

GROWING
WITH THE
BORDER
REGION



Annual Report 2002



Annual Report
2002
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Growing with the Border region



Hume Building Society Ltd

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Hume Building Society wish to thank the following organisations who have kindly supplied photographs for use in this Annual Report: Investment Albury Wodonga, The Border Mail, Corowa Shire Council, Wodonga City Council, Culcairn Shire Council, Ovens and Murray Football League and Bell Commercial Photography.

Board of Directors

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Pictured left to right: Ulf Ericson (Chairman), Lou Lieberman, Bill Hanrahan (Managing Director), Leo O'Reilly, John Knobel (Deputy Chairman), Les Boyes and Joy Stocker.

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 14 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: 55 years.

Leo O'Reilly

FCA

Director

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

Responsibilities: Board member for 4 years. Member of the Audit Committee.

Other Activities: Leo has an active involvement in furthering the development of e-commerce in the region. He is an independent member of Albury services and advisory board member of Martins Albury.

Age: 58 years.

Les Boyes

Director

Occupation: Grazier and local businessman.

Responsibilities: Board member for 17 years.

Other Activities: Les is serving in his 31st 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: 71 years.

John Knobel

CPA

Deputy Chairman

Occupation: Certified Practising Accountant.

Responsibilities: Board member for 27 years and Deputy Chairman for 17 years. Chairman of the Audit Committee.

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

Age: 64 years.

Joy Stocker

B Ed, M Ed (Adult Ed), MCES

Director

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

Responsibilities: Board member for 9 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: 56 years.

Lou Lieberman

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

Director

Occupation: Consultant (Former Federal Member for Indi).

Responsibilities: Board member for 3 years.

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

Age: 64 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 20 years and a Board member for 17 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 both the Institute of Chartered Accountants and CPA's.

Age: 59 years.



Main Street of Corowa

Annual Report 2002 The Year in Review

Our report must begin with the change of balance date, from 31st March to 30th June. Whether to change or not had been discussed many times over the years, but throughout 2001 it became clearer that Hume Building Society should join the vast majority of companies finalising accounts and statutory reports on 30th June. ASIC approved our application to change, with the decision further ratified by the Australian Taxation Office. Thus the reporting period covered in this Report is the 15 months from 1st April 2001 to 30th June 2002. The main impact of the change as it relates practically to our members, is to transfer this year's Annual General meeting from June to September. Some minor (consequential) amendments to the Society's Constitution will be put to members for approval at that meeting.

For some time now, the end of each financial year usually referenced, in any commentary, the uncertainty that was part of that year. At no time is this more true than at 30th June 2002. No-one could possibly have foretold the misery and desolation which was to occur. Humanity stood still in horror, and a spirit of solidarity quickly spread through fair-minded people. Basic beliefs were shaken; 11th September in many ways created a new world. Confidence was surrendered, and as business and financial markets run on confidence, the world financial scene stumbled, and has been unable to regain its composure.

Having said this, the point is quickly made that while no national economy is exempt from disasters in a global setting, Australia showed its inherent strength by remaining the equal of any OECD country on most measures of financial strength. With a falling dollar (initially), Australia was able to restore its competitiveness in commodities markets, at least for most of the financial year. Rural Australia was on the move again, not just the capital cities. A low interest rate regime underpinned much of the good news, as did the First Home Owner Grant scheme, both giving impetus to the housing market which was slowing following the introduction of the GST. With its tradition of helpful, personal service, its "concentrated" branch network, and its improving user-friendly Internet technology, Hume was able to take advantage of this favourable economic environment to produce its best lending results ever. More of this detail shortly.

2001-2002 was the "season" of interest rate changes. This financial period we saw official "cash rate targets" change 6 times, beginning with a decrease of 50 points in

April 2001, and then 3 decreases of 25 points each in September, October and December 2001, followed by increases of 25 points in May and June 2002 (with expectations of one or even more to follow early in the new financial year). But the reality of a low interest rate economy remains. The net result was a decrease of 75 points in the cash rate from 5.5% at 1st April 2001, to 4.75% at 30th June 2002. However, for 5 months of the period, the official cash rate was 4.25%, which set rates at their lowest levels in memory. Good for borrowers; not so for those living off fixed income. For financial institutions like Hume (Approved Deposit-taking Institutions – ADI's), it was a mixed blessing – excellent insofar as it participated in strong economic times, but challenging in one sense because of pressures on margins. And for a very traditional housing lender, margin pressure was intense. Margins, which define profitability, were at two-thirds of where they were a few years earlier.

The point is best understood by reference to actual results. For the year ended 31st March 2001 (the last at this balance date) operating profit before income tax (but after a prudent provisioning of \$460,000) was \$1.892 million; for the past 15 month period, operating profit was \$2.313 million; the results are almost identical when pro-rata'd. Certainly there was no increase. A "steadying" profitability came at a time when the Society needed to improve its resources like IT upgrades and new Internet (e-commerce) facilities, refurbish branches, and most of all, the addition of highly skilled people – all essential expenditure. A suitable platform is now in place for Hume to continue its successes. While emphasis on cost control remains a critical focus, demands of the marketplace for a traditional ADI necessarily implies ongoing expense. So too does the well-being of our members, in terms of physical comfort, and product satisfaction. There is no "standing still".

Yet there is a bright side to all of this. Decreased margins mean a better result for our members, who are now borrowing at rates which a decade ago would have been regarded as dreams. While Hume charges fees on a service-usage basis (and remains towards the bottom end of a fee spectrum), members have a better idea of the costs of services – with cross-subsidisation being gradually removed, transparency of costs is another positive outcome. This will be even more so, following the involvement of the RBA in the pricing of electronic services, and the recommendations it makes. It is our hope that members will again benefit.



