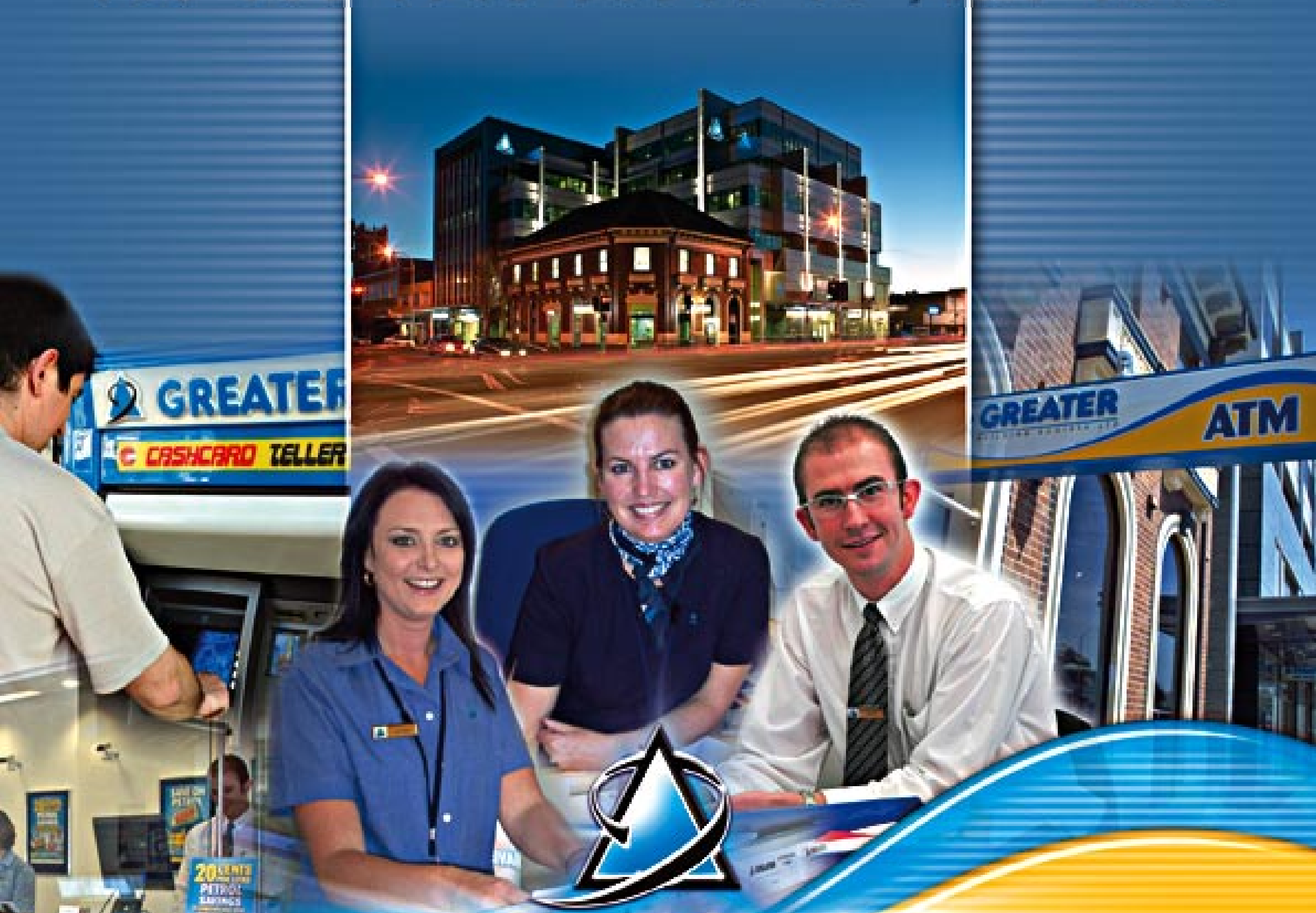
# 2004-05 Annual Report

FOR THE YEAR ENDED 30 JUNE 2005




GREATER

BUILDING SOCIETY LTD

ABN 88 087 651 956

# INDEX

On behalf of my fellow Directors I am delighted to report another very successful year for the Greater Building Society. Loan approvals for the year again exceeded $1 billion. This is a commendable result at a time when there has been a significant downturn in lending across all of our markets following the Reserve Bank's increase in interest rates of 25 basis points.

The continuing success experienced by the Society was reflected in a pre-tax profit of $27.6 million, an increase of 11% over the previous year. Following adjustments for one time only events, such as the sale of Cashcard shares, the increase in pre-tax profits for core activities rose by 21% compared to 2004. This is an excellent result and has been achieved at a time that most lenders are seeing a reduction in margin due to the highly competitive market in which we are operating.

To further enhance existing member's accessibility and to create new business opportunities, the Society has further expanded the branch network by opening three new branches. These additions bring our total network to 62 branches, with two more to open at Helensvale and Nerang in South East Queensland in the new financial year. These facilities have been enthusiastically embraced by the many new members who have been welcomed to the Greater Building Society by our well trained staff.

A new prudential standard on Business Continuity Management came into effect in April 2005 with a 12 month transitional period within which to comply. The Society has operated a "hot backup" site for many years, ensuring the integrity of member records and facilitating business continuity in the event of difficulties being encountered at our Head Office complex. With the recent growth experienced by the Society a larger site was sought to accommodate the backup Head Office facilities.

A suitable site was recently acquired and the Board has approved the building of a new Business Continuity Facility during the next 18-24 months which will include state-of-the-art computer facilities, together with expanded office accommodation and backup communications links. This new facility will enable an effective ongoing and seamless business operation for members in the event of a loss of the main Head Office building for an extended period.

It is well known that the Australian financial system is regulated by four separate agencies:

- Australian Prudential Regulatory Authority
- Reserve Bank of Australia
- Australian Securities and Investments Commission and
- Australian Competition and Consumer Commission.

Members will be reassured to know that Greater Building Society has put in place programs to address all compliance regulations enunciated by the corporate regulators.

The Board constantly reviews the areas of corporate responsibility which protects the interests of all members.

To this end, the Board has always embraced best practice in corporate governance and will continue to review and include any additional measures which may become a requirement of regulators in the future. The Board has a long established Audit Committee and has also formed a Succession Planning Committee to ensure that it is served by well credentialed and knowledgeable Directors who will maintain the strategic direction of the Society.

The introduction of international accounting standards also takes effect on organisations for reporting periods beginning on or after 1 January 2005. Much preparatory work has been done by the accounting staff, in conjunction with our external auditors PricewaterhouseCoopers, to ensure full compliance with these standards. An orderly transition will be effected prior to our next reporting period at 30 June 2006.

As far as broader corporate responsibility is concerned I am pleased to report the assistance which the Society has given to many community organisations. These are mentioned in detail later in this Annual Report.

In choosing recipients Greater Building Society looks to make a difference in areas of national significance that do not always attract the highest level of attention or government funding. The partnership with Mayumarri, the nation's only private healing centre for victims of child abuse, was nominated in the 2005 national finals of the Prime Minister's Community and Business Partnership Awards after winning the 2004 NSW award for large businesses.

As the Greater is a regional financial services organisation, it is appropriate that it also support programs such as the Wesley Mission's Lifeforce Program which provides suicide prevention services in rural Australia. Of course, the Greater could not overlook the tragedy of the Boxing Day tsunami. The Society and its members contributed a total of $165,000 to the Red Cross Tsunami Appeal.

The Society's business direction and success is due to many factors, the main one being the staff culture. Staff training builds on this unique foundation and results in employees whose main aim is to assist members in a relaxed and friendly manner.

Furthermore the wide range of products coupled with innovative offers and competitive interest rates, gives branch staff a solid base to attract quality business.

Competition among financial institutions has been very fierce in recent years and this trend is expected to continue. The Greater Building Society has met the challenges presented during the past year and the Board is confident of continuing to do so in the future.

On behalf of my fellow Directors, I commend this 2005 Annual Report to all members and thank you for your continued support of our mutual building society. This excellent result is due to the hard work and dedication of the Board, the management team and staff to whom I pay tribute.

IAN I NELMES FCPA MIIA (Aust).
Chairman



**Greater Building Society Ltd**

## BOARD OF DIRECTORS

Back Row L-R John Kilpatrick, Allan McLachlan, Allan McKeown & Anne Thurlow.

Front Row L-R Ian Nelmes & Greg Walls.

2004-05 Annual Report

FOR THE YEAR ENDED 30 JUNE 2005

The Society's Mission Statement is to be "recognised as the most progressive, customer focused financial institution in Australia". This statement continues to drive both the customer service and financial performance of the organisation. This year the Greater Board and management teams have continued to direct the business in achieving this goal.

It is very pleasing to report on another successful financial year. The Society has achieved steady and sustainable growth at a time when the housing market came under renewed pressure from rising interest rates and government taxes.

The Society strengthened its financial position throughout the year, continuing to lend strongly in the housing market and maintained its expansion program to areas where its products are in demand.

It has maintained an excellent balance between generating profits to permit expansion and retaining an ethos of providing exceptional service and value to members.

## STRONG FINANCIAL PERFORMANCE

This year the Society recorded a record after tax profit $16.5 million. This is a significant result considering the investment in many initiatives over the past twelve months including establishing three new branches, upgrading information technology and record management systems, increasing staffing levels to improve customer service, improving the delivery techniques through the Call Centre, and extending the ATM network.

The Society's growth in total assets also increased in a planned manner with total assets increasing by 16% to $3.455 billion.

For the third consecutive year, the Society has provided more than $1billion in home loan approvals. This clearly indicates that the Society's home loans are a demanded product. Importantly, this result was achieved without changing the quality of lending. The Society's securitisation program again helped fund the strong lending performance. This year the Society launched a further mortgage backed securities offer in the Australian market of $700m which assisted with loan funding.

It is worth noting that the Society's housing loans are provided entirely through the highly trained staff in its branch network and Call Centre. The Society does not use brokers or agents. This enables the Society to have greater control over the quality of its loan portfolio and has resulted in a level of arrears that is extremely low by industry standards.

The Society's capital adequacy has improved to a level of 12.94%, which is well above the level set by the Australian Prudential Regulation Authority. It is envisaged that the Society will continue to strengthen this capital position in the years to come.

## DEVELOPING PEOPLE FOR BETTER SERVICE

The Society places high demands on its staff to ensure superior customer service. The Society has expanded its training programs to ensure that our staff understand every aspect of the extended product range as well as the "customer focus" attitude that is the hallmark of the Greater's service.

The Greater's investment in more branches and its staff is paying dividends for the organisation and its members. Member satisfaction was measured at 94 percent in the Society's annual independent customer satisfaction survey. The researchers conducting the survey recognised that this level of customer satisfaction was the highest level that they had seen recorded by a financial institution. This result is a credit to all staff.

## THE STRENGTH OF MUTUALITY

The Greater is a mutual and intends to remain within that structure in the future.

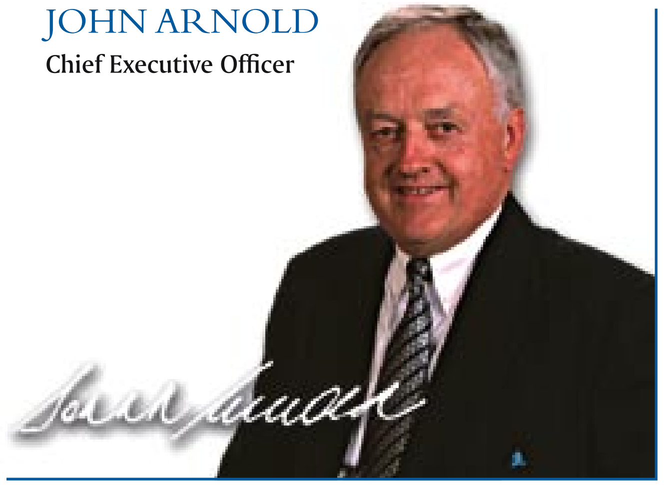
The principle of mutuality is that the members own the Society and have unique voting rights. The mutual structure allows a closer and more customer orientated approach because the demands on the business are not focused purely on profitability. After tax profits are retained in reserves rather than paid as dividends to shareholders who may not be customers of the organisation.

Without the additional shareholder demands on profits, the Society has continued to use its success to provide benefits to all members. For example, the Society's fees are generally lower than those of the banks, all members are entitled to a number of free transactions every month and borrowers are entitled to a savings account completely free of any transaction fees. The Society has also been able to provide innovative rewards to its home loan customers. This year borrowers have received a total of $4.82 million in free holiday "points" and $1.99 million in petrol savings vouchers.

