



Part of your Life

Annual Report 2004



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“Hume has a real hands on approach to banking. They offer the same services as a bank, but they just do it better!”

Bruce Lynch
Investor



Chairman's Report

The Society's results for 2004 are a pleasing outcome and a tribute to being a mutual financial institution.

Hume's profit of \$3.7 million – an 89% increase on the previous year – is a result that the Board and I are very satisfied with. The increase in profit of \$1.7 million includes \$0.7 million in profit from the sale of shares. The profit from operations of \$3.0 million is a 54% increase on the \$2.0 million reported for 2002/03.

Interest margin remained virtually unchanged from the previous year at 2.9% and confirms that the increased profit was not generated by an increase in loan interest rates or reduction in deposit rates. Higher loan and deposit balances generated the increase in net interest revenue (to \$10.7 million) and reflects a greater number of members using Hume than in previous years.

Non-interest revenue increased due to higher commission income arising from greater take-up of insurance and BPay and by more members making more transactions, not by an increase in fees.

Total assets increased by 17% to \$397.6 million on the back of record net loan

approvals of \$131.7 million. Net Loans and Advances outstanding increased by 22% to \$311.8 million. Deposits by members increased to \$364.1 million – a 17% increase.

The number of Hume Building Society members increased by more than they have in previous years. Initiatives that may have contributed to the increase include a new advertising campaign, a new branch at Howlong, several new ATMs, continued sponsorship of local events and enhanced processes that mean we spend more time on serving members and less time on processing. The strength and success of the local region – which is receiving widespread coverage in other areas – also reflects on local confidence. Residents are increasingly proud of their area and are supporting local businesses to a greater extent.

Analysis conducted by an independent firm during the year determined that Hume's members receive significant financial benefits from banking with the Society and this finding confirmed that mutuality has substance at Hume.



The contribution of staff to Hume's success cannot be understated. The service on which Hume prides itself – and on which its success is built – is a result of the efforts of those who serve our members. This year was no exception, despite staff having additional responsibility to comply with the requirements of the Financial Sector Reform – culminating in the Society being granted an Australian Financial Services Licence by ASIC. Staff needed to complete accredited training and then adapt to the new disclosure requirements imposed on them.

The Board acknowledges the efforts of all staff – not only for their efforts in completing the necessary training or for managing the increased volume of work arising from record loan approvals and new member applications processed - but also for their day to day activities in providing a level of service that wins plaudits on a regular basis.

The guidance, contribution and untiring support given by Directors during the year has been particularly important in this year as practices and legislative changes have greatly impacted on the conduct of the Society.

The Society will celebrate its 50th birthday during the next financial year and the forecast is that it will be another year of successes – both for the Society and its members.

Ulf Ericson
Chairman

“We spend more time serving members and less time on processing.”



“You know service is the key to any business, that’s why my family business banks with Hume. I talk – they listen. With Hume it really is personal.”

Justin Dalinger
Foto Supplies

Review of Operations

Review of Operations

Last year's annual report noted that one of the challenges facing your Society during 2003/04 would be to increase profit without increasing fees or reducing the interest rate benefit that members enjoy from banking with Hume. We think this was achieved and, based on the number of people who joined Hume during the year, so do you, our members.

The pre-tax operating profit achieved in the current year (excluding the profit on the sale of shares) was 53.7% higher than the previous year – and was achieved without increasing transaction fees or introducing any new fees. Total Assets increased by 17.3% however operating expenses only increased by 6.7%, despite several new initiatives being implemented to improve the benefits of banking with Hume.

Convenience and Access

A new branch was opened in Howlong in May of this year proving Hume's strong links to the communities in which it operates and the need for full banking services to be introduced into the town.

The Howlong branch opening followed recent upgrades and extensions to Hume's network, with ATMs installed near the cinema complex in Albury, at the Thurgoona shopping complex and at the Federation Park convenience store in Wodonga. The Westend Plaza branch also had a minor upgrade during the year to improve the public area of the branch for members' benefit.

These improvements follow the new branch and ATMs installed the year before and means that Hume is more convenient



than ever before. While there may not be any new branches this year, your Branch at Lavington will move into larger premises in 2005 as a result of the refurbishment currently underway.

Subject to the outcome of a review on ATM interchange fees by the Reserve Bank, other suitable ATM sites have been identified by the Society that will provide even more convenience for members. Hume ATMs remain free of charge for members using Hume cards.

Hume now has 10 full service branches supplemented by 14 ATMs, telephone banking and a first class internet banking service.

Functionality

Hume listens to its members and this year re-established the Passbook Account for those members who want passbook security.

Members also asked for an incentive to save – particularly to encourage children to learn the discipline of saving – and Hume was able to provide that. The Reward Saver account was launched in December 2003 and pays a higher rate of interest if deposits exceed \$10 each month and there are no withdrawals. The account is proving to be very popular to both existing and new members.

Picking up the theme of encouraging children to save, school banking was offered to the students of Albury Public School in the second term of 2004. Other schools will join the programme this calendar year

so more children will be able to benefit from developing a savings habit.

Loan accounts were also reviewed during the year and the Society repackaged its personal loan range to make it better for members. Interest rates for loans for new and second-hand cars were reduced, as were the rates for loans secured by deposits or property. For mortgage borrowers, a new basic variable account was offered for the first time in April of this year.

