

ANNUAL REPORT | 2005



PART OF YOUR LIFE | FOR 50 YEARS





50 Years of Achievements

In April this year, Hume Building Society reached a golden milestone of 50 years. Since its creation, Hume has sustained a close relationship with the community and its loyal members. The spirit of the vision of the original board is still to this day central to the way in which The Society conducts itself: a vision which has stood it in good stead during the past 50 years and which will continue to do so in the future.

Highlights:

- Hume began operations on the 4th April 1955, employing three staff in the accounting firm offices of The Society's first secretary, Mr Jim Russell. It was incorporated as Hume Co-operative Permanent Building and Investment Society.
- By the end of its first year, Hume had 58 members, with loans of 43,164 pounds and deposits of 37,990 pounds.
- In 1969 The Society applied for registration in conformity with the Permanent Building Societies Act of 1967 and shortened its name to Hume Permanent Building Society.
- In 1971, Hume moved its head office to Olive Street, where it remains today. Also in that year, Hume spread its wings with the opening of the branch in High Street, Wodonga followed by Lavington Square a year later.
- The Myer City Centre branch opened in 1982, with the Corowa branch in 1986, and Wodonga Plaza in 1988.
- In 1988 Hume again shortened its name to Hume Building Society Limited.
- National Registration under the Australian Financial Institutions Commission (1992) and APRA (1998).
- Hume branched out further by opening a branch at Culcairn in 1996 and a sub-branch in Yackandandah in 1997.
- The Society's first ATM was installed in 1984 at head office. This was a symbolic moment for The Society in that it marked the most obvious change in the comparison between banks and the Building Societies. Today Hume has 18 ATMs across 16, different locations.
- In December 2003, Hume opened its third branch in Wodonga at Centro Birallee, followed by Howlong branch in 2004 and Jindera branch in 2005.



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Annual Report 2005

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Chairman's Report

2005 was the year in which Hume Building Society turned 50. This was celebrated by all at Hume with founding members and their relatives as well as with our current members in all our branches. Birthday cakes, tea and coffee were visibly appreciated and it gave me a wonderful opportunity to speak to so many of our members, sharing their views and recollections of the past history of Hume.

Reflecting on the past and considering the present, I know that everyone at Hume is both proud and delighted with the advancement of the Society.

During the last 50 years the Society has grown to an organisation with 12 branches and 101 employees.

The Society now holds a total of \$436.6 million in assets, that is an average growth of \$8.7 million per annum.

In what has almost become an annual event a new branch was opened during the year, this time in Jindera, making Hume's services even more readily available. In addition to the branch opening the Society opened ATMs at Jindera, in the centre of Albury's business district and at the airport

providing additional 24-hour access and convenience. The Lavington branch moved to new premises in July 2005 and took on a new look in a larger and more updated branch. This reflects Hume's commitment to continuously upgrade and improve its distribution network.

I thank all the staff and the board for making the 2005 results a reality; it is a most impressive achievement, reflecting the efforts and commitments by all.

The Society's profit was \$4.4 million – an 18% increase on the previous year (\$3.7 million). Both results included \$0.7 million profit on the sale of shares and the underlying pre-tax operating profit for 2004/05 was therefore \$3.6 million (\$3.0 million in 2004).

Profit was generated on assets of \$436.6 million, which increased 10% during the year from \$397.6 million at June 2004. Loans outstanding increased by 15% to \$359.3 million, reflecting a record net loan approval of \$133.7 million.

The reserves of the Society have grown satisfactorily to support the growth in lending as well as the overall growth in

assets. The build up of reserves has been achieved whilst maintaining interest rates, fees and charges at levels that ensure members banking with Hume Building Society benefit from doing so.

The Society engages the independent monitoring firm Cannex to measure the benefit that members receive and, for 2005, Cannex calculated that Hume's members received \$6.7 million (on an annual equivalent basis as at May 2005) in a combination of better interest, lower fees and charges.

The Cannex calculation, however, makes no allowance for the benefit that members receive from Hume's extensive branch network and growing network of ATMs, nor does it value the commitment, attitude and service of the staff.

To ensure the success achieved over the past 50 years can continue, the Board has embarked on a review of Corporate Governance practices and engaged a nationally recognised specialist to assist in the process. The review included performance appraisal, strategic planning, succession and Board practices and will continue into the 2005/06 financial year. It will provide an excellent framework for future success.



In 2005, Hume became the inaugural member of parklands Albury Wodonga Carbon Credit offsetting program. Hume planted 700 plants on Gateway Island to offset the carbon emissions of their fleet of company cars.

Pictured: Wayne Carlson, parklands Albury Wodonga



The Board recognises that the Society will face challenges in complying with the ever-increasing number and complexity of legislative and regulatory changes. Much additional work has gone into complying with the International Financial Reporting Standards and investigation into requirements of Anti-Money Laundering legislation.

The Society continues to provide great delivery of a wide variety of services despite these changes and the imposition of ever more and complex requirements. This truly is a tribute to the efforts of all at Hume. It is this delivery of high quality services, which will provide Hume, and its members with a strong future.

Great convenience, measurably lower fees, better interest rates and dedicated, friendly staff and inspiring services – the style of banking on which Hume was founded in 1955 - is still very much in evidence 50 years later in 2005. I thank you all for maintaining and improving the ideals upon which Hume Building Society was created.



Review of Operations

Review of Operations

The Society's 50th year of operations was a wonderful success, no matter how it is viewed. The number of people becoming members has grown over recent years and the trend continued strongly into 2005. Existing members also value the standard of service being offered and are opening more accounts, or are sourcing more services from Hume. The Society has again increased the number of branches and ATMs for members' use and has continued its tradition of supporting the communities in which it operates via sponsorship and involvement. Profitability and size are things that can be compared and are rightly considered as measures of success. However, because Hume Building Society is a mutual organisation, the benefit that members gain from banking with Hume is an equally important measure.

Benefits of Membership

As the Chairman's Report notes, the Society engaged the independent monitoring firm Cannex to calculate the benefit that members receive from banking with Hume. The calculation determined that members benefited by a combination of paying lower loan interest, paying less in fees and receiving better deposit interest totalling \$6.645 million compared to the average of the four major banks. In addition to that benefit, the Society will re-invest the after-tax profit of \$3.011 million into new branches, ATMs and upgrades to banking systems to provide improved access or service. Overall, in the year to June 2005, members received \$9.656 million in value from banking with

Hume. In the previous year, members received \$5.253 million in benefits and the Society re-invested after tax profit of \$2.552 million for an overall value of \$7.805 million.

Convenience

During the year, Hume opened its newest branch in shared premises in Jindera. Without the ability to co-locate with Greater Hume Shire Council, face-to-face banking in Jindera would not have been possible at this stage. The opening of banking, local government and supermarket facilities is a real boost to the town and Hume Building Society is pleased to be part of another growing community (following the opening of the branch at Howlong the previous year).

