



**Hume** Building  
Society

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



# FINANCIAL REPORT

for the year ended  
30 June 2008

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# Directors' Report

The Directors present their report, together with the financial report of Hume Building Society Ltd (the Society), for the year ended 30 June 2008 and the Auditor's report thereon.

## Directors

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

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
<b>Ulf Olof Ericson</b> B Ec, B Comm, Grad Dip Advanced Taxation Law, Dip Law (BAB), FCA, MAICD, FTIA Independent, non-executive Director.	61	Chartered Accountant. Board member for 20 years and Chairman since 1998. Chairman of the Remuneration and Human Resources Committee and member of the Audit and Risk Committee. Ulf is a Board Member of Wodonga Institute of TAFE and a member of community and educational organisations.
<b>John Albert Knobel</b> CPA Independent, non-executive Director.	70	Certified Practising Accountant. Board member for 33 years and Deputy Chairman for 23 years. Member of the Audit and Risk Committee. John has a wide range of community involvements throughout the local region.
<b>Stuart James Gilchrist</b> B. Eco and Politics Independent, non-executive Director.	62	Director. Board member since March 2007. Member of the Remuneration and Human Resources Committee. Stuart has been on the Boards of various Mitre 10 companies for 15 years and was Chairman of Mitre 10 South West Ltd for 4 years.
<b>William Thomas Hanrahan</b> B Bus, Cost Acc P Cert, FCA, FCPA, FCIS, Dip SIA SF Fin, FAICD, B R Studies, B Leg S, Hon D Bus CSturt Independent, non-executive Director.	65	Former CEO of the Society for 20 years. Board member for 23 years. Chairman of the Audit and Risk Committee. Chairperson of the Albury Wodonga Corporation; Chairman of AlburyCity Audit Committee. Bill has previously had a long term involvement with Charles Sturt University, including Council membership, and being a member of several University committees.
<b>Louis Stuart Lieberman</b> Dip Law (SAB), FAICD Independent, non-executive Director.	70	Director. Board member for 9 years. Member of the Remuneration and Human Resources Committee. Lou has had a long career in business, the law and community affairs.
<b>Leo Francis O'Reilly</b> FCA Independent, non-executive Director.	64	Chartered Accountant - former partner of an Accounting Firm. Board member for 10 years. Member of the Audit and Risk Committee. A member of AlburyCity Audit Committee.
<b>Karyl Denise Osborne</b> Independent, non-executive Director.	59	Board member since March 2007. Member of the Audit and Risk Committee. Denise is the Mayor of the Greater Hume Shire Council and is on the Board of the Border Trust, YES Youth & Family Services, Back to Reality, Murray Regional Development Board and Country Energy Regional Advisory Board.
<b>Feynella Joy Stocker</b> B Ed, M Ed (Adult Ed) Independent, non-executive Director.	62	Director, Educational Planning and Development, TAFE NSW Riverina Institute. Board member for 14 years. Member of the Remuneration and Human Resources Committee. Joy is a member of the Charles Sturt University Regional Consultative Committee and member of the Scots School Board.

## Company Secretary

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

## Officers who were previously partners of the audit firm

Mr Leo F O'Reilly was previously a partner of the audit firm, KPMG Albury, at a time when KPMG undertook an audit of the Society. KPMG Albury changed its name to WHK Audit & Risk Assessment in March 2008 and continues to act as the Society's auditors. Mr O'Reilly retired from KPMG in 1996 and was appointed as a Director of the Society in 1998.

## Directors' meetings

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

	<i>Board of Directors</i>	<i>Audit and Risk Committee</i>	<i>Remuneration and Human Resources Committee</i>
<i>Number of meetings held:</i>	16	8	4
<i>Number of meetings attended:</i>			
Ulf Olof Ericson	14	7	4
John Albert Knobel	15	7	n/a
Stuart James Gilchrist	15	n/a	4
William Thomas Hanrahan	15	8	n/a
Louis Stuart Lieberman	14	n/a	4
Leo Francis O'Reilly	13	8	n/a
Karyl Denise Osborne	14	7	n/a
Feynella Joy Stocker	13	n/a	3

## Corporate Governance Statement

The Board's primary responsibility is to the members of the Society and maintaining the Society's success. It participates in the development of the strategic plan and has authority for its approval. It also approves the annual budget and has responsibility for the appointment, remuneration and performance appraisal of the Chief Executive Officer. The Board delegates responsibility for the management of the Society to the Chief Executive Officer and Senior Management.

The Board meets on a monthly basis and conducts an annual evaluation of its own performance and that of individual Directors. Specialist, external consultants are utilised for this on a regular basis. An allowance is made for professional development of all Directors and, to assist the Board in the execution of its responsibilities, the Board has established Committees as noted below.

### Committees of Directors

#### *Audit & Risk Committee*

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

#### *Remuneration & Human Resources Committee*

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

### Principal activities

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

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

## **Review and results of operations**

The Society achieved a profit before income tax of \$5.106 million for the year (2007 - \$5.088 million). The increase in profit before tax for 2008 is 0.4%. Net profit after income tax was \$3.567 million (2007 - \$3.567 million).

The result was based on an increase in total assets of 11.7% or \$61.960 million to \$590.684 million on the back of net loan approvals of \$131 million (2007 - \$129 million). Net loans and advances outstanding at 30 June 2008 were \$469.136 million (2007 - \$433.098 million) and deposits by members \$517.487 million (2007 - \$477.175 million).

## **State of affairs**

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

## **Events subsequent to reporting date**

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

## **Likely developments**

The Society's focus will remain on the delivery of personal banking services to its members. New banking products will continue to be developed and implemented to improve services to members.

## **Directors' benefits**

During or since the end of the financial year, no Director of the Society has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of compensation paid or payable to Key Management Personnel as shown on page 29 of the general purpose financial statements) by reason of a contract entered into by the Society (or an entity that the Society controlled, or a body corporate that was related to the Society when the contract was made, or when the Director received, or became entitled to receive, the benefit) with:

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

## **Auditor independence declaration**

The Auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the financial year ended 30 June 2008.

## **Indemnification and insurance of Officers and Auditors**

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

The Society has not indemnified its Auditors, WHK Audit & Risk Assessment.

## **Rounding**

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

Signed in accordance with a resolution of the Directors:

Ulf O. Ericson  
Chairman

John A. Knobel  
Deputy Chairman

Albury, 21 August 2008

**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

To: the Directors of Hume Building Society Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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

WHK Audit & Risk Assessment

Timothy S. Frazer, Partner  
Albury, 21 August 2008

# Income Statement

for the year ended 30 June 2008

	Note	2008 \$'000	2007 \$'000
Interest revenue	2	42,892	37,199
Interest expense	2	(26,092)	(21,727)
Net interest income		16,800	15,472
Non-interest income	3	2,499	2,442
Total operating income		19,299	17,914
Bad and doubtful debts	11	28	(172)
Other expenses	4	(14,221)	(12,654)
<b>Profit before income tax</b>		<b>5,106</b>	<b>5,088</b>
Income tax expense	5	(1,539)	(1,521)
<b>Profit for the year</b>		<b>3,567</b>	<b>3,567</b>

The income statement is to be read in conjunction with the accompanying notes set out on pages 10 to 39.