Technology

Computer technology is either the best or worst thing to ever impact on banking. Technology has been blamed for closing branches, decreasing branch staff numbers and for the removal of passbook accounts. On the good side, technology allows 24 hour a day access to funds via ATMs, EFTPOS, telephone and internet banking.

Hume uses technology to provide staff with the tools they need to provide the most personalised banking services possible.

In late 2003, Hume upgraded its core banking software to allow new accounts and features to be offered. The process of opening new accounts was greatly streamlined in April this year when another upgrade was installed.

An improvement currently being tested for implementation in the near future will allow cheques and direct transfers to be processed more efficiently. Another planned upgrade will process payments to members' accounts outside normal working hours – something that members have asked for in their feedback.

These are things that will improve the banking services Hume provides, but friendly, well-trained staff delivering personal banking will remain the Society's focus - because that's what Hume Building Society stands for:

Community Involvement

Part of what makes Hume special to the region is that it is very much a part of the community. Not only does Hume offer support, its staff and families are also actively involved. This year the Society became involved with parklands Albury Wodonga – initially by financial support to publish a book – and then with staff participation. Gateway Island benefited on Clean-up-Australia Day and World Environment Day as staff picked up rubbish and planted trees.

Gold coin donations on casual dress days are donated to a local charity nominated and selected by staff. Hume matches their contribution on a dollar for dollar basis and members have begun to participate as well.

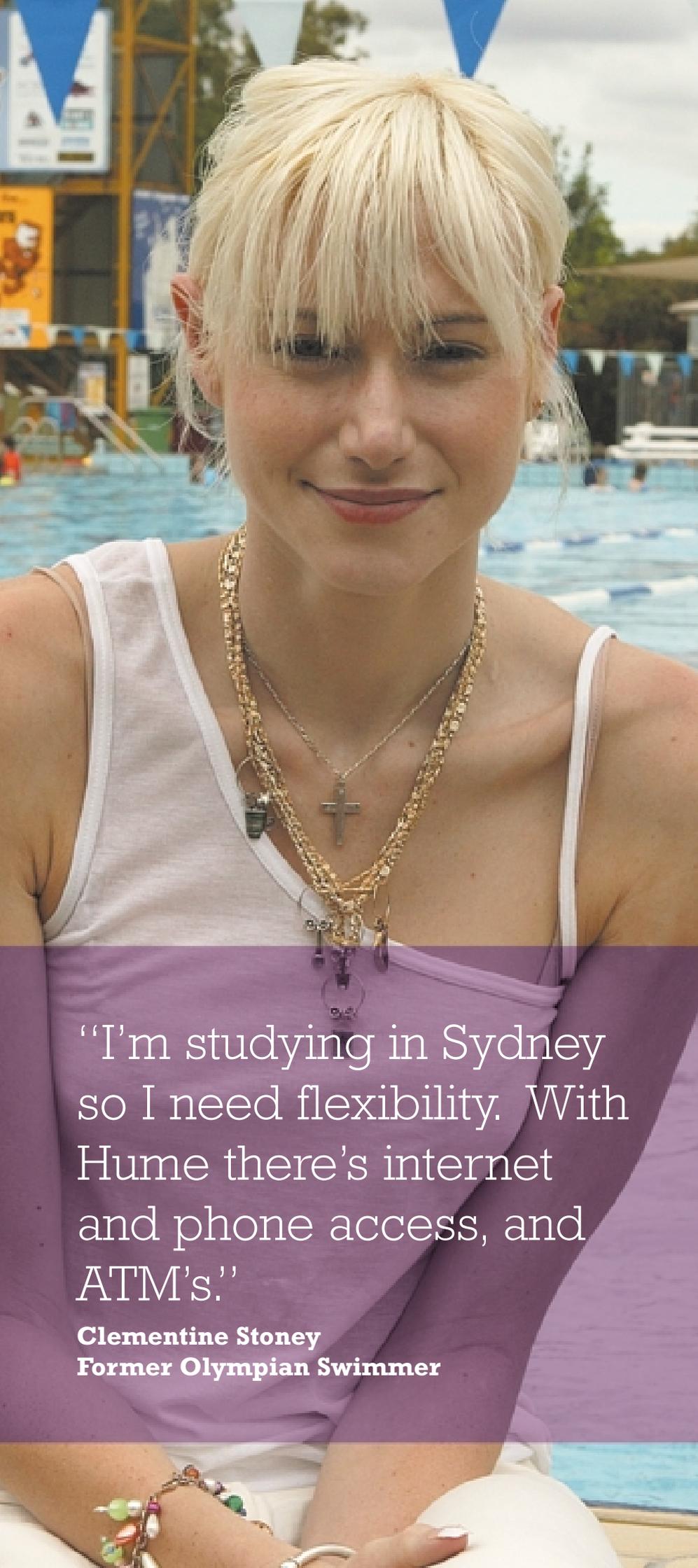
Combine staff involvement with the financial assistance that the Society provides and Hume's involvement in the community is significant and widespread. Sporting and community activities including football, soccer, rugby union, athletics, cycling, Albury City Council's Carols by Candlelight and Youth Café all benefit from Hume's sponsorship.

The Society's support of community activities was recognised at the 2003 Albury Wodonga Business Excellence Awards celebration when Hume Building Society was presented with the Excellence in Business and Community Partnership prize.



“We choose to work with companies that are committed to their customer's experience. That's why we choose Hume for our business banking.”