Monument Hill, Albury

The Year in Review

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All these points coalesce in examining member involvement with the Society this past financial "year". Firstly, consider growth. For the 15-month financial period, total assets grew from \$254.62 million to \$288.44 million, an increase of 13.3%. Community support was thus strong. Lending further reflects the tradition of a caring and interested Society. Loans advanced for the period was \$110.70 million, much better than any comparative result achieved earlier. The increase in demand necessitated more lending staff trained to higher expectation levels. It has really been a very busy time for all at Hume.

Other commentaries within the Report detail other achievements. Mention has already been made of the importance of our staff. It is almost trite to say that an organisation is as good as its people, but at Hume we sincerely believe it, and act accordingly. Success was shown in a recent market research survey carried out by a specialist firm, in which the Society's attention to personal service elicited a response higher than any result attained by that research firm for other ADI's. Our staff's commitment to our members is at the core of Hume's existence. Another challenge this past 15 months has been to balance this tradition with technological demands of the new century. Much work was done here, with systems constantly monitored for improvement. The research project just mentioned highlighted a growing desire from a segment of our members for a better range of e-commerce products and services; there is also the need to help educate members to this level of technology as well. Use of the Internet means savings in time and costs for all. We also believe the gentle transition to a better balance will not be at the expense of genuine personal service. Hume can maintain the essence of its tradition while satisfying members' needs in a fast-changing age.

Another facet of this changing world is new legislation, often with profound effects. One such instance was the Financial Services Reform Act, which became operative on 11th March. It truly is "watershed legislation", whose impact will be increasingly seen in so many aspects of financial services' delivery. Then there was the amended Privacy Act effective from 21st December 2001. The immediate impact of such changes is felt in revised policies and procedures. These are translated into practical benefits for our members by extensive training of our staff. Throughout the past financial period, the commitment to quality training in

Hume was strong. And this will continue in a marketplace more complex each year.

It is now 3 years since building societies came under the supervision of the Australian Prudential Regulation Authority. All regulatory authorities are increasing their relevant supervisory involvements, again to the benefit of the Australian community. Despite a few much-publicised failures, Australia has generally shown the quality of its business life, certainly the quality of its ADI's. In what has been a turbulent time, comparative economic stability, founded on quality and growth, has placed us in good stead. Hume is pleased to be part of this stable environment. We willingly work with our supervisors, knowing that their satisfaction is our success.

As a regional ADI, the Society operates physically in a defined geographical locality. Each year it recognises that this is no longer sufficient. Being clearly identified with the region of Albury-Wodonga means it must cater for members wishing to leave this area. It must now recognise that others, for a variety of reasons, may wish to join an extended "Community of Hume". Hence the need for a broader vision, but one which is implemented cautiously. Strategic planning received much attention this period, with a plan completed by year's end. The theme of an expanded membership base, in both the traditional and e-commerce sense, as well as many of the points raised above, are included in this plan, which received input from directors and staff through a series of workshops. The strategic plan will be a balanced and prudent guide for the next 2 years.

In summary, the preceding 15 months have been challenging, but very successful. The financial results in context were very satisfactory. Capital adequacy, a measure of financial strength, at 14.6% puts Hume in the top bracket of ADI's. We thank all involved with Hume for their input into this success; most of all we thank our members. Special mention must also be made again of our excellent staff, who will take on the challenges of a new strategic plan, and turn it to a positive instrument. Finally, the time devoted to Society matters by a committed Board, with its many skills, is gratefully acknowledged.



Ulf Ericson
Chairman



Bill Hanrahan
Managing Director



The Boulevard, Wodonga

Branches and Products

BRANCHES

Hume remains committed to maintaining a branch network to deliver quality personalised service to our members as well as offering them alternative methods of banking such as via telephone and internet.

With this commitment in mind, Hume progressed with its refurbishment program and will continue with it in the coming year.

During the period, our Lavington branch was extended and renovated. For improved member service the branch now has two lending offices, an enquiry desk and an additional interview room. These renovations have been complemented by the appointment of a Branch Manager in June 2002.

Corowa branch will be remodelled in late July 2002. A state-of-the-art ATM will also be installed, further improving services to our members. This will bring the number of Society ATM's to seven.

Our High St, Culcairn and Corowa branches all received facelifts during the year. An office has been created at Culcairn which will now allow Culcairn and district residents to have their loan interviews conducted at the Culcairn branch.

A major renovation has been planned for Head Office in early 2003. Head Office will continue to be the flagship of the Society, leading the way and establishing a benchmark in technology, lending, first choice business banking, commercial loans and insurance.

Security of our staff and members is of absolute importance. For this reason, the Society undertook a project to install anti-jump barriers at all of its branches. This project will be finalised with completion of the Head Office refurbishment.

PRODUCTS

For the benefit of members, the Society introduced three new savings products and revamped a number of existing accounts during the period.

New products include:

- Hume Extra account - designed for the 14 to 21 year old members. This account is fee free with the exception of foreign ATM usage;
- Flexible Loan Offset – designed for members with housing or investment residential loans. This account



offers a 100% interest offset against a loan; and

- Farm Management Deposits – designed for primary producers to assist with the management of their taxable income.

Some of the modifications to our existing products included:

- Cash Management Account – option of a Cashcard and Chequebook on a statement account; and
- Pensioner Deeming Account – option of a Cashcard with a statement account.



John Foord Bridge, Corowa



The Society undertook the redesign of its Cashcard towards the end of June 2002 and it is anticipated that the card, along with a new gold card, will be released around September 2002.

Wayne Nagle
Planning and Finance Manager

Lending and Insurance

2002



Shane Evans, Insurance Manager, with Insurance Officer Nicolle Bryan

LENDING

Overview

Significant media attention has been given over the past year to the strong housing market, resulting from a combination of an extremely low interest rate environment, the continuation of the First Home Owners' Grant and the underlying strength of the National economy. This has been reflected in the Society's lending in the financial year, with growth in outstanding loans and overdrafts of 8.5%, resulting in a portfolio at 30th June of in excess of \$227 million.

Interest Rates

The financial year has seen a complete cycle of interest rate changes, and included some of the lowest interest rates for around 30-years. During the year, the Society continued to ensure its members benefited from market-leading interest rates.