# Statement of Changes in Equity

for the year ended 30 June 2008

	Note	Retained Earnings \$'000	Fair Value Reserve \$'000	General Reserve for Credit Losses \$'000	Capital Profits Reserve \$'000	Total Reserves \$'000
Opening balance at 1 July 2006		31,737	175	1,112	365	1,652
Net profit for the year		3,567	-	-	-	-
Transfers to/(from) reserves		(109)	(175)	56	228	109
Closing balance at 30 June 2007	24, 25	<b>35,195</b>	-	<b>1,168</b>	<b>593</b>	<b>1,761</b>
Opening balance at 1 July 2007		<b>35,195</b>	-	<b>1,168</b>	<b>593</b>	<b>1,761</b>
Net profit for the year		<b>3,567</b>	-	-	-	-
Transfers to/(from) reserves		<b>49</b>	-	<b>(49)</b>	-	<b>(49)</b>
Closing balance at 30 June 2008	24, 25	<b>38,811</b>	-	<b>1,119</b>	<b>593</b>	<b>1,712</b>

The statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 10 to 39.

# Balance Sheet

as at 30 June 2008

	Note	2008 \$'000	2007 \$'000
<b>Assets</b>			
Cash and cash equivalents	6	14,157	21,147
Receivables due from other financial institutions	7	43,200	15,050
Investment securities	8	54,062	50,573
Trade and other receivables	9	1,108	800
Loans and advances	10	469,136	433,098
Other investments	12	1,743	1,530
Investment property	13	-	-
Property, plant and equipment	14	6,200	5,495
Intangible assets	15	356	321
Deferred tax assets	16	722	710
<b>Total assets</b>		<b>590,684</b>	<b>528,724</b>
<b>Liabilities</b>			
Deposits	17	516,987	477,175
Deposits from other financial institutions	18	500	5,000
Trade and other payables	19	10,985	7,893
Income tax payable	20	230	448
Borrowings	21	20,000	-
Deferred tax liabilities	22	175	87
Provision for employee benefits	23	1,284	1,165
<b>Total liabilities</b>		<b>550,161</b>	<b>491,768</b>
<b>Net assets</b>		<b>40,523</b>	<b>36,956</b>
<b>Members' funds</b>			
Reserves	24	1,712	1,761
Retained earnings	25	38,811	35,195
<b>Total members' funds</b>		<b>40,523</b>	<b>36,956</b>

The balance sheet is to be read in conjunction with the accompanying notes set out on pages 10 to 39.

# Statement of Cash Flows

for the year ended 30 June 2008

	Note	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>			
Interest received		42,501	37,151
Interest paid		(24,028)	(22,034)
Other non-interest revenue received		2,582	2,816
Cash paid to suppliers and employees		(11,826)	(11,011)
Fees and commissions paid		(22)	(20)
Income tax paid	20	(1,681)	(1,739)
		<u>7,526</u>	<u>5,163</u>
<i>(Increase)/decrease in operating assets:</i>			
Net (increase)/decrease in loans and advances		(36,009)	(30,166)
Net increase/(decrease) in deposits		39,812	38,850
Net increase/(decrease) in deposits from other financial institutions		(4,500)	5,000
<b>Net cash flows from operating activities</b>	26	<u>6,829</u>	<u>18,847</u>
<b>Cash flows from investing activities</b>			
Net (increase)/decrease in receivables due from other financial institutions		(5,000)	-
Net (increase)/decrease in investment securities		2,968	7,871
Proceeds from sale of other investments		-	1
Payments for other investments		(214)	-
Proceeds from sale of investment property		-	2,196
Payments for property, plant and equipment		(1,673)	(645)
Proceeds from sale of property, plant and equipment		10	18
Payments for intangible assets		(303)	(220)
<b>Net cash flows from investing activities</b>		<u>(4,212)</u>	<u>9,221</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		20,000	-
<b>Net cash flows from financing activities</b>		<u>20,000</u>	<u>-</u>
<b>Net increase/(decrease) in cash held</b>		<b>22,617</b>	<b>28,068</b>
Cash at the beginning of the financial year		<u>81,802</u>	<u>53,734</u>
<b>Cash at the end of the financial year</b>	26	<u><u>104,419</u></u>	<u><u>81,802</u></u>

The statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 10 to 39.

# Notes to the Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Reporting entity

Hume Building Society Ltd (the 'Company' or 'Society') is a company limited by shares and guarantee domiciled in Australia. No shares have been issued. The address of the Company's registered office is 492 Olive Street, Albury, NSW, 2640.

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Society also complies with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 21 August 2008.

### Basis of measurement

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except for investment properties, which are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

The Society has elected to adopt AASB 8 *Operating Segments* early.

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

### Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### Investment in equity securities

Equity investments held for trading are stated at fair value, with any resulting gain or loss recognised in the income statement. The fair value of equity investments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Equity investments where no market value is readily available are carried at cost less any provision for impairment.

### Receivables due from other financial institutions

Receivables due from other financial institutions are held-to-maturity investments which the Society has a positive intention and ability to hold to maturity. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment securities

Investment securities are held-to-maturity investments which the Society has a positive intention and ability to hold to maturity.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the balance sheet.

### Loans and advances

Loans and advances are recognised at amortised cost using the effective interest rate method, after assessing required provisions for impairment.

The effective interest rate method requires origination fees and associated transaction costs to be capitalised as part of the loan balance and amortised over the expected life of the loan as part of the loan's effective interest rate. The expected life of the loan has been based on an analysis of the Society's loan portfolio.

The interest on loans and overdrafts is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month. The interest on revolving credit cards is calculated on the daily balance outstanding and is charged in arrears to a member's account on the 15<sup>th</sup> day of each month. Purchases are granted up to 55 days interest free until the due date for payment. All housing loans are secured by registered mortgages.

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

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

- Impaired loans – are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful and hence provisions for impairment are recognised.
- Renegotiated loans – arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and the revised terms are not comparable to new facilities. Loans with revised terms are included in impaired loans when impairment provisions are required.
- Assets acquired through the enforcement of security – are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.
- Past-due loans – are loans where payments of principal and/or interest are at least 1 day or more in arrears. Full recovery of both principal and interest is expected. If a provision for impairment is required, the loan is included in impaired loans.

### Loan impairment – collective provision

The collective provision for impairment is determined as per Society policy which is consistent with that required by the Prudential Standards issued by the Australian Prudential Regulatory Authority (APRA). Specific percentages are applied to loan balances outstanding based on the length of time repayments are in arrears and the security held.

### Loan impairment – specific provision

Specific impairment of a loan is recognised when there is objective evidence that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans.

### Reserve for credit losses

Society policy requires that a general reserve for credit losses, sufficient to cover estimated future credit losses, be maintained. This Society maintains a general reserve for credit losses of 0.5% of risk weighted assets (previous year - 0.5% of risk weighted loans and advances).

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Bad Debts

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

### Property, plant and equipment

#### *Owned Assets*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property at 1 July 2004, the date of transition to AABSs, was determined by reference to its fair value at that date.

#### *Depreciation*

With the exception of freehold land, depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 40 years
- Plant and equipment 3 – 10 years
- Leasehold improvements 3 – 6 years (the lease term)

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

#### *Disposal*

The gain or loss on disposal is included in the income statement and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

### Investment property

Investment property is property held either to earn rental income or for capital appreciation or both. Investment property is measured at fair value with any change therein recognised in profit or loss. An external, independent valuer, having an appropriately recognised professional qualification and recent experience in the location and category of property being valued, values the property every year. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Society's investment property.

### Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Society are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. These lives range from 3 to 5 years.

### Impairment

The carrying amounts of the Society's assets, other than investment property and deferred tax assets, are reviewed at each balance date to assess whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is determined.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation. Any excess is recognised through the income statement.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Employee benefits

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

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

A provision is recognised for the amount to be paid under short-term cash bonus or profit-sharing plans if the Society has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### *Long service leave*

The Society's obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating to the terms of the Society's obligations.

#### *Superannuation plan*

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

### Goods and services tax

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

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

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the loans and borrowings using the effective interest method. Interest payable is included in the amount of payables in the balance sheet.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

For the purpose of the statement of cash flows, cash and cash equivalents includes cash balances, call deposits, investment securities and receivables due from other financial institutions that are due to mature in less than three months.

### Leases

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

#### *Operating leases*

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the lease term.

### Revenue

#### *Dividends*

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

#### *Fees and commissions*

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

#### *Rental income*

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

### New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Society in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

- Revised AASB 101 *Presentation of Financial Statements* – contains amendments to the presentation and naming of the financial statements. The revised standard will be mandatory for the Society's 30 June 2010 financial statements. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financials statements.
- Revised AASB 123 *Borrowing Costs* – removes the option to expense borrowing costs and requires the Society to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised standard will be mandatory for the Society's 30 June 2010 financial statements. There will be no impact on the Society when this standard is adopted.



## 2. INTEREST REVENUE AND INTEREST EXPENSE

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

	Average balance \$'000	Interest \$'000	Average interest rate %
<b>Interest revenue 2008</b>			
Cash at authorised deposit-taking institutions	11,493	758	6.60
Receivables due from other financial institutions	25,881	2,018	7.80
Investment securities	54,892	4,280	7.80
Loans and advances	449,302	35,836	7.98
	<u>541,568</u>	<u>42,892</u>	<u>7.92</u>
<b>Interest expense 2008</b>			
Members' deposits	495,296	25,312	5.11
Deposits from other financial institutions	2,696	191	7.08
Borrowings	7,233	589	8.15
	<u>505,225</u>	<u>26,092</u>	<u>5.16</u>
<b>Interest revenue 2007</b>			
Cash at authorised deposit-taking institutions	10,232	599	5.85
Receivables due from other financial institutions	17,492	1,175	6.72
Investment securities	68,661	4,615	6.72
Loans and advances	413,584	30,810	7.45
	<u>509,969</u>	<u>37,199</u>	<u>7.29</u>
<b>Interest expense 2007</b>			
Members' deposits	481,016	21,725	4.52
Deposits from other financial institutions	28	2	6.99
Borrowings	-	-	-
	<u>481,044</u>	<u>21,727</u>	<u>4.52</u>

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
<b>3. NON-INTEREST INCOME</b>		
Fees and commissions from members		
- Loan and overdraft fees	<b>125</b>	81
- Transaction fees	<b>805</b>	872
- Credit card fees	<b>10</b>	-
- Other fees	<b>207</b>	170
	<b>1,147</b>	1,123
Fees and commissions from non-members		
- Fees for service	<b>502</b>	410
- Commissions	<b>809</b>	675
	<b>1,311</b>	1,085
Total fees and commissions	<b>2,458</b>	2,208
Other non-interest income		
- Bad debts recovered	<b>36</b>	3
- Net gain from sale of other investments	-	1
- Net gain from sale of investment property	-	76
- Income from property	<b>4</b>	151
- Sundry income	<b>1</b>	3
	<b>41</b>	234
Total non-interest income	<b>2,499</b>	2,442

	Note	2008 \$'000	2007 \$'000
<b>4. OTHER EXPENSES</b>			
Amortisation – leasehold improvements	14	197	143
Amortisation – intangible assets	15	267	265
Depreciation			
- Plant and equipment	14	677	636
- Buildings	14	64	62
		<hr/>	<hr/>
		741	698
Fees and commissions		22	20
Personnel costs			
- Provision for long service leave		46	1
- Provision for annual leave		33	61
- Superannuation contributions		616	624
- Salaries and wages		5,206	4,501
- Other		993	900
		<hr/>	<hr/>
		6,894	6,087
Marketing expenses		668	451
Information technology expenses		685	580
Occupancy costs			
- Rental – operating leases		556	438
- Other occupancy costs		809	761
		<hr/>	<hr/>
		1,365	1,199
ATM, Eftpos & electronic transaction processing costs		1,213	1,209
Other administration expenses		2,148	1,986
Net loss on disposal of property, plant & equipment		20	8
Net loss on disposal of intangible assets		1	8
		<hr/>	<hr/>
Total other expenses		<hr/> <b>14,221</b> <hr/>	<hr/> <b>12,654</b> <hr/>

	Note	2008 \$'000	2007 \$'000
<b>5. INCOME TAX EXPENSE</b>			
Income tax expense		<u>1,539</u>	<u>1,521</u>
<b>Recognised in income statement</b>			
<i>Income tax expense comprises amounts set aside as:</i>			
Income tax payable – current year	20	1,459	1,688
Under/(over) provision in prior years		4	-
Increase/(decrease) in deferred tax liabilities		88	(57)
(Increase)/decrease in deferred tax assets		<u>(12)</u>	<u>(110)</u>
		<u>1,539</u>	<u>1,521</u>
<b>Reconciliation between tax expense and pre-tax profit</b>			
Profit before income tax		<u>5,106</u>	<u>5,088</u>
Prima facie income tax expense calculated at 30%		1,532	1,527
<i>Increase/(decrease) in income tax expense due to:</i>			
Non-deductible expenses		24	23
Other deductible expenses		<u>(21)</u>	<u>(29)</u>
		1,535	1,521
Income tax (over)/under provided in prior period		<u>4</u>	<u>-</u>
Income tax expense attributable to profit		<u>1,539</u>	<u>1,521</u>
<b>6. CASH AND CASH EQUIVALENTS</b>			
Cash on hand and at authorised deposit-taking institutions		<u>14,157</u>	<u>21,147</u>
<b>7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS</b>			
Interest earning deposits		<u>43,200</u>	<u>15,050</u>
<b>Maturity analysis</b>			
Not later than 1 month		17,000	8,050
Later than 1 and not later than 3 months		19,200	5,000
Later than 3 and not later than 12 months		7,000	2,000
Later than 1 and not later than 5 years		-	-
		<u>43,200</u>	<u>15,050</u>
<b>Credit rating of receivables due from other financial institutions</b>			
Authorised Deposit-taking Institutions rated A and above		33,000	15,000
Authorised Deposit-taking Institutions rated below A		10,000	-
Unrated Authorised Deposit-taking Institutions		<u>200</u>	<u>50</u>
		<u>43,200</u>	<u>15,050</u>