An ATM was installed at the Jindera branch to provide 24-hour convenience to members and others were installed at the Albury Airport and at the western end of Dean Street in Albury.

The Board has approved an upgrade of the branch at Culcairn in 2005, which will also include an ATM. Other ATM sites have either been approved or are being considered which, in conjunction with a third ATM in the Lavington branch, will continue the trend of recent years of adding convenience to the service provided by a growing number of branches.

Another, far less visible, improvement to service has been in the Internet banking area. The number of members electing to use the Internet continues to increase.



The ability to transfer money or pay bills via BPay online provides great convenience to many people. Hume has upgraded the functionality of I-Bank – its Internet platform - and will soon launch BPay view, the ability to receive and view bills online.

Staff

The Society has not lost focus on personal service however. The number of people employed by Hume continues to increase as the Society opens more branches or adds new services to its range. There were more than 100 people employed at Hume in June 2005, some of whom



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COMMUNITY
FOR 50
YEARS



PICTURED: (Top left) Albury Junior Steamers, sponsored by Hume Building Society. (Top right) For 17 years, Hume has been the major sponsor of Albury Carols by Candlelight. It is Humes way of saying thanks to the community. (Bottom pictures) To encourage children to develop a savings habit from an early age, Hume has launched a school banking service to primary schools, including Lavington Public School (left) and Albury Primary School (right).

moved to the area during the year to take-up employment with the Society. Hume's contribution to the growth and success of the local community is therefore much more than just what is noted in the financial reports.

The quality of service provided by the staff reflects their dedication to meeting or exceeding members' needs. The quality was recognised by them winning the Albury Central Customer Service Award

(Professional category) and the Excellence in Business and Community award at the 2004 Business Excellence Awards on the Border. The Society is extremely proud of their achievements in winning the awards and looks to encourage staff where it can. The Society supports several staff who deliver meals-on-wheels during the week and assists weekend involvement by granting paid leave as a day in lieu of their own time.

Community Involvement

Since its inception in 1955, Hume has sought to be an active participant in the communities in which it operates. Its involvement has been financial (through sponsorship), expertise (by involvement on numerous Boards and Committees) and physical (staff contributing time to making events a success). In some cases it is all three. This is another way that Hume provides benefit to its members - by making our community a better place

to live and play. In partnership with parklands Albury Wodonga, Hume is establishing a carbon sink to offset the carbon emissions of its vehicle fleet. Rather than plant trees in a managed forest, Hume staff have planted over 700 trees on gateway island – to improve the “lungs of the city” where its needed most – in the middle of the community.

Hume also supports the Albury Wodonga Community Foundation – a philanthropic community body. By providing administrative support and funding, Hume is assisting the Foundation achieve its objective of allowing donations to be channelled to local causes, not diverted to administration costs.

Regulatory Environment

The regulatory impact on business is relentless. Governments' response to increasing demands for consumer protection and business performance is invariably more regulation - which imposes the need for additional compliance measures. The required standard is often well short of what Hume already achieves. The burden of compliance falls heavily on smaller organisations – more so than larger ones where the cost is defrayed across a much larger base.

The Financial Services Reform Act 2001 (FSRA) was introduced in March 2004 and the Society was obliged to provide detailed disclosure documents when basic deposit products were being offered to members or potential members. This was despite widespread industry protests that members readily understood basic deposit products and that existing documentation already provided sufficient detail to customers. The feedback over the first 12 to 18 months of the FSRA was so overwhelming that the Government has

announced its intention to wind-back the detailed disclosure requirements of the FSRA in so far as they impact on basic deposit products.

Whilst the decision is to be applauded, the cost of developing the required documents and training staff in their use has been significant and a far better outcome would have been a more considered approach to the problem, not just additional regulation.

Financial Performance

Hume's pre-tax profit was \$4.382 million – 18% higher than 2004 (\$3.706 m) although both years include profits from the sale of shares.

For many years the Society held shares in a number of well-recognised companies. It did not trade in those shares and had received good dividend income stream from them. The building society industry made a strategic decision in late 2003 to sell its interests in Cashcard Australia Limited and, following that decision, Hume Building Society decided to sell its remaining share portfolio. During 2005, a profit of \$742,000 was realised as the remaining shares were sold (\$693,000 in 2004).

The underlying pre-tax profit was therefore \$3.640 million, a 21% increase over the corresponding result last year (\$3.013 million). Operating expenses increased by 17% as the cost of new branches and ATMs impacted for the full year. The cost of complying with FSRA and preparing for the change in accounting standards also impacted.

Total assets increased by 10% to \$436.639 million (from \$397.627 million at June 2004) on the back of record net loan approvals of \$133 million (\$131 million

last year). Higher loan approvals create a challenge to raise deposits – the Society's method of funding loans.

While house prices have increased, members generally haven't increased their savings – which is in line with the national experience – and the increase in deposits that Hume experienced is a result of more people having their savings or everyday funds at Hume. Deposits increased by 10% - from \$364.054 million at June 2004 to \$399.116 million by June 2005.