## A STRONG FUTURE

I can report to members that I am convinced the Society will continue to grow and prosper in the years to come. Through constructive planning and with the support of all staff, it is clear that the future for the Greater will be one of increased growth and increased service to members. This will bring about a much stronger and more profitable organisation.

I close by thanking all staff for their contribution to the performance of the Society and look forward to many more years of continued success.



JOHN ARNOLD
Chief Executive Officer



Greater Building Society Ltd

## MANAGEMENT STAFF

Back Row L-R Phil Baker, Steve Taylor, Paul Dixon & Greg Taylor

Front Row L-R John Arnold & Don Magin.

2004-05 Annual Report

GREATER BUILDING SOCIETY LTD

FOR THE YEAR ENDED 30 JUNE 2005

G R E A T E R B U I L D I N G S O C I E T Y L T D .

Offering excellent service and extraordinary value are at the cornerstone of the Greater's continued success. The Greater has implemented a number of improvements to services this year to ensure it continues to maintain its very high standards and to reward members for choosing the Greater.

## OUTSTANDING CUSTOMER SERVICE

Each year the Greater commissions the Financial Research Company to conduct an independent member satisfaction survey. A total of 1,260 members completed this years' written survey, a response rate of 21 percent.

This year the Greater achieved a very pleasing 94 percent customer satisfaction rating. More than 97 percent of members surveyed said they would recommend the Greater to their families and friends.

Members rated the Greater highly for treating them as a customer rather than a number, having friendly, courteous customer service, good advice, as well as very competent and professional staff. Other factors that members rated as important include convenient branches and opening hours, low fees and charges, as well as a diverse range of products and services.

## MORE REWARDS FOR MEMBERS


In October 2004, the Greater became the first financial institution to offer fuel discounts to members. All new home loan members received 10 cents per litre off their petrol bills for a period of one year.

Many competitors are now following the Greater's lead in offering fuel discounts but, unlike the Greater, make it difficult for customers to redeem their benefits, or make the full benefits available only to loans above $300,000.

The fuel discount is another example of the Greater's commitment to offering innovative rewards that provide genuine benefits for members. The fuel discount is in addition to the free holiday introduced by the Greater in April 2001. This year members have received a total of $4.82 million in free holiday points and $1.99 million in petrol savings vouchers.

## MORE BRANCHES AND ATMS

The Greater continues to expand its branch and ATM network to provide better service and greater convenience to members.


Three more branches opened this year at Tamworth (19 July 2004), Dubbo (20 September 2004) and Stockland Mall Burleigh Heads (14 March 2005). The Greater now has 62 branches across NSW and South East Queensland.

Plans are underway for further expansion into the rapidly growing Gold Coast region, as well as other regions in NSW.

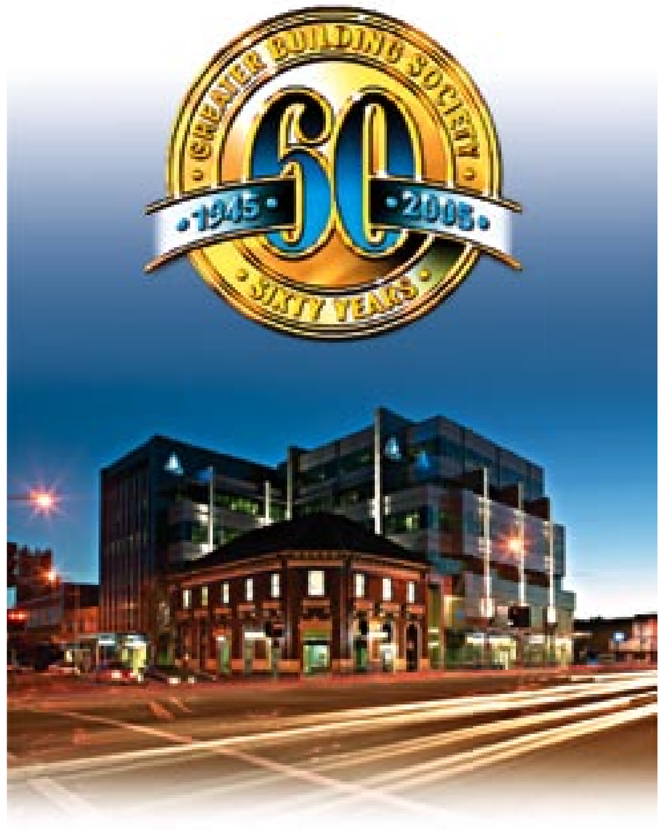
This year, another 10 new automatic teller machines (ATMs) have been brought on-line. Four of these were additional ATMs installed at Tamworth, Dubbo, Burleigh Heads and Shoal Bay. The other six replaced existing machines to ensure the high levels of reliability of the Greater's ATM network, and to ensure that the network also complies with the latest standards. More Greater ATMs means more convenience for members. It also helps members to save through not having to pay fees associated with using third party ATMs.

The Greater has also brought control of its ATM network "in-house". While this required a significant investment, it has produced benefits for members through faster and more secure ATM transactions, as well as a more reliable network. Greater ATMs are now operational for longer hours and are networked so nearby machines are not being serviced at the same time.

## CELEBRATING 60 YEARS OF SERVICE

In 1945 The Greater Newcastle Co-operative Building and Hunter River Starr-Bowkett Societies Association Limited, as the Greater was then known, moved in to a building on the site of its current headquarters.

When the Greater moved to the site in 1945 it had just that one office, employing a handful of staff. Today, it is a top 500 Australian company with 62 branches employing more than 600 people.




## HERITAGE DISPLAY OPENS

A permanent display for the foyer of the Greater's headquarters at Hamilton, Newcastle was also completed this year.

The display, which is open to the public, traces the history of the Greater as well as the site of its headquarters and the surrounding area. The impact of the Newcastle earthquake is also featured.

The display contains 146 year old footings of a Weslyan Church, which were uncovered during the redevelopment of the site in 2001. The design of the building was modified so the footings could remain in situ.

*CEO John Arnold and former General Manager Ron Fraser, at the opening of the Greater's new HQ heritage display.*

The display was unveiled by Greater Chief Executive, John Arnold and former Greater General Manager, Ron Fraser. Mr Fraser, who started as an accountant in 1946 and retired as General Manager in 1985, helped to develop the display. Both men said that it was important that the Greater, on behalf of members and the public, helps to preserve the history of the company and the community.

# HELPING OUR COMMUNITY

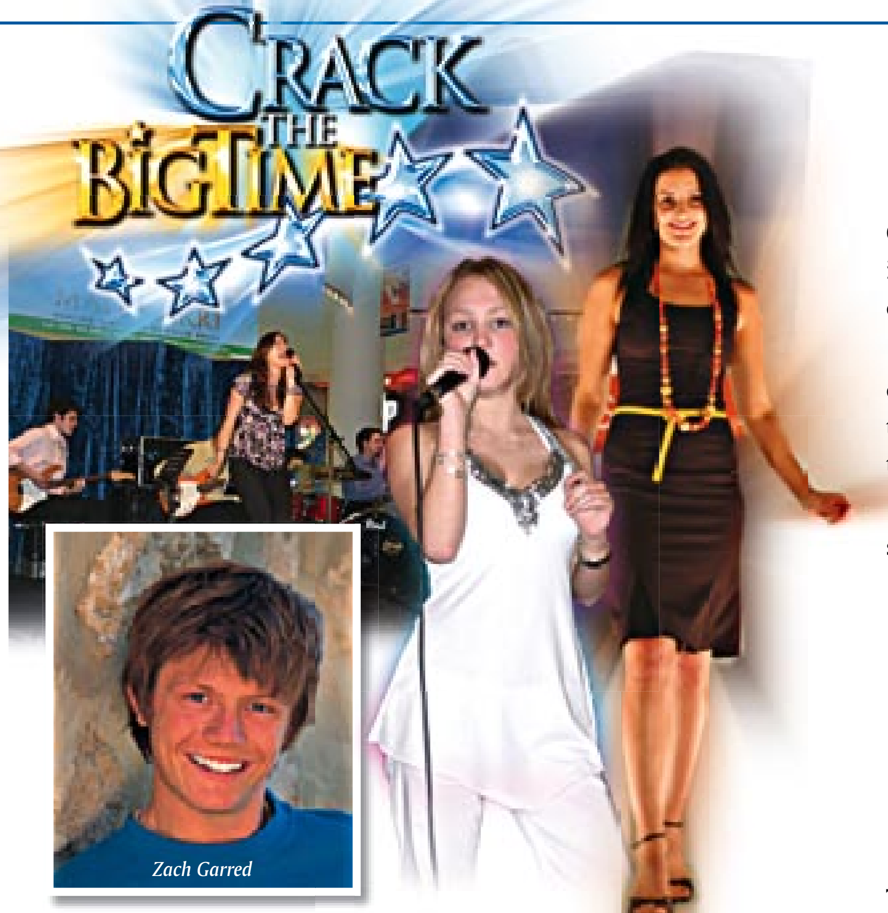
## MAYUMARRI TRUST – HELPING VICTIMS OF CHILD ABUSE TO HEAL

The Greater continued its award winning partnership with the nation's only private healing centre for victims of child abuse, Mayumarri.

The Greater and Mayumarri were national finalists in this year's Prime Minister's Large Business Award for Excellence In Community and Business Partnerships after taking out the 2004 NSW award.

In addition to financial support, the Greater also provides business and IT support, as well as printing services. Greater staff carry out their own fundraising activities and participate in working bees at the centre. Donations to Mayumarri can be made at any Greater branch.

This year the centre helped the healing process for over 320 men, women and children who have experienced abuse to heal. Since it was established in 1999, Mayumarri has helped more than 1,700 people.




*Zach Garred*

## CRACK THE BIG TIME

The Greater has also sponsored Mayumarri's major fundraiser and one of the nation's best known talent competitions - Crack the Big Time.

This year's contest was bigger than ever, with categories for singing, acting and modeling. More than 700 people entered this year's competition.

The competition is judged by some of Australia's best known actors, singers and entertainers.

Previous winners, like Newcastle's Zach Garred, have gone on to get their own agent and realise their dream of becoming a star. Zach has already starred in an international children's TV series and appeared in national TV commercials and shows such as Home and Away and All Saints.

2005 winners include:

- Melisa Bester, Baulkham Hills, NSW
- Genevieve Clay, Cardiff South, NSW
- Rebecca Collins, Charlestown, NSW
- Bonnie-Lee Eick, Nelson Bay, NSW
- Emily Robson, Merewether, NSW
- Kaylah Ross, Berkeley Vale, NSW
- Madison Wall, Buddina, QLD
- Maja Zmejkoska, Carlton, NSW

## HUNTER ACADEMY OF SPORT HELPING OUR OLYMPIC CHAMPIONS

Each year 10 outstanding potential Olympians receive a Greater Building Society Sports Scholarship to assist them in meeting the costs of representing and participating in events at an elite level.

The program started in 1993, following the announcement of the Sydney 2000 Olympic Games. The scholarships proved to be such a huge success the Greater has continued to offer them annually.

Some of the athletes who have benefited from the scholarships are:

- Swimming great Justin Norris, Olympic bronze medallist in the 200m Butterfly in Sydney, and triple gold medalist 2002 Commonwealth Games
- Natalie Ward, bronze medallist in Softball in Sydney
- Joshua Ross, 2004 Australian open 100m Champion and Olympic team member 100m and 4x100m relay.

This year the Greater also sponsored the Academy's Tennis squad for people aged between 11 and 15. This is one of 24 programs offered by the Academy.

2004 Greater Building Society Scholarship winners:

- Karyne Di Marco (Hammer Throw)
- Olivia Gollan (Road Cycling)
- Mathew Helm (Diving)
- Martin Kelly (Judo)
- Michael Lancey (Sailing)
- Justin Norris (Swimming)
- Nathan Outteridge (Sailing)
- Joshua Ross (Athletics)
- Ryan Rowland-Smith (Baseball)
- Prue Watt (Disabled Swimming)

## HUNTER MEDICAL RESEARCH INSTITUTE HELPING TO FUND RESEARCH FOR OUR FUTURE

*Darren Schafren*

The rate of malignant melanoma is increasing globally, with Australian having the highest incidence of the disease in the world. With support from the Greater, medical researchers have successfully developed anti-cancer treatments using viruses. Their laboratory investigations have shown that the common cold virus can be used to kill malignant melanoma cells.

With the treatment of melanoma now well advanced, the Greater is now funding the extension of this research into the treatment of various other cancers, including breast, colorectal, prostate and ovarian cancer.