Antonia Kotsiros
Coffee Mamma



Staff

The Society recognises there are many factors which make it successful, however the key to Hume's success is its staff. To ensure the right people are part of its future, the Society is working toward creating an environment which is both supportive and encourages staff to reach their best potential. The approach taken is to create programmes which address the whole person – skill development, health and fitness and personal satisfaction.

Hume's philosophy is to provide a work environment that compliments family responsibilities to facilitate a balance between work and home.

An employee wellbeing programme – Fit for Hume – was established to help staff better manage their and their families' health. It is recognised that the health of families has a large impact on how staff feel and perform. During the year the programme included a stress management workshop, access to professional counselling services and participation in the Health Smart programme which provides health and fitness tips and encourages staff to consider their health. Health checks including blood glucose test, blood pressure test and cholesterol screening were offered – as were flu inoculations.

The Education Assistance Programme continues to provide financial and other assistance to staff pursuing further education. A number of staff commenced undergraduate degrees and a few completed postgraduate qualifications this year.

Hume's recruitment philosophy remains the same – to strive to build an organisation of people with a genuine desire to serve members to the best of their ability.

“I'm studying in Sydney so I need flexibility. With Hume there's internet and phone access, and ATM's.”

Clementine Stoney
Former Olympian Swimmer

Economic Situation

The areas in which Hume operates have continued to be buoyant this year:

Although there were increases in the cash rate in November and December 2003, interest rates remain near historically low levels. People looking to borrow for housing, business or personal reasons benefit from low rates.

The effects of the drought remain – despite soaking rain late in the year – but new and existing businesses are providing employment opportunities within the area. Work on the highway upgrade and other developments announced during the last year will commence in the upcoming year and will provide continuing support to house and land prices locally. Prices have levelled off in recent months however there has been no evidence that prices have or will decline like they have in other cities.

Financial performance

Hume's pre-tax Operating Profit of \$3.706m included \$0.693m profit on the sale of shares during the year. The profit was split between shares in Cashcard Australia Limited, a company established by building societies several years ago to allow national access to ATMs, and shares in listed companies that Hume had invested in over a period of years.

The establishment of an open ATM interchange – all cards are accepted in all ATMs – meant that the societies no longer needed to own Cashcard to provide access to a national network of ATMs. An opportunity to sell the company arose and was overwhelmingly supported by all shareholders.

The Society has retained some of its share investments and, subject to prevailing share

prices continuing, another \$600,000 in profit may be realised in the 2004/05 financial year.

Adjusting for the sale of the shares, Hume's underlying profit was \$3.013m, a 53.7% increase on the 2002/03 results of \$1.960m. Record net loan approvals of \$131.7m (\$97.8m in 2002/03) contributed to a 17.3% increase in Total Assets to \$397.6m (\$338.9m at June 2003), which in turn contributed to a 16.9% increase in net interest income. The growth in assets and net interest was achieved with only a 6.7% increase in operating costs – despite the new branch, new ATMs and computer upgrades noted above. The Society increased its provision for bad and doubtful debts during the year more so to reflect the increase in loan balances than for any deterioration in loan quality.

The Society's capital ratio at June 2004 was 12.9% (13.7% at June 2003) and remains well above the statutory minimum of 8%.

The Future

The Society's outlook for 2004/05 is for assets and net interest income to continue to increase at a faster rate than operating costs. Due to continuing changes in the regulatory environment, cost control is becoming more and more difficult each year.

The Society has appointed Ernst & Young as its internal auditors from July 2004 in a change initiated by amendments to Corporations Legislation under CLERP 9. Compliance costs will increase as a result of both that appointment and as a consequence of complying with the requirements of Financial Sector Reform for all of the upcoming year.

The change to International Financial

Reporting Standards (amended to suit Australia) and new Anti-Money Laundering Legislation will also impose additional costs upon the Society in the future. The Reserve Bank has indicated its intention to designate both ATM and EFTPOS interchange arrangements and the Society is still waiting for a final decision on the impact of changes to the capital adequacy regime.

While the Board and Management recognises the need to improve governance standards required from companies, it is disappointing that more and more of the Society's resources are being directed away from improving the level of service provided to members and toward implementing and complying with increasingly complicated legislative requirements.

Summary

Hume Building Society – its Directors and staff alike – are confident that the success of 2004 can be repeated. It is worth re-stating that, as an organisation owned by its members, profit is not the primary objective of Hume. Profit is an outcome of success and, by that measure, 2003/04 has been the Society's most successful year:

It is also worth noting that the level of service that members receive also measures Hume's success. Convenience and functionality have both been improved during the year, as have the tools provided to staff to allow the high level of service that Hume is known for:

By any measure, Hume has had a good year and the Board and Management look forward to the challenge of raising the bar even further in the upcoming year.

Andrew Saxby
Chief Executive Officer

Board of Directors



Ulf Ericson
CHAIRMAN



Lou Lieberman



John Knobel
DEPUTY CHAIRMAN



Leo O'Reilly



Les Boyes



Joy Stocker



Bill Hanrahan

Financial Report

for the year ended 30 June 2004

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Total assets up by
17.3% to \$397.6 million.