Loan quality

The Society remains committed to ensuring its loan application and approval procedures result in loans of very high quality. 98% of the Society's loans are secured by registered mortgages, with the additional protection of mortgage insurance on the majority of higher value residential loans.

Staff

Sourcing and maintaining the best available lending staff has always been a key priority. The recent addition of Ross Maggs, Alan Jarratt and Helen Rolfe has further strengthened the Society's first class regional lending team.

The year ahead

While tightening margins and ever-increasing competition will result in a challenging lending environment for the Society in the coming year, the quality of staff, support resources and systems mean that we are extremely well placed to meet those challenges and generate additional growth for the benefit of our members and the local community.

INSURANCE

Over the past two years, the Society has focused significant energy on growing its insurance business. A complete range of insurance products is now offered, primarily through the Society's agency with CGU Insurance, one of the nation's largest general insurers.

As with all services offered by the Society, we are permanently searching for ways to offer members the benefits of bulk community purchasing power and ease of



Hume Weir

delivery. Technology has been important in the area of insurance, with many members now able to arrange their general insurance cover over the phone, or over the internet in the Society's branches, without the need to complete forms.

This area of our operations will continue to form an important part of the overall range of services offered to members.

Mike Halsey
Financial Services Manager

Annual Report 2002 Hume and the Community

In a very real sense, Hume Building Society is a part of the living heart of the local community. It was pleasing to note in the recently completed Market Research Survey that our members fully endorse this view. Out of 15 reasons for belonging to the "Community of Hume", members consistently stated that the Society's positive contribution to the local community was a key reason for their membership, this factor being placed overall 3rd in order of importance.

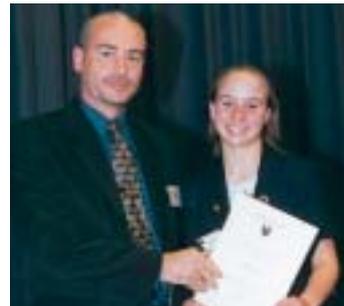
The community contribution takes many forms, from the basic strategic position of branch retention and expansion, compared to the branch closures by many other organisations, to the provision of financial support to many local bodies, whether by nature charitable, sporting, social or other. The major Society sponsorships in the past financial year included the Ovens and Murray football league, of which the Society is the major sponsor, and the Albury City Council's "Carols by Candlelight." The coming year will be the 15th successive year in which the Society has been the major



sponsor of "Carols". While involvement with the O&M and Carols is relatively high profile, equally as important to the Society is its contribution to the large number of small clubs and associations, educational institutions and other local bodies.



Sumsion Gardens, Wodonga



Mike Halsey, Financial Services Manager, presenting Hume Building Society Scholarship to Charles Sturt University student, Colleen Burbidge.

Human Resources

STAFF DEVELOPMENT AND GROWTH

We recognise a high level of personalised customer service demands a motivated and content group of people. Our staff are vital to delivering the level of service expected and as a result we have embarked on a range of programs designed to develop, reward and recognise our people at all levels.

Our goal is that each individual will have a rewarding place to work and a motivating mission to fulfil. This mission encourages our staff to continue to exceed customer expectations and their own. We have been working hard to establish an environment where our staff will be supported to attain the goals required to grow our business in size and quality.

RECRUITMENT

The cornerstone of our development program is the commitment to attract the best quality in ability, attitude and motivation. During the last twelve months we have secured an exceptional group of individuals. The expertise expands across IT, legal, marketing, lending and customer service and ensures we are well placed to embark on an ambitious growth strategy.

Recruits Include:

Henri Cruddas – Legal and Compliance

Bill Quinn – IT

Julie Bunn – Marketing

Ross Maggs, Alan Jarratt, Kirk Savage – Lending

Ingela Hamilton, Sam Devenish, Mark Fisher, Pam Kennedy, Leeanne Burns, Sharon Rinkel, Ann Hawking,

Josh Coghlan, Simon McCormick, Rebecca O'Bryan,

Nicole Clark, Leonie Brown and Helen Eames – Customer Service

LEADERSHIP

Our leadership program seeks to further strengthen our customer service team by providing a higher-level ability to carry out business objectives across all levels of the Society. All of our branch supervisors are embarking on development programs designed to harness their knowledge, and improve the capacity to make sound decisions for customers and staff.

We are moving towards setting targets with clear accountabilities and performance measures. Consequently strong leadership and direction within every branch has become a focused objective.



TRAINING AND INDUCTION

Training and induction has been extensively reviewed and improved to ensure our staff gain the right message and information to perform their roles. We understand the need to support our staff and partner them in the early transition into our business. There are further plans to invest in ongoing refresher programs so that staff are continuously developing and learning.

REWARD AND RECOGNITION

With the development of performance measures we are moving towards setting a financial reward program for staff. At the base level, we understand the need to remunerate fairly. Therefore we have benchmarked against our industry to be satisfied our remuneration structure reflects the commitment to rewarding staff for increased performance.

Spot rewards are provided to recognise staff for instances of exceptional customer service and commitment. Supervisors are encouraged to identify and reward staff that exceed customer expectations. Our personalised level of service remains a point of difference to our competitors and therefore we seek to reinforce examples on a frequent basis.

OH&S

We have continued to manage employee welfare and safety with the further addition of security precautions across all branches and ongoing safety training. An Occupational Health and Safety Committee was established to provide a mechanism for consultation and management of OH&S issues.

Cindy Mundy
Human Resources Manager



Noreuil Park, Albury

Annual Report 2002 Information Technology

OVERVIEW

In what seems to be an ongoing trend, it was certainly a very busy year for the Information Technology Department.

IT underpins a significant proportion of the services provided to members. Security and reliability have remained as the fundamental principles of Society's IT servicing philosophy. At the same time we also recognise the need to meet the members' desire for increased diversification of services, and the need to be able to adapt rapidly to developing technologies within the finance industry specifically, and the broader IT industry generally.