# HELPING OUR COMMUNITY

*Leslea Milburn (Advertising Manager) presenting awards to Danny Lucas (Left) and Clay Parker.*

## NEWCASTLE DISTRICT BOWLS ASSOCIATION

### HELPING GRASS ROOTS SPORTS

The Greater has been the major sponsor of Newcastle District Bowling Association since January 1991. The money is used to promote bowls as well as to run the district pennants competitions and the Mattara Carnival.

The "Greater Bowler of the Year" for 2004 was Clay Parker, The "Most Improved Bowler" was Danny Lucas.

## NORTHERN NSW SOCCER FEDERATION

### HELPING SPORT TO KICK ON

The Soccer Federation is made up of 11 district associations with 246 clubs. Soccer is one of the region's largest participation sports, with 43,886 male and female registered players with 890 male and female referees. In addition to its general funding, the Greater provides artwork and print team sheets for the State League, First Division, Youth League and State championships.

## GREATER BUILDING SOCIETY LAKE MACQUARIE AMATEUR CHAMPIONSHIPS

### HELPING TO START SPORTING CAREERS

The Greater Building Society Lake Macquarie Amateur Championships is one of the nation's best known amateur golfing events for both men and women. It attracts both international and national competitors and has provided a stepping stone for many amateurs on their way to professional golfing careers.

Marc Leishman took out this year's men's event with Jenny Park taking out the women's event.

The tournament has been running for 47 years and became an international event in 1978. The Greater has been the major sponsor of the men's tournament since 1995. This year it expanded its sponsorship to include the women's tournament.



# GREATER BUILDING SOCIETY LTD AND CONTROLLED ENTITIES

**Financial Statements 30 June 2005**

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2004-05 Annual Report

GREATER BUILDING SOCIETY LTD

FOR THE YEAR ENDED 30 JUNE 2005

# DIRECTORS' REPORT

The Directors have much pleasure in presenting their report on the consolidated financial statements for the year ended 30 June 2005.

**DIRECTORS**
The following persons hold office as Directors at the date of this report:

**I I Nelmes, FCPA, MIIA (Aust)**
Mr Nelmes, is a Fellow of CPA Australia and has been a Director of Greater Building Society Ltd since 1980 and Chairman of the Board since 1986. Mr Nelmes is a member of the Institute of Internal Auditors (Aust).
Special Responsibilities: Chairman of the Audit Committee, Chairman of the Remuneration Committee, Chairman of the Succession Planning Committee.

**G H Walls, FCA**
Mr Walls is the Managing Director of a direct marketing organisation, Australian Wine Selectors. He has 30 years professional experience in Chartered Accountancy and Stockbroking. Mr Walls has been a Director of Greater Building Society Ltd since 1980.
Special Responsibilities: Member of the Remuneration Committee.

**A Thurlow, B.Comm**
Mrs Thurlow has over twenty years experience as an Accountant and currently runs her own Accounting Practice. Mrs Thurlow has been a Director of Greater Building Society Ltd since 1996.
Special Responsibilities: Member of the Audit Committee.

**J E Kilpatrick, OAM**
Mr Kilpatrick practised as a Solicitor in Lake Macquarie for more than 30 years and was Mayor of Lake Macquarie City Council from 1993 to 2004. He is a Trustee of the Anglican Diocese of Newcastle and Chairman of Anglican Care Retirement Villages. Mr Kilpatrick has been a Director of Greater Building Society Ltd since 1998.
Special Responsibilities: Member of the Succession Planning Committee.

**A J McKeown, B.Comm FCA**
Mr McKeown is Chief Executive of Prosperity Personal & Corporate Advisers Pty Ltd. He has 20 years experience in Chartered Accounting, which includes international secondments. He is a Director of Newcastle Knights Ltd, Newcastle Port Corporation Ltd and a number of private companies. Mr McKeown has been a Director of Greater Building Society Ltd since 2002.
Special Responsibilities: Member of the Succession Planning Committee.

**A B McLachlan, B.Comm FAICD**
Mr McLachlan had 43 years experience in the NSW Water Industry, including 5 years as Managing Director of the Hunter District Water Board. He is a Fellow of the Australian Institute of Company Directors. Mr McLachlan has been a Director of Greater Building Society Ltd since 1990.
Special Responsibilities: Member of the Audit Committee, Member of the Remuneration Committee.

All the above Directors held office during the whole of the financial year and up until the date of this report.

**COMPANY SECRETARY**
The company secretary is Mr P W Baker PNA. Mr Baker is a member of the National Institute of Accountants. Mr Baker has over 27 years of experience in banking and finance, having joined Greater Building Society Ltd in 1978 as an Assistant Accountant and being appointed to the role of Company Secretary in 1991.



# DIRECTORS' REPORT (continued)

**PRINCIPAL ACTIVITIES**
The principal activities during the year of the economic entity comprising the Greater Building Society Ltd and the controlled entities consisted of:

a) Provision of financial services to members in the form of taking deposits and providing financial accommodation as prescribed by the Constitution.

b) Provision and operation of aged care units and hostels.

In June 2005 the economic entity sold its operations in connection with the aged care units and hostels.

**RESULTS**

| | 2005 $'000 | 2004 $'000 |
|---|---|---|
| Profit from ordinary activities after income tax expense | 16,542 | 16,648 |
| Less: Net profit attributable to outside equity interests | 1 | 4 |
| Net profit attributable to members of the Greater Building Society Ltd | 16,541 | 16,644 |

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

| | Board of Directors | Audit Committee | Remuneration Committee | Succession Planning Committee |
|---|---|---|---|---|
| **Number of Meetings** | **12** | **12** | **3** | **2** |
| **Number of Meetings Attended** | | | | |
| I I Nelmes | 12 | 12 | 3 | 2 |
| G H Walls | 9 | - | 3 | - |
| A Thurlow | 12 | 12 | - | - |
| J E Kilpatrick | 11 | - | - | 2 |
| A J McKeown | 9 | - | - | 2 |
| A B McLachlan | 12 | 11 | 3 | - |

**REVIEW OF OPERATIONS**
A review of operations of the economic entity is contained in the Chairman's and Chief Executive Officer's Report.

**INSURANCE OF OFFICERS**
During the financial year, the Society paid premiums to insure the Directors and Senior Executive Officers of the Society and its controlled entities.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of the liabilities covered by, the insurance contract is prohibited by a confidentially clause in the contract.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the consolidated entity.

**ENVIRONMENTAL REGULATION**
The Society or its controlled entities are not subject to any significant environmental regulation.

# DIRECTORS' REPORT (continued)

**STATE OF AFFAIRS**
There was no significant change in the state of affairs of the economic entity during the financial year.

**AFTER BALANCE DATE EVENTS**
The Directors are not aware of any matters or circumstances that have arisen since 30 June 2005 that have significantly affected or may significantly affect:

a) the operations of the economic entity

b) the results of those operations or

c) the state of affairs of the economic entity in the financial years subsequent to 30 June 2005.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS**
There are no material likely developments in the operations of the economic entity, other than continued profitable operations, at the date of this report.

**PROCEEDINGS ON BEHALF OF THE COMPANY**
No person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Society, or to intervene in any proceedings to which the Society is a party, for the purpose of taking responsibility on behalf of the Society for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Society with leave of the Court under Section 237 of the Corporations Act 2001.

**AUDITORS' INDEPENDENCE DECLARATION**
A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 17.

**ROUNDING OF AMOUNTS**
The amounts in the financial statements have been rounded to the nearest thousand dollars under the option available to the Society under ASIC Class Order 98/100. The Society is an entity to which the Class Order applies.

Signed at Hamilton this 27th day of September 2005 in accordance with a resolution of the Directors.

Ian I Nelmes
Director



DIRECTORS' REPORT (continued)

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
ABN 52 780 433 757

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## Auditors' Independence Declaration

As auditor for the audit of Greater Building Society Ltd for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Greater Building Society Ltd and the entities that it controlled during the period.

W M Russell
Partner

Newcastle
27 September 2005

PricewaterhouseCoopers

*Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)*

# INDEPENDENT AUDIT REPORT TO THE MEMBERS

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
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## Independent audit report to the members of Greater Building Society Ltd

## Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Greater Building Society Ltd (the Society) and the Greater Building Society Ltd Group (defined below) for the financial year ended 30 June 2005 included on Greater Building Society Ltd's] web site. The Society's directors are responsible for the integrity of the Greater Building Society Ltd's web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

## Audit opinion

In our opinion :

1. the financial report of Greater Building Society Ltd:
   - gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Greater Building Society Ltd and the Greater Building Society Ltd Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date, and
   - is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001,

This opinion must be read in conjunction with the rest of our audit report.

## Scope

**The financial report and directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Greater Building Society Ltd (the Society) and the Greater Building Society Ltd Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the Society are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)*



# INDEPENDENT AUDIT REPORT TO THE MEMBERS (continued)

PRICEWATERHOUSECOOPERS

## Audit approach

We conducted an independent audit in order to express an opinion to the members of the Society. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement .The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Society's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows. We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

WM Russell

W M Russell
Partner

Newcastle
27 September 2005

*Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)*

# DIRECTORS' DECLARATION

In the Directors opinion:

a) the financial statements and notes set out on pages 21 to 48 are in accordance with the Corporations Act 2001, including:
   i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   ii) giving a true and fair view of the Society's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

I.I. Nelmes

Ian I Nelmes
Director

Signed at Hamilton this 27th day of September 2005.



# STATEMENTS OF FINANCIAL PERFORMANCE

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| Interest revenue | 2 | 151,358 | 133,118 | 151,230 | 132,998 |
| Interest expense | 3 | 85,242 | 70,657 | 85,359 | 70,765 |
| **Net Interest revenue** | | **66,116** | **62,461** | **65,871** | **62,233** |
| Other revenue from ordinary activities | 4 | 34,107 | 30,057 | 33,368 | 29,143 |
| **Total operating income** | | **100,223** | **92,518** | **99,239** | **91,376** |
| **Expenses from ordinary activities excluding interest expense** | | | | | |
| Bad and doubtful debt expense | 11 c) | 373 | 196 | 373 | 196 |
| Other expenses | 5 | 75,655 | 69,659 | 71,250 | 66,307 |
| **Profit from ordinary activities before income tax** | | **24,195** | **22,663** | **27,616** | **24,873** |
| Income tax expense | 6 | 7,653 | 6,015 | 7,631 | 6,014 |
| **Profit from ordinary activities after income tax expense** | | **16,542** | **16,648** | **19,985** | **18,859** |
| **Net profit** | | **16,542** | **16,648** | **19,985** | **18,859** |
| Net profit attributable to outside equity interest | 23 | 1 | 4 | - | - |
| **Net profit attributable to members of Greater Building Society Ltd** | | **16,541** | **16,644** | **19,985** | **18,859** |
| Net increase/(decrease) in asset revaluation reserve | 21 | - | (984) | - | - |
| **Total revenues, expenses or valuation adjustments attributable to members of Greater Building Society Ltd and recognised directly in equity** | | - | (984) | - | - |
| **Total change in equity other than those resulting from transactions with owners as owners** | | 16,541 | 15,660 | 19,985 | 18,859 |

*The above Statements of Financial Performance should be read in conjunction with the accompanying notes.*

# STATEMENTS OF FINANCIAL POSITION

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and liquid assets | 7 | 51,028 | 43,999 | 50,486 | 44,028 |
| Investment securities | 8 | 260,491 | 212,653 | 258,490 | 210,660 |
| Accrued receivables | 9 | 5,110 | 3,497 | 10,570 | 3,453 |
| Other investments | 10 | 3,167 | 9,725 | 3,515 | 10,839 |
| Loans and advances | 11 | 1,961,313 | 1,862,256 | 1,969,993 | 1,870,889 |
| Property, plant and equipment | 12 | 25,649 | 28,504 | 7,030 | 6,067 |
| Deferred tax assets | 13 | 6,202 | 5,587 | 6,202 | 5,573 |
| Other assets | 14 | 1,027 | 345 | 325 | 314 |
| **TOTAL ASSETS** | | 2,313,987 | 2,166,566 | 2,306,611 | 2,151,823 |
| **LIABILITIES** | | | | | |
| Deposits | 15 | 2,100,925 | 1,968,810 | 2,105,211 | 1,970,830 |
| Payables and other liabilities | 16 | 23,669 | 23,966 | 23,203 | 23,946 |
| Amounts from other Financial Institutions | 17 | 527 | 530 | 507 | 507 |
| Borrowings | 18 | 20,120 | 22,234 | 20,000 | 20,000 |
| Tax liabilities | 19 | 2,246 | 1,743 | 2,246 | 1,752 |
| Provisions, excluding tax liabilities | 20 | 13,521 | 12,885 | 13,521 | 12,850 |
| **TOTAL LIABILITIES** | | 2,161,008 | 2,030,168 | 2,164,688 | 2,029,885 |
| **NET ASSETS** | | 152,979 | 136,398 | 141,923 | 121,938 |
| **MEMBERS' FUNDS** | | | | | |
| Reserves | 21 | 3,204 | 1,470 | - | - |
| Retained profits | 22 | 149,609 | 134,557 | 141,923 | 121,938 |
| **Parent Entity Interest** | | 152,813 | 136,027 | 141,923 | 121,938 |
| Outside equity interests | 23 | 166 | 371 | - | - |
| **TOTAL MEMBERS' FUNDS** | | 152,979 | 136,398 | 141,923 | 121,938 |