	Note	2008 \$'000	2007 \$'000
<b>8. INVESTMENT SECURITIES</b>			
Bills of exchange		3,974	12,861
Negotiable certificates of deposit		50,088	37,712
		<b>54,062</b>	<b>50,573</b>
<b>Maturity analysis</b>			
Not later than 1 month		32,089	29,231
Later than 1 and not later than 3 months		21,973	18,374
Later than 3 and not later than 12 months		-	2,968
Later than 1 and not later than 5 years		-	-
		<b>54,062</b>	<b>50,573</b>
<b>Credit rating of investment securities</b>			
Authorised Deposit-taking Institutions rated A and above		3,974	12,861
Authorised Deposit-taking Institutions rated below A		50,088	37,712
Unrated Authorised Deposit-taking Institutions		-	-
		<b>54,062</b>	<b>50,573</b>
<b>9. TRADE AND OTHER RECEIVABLES</b>			
Interest receivable on investments		853	462
Sundry debtors, accrued income and prepayments		255	338
		<b>1,108</b>	<b>800</b>
<b>10. LOANS AND ADVANCES</b>			
Overdrafts and Credit Cards		6,298	4,642
Term loans		463,269	428,917
Loans and advances before deferred fees and costs		469,567	433,559
Deferred loan transaction costs		462	365
Deferred origination fees		(821)	(713)
Total loans and advances		469,208	433,211
Provision for impairment	11	(72)	(113)
Net loans and advances		<b>469,136</b>	<b>433,098</b>
<b>Maturity analysis</b>			
Not later than 1 month		7,661	5,998
Later than 1 and not later than 3 months		3,022	3,024
Later than 3 and not later than 12 months		12,121	11,902
Later than 1 and not later than 5 years		63,038	61,662
Later than 5 years		383,366	350,625
		<b>469,208</b>	<b>433,211</b>

	2008 \$'000	2007 \$'000
<b>10. LOANS AND ADVANCES (continued)</b>		
<b>Concentration of risk</b>		
The loan portfolio of the Society does not include any loan which represents 10% or more of capital.		
The Society has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
- Southern NSW and North East Victoria	440,240	407,329
- Other – non-concentrated	29,327	26,230
	<b>469,567</b>	<b>433,559</b>
<b>Security held against loans</b>		
Secured by mortgage over residential property	437,828	403,210
Secured by mortgage over commercial property	19,653	21,281
Total loans secured by real estate	457,481	424,491
Secured by funds	405	125
Partly secured by goods mortgage	6,561	5,650
Wholly unsecured	5,120	3,293
	<b>469,567</b>	<b>433,559</b>
<b>Loan to value ratio on loans secured by real estate</b>		
Loan to value ratio of 80% or less	404,100	388,069
Loan to value ratio of more than 80% but mortgage insured	48,204	31,319
Loan to value ratio of more than 80% not mortgage insured	5,177	5,103
	<b>457,481</b>	<b>424,491</b>
<b>11. IMPAIRMENT OF LOANS AND ADVANCES</b>		
<b>Provision for impairment</b>		
Collective provision	52	89
Specific provision	20	24
	<b>72</b>	<b>113</b>
<b>Provision for impairment – collective provision</b>		
Opening balance	89	16
Bad debts previously provided for written off during the year	(13)	(59)
Bad and doubtful debts provided for released during the year	(24)	132
Closing balance	<b>52</b>	<b>89</b>
<b>Provision for impairment – specific provision</b>		
Opening balance	24	-
Bad debts previously provided for written off during the year	-	(14)
Bad and doubtful debts provided for released during the year	(4)	38
Closing balance	<b>20</b>	<b>24</b>

	2008 \$'000	2007 \$'000
<b>11. IMPAIRMENT OF LOANS AND ADVANCES (continued)</b>		
<b>Bad and doubtful debts expense comprises:</b>		
Collective provision increase/(decrease)	(24)	132
Specific provision increase/(decrease)	(4)	38
Bad debts recognised directly to income statement	-	2
Total bad debts expense/(benefit)	<u>(28)</u>	<u>172</u>
<b>Ageing analysis of loans and advances past due</b>		
<b><i>Loans and advances past due and not impaired</i></b>		
Up to 30 days	15,384	11,805
More than 30 days but less than 90 days	2,090	772
More than 90 days but less than 180 days	864	265
More than 180 days but less than 270 days	-	126
More than 270 days but less than 365 days	-	-
More than 365 days	7	-
Accounts overdrawn and overdrafts over limit less than 14 days	<u>272</u>	<u>853</u>
	<b>18,617</b>	<b>13,821</b>
<b><i>Loans and advances past due and impaired</i></b>		
Up to 30 days	-	-
More than 30 days but less than 90 days	-	-
More than 90 days but less than 180 days	10	12
More than 180 days but less than 270 days	-	85
More than 270 days but less than 365 days	40	-
More than 365 days	-	13
Accounts overdrawn and overdrafts over limit less than 14 days	<u>79</u>	<u>37</u>
	<b>129</b>	<b>147</b>
Total past due loans and advances	<u><b>18,746</b></u>	<u><b>13,968</b></u>
<b>Security analysis of loans and advances past due</b>		
<b><i>Loans and advances past due and not impaired</i></b>		
Secured by mortgage over real estate	17,759	13,025
Secured by funds	-	-
Partly secured by goods mortgage	556	81
Wholly unsecured	<u>302</u>	<u>715</u>
	<b>18,617</b>	<b>13,821</b>

	2008 \$'000	2007 \$'000
<b>11. IMPAIRMENT OF LOANS AND ADVANCES (continued)</b>		
<b><i>Loans and advances past due and impaired</i></b>		
Secured by mortgage over real estate	49	86
Secured by funds	-	-
Partly secured by goods mortgage	11	23
Wholly unsecured	69	38
	<u>129</u>	<u>147</u>
Total past due loans and advances	<u><u>18,746</u></u>	<u><u>13,968</u></u>
It is not practicable to determine the fair value of all security as at the balance date.		
<b>Renegotiated loans</b>		
Loans renegotiated during the financial year	-	-
Balance at the end of the financial year	-	-
<b>Assets acquired through enforcement of security</b>		
Real estate acquired through enforcement of security	-	-
Specific provision for impairment	-	-
Balance at the end of the financial year	-	-
Net fair value of real estate assets acquired through the enforcement of security during the financial period	-	649
Net fair value of other assets acquired through the enforcement of security during the financial period	-	8
<b>12. OTHER INVESTMENTS</b>		
Unlisted shares – at cost	205	205
Collateral deposit – at cost	1,538	1,325
	<u>1,743</u>	<u>1,530</u>
<b>13. INVESTMENT PROPERTY</b>		
Balance at the beginning of the year	-	2,120
Fair value adjustments	-	-
Disposals	-	(2,120)
Balance at the end of the year	<u>-</u>	<u>-</u>



<b>2008</b>	2007
<b>\$'000</b>	\$'000

#### 14. PROPERTY, PLANT AND EQUIPMENT

##### Land & Buildings

At cost	3,392	3,295
Provision for depreciation	(216)	(153)
Total freehold land and buildings	<u>3,176</u>	<u>3,142</u>

##### Leasehold improvements

At cost	1,176	840
Provision for amortisation	(542)	(376)
Total leasehold improvements	<u>634</u>	<u>464</u>

##### Plant and equipment

At cost	5,189	4,471
Provision for depreciation	(2,799)	(2,582)
Total plant and equipment	<u>2,390</u>	<u>1,889</u>

Total property, plant and equipment at net book value	<u><u>6,200</u></u>	<u><u>5,495</u></u>
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##### Reconciliations

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

##### Land and Buildings

Carrying amount at the beginning of the year	3,142	3,171
Additions	98	33
Disposals	-	-
Depreciation	(64)	(62)
Carrying amount at the end of the year	<u><u>3,176</u></u>	<u><u>3,142</u></u>