E-COMMERCE

During 2001/2, there has been a strong focus on developing the E-Commerce services provided by Hume Building Society. E-Commerce is seen as providing choice to members on how they wish to transact, and as such should be seen as complementary to our current branch network. In essence, this service path can be regarded as another branch.

Ibank 3 was put into production in March 2002. It offers considerable enhancements over the previous version of Ibank, including a much-improved user-friendly interface, allowing the member to personally customise screens. It also enables transacting on accounts where more than one signature is required, and allows the retention of personal payee details for future reference.

To support this service, access to the Internet has been upgraded. To ensure the highest level of security, the firewall was also upgraded, and contract services have been acquired to independently test the security of the Internet banking service on a regular basis.

REGULATORY CHANGE

The APCA mandated changes to increase security for the consumer using ATM and EFTPOS services continues to drive upgrades to our ATM and EFTPOS services. This is an ongoing project due for completion in 2005.

The EFT Code of conduct is also driving change to the IT-based services of the Society.

OTHER DEVELOPMENTS

A major review of the Society's inter-branch communications was undertaken at the end of 2001. As a result, work has commenced on a significant upgrade to the branch communications services. This should be completed early in 2003. This will result in significantly improved branch processing speed, enabling better servicing of our members.

To enhance our understanding of our members, the Society has made a commitment to developing data warehousing and data-mining tools. To achieve this, the Society has formed an industry partnership with a major Australian university. When combined with the results of our member survey undertaken earlier this year, the Society will be able to enhance its understanding of our members' needs and be pro-active in implementing change to meet those needs.



Morgan's Lookout, Culcairn



THE YEAR AHEAD

We will shortly see an increase in IT resources to meet the demand for an increasing range and complexity of services provided to members. As a service provider to the rest of the Society, we will work closely with the team at Hume Building Society, to ensure that we can provide the services to enable our staff to best meet our members' needs.

David Rowe
Information Technology Manager

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Growing with the Border region



Hume Building Society Ltd

ABN 85 051 868 556

Financial Report for the period ended
30 June 2002

Directors' Report

The Directors present their report, together with the financial report of Hume Building Society Ltd, for the 15 month period ended 30 June 2002 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 period 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 1 of the Annual Report.

Directors' meetings

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

	Board of Directors	Audit Committee	Human Resources Committee
<i>Number of meetings held:</i>	30	6	5
<i>Number of meetings attended:</i>			
Ulf Olof Ericson	30	6	4
John Albert Knobel	29	6	n/a
William Thomas Hanrahan	24	5	n/a
Leslie Charles Boyes	27	n/a	n/a
Feynella Joy Stocker	22	n/a	4
Leo Francis O'Reilly	28	4	n/a
Louis Stuart Lieberman	27	n/a	n/a

Principal activities

The principal activities of the Society during the course of the financial period 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 period.

Trading results

The operating profit for the financial period before income tax was \$2.313 million (2001 - \$1.892 million). Income tax was \$690,000 (2001 - \$842,000) for the financial period.

Review of operations

With a number of decreases in the official interest rate during the past 15 months, which brought interest rates to 30 year lows, margins reduced. With subsequent increases in official interest rates towards the end of the financial period, margins have since improved. Total assets grew by 13.3% during the period. The Society advanced \$111 million of loans during the period, maintaining a market-leading fixed introductory rate throughout the period. 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 Society changed its balance date to June 30 from March 31 during the period. The reported period represents 15 months from 1 April 2001 to 30 June 2002.

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 period under review.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial period 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.

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 will be installed at Corowa in early August. This will provide enhanced services to members.

Directors' benefits

During or since the end of the financial period, 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 27 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 Officers and Auditors

The Society has agreed to indemnify any past, present or future Director, Secretary or 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 Officer of the Society, except where the liability arises out of conduct involving a lack of good faith. The Society has entered into an insurance policy to cover the Society's liability under the indemnity. The insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

The Society has not indemnified its Auditors, KPMG.

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, 2 August 2002



Annual Report 2002 Financial Report

Statement of Financial Performance

for the period ended 30 June 2002

	Note	2002 \$'000	2001 \$'000
Interest revenue	2	20,396	17,238
Interest expense	2	(10,552)	(8,940)
Net interest revenue		9,844	8,298
Non-interest revenue	3	1,806	1,081
Total operating income		11,650	9,379
Bad and doubtful debts	4	(63)	(495)
Other expenses	4	(9,274)	(6,992)
Profit from ordinary activities before income tax expense		2,313	1,892
Income tax expense relating to ordinary activities	5	(690)	(842)
Net profit attributable to members		1,623	1,050
Increase/(decrease) in asset revaluation reserve		-	51
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		-	51
Total changes in equity attributable to members		1,623	1,101

The statement of financial performance is to be read in conjunction with the accompanying notes set out on pages 14 to 32.

Statement of Financial Position

as at 30 June 2002

	Note	2002 \$'000	2001 \$'000
Assets			
Cash and liquid assets	6	5,858	7,105
Receivables due from other financial institutions	7	19,500	6,500
Investment securities	8	28,297	23,325
Accrued receivables	9	284	287
Loans and advances	10	226,349	209,343
Other investments	12	2,721	2,491
Property, plant and equipment	13	5,126	5,278
Deferred tax assets	5	300	291
Total assets		288,435	254,620
Liabilities			
Deposits and short-term borrowings	14	261,371	229,035
Accounts payable and other liabilities	15	3,844	3,890
Provisions	16	914	1,050
Deferred tax liabilities	5	90	52
Total liabilities		266,219	234,027
Net assets		22,216	20,593
Members' funds			
Reserves	17	2,153	2,153
Retained profits	18	20,063	18,440
Total members' funds		22,216	20,593

The statement of financial position is to be read in conjunction with the accompanying notes set out on pages 14 to 32.