Hume Building Society Ltd
ABN 85 051 868 556

Financial Report

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 2004 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	57	Chartered Accountant. Board member for 16 years and Chairman since 1998. Chairman of the Remunerations & Nominations Committee and member of the Audit Committee and Human Resources 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	66	Certified Practising Accountant. Board member for 29 years and Deputy Chairman for 19 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	73	Grazier and local businessman. Board member for 19 years. Member of the Human Resources Committee. Former Councillor and Mayor of the Rural City of Wodonga.
Feynella Joy Stocker B Ed, M Ed (Adult Ed), MCES	58	Head of Studies, Business, IT & Arts, TAFE NSW Riverina Institute. Board member for 11 years. Chairperson of the Human Resources Committee and member of the Remunerations & Nominations Committee. Joy is Chairperson of the Joint Hospitals Ethics Committee. She has prior Board level experience with Albury City Council and Murray River Electricity.
Leo Francis O'Reilly FCA	60	Chartered Accountant - former partner of an International Accounting Firm. Board member for 6 years. Member of the Audit Committee. Board member of Albury City Council Albury Services Board.
Louis Stuart Lieberman Dip Law (SAB), FAICD, Barrister and Solicitor (Vic & NSW)	66	Mediator Board member for 5 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, B R Studies, B Leg S, Hon D Bus CSturt	61	Former CEO of the Society for 20 years. Board member for 19 years. Chairperson of the Albury-Wodonga Development Corporation; Chairman of Albury City Audit Committee; member of Council of Charles Sturt University and Chair of the University's Audit and Risk Committee; member of the Albury-Wodonga Branch Council of the Institute of Chartered Accountants; and Board member of Albury Wodonga Youth Emergency Services Ltd.

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:

	<i>Board of Directors</i>	<i>Audit Committee</i>	<i>Human Resources Committee</i>	<i>Remuneration & Nominations Committee</i>
<i>Number of meetings held:</i>	23	9	3	4
<i>Number of meetings attended:</i>				
Ulf Olof Ericson	23	9	3	4
John Albert Knobel	21	9	n/a	4
William Thomas Hanrahan	23	n/a	n/a	n/a
Leslie Charles Boyes	21	n/a	2*	n/a
Feynella Joy Stocker	21	n/a	3	4
Leo Francis O'Reilly	22	9	n/a	n/a
Louis Stuart Lieberman	21	7	n/a	3

* elected to the committee in October 2003. Only eligible to attend 2 meetings

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.

Human Resources Committee

The Human Resources Committee was formed to provide advice and recommendations to the Board on human resources, workforce planning and staff training and development issues to support the Society's strategic directions. It comprises Board members, the Human Resources Managers and volunteer members of staff. The committee is chaired by Joy Stocker.

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 remuneration of the Chief Executive Officer. It also 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 \$3.706 million for the year (2003 - \$1.960 million). The result included profits on the sale of shares of \$693,000 which gives an underlying operating profit before income tax of \$3.013 million - a 54% increase on the previous year's result. Net profit after income tax was \$2.552 million (2003 - \$1.368 million).

The result was based on an increase in total assets of 17.3% or \$58.773 million to \$397.627 million on the back of record net loan approvals of \$132 million (2003 - \$98 million). Net loans and advances outstanding at June 2004 were \$311.832 million (2003 - \$255.060 million) and deposits by members \$364.054 million (2003 - \$309.719 million).

Operating expenses increased by only 6.7% despite opening a new branch and installing four new ATMs during the year.

Financial Report

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

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 will continue to focus on delivering personal banking services to members via its branch network. Other distribution channels - including internet and telephone banking, EFTPOS and ATM networks - will provide added convenience for members.

Profits on the sale of shares are again likely during the year. In addition, the acquirer of the Society's shares in Cashcard Australia Limited will, subject to certain conditions being satisfied, make additional payments for those shares. The Society forecasts an amount similar to 2003/04 will be included in the 2004/05 profit from the sale of all shares.

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 31 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



J.A. Knobel
Deputy Chairman

Albury, 10 August 2004

Statement of Financial Performance

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Interest revenue	2	22,528	18,819
Interest expense	2	<u>(11,796)</u>	<u>(9,638)</u>
Net interest revenue		10,732	9,181
Non-interest revenue	3	1,876	1,677
Gross proceeds from the disposal of shares	3	<u>1,886</u>	-
Total operating income		14,494	10,858
Carrying amount of shares disposed	4(a)	<u>(1,193)</u>	-
Total operating income net of shares disposed		13,301	10,858
Bad and doubtful debts	4(b)	(164)	(60)
Other expenses	4(b)	<u>(9,431)</u>	<u>(8,838)</u>
Profit from ordinary activities before income tax expense		3,706	1,960
Income tax expense relating to ordinary activities	5(a)	<u>(1,154)</u>	<u>(592)</u>
Net profit attributable to members		2,552	1,368
Increase/(decrease) in asset revaluation reserve		<u>-</u>	<u>241</u>
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		<u>-</u>	<u>241</u>
Total changes in equity attributable to members		<u>2,552</u>	<u>1,609</u>

The Statement of Financial Performance is to be read in conjunction with the accompanying notes set out on pages 18 to 37.