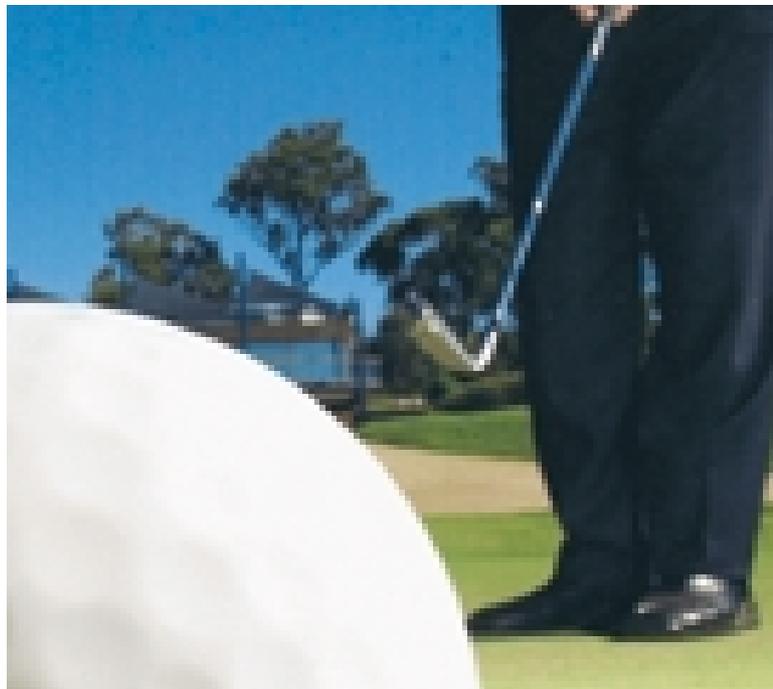
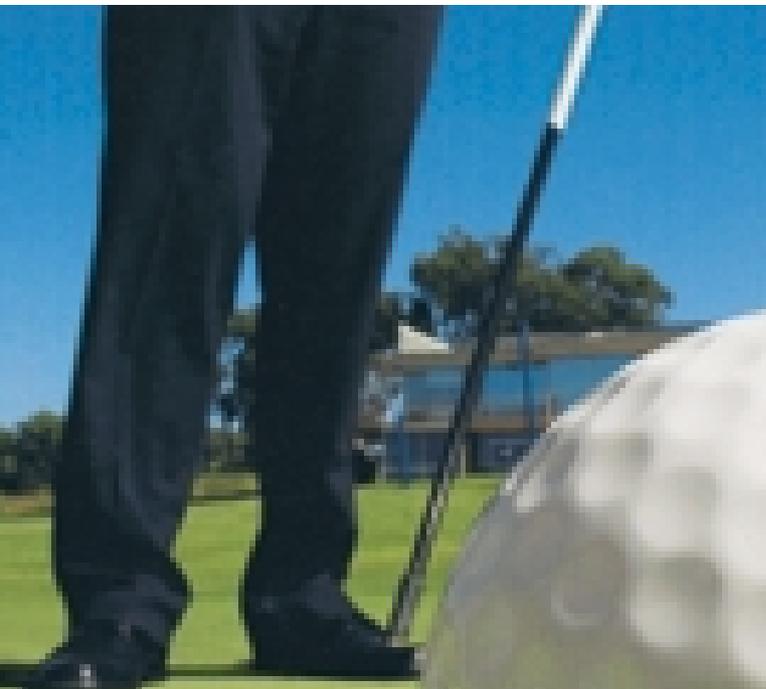
After tax profit and an increase in the value of the property that the Society owns contributed to a 13% increase in net assets to \$29.747 million (from 26.377 million previously).

The Australian Prudential Regulatory Authority (APRA) requires all authorised deposit-taking institutions (of which Hume is one) to maintain a capital adequacy ratio in excess of 8%. The Society comfortably exceeds the minimum requirement and, at June 2005, its ratio was 13.04%, up from 12.88% at June 2004.

Looking Forward

Hume Building Society's 50th year had many causes for celebration and the outlook is for many more to come. A number of new accounts and services are being developed and an agreement has been reached with another party to, once again, provide financial planning services to members. This will complement the very successful insurance products already on offer.

The school banking initiative noted in last year's annual report has been an outstanding success. Hume will continue to foster new relationships so that the next 50 years is assured. Join us for the journey.



Hume considers tourism as a major player for the growth of the border region. To support border tourism, Hume in February 2005, became a sponsorship partner with Destination Albury Wodonga (DAW).

Pictured: Hume CEO Andrew Saxby and Steve Cooper of DAW, prepare for the Hume Building Society Golf Day, hosted by the Moteliers Association.

Photo courtesy of The Border Mail



Board of Directors



Ulf Ericson
CHAIRMAN



John Knobel
DEPUTY CHAIRMAN



Joy Stocker



Bill Hanrahan



Lou Lieberman



Leo O'Reilly



Les Boyes

Financial Report

for the year ended 30 June 2005

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ABN 85 051 868 556
Hume Building Society Ltd
AFSL No. 244248

Directors' Report

The Directors present their report, together with the financial report of Hume Building Society Ltd (The Society), for the year ended 30 June 2005 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:

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
Ulf Olof Ericson B Ec, B Comm, Grad Dip Advanced Taxation Law, Dip Law, FCA, FAIM, MAICD, FTIA	58	Chartered Accountant. Board member for 17 years and Chairman since 1998. Chairman of the Remunerations & Nominations Committee and member of the Audit Committee. Ulf is the Chairman of the Murray Valley Branch of the Australian Institute of Management, Committee Member of the Albury-Wodonga Branch of the Institute of Chartered Accountants and a member of community and educational organisations.
John Albert Knobel CPA	67	Certified Practising Accountant. Board member for 30 years and Deputy Chairman for 20 years. Chairman of the Audit Committee and member of the Remunerations & Nominations Committee. John has a wide range of community involvements throughout the local region.
Leslie Charles Boyes	74	Grazier and local businessman. Board member for 20 years. Member of the Audit Committee. Former Councillor and Mayor of the Rural City of Wodonga.
Feynella Joy Stocker B Ed, M Ed (Adult Ed)	59	Director, Educational Planning & Development, TAFE NSW Riverina Institute. Board member for 12 years. Member of the Remunerations & Nominations Committee and Audit Committee. Joy is a member of the Charles Sturt University Regional Consultative Committee and Deputy Chair of the Scots School Board.
Leo Francis O'Reilly FCA	61	Chartered Accountant - former partner of an Accounting Firm. Board member for 7 years. Member of the Audit Committee. Board member of Albury Services Board.
Louis Stuart Lieberman Dip Law (SAB), FAICD	67	Director, Mediator and Facilitator Board member for 6 years. Member of the Audit Committee and Remunerations & Nominations Committee. Lou has had a long career in business, the law, community affairs and has helped to develop and improve regional communities and services. He is a former State and Federal Member for Benambra and Indi and State Minister for Health, Local Government, Planning and Minerals and Energy and Mines and a Parliamentary Secretary and Chair of Committees in the Federal Parliament.
William Thomas Hanrahan B Bus, Cost Acc P Cert, FCA, FSIA, FCPA, FCIS, FAICD, B R Studies, B Leg S, Hon D Bus <i>CSturt</i>	62	Former CEO of the Society for 20 years. Board member for 20 years. Member of the Audit Committee. Chairperson of the Albury-Wodonga Development Corporation; Chairman of AlburyCity Audit Committee; member of Council of Charles Sturt University and Chair of the University's Audit and Risk Committee; and member of the Albury-Wodonga Branch Council of the Institute of Chartered Accountants.

Company Secretary

Mr Andrew Glenn Saxby, B Bus, ASA, MAICD, was re-appointed company secretary in June 2004. Mr Saxby is the Chief Executive Officer of the Society. He was previously company secretary of the Society and held that position at another public company for over five years.

Officers who were previously partners of the audit firm

Mr L F O'Reilly was previously a partner of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Society. Mr O'Reilly retired from KPMG in 1996 and was appointed as a Director of the Society in 1998.

Directors' meetings

The number 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:

	Board of Directors	Audit Committee	Remuneration & Nominations Committee
Number of meetings held:	22	7	2
Number of meetings attended:			
Ulf Olof Ericson	21	7	2
John Albert Knobel	21	7	2
William Thomas Hanrahan	22	5*	n/a
Leslie Charles Boyes	21	5*	n/a
Feynella Joy Stocker	17	5*	2
Leo Francis O'Reilly	21	7	n/a
Louis Stuart Lieberman	20	6	2

* elected to the committee in October 2004.