*The above Statements of Financial Performance should be read in conjunction with the accompanying notes.*



# STATEMENTS OF CASH FLOWS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 Inflows/ (Outflows) | CONSOLIDATED 2004 $'000 Inflows/ (Outflows) | PARENT ENTITY 2005 $'000 Inflows/ (Outflows) | PARENT ENTITY 2004 $'000 Inflows/ (Outflows) |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Interest received | | 150,846 | 132,239 | 150,722 | 132,144 |
| Fees and commissions received | | 27,001 | 21,946 | 26,801 | 21,850 |
| Bad debts recovered | | 24 | 19 | 24 | 19 |
| Dividends received | | 11 | 37 | 11 | 37 |
| Other income | | 1,166 | 1,096 | 523 | 548 |
| Interest paid | | (83,102) | (68,629) | (83,215) | (68,746) |
| Operating expenses paid | | (71,482) | (58,641) | (70,323) | (58,888) |
| Income taxes paid | | (7,766) | (7,660) | (7,766) | (7,660) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 29 | 16,698 | 20,407 | 16,777 | 19,304 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Net movement in loans and advances | | (418,464) | (593,495) | (418,511) | (600,172) |
| Net movement in investments | | (39,370) | (5,507) | (40,514) | (5,474) |
| Payments for property, plant and equipment | | (4,909) | (10,643) | (4,442) | (4,605) |
| Payments for acquisition of subsidiary net assets | | (425) | - | (467) | - |
| Proceeds from sale of property, plant and equipment | | 2,240 | 335 | 199 | 82 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (460,928) | (609,310) | (463,735) | (610,169) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Net movement in deposits | | 132,115 | 228,785 | 134,382 | 228,541 |
| Net movement in other borrowings | | 114 | 19,741 | - | 20,000 |
| Net movement in amounts due to other Financial Institutions | | (2) | (2) | - | - |
| Net movement in loans securitised | | 319,034 | 334,730 | 319,034 | 334,730 |
| Distribution Paid | | (2) | (3) | - | - |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | | 451,259 | 583,251 | 453,416 | 583,271 |
| Net increase/(decrease) in cash held | | 7,029 | (5,652) | 6,458 | (7,594) |
| **CASH AT THE BEGINNING OF THE FINANCIAL YEAR** | | 43,999 | 49,651 | 44,028 | 51,622 |
| **CASH AT THE END OF THE FINANCIAL YEAR** | 7 | 51,028 | 43,999 | 50,486 | 44,028 |

*The above Statements of Cash Flows should be read in conjunction with the accompanying notes.*

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

These financial statements are prepared in accordance with the historical cost convention and do not take into account changing money values except where stated. Unless stated the accounting policies adopted are consistent with those of the previous year.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued abstracts interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents are referred hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the year ending 30 June 2006. Information about the expected financial effects of adopting AIFRS is set out in note 1(n).

**a) Principles Of Consolidation**

The consolidated financial statements (economic entity financial statements) incorporate the assets and liabilities of all entities controlled by Greater Building Society Ltd ("parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. Greater Building Society Ltd and its controlled entities together are referred to in this financial report as the economic entity. The effects of all transactions between entities in the economic entity are eliminated in full. Outside equity interests in the results and equity of the controlled entities is shown separately in the consolidated Statements of Financial Performance and the Statements of Financial Position respectively.

**b) Income Tax**

Tax effect accounting liability method procedures are followed whereby the income tax expense in the Statements of Financial Performance is matched with the accounting profit (after allowing for permanent differences). Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to be applied when these timing differences reverse. The benefit will only be carried forward as an asset where realisation of the benefit can be regarded as being assured beyond any reasonable doubt.

The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

Greater Building Society Ltd and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2002. The Australian Taxation Office has been notified of this decision. As a consequence, Greater Building Society Ltd, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the tax consolidated group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. There is no tax sharing arrangement in place between the parent and its controlled entities.

**c) Investments**

**i) Asset recognition**

The amounts shown in the Statements of Financial Position for Investments are brought to account at cost and in respect of fixed interest investments, premiums and discounts are amortised over the life of the security. The amortisation rate is that implicit in the transaction.

Share investments are recorded at the lower of cost or market value.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

Where, in the opinion of the Directors, there has been a permanent diminution in the value of any individual investment, an adjustment for diminution in value will be made.

**ii) Revenue recognition**

Interest income is recognised in the Statements of Financial Performance on an accrual basis. Any income due not yet received at balance date is accrued and recognised in the Statements of Financial Position as an accrued receivable to the extent that such balances are considered to be fully recoverable.

Dividend income is recognised when the right to receive payment is established.

**iii) Investments in associates and other entities**

Investments in associates are accounted for in the consolidated financial statements using the equity accounting method. Under this method, the consolidated entity's share of the post acquisition profits or losses of associates is recognised in the consolidated Statements of Financial Performance, and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

Any interest in other entities is brought to account at cost.

**d) Non-Current Assets**

**i) Asset recognition**

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired, except for land and buildings. Cost is determined as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition.

**ii) Revaluations**

Subsequent to initial recognition as assets, land and buildings are measured at fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each piece of land and building does not differ materially from its fair value at balance date. Annual assessments will be made by the Directors, supplemented by independent valuations at least every three years.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the Statements of Financial Performance, the increment is recognised immediately as revenues in the Statements of Financial Performance.

Revaluation increments and decrements for land and buildings are offset within the respective land and buildings classes of assets but not otherwise.

To the extent that the revaluation decrement reverses a revaluation increment for the same class of assets previously credited to and still included in the balance of the asset revaluation reserve, the decrement is debited to that reserve. Otherwise the decrement is recognised as an expense in the Statements of Financial Performance.

When assets are revalued a provision for any potential capital gains is only provided when it is known that the asset will eventually be sold. This provision when required is made against the asset revaluation reserve.

**iii) Recoverable amount**

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

Where the carrying amount of an individual non-current asset is greater than its recoverable amount the asset is written down to its recoverable amount.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

**iv) Depreciation**

Depreciation is calculated so as to write-off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life. Additions are depreciated from the date of acquisition.

The economic entity uses the following rates and methods of depreciation:

| | Rate | Method |
|---|---|---|
| Buildings | 2.5% | prime cost |
| Office Furniture | 25% | reducing balance |
| Office Equipment | 25% | reducing balance |
| Motor Vehicles | 30% | reducing balance |
| Computer Hardware | 40% | reducing balance |
| Cash Dispensing Units | 15% | prime cost |

Computer software is expensed fully in the period the expense is incurred. Leasehold improvements are amortised over the shorter of the unexpired period of the lease or the useful life of the leasehold improvements on a prime cost basis.

**e) Loans To Members**

**i) Asset recognition**

Loans are recognised at their recoverable amount after assessing required provisions for impairment.

**ii) Revenue recognition**

Interest on loans is calculated either on a daily basis on the loan balance outstanding or on the basis of applying the loan balance outstanding as at the last day of the previous month for the whole month. Interest is charged to loan accounts after the close of business on the final day of every month.

Loan fees, commissions and other fees are recognised as revenue on an accruals basis.

**f) Impaired Loans To Members**

**i) Non-accrual loans**

A non-accrual loan is a loan for which there is reasonable doubt that collection of all amounts of principal and interest will occur in accordance with the terms of the loan agreement. Non-accrual loans are facilities for which a specific provision has been made.

**ii) Restructured loans**

A restructured loan is a non-commercial facility where the original contractual terms have been modified to provide concessional changes for reasons relating to financial difficulties of the borrower. Where the loan after restructuring remains doubtful and it is not well secured the loan shall be classified as non-accrual. Loans will only be recognised as restructured once the customer has formally agreed to the new terms.

**iii) Provision for impairment**

The parent entity has adopted the standardised specific provisioning approach prescribed by the Australian Prudential Regulation Authority. Where it is considered necessary or prudent, the parent entity will make specific provisions against individually monitored loans and these will be in addition to the specific provision determined in accordance with the standardised specific provisioning approach.

**iv) Assets acquired through enforcement of security**

Assets acquired through enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through enforcement of security arrangements. This disclosure excludes mortgagee in possession assets.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

**v) Past due loans**

Past due loans are loans where payments of both principal and interest are three months or more in arrears, which are not impaired because they are well secured.

**vi) Bad debts written-off**

Bad debts are written-off from time to time as determined by Management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely.

Bad debts will be written-off directly to the Statements of Financial Performance in the period in which they are recognised. Bad debts can be written-off directly against the provision for doubtful debts only to the extent that the provision balance includes a specific provision in respect of the debt being written-off.

**g) Derivative Financial Instruments**

The parent entity may enter into financial derivative instruments (eg interest rate swap agreements) as part of its interest rate risk strategy, with the specific objective of minimising a specific interest rate risk exposure (ie hedge).

The notional principal of the derivative instrument is not recognised in the Statements of Financial Position. Net receipts and payments from the derivative instrument are matched with the underlying risk position as an adjustment to interest revenue or interest expense during the period and any accrued receipt or payment is included in accrued income or accrued interest at the reporting date.

Premiums, gains and losses on such transactions are accounted for in a manner consistent with the accounting treatment of the underlying hedged items. The financial instrument must be designated as a hedge in the accounting records.

When a financial derivative instrument (eg interest rate swap agreement) is terminated early any resulting gain or loss is deferred and amortised over the periods corresponding to the hedge item. Where the hedge item ceases to exist, the corresponding hedge contract is settled, redesignated or closed out, with any resulting gain or loss recorded in the Statements of Financial Performance.

The parent entity may also enter into financial derivative instruments (i.e. basis swap agreement) as part of its securitised lending program. These agreements generally ensure the securitisation program will generate sufficient income from the securitised loans to meet its investor obligations. The parent entity will not recognise the notional principal amount of any such agreements in its Statements of Financial Position. From these agreements, the parent entity will only recognise items as revenue or expense when any payment obligations are certain and when they can be reliably measured.

**h) Members' Deposits**

Members' deposits are shown as the balance owing to the depositor at balance date.

Interest on deposits is brought to account on an accrual basis. The accrual is that portion of interest due yet unpaid at balance date. The accrual is calculated on the member's deposit balance on a daily basis or in accordance with the particular member's product terms and conditions.

Any interest on deposits due and not yet paid at balance date is accrued and recognised as "Payables and Other Liabilities".

**i) Provisions**

A provision for Directors' retirement is recognised in accordance with the Constitution of the parent entity.

A provision for promotion and reward scheme costs is recognised, when the present obligations arise. The provision is measured as the amount unpaid at the balance date discounted by an estimated rate of non-usage.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

**j) Employee Benefits**

**i) Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, annual leave and sick leave are recognised and are measured at the amounts expected to be paid when the liabilities are settled.

**ii) Long service leave**

A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

**iii) Superannuation**

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred. The economic entity has no legal obligation to cover any shortfall in the funds liability to provide benefits to employees on retirement.

**iv) Employee benefit on-costs**

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit provision and costs when the employee benefits to which they relate are recognised as provisions.

**k) Goods And Services Tax**

Where capital or expense acquisitions relate to input taxed activities goods and services tax (GST) is generally not recoverable from taxation authorities. Accordingly, where the amount of goods and services tax incurred is not recoverable, the tax is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

**l) Securitisation**

The parent entity will periodically enter into agreements to sell certain mortgage assets into securitisation programs.

**i) Asset recognition**

These transactions transfer the risks and rewards of ownership and therefore, constitute a sale. As such the loans sold are not recorded as assets in the Statements of Financial Position.

Under these agreements the parent entity may be required to securitise loans with a value in excess of the Investment in Securitisation Program. This residual value gives rise to a proportionate equitable interest in the securitisation program by the parent entity. The parent entity will recognise the residual asset as an Investment in Securitisation Program.

