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Hume's values express the principles that serve to guide our decisions and actions.



Compassion
Respect
Aspiration
Commitment
Responsive

Financial Report

for the year ended
30 June **2011**

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Directors' Report

The Directors present their report, together with the financial statements of Hume Building Society Ltd (the Society), for the financial year ended 30 June 2011 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:

Name and qualifications	Experience and special responsibilities
Ulf Olof Ericson B Ec, B Comm, Grad Dip Advanced Taxation Law, Dip Law (BAB), FCA, MAICD, FTIA Independent, non-executive Director.	Chartered Accountant – Partner Huon Group, Chartered Accountants. Board member since June 1988 and Chairman since August 1998. Chairman of the Remuneration and Succession Committee and member of the Audit Committee and the Risk Committee. Ulf is Chairman of Albury Wodonga Health, member of several committees of Albury Wodonga Health and Board member of the Community Advisory Board for the Albury Wodonga Campus of the University of NSW Rural Clinical School.
Feynella Joy Stocker (Joy) B Ed, M Ed (Adult Ed) Independent, non-executive Director.	Director, Educational Planning and Development, TAFE NSW Riverina Institute. Board member since October 1993. Appointed as Deputy Chairman in November 2008. Chairman of the Risk Committee and member of the Remuneration and Succession Committee. Joy is a member of the Charles Sturt University Regional Consultative Committee.
Henrietta Rachel Cruddas (Henri) BSc (Hons) Non-independent, non-executive Director.	Solicitor. Board member since May 2011. Member of the Risk Committee. Henri has been a legal and compliance specialist in the financial services industry for the last 25 years both in Australia and the UK.
Stuart James Gilchrist B. Eco and Politics Independent, non-executive Director.	Director. Board member since March 2007. Member of the Risk Committee and the Remuneration and Succession 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.
William Thomas Hanrahan (Bill) B Bus, Cost Acc P Cert, FCA, FCPA, FCIS, Dip SIA SF Fin, FAICD, B R Studies, B Leg S, Hon D Bus CSturt Non-independent, non-executive Director.	Former CEO of the Society for 20 years. Board member since June 1985. Chairman of the Audit Committee and member of the Risk Committee. Chairperson of the Albury Wodonga Corporation and Chairman of AlburyCity Audit Committee.
Louis Stuart Lieberman (Lou) Dip Law (SAB), FAICD Independent, non-executive Director.	Director. Board member since October 1998. Former member of the Risk Committee and the Remuneration and Succession Committee. Lou has had a long career in business, the law and community affairs. Lou resigned from the Board in May 2011.
Leo Francis O'Reilly FCA Independent, non-executive Director.	Chartered Accountant - former partner of an Accounting Firm. Board member since February 1998. Member of the Audit Committee and the Risk Committee. Leo is a member of AlburyCity Audit Committee and a community representative Director of the Albury Wodonga Regional GP Network.
Karyl Denise Osborne (Denise) Independent, non-executive Director.	Board member since March 2007. Member of the Audit Committee and the Risk Committee. Denise is the Mayor of the Greater Hume Shire Council and is on the Boards of the YES Youth & Family Services, Back to Reality, Murray Arts, Regional Development Australia – Murray and ATEL.

Company Secretary

Mr Andrew Glenn Saxby, B Bus, 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. Mr O'Reilly ceased to be a partner and retired from KPMG in 1996. He became a Director of the Society in 1998.

KPMG Albury transitioned to WHK Audit & Risk Assessment in March 2008 and continues to act as the Society's auditors.

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:

	Board of Directors	Audit Committee	Risk Committee	Remuneration and Succession Committee
<i>Number of meetings held:</i>	15	6	7	5
<i>Number of meetings attended:</i>				
Henrietta Rachel Cruddas**	2	n/a	2	n/a
Ulf Olof Ericson	15	6	7	5
Stuart James Gilchrist	14	n/a	7	4
William Thomas Hanrahan	15	6	7	n/a
Louis Stuart Lieberman*	10	n/a	4	3
Leo Francis O'Reilly	15	6	7	n/a
Karyl Denise Osborne	14	4	5	n/a
Feynella Joy Stocker	14	n/a	7	5

* retired from the Board in May 2011.