Statement of Cash Flows

for the period ended 30 June 2002

	Note	2002 \$'000	2001 \$'000
Cash flows from operating activities			
Interest and bill discounts received		20,356	17,191
Interest paid on deposits		(10,896)	(8,454)
Dividends received		97	39
Other non-interest income received		1,737	967
Cash paid to suppliers and employees		(8,306)	(5,537)
Fees and commissions paid		(25)	(24)
Income tax paid		(885)	(893)
Net cash flows from operating activities	20	2,078	3,289
Cash flows from investing activities			
Net (increase)/decrease in loans		(17,069)	(15,087)
Net (increase)/decrease in receivables due from other financial institutions		(13,000)	1,000
Net (increase)/decrease in investment securities		(4,972)	(3,489)
Payments for other investments		(230)	(388)
Payments for property, plant and equipment		(406)	(825)
Proceeds from sale of property, plant and equipment		16	29
Net cash flows used in investing activities		(35,661)	(18,760)
Cash flows from financing activities			
Net increase in deposits and short-term borrowings		32,336	16,967
Net cash flows from financing activities		32,336	16,967
Net increase/(decrease) in cash held		(1,247)	1,496
Cash at the beginning of the financial period		7,105	5,609
Cash at the end of the financial period	20	5,858	7,105

The statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 14 to 32.

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 Act 2001.

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.

The financial report has been compiled for the period 1 April 2001 to 30 June 2002, a period of 15 months. Comparative information is for a 12 month period.

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

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

Reclassification of financial information

Some line items and sub-totals in the previous financial period have been reclassified in the financial statements as a result of the first time application of the revised accounting standards AASB 1018 – Statement of Financial Performance, AASB 1034 – Financial Report Preparation and Disclosures, AASB 1040 – Statement of Financial Position and AASB 1041 – Revaluation of Non-Current Assets. The Statement of Financial Performance, Statement of Financial Position and notes to the financial statements, have also been prepared in accordance with AASB 1032 – Disclosures by Financial Institutions. Where there is a conflict between a requirement of AASB 1032, 1018, 1034 and 1040 then the requirement of AASB 1032 prevails. AASB 1032 requires assets and liabilities to be classified by their nature and in order that reflects their relative liquidity. Accordingly, assets and liabilities are not classified into current and non-current.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing retained profits from the face of the Statement of Financial Performance to the notes to the financial statements. The item classified as an abnormal item in the previous period has been transferred to bad and doubtful debts in the Statement of Financial Performance.

The following assets and liabilities have been removed from previous classification and are now disclosed as separate items on the face of the Statement of Financial Position:

- Deferred tax assets; and
- Deferred tax liabilities.

Change in accounting policy (revaluation of non-current assets)

The Society has applied AASB 1041 – Revaluation of Non-Current Assets for the first time from 1 April 2001. The standard requires each class of non-current asset to be measured on either the cost or fair value basis. The Society has adopted the fair value basis for land and buildings. Other items of plant and equipment and leasehold improvements are valued at cost. AASB 1041 does not apply to investment securities, receivables due from other financial institutions, deferred tax assets and other assets measured at net market value where the market value movements are recognised in the statement of financial performance.

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.

Cash and liquid assets

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial performance.

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.

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:

	2002	2001
• Freehold buildings:	40 years	40 years
• Leasehold improvements:	the lease term	the lease term
• Plant and equipment:	3 to 15 years	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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income recognition

Dividend income

Dividend income is taken into revenue as received.

Fees and commissions

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

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 revenue as they are made.

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 expensed on a straight line basis over the term of the lease.

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 statement of financial position 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 virtually certain. 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 statement of financial position.

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.

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.

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 %
Interest revenue 2002			
Receivables due from other financial institutions	17,693	1,102	4.98
Investment securities	29,627	1,845	4.98
Loans and advances	216,890	17,449	6.43
	264,210	20,396	6.18
Interest expense 2002			
Customer deposits	245,790	10,552	3.43
Short-term borrowings	-	-	-
	245,790	10,552	3.43
Interest revenue 2001			
Receivables due from other financial institutions	7,506	466	6.21
Investment securities	26,595	1,653	6.21
Loans and advances	201,663	15,119	7.50
	235,764	17,238	7.31
Interest expense 2001			
Customer deposits	217,784	8,940	4.10
Short-term borrowings	-	-	-
	217,784	8,940	4.10

Note	2002 \$'000	2001 \$'000
2	20,396	17,238
Non-interest revenue		
Dividends - other corporations	97	39
Fees and commissions	1,473	813
Bad debts recovered	-	-
Proceeds on sale of assets	16	29
Other revenue		
- Income from property	219	198
- Other	1	2
Total non-interest revenue	1,806	1,081
Total revenue from ordinary activities	22,202	18,319

3. REVENUE FROM ORDINARY ACTIVITIES

Interest revenue

Non-interest revenue

Dividends - other corporations

Fees and commissions

Bad debts recovered

Proceeds on sale of assets

Other revenue

- Income from property

- Other

Total non-interest revenue

Total revenue from ordinary activities

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	Note	2002 \$'000	2001 \$'000
4. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX			
(a) Individually significant expense items/(revenues) included in profit from ordinary activities before income tax expense.			
Additional provision for impairment of loans		-	460
<p>In line with its prudent and conservative approach, the Society adopted a policy in 2001 to maintain a general provision for impairment of loans of 0.5% of risk weighted loans. This policy is based on the APRA Prudential Standards. The additional provision required under this policy has been treated as an individually significant item.</p>			
(b) Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:			
<i>Bad and doubtful debts</i>			
Bad and doubtful debts – other persons/bodies corporate	11	63	35
Individually significant items	4(a)	-	460
Total bad and doubtful debts		63	495
<i>Other Expenses</i>			
Amortisation - leasehold improvements	13	7	6
<i>Depreciation</i>			
- Plant and equipment	13	544	437
- Buildings	13	75	64
		619	501
Fees and commissions		25	23
<i>Personnel costs</i>			
- Provision for employee entitlements		88	88
- Superannuation contributions		431	312
- Salaries and wages		3,599	2,623
- Other		550	384
Other administration expenses		3,565	2,787
Rental – operating leases		375	246
Written-down value of property, plant & equipment sold		15	22
Total other expenses		9,274	6,992

5. **INCOME TAX**

Income tax expense

Prima facie income tax expense calculated at 30% (2001 - 34%) on the profit from ordinary activities

Tax effect of permanent differences

Depreciation and amortisation

Rebateable dividend income

General provision for impairment

Other

Effect of change in tax rate

FITB on general provision for impairment transferred

Income tax (over)/under provided in prior period

Income tax expense attributable to profit from ordinary activities

Income tax expense attributable to profit from ordinary activities is made up of:

Current income tax provision

Future income tax benefit

Deferred income tax provision

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.