**ii) Revenue recognition**

The parent entity receives fee income for managing and servicing the securitised mortgage portfolio. The fee income is recognised when accrued.

The parent entity is also entitled to residual income from the program, comprising mortgage loan interest less interest due to investors and other expenses of the securitisation program. The timing and amount of future residual income cannot be reliably measured due to the inherent uncertainty in estimating future movements in the repayment rate on the underlying residential mortgages and the interest margins. Therefore, the residual income receivable is not recognised as an asset and no gain is recognised on the transfer of the residential mortgage loans into the program. The residual income is recognised when accrued.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

Revenue is recognised in respect to the Investment in Securitisation Program as interest income and is measured as the proportional share of the total securitised loans interest income. This interest income is recognised when accrued.

**m) Cash**

For the purpose of the Statements of Cash Flows, cash includes cash on hand and deposits at call which are readily convertible to cash and are subject to an insignificant risk of changes in value, net of any outstanding Financial Institutions overdrafts. For the purposes of the Statements of Cash Flows, receipts from operations and payments to suppliers and employees are inclusive of the goods and services tax.

**n) Impacts Of Adopting Australian Equivalents To International Financial Reporting Standards**

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee (SIC). These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the Society's financial statements for the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The parent entity has established a project team to manage the transition to AIFRS. To date the project team has analysed all of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. The project team has completed its assessment and planning phases with the implementation phase nearing completion dependant upon the resolution of some remaining interpretive issues.

The following summarises the nature of the more significant changes identified to date that will impact the consolidated group (and parent entity) financial statements.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the Society prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

**i) Income tax**

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Statements of Financial Position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005 the following would have resulted:

- An increase to deferred tax assets of $31,000 (parent entity $nil) resulting from unrealised capital losses relating to property and investment property, of which $30,000 (parent entity $nil) would be recognised in opening retained profits and $1,000 (parent entity $nil) would be recognised as income tax revenue in the consolidated Statements of Financial Performance for the year ended 30 June 2005.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

- An increase in deferred tax liabilities of $523,000 (parent entity $nil) resulting from unrealised capital gains relating to property and investment property, of which $111,000 (parent entity $nil) would be recognised in opening retained profits, $414,000 (parent entity $nil) against asset revaluation reserve in equity and $2,000 (parent entity $nil) recognised as income tax revenue in the consolidated Statements of Financial Performance for the year ended 30 June 2005.

**ii) Tax consolidation**

Under UIG 1052 Tax Consolidation Accounting, the parent entity, as the head entity in the tax consolidated group, will be required to recognise the current tax payable of the tax consolidated subsidiaries and deferred tax assets relating to tax losses of these subsidiaries. As the tax consolidated group has not entered into a tax funding agreement, no compensation has been received or paid for any current tax payable or deferred tax assets relating to tax losses assumed by the parent entity since implementation of the tax consolidation regime. This will result in equity contributions to, or distributions from the tax consolidated subsidiaries being recognised in the accounts of the head entity and the members of the tax consolidated group.

The parent entity's own tax amounts will be measured using one of the acceptable allocation methods in UIG 1052. 2

This will result in a change to current accounting policy, under which the parent entity recognises current and deferred tax amounts relating to transactions, events and balances of the tax consolidated subsidiaries as if those transactions, events and balances were its own, and measures its own tax amounts by applying the principles in AASB 1020.

If the policy required by UIG 1052 had been applied during the year ended 30 June 2005, other than stated above, the following would have resulted to the parent entity, as UIG 1052 has no impact on the consolidated financial results or tax balances:

- An increase in the parent entity's investment value for its tax consolidated subsidiary entities of $186,000 of which $48,000 would be recognised in opening retained profits and $138,000 would be recognised as income tax revenue in the consolidated Statements of Financial Performance for the year ended 30 June 2005.
- A decrease to deferred tax benefits of $275,000 resulting from the re-recognition of deferred tax assets, of which $191,000 would be recognised in opening retained profits, $84,000 would be recognised as income tax expense in the consolidated Statements of Financial Performance for the year ended 30 June 2005.
- A decrease to deferred tax liabilities of $7,000 resulting from the re-recognition of deferred tax liabilities, of which $8,000 would be recognised in opening retained profits and $1,000 would be recognised as income tax expense in the consolidated Statements of Financial Performance for the year ended 30 June 2005.

**iii) Investment properties**

Under AASB 140 Investment Property is classified as property held with the intention of earning rentals or capital appreciation. Investment properties can be or are to be measured at fair value, net of applicable tax, gains or losses arising from changes in fair value, are recognised in net profit or loss for the period in which they arise.

This will result in a change to the current accounting policy, under which those properties are currently classified as land and buildings and changes to fair value recognised in the asset revaluation reserve, with no provision recognised for tax unless it is expected that a liability for tax will crystallise.

If the policy required by AASB 140 had been applied during the year ended 30 June 2005, the following would have resulted:




# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*


- Investment properties would have been recognised for $3,223,000 (parent entity $nil) with a corresponding decrease in property.
- While retained profits would have been higher and the asset revaluation reserve would have been lower by $1,017,000 (parent entity $nil).
- Depreciation expense would be lower by $18,000 (parent entity $nil) with a corresponding fair value adjustment through profit and loss.

**iv) Business combinations**

The consolidated entity will be taking advantage of the exemption available under AASB 1 to apply AASB 3 Business Combinations only from 1 July 2005. This allows the consolidated entity to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of business combinations within the scope of AASB 3 for the 30 June 2006 financial report.

The consolidated entity had acquired interests in subsidiaries at a cost less than the fair value of the net assets acquired. This has given rise to the recognition of a discount on acquisition.

Under AASB 3, where a discount on acquisition arises the acquirer is required to reassess the identification and measurement of the acquiree's identifiable assets, liabilities, contingent liabilities and the measurement of the cost of the combination and recognise immediately in the profit and loss statement any excess remaining after that assessment.

This will result in a change to the current accounting policy whereby a discount on acquisition is adjusted against the non monetary assets acquired.

**v) Financial instruments**

The consolidated entity will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the consolidated entity to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

As a result of the application of the exemption referred to above, there would have been no adjustment to the classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

AASB 139 is likely to have the following impacts.

(a) Classification and measurement of financial assets and liabilities

Under AASB 139 financial assets will be classified as either at fair value through profit or loss, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount, with changes recognised in profit or loss.

(b) Financial assets

The parent entity currently has provided an interest-free loan facility to a subsidiary entity.

Under AASB 139 measurement of this instrument will initially be at fair value with subsequent measurement at amortised cost, using the effective interest rate method.

This will result in a change to the current accounting policy, under which the interest-free loan is carried at amortised cost.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

(c) Loan origination fees & transaction costs

The parent entity provides loan facilities to its members which generates loan fee income and incurs loan origination transaction costs.

Under AASB 139 these fees and costs will need to be deferred and amortised over the expected life of the loan using the effective interest rate method.

This will result in a change to the current accounting policy, under which the fee income and the transaction costs were recognised directly in the profit and loss statement when received or incurred.

(d) Provision for loan impairment

The parent entity recognises a loan provision against loans and advances.

Under AASB 139 loan provisions will be recognised only in respect to those losses for which there is objective evidence of impairment as a result of past events that occurred subsequent to the initial recognition.

This will result in a change to the current accounting policy, under which the parent entity has adopted the standardised specific provisioning approach prescribed by the Australian Prudential Regulation Authority.

(e) Securitised Assets

The parent entity uses special purpose entities to securitise loans off balance sheet.

Under AASB 139 most securitised assets will not qualify for de-recognition, as AASB 139 prescribes specific de-recognition rules. Under the transitional provisions of AASB 1, financial assets de-recognised before January 2004 under previous Australian GAAP can remain de-recognised under AIFRS unless recognition is required as a result of transactions or events occurring after the transition date. The Society will reassess whether the risk and rewards relating to the securitised assets have been transferred. A final assessment has not been made to date. Accordingly, depending on the outcome the securitised assets may need to be recognised.

However, the impact of AASB 127 Consolidated and Separate Financial Statements, in particular the concept of control between the parent entity and the special purpose entities will need to be considered. If control is established the parent entity will consolidate the special purpose entities at the date of transition to AIFRS.

This may result in a change in current accounting policy, under which the special purpose entities are not currently consolidated and the loans are currently de-recognised on the parent entity's balance sheet.

(f) Derivatives

The parent entity enters into interest rate swaps as part of its interest rate risk management and enters into basis swap agreements as part of its securitised lending program.

Under AASB 139, all derivative agreements will be carried at fair value on the balance sheet with changes in fair value to be recognised in the profit and loss statement, unless they qualify for hedge accounting. If they qualify for hedge accounting they may be able to defer some changes in fair value to equity.

This will result in a change in current accounting policy, under which net receipts and payments from the derivative instrument are matched with the underlying risk position as an adjustment to interest revenue or interest expense during the period and any accrued receipt or payment is included in accrued income or accrued interest on the balance sheet at the reporting date.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

(g) Revenue

The recognition of revenue for financial services fees depends on the purpose for which the fees are assessed and the basis of the accounting for the associated financial instrument. Accordingly, full compliance with AASB 118 Revenue will not be achieved at transition date due to the Society taking advantage of the exemption available under AASB 139.

With the exception of the above, the main accounting policy change will be in relation to the revenue recognition for the sale of non-current assets. Under AIFRS, revenue recognised is the net gain on the sale, which is in contrast to the Australian GAAP treatment under which gross proceeds from the sale are recognised as revenue and the carrying amount of the asset sold is recognised as an expense. The net impact on the profit and loss of this difference is nil. If the policy under AIFRS had been applied during the year ended 30 June 2005, non-interest revenue and other expenses would have been $5,331,000 (parent entity $5,132,000) lower.

**o) Rounding Of Amounts**

The amounts shown in the financial statements have been rounded to the nearest thousand dollars.

| | AVERAGE BALANCE $'000 | INTEREST $'000 | AVERAGE RATE % |
|---|---|---|---|
| **2. INTEREST REVENUE** | | | |
| | **2005 CONSOLIDATED** | | |
| Liquid assets | 30,628 | 1,648 | 5.38 |
| Investment securities | 246,653 | 13,706 | 5.56 |
| Other investments | 7,491 | 536 | 7.15 |
| Loans and advances | 1,909,538 | 135,468 | 7.09 |
| | 2,194,310 | 151,358 | 6.90 |
| | **2004 CONSOLIDATED** | | |
| Liquid assets | 35,651 | 1,671 | 4.69 |
| Investment securities | 212,294 | 11,455 | 5.40 |
| Other investments | 11,420 | 791 | 6.93 |
| Loans and advances | 1,737,661 | 119,201 | 6.86 |
| | 1,997,026 | 133,118 | 6.66 |
| **3. INTEREST EXPENSE** | | | |
| | **2005 CONSOLIDATED** | | |
| Deposits | 2,046,841 | 83,774 | 4.09 |
| Borrowings | 22,088 | 1,468 | 6.65 |
| Amounts from other Financial Institutions | 534 | - | 0.00 |
| | 2,069,463 | 85,242 | 4.11 |
| | **2004 CONSOLIDATED** | | |
| Deposits | 1,873,642 | 69,789 | 3.73 |
| Borrowings | 14,603 | 868 | 5.95 |
| Amounts from other Financial Institutions | 531 | - | 0.00 |
| | 1,888,776 | 70,657 | 3.74 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **4. REVENUE FROM ORDINARY ACTIVITIES** | | | | | |
| Interest revenue | | 151,358 | 133,118 | 151,230 | 132,998 |
| Bad debts recovered | | 24 | 19 | 24 | 19 |
| Commission – insurance | | 2,794 | 2,014 | 2,794 | 2,014 |
| Commission – other | | 155 | 191 | 155 | 187 |
| Dividends revenue | | 11 | 37 | 11 | 37 |
| Fee income – loans | | 2,353 | 2,851 | 2,353 | 2,851 |
| Fee income – securitisation | | 12,552 | 8,576 | 12,329 | 8,472 |
| Fee Income – other | | 7,608 | 6,757 | 7,608 | 6,757 |
| Payment systems income | | 2,119 | 1,997 | 2,119 | 1,997 |
| Proceeds on sale of assets | | 5,331 | 6,520 | 5,132 | 6,267 |
| Rental revenue | | 175 | 96 | 12 | 22 |
| Resident and licence fees | | 644 | 693 | - | - |
| Other revenue | | 341 | 306 | 831 | 520 |
| **TOTAL** | | **185,465** | **163,175** | **184,598** | **162,141** |

Net gains and losses on the sale of property, plant and equipment and the sale of investments are disclosed in Note 29.