##### Leasehold improvements

Carrying amount at the beginning of the year	464	524
Additions	367	83
Disposals	-	-
Amortisation	(197)	(143)
Carrying amount at the end of the year	<u><u>634</u></u>	<u><u>464</u></u>

##### Plant and equipment

Carrying amount at the beginning of the year	1,889	2,051
Additions	1,208	500
Disposals	(30)	(26)
Depreciation	(677)	(636)
Carrying amount at the end of the year	<u><u>2,390</u></u>	<u><u>1,889</u></u>

	2008	2007
	\$'000	\$'000
<b>15. INTANGIBLE ASSETS</b>		
At cost	1,368	1,648
Provision for amortisation	(1,012)	(1,327)
	<u>356</u>	<u>321</u>

#### Reconciliations

Reconciliations of the carrying amounts for each class of intangible assets are set out below:

#### Computer software & licences

Carrying amount at the beginning of the year	321	375
Additions	303	220
Disposals	(1)	(9)
Amortisation	(267)	(265)
Carrying amount at the end of the year	<u>356</u>	<u>321</u>

#### 16. DEFERRED TAX ASSETS

Deferred tax assets	<u>722</u>	<u>710</u>
<i>Deferred tax assets are attributable to the following:</i>		
Property, plant and equipment and intangible assets	193	156
Provisions for employee benefits	307	284
Provision for impairment on loans	22	34
Accrued expenses not currently deductible	48	83
Deferred loan fees and transaction costs	108	104
Deferred income	44	49
	<u>722</u>	<u>710</u>

#### 17. DEPOSITS

Call deposits	193,624	187,957
Term deposits	323,363	289,218
	<u>516,987</u>	<u>477,175</u>

#### Maturity analysis

Not later than 1 month	278,089	278,582
Later than 1 and not later than 3 months	143,484	118,000
Later than 3 and not later than 12 months	91,145	71,209
Later than 1 and not later than 5 years	4,269	9,384
	<u>516,987</u>	<u>477,175</u>

#### Concentration of deposits

Southern NSW and North East Victoria	500,158	461,680
Other – non-concentrated	16,829	15,495
	<u>516,987</u>	<u>477,175</u>

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

	2008 \$'000	2007 \$'000
<b>18. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS</b>		
Term Deposits	<u>500</u>	<u>5,000</u>
<b>Maturity analysis</b>		
Not later than 1 month	-	-
Later than 1 and not later than 3 months	500	-
Later than 3 and not later than 12 months	-	5,000
	<u>500</u>	<u>5,000</u>
<b>Concentration of deposits</b>		
Southern NSW and North East Victoria	-	-
Other – non-concentrated	500	5,000
	<u>500</u>	<u>5,000</u>
<b>19. TRADE AND OTHER PAYABLES</b>		
Accrued interest payable	5,934	3,870
Creditors and other liabilities	5,051	4,023
	<u>10,985</u>	<u>7,893</u>
<b>20. INCOME TAX PAYABLE</b>		
Income tax payable	<u>230</u>	<u>448</u>
<i>Movement during the year was as follows:</i>		
Balance at the beginning of the year	448	499
Current year's income tax expense on profit before tax	1,459	1,688
Income tax paid – Current year	(1,220)	(1,240)
Income tax paid – Prior year	(461)	(499)
Under/(over) provision in prior period	4	-
	<u>230</u>	<u>448</u>
<b>21. BORROWINGS</b>		
Unsecured loans	<u>20,000</u>	<u>-</u>
<b>Maturity analysis</b>		
Not later than 1 month	-	-
Later than 1 and not later than 3 months	20,000	-
Later than 3 and not later than 12 months	-	-
	<u>20,000</u>	<u>-</u>

	2008	2007
	\$'000	\$'000
<b>22. DEFERRED TAX LIABILITIES</b>		
Deferred tax liabilities	175	87
<i>Deferred tax liabilities are attributable to the following:</i>		
Accrual of short-term bills	175	87
<b>23. PROVISION FOR EMPLOYEE BENEFITS</b>		
Salaries, wages and other benefits accrued	265	225
Provision for annual leave	503	470
Provision for long service leave	516	470
	<b>1,284</b>	<b>1,165</b>
Included in employee benefits is a non-current amount of \$195,000 (2007 - \$158,000) relating to long service leave.		
<b>24. RESERVES</b>		
General reserve for credit losses	1,119	1,168
Capital profits reserve	593	593
Fair value reserve	-	-
	<b>1,712</b>	<b>1,761</b>
<b>Movements in reserves</b>		
<b>General reserve for credit losses</b>		
Balance at the beginning of the year	1,168	1,112
Transfer from retained earnings	(49)	56
Balance at the end of the year	<b>1,119</b>	<b>1,168</b>
This reserve is required to be maintained to comply with Society policy.		
<b>Capital profits reserve</b>		
Balance at the beginning of the year	593	365
Transfer from retained earnings	-	53
Transfer from fair value reserve	-	175
Balance at the end of the year	<b>593</b>	<b>593</b>
This reserve includes the cumulative capital profits made on the disposal of assets.		
<b>Fair value reserve</b>		
Balance at the beginning of the year	-	175
Transfer from retained earnings	-	-
Transfer to capital profits reserve	-	(175)
Balance at the end of the year	-	-
This reserve includes the cumulative net change in fair value of the investment property until the property was derecognised.		

	2008	2007
	\$'000	\$'000
<b>25. RETAINED EARNINGS</b>		
Retained earnings at the beginning of the year	35,195	31,737
Net profit attributable to members	3,567	3,567
Transfers from/(to) reserves	49	(109)
Retained earnings at the end of the year	<u>38,811</u>	<u>35,195</u>

**26. STATEMENT OF CASH FLOWS**

**(a) Reconciliation of cash**

Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the financial statements as follows:

Cash on hand and at authorised deposit-taking institutions	14,157	21,147
Receivables due from other financial institutions less than 3 months	36,200	13,050
Investment securities less than 3 months	54,062	47,605
	<u>104,419</u>	<u>81,802</u>

**(b) Reconciliation of cash flows from operating activities**

Profit for the year	3,567	3,567
<i>Non-cash items</i>		
Charge for (release of) bad and doubtful debts	(28)	172
Depreciation	741	698
Amortisation of leasehold improvements	197	143
Amortisation of intangible assets	267	265
Provision for employee entitlements	79	62
Net (profit)/loss on disposal of plant and equipment	20	16
Net (profit)/loss on disposal of intangible assets	1	-
Net (profit)/loss on disposal of other investments	-	(1)
Net (profit)/loss on disposal of investment property	-	(76)
<i>Changes in assets and liabilities</i>		
Interest receivable	(391)	(48)
Other receivables	83	453
Interest payable	2,064	(307)
Income tax payable	(218)	(51)
Trade and other payables	1,028	360
Provision for employee benefits	40	77
Deferred tax assets	(12)	(110)
Deferred tax liabilities	88	(57)
	<u>7,526</u>	<u>5,163</u>
Net (increase)/decrease in loans and advances	(36,009)	(30,166)
Net increase/(decrease) in deposits	39,812	38,850
Net increase/(decrease) in deposits from other financial institutions	(4,500)	5,000
Net cash flow from operating activities	<u>6,829</u>	<u>18,847</u>

**Special finance line – standby facility**

The Society has a special finance line – standby facility with ANZ Bank available to the extent of \$6.0 million (2007 - \$6.0 million). This facility is unsecured. As at 30 June 2008 this facility was undrawn (2007 undrawn).