Financial Report

Statement of Financial Position

as at 30 June 2004

	Note	2004 \$'000	2003 \$'000
Assets			
Cash and liquid assets	6	10,901	11,080
Receivables due from other financial institutions	7	19,500	28,000
Investment securities	8	46,151	34,830
Accrued receivables	9	684	427
Loans and advances	10	311,832	255,060
Other investments	12	1,756	2,950
Property, plant and equipment	13	6,528	6,271
Deferred tax assets	5(d)	275	236
Total assets		397,627	338,854
Liabilities			
Deposits and short-term borrowings	14	364,054	309,909
Accounts payable and other liabilities	15	5,880	4,121
Current tax liabilities	5(b)	463	181
Deferred tax liabilities	5(c)	72	112
Provisions	16	781	706
Total liabilities		371,250	315,029
Net assets		26,377	23,825
Members' funds			
Reserves	17	2,394	2,394
Retained profits	18	23,983	21,431
Total members' funds		26,377	23,825

The Statement of Financial Position is to be read in conjunction with the accompanying notes set out on pages 18 to 37.

Statement of Cash Flows

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Cash flows from operating activities			
Interest received		22,590	18,671
Interest paid		(11,075)	(9,708)
Dividends received		69	61
Other non-interest income received		1,445	1,531
Cash paid to suppliers and employees		(7,515)	(7,936)
Fees and commissions paid		(23)	(23)
Income tax paid		(951)	(446)
Net cash flows from operating activities	20(b)	<u>4,540</u>	<u>2,150</u>
Cash flows from investing activities			
Net (increase)/decrease in loans		(56,936)	(28,770)
Net (increase)/decrease in receivables due from other financial institutions		8,500	(8,500)
Net (increase)/decrease in investment securities		(11,313)	(6,707)
Proceeds from sale of other investments		1,886	-
Payments for property, plant and equipment		(1,038)	(1,523)
Proceeds from sale of property, plant and equipment		37	34
Net cash flows used in investing activities		<u>(58,864)</u>	<u>(45,466)</u>
Cash flows from financing activities			
Net increase/(decrease) in deposits and short-term borrowings		54,145	48,538
Net cash flows from financing activities		<u>54,145</u>	<u>48,538</u>
Net increase/(decrease) in cash held		(179)	5,222
Cash at the beginning of the financial year		<u>11,080</u>	<u>5,858</u>
Cash at the end of the financial year	20(a)	<u><u>10,901</u></u>	<u><u>11,080</u></u>

The Statement of Cash Flows is to be read in conjunction with the accompanying notes set out on pages 18 to 37.

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 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 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 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.

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 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.

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. 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

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:

	2004	2003
● 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

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.

Financial Report

I. SUMMARY 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 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 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.

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.

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 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
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Interest revenue 2003

Receivables due from other financial institutions	31,854	1,628	5.11
Investment securities	35,899	1,855	5.17
Loans and advances	239,966	15,336	6.39
	307,719	18,819	6.12

Interest expense 2003

Customer deposits	289,162	9,638	3.33
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Note	2004 \$'000	2003 \$'000
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3. REVENUE FROM ORDINARY ACTIVITIES

Interest revenue	2	22,528	18,819
<i>Non-interest revenue</i>			
Dividends - other corporations		69	61
Fees and commissions		1,610	1,413
Bad debts recovered		1	2
Gross proceeds from sale of property, plant & equipment		37	34
Other revenue			
- Income from property		159	167
- Other		-	-
Total non-interest revenue		1,876	1,677
Gross proceeds from the disposal of shares	4	1,886	-
Total revenue from ordinary activities		26,290	20,496

Financial Report

	Note	2004 \$'000	2003 \$'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		(1,886)	-
Carrying amount of shares disposed		1,193	-
Net (gain)/loss on disposal of shares		<u>(693)</u>	<u>-</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>164</u>	<u>60</u>
<i>Other Expenses</i>			
Amortisation - leasehold improvements	13	18	13
Depreciation			
- Plant and equipment	13	648	521
- Buildings	13	72	63
		<u>720</u>	<u>584</u>
Fees and commissions		23	23
Personnel costs			
- Provision for employee entitlements		75	(87)
- Superannuation contributions		425	417
- Salaries and wages		3,527	3,567
- Other		585	641
Other administration expenses		2,271	2,023
Occupancy costs			
- Rental – operating leases		365	328
- Other occupancy costs		489	435
		<u>854</u>	<u>763</u>
ATM/Eftpos transaction processing costs		892	873
Written-down value of property, plant & equipment sold		41	21
Total other expenses		<u>9,431</u>	<u>8,838</u>
Net (gain)/loss on disposal of property, plant & equipment		<u>4</u>	<u>(13)</u>

	2004 \$'000	2003 \$'000
5. INCOME TAX		
(a) Income tax expense		
Prima facie income tax expense calculated at 30% (2003 - 30%) on the profit from ordinary activities	1,112	588
<i>Increase/(decrease) in income tax expense due to:</i>		
Depreciation and amortisation	10	10
Imputation gross-up on dividends received	9	8
General provision for impairment	41	35
Franking credits on dividends received	(30)	(26)
Other	12	(23)
	<u>1,154</u>	<u>592</u>
Income tax (over)/under provided in prior period	-	-
Income tax expense attributable to profit from ordinary activities	<u>1,154</u>	<u>592</u>
Income tax expense attributable to profit from ordinary activities is made up of:		
Current income tax provision	1,233	506
Future income tax benefit	(39)	64
Deferred income tax provision	(40)	22
	<u>1,154</u>	<u>592</u>
The general provision for impairment is treated as a permanent difference, as the provision does not relate to specific doubtful accounts for which a tax deduction would be available in the event of a loss. Realisation is beyond reasonable doubt.		
(b) Current tax liabilities		
<i>Provision for current income tax</i>		
Movement during the year was as follows:		
Balance at the beginning of the year	181	121
Current year's income tax expense on profit from ordinary activities	1,233	506
Income tax paid – Current year	(770)	(325)
Income tax paid – Prior year	(181)	(121)
Under/(over) provision in prior period	-	-
	<u>463</u>	<u>181</u>
(c) Deferred tax liabilities		
<i>Provision for deferred income tax</i>		
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% (2003 – 30%) on the following items:		
Difference in depreciation and amortisation of property, plant and equipment for accounting and tax purposes	8	50
Accrual of short-term bills	64	61
Sundry items	-	1
	<u>72</u>	<u>112</u>