Committees of Directors

Audit Committee

The Audit Committee is a Board appointed committee comprising a majority of non-executive Directors. Its principal responsibility is to oversee the risk management, financial reporting and auditing processes of the Society. It also enables the Board to assess internal controls, have an increased focus on corporate risk and to provide a forum for contact with the Society's auditors. The auditors are present at periodic meetings and the Chief Executive Officer is invited to attend all meetings, however the Committee can meet without Management representation. The committee is chaired by John Knobel.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for reviewing the performance of the Chief Executive Officer and making recommendations to the Board regarding his remuneration. It reviews appraisals and remuneration recommendations for the Senior Managers submitted by the Chief Executive Officer. The Committee also reviews remuneration structures for staff for submission to the Board. The committee is chaired by Ulf Ericson.

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 products and services to its members.

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

Review and results of operations

The Society achieved an operating profit before income tax of \$4.382 million for the year (2004 - \$3.706 million). The result included profits on the sale of shares of \$742,000 (2004 - \$693,000) which gives an underlying operating profit before income tax of \$3.640 million (2004 - \$3.013 million) - a 21% increase on the previous year's result. Net profit after income tax was \$3.011 million (2004 - \$2.552 million).

The result was based on an increase in total assets of 9.8% or \$39.012 million to \$436.639 million on the back of record net loan approvals of \$134 million (2004 - \$132 million). Net loans and advances outstanding at 30 June 2005 were \$359.308 million (2004 - \$311.832 million) and deposits by members \$399.116 million (2004 - \$364.054 million).

State of affairs

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

Events subsequent to reporting date

For reporting periods beginning on or after 1 July 2005, the Society must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 29 to the financial statements.

Other than the matter discussed above, 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 affect substantially 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's focus will remain on the delivery of personal banking services to its members via the branch network. Other distribution channels - including internet and telephone banking, EFTPOS and a growing ATM network - will provide added convenience for 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 32 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.

Auditor independence declaration

The Directors received the following declaration from the auditor of the Society:

To: the Directors of Hume Building Society Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

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



KPMG
Chartered Accountants



Timothy S. Frazer, Partner
Albury, 9 August 2005

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



J.A. Knobel
Deputy Chairman

Albury, 9 August 2005

Statement of Financial Performance

for the year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
Interest revenue	2	27,456	22,528
Interest expense	2	(15,041)	(11,796)
Net interest revenue		12,415	10,732
Non-interest revenue	3	2,372	1,876
Gross proceeds from the disposal of shares	3	970	1,886
Total operating income		15,757	14,494
Carrying amount of shares disposed	4(a)	(228)	(1,193)
Total operating income net of shares disposed		15,529	13,301
Bad and doubtful debts	4(b)	(128)	(164)
Other expenses	4(b)	(11,019)	(9,431)
Profit from ordinary activities before income tax expense		4,382	3,706
Income tax expense relating to ordinary activities	5(a)	(1,371)	(1,154)
Net profit attributable to members		3,011	2,552
Increase/(decrease) in asset revaluation reserve		359	-
Total changes in equity attributable to members		3,370	2,552

The Statement of Financial Performance is to be read in conjunction with the accompanying notes set out on pages 19 to 41.

Statement of Financial Position

as at 30 June 2005

	Note	2005 \$'000	2004 \$'000
Assets			
Cash and liquid assets	6	9,077	10,901
Receivables due from other financial institutions	7	16,500	19,500
Investment securities	8	42,862	46,151
Accrued receivables	9	331	684
Loans and advances	10	359,308	311,832
Other investments	12	1,509	1,756
Property, plant and equipment	13	6,702	6,528
Deferred tax assets	5(d)	350	275
Total assets		436,639	397,627
Liabilities			
Deposits and short-term borrowings	14	399,116	364,054
Accounts payable and other liabilities	15	6,386	5,880
Current tax liabilities	5(b)	468	463
Deferred tax liabilities	5(c)	96	72
Provisions	16	826	781
Total liabilities		406,892	371,250
Net assets		29,747	26,377
Members' funds			
Reserves	17	2,753	2,394
Retained profits	18	26,994	23,983
Total members' funds		29,747	26,377

The Statement of Financial Position is to be read in conjunction with the accompanying notes set out on pages 19 to 41.

Statement of Cash Flows

for the year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
Cash flows from operating activities			
Interest received		27,382	22,590
Interest paid		(14,687)	(11,075)
Dividends received		20	69
Other non-interest revenue received		2,544	1,445
Cash paid to suppliers and employees		(9,602)	(7,515)
Fees and commissions paid		(36)	(23)
Income tax paid		(1,417)	(951)
Net cash flows from operating activities	20(b)	<u>4,204</u>	<u>4,540</u>
Cash flows from investing activities			
Net (increase)/decrease in loans and advances		(47,605)	(56,936)
Net (increase)/decrease in receivables due from other financial institutions		3,000	8,500
Net (increase)/decrease in investment securities		3,418	(11,313)
Proceeds from sale of other investments		970	1,886
Payments for property, plant and equipment		(1,000)	(1,038)
Proceeds from sale of property, plant and equipment		126	37
Net cash flows used in investing activities		<u>(41,091)</u>	<u>(58,864)</u>
Cash flows from financing activities			
Net increase/(decrease) in deposits and short-term borrowings		<u>35,063</u>	54,145
Net cash flows from financing activities		<u>35,063</u>	54,145
Net (decrease)/increase in cash held		<u>(1,824)</u>	(179)
Cash at the beginning of the financial year		<u>10,901</u>	11,080
Cash at the end of the financial year	20(a)	<u>9,077</u>	<u>10,901</u>

The Statement of Cash Flows is to be read in conjunction with the accompanying notes set out on pages 19 to 41.

Notes to the Financial Statements

I. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

Basis of preparation

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 fair value of assets.

The 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 year amounts and other disclosures.

Accounting standards

The Statement of Financial Performance, Statement of Financial Position and notes to the financial statements, have been prepared in accordance with AASB 1032 – Disclosures by Financial Institutions. Where there is a conflict between a requirement of AASB 1032, AASB 1018 – Statement of Financial Performance, AASB 1034 – Financial Report Preparation and Disclosures and AASB 1040 – Statement of Financial Position, then the requirement of AASB 1032 prevails. AASB 1032 requires assets and liabilities to be classified by their nature and in an order that reflects their relative liquidity. Accordingly, assets and liabilities are not classified into current and non-current.

Recoverable amount of property, plant & equipment and investments valued on cost basis

The carrying amounts of property, plant & equipment and investments valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of property, plant & equipment and investments exceed their recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of property, plant & equipment and investments, the relevant cash flows have been discounted to their present value.