** appointed to the Board in May 2011.

Corporate Governance Statement

The Board's primary responsibility is to the members of the Society to maintain 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 at least 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 Committee

The Audit Committee was established in July 2009 and is a Board appointed committee comprising of four non-executive Directors. Its principal responsibility is to oversee the Society's financial reporting and auditing processes. It also enables the Board to assess compliance with internal controls and to provide a forum for contact with the Society's auditors. The Chief Executive Officer, internal and external auditors are invited to attend meetings; however the Committee can meet without them. APRA has granted an exemption under the Banking Act 1959 in relation to the requirements of Prudential Standard APS 510 to allow the Committee to be continued to be chaired by Bill Hanrahan.

Risk Committee

The Risk Committee was established in July 2009 and is a Board appointed committee comprising of all Directors. It oversees the development and review of the risk management framework and the review and approval of Policies to require adherence to the requirements of the risk framework. It also makes recommendations to the Board on the Society's risk appetite. The Committee is chaired by Joy Stocker.

Remuneration & Succession Committee

The Remuneration and Succession Committee (previously Remuneration and Human Resources Committee) is a Board appointed committee of three (previously four) independent, non-executive Directors. It 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. It also reviews the Remuneration and Human Resources Policy which establishes 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.

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.

Review and results of operations

The Society achieved a profit before income tax of \$6.037 million for the year (2010 - \$5.013 million). Net profit after income tax was \$4.213 million (2010 - \$3.585 million), an increase of 17.5%.

The result was based on an increase in total assets of 9.1% or \$63.997 million to \$768.848 million on the back of net loan approvals of \$138 million (2010 - \$141 million). Net loans and advances outstanding at 30 June 2011 were \$611.016 million (2010 - \$562.887 million) and deposits by members were \$703.227 million (2010 - \$634.832 million).

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 recent pattern of improving convenience and benefits to members is likely to continue. This will be achieved while maintaining prudential ratios at or around current levels.

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 30 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.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 6 and forms part of the Directors' report for the financial year ended 30 June 2011.

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 statements 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 Ericson
Chairman

Joy Stocker
Deputy Chairman

Albury, 25 August 2011



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WHK Audit & Risk Assessment
ABN 16 673 023 918

Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Interest revenue	2	49,573	39,201
Interest expense	2	(29,864)	(21,797)
Net interest income		19,709	17,404
Non-interest income	3	3,272	3,014
Total operating income		22,981	20,418
Impairment of loans and advances	11	(168)	(130)
Other expenses	4	(16,776)	(15,275)
Profit before income tax		6,037	5,013
Income tax expense	5	(1,824)	(1,428)
Profit for the year		4,213	3,585
Other comprehensive income			
Revaluation of property		814	-
Other comprehensive income, net of tax		814	-
Total comprehensive income for the year		5,027	3,585

The statement of comprehensive income is to be read in conjunction with the accompanying notes set out on pages 11 to 40.

Lead 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 2011 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

Bradley D Bohun, Partner
Albury, 25 August 2011

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Statement of Changes in Equity

for the year ended 30 June 2011

	Note	Retained Earnings \$'000	General Reserve for Credit Losses \$'000	Asset Revaluation Reserve \$'000	Capital Profits Reserve \$'000	Total Reserves \$'000
2010						
Opening balance at 1 July 2009		40,560	1,299	-	593	1,892
Net profit for the year		3,585	-	-	-	-
Total other comprehensive income		-	-	-	-	-
Transfers to/(from) reserves		326	(326)	-	-	(326)
Closing balance at 30 June 2010	21, 22	44,471	973	-	593	1,566
2011						
Opening balance at 1 July 2010		44,471	973	-	593	1,566
Net profit for the year		4,213	-	-	-	-
Total other comprehensive income		-	-	814	-	814
Transfers to/(from) reserves		(83)	83	-	-	83
Closing balance at 30 June 2011	21, 22	48,601	1,056	814	593	2,463

The statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 11 to 40.

Statement of Financial Position

as at 30 June 2011

	Note	2011 \$'000	2010 \$'000
Assets			
Cash and cash equivalents	6	55,239	23,547
Receivables due from other financial institutions	7	13,259	95,693
Investment securities	8	79,106	13,936
Trade and other receivables	9	1,065	1,287
Loans and advances	10	611,016	562,887
Other investments	12	204	204
Property, plant and equipment	13	7,514	6,021
Intangible assets	14	312	310
Deferred tax assets	15	1,133	966
Total assets		768,848	704,851
Liabilities			
Deposits	16	703,227	634,832
Trade and other payables	17	12,180	21,860
Income tax payable	18	476	467
Deferred tax liabilities	19	149	18
Provision for employee benefits	20	1,752	1,637
Total liabilities		717,784	658,814
Net assets		51,064	46,037
Members' funds			
Reserves	21	2,463	1,566
Retained earnings	22	48,601	44,471
Total members' funds		51,064	46,037

The statement of financial position is to be read in conjunction with the accompanying notes set out on pages 11 to 40.