Financial Report

	2004 \$'000	2003 \$'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% (2003 – 30%) on the following items:		
Provisions and accrued employee benefits not currently deductible	234	212
Specific provision for doubtful debts	14	6
Accrued expenses not currently deductible	26	18
Sundry items	1	-
	275	236
	275	236
6. CASH AND LIQUID ASSETS		
Cash on hand and at bank	10,901	6,680
Deposits at call	-	4,400
	10,901	11,080
	10,901	11,080
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS		
Interest earning deposits	19,500	28,000
Maturity analysis		
Not longer than 3 months	11,500	17,000
Longer than 3 and not longer than 12 months	2,500	4,500
Longer than 1 and not longer than 5 years	5,500	6,500
	19,500	28,000
	19,500	28,000
8. INVESTMENT SECURITIES		
Bills of exchange	3,964	5,484
Negotiable certificates of deposit	42,187	29,346
	46,151	34,830
	46,151	34,830
Maturity analysis		
Not longer than 3 months	44,184	33,844
Longer than 3 and not longer than 12 months	1,967	986
Longer than 1 and not longer than 5 years	-	-
	46,151	34,830
	46,151	34,830

	Note	2004 \$'000	2003 \$'000
9. ACCRUED RECEIVABLES			
Interest receivable on investments		138	207
Sundry debtors, accrued income and prepayments		546	220
		<u>684</u>	<u>427</u>
10. LOANS AND ADVANCES			
Overdrafts		2,594	1,854
Term loans		309,510	253,436
Loans to Directors	25(b)	643	521
Provision for impairment	11	(915)	(751)
Net loans and advances		<u>311,832</u>	<u>255,060</u>
Maturity analysis			
Overdrafts		2,594	1,854
Not longer than 3 months		3,060	3,448
Longer than 3 and not longer than 12 months		11,132	9,173
Longer than 1 and not longer than 5 years		54,364	47,911
Longer than 5 years		241,597	193,425
		<u>312,747</u>	<u>255,811</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)		289,212	236,047
- Other – non-concentrated		23,535	19,764
		<u>312,747</u>	<u>255,811</u>
11. IMPAIRMENT OF LOANS AND ADVANCES			
Provision for impairment			
General provision			
Opening balance		732	614
Bad debts previously provided for written off during the period		-	-
Bad and doubtful debts provided for during the period		136	118
Closing balance		<u>868</u>	<u>732</u>

Financial Report

	2004 \$'000	2003 \$'000
11. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
Specific provision		
Opening balance	19	92
Bad debts previously provided for written off during the period	-	(15)
Bad and doubtful debts provided for during the period	28	(58)
Closing balance	47	19
Total provision for impairment	915	751
 Bad and doubtful debts expense comprises:		
Specific provision	28	(58)
General provision	136	118
Bad debts recognised directly	-	-
Total bad debts expense	164	60
 Non-accrual loans		
Balances with specific provisions for impairment	59	16
Specific provision for impairment	(47)	(10)
Net non-accrual loans	12	6
 Restructured loans		
Balance	-	-
 Assets acquired through enforcement of security		
Real estate acquired through enforcement of security	-	-
Specific provision for impairment	-	-
Balance	-	-
 Past-due loans		
Balance	126	121
 Interest revenue on non-accrual and restructured loans	5	2
Interest foregone on non-accrual and restructured loans	2	1
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.	-	-
 12. OTHER INVESTMENTS		
Listed shares and securities – at cost	228	1,385
Unlisted shares – at cost	204	241
Other – at cost	1,324	1,324
	1,756	2,950

	Note	2004 \$'000	2003 \$'000
13. PROPERTY, PLANT AND EQUIPMENT			
Freehold Land			
Freehold land at independent valuation – June 2003	13(a)	1,579	1,579
Buildings			
At independent valuation – June 2003	13(a)	2,881	2,881
Additions at cost		52	-
		<u>2,933</u>	2,881
Provision for depreciation		(72)	-
		<u>2,861</u>	2,881
Total freehold land and buildings		<u>4,440</u>	4,460
Leasehold improvements			
At cost		281	228
Provision for amortisation		(167)	(148)
Total leasehold improvements		<u>114</u>	80
Plant and equipment			
At cost		4,444	3,794
Provision for depreciation		(2,470)	(2,063)
Total plant and equipment		<u>1,974</u>	1,731
Total property, plant and equipment at net book value		<u>6,528</u>	6,271

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	1,480
Additions	-	-
Disposals	-	-
Revaluations	-	99
Carrying amount at the end of the year	<u>1,579</u>	1,579

Buildings

Carrying amount at the beginning of the year	2,881	2,340
Additions	52	462
Disposals	-	-
Revaluations	-	142
Depreciation	(72)	(63)
Carrying amount at the end of the year	<u>2,861</u>	2,881

Financial Report

	2004 \$'000	2003 \$'000
13. PROPERTY, PLANT AND EQUIPMENT (continued)		
<i>Leasehold improvements</i>		
Carrying amount at the beginning of the year	80	29
Additions	52	64
Disposals	-	-
Amortisation	(18)	(13)
Carrying amount at the end of the year	<u>114</u>	<u>80</u>
<i>Plant and equipment</i>		
Carrying amount at the beginning of the year	1,731	1,277
Additions	932	996
Disposals	(41)	(21)
Depreciation	(648)	(521)
Carrying amount at the end of the year	<u>1,974</u>	<u>1,731</u>

(a) Valuations

The freehold land and buildings were independently valued in June 2003 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 strategically located property with a book value of \$1,918,000 which are subject to long-term leases and provide an investment return to the Society.