Revaluations of property, plant & equipment

Classes of property, plant & equipment measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset in the class does not differ materially from fair value at reporting date. Land and buildings are independently valued every two years on an existing use basis of valuation. Revaluation increments, on a class basis, are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

Potential capital gains tax is only taken into account if the asset is held for sale.

Leases

Leases under which the Society assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

I. STATEMENT 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. 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 member'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

All assets acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

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

All assets have limited useful lives and are depreciated/amortised using the straight line method over their useful lives, taking into account estimated residual values, with the exception of freehold land. Assets are depreciated or amortised from the date of acquisition. Major depreciation periods are:

	2005	2004
● 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. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Dividends

Revenue from dividends is recognised when dividends are received net of franking credits.

Fees and commissions

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

Sale of property, plant & equipment and investments

The gross proceeds of property, plant & equipment and investments sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Society expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Long service leave

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

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

Superannuation plan

Contributions to the employees' superannuation fund are recognised as an expense as they are made.

Taxation

The Society adopts the income statement 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 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 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.

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 2005			
Receivables due from other financial institutions	19,965	1,253	6.28
Investment securities	48,013	3,006	6.26
Loans and advances	336,079	23,197	6.90
	404,057	27,456	6.80

Interest expense 2005			
Customer deposits	385,969	15,041	3.90

Interest revenue 2004			
Receivables due from other financial institutions	24,312	1,404	5.78
Investment securities	41,926	2,417	5.76
Loans and advances	283,338	18,707	6.60
	349,576	22,528	6.44

Interest expense 2004			
Customer deposits	333,885	11,796	3.53

Note	2005 \$'000	2004 \$'000
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3. REVENUE FROM ORDINARY ACTIVITIES

Interest revenue	2	27,456	22,528
<i>Non-interest revenue</i>			
Dividends		20	69
Fees and commissions		2,064	1,610
Bad debts recovered		3	1
Gross proceeds from sale of property, plant & equipment		126	37
Other revenue			
- Income from property		159	159
- Other		-	-
Total non-interest revenue		2,372	1,876
Gross proceeds from the disposal of shares	4	970	1,886
Total revenue from ordinary activities		30,798	26,290

	Note	2005 \$'000	2004 \$'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.			
Gross proceeds from the disposal of shares		(970)	(1,886)
Carrying amount of shares disposed		228	1,193
Net (gain)/loss on disposal of shares		<u>(742)</u>	<u>(693)</u>
(b) Profit from ordinary activities before income tax expense 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	<u>128</u>	<u>164</u>
<i>Other Expenses</i>			
Amortisation - leasehold improvements	13	33	18
Depreciation			
- Plant and equipment	13	833	648
- Buildings	13	72	72
		<u>905</u>	<u>720</u>
Fees and commissions		36	23
Personnel costs			
- Provision for employee entitlements		45	75
- Superannuation contributions		467	425
- Salaries and wages		3,835	3,527
- Other		695	585
		<u>5,042</u>	<u>4,612</u>
Other administration expenses		2,609	2,271
Occupancy costs			
- Rental – operating leases		399	365
- Other occupancy costs		567	489
		<u>966</u>	<u>854</u>
ATM/EFTPOS transaction processing costs		1,259	892
Written-down value of property, plant & equipment sold		169	41
Total other expenses		<u>11,019</u>	<u>9,431</u>
Net (gain)/loss on disposal of property, plant & equipment		<u>(43)</u>	<u>4</u>

	2005 \$'000	2004 \$'000
5. INCOME TAX		
(a) Income tax expense		
Prima facie income tax expense calculated at 30% (2004 - 30%) on the profit from ordinary activities	1,315	1,112
<i>Increase/(decrease) in income tax expense due to:</i>		
Depreciation and amortisation	1	10
Imputation gross-up on dividends received	3	9
General provision for impairment	37	41
Franking credits on dividends received	(9)	(30)
Other	23	12
	1,370	1,154
Income tax (over)/under provided in prior period	1	-
Income tax expense attributable to profit from ordinary activities	1,371	1,154
Income tax expense attributable to profit from ordinary activities is made up of:		
Current income tax provision	1,421	1,233
Future income tax benefit	(75)	(39)
Deferred income tax provision	25	(40)
	1,371	1,154
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 beyond reasonable doubt.		
(b) Current tax liabilities		
Provision for current income tax		
Movement during the year was as follows:		
Balance at the beginning of the year	463	181
Current year's income tax expense on profit from ordinary activities	1,421	1,233
Income tax paid – Current year	(953)	(770)
Income tax paid – Prior year	(464)	(181)
Under/(over) provision in prior period	1	-
	468	463
(c) Deferred tax liabilities		
Provision for deferred income tax		
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% (2004 – 30%) on the following items:		
Difference in depreciation and amortisation of property, plant and equipment for accounting and tax purposes	-	8
Accrual of short-term bills	96	64
	96	72

	2005 \$'000	2004 \$'000
5. INCOME TAX (continued)		
(d) Deferred tax assets		
Future income tax benefit		
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2004 – 30%) on the following items:		
Difference in depreciation and amortisation of property, plant and equipment for accounting and tax purposes	57	-
Provisions and accrued employee benefits not currently deductible	248	234
Specific provision for doubtful debts	7	14
Accrued expenses not currently deductible	33	26
Sundry items	5	1
	350	275
6. CASH AND LIQUID ASSETS		
Cash on hand and at bank	9,077	10,901
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS		
Interest earning deposits	16,500	19,500
Maturity analysis		
Not longer than 3 months	9,000	11,500
Longer than 3 and not longer than 12 months	7,500	2,500
Longer than 1 and not longer than 5 years	-	5,500
	16,500	19,500
8. INVESTMENT SECURITIES		
Bills of exchange	3,988	3,964
Negotiable certificates of deposit	38,874	42,187
	42,862	46,151
Maturity analysis		
Not longer than 3 months	30,919	44,184
Longer than 3 and not longer than 12 months	7,913	1,967
Longer than 1 and not longer than 5 years	4,030	-
	42,862	46,151

	Note	2005 \$'000	2004 \$'000
9. ACCRUED RECEIVABLES			
Interest receivable on investments		103	138
Sundry debtors, accrued income and prepayments		228	546
		<u>331</u>	<u>684</u>
10. LOANS AND ADVANCES			
Overdrafts		3,123	2,594
Term loans		356,551	309,510
Loans to Directors	25(b)	651	643
Provision for impairment	11	(1,017)	(915)
Net loans and advances		<u>359,308</u>	<u>311,832</u>
Maturity analysis			
Overdrafts		3,123	2,594
Not longer than 3 months		4,084	3,060
Longer than 3 and not longer than 12 months		11,103	11,132
Longer than 1 and not longer than 5 years		58,176	54,364
Longer than 5 years		283,839	241,597
		<u>360,325</u>	<u>312,747</u>
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)		331,450	289,212
- Other – non-concentrated		28,875	23,535
		<u>360,325</u>	<u>312,747</u>
11. IMPAIRMENT OF LOANS AND ADVANCES			
Provision for impairment			
General provision			
Opening balance		868	732
Bad debts previously provided for written off during the period		-	-
Bad and doubtful debts provided for during the period		125	136
Closing balance		<u>993</u>	<u>868</u>