Statement of Cash Flows

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Interest received		49,749	38,794
Interest paid		(29,237)	(19,309)
Other non-interest revenue received		3,312	2,901
Cash paid to suppliers and employees		(25,541)	(2,211)
Fees and commissions paid		(29)	(26)
Income tax paid	18	(1,851)	(1,531)
		(3,597)	18,618
<i>(Increase)/decrease in operating assets:</i>			
Net (increase)/decrease in loans and advances		(48,297)	(51,299)
Net increase/(decrease) in deposits		68,395	38,252
Net cash flows from operating activities	23	16,501	5,571
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		4,000	-
Net (increase)/decrease in investment securities		-	-
Payments for property, plant and equipment		(1,884)	(838)
Proceeds from sale of property, plant and equipment		22	81
Payments for intangible assets		(211)	(208)
Net cash flows from investing activities		1,927	(965)
Cash flows from financing activities			
Repayment of borrowings		-	-
Net cash flows from financing activities		-	-
Net increase/(decrease) in cash held		18,428	4,606
Cash at the beginning of the financial year		121,176	116,570
Cash at the end of the financial year	23	139,604	121,176

The statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 11 to 40.

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 statements are general purpose financial statements that have 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 statements of the Society also comply with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of Directors on 25 August 2011.

Basis of measurement

The financial statements are presented in Australian dollars.

The financial statements are prepared on the historical cost basis unless otherwise stated.

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 statements 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.

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 in conformity with AASBs 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 32 - fair value of financial instruments; and
- note 11 - impairment of loans and advances.

Investment in equity securities

Equity investments held for trading are stated at fair value, with any resulting gain or loss recognised in the statement of comprehensive income. 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 (FI's)

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 statement of financial position.

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 statement of financial position.

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 determined 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 15th 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.

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 made.
- 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 0.3% (2010 - 0.3%) of risk weighted assets.

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.

Property, plant and equipment

Recognition and measurement

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent accumulated depreciation for buildings.

All other items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Revaluation of land and buildings

Any revaluation increment is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Depreciation

With the exception of freehold land, depreciation is charged 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

Gains or losses on disposal are 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) and are recognised net within non-interest income in profit or loss.

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 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 statement of comprehensive income 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 statement of comprehensive income.

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 statement of financial position.

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

Borrowings

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

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Society will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are credited to profit or loss on a straight-line basis over the estimated useful lives of the related assets.

Revenue

Dividends

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

Fees and commissions

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

Rental income

Rental income 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 and revised standards applicable for the current year

The Society applied the following revised accounting standard applicable for financial years commencing on or after 1 January 2011:

- *AASB 7 Financial Instruments: Disclosures* which removes the disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held. There was no impact on the initial adoption of this standard to amounts recognised in the financial statements as the amendments result in fewer disclosures.

New standards and interpretations not yet adopted

The following standard has been identified as one which may impact the Society in the period of initial application. It is available for early adoption, but have not been applied in preparing the financial statements.

- *AASB 9 Financial Instruments* - A new standard was issued in December 2009 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It provides revised guidance on the classification and measurement of financial assets and is the first phase of a multi-phase project to replace *AASB 139 Financial Instruments: Recognition and Measurement*. Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value. This standard was revised in December 2010 to include new requirements for the measurement and classification of financial liabilities. The Society has not yet determined the potential effect of the standard.

2. INTEREST REVENUE AND INTEREST EXPENSE

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

	Average balance \$'000	Interest \$'000	Average interest rate %
Interest revenue 2011			
Cash at authorised deposit-taking institutions	19,009	917	4.83
Receivables due from other financial institutions	74,980	4,383	5.85
Investment securities	40,049	2,341	5.85
Loans and advances	582,503	41,932	7.20
	716,541	49,573	6.92
Interest expense 2011			
Members' deposits	672,838	29,864	4.44
Borrowings	-	-	-
	672,838	29,864	4.44
Interest revenue 2010			
Cash at authorised deposit-taking institutions	9,068	327	3.60
Receivables due from other financial institutions	86,984	4,230	4.86
Investment securities	22,608	1,099	4.86
Loans and advances	534,889	33,545	6.27
	653,549	39,201	6.00
Interest expense 2010			
Members' deposits	615,608	21,797	3.54
Borrowings	-	-	-
	615,608	21,797	3.54

