region.

Concentrations of credit risk on loans receivable arise in the following categories:

	Maximum credit risk exposure* for each concentration			
	Percentage of total loans receivable (%)		\$'000	
	2001	2000	2001	2000
Albury-Wodonga area residents (including Corowa and Culcairn)	92.21	91.39	193,660	178,159
Other non-concentrated	7.79	8.61	16,349	16,782
	100.00	100.00	210,009	194,941

\* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

Credit risk in loans receivable is managed in the following ways:

- a risk assessment process is used for all customers; and
- credit insurance is obtained for high risk customers and/or where the Society's policies require it.

#### **(e) Hedging instruments**

As disclosed above, the Society has entered into interest rate swaps for the specific hedging of some fixed interest rate loans.

# Financial Report

## Directors' Declaration

In the opinion of the Directors of Hume Building Society Ltd:

1. the financial statements and notes, set out on pages 12 to 30, are in accordance with the Corporations Law, including:
  - (a) giving a true and fair view of the financial position of the Society as at 31 March 2001 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
  - (b) complying with Accounting Standards and the Corporations Regulations; and
2. there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors:



U.O. Ericson  
Chairman



W.T. Hanrahan  
Managing Director

Albury, 27 April 2001

## Independent Audit Report

To the members of Hume Building Society Ltd:

### Scope

We have audited the financial report of Hume Building Society Ltd for the financial year ended 31 March 2001, consisting of the profit and loss statement, balance sheet, statement of cash flows, accompanying notes and the Directors' declaration, as set out on pages 12 to 31. The Society's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Society.

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

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

### Audit opinion

In our opinion, the financial report of Hume Building Society Ltd is in accordance with:

- (a) the Corporations Law, including:
  - (i) giving a true and fair view of the Society's financial position as at 31 March 2001 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



KPMG  
Chartered Accountants



Dougald J. Frederick, Partner

Albury, 27 April 2001

# The Hume Team

## Senior Management

Managing Director

**Bill Hanrahan**

B Bus, Cost Acc P Cert, FCA, FSIA, FCPA, FCIS, B R Studies, B Leg S, Barrister-at-Law (NSW)

Business Review Manager

**Wolfgang Schwarz**

B Agr Sc (Hons), Grad Dip Mgt, MBA

Manager - Planning & Finance

**Wayne Nagle**

B A (Acc), CA

Human Resources Manager

**Cindy Mundy**

B Bus, Grad Dip HRM & Ind Rel

Information Technology Manager

**David Rowe**

Assoc Dip Computing

Financial Services Manager

**Mike Halsey**

B Sc (Hons), ACA

## Accounting & Administration

Manager - Planning & Finance

**Wayne Nagle**

B A (Acc), CA

Management Accountant

**Kevin Phillips**

MNIA

Financial Accountant

**David Fara**

MNIA, AIFS

Quality Assurance Officer

**David Schultz**

Executive Secretary

**Jenny Butler**

Accounts Assistants

**Bernadette Bell-Chambers**

**Debra Sawyer**

**Kim Singleton**

Administrative Assistants

**Gwen Devenish**

**Lindy Mason**

**Sharyn Pollock**

Receptionists

**Jenny Maclure**

**Kerri Yensch**

## Human Resources

Human Resources Manager

**Cindy Mundy**

B Bus, Grad Dip HRM & Ind Rel

Human Resources Assistant

**Kylie Shanahan**

B Bus (Ind Rel)

## Marketing

Business Review Manager

**Wolfgang Schwarz**

B Agr Sc (Hons), Grad Dip Mgt, MBA

Marketing Coordinator

**David Hanrahan**

B Bus (Mkt), MBA (Fin), AAIBF (Snr)

Marketing Assistant

**Jon Ellis**

## Information Technology

Information Technology Manager

**David Rowe**

Assoc Dip Computing

Support Analyst

**Darren Stuart**

Systems Analyst

**Frank Sergi**

## Lending

Financial Services Manager

**Mike Halsey**

B Sc (Hons), ACA

Manager - Retail Lending

**Olympia Andronicos**

Loans Officers

**Robyn Hillary**

**Kevin Ward**

AIFS

Manager - Commercial Lending

**Nick Toole**

Grad Cert Finance

Business Banking Assistant

**Carol Bahr**

Assoc Dip Banking & Finance

Administrative Assistants

**Jenny Harmer**

**Stacey Hawking**

**Tracey Mackay**

Insurance Manager

**Shane Evans**

Prof Dip HRM

Arrears Manager

**John Watson**

## Olive St Branch

Senior Supervisor (Operations)

**Judy Clohesy**

Customer Service Supervisor

**Rosanne Griffiths**

Customer Service Officers

**Kathryn Arnold**

**Janelle Batrouney**

**Roslyn Healy**

**Kerry Houghton**

**Annette James**

**Maree Wright**

# The Hume Team

## Myer Branch

Customer Service Supervisor  
**Trish Reis**

Customer Service Officers

**Merissa Colls**

**Alice Geddes**

**Katrina Kerr**

Assoc Dip App Sc

**Robyn Johnson**

## West End Plaza Branch

Customer Service Supervisor  
**Linda Kimball**

Customer Service Officers

**Megan Forelli**

**Louise Maxwell**

**Tracey Mulvey**

## Lavington Branch

Branch Manager

**Kim Fielder**

Customer Service Supervisor  
**Renaë Knobel**

Customer Service Officers

**Carole Andrews**

**Caroline Kaye**

**Kylie Matheson**

**Elaine McGowan**

**Sue Pitman**

**Jenny Preston**

**Teresa Wyatt**

## Wodonga Central Branch

Branch Manager  
**Kevin Richardson**

Customer Service Supervisor

**Vivienne Smith**

Customer Service Officers

**Jodi Barlow**

**Allison Coonan**

**Anna Novak**

## Wodonga Plaza Branch

Branch Manager  
**Kevin Richardson**

Customer Service Supervisor

**Sue Walker**

Customer Service Officers

**Nina Barlow**

**Julie Boyes**

## Corowa Branch

Branch Manager  
**Jeff Curtis**

Customer Service Supervisor

**Helen Rolfe**

Customer Service Officers

**Raielene Hynes**

**Lisa Martin**

**Leanne Nichols**

## Culcairn Branch

Customer Service Supervisor  
**Maxine Quinlivan**

Customer Service Officer

**Gaynor McLeish**

## Casual Staff

Customer Service Officers

**Jennie Frendo**

**Helen Rouse**

*The Hume Team as at 31 March 2001.*