	2005 \$'000	2004 \$'000
11. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
<i>Specific provision</i>		
Opening balance	47	19
Bad debts previously provided for written off during the period	(25)	-
Bad and doubtful debts provided for during the period	2	28
Closing balance	<u>24</u>	<u>47</u>
Total provision for impairment	<u><u>1,017</u></u>	<u><u>915</u></u>
 <i>Bad and doubtful debts expense comprises:</i>		
Specific provision	2	28
General provision	125	136
Bad debts recognised directly	1	-
Total bad debts expense	<u><u>128</u></u>	<u><u>164</u></u>
 <i>Non-accrual loans</i>		
Balances with specific provisions for impairment	26	59
Specific provision for impairment	(19)	(47)
Net non-accrual loans	<u><u>7</u></u>	<u><u>12</u></u>
 <i>Restructured loans</i>		
Balance	<u><u>-</u></u>	<u><u>-</u></u>
 <i>Assets acquired through enforcement of security</i>		
Real estate acquired through enforcement of security	-	-
Specific provision for impairment	-	-
Balance	<u><u>-</u></u>	<u><u>-</u></u>
 <i>Past-due loans</i>		
Balance	<u><u>207</u></u>	<u><u>126</u></u>
 Interest revenue on non-accrual and restructured loans	1	5
Interest foregone on non-accrual and restructured loans	-	2
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.	<u><u>-</u></u>	<u><u>-</u></u>
 12. OTHER INVESTMENTS		
Listed shares and securities – at cost	-	228
Unlisted shares – at cost	204	204
Other – at cost	<u>1,305</u>	<u>1,324</u>
	<u><u>1,509</u></u>	<u><u>1,756</u></u>

	Note	2005 \$'000	2004 \$'000
13. PROPERTY, PLANT AND EQUIPMENT			
Freehold Land			
Freehold land at independent valuation – June 2005	13(a)	1,645	-
Freehold land at independent valuation – June 2003		-	1,579
		1,645	1,579
Buildings			
At independent valuation – June 2005	13(a)	2,955	-
At independent valuation – June 2003		-	2,881
Additions at cost		-	52
		2,955	2,933
Provision for depreciation		-	(72)
		2,955	2,861
Total freehold land and buildings		4,600	4,440
Leasehold improvements			
At cost		365	281
Provision for amortisation		(116)	(167)
Total leasehold improvements		249	114
Plant and equipment			
At cost		4,836	4,444
Provision for depreciation		(2,983)	(2,470)
Total plant and equipment		1,853	1,974
Total property, plant and equipment at net book value		6,702	6,528

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Freehold Land

Carrying amount at the beginning of the year	1,579	1,579
Additions	-	-
Disposals	(90)	-
Revaluations	156	-
Carrying amount at the end of the year	1,645	1,579

Buildings

Carrying amount at the beginning of the year	2,861	2,881
Additions	13	52
Disposals	(50)	-
Revaluations	203	-
Depreciation	(72)	(72)
Carrying amount at the end of the year	2,955	2,861

	2005 \$'000	2004 \$'000
13. PROPERTY, PLANT AND EQUIPMENT (continued)		
<i>Leasehold improvements</i>		
Carrying amount at the beginning of the year	114	80
Additions	173	52
Disposals	(5)	-
Amortisation	(33)	(18)
Carrying amount at the end of the year	<u>249</u>	<u>114</u>
<i>Plant and equipment</i>		
Carrying amount at the beginning of the year	1,974	1,731
Additions	736	932
Disposals	(24)	(41)
Depreciation	(833)	(648)
Carrying amount at the end of the year	<u>1,853</u>	<u>1,974</u>

(a) Valuations

The freehold land and buildings were independently valued in June 2005 by R.G. Eastoe, FAPI, Dip. Ag. & F.M. B.Bus. (MKT), Certified Practising Valuer, on the basis of open market value of the properties concerned and their existing use.

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 a strategically located property with a book value of \$2,065,000 which is subject to a long-term lease and provides an investment return to the Society.

14. DEPOSITS AND SHORT-TERM BORROWINGS

Call deposits	155,373	142,260
Term deposits	243,743	221,794
Short-term borrowings	-	-
	<u>399,116</u>	<u>364,054</u>

Maturity analysis

On call	155,373	142,260
Not longer than 3 months	163,186	144,914
Longer than 3 and not longer than 12 months	74,001	66,716
Longer than 1 and not longer than 5 years	6,556	10,164
	<u>399,116</u>	<u>364,054</u>

Concentration of deposits

Albury-Wodonga region (including Corowa and Culcairn)	374,501	339,709
Other – non-concentrated	24,615	24,345
	<u>399,116</u>	<u>364,054</u>

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

	2005	2004
	\$'000	\$'000
15. ACCOUNTS PAYABLE AND OTHER LIABILITIES		
Accrued interest payable	3,083	2,729
Creditors and other liabilities	3,303	3,151
	<u>6,386</u>	<u>5,880</u>
16. PROVISIONS		
Employee benefits	<u>826</u>	<u>781</u>
Included in employee benefits is a non-current amount of \$407,000 (2004 - \$357,000).		
The Society employed 81 (2004 – 77) full-time equivalent staff at the end of the financial year.		
17. RESERVES		
Capital profits	365	243
Asset revaluation	2,388	2,151
	<u>2,753</u>	<u>2,394</u>
Movements in reserves		
Asset revaluation reserve		
Balance at beginning of period	2,151	2,151
Revaluation increments/(decrements):		
- Land	156	-
- Buildings	203	-
- Transfer to capital profits reserve	(122)	-
Balance at end of period	<u>2,388</u>	<u>2,151</u>
Capital profits reserve		
Balance at beginning of period	243	243
Transfer from asset revaluation reserve	122	-
Balance at end of period	<u>365</u>	<u>243</u>
18. RETAINED PROFITS		
Retained profits at the beginning of the period	23,983	21,431
Net profit attributable to members	3,011	2,552
Retained profits at the end of the period	<u>26,994</u>	<u>23,983</u>
19. AUDITORS' REMUNERATION	\$	\$
Amounts received or due and receivable by the External Auditors of Hume Building Society Ltd for:		
- audit of the financial statements of the Society	48,400	39,686
- other services in relation to the Society	11,805	41,306
	<u>60,205</u>	<u>80,992</u>

2005	2004
\$'000	\$'000

20. STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and deposits at call. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the financial statements as follows:

Cash on hand and at bank	9,077	10,901
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(b) Reconciliation of profit from ordinary activities after tax to the net cash flows from operations

Profit from ordinary activities after income tax	3,011	2,552
<i>Non-cash items</i>		
Charge for bad and doubtful debts	128	164
Depreciation	905	720
Amortisation	33	18
Provision for employee entitlements	45	75
Net (profit)/loss on disposal of plant and equipment	43	4
Net (profit)/loss on disposal of other investments	(742)	(693)
<i>Changes in assets and liabilities</i>		
Interest receivable	(74)	64
Other receivables	318	(326)
Interest payable	354	720
Tax provision	5	282
Creditors and accrued expenses	229	1,039
Future income tax benefit	(75)	(39)
Provision for deferred income tax	24	(40)
Net cash flow from operating activities	4,204	4,540

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.