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **5. EXPENSES FROM ORDINARY ACTIVITIES (Excluding Interest Expense)** | | | | | |
| Amortisation of leasehold improvements | | 769 | 534 | 769 | 534 |
| Bad and doubtful debts - related/control entities | | (120) | (143) | (120) | (143) |
| Bad and doubtful debts – other | | 493 | 339 | 493 | 339 |
| Carrying cost of assets sold | | 3,705 | 1,898 | 290 | 1,513 |
| Communication costs | | 2,123 | 2,247 | 2,123 | 2,247 |
| Depreciation – buildings | | 374 | 305 | - | - |
| Depreciation – plant and equipment | | 3,175 | 2,586 | 2,348 | 2,060 |
| Diminution of investment | | 272 | 38 | 247 | - |
| Loan establishment costs | | 6,790 | 7,708 | 6,790 | 7,708 |
| Marketing and advertising | | 4,595 | 4,394 | 4,595 | 4,394 |
| Operating rental expense | | 4,992 | 4,226 | 6,127 | 4,085 |
| Personnel | | 27,137 | 24,921 | 26,878 | 24,670 |
| Service and maintenance expense | | 990 | 908 | 966 | 896 |
| Transaction processing costs | | 11,650 | 10,363 | 11,676 | 10,363 |
| Other general and administration expenses | | 9,083 | 9,531 | 8,441 | 7,837 |
| **TOTAL** | | **76,028** | **69,855** | **71,623** | **66,503** |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **6. INCOME TAX** | | | | | |
| **a) The prima facie tax payable on the operating profit reconciles to the income tax provided in the financial statements as follows:** | | | | | |
| Operating profit before tax | | 24,195 | 22,663 | 27,616 | 24,873 |
| Prima facie tax payable at 30% | | 7,259 | 6,798 | 8,284 | 7,463 |
| Prima facie tax payable at 30% from consolidated entities | | - | - | 30 | (671) |
| Tax effect of permanent differences: | | | | | |
| - Non deductible expenditure | | 237 | 129 | 227 | 129 |
| - Non assessable income | | | (1,455) | (100) | (1,448) |
| - Sundry items | | 157 | 1,271 | (810) | 1,269 |
| - Prior year tax losses recouped | | - | (726) | - | (726) |
| - Under/(over) provision in prior years | | - | (2) | - | (2) |
| | | 394 | (783) | (653) | (1,449) |
| INCOME TAX EXPENSE | | **7,653** | **6,015** | **7,631** | **6,014** |
| Tax effect of timing differences: | | | | | |
| - Future income tax benefit | | 615 | 1,125 | 629 | 1,124 |
| - Deferred income tax liability | | (6) | (13) | 3 | (11) |
| - Over/(under) provision in prior years | | - | 2 | - | 2 |
| | | 609 | 1,114 | 632 | 1,115 |
| INCOME TAX PAID AND PAYABLE | | **8,262** | **7,129** | **8,263** | **7,129** |
| **b) The provision for deferred income tax relates to timing differences:** | | | | | |
| Balance as at start of year | | 29 | 16 | 38 | 27 |
| Movement in timing differences | | 6 | 13 | (3) | 11 |
| | | 35 | 29 | 35 | 38 |
| **c) The future income tax benefits relates to timing differences:** | | | | | |
| Balance as at start of year | | 5,587 | 4,462 | 5,573 | 4,449 |
| Movement in timing differences | | 615 | 1,125 | 629 | 1,124 |
| | | 6,202 | 5,587 | 6,202 | 5,573 |
| **7. CASH AND LIQUID ASSETS** | | | | | |
| Cash on hand | | 15,773 | 20,483 | 15,531 | 20,812 |
| Financial Institution balance | | 12,955 | 21,216 | 12,955 | 21,216 |
| Short term deposits | | 22,300 | 2,300 | 22,000 | 2,000 |
| | | 51,028 | 43,999 | 50,486 | 44,028 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **8. INVESTMENT SECURITIES** | | | | | |
| Deposits | | 260,491 | 212,653 | 258,490 | 210,660 |
| Maturity analysis of securities: | | | | | |
| - up to 3 months | | 216,471 | 159,532 | 214,470 | 158,532 |
| - 3 to 12 months | | 34,520 | 50,121 | 34,520 | 49,128 |
| - 1 year to 5 years | | 9,500 | 3,000 | 9,500 | 3,000 |
| | | 260,491 | 212,653 | 258,490 | 210,660 |
| **9. ACCRUED RECEIVABLES** | | | | | |
| Accrued Income | | 2,849 | 2,403 | 2,804 | 2,348 |
| Sundry Debtors | | 2,261 | 1,094 | 7,766 | 1,105 |
| | | 5,110 | 3,497 | 10,570 | 3,453 |
| **10. OTHER INVESTMENTS** | | | | | |
| Unlisted shares | | 344 | 344 | 319 | 319 |
| Controlled entities | | - | - | 373 | 1,139 |
| Subordinated deposits | | 295 | 295 | 295 | 295 |
| Interest in securitisation entity | | 2,528 | 9,086 | 2,528 | 9,086 |
| | | 3,167 | 9,725 | 3,515 | 10,839 |

a) **Investment In Controlled Entities**

| Name of Entity | Class of Share | Interest Held 2005 | Interest Held 2004 | Amount of Investment 2005 $'000 | Amount of Investment 2004 $'000 | Contribution To Consolidated Profit 2005 $'000 | Contribution To Consolidated Profit 2004 $'000 | Nature of Business |
|---|---|---|---|---|---|---|---|---|
| Intracare Trust | Units | 93% | 93% | 54 | 1,040 | 132 | 65 | Aged Care |
| Greater Newcastle Developments Pty Ltd | Ordinary | 100% | 100% | - | - | - | - | Non Trading |
| Intracare Pty Ltd | Ordinary | 83% | 83% | - | - | 12 | - | Trustee |
| Parkwood Unit Trust | Ordinary | 59% | 50% | 220 | - | (13) | - | Land Subdivision |
| Greater Co-operative Association Ltd | Ordinary | 100% | 100% | 19 | 19 | (139) | (2,351) | Co-operative |
| Greater Investment Services P/L | Ordinary | 100% | 100% | 80 | 80 | 239 | 116 | Management Services |

Note:
1. The above companies are registered in Australia.
2. Intracare Pty Ltd acts as Manager and Trustee of the Intracare Trust.
3. Intracare Pty Ltd owns 100% (6/2004 100%) of the issued ordinary shares of Intracare Services Pty Ltd.
4. Greater Co-operative Association Ltd owns 100% (6/2004 100%) of the issued ordinary shares of Greater Aged Care Investments Pty Ltd.
5. Greater R&D Holdings Pty Ltd and Greater Aged Care Investments Pty Ltd were deregistered as companies on the 22 May 2005. Both companies were 100% owned subsidiaries and did not trade during the year.
6. Parkwood Unit Trust owns 100% (6/2004 100%) of the issued units of Ashtonfield Unit Trust.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

b) **Acquisition Of Controlled Entities**

On the 12 April 2005 the parent entity purchased an additional 9% of the voting units of Parkwood Unit Trust. This acquisition gave the parent entity 59% of the voting units of the Trust. The operating results of the Parkwood Unit Trust have been included in the consolidated financial results since the 12 April 2005.
The Parkwood Unit Trust is involved in the development of land sub division.
Details of the acquisition are as follows:

| | 2005 $'000 | 2004 $'000 |
|---|---|---|
| Fair value of net assets acquired | | |
| - sundry debtors | 8 | - |
| - inventory - land for development | 649 | - |
| - investment securities | 42 | - |
| - trade creditors and accruals | (85) | - |
| - borrowings | (240) | - |
| | 374 | - |
| Outside equity interest at acquisition | (154) | - |
| | 220 | - |
| Goodwill on consolidation | 247 | - |
| Consideration | 467 | - |

Goodwill on consolidation was written off during the year (refer Note 5)

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| Outflow of cash to acquire controlled entity, net of cash acquired | | 425 | - | 467 | - |
| **11. LOANS AND ADVANCES** | | | | | |
| Overdrafts | | 318,202 | 254,457 | 326,882 | 263,090 |
| Term Loans | | 1,644,623 | 1,609,150 | 1,644,623 | 1,609,150 |
| Gross loans and advances | | 1,962,825 | 1,863,607 | 1,971,505 | 1,872,240 |
| Provision for impairment - specific | | 511 | 348 | 511 | 348 |
| - general | | 1,001 | 1,003 | 1,001 | 1,003 |
| Net loan and advances | | 1,961,313 | 1,862,256 | 1,969,993 | 1,870,889 |
| **a) Maturity Analysis Of Loans And Advances** | | | | | |
| Overdrafts | | 318,119 | 254,245 | 326,799 | 262,878 |
| - up to 3 months | | 15,791 | 17,140 | 15,791 | 17,140 |
| - 3 to 12 months | | 35,296 | 38,404 | 35,296 | 38,404 |
| - 1 year to 5 years | | 177,124 | 194,165 | 177,124 | 194,165 |
| - over 5 years | | 1,415,984 | 1,359,305 | 1,415,984 | 1,359,305 |
| | | 1,962,314 | 1,863,259 | 1,970,994 | 1,871,892 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **b) Provision For Impairment** | | | | | |
| Specific provision for impairment | | | | | |
| - Opening balance | | 348 | 640 | 348 | 640 |
| - Doubtful debt expense | | 163 | (292) | 163 | (292) |
| | | 511 | 348 | 511 | 348 |
| General Provision for impairment | | | | | |
| - Opening Balance | | 1,003 | 723 | 1,003 | 723 |
| - Change in accounting policy | | - | 257 | - | 257 |
| - Doubtful debt expense | | (2) | 23 | (2) | 23 |
| | | 1,001 | 1,003 | 1,001 | 1,003 |
| **c) Bad And Doubtful Debt Expense** | | | | | |
| Specific provision for impairment | | 163 | (292) | 163 | (292) |
| General provision for impairment | | (2) | 23 | (2) | 23 |
| Change in accounting policy | 1 f) iii) | - | 257 | - | 257 |
| Bad debt write-off | | 212 | 208 | 212 | 208 |
| | | 373 | 196 | 373 | 196 |
| **d) Non-Accrual Loans** | | | | | |
| Balance | | 1,016 | 527 | 1,016 | 527 |
| Specific provision for impairment | | (511) | (348) | (511) | (348) |
| | | 505 | 179 | 505 | 179 |
| **e) Restructured Loans** | | | | | |
| Balance | | 63 | 107 | 63 | 107 |
| Specific provision for impairment | | - | - | - | - |
| | | 63 | 107 | 63 | 107 |
| **f) Impaired Loans** | | | | | |
| Interest revenue | | 44 | 38 | 44 | 38 |
| Interest forgone | | - | - | - | - |
| Other revenue | | 4 | 7 | 4 | 7 |
| Bad debt write-off | | 212 | 208 | 212 | 208 |
| **g) Assets Acquired Through The Enforcement Of Security** | | | | | |
| Net fair value of assets acquired through the enforcement of security during the financial year | | | | | |
| - Non Building | | 74 | 21 | 74 | 21 |

There were no assets acquired through the enforcement of security during the year, which were used by the parent entity in its operations.

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **h) Past Due Loans** | | | | | |
| Balance | | 6,147 | 3,805 | 6,147 | 3,805 |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **12. PROPERTY, PLANT AND EQUIPMENT** | | | | | |
| Freehold land | | | | | |
| Director valuation June 2005 | | 2,956 | - | - | - |
| Director valuation June 2004 | | - | 3,354 | - | - |
| Independent valuation June 2004 | | - | 900 | - | - |
| | | 2,956 | 4,254 | - | - |
| Buildings | | | | | |
| Director valuation June 2005 | | 13,709 | - | - | - |
| Director valuation June 2004 | | - | 2,362 | - | - |
| Independent valuation June 2004 | | - | 12,625 | - | - |
| Building in course of construction | | 73 | 29 | - | - |
| | | 13,782 | 15,016 | - | - |
| Less accumulated depreciation | | 622 | 59 | - | - |
| | | 13,160 | 14,957 | - | - |
| Leasehold improvements | | 5,415 | 4,034 | 5,415 | 4,034 |
| Less accumulated amortisation | | 3,551 | 2,809 | 3,551 | 2,809 |
| | | 1,864 | 1,225 | 1,864 | 1,225 |
| Plant and equipment at cost | | 20,055 | 18,931 | 16,237 | 14,946 |
| Less accumulated depreciation | | 12,386 | 10,863 | 11,071 | 10,104 |
| | | 7,669 | 8,068 | 5,166 | 4,842 |
| **TOTAL – PROPERTY, PLANT and EQUIPMENT** | | **25,649** | **28,504** | **7,030** | **6,067** |

Valuations of Land and Buildings
The valuation of land and buildings is on the basis of fair market values based on existing use. An annual assessment is made by the Directors to ensure that the carrying values do not differ materially from the fair value.