3. NON-INTEREST INCOME

Fees and commissions from members		
- Loan and overdraft fees	183	168
- Transaction fees	568	499
- Credit card fees	9	7
- Other fees	396	401
	1,156	1,075
Fees and commissions from non-members		
- Fees for service	662	660
- Commissions	1,380	1,179
	2,042	1,839
Total fees and commissions	3,198	2,914
Other non-interest income		
- Income from property	28	23
- Bad debts recovered	2	-
- Profit on disposal of property, plant and equipment	5	-
- Government grants	20	-
- Sundry income	19	77
	74	100
Total non-interest income	3,272	3,014

Government Grants

A Green Building Fund grant of \$20,000 (2010 – nil) was recognised as other income during the financial year. There are no unfulfilled conditions or other contingencies attached to the grant. The Society did not benefit directly from any other forms of government assistance.

	Note	2011 \$'000	2010 \$'000
4. OTHER EXPENSES			
Amortisation – leasehold improvements	13	170	205
Amortisation – intangible assets	14	209	256
Depreciation			
- Plant and equipment	13	917	817
- Buildings	13	81	94
Total depreciation		998	911
Fees and commissions		29	26
Personnel costs			
- Provision for long service leave		85	73
- Provision for annual leave		76	31
- Superannuation contributions		673	656
- Salaries and wages		6,394	6,005
- Payroll tax		350	355
- Other		696	691
Total personnel costs		8,274	7,811
Marketing expenses		753	745
Information technology expenses		790	673
Occupancy costs			
- Rental – operating leases		849	625
- Other occupancy costs		875	774
Total occupancy costs		1,724	1,399
ATM, Eftpos and electronic transaction processing costs		1,319	1,098
Other administration expenses		2,490	2,148
Loss on disposal of property, plant and equipment		3	3
Loss on revaluation of property		17	-
Total other expenses		16,776	15,275

5. INCOME TAX EXPENSE

Income tax expense

1,824 1,428

Recognised in statement of comprehensive income

Income tax expense comprises amounts set aside as:

	Note	2011 \$'000	2010 \$'000
Income tax payable – current year	18	1,860	1,555
Under/(over) provision in prior years		-	(37)
Increase/(decrease) in deferred tax liabilities		131	(5)
(Increase)/decrease in deferred tax assets		(167)	(85)
		1,824	1,428

Reconciliation between tax expense and pre-tax profit

	2011 \$'000	2010 \$'000
Profit before income tax	6,037	5,013
Prima facie income tax expense calculated at 30%	1,811	1,504
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	36	35
Other deductible expenses	(23)	(51)
Non-assessable income	-	(23)
	1,824	1,465
Income tax (over)/under provided in prior period	-	(37)
Income tax expense attributable to profit	1,824	1,428

6. CASH AND CASH EQUIVALENTS

Cash on hand and at authorised deposit-taking institutions at call

55,239 23,547

7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

Interest earning deposits

13,259 95,693

Maturity analysis

	2011 \$'000	2010 \$'000
Not later than 1 month	6,973	46,693
Later than 1 and not later than 3 months	6,286	45,000
Later than 3 and not later than 12 months	-	4,000
Later than 1 and not later than 5 years	-	-
	13,259	95,693

Credit rating of receivables due from other financial institutions

	2011 \$'000	2010 \$'000
Authorised Deposit-taking Institutions rated A and above	10,000	70,000
Authorised Deposit-taking Institutions rated below A	-	23,000
Unrated Authorised Deposit-taking Institutions	3,259	2,693
	13,259	95,693

	Note	2011 \$'000	2010 \$'000
8. INVESTMENT SECURITIES			
Negotiable certificates of deposit		79,106	13,936
Maturity analysis			
Not later than 1 month		26,691	1,973
Later than 1 and not later than 3 months		44,415	3,963
Later than 3 and not later than 12 months		8,000	-
Later than 1 and not later than 5 years		-	8,000
		79,106	13,936
Credit rating of investment securities			
Authorised Deposit-taking Institutions rated A and above		-	-
Authorised Deposit-taking Institutions rated below A		79,106	13,936
Unrated Authorised Deposit-taking Institutions		-	-
		79,106	13,936
9. TRADE AND OTHER RECEIVABLES			
Interest receivable on investments		787	964
Sundry debtors, accrued income and prepayments		278	323
		1,065	1,287
10. LOANS AND ADVANCES			
Overdrafts and Credit Cards		9,683	8,498
Term loans		602,291	555,319
Loans and advances before deferred fees and costs		611,974	563,817
Deferred loan transaction costs		331	351
Deferred loan origination fees		(1,010)	(1,003)
Deferred fixed rate loan renegotiation fees		(20)	(60)
Total loans and advances		611,275	563,105
Provision for impairment	11	(259)	(218)
Net loans and advances		611,016	562,887
Maturity analysis			
Not later than 1 month		11,503	10,222
Later than 1 and not later than 3 months		3,431	3,289
Later than 3 and not later than 12 months		16,107	15,415
Later than 1 and not later than 5 years		82,520	78,047
Later than 5 years		497,714	456,132
		611,275	563,105