	2008	2007
	\$	\$
<b>27. AUDITOR'S REMUNERATION</b>		
Amounts received or due and receivable by the External Auditor of Hume Building Society Ltd for:		
– audit of the financial statements of the Society	48,750	48,500
– other services in relation to the Society	21,497	10,937
	<u>70,247</u>	<u>59,437</u>

Amounts paid in 2007 were to KPMG Albury. The firm transitioned to the WHK group in 2008 and are now known as WHK Audit & Risk Assessment.

**28. EMPLOYEE BENEFITS**

**Superannuation commitments**

The Society contributes to the Hume Building Society Staff Superannuation Fund which is an accumulation fund. The benefits provided are based on the amounts credited to each member's account in the fund. No actuarial assessment is required. The Society contributed 9% of each fund member's gross salary to cover its occupational superannuation obligations. Members may contribute to the fund on a voluntary basis.

**29. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS**

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

	2008	2007
	\$'000	\$'000

**Credit-related commitments**

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

Approved but undrawn loans and credit limits	<u>32,522</u>	<u>30,391</u>
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**Security analysis of credit-related commitments**

Secured by mortgage over real estate	26,115	27,251
Secured by funds	325	258
Partly secured by goods mortgage	193	111
Wholly unsecured	5,889	2,771
	<u>32,522</u>	<u>30,391</u>

**Financial guarantees**

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

	<u>1,488</u>	<u>907</u>
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**Security analysis of financial guarantees**

Secured by mortgage over real estate	867	578
Secured by funds	593	314
Wholly unsecured	28	15
	<u>1,488</u>	<u>907</u>

<b>2008</b>	2007
<b>\$'000</b>	\$'000

### 30. EXPENDITURE COMMITMENTS

#### Capital expenditure commitments

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

– payable within one year	<b>220</b>	115
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#### Operating leases (non-cancellable)

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

– within 1 year	<b>713</b>	531
– later than 1 and not later than 2 years	<b>607</b>	494
– later than 2 and not later than 5 years	<b>647</b>	604
– later than 5 years	<b>7</b>	-
Aggregate lease expenditure contracted for at balance date	<b>1,974</b>	1,629

### 31. KEY MANAGEMENT PERSONNEL DISCLOSURE

#### Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Society, directly or indirectly and has been taken to comprise the Directors and the members of the Senior Management team who are responsible for the day to day financial and operational management of the Society.

The aggregate compensation of key management personnel during the year comprising amounts paid, payable or provided for was as follows:

	<b>2008</b>	2007
	<b>\$</b>	\$
Short-term employee benefits		
- Directors	<b>282,622</b>	346,257
- Other key management personnel	<b>759,362</b>	774,871
Post-employment benefits – superannuation contributions paid		
- Directors	<b>164,031</b>	68,802
- Other key management personnel	<b>97,902</b>	96,787
Other long-term benefits – net increase in long service leave provision		
- Directors	-	-
- Other key management personnel	<b>34,536</b>	11,190
	<b>1,338,453</b>	1,297,907

Short term employee benefits include (where applicable) wages, salaries, paid annual and sick leave, bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

The members of the Society at the previous Annual General Meeting approved the remuneration of Directors for the period.

### 31. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

	2008	2007
	\$	\$
<b>Loans to key management personnel and other related parties</b>		
Loan transactions with key management personnel and related parties are as follows:		
Loan balances outstanding at balance date:		
- Directors	400,865	497,975
- Director related parties	790,873	768,052
- Other key management personnel	1,015,747	1,032,055
- Other key management personnel related parties	-	-
Revolving credit facilities at balance date:		
- Directors	7,500	-
- Director related parties	10,000	10,000
- Other key management personnel	40,000	40,000
- Other key management personnel related parties	-	-
Less amounts drawn down and included in loan balances:		
- Directors	1,469	-
- Director related parties	235	2,555
- Other key management personnel	12,548	3,791
- Other key management personnel related parties	-	-
Net balance of revolving credit facilities available:		
- Directors	6,031	-
- Director related parties	9,765	7,445
- Other key management personnel	27,462	36,209
- Other key management personnel related parties	-	-
Loans advanced (including redraws and revolving credit) during the year:		
- Directors	17,878	7,541
- Director related parties	251,086	17,491
- Other key management personnel	453,938	99,582
- Other key management personnel related parties	-	-
Loan repayments (including revolving credit) received during the year:		
- Directors	152,217	386,446
- Director related parties	283,020	74,244
- Other key management personnel	551,437	208,149
- Other key management personnel related parties	-	-
Interest and other revenue earned:		
- Directors	37,229	42,255
- Director related parties	54,755	50,506
- Other key management personnel	81,191	74,562
- Other key management personnel related parties	-	-

The Society's policy for lending to Directors is that all loans are approved on the same terms and conditions which apply to members for each class of loan.



### 31. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

Key management personnel, other than Directors and the Chief Executive Officer, may receive a concessional rate of interest on their loans up to a loan maximum of \$75,000, subject to a qualifying period of employment. Other staff are eligible for concessions on loans on the same terms and conditions. Any benefits received are subject to fringe benefits tax and are included in key management personnel compensation.

There are no loans to either Directors and other key management personnel that are impaired in relation to the loan balances or interest.

There are no benefits or concessional terms and conditions applicable to the close family members of Directors and other key management personnel, with the exception of one close family member of a Director who is an employee of the Society and is eligible for a concessional rate loan under the same terms and conditions as other employees.

There are no loans to close family relatives or other related parties of key management personnel which are impaired in relation to the loan balances or interest.

#### Deposits from key management personnel and other related parties

Details of deposits from key management personnel and related parties are as follows:

	2008	2007
	\$	\$
Deposits outstanding at balance date:		
- Directors	158,867	112,522
- Director related parties	2,619,635	1,873,276
- Other key management personnel	15,658	14,497
- Other key management personnel related parties	59,106	37,438
Interest paid on deposits:		
- Directors	6,057	4,676
- Director related parties	142,572	119,423
- Other key management personnel	48	51
- Other key management personnel related parties	4,074	2,148

The Society's policy on deposit accounts from key management personnel and their related parties, is that all transactions are on the same terms and conditions as those entered into by other members.

#### Other transactions with related parties

A close family member of a Director is employed by the Society. The employment contract is on the same terms and conditions as other employees of the Society.

There are no benefits paid or payable to the close family members or other related parties of key management personnel other than those disclosed in this note.

There are no service contracts to which key management personnel, their close family members or other related parties are an interested party other than those disclosed in this note.

A member of the Society's key management personnel is also a Director of Abacus Australian Mutuals Pty Ltd. All transactions with this company are on normal terms and conditions.

### 32. ECONOMIC DEPENDENCY

The Society has an economic dependency on First Data Resources Australia Limited for the provision of ATM and Eftpos network services, ANZ Bank for cheque clearing services and Ultradata Australia Pty Ltd for computer software services.

### 33. SEGMENT INFORMATION

The Society operates predominantly in the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans. Specific segmentation of deposits and loans are set out in notes 10, 17 and 18.