Directors' Valuations
June 2005 - the Directors' valuation is supported by independent valuations performed at 30 June 2004 by Mr G Willis (AAPI), Reg Valuer No. 6746 and Mr J Waugh (FAPI) Reg Valuer No. 2836 and at 30 June 2003 by Mr H Pawlik (FAPI, AICV), Reg Valuer No. 1192 and Mr J Wang (GAPI) Reg Valuer No. 6036.
June 2004 - the Directors' valuation is supported by independent valuations performed at 30 June 2003 by Mr H Pawlik F.V.L.E. (Val Econ) A.I.C.M.V., Reg Valuer No. 1192 and Mr J Wang (GAPI) Reg Valuer No. 6036 and at 30 June 2002 by DP Looby F.V.L.E. (Val Econ) Reg Valuer No. 1973.

Building in Course of Construction
Directors have valued the building in the course of construction as at balance date.

Independent Valuations
June 2004 - the independent valuations were carried out by Mr G Willis (AAPI), Reg Valuer No. 6746 and Mr J Waugh (FAPI) Reg Valuer No. 2836.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **a) Movement In Freehold Land Balances** | | | | | |
| Balance as at start of year | | 4,254 | 3,960 | - | - |
| Additions | | - | 401 | - | - |
| Disposals | | (1,298) | - | - | - |
| Revaluation increments/(decrements) | | - | (107) | - | - |
| Balance as at end of year | | 2,956 | 4,254 | - | - |
| **b) Movement In Buildings Balances** | | | | | |
| Balance as at start of year | | 14,957 | 16,649 | - | - |
| Additions | | 333 | 29 | - | - |
| Disposals | | (2,847) | (256) | - | - |
| Revaluation increments/(decrements) | | - | (877) | - | - |
| Reclassification to plant & equipment | | - | (283) | - | - |
| Realisation of discount on acquisition | | 1,091 | - | | |
| Depreciation expense | | (374) | (305) | - | - |
| Balance as at end of year | | 13,160 | 14,957 | - | - |
| **c) Movement In Leasehold Improvements** | | | | | |
| Balance as at start of year | | 1,225 | 674 | 1,225 | 674 |
| Additions | | 1,432 | 1,111 | 1,432 | 1,111 |
| Disposals | | (24) | (26) | (24) | (26) |
| Amortisation expense | | (769) | (534) | (769) | (534) |
| Balance as at end of year | | 1,864 | 1,225 | 1,864 | 1,225 |
| **d) Movement In Plant And Equipment Balances** | | | | | |
| Balance as at start of year | | 8,068 | 3,740 | 4,842 | 3,535 |
| Additions | | 3,165 | 6,880 | 3,010 | 3,495 |
| Disposals | | (389) | (249) | (338) | (128) |
| Reclassification from buildings | | - | 283 | - | - |
| Depreciation expense | | (3,175) | (2,586) | (2,348) | (2,060) |
| Balance as at end of year | | 7,669 | 8,068 | 5,166 | 4,842 |
| **13. DEFERRED TAX ASSETS** | | | | | |
| Future income tax benefit | 6 c) | 6,202 | 5,587 | 6,202 | 5,573 |
| **14. OTHER ASSETS** | | | | | |
| Prepayments | | 354 | 345 | 325 | 314 |
| Inventory - land for development | | 673 | - | - | - |
| | | 1,027 | 345 | 325 | 314 |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **15. DEPOSITS** | | | | | |
| Call deposits | | 908,675 | 879,026 | 909,106 | 879,191 |
| Term deposits | | 1,192,250 | 1,089,784 | 1,196,105 | 1,091,639 |
| | | 2,100,925 | 1,968,810 | 2,105,211 | 1,970,830 |
| **a) Maturity Analysis** | | | | | |
| - at call | | 908,675 | 879,026 | 909,106 | 879,191 |
| - up to 3 months | | 766,042 | 691,957 | 769,897 | 692,112 |
| - 3 to 12 months | | 378,862 | 367,914 | 378,862 | 369,614 |
| - 1 year to 5 years | | 47,346 | 29,913 | 47,346 | 29,913 |
| | | 2,100,925 | 1,968,810 | 2,105,211 | 1,970,830 |
| **16. PAYABLE AND OTHER LIABILITIES** | | | | | |
| Trade creditors and accruals | | 8,061 | 10,498 | 7,557 | 10,444 |
| Accrued interest payable | | 15,608 | 13,468 | 15,646 | 13,502 |
| | | 23,669 | 23,966 | 23,203 | 23,946 |
| **17. AMOUNTS FROM OTHER FINANCIAL INSTITUTIONS** | | | | | |
| Term loan | | 20 | 23 | - | - |
| Term deposits | | 507 | 507 | 507 | 507 |
| | | 527 | 530 | 507 | 507 |
| **a) Maturity Analysis** | | | | | |
| - over 5 years | | 20 | 23 | - | - |
| - no maturity specified | | 507 | 507 | 507 | 507 |
| | | 527 | 530 | 507 | 507 |
| **18. BORROWINGS** | | | | | |
| Loans - licences | | - | 2,234 | - | - |
| Loans – related parties | | 120 | - | - | - |
| Subordinated debt | | 20,000 | 20,000 | 20,000 | 20,000 |
| | | 20,120 | 22,234 | 20,000 | 20,000 |
| **a) Maturity Analysis** | | | | | |
| - 1 year to 5 years | | 120 | - | - | - |
| - over 5 years | | 20,000 | 20,000 | 20,000 | 20,000 |
| - no maturity specified | | - | 2,234 | - | - |
| | | 20,120 | 22,234 | 20,000 | 20,000 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | Notes | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|---|
| **19. TAX LIABILITIES** | | | | | |
| Income tax | | 2,211 | 1,714 | 2,211 | 1,714 |
| Deferred income tax liability | 6 b) | 35 | 29 | 35 | 38 |
| | | 2,246 | 1,743 | 2,246 | 1,752 |
| **20. PROVISIONS** | | | | | |
| Employee benefits | | 8,859 | 7,815 | 8,859 | 7,780 |
| Other | | 4,662 | 5,070 | 4,662 | 5,070 |
| | | 13,521 | 12,885 | 13,521 | 12,850 |
| Number of employees as at end of year | | 633 | 610 | 633 | 596 |
| **21. RESERVES** | | | | | |
| Asset revaluation reserve - unrealised | | 3,204 | 1,470 | - | - |
| Movement in reserves | | | | | |
| **a) Asset revaluation – unrealised** | | | | | |
| - balance at beginning of year | | 1,470 | 3,342 | - | - |
| - prior year adjustments | | 245 | - | - | - |
| - transfer to/from retained profits | | 1,489 | (888) | - | - |
| - revaluation increment/(decrement) | | - | (984) | - | - |
| | | 3,204 | 1,470 | - | - |
| **22. RETAINED PROFITS** | | | | | |
| Retained profits | | 149,609 | 134,557 | 141,923 | 121,938 |
| Movement in retained profits | | | | | |
| - balance at beginning of year | | 134,557 | 117,025 | 121,938 | 103,079 |
| - net profit attributable to members of the Society | | 16,541 | 16,644 | 19,985 | 18,859 |
| - transfer to/from asset revaluation reserve | | (1,489) | 888 | - | - |
| | | 149,609 | 134,557 | 141,923 | 121,938 |
| **23. OUTSIDE EQUITY INTEREST** | | | | | |
| Reconciliation of outside equity interest in controlled entities | | | | | |
| Balance at beginning of year | | 371 | 370 | - | - |
| Share of operating profit | | 1 | 4 | - | - |
| Share of net assets of acquired entity | | 154 | - | - | - |
| Distribution provided for or paid | | (360) | (3) | - | - |
| | | 166 | 371 | - | - |



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

## 24. RELATED PARTIES

**a) Controlled Entities**

Information in respect of controlled entities is disclosed in Note 10.

**b) Directors**

i) The persons holding office as Directors of the parent entity during the year were; I I Nelmes, J E Kilpatrick, A B McLachlan, A J McKeown, G H Walls and A Thurlow.

ii) Loans to Directors
The aggregate amount of loans of all Directors and their spouses amount to $NIL (6/2004 $NIL).

**c) Other Transactions With Directors And Director Related Entities**

Deposits from Directors and their Director related entities were received on the same terms and conditions as applicable to members generally.

Loans to relatives of Directors and Director related entities provided outside normal terms and conditions of the parent entity were $NIL (6/2004 $NIL).

Mr J E Kilpatrick is a member of the Board of Anglican Care Retirement Villages. Anglican Care Retirement Villages during the year provided catering services to the economic entity on normal commercial terms and conditions. The parent entity has provided Anglican Care, for the purpose of acquiring aged care facilities, a loan facility of $2.300M (6/2004 $NIL) during the year with an amount outstanding on related loans at balance date of $2.145M (6/2004 $11.047M). The loan was used to purchase the aged care operations from the economic entity.

Mr J E Kilpatrick is a Trustee of the Anglican Diocese of Newcastle. The parent entity has provided the Diocese, for the purposes of building educational institutions, loan facilities of $4.000M (6/2004 $9.600M) during the year with an amount outstanding on related loans at balance date of $13.418M (6/2004 $11.047M).

**d) Transaction With Other Related Parties**

The parent entity has related party transactions with the following entities:

i) Greater Superannuation and Retirement Trust invests funds with the parent entity. At balance date these deposits totalled $34.913M (6/2004 $39.128M). The parent entity acts as Administrator and Custodian to the Trust.

ii) Intracare Pty Ltd invests funds with the parent entity. At balance date these deposits totalled $609 (6/2004 $568).

iii) Intracare Trust invests funds with the parent entity. At balance date these deposits totalled $3.820M (6/2004 $1.779M).

iv) Greater Investment Services Pty Ltd invests funds with the parent entity. At balance date these deposits totalled $465,916 (6/2004 $240,484). In support of the entities ASF licence the parent entity has provided a support agreement including a financial support commitment to the entity. The entity acts as the manager for GBS Receivables Trust No 1, GBS Receivables Trust No 2, GBS Receivables Trust No 3 and Waratah GBS Mortgage Trust No1. The parent entity provides administration services to the controlled entity for $NIL (6/2004 $NIL) consideration.

v) Greater Co-operative Association Ltd has established a secured loan facility with the parent entity. At balance date the loan facility was for $10M (6/2004 $10M) with a balance outstanding of $8.581M (6/2004 $8.633M). The loan is provided on an interest free basis. The parent entity also provides a short term loan facility to the entity on an unsecured and interest free basis. At balance date the loan outstanding is $NIL (6/2004 $0.407M). The controlled entity provides rental accommodation to the parent entity for $1.283M (6/2004 $NIL) consideration. The parent entity provides administration services to the controlled entity for $NIL (6/2004 $NIL) consideration.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

vi) Parkwood Unit Trust invests funds with the parent entity. At balance date these deposits totalled $4,066 (6/2004 $30,154). During the year the parent entity lent Parkwood Unit Trust, $665,761 on an unsecured revolving credit loan basis. This loan was repaid in full during the year. The Parkwood Unit Trust also has an unsecured loan on an interest free basis. At balance date the loan outstanding of $119,818 (6/2004 $119,818) with a specific loan provision against this loan of $NIL (6/2004 $119,818). The Trust carries out activities of land development within the Hunter Valley Region. The parent entity provides administration services to the Trust for $NIL (6/2004 $NIL) consideration.

vii) The parent entity provides custodian, basis swap, interest rate swap and redraw commitment facilities to GBS Receivables Trust No 1, GBS Receivables Trust No 2 and GBS Receivables Trust No 3 as well as acting as servicer to the securitised mortgages.

viii) GBS Receivables Trust No 3 during the year accepted the sale of mortgages from the parent entity.

ix) Waratah GBS Mortgage Trust No 1 during the year accepted the sale of mortgages from the parent entity. The parent entity provides custodian and interest rate swap facilities to the Trust as well as acting as servicer to the securitised mortgages.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $'000 | $'000 | $'000 | $'000 |
| **25. REMUNERATION OF DIRECTORS** | | | | |
| a) Income received or due and receivable by Directors: | 446,881 | 404,949 | 344,365 | 320,231 |
| The number of Society Directors whose income was within the specified bands are as follows: | | | | |
| $0 - $10,000 | 2 | 1 | - | - |
| $10,000 - $20,000 | 2 | 1 | - | - |
| $40,000 - $50,000 | - | 2 | 1 | 5 |
| $50,000 - $60,000 | 2 | 2 | 4 | - |
| $60,000 - $70,000 | 2 | - | - | - |
| $70,000 - $80,000 | 1 | 1 | 1 | 1 |
| $90,000 - $100,000 | - | 1 | - | - |
| $100,000 - $110,000 | 1 | - | - | - |

Income received by Directors includes contributions to Superannuation Funds in accordance with Superannuation Guarantee Legislation requirements.