Provision for current income tax

Movement during the period was as follows:

Balance at the beginning of the period

Current period's income tax expense on profit from ordinary activities

Income tax paid

Under/(over) provision in prior period

Provision for deferred income tax

Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% (2001 - 30%) on the following items:

Difference in depreciation and amortisation of property, plant and equipment for accounting and tax purposes

Accrual of short-term bills

Sundry items

	2002 \$'000	2001 \$'000
	694	643
	12	12
	(28)	(13)
	13	158
	2	2
	693	802
	-	4
	-	36
	(3)	-
	690	842
	661	873
	(9)	(37)
	38	6
	690	842
	345	365
	664	873
	(885)	(893)
	(3)	-
	121	345
	44	-
	45	52
	1	-
	90	52

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	Note	2002 \$'000	2001 \$'000
5. INCOME TAX (continued)			
Future income tax benefit			
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2001 – 30%) on the following items:			
Difference in depreciation and amortisation of property, plant and equipment for accounting and tax purposes		-	4
Provisions and accrued employee entitlements		239	211
Specific provision for doubtful debts		28	29
Accrued expenses not currently deductible		32	47
Sundry items		1	-
		300	291
6. CASH AND LIQUID ASSETS			
Cash on hand and at bank		3,158	4,805
Deposits at call		2,700	2,300
		5,858	7,105
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS			
Interest earning deposits		19,500	6,500
Maturity analysis			
Not longer than 3 months		9,500	2,500
Longer than 3 and not longer than 12 months		8,500	2,000
Longer than 1 and not longer than 5 years		1,500	2,000
		19,500	6,500
8. INVESTMENT SECURITIES			
Bills of exchange		4,472	2,487
Negotiable certificates of deposit		23,825	20,838
		28,297	23,325
Maturity analysis			
Not longer than 3 months		26,864	20,398
Longer than 3 and not longer than 12 months		1,433	2,927
Longer than 1 and not longer than 5 years		-	-
		28,297	23,325

	Note	2002 \$'000	2001 \$'000
9. ACCRUED RECEIVABLES			
Interest receivable on investments		115	75
Sundry debtors, accrued income and prepayments		169	212
		284	287
10. LOANS AND ADVANCES			
Overdrafts		1,655	1,486
Term loans		225,086	208,120
Loans to Directors	25(b)	314	403
Provision for impairment	11	(706)	(666)
Net loans and advances		226,349	209,343
Maturity analysis			
Overdrafts		1,655	1,486
Not longer than 3 months		3,077	2,214
Longer than 3 and not longer than 12 months		8,438	7,937
Longer than 1 and not longer than 5 years		43,199	38,240
Longer than 5 years		170,686	160,132
		227,055	210,009
Concentration of risk			
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)		210,415	193,660
- Other – non-concentrated		16,640	16,349
		227,055	210,009
11. IMPAIRMENT OF LOANS AND ADVANCES			
Provision for impairment	1		
General provision			
Opening balance		568	104
Bad debts previously provided for written off during the period		-	(5)
Bad and doubtful debts provided for during the period		46	9
Significant expense item	4	-	460
Closing balance		614	568

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	2002 \$'000	2001 \$'000
11. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
<i>Specific provision</i>		
Opening balance	98	91
Bad debts previously provided for written off during the period	(23)	(19)
Bad and doubtful debts provided for during the period	17	26
Closing balance	92	98
Total provision for impairment	706	666
 <i>Bad and doubtful debts expense comprises:</i>		
Specific provision	17	26
General provision	46	9
Bad debts recognised directly	-	-
Total bad debts expense	63	35
 <i>Non-accrual loans</i>		
Balances with specific provisions for impairment	187	72
Specific provision for impairment	(86)	(50)
Net non-accrual loans	101	22
 <i>Restructured loans</i>		
Balance	-	-
 <i>Assets acquired through enforcement of security</i>		
Real estate acquired through enforcement of security	-	154
Specific provision for impairment	-	-
	-	154
 <i>Past-due loans</i>		
Balance	485	1,852
 Interest revenue on non-accrual and restructured loans	6	6
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 period. These assets include land and buildings which have since been sold or are in the process of being sold.	113	168
 12. OTHER INVESTMENTS		
Listed shares and securities	1,358	1,301
Unlisted shares	241	241
Other	1,122	949
	2,721	2,491

	Note	2002 \$'000	2001 \$'000
13. PROPERTY, PLANT AND EQUIPMENT			
<i>Freehold Land</i>			
Freehold land at independent valuation	13(a)	1,480	1,480
		1,480	1,480
<i>Buildings</i>			
At independent valuation	13(a)	2,415	2,410
		2,415	2,410
Provision for depreciation		(75)	-
		2,340	2,410
Total freehold land and buildings		3,820	3,890
<i>Leasehold improvements</i>			
At cost		165	149
Provision for amortisation		(136)	(129)
Total leasehold improvements		29	20
<i>Plant and equipment</i>			
At cost		3,520	3,300
Provision for depreciation		(2,243)	(1,932)
Total plant and equipment		1,277	1,368
Total property, plant and equipment at net book value		5,126	5,278
Reconciliations			
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:			
<i>Freehold Land</i>			
Carrying amount at the beginning of the period		1,480	1,460
Additions		-	-
Disposals		-	-
Revaluations		-	20
Carrying amount at the end of the period		1,480	1,480
<i>Buildings</i>			
Carrying amount at the beginning of the period		2,410	2,443
Additions		5	-
Disposals		-	-
Revaluations		-	31
Depreciation		(75)	(64)
Carrying amount at the end of the period		2,340	2,410