### 34. RISK MANAGEMENT OBJECTIVES AND POLICIES

#### **Risk management overview**

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has adopted an overarching risk management policy and framework suitable for the risk profile of the Society.

Risk management policies are established to identify and analyse the risks faced by the Society, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Society's activities. The Society, through staff training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Society's Audit & Risk Committee oversees management's monitoring of compliance with the Society's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Society. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Society's risk management system incorporates a thorough analysis of all risks identified that are likely to have an impact. Controls that mitigate risk are implemented and tested and are supported by documented policies and procedures.

An overview of risk management approaches to industry specific risks are detailed below. Further quantitative disclosures are included throughout this financial report.

#### **Credit risk**

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Society which may result in financial losses. Credit risk arises principally from the Society's loans and advances and liquid investments.

#### ***Credit risk – loans and advances***

The risk of losses from the loans undertaken is reduced by assessing the character of borrowers, their capacity to service the debt and the nature and quality of security taken.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of loan repayments thereafter. The Board has approved the credit policy.

The Society has established policies over:

- Credit assessment and approval of loans and facilities including acceptable risk assessment and security requirements. Credit assessment includes ensuring all members are creditworthy and capable of meeting the loan repayments;
- Requirements for lenders' mortgage insurance;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans and advances, commercial lending and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on certain loans and advances;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

A regular review of compliance is conducted by Internal Audit.

The Society minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of customers within the specified category. However, the majority of customers are concentrated in the North-east Victoria and Southern NSW region. Details of concentrations of credit risk on loans and advances receivable are set out in note 10.

#### 34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### ***Credit risk – liquid investments***

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits of concentration to one entity. The Board's policy is to maintain counterparty limits with Australian banks to a maximum of 50% of capital and other non-bank financial institutions to a maximum of 20% of capital, dependant upon rating. Given the high quality of these investments, the Society does not expect any counterparty to fail to meet its obligation. Details of exposures to liquidity investments are set out in notes 7 and 8.

##### **Liquidity risk**

Liquidity risk is the risk that the Society may encounter difficulties raising funds to meet its financial obligations as they fall due.

The Society manages liquidity risk by:

- Monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate cash reserves;
- Maintaining a standby facility (refer note 26); and
- Monitoring the prudential ratio daily.

The Society is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours to satisfy APRA's prudential standards, however, the Society's policy is to invest 12% of liabilities as liquid assets to maintain adequate funds for meeting member withdrawal requests. Should the liquidity ratio fall below this level Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits and borrowing facilities available.

As at 30 June 2008, the Society held 19.09% of total adjusted liabilities as liquid assets (2007 – 16.62%). The average during the financial year was 17.70% (2007 – 20.11%).

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the notes.

##### **Market risk and hedging policy**

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Society's financial condition or results. The Society is not exposed to currency risk or any other price risk. The Society does not trade in the financial instruments it holds. The Society is exposed only to interest rate risk arising from changes in market interest rates due to the mismatches between the repricing date of assets and liabilities.

##### ***Interest rate risk in the banking book***

The policy of the Society is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is monitored monthly to identify any large exposures to interest rate movements and to rectify the excess through targeted fixed interest rate products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. Details of the interest rate risk profile are set out in note 35(b).

The Society calculates Value at Risk (VaR) and Earnings at Risk (EaR) monthly using internal models and has established policy limits. The model and limits have been reviewed by external specialist auditors.

An independent review of the risk management profile is also conducted annually by an independent risk management consultant. The Board monitors these risks through the independent reports and other management reports.

Based on independent VaR calculations as at 31 March 2008 using a 20 day holding period, 99% confidence level and a 250 day observation period, the VaR was 0.54% of capital. VaR as at 31 March 2007 was 0.41% of capital using the same parameters.

### 34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Based on independent EaR calculations as at 31 March 2008 using a shift in interest rates of 200 basis points for one year, EaR was a \$1,556,339 variation or 8.60% from the base case. EaR as at 31 March 2007 was a \$1,881,934 variation or 12.06% from the base case, using the same parameters.

The Society's internal model shows that there has only been minimal change in VaR and EaR from 31 March 2008 to 30 June 2008.

#### Operational risk

Operational risk is the risk of loss to the Society resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Society relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Society's objective is to manage operational risk so as to balance the avoidance of financial losses through implementation of controls, whilst avoiding procedures that inhibit innovation, creativity and service. These risks are managed through the implementation of policies and systems to monitor the likelihood of events and minimise the impact. Systems of internal control are enhanced through:

- Segregation of duties between employees duties and functions, including approval and processing duties;
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Implementation of a compliance culture and awareness of the duty to report exceptions and breaches;
- Effective dispute resolution procedures to respond to member complaints; and
- Effective insurance arrangements to reduce the impact of losses.

The Society has an extensive business continuity policy and procedures and regular testing is conducted to provide assurance that the Society's operations can be maintained.

Contracts with service providers are maintained. Key contracts include service level agreements and where appropriate, penalties for non-compliance.

#### Capital management

The Society's policy is to maintain a strong capital base. It seeks to maintain a balance between profitability and benefits provided to members by way of better interest rates, lower fees, convenient locations and superior service.

The Society's capital management objectives are to:

- Ensure there is sufficient capital to support the Society's operational requirements;
- Maintain sufficient capital to exceed externally imposed capital requirements; and
- Safeguard the Society's ability to continue as a going concern in all types of market conditions.

The Society is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. The Society reports to APRA under Basel II capital requirements effective from 1 January 2008. The Society uses the standardised approach for credit risk and operational risk. Prior to 1 January 2008, the Society reported to APRA under the prudential requirements at that time.

APRA requires Authorised Deposit-taking Institutions ("ADIs") to have a minimum ratio of capital to risk weighted assets of 8%. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

The Society's Board approved internal capital assessment process requires capital to be well above the regulatory required level.

The Society's capital contains tier 1 and tier 2 capital. Tier 1 capital consists of retained earnings and realised reserves. Deductions from tier 1 capital are made for intangibles, certain capitalised expenses, deferred tax assets and 50 per cent of investments in other ADI's. Tier 2 capital includes the reserve for credit losses. Deductions from tier 2 capital include 50 per cent of investments in other ADI's.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Capital adequacy ratio calculation*

	2008	2007
	\$'000	\$'000
<b>Tier 1 capital</b>		
Retained earnings	38,811	35,195
Capital profits reserve	593	593
Deferred fee income	359	348
	<u>39,763</u>	<u>36,136</u>
Less prescribed deductions	(1,005)	(827)
Net tier 1 capital	<u>38,758</u>	35,309
<b>Tier 2 capital</b>		
General reserve for credit losses	1,119	1,168
Less prescribed deductions	(102)	-
Net tier 2 capital	<u>1,017</u>	1,168
Total capital	<u><u>39,775</u></u>	<u><u>36,477</u></u>
<b>Risk profile</b>		
Credit risk	238,816	269,935
Operational risk	31,891	-
Total risk weighted assets	<u>270,707</u>	<u>269,935</u>
<b>Capital adequacy ratio</b>	<b>14.69%</b>	13.51%