14. DEPOSITS AND SHORT-TERM BORROWINGS

Call deposits	142,260	127,797
Term deposits	221,794	181,922
Short-term borrowings	-	190
	<u>364,054</u>	<u>309,909</u>
Maturity analysis		
On call	142,260	127,797
Not longer than 3 months	144,914	124,696
Longer than 3 and not longer than 12 months	66,716	41,546
Longer than 1 and not longer than 5 years	10,164	15,870
	<u>364,054</u>	<u>309,909</u>
Concentration of deposits		
Albury-Wodonga region (including Corowa and Culcairn)	339,709	290,009
Other – non-concentrated	24,345	19,900
	<u>364,054</u>	<u>309,909</u>

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

	Note	2004 \$'000	2003 \$'000
15. ACCOUNTS PAYABLE AND OTHER LIABILITIES			
Accrued interest payable		2,729	2,009
Creditors and other liabilities		3,151	2,112
		<u>5,880</u>	<u>4,121</u>
16. PROVISIONS			
Employee benefits		<u>781</u>	<u>706</u>
Included in employee benefits is a non-current amount of \$357,000 (2003 - \$270,000).			
The Society employed 77 (2003 – 73) full-time equivalent staff at the end of the financial year.			
17. RESERVES			
Capital profits		243	243
Asset revaluation		2,151	2,151
		<u>2,394</u>	<u>2,394</u>
Movements in reserves			
Asset revaluation reserve			
Balance at beginning of period		2,151	1,910
Revaluation increments/(decrements):			
- Land		-	99
- Buildings		-	142
Balance at end of period		<u>2,151</u>	<u>2,151</u>
Capital profits reserve			
Balance at beginning of period		243	243
Transfer from asset revaluation reserve		-	-
Balance at end of period		<u>243</u>	<u>243</u>
18. RETAINED PROFITS			
Retained profits at the beginning of the period		21,431	20,063
Net profit attributable to members		2,552	1,368
Aggregate of amounts transferred to reserves	17	-	-
Retained profits at the end of the period		<u>23,983</u>	<u>21,431</u>
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		39,686	38,300
- other services in relation to the Society		41,306	39,443
		<u>80,992</u>	<u>77,743</u>

Financial Report

	Note	2004 \$'000	2003 \$'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		10,901	6,680
Deposits at call		-	4,400
		10,901	11,080
(b) Reconciliation of profit from ordinary activities after tax to the net cash flows from operations			
Profit from ordinary activities after income tax		2,552	1,368
<i>Non-cash items</i>			
Charge for bad and doubtful debts		164	60
Depreciation		720	584
Amortisation		18	13
Provision for employee entitlements		75	(87)
Net (profit)/loss on disposal of plant and equipment		4	(13)
Net (profit)/loss on disposal of other investments		(693)	-
<i>Changes in assets and liabilities</i>			
Interest receivable		64	(147)
Other receivables		(326)	(51)
Interest payable		720	(70)
Tax provision		282	60
Creditors and accrued expenses		1,039	347
Future income tax benefit		(39)	64
Provision for deferred income tax		(40)	22
Net cash flow from operating activities		4,540	2,150

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 previously had an overdraft facility available to the extent of \$500,000. The Society cancelled this facility during the year.

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 (2003 - \$6.0 million). This facility is unsecured. As at 30 June 2004 this facility was 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-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.

	2004	2003
	\$'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	<u>18,734</u>	<u>21,219</u>
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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. These guarantees are secured by frozen deposits or undrawn loan funds.

	<u>326</u>	<u>218</u>
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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

	\$	\$
	<u>326,816</u>	<u>770,231</u>

The number of Directors of Hume Building Society Ltd whose income (including superannuation contributions) falls within the following bands is:

	No.	No.
\$20,000 – \$29,999	-	1
\$30,000 – \$39,999	3	4
\$40,000 – \$49,999	2	-
\$50,000 – \$59,999	1	-
\$70,000 – \$79,999	1	-
\$80,000 – \$89,999	-	1
\$510,000 – \$519,999	-	1

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

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

Financial Report

	2004	2003
	\$'000	\$'000
24. EXPENDITURE COMMITMENTS		
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	225	248
	<hr/>	<hr/>
Operating leases (non-cancellable)		
Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	439	320
– later than 1 and not later than 2 years	439	304
– later than 2 and not later than 5 years	129	387
	<hr/>	<hr/>
Aggregate lease expenditure contracted for at balance date	1,007	1,011
	<hr/>	<hr/>

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. 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 2004 was \$643,000 (2003 - \$521,000) 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 \$212,000 (2003 - \$268,000) and repayments totalling \$123,000 (2003 - \$86,000) were made which included repayments of principal of \$90,000 (2003 - \$61,000).