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	2002 \$'000	2001 \$'000
13. PROPERTY, PLANT AND EQUIPMENT (continued)		
<i>Leasehold improvements</i>		
Carrying amount at the beginning of the period	20	22
Additions	16	4
Disposals	-	-
Depreciation	(7)	(6)
Carrying amount at the end of the period	29	20
<i>Plant and equipment</i>		
Carrying amount at the beginning of the period	1,368	1,006
Additions	469	821
Disposals	(16)	(22)
Depreciation	(544)	(437)
Carrying amount at the end of the period	1,277	1,368

(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. Additions since March 2001 have been valued at cost which, in the opinion of the Directors, approximates fair value.

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.

14. DEPOSITS AND SHORT-TERM BORROWINGS		
Call deposits	114,269	97,076
Term deposits	146,912	131,769
Short-term borrowings	190	190
	261,371	229,035
<i>Maturity analysis</i>		
On call	114,269	97,076
Not longer than 3 months	89,383	61,248
Longer than 3 and not longer than 12 months	45,471	61,543
Longer than 1 and not longer than 5 years	12,248	9,168
	261,371	229,035
<i>Concentration of deposits</i>		
Albury-Wodonga region (including Corowa & Culcairn)	246,799	210,869
Other – non-concentrated	14,572	18,166
	261,371	229,035

The Society's deposit portfolio does not include any deposit which represents 5% or more of total liabilities.

	Note	2002 \$'000	2001 \$'000
15. ACCOUNTS PAYABLE AND OTHER LIABILITIES			
Accrued interest payable		2,078	2,422
Creditors and other liabilities		1,766	1,468
		3,844	3,890
16. PROVISIONS			
Taxation		121	345
Employee entitlements		793	705
		914	1,050
Included in employee entitlements is a non-current amount of \$235,000 (2001 - \$312,000).			
17. RESERVES			
Capital profits		243	243
Asset revaluation		1,910	1,910
		2,153	2,153
Movements in reserves			
<i>Asset revaluation reserve</i>			
Balance at beginning of period		1,910	1,859
Revaluation increments/(decrements) on revaluation of land and buildings		-	51
Balance at end of period		1,910	1,910
<i>Capital profits reserve</i>			
Balance at beginning of period		243	243
Transfer from asset revaluation reserve		-	-
Balance at end of period		243	243
18. RETAINED PROFITS			
Retained profits at the beginning of the period		18,440	17,390
Operating profit after income tax		1,623	1,050
Aggregate of amounts transferred to reserves	17	-	-
Retained profits at the end of the period		20,063	18,440
19. AUDITORS' REMUNERATION		\$	\$
Amounts received or due and receivable by the Auditors of Hume Building Society Ltd for:			
- audit of the financial statements of the Society		36,380	33,785
- other services in relation to the Society		46,534	39,947
		82,914	73,732

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	Note	2002 \$'000	2001 \$'000
20. STATEMENT OF CASH FLOWS			
Reconciliation of profit from ordinary activities after tax to the net cash flows from operations			
Profit from ordinary activities after income tax		1,623	1,050
<i>Non-cash items</i>			
Individually significant expense items	4	-	460
Charge for bad and doubtful debts		63	35
Depreciation		619	501
Amortisation		7	6
Provision for employee entitlements		88	88
Net (profit)/loss on disposal of plant and equipment		(1)	(7)
<i>Changes in assets and liabilities</i>			
Interest receivable		(40)	(47)
Other receivables		43	(45)
Interest payable		(344)	485
Tax provision		(224)	(20)
Creditors and accrued expenses		215	814
Future income tax benefit		(9)	(37)
Provision for deferred income tax		38	6
Net cash flow from operating activities		2,078	3,289
Reconciliation of cash			
Cash balance comprises:			
Cash on hand and at bank		3,158	4,805
Deposits at call		2,700	2,300
		5,858	7,105
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 (2001 - \$500,000). The overdraft facility is secured by a registered first mortgage over property owned by the Society. As at 30 June 2002 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 (2001 - \$6.0 million). This facility is unsecured. As at 30 June 2002 this facility was undrawn.			

21. **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% of each fund member's gross salary to cover its occupational superannuation obligations. Members may contribute to the fund on a voluntary basis.

22. **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-statement of financial position risks as it does for on-statement of financial position sheet loan assets. The Society holds collateral supporting these commitments where it is deemed necessary.

	2002 \$'000	2001 \$'000
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	12,415	9,410
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.		
	245	197
23. REMUNERATION OF DIRECTORS		
Directors' remuneration		
Income paid or payable, or otherwise made available, in respect of the 15 month period (2001 – 12 month period), to all Directors of the Society	\$ 582,612	\$ 500,037
The number of Directors of Hume Building Society Ltd whose income (including superannuation contributions) falls within the following bands is:		
\$20,000 – \$29,999	No. -	No. 6
\$30,000 – \$39,999	5	-
\$50,000 – \$59,999	1	-
\$360,000 – \$369,999	1	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.		

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24. EXPENDITURE COMMITMENTS

Capital expenditure commitments

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

– payable not later than one year

2002	2001
\$'000	\$'000

75	35
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Operating leases (non-cancellable)

Future operating lease commitments not provided for in the financial statements and payable:

– not later than 1 year

– later than 1 and not later than 2 years

– later than 2 and not later than 5 years

283	166
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157	132
-----	-----

283	44
-----	----

Aggregate lease expenditure contracted for at balance date

723	342
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25. RELATED PARTY DISCLOSURES

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

Loans to Directors

All loans to Directors of the Society have been made in the normal course of business and on 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 30 June 2002 was \$314,000 (2001 - \$403,000) 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 (2001 - \$0) and repayments totalling \$117,000 (2001 - \$84,000) were made which included repayments of principal of \$89,000 (2001 - \$53,000).