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 (2004 - \$6.0 million). This facility is unsecured. As at 30 June 2005 this facility was undrawn (2004 undrawn).

21. EMPLOYEE BENEFITS

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 9% 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-balance sheet risks as it does for on-balance sheet loan assets. The Society holds collateral supporting these commitments where it is deemed necessary.

2005	2004
\$'000	\$'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

23,905	22,064
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Financial guarantees

Financial guarantees written are conditional commitments issued by the Society to guarantee the performance of a customer to a third party. Security is generally held for these guarantees.

973	326
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23. REMUNERATION OF DIRECTORS

Directors' remuneration

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

\$	\$
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357,020	326,816
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The number of Directors of Hume Building Society Ltd whose income (including superannuation contributions) falls within the following bands is:

\$30,000	–	\$39,999
\$40,000	–	\$49,999
\$50,000	–	\$59,999
\$70,000	–	\$79,999
\$90,000	–	\$99,999

No.	No.
1	3
4	2
1	1
-	1
1	-

Remuneration includes all payments to Directors and benefits, but excludes reimbursements of out of pocket expenses. All remuneration of 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.

	2005	2004
	\$'000	\$'000

24. EXPENDITURE COMMITMENTS

Capital expenditure commitments

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

– payable within one year	189	225
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Operating leases (non-cancellable)

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

– within 1 year	504	439
– later than 1 and not later than 2 years	322	439
– later than 2 and not later than 5 years	461	129

Aggregate lease expenditure contracted for at balance date	1,287	1,007
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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	
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. These terms and conditions have not been breached.

The aggregate amount receivable at 30 June 2005 was \$651,000 (2004 - \$643,000) and relates to loans advanced in the normal course of business to Messrs Knobel, O'Reilly and Hanrahan and Mrs Stocker. During the period loans advanced totalled \$52,000 (2004 - \$212,000) and repayments totalling \$90,000 (2004 - \$123,000) were made which included repayments of principal of \$44,000 (2004 - \$90,000).

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 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 First Data Resources 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) Financial assets			
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. Certain 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 137 days and effective interest rates of 5.72% to 6.31% (2004: 5.54% to 6.21%).
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 41 days with effective interest rates of 5.59% to 5.65% (2004: 5.39% to 5.63%).
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 122 days and effective interest rates of 5.67% to 6.13% (2004: 5.50% to 5.93%).
(ii) Financial liabilities			
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.
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							
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 %	2004 %
(i) Financial assets														
Cash and liquid assets	4,700	7,524							4,377	3,377	9,077	10,901	5.30	5.10
Loans and advances – related parties	651	643									651	643	7.17	6.92
Listed shares and securities									-	228	-	228	n/a	n/a
Interest earning deposits			16,500	14,000	-	5,500					16,500	19,500	5.87	5.73
Bills of exchange			3,988	3,964							3,988	3,964	5.63	5.43
Negotiable certificates of deposit			38,874	42,187							38,874	42,187	5.86	5.63
Other investments	1,305	1,324							204	204	1,509	1,528	5.25	4.45
Loans and advances	292,199	246,808	29,848	43,300	37,146	21,001	481	995			359,674	312,104	7.08	6.79
Accrued receivables									331	684	331	684	n/a	n/a
Total financial assets	298,855	256,299	89,210	103,451	37,146	26,501	481	995	4,912	4,493	430,604	391,739		

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

(ii) Financial liabilities														
Deposits and borrowings	155,373	142,260	237,187	211,630	6,556	10,164					399,116	364,054	4.03	3.89
Accounts payable and other liabilities									6,386	5,880	6,386	5,880	n/a	n/a
Employee Benefits									826	781	826	781	n/a	n/a
Total financial liabilities	155,373	142,260	237,187	211,630	6,556	10,164			7,212	6,661	406,328	370,715		

n/a – not applicable for non-interest bearing 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	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(i) Financial assets				
Cash and liquid assets	9,077	10,901	9,077	10,901
Loans and advances – related parties/entities	651	643	651	643
Listed shares and securities	-	228	-	847
Other investments	1,509	1,528	1,509	1,528
Interest earning deposits	16,500	19,500	16,588	19,644
Bills of exchange	3,988	3,964	3,987	3,963
Negotiable certificates of deposit	38,874	42,187	38,855	42,182
Loans and advances	359,674	312,104	359,674	312,104
Accrued receivables	331	684	331	684
Total financial assets	430,604	391,739	430,672	392,496
(ii) Financial liabilities				
Deposits and borrowings	399,116	364,054	399,116	364,054
Accounts payable and other liabilities	6,386	5,880	6,386	5,880
Employee Benefits	826	781	826	781
Total financial liabilities	406,328	370,715	406,328	370,715

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.

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.

27. FINANCIAL INSTRUMENTS (continued)

Accrued receivables

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

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.

(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.

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	
	2005	2004	2005	2004
Albury-Wodonga area residents (including Corowa and Culcairn)	91.98	92.47	331,450	289,212
Other non-concentrated	8.02	7.53	28,875	23,535
	100.00	100.00	360,325	312,747

* 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 higher risk customers and/or where the Society's policies require it.

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.

29. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the Society must comply with Australian equivalents of International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for the year ended 30 June 2005.

The Society has established a formal implementation project to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The assessment and planning phase generated a high-level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes. This included high-level identification of the key differences in accounting policies that are expected to arise from adopting AIFRS.

Impact of transition to AIFRS

There will be changes in financial information due to the Society changing accounting policies to achieve compliance with AIFRS.

The final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliation presented below due to:

- a significant amount of judgement involved in the preparation of the reconciliation to AIFRS;
- ongoing work being undertaken by the AIFRS project team;
- potential amendments to the AIFRS and interpretation thereof by the Australian Accounting Standards Board;
- emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations; and
- changing standards and required practice of the Australian Prudential Regulation Authority.

The rules for the first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet at transition date, being 1 July 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS.

The significant changes in accounting policies adopted in preparing the AIFRS reconciliations and the elections made under AASB 1 are set out below.

Taxation

Income tax will be calculated based on the "balance sheet" approach, in which temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences between taxable income and accounting profit.