	2011 \$'000	2010 \$'000
10. LOANS AND ADVANCES (continued)		
Concentration of risk		
The loan portfolio of the Society does not include any loan which represents 10% or more of capital.		
The Society has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
- Southern NSW and North East Victoria	566,201	525,646
- Other – non-concentrated	45,773	38,171
	611,974	563,817
Security held against loans and advances		
Secured by mortgage over residential property	560,274	515,115
Secured by mortgage over commercial property	33,265	30,988
Total loans and advances secured by real estate	593,539	546,103
Secured by funds	625	388
Partly secured by goods mortgage	8,511	9,142
Wholly unsecured	9,299	8,184
	611,974	563,817
Loan to value ratio on loans and advances secured by real estate		
Loan to value ratio of 80% or less	491,372	458,923
Loan to value ratio of more than 80% but mortgage insured	96,492	83,891
Loan to value ratio of more than 80% not mortgage insured	5,675	3,289
	593,539	546,103
11. IMPAIRMENT OF LOANS AND ADVANCES		
Provision for impairment		
Collective provision	237	203
Specific provision	22	15
	259	218
Provision for impairment – collective provision		
Opening balance	203	89
Bad debts previously provided for written off during the year	(121)	(18)
Bad and doubtful debts provided for during the year	155	132
Closing balance	237	203
Provision for impairment – specific provision		
Opening balance	15	27
Bad debts previously provided for written off during the year	(6)	(10)
Bad and doubtful debts provided for during the year	13	(2)
Closing balance	22	15

	2011 \$'000	2010 \$'000
11. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
Bad and doubtful debts expense comprises:		
Collective provision increase/(decrease)	155	132
Specific provision increase/(decrease)	13	(2)
Total bad debts expense/(benefit)	<u>168</u>	<u>130</u>
Ageing analysis of loans and advances past due		
Loans and advances past due and not impaired		
Up to 30 days	13,914	13,953
More than 30 days but less than 90 days	4,889	2,215
More than 90 days but less than 180 days	1,317	1,897
More than 180 days but less than 270 days	199	283
More than 270 days but less than 365 days	169	-
More than 365 days	423	-
Accounts overdrawn and overdrafts over limit less than 14 days	518	104
	<u>21,429</u>	<u>18,452</u>
Loans and advances past due and impaired		
Up to 30 days	-	-
More than 30 days but less than 90 days	-	-
More than 90 days but less than 180 days	47	54
More than 180 days but less than 270 days	46	52
More than 270 days but less than 365 days	18	40
More than 365 days	42	25
Accounts overdrawn and overdrafts over limit less than 14 days	277	205
	<u>430</u>	<u>376</u>
Total past due loans and advances	<u>21,859</u>	<u>18,828</u>
Security analysis of loans and advances past due		
Loans and advances past due and not impaired		
Secured by mortgage over real estate	20,707	17,683
Secured by funds	29	12
Partly secured by goods mortgage	472	605
Wholly unsecured	221	152
	<u>21,429</u>	<u>18,452</u>