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.

During part of the period and in the prior year, a related party of a Director was employed by the Society on normal terms and conditions.

Related parties

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

26. 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.

27. 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	Statement of financial position note	Accounting policies	Terms and conditions
<i>(i) Financial assets</i>			
Loans and advances	10	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	10	Amounts receivable from related parties/entities are carried at nominal amounts due.	Details of the terms and conditions are set out in note 25.
Interest earning deposits	7	Interest earning deposits are stated at cost. Interest revenue is recognised when earned.	Interest earning deposits have an average maturity of 123 days and effective interest rates of 4.90% to 5.50% (2001: 5.00% to 6.82%).
Bills of exchange	8	Bills of exchange and promissory notes are stated at cost. Net realisable value is stated in note 27(c). The discount amount is amortised over the life of the bill.	Bills of exchange have an average maturity of 73 days with effective interest rates of 4.65% to 5.01% (2001: 5.22% to 5.66%).
Other investments	12	Other investments are carried at the lower of cost or recoverable amount. Interest is recognised when earned.	
Listed shares and securities	12	Listed shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when received.	
Negotiable certificates of deposit	8	Negotiable certificates of deposit are stated at cost. Interest revenue is recognised when earned.	Negotiable certificates of deposit have an average maturity of 97 days and effective interest rates of 4.60% to 5.86% (2001: 5.00% to 6.82%).
<i>(ii) Financial liabilities</i>			
Deposits and other borrowings	14	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 14.
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 20.
Accounts payable and other liabilities	15	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.

27. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk

The Society's exposure to interest rate risks 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 statement of financial position		Weighted average effective interest rate		
			1 year or less		Over 1 to 5 years		More than 5 years							
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 %	2001 %		
<i>(i) Financial assets</i>														
Cash and liquid assets	2,700	2,300							3,158	4,805	5,858	7,105	4.60	5.43
Loans and advances - related parties	314	403								314	403		6.51	7.41
Listed shares and securities	612	612						746	689	1,358	1,301		n/a	n/a
Interest earning deposits			18,000	4,500	1,500	2,000				19,500	6,500		5.04	5.35
Bills of exchange			4,472	2,487						4,472	2,487		4.86	5.35
Negotiable certificates of deposit			23,825	20,838						23,825	20,838		5.04	5.79
Other investments	1,122	949							241	241	1,363	1,190	4.75	6.14
Loans and advances	174,275	170,838	39,831	28,201	12,261	10,191	374			226,741	209,606		6.36	7.40
Accrued receivables									284	284	284		n/a	n/a
Total financial assets	179,023	175,102	86,128	56,026	13,761	12,191	374		4,429	6,022	283,715	249,717		

n/a – not applicable for non-interest bearing financial instruments.

<i>(ii) Financial liabilities</i>													
Deposits and borrowings		Accounts payable and other liabilities		Interest rate swaps		Total financial liabilities							
2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 %	2001 %
114,269	97,076	134,854	122,791	12,248	9,168			261,371	229,035	3,28	4,24		
								3,844	3,890	n/a	n/a		
(1,000)	(3,000)			1,000	3,000			***	***	***	***		
113,269	94,076	134,854	122,791	13,248	12,168			265,215	232,925	***	***		

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.

27. **FINANCIAL INSTRUMENTS (continued)**

(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 statement of financial position		Aggregate net fair value	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
(i) Financial assets				
Cash and liquid assets	5,858	7,105	5,858	7,105
Loans and advances – related parties/entities	314	403	314	403
Listed shares and securities	1,358	1,301	1,825	1,733
Other investments	1,363	1,190	1,363	1,190
Interest earning deposits	19,500	6,500	19,500	6,500
Bills of exchange	4,472	2,487	4,471	2,486
Negotiable certificates of deposit	23,825	20,838	23,832	20,813
Loans and advances	226,741	209,606	226,741	209,606
Accrued receivables	284	287	284	287
Total financial assets	283,715	249,717	284,188	250,123
(ii) Financial liabilities				
Deposits and borrowings	261,371	229,035	261,371	229,035
Accounts payable and other liabilities	3,844	3,890	3,844	3,890
Interest rate swaps	**	**	8	60
Total financial liabilities	265,215	232,925	265,223	232,985

** 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 and interest earning deposits

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.

Accrued receivables

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.

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.

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27. FINANCIAL INSTRUMENTS (continued)

Accounts payable 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 statement of financial position.

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 \$8,000 (2001 - \$60,000).

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	
	2002	2001	2002	2001
Albury-Wodonga area residents (including Corowa and Culcairn)	92.67	92.21	210,415	193,660
Other non-concentrated	7.33	7.79	16,640	16,349
	100.00	100.00	227,055	210,009

* 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.

28. 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 10 and 14.

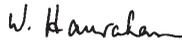
Directors' Declaration

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

1. the financial statements and notes, set out on pages 12 to 32, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the Society as at 30 June 2002 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001; 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, 2 August 2002

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 period ended 30 June 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes and the Directors' declaration, as set out on pages 12 to 33. 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 in Australia and statutory requirements 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

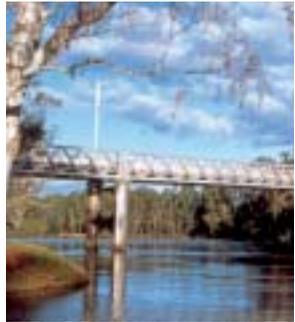
In our opinion, the financial report of Hume Building Society Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Society's financial position as at 30 June 2002 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


Chartered Accountants


Dougald J. Frederick, Partner

Albury, 2 August 2002



Branch Locations

Head Office

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

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