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 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) 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 284 days and effective interest rates of 5.54% to 6.21% (2003: 4.66% to 5.40%).
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 77 days with effective interest rates of 5.39% to 5.63% (2003: 4.60% to 4.78%).
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 110 days and effective interest rates of 5.50% to 5.93% (2003: 4.66% to 4.95%).
(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						
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 %	2003 %	
(i) Financial assets													
Cash and liquid assets	7,524	4,400						3,377	6,680	10,901	11,080	4.60	4.60
Loans and advances – related parties	643	521								643	521	6.92	5.95
Listed shares and securities	-	612						228	773	228	1,385	n/a	n/a
Interest earning deposits			14,000	21,500	5,500	6,500				19,500	28,000	5.73	4.93
Bills of exchange			3,964	5,484						3,964	5,484	5.43	4.74
Negotiable certificates of deposit			42,187	29,346						42,187	29,346	5.63	4.84
Other investments	1,324	1,324						204	241	1,528	1,565	4.45	4.45
Loans and advances	246,808	202,389	43,300	40,056	21,001	12,549	995	296		312,104	255,290	6.79	6.33
Accrued receivables								684	427	684	427	n/a	n/a
Total financial assets	256,299	209,246	103,451	96,386	26,501	19,049	995	4,493	8,121	391,739	333,098		
(ii) Financial liabilities													
Deposits and borrowings	142,260	127,797	211,630	166,242	10,164	15,870				364,054	309,909	3.89	3.38
Accounts payable and other liabilities								5,880	4,121	5,880	4,121	n/a	n/a
Employee Benefits								781	706	781	706	n/a	n/a
Interest rate swaps	-	(1,000)			-	1,000				***	***	****	****
Total financial liabilities	142,260	126,797	211,630	166,242	10,164	16,870		6,661	4,827	370,715	314,736		

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

(ii) Financial liabilities

Deposits and borrowings	142,260	127,797	211,630	166,242	10,164	15,870				364,054	309,909	3.89	3.38
Accounts payable and other liabilities								5,880	4,121	5,880	4,121	n/a	n/a
Employee Benefits								781	706	781	706	n/a	n/a
Interest rate swaps	-	(1,000)			-	1,000				***	***	****	****
Total financial liabilities	142,260	126,797	211,630	166,242	10,164	16,870		6,661	4,827	370,715	314,736		

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	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(i) Financial assets				
Cash and liquid assets	10,901	11,080	10,901	11,080
Loans and advances – related parties/entities	643	521	643	521
Listed shares and securities	228	1,385	847	2,110
Other investments	1,528	1,565	1,528	1,565
Interest earning deposits	19,500	28,000	19,644	28,193
Bills of exchange	3,964	5,484	3,963	5,483
Negotiable certificates of deposit	42,187	29,346	42,182	29,364
Loans and advances	312,104	255,290	312,104	255,290
Accrued receivables	684	427	684	427
Total financial assets	391,739	333,098	392,496	334,033
(ii) Financial liabilities				
Deposits and borrowings	364,054	309,909	364,054	309,909
Accounts payable and other liabilities	5,880	4,121	5,880	4,121
Employee Benefits	781	706	781	706
Interest rate swaps	**	**	-	3
Total financial liabilities	370,715	314,736	370,715	314,739

** 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.

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.

Financial Report

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.

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 \$0 (2003 - \$3,000).

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	
	2004	2003	2004	2003
Albury-Wodonga area residents (including Corowa and Culcairn)	92.47	92.27	289,212	236,047
Other non-concentrated	7.53	7.73	23,535	19,764
	100.00	100.00	312,747	255,811

* 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 previously 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.

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

For reporting periods beginning on or after 1 January 2005, all Australian reporting entities are required to adopt the financial reporting requirements of the Australian equivalents of the International Financial Reporting Standards (IFRS).

The Society has commenced a project to transition its accounting policies and financial reporting from current Australian Standards to Australian equivalents of IFRS. The Society has allocated internal resources to conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS.

As the Society has a 30 June year-end, priority has been given to considering the preparation of an opening balance sheet in accordance with Australian equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the Society prepares its first fully IFRS compliant financial report for the year ending 30 June 2006.

The key potential implications of the conversion to IFRS on the Society are as follows:

- ▶ financial instruments, including derivatives, must be recognised in the Statement of Financial Position and must be carried at fair value; and
- ▶ 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.

At this stage the Society cannot reliably quantify the impacts on the financial report, although it is considered unlikely to be a material impact on the Society’s financial position and future financial performance following the adoption of the requirements of the Australian equivalents of the IFRS.

Financial Report

Directors' Declaration

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

1. the financial statements and notes, set out on pages 15 to 37, 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 2004 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, 10 August 2004

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 2004, 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 15 to 38. 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 2004 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



Dougald J. Frederick, Partner
Albury, 10 August 2004

Branch Locations

Head Office

492 Olive Street,
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Fax: (02) 6051 3255

Myer City Centre

David & Swift Streets,
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Phone: (02) 6051 3300
Fax: (02) 6051 3322

West End Plaza

487 Kiewa Street,
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Fax: (02) 6051 3366

Lavington Shopping Centre

Griffith Road, Lavington,
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Fax: (02) 6040 3508

Wodonga Central

131 High Street,
Wodonga, VIC. 3690
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Wodonga Plaza

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