Impairment

AIFRS prohibits a general provision for impairment. The provision will be transferred to a reserve for credit losses.

Under AGAAP, the Society currently maintains a general provision for impairment of 0.5% of risk weighted loans.

Investment Property

The Society's investment property will be measured at fair value, net of applicable tax. Gains or losses arising from changes in fair value are to be recognised in the income statement for the period in which they arise.

29. IMPACT OF ADOPTING AIFRS (continued)

Interest Revenue/Effective Interest Rate

Under AGAAP, certain upfront fees and associated transaction costs are recognised immediately on origination of the loans.

Under AIFRS, these fees and associated transaction costs must be capitalised and included in the loan's effective interest rate and recognised over the expected life of the loan. The expected life of the loan has been based on an analysis of the Society's loan portfolio.

Summary of impacts

Statement of Financial Position

The following table sets out the expected adjustments to the Statement of Financial Position of the Society at transition to AIFRS as at 30 June 2005.

	Note	AGAAP \$'000	AIFRS \$'000	Transition Impact \$'000
Assets				
Cash and liquid assets		9,077	9,077	-
Receivables due from other financial institutions		16,500	16,500	-
Investment securities		42,862	42,862	-
Accrued receivables		331	331	-
Loans and advances	(i),(ii)	359,308	360,093	785
Other investments		1,509	1,509	-
Investment properties	(iii)	-	2,040	2,040
Property, plant and equipment	(iii)	6,702	4,637	(2,065)
Deferred tax assets	(iv)	350	412	62
Total assets		436,639	437,461	822
Liabilities				
Deposits and short-term borrowings		399,116	399,116	-
Accounts payable and other liabilities		6,386	6,386	-
Current tax liabilities		468	468	-
Deferred tax liabilities	(iii)	96	96	-
Provisions		826	826	-
Total liabilities		406,892	406,892	-
Net assets		29,747	30,569	822
Members' funds				
Reserves	(i), (iii)	2,753	3,721	968
Retained profits	(ii), (iv)	26,994	26,848	(146)
Total members' funds		29,747	30,569	822

29. IMPACT OF ADOPTING AIFRS (continued)

Statement of Financial Performance

The following table sets out the expected adjustments to the Statement of Financial Performance of the Society for the year ended 30 June 2005 due to the adoption of AIFRS.

	Note	AGAAP \$'000	AIFRS \$'000	Transition Impact \$'000
Interest revenue	(ii)	27,456	27,494	38
Interest expense		(15,041)	(15,041)	-
Net interest revenue		12,415	12,453	38
Non-interest revenue	(ii)	2,372	2,113	(259)
Increase in fair value of investment property	(iii)	-	55	55
Gross proceeds from the disposal of shares		970	970	-
Total operating income		15,757	15,591	(166)
Carrying amount of shares disposed	(v)	(228)	(847)	(619)
Total operating income net of shares disposed		15,529	14,744	(785)
Bad and doubtful debts	(i)	(128)	(3)	125
Other expenses	(ii), (iii)	(11,019)	(10,925)	94
Profit from ordinary activities before income tax		4,382	3,816	(566)
Income tax expense	(iii), (iv), (v)	(1,371)	(1,143)	228
Profit from ordinary activities before income tax		3,011	2,673	(338)

29. IMPACT OF ADOPTING AIFRS (continued)

Equity

The following table sets out the expected adjustments to the equity of the Society for transition to AIFRS.

	Note	Retained Profits		Reserves	
		30 Jun 2005 \$'000	1 Jul 2004 \$'000	30 Jun 2005 \$'000	1 Jul 2004 \$'000
Opening balance under AGAAP		26,994	23,983	2,753	2,394
Reserve for credit losses	(i)	-	-	993	868
Loan fees received in 2005 deferred	(ii)	(259)	-	-	-
Deferred loan fees amortised	(ii)	176	-	-	-
Transaction cost expensed	(ii)	(138)	-	-	-
Deferred loan transaction cost amortised	(ii)	94	-	-	-
Prior years loan fees and costs deferred	(ii)	(81)	(81)	-	-
Fair value of investment property	(iii)	-	-	-	60
Tax effect of investment property	(iii)	-	-	(25)	(9)
Tax effect on deferral of fees and costs.	(iv)	62	24	-	-
Listed Shares at fair value	(v)	-	619	-	-
Tax effect of listed shares	(v)	-	(206)	-	-
Closing balance under IFRS		<u>26,848</u>	<u>24,339</u>	<u>3,721</u>	<u>3,313</u>

Notes to Statement of Financial Position, Statement of Financial Performance and Equity

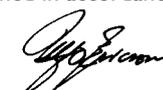
- (i) AIFRS prohibits a general provision for impairment. The provision will be transferred to a reserve for credit losses.
- (ii) Deferral of fees and transaction costs under the effective interest rate method.
- (iii) Investment property measured at fair value net of applicable tax.
- (iv) Tax adjustment due to the deferral of fees and transaction costs.
- (v) Listed shares carried at fair value.

Directors' Declaration

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

1. the financial statements and notes, set out on pages 16 to 41, 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 2005 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 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



J.A. Knobel
Deputy Chairman

Albury, 9 August 2005

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 30 June 2005, 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 16 to 42. 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 2005 and of its performance for the year 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.



KPMG
Chartered Accountants



Timothy S. Frazer, Partner
Albury, 9 August 2005



Branch and ATM Locations

Head Office

2 ATMs
492 Olive Street,
Albury, NSW. 2640
Phone: (02) 6051 3211
Fax: (02) 6051 3255

Myer City Centre

ATM
David & Swift Streets,
Albury, NSW. 2640
Phone: (02) 6051 3300
Fax: (02) 6051 3322

West End Plaza

ATM
487 Kiewa Street,
Albury, NSW. 2640
Phone: (02) 6051 3399
Fax: (02) 6051 3366

Lavington

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

Wodonga Central

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

Wodonga Plaza

ATM
Elgin Street,
Wodonga, VIC. 3690
Phone: (02) 6022 9000
Fax: (02) 6022 9022

Centro Birallee

ATM
97 Melrose Drive,
Wodonga, VIC. 3690
Phone: (02) 6043 4300
Fax: (02) 6043 4304

Howlong

ATM
1/45 Hawkins Street,
Howlong, NSW. 2646
Phone: (02) 6026 8222
Fax: (02) 6026 8322

Corowa

ATM
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

Jindera

ATM
Jindera Plaza, Urana Rd.
Jindera, NSW. 2642
Phone: (02) 6026 3720

Albury Airport ATM

Borella Road, Albury.

West Dean St. ATM

Dean Street, Albury.

Federation Park ATM

Federation Park Store,
Barton Street, Wodonga.

Thurgoona Plaza ATM

PP's Cafe, Shuter Avenue,
Thurgoona.

Regent Cinema ATM

Dean Street, Albury.