**26. REMUNERATION OF AUDITORS**

| | | | | |
|---|---|---|---|---|
| Income received or due and receivable by the auditors for: | | | | |
| Auditing services | 128,010 | 123,750 | 116,465 | 107,800 |
| Other services | 152,976 | 112,240 | 117,881 | 70,450 |
| | 280,986 | 235,990 | 234,346 | 178,250 |





NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $'000 | $'000 | $'000 | $'000 |
| **27. COMMITMENTS FOR EXPENDITURE** | | | | |
| **(i) Loan commitments** | | | | |
| Loans approved but not advanced as at end of year | 98,807 | 129,890 | 98,807 | 129,890 |
| It is anticipated that these commitments will be advanced within the next twelve (12) months. | | | | |
| **(ii) Loans approved but not drawn** | 321,496 | 287,553 | 321,496 | 287,553 |
| These commitments are available to members for immediate use. | | | | |
| **(iii) Operating leases** | | | | |
| Due within 12 months | 4,057 | 3,653 | 4,057 | 3,653 |
| Due within 1 to 5 years | 7,109 | 6,644 | 7,109 | 6,644 |
| | 11,166 | 10,297 | 11,166 | 10,297 |
| **(iv) Capital commitments** | | | | |
| Due within 12 months | 537 | 422 | 537 | 376 |
| **(v) Expenditure commitments** | | | | |
| Due within 12 months | 676 | 1,027 | 676 | 1,027 |
| Due within 1 to 5 years | 208 | 446 | 208 | 446 |
| Due after 5 years | - | 9 | - | 9 |
| | 884 | 1,482 | 884 | 1,482 |

These commitments relate to maintenance and service contracts and obligations to promotion campaigns.

**28. SEGMENTAL REPORTING**

**Business Segments**

The consolidated entity is organised into the following business operations:

**i) Financial products**

Provision of financial services and products to members in the form of taking deposits and providing financial accommodation as prescribed by the constitution.

**ii) Aged care**

Provision and operation of aged care units and hostels.

The aged care does not constitute a reportable segment under AASB1005: Segment Reporting. Information on financial products is disclosed as the parent entity. During the year the aged care business operations were sold.

**Geographic Segments**

The economic entity's operations are predominantly undertaken within the state of New South Wales and South East Queensland.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| | CONSOLIDATED 2005 $'000 | CONSOLIDATED 2004 $'000 | PARENT ENTITY 2005 $'000 | PARENT ENTITY 2004 $'000 |
|---|---|---|---|---|
| **29. RECONCILIATION OF NET CASH** | | | | |
| **- Provided by Operating Activities to Operating Profit after Income Tax** | | | | |
| Operating profit after income tax | 16,542 | 16,648 | 19,985 | 18,859 |
| Depreciation and amortisation | 4,317 | 3,425 | 3,116 | 2,594 |
| Bad debts written-off and provision for doubtful debts | 373 | 196 | 373 | 196 |
| Profit on sale of investments | (1,602) | (4,825) | (4,933) | (4,825) |
| Profit on sale property, plant and equipment | (144) | (11) | (27) | (11) |
| Loss on sale of property, plant and equipment | 119 | 214 | 119 | 83 |
| Realisation of discount of acquired subsidiary | (845) | - | - | - |
| Diminution of investment | 272 | 37 | 246 | - |
| Increase/(decrease) in accrued interest payable | 2,141 | 2,028 | 2,144 | 2,020 |
| Decrease/(increase) in accrued interest receivable | (512) | (879) | (508) | (854) |
| Decrease/(increase) in other receivable | 52 | - | 52 | - |
| Decrease/(increase) in future income tax benefit | (615) | (1,124) | (629) | (1,124) |
| Decrease/(increase) in sundry debtors | (1,108) | 57 | (1,438) | (71) |
| Increase/(decrease) in income taxes payable | 496 | (533) | 496 | (533) |
| Increase/(decrease) in deferred taxes payable | 6 | 13 | (3) | 11 |
| Increase/(decrease) in creditors and accrued expenses | (2,757) | 3,736 | (2,887) | 1,528 |
| Increase/(decrease) in other provisions | 636 | 1,425 | 671 | 1,431 |
| Increase/(decrease) in inventory | (673) | - | - | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 16,698 | 20,407 | 16,777 | 19,304 |

## 30. FINANCIAL INSTRUMENTS

a) **Derivative Financial Instruments**

**Interest rate swaps**

The parent entity has entered into interest rate swap contracts as part of its interest rate risk management strategy. The contracts require settlement of each net interest receivable or payable each 60-90 days.

The parent entity has entered into interest rate swap contracts with GBS Receivables Trust No 1, GBS Receivables Trust No 2, GBS Receivables Trust No 3 and Waratah GBS Mortgage Trust No 1. The contracts remove interest rate risk from the residual fee income the parent entity receives from the Trust.

**Basis swap**

The parent entity has entered into basis swap contracts with related parties, GBS Receivables Trust No 1 GBS Receivables Trust No 2 and GBS Receivables Trust No 3. The basis swap contracts guarantees that the Trusts will have sufficient funds to cover payment of all Trust expenses. Under the basis swap contract the Trust pays the weighted average rate on the securitised loans and the parent entity pays the bank bill swap rate plus an agreed margin. This is settled between the parties on a net basis.

b) **Interest Rate Risk**

The economic entity's exposure to interest rate risk and weighted average interest rates of financial assets and financial liabilities both recognised and unrecognised at balance date are as follows:



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

| FINANCIAL INSTRUMENTS | FLOATING INTEREST RATE | | FIXED INTEREST RATE UP TO 1 YEAR | | MATURITY PROFILE 1 TO 5 YEARS | | MATURITY PROFILE 5 YEARS PLUS | | NON INTEREST BEARING | | BALANCE SHEET VALUE | | WEIGHTED AVERAGE INTEREST RATE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 % |
| **FINANCIAL ASSETS** | | | | | | | | | | | | | | |
| Cash On Hand | - | - | - | - | - | - | - | - | 15,773 | 20,483 | 15,773 | 20,483 | N/A | N/A |
| Financial Institution Balance | 12,955 | 21,216 | - | - | - | - | - | - | - | - | 12,955 | 21,216 | 5.50 | 5.00 |
| Short Term Financial Institution Deposits | 22,300 | 2,300 | - | - | - | - | - | - | - | - | 22,300 | 2,300 | 5.54 | 5.27 |
| Investment Securities | - | - | 260,491 | 212,653 | - | - | - | - | - | - | 260,491 | 212,653 | 5.76 | 5.58 |
| Accrued Receivables | - | - | - | - | - | - | - | - | 5,110 | 3,497 | 5,110 | 3,497 | N/A | N/A |
| Other Investments | 2,570 | 9,128 | - | - | - | - | - | - | 597 | 597 | 3,167 | 9,725 | 5.83 | 6.52 |
| Loans and Advances | 1,608,121 | 1,508,166 | 49,333 | 95,143 | 294,616 | 245,253 | 9,243 | 13,694 | - | - | 1,961,313 | 1,862,256 | 7.24 | 7.00 |
| Interest Rate Swaps | 85,000 | 85,000 | (15,000) | - | (70,000) | (85,000) | - | - | - | - | - | - | 5.90 | 5.90 |
| **TOTAL** | **1,730,946** | **1,625,810** | **294,824** | **307,796** | **224,616** | **160,253** | **9,243** | **13,694** | **21,480** | **24,577** | **2,281,109** | **2,132,130** | | |
| **FINANCIAL LIABILITIES** | | | | | | | | | | | | | | |
| Deposits | 908,675 | 879,026 | 1,144,904 | 1,059,871 | 47,346 | 29,913 | - | - | - | - | 2,100,925 | 1,968,810 | 3.77 | 3.71 |
| Payables and Other Liabilities | - | - | - | - | - | - | - | - | 23,669 | 23,966 | 23,669 | 23,966 | N/A | N/A |
| Amounts from Other Financial Institutions | - | - | - | - | - | - | - | - | 527 | 530 | 527 | 530 | 0.00 | 0.00 |
| Borrowings | - | - | - | - | - | - | 20,000 | 20,000 | 120 | 2,234 | 20,120 | 22,234 | 7.23 | 6.54 |
| **TOTAL** | **908,675** | **879,026** | **1,144,904** | **1,059,871** | **47,346** | **29,913** | **20,000** | **20,000** | **24,316** | **26,730** | **2,145,241** | **2,015,540** | | |

c) **Net Fair Value**

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

| FINANCIAL INSTRUMENTS | BALANCE SHEET VALUE 2005 $'000 | BALANCE SHEET VALUE 2004 $'000 | NET FAIR VALUE 2005 $'000 | NET FAIR VALUE 2004 $'000 |
|---|---|---|---|---|
| **ON BALANCE SHEET FINANCIAL INSTRUMENTS** | | | | |
| **FINANCIAL ASSETS** | | | | |
| Cash On Hand | 15,773 | 20,483 | 15,773 | 20,483 |
| Financial Institution Balance | 12,955 | 21,216 | 12,955 | 21,216 |
| Short Term Financial Institution Deposits | 22,300 | 2,300 | 22,300 | 2,300 |
| Investment Securities | 260,491 | 212,653 | 260,298 | 212,006 |
| Accrued Receivables | 5,110 | 3,497 | 5,110 | 3,497 |
| Other Investments | 3,167 | 9,725 | 3,532 | 10,076 |
| Loans and Advances | 1,961,313 | 1,862,256 | 1,965,603 | 1,864,326 |
| **TOTAL** | **2,281,109** | **2,132,130** | **2,285,571** | **2,133,905** |
| **FINANCIAL LIABILITIES** | | | | |
| Deposits | 2,100,925 | 1,968,810 | 2,099,773 | 1,968,899 |
| Payables and Other Liabilities | 23,669 | 23,966 | 23,669 | 23,966 |
| Amounts from Other Financial Institutions | 527 | 530 | 530 | 530 |
| Borrowings | 20,120 | 22,234 | 20,120 | 22,234 |
| **TOTAL** | **2,145,241** | **2,015,540** | **2,144,092** | **2,015,629** |
| **OFF BALANCE SHEET AND DERIVATIVE FINANCIAL INSTRUMENTS** | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| Interest Rate Swaps | 27 | 50 | 460 | 640 |
| **TOTAL** | **27** | **50** | **460** | **640** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2005*

The following methods and assumptions were used to determine net fair values.

i) Cash on hand, Financial Institution deposits, short term deposits, payables and other liabilities are repayable on demand hence their carrying value approximates their net fair value.

ii) Investment securities, accrued receivables and other investments are valued at a market determined price where there is an active market. Where no active market exists securities are valued by discounting future expected cashflows by a market rate of substantially similar financial instrument.

iii) Loans and advances, deposits and amounts from other Financial Institutions are determined by discounting future expected cashflows by a market related interest rate. When inadequate information exists on the market rate, a market rate for a substantially similar financial instrument is used as the estimated market rate.

iv) Borrowings are valued based on discounted expected future cashflows using a risk free interest rate.

v) Derivative financial assets or financial liabilities arising from interest rate swap agreements have been valued as the carrying value, which represents the amount currently receivable or payable at balance date and the present value of the estimated future cashflows which have not been recognised as an asset or liability.

**d)** Credit Risk

**i) Credit risk exposure**

The economic entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of these indicated in the balance sheet. This maximum exposure does not take into account the value of any security.

Credit risk exposure to loans is minimised by prudent assessment of each individual loan applicant, obtaining security for the majority of loans made and where credit risk warrants undertaking credit insurance.

**ii) Concentration of credit risk**

The economic entity minimises concentration of credit risk in relation to loans by dealing with a relatively large number of individual members of the Society. Exposure to credit risk is limited to the market area that the Society participates in. The Society is active in the retail finance markets of Newcastle, Hunter Valley, Central Coast, Wollongong, Sydney, Central West and North Coast of New South Wales and South East Queensland.



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# 2004·05 Annual Report

FOR THE YEAR ENDED 30 JUNE 2005

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