## 35. FINANCIAL INSTRUMENTS

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

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

Recognised financial instruments	Balance sheet note	Accounting policies	Terms and conditions
<b>(i) Financial assets</b>			
Loans and advances	10	The loan and overdraft interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Credit card interest is charged in arrears on daily balance outstanding on revolving credit cards on the 15 <sup>th</sup> day of the month. Loans and advances are recorded at their recoverable amount. For further details on the classification of loans refer to note 1.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis but most are also secured by registered mortgages. Where appropriate, housing loans are covered by mortgage insurance.
Receivables due from other financial institutions	7	Receivables due from other financial institutions are held to maturity and are stated at cost. Interest revenue is recognised when earned.	Receivables due from other financial institutions have an average maturity of 88 days with effective interest rates of 7.74% to 8.85% (2007: 6.43% to 7.00%).
Bills of exchange	8	Bills of exchange and promissory notes are held to maturity and are stated at cost. Fair value is stated in note 35(c). The discount amount is amortised over the life of the bill.	Bills of exchange have an average maturity of 31 days and an effective interest rate of 7.59% (2007: 6.33% to 6.37%).
Other investments	12	Other investments are carried at the lower of cost or recoverable amount. Interest is recognised when earned.	
Negotiable certificates of deposit	8	Negotiable certificates of deposit are held to maturity and are stated at cost. Fair value is stated in note 35(c). Interest revenue is recognised when earned.	Negotiable certificates of deposit have an average maturity of 71 days and effective interest rates of 7.66% to 8.30% (2007: 6.34% to 6.83%).
<b>(ii) Financial liabilities</b>			
Deposits	17	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding or the minimum monthly balance.	Details of maturity terms are set out in note 17.
Deposits from other financial institutions	18	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding or the minimum monthly balance.	Details of maturity terms are set out in note 18.
Accounts payable and other liabilities	19	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Society.	Trade liabilities are normally settled on 30-day terms.
Borrowings	21	Borrowings are recorded at the principal amount. Interest is calculated on the daily balance outstanding or the minimum monthly balance.	Details of maturity terms are set out in note 21.

**35. FINANCIAL INSTRUMENTS (continued)**

**(b) Effective interest rates and repricing analysis**

Interest rate risk in the balance sheet arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Society's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2007 and 2008 financial years detail the exposure of the Society's assets and liabilities to interest rate risk. The amount shown represents the face value of assets and liabilities.

The interest rate shown is the effective interest rate or weighted average effective interest rate in respect of a class of assets or liabilities. For floating rate instruments the rate is the current market rate; for fixed rate instruments the rate is a historical rate. The bandings reflect the earlier of the next contractual repricing date or the maturity date of the asset or liability.

	Within 1 month		From 1 to 3 months		From 3 to 12 months		From 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 %	2007 %
<b>(i) Financial assets</b>																
Cash and cash equivalents	9,629	17,235									4,528	3,912	14,157	21,147	7.10	6.10
Receivables due from ADIs	17,000	8,050	19,200	5,000	7,000	2,000							43,200	15,050	8.17	6.58
Bills of exchange	3,974	7,914	-	4,947									3,974	12,861	7.59	6.45
Negotiable certificates of deposit	28,115	21,317	21,973	15,427	-	968							50,088	37,712	7.93	6.45
Trade and other receivables											1,108	800	1,108	800	n/a	n/a
Loans and advances	372,630	363,503	2,729	1,725	17,073	16,901	76,576	51,400	558	30	(430)	(461)	469,136	433,098	8.36	7.56
Other investments	1,538	1,325									205	205	1,743	1,530	7.25	6.25
Total financial assets	432,886	419,344	43,902	27,099	24,073	19,869	76,576	51,400	558	30	5,411	4,456	583,406	522,198		

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

<b>(ii) Financial liabilities</b>																
Deposits	278,089	278,582	143,484	118,000	91,145	71,209	4,269	9,384					516,987	477,175	5.77	4.69
Deposits - financial institutions			500	-	-	5,000							500	5,000	7.75	6.99
Borrowings			20,000	-									20,000	-	8.15	-
Trade and other payables											10,985	7,893	10,985	7,893	n/a	n/a
Total financial liabilities	278,089	278,582	163,984	118,000	91,145	76,209	4,269	9,384			10,985	7,893	548,472	490,068		

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

**35. FINANCIAL INSTRUMENTS (continued)**

**(c) Net fair values**

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

Financial instruments	Note	Total carrying amount as per the balance sheet		Aggregate net fair value	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>(i) Financial assets</b>					
Cash and cash equivalents	6	14,157	21,147	14,157	21,147
Other investments	12	1,743	1,530	1,743	1,530
Receivables due from other ADIs	7	43,200	15,050	43,448	15,265
Bills of exchange	8	3,974	12,861	3,972	12,935
Negotiable certificates of deposit	8	50,088	37,712	50,668	37,909
Loans and advances	10	469,136	433,098	467,748	434,422
Trade and other receivables	9	1,108	800	255	338
Total financial assets		583,406	522,198	581,991	523,546
<b>(ii) Financial liabilities</b>					
Deposits	17	517,487	477,175	514,256	477,099
Deposits from other financial institutions	18	500	5,000	501	5,024
Borrowings	21	20,000	-	20,050	-
Trade and other payables	19	10,985	7,893	10,985	7,893
Total financial liabilities		548,472	490,068	545,792	490,016

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

**Recognised financial instruments**

*Cash and liquid assets and interest earning deposits*

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

*Investment securities and receivables due from financial institutions*

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

*Deposits*

The fair value of deposits are estimated using a method not materially different from discounted cash flow analysis, based on current incremental deposit rates.

*Deposits from other financial institutions*

The fair value of deposits from other financial institutions are estimated using a method not materially different from discounted cash flow analysis, based on current incremental deposit rates.

*Loans and advances*

The fair value of loans receivable excluding impaired loans are estimated using a method not materially different from discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated by using a method not materially different from discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

*Other investments*

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



**35. FINANCIAL INSTRUMENTS (continued)**

*Trade and other receivables*

The carrying amount approximates fair value as they are short-term in nature. Interest receivable is included as part of the fair value of the various financial instruments.

*Trade and other payables*

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

*Other financial liabilities*

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

*Borrowings*

The fair value of loans are estimated using a method not materially different from discounted cash flow analysis, based on current incremental loan rates.

# Directors' Declaration

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

1. the financial statements and notes, set out on pages 6 to 39, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the Society as at 30 June 2008 and of its performance, for the financial year ended on that date; and
  - (b) complying with Australia Accounting Standards (including Accounting Interpretations) and the Corporations Regulations 2001; and
2. the financial report also complies with International Financial Reporting Standards as disclosed in note 1.
3. there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors:

Ulf O. Ericson  
Chairman

John A. Knobel  
Deputy Chairman

Albury, 21 August 2008

## Independent Auditor's report to the members of Hume Building Society Ltd

### Report on the financial report

We have audited the accompanying financial report of Hume Building Society Ltd (the Company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 35 and the directors' declaration, as set out on pages 6 to 40.

#### *Directors' responsibility for the financial report*

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Company, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Auditor's opinion

In our opinion:

- (a) the financial report of Hume Building Society Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

WHK Audit & Risk Assessment

Timothy S. Frazer, Partner  
Albury, 21 August 2008

The logo for Hume Building Society is a dark blue square with the word "Hume" in a large, bold, white sans-serif font. To the right of "Hume", the words "Building" and "Society" are stacked vertically in a smaller, white sans-serif font.

**Hume** Building  
Society

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