	2011 \$'000	2010 \$'000
11. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
Loans and advances past due and impaired		
Secured by mortgage over real estate	-	-
Secured by funds	-	-
Partly secured by goods mortgage	112	125
Wholly unsecured	318	251
	<u>430</u>	<u>376</u>
Total past due loans and advances	<u>21,859</u>	<u>18,828</u>
It is not practicable to determine the fair value of all security as at the balance date.		
Assets acquired through enforcement of security		
Real estate acquired through enforcement of security	-	-
Specific provision for impairment	-	-
Balance at the end of the financial year	<u>-</u>	<u>-</u>
Net fair value of real estate assets acquired through the enforcement of security during the financial period	<u>-</u>	<u>-</u>
Net fair value of other assets acquired through the enforcement of security during the financial period	<u>-</u>	<u>-</u>
12. OTHER INVESTMENTS		
Unlisted shares – at cost	<u>204</u>	<u>204</u>
The unlisted shares are measured at cost as their fair value cannot be measured reliably. The shares are in a not for profit company that supplies services to Authorised Deposit-taking Institutions. The shares are not tradeable and are not redeemable. The Society does not intend to dispose of these shares.		
13. PROPERTY, PLANT AND EQUIPMENT		
Land and buildings		
At independent valuation – June 2011	4,145	-
At cost	-	3,949
Provision for depreciation	-	(384)
Total freehold land and buildings	<u>4,145</u>	<u>3,565</u>
Leasehold improvements		
At cost	1,479	932
Provision for amortisation	(694)	(524)
Total leasehold improvements	<u>785</u>	<u>408</u>

	2011 \$'000	2010 \$'000
13. PROPERTY, PLANT AND EQUIPMENT (continued)		
Plant and equipment		
At cost	6,799	5,711
Provision for depreciation	(4,215)	(3,663)
Total plant and equipment	<u>2,584</u>	<u>2,048</u>
Total property, plant and equipment at net book value	<u>7,514</u>	<u>6,021</u>

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	3,565	3,466
Additions	-	193
Revaluations	797	-
Disposals	-	-
Depreciation	(81)	(94)
Transfers to plant & equipment	(136)	-
Carrying amount at the end of the year	<u>4,145</u>	<u>3,565</u>

Leasehold improvements

Carrying amount at the beginning of the year	408	421
Additions	547	194
Disposals	-	(2)
Amortisation	(170)	(205)
Carrying amount at the end of the year	<u>785</u>	<u>408</u>

Plant and equipment

Carrying amount at the beginning of the year	2,048	2,496
Additions	1,337	451
Disposals	(20)	(82)
Depreciation	(917)	(817)
Transfers from land and buildings	136	-
Carrying amount at the end of the year	<u>2,584</u>	<u>2,048</u>

Valuations

The freehold land and buildings were valued in June 2011 by Cosgraves Property Advisers, accredited independent valuers.

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition.

14. INTANGIBLE ASSETS

Computer software and licences

At cost	1,961	1,824
Provision for amortisation	(1,649)	(1,514)
	<u>312</u>	<u>310</u>

Reconciliations

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

Computer software and licences

Carrying amount at the beginning of the year	310	358
Additions	211	208
Disposals	-	-
Amortisation	(209)	(256)
Carrying amount at the end of the year	<u>312</u>	<u>310</u>

15. DEFERRED TAX ASSETS

Deferred tax assets	<u>1,133</u>	966
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Deferred tax assets are attributable to the following:

Property, plant and equipment and intangible assets	353	271
Provisions for employee benefits	432	385
Provision for impairment on loans	78	65
Borrowing Costs	6	-
Expenses not currently deductible	26	26
Deferred loan fees and transaction costs	210	214
Deferred income	28	5
	<u>1,133</u>	<u>966</u>

16. DEPOSITS

Call deposits	256,165	224,085
Term deposits	447,062	410,747
	<u>703,227</u>	<u>634,832</u>

Maturity analysis

Not later than 1 month	359,356	320,040
Later than 1 and not later than 3 months	191,076	193,568
Later than 3 and not later than 12 months	141,355	113,853
Later than 1 and not later than 5 years	11,440	7,371
	<u>703,227</u>	<u>634,832</u>

Concentration of deposits

Southern NSW and North East Victoria	648,461	584,727
Other – non-concentrated	54,766	50,105
	<u>703,227</u>	<u>634,832</u>

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

	2011 \$'000	2010 \$'000
17. TRADE AND OTHER PAYABLES		
Accrued interest payable	6,342	5,715
Creditors and other liabilities	5,838	16,145
	<u>12,180</u>	<u>21,860</u>
18. INCOME TAX PAYABLE		
Income tax payable	<u>476</u>	<u>467</u>
<i>Movement during the year was as follows:</i>		
Balance at the beginning of the year	467	480
Current year's income tax expense on profit before tax	1,860	1,555
Income tax paid – Current year	(1,384)	(1,088)
Income tax paid – Prior year	(467)	(443)
Under/(over) provision in prior period	-	(37)
	<u>476</u>	<u>467</u>
19. DEFERRED TAX LIABILITIES		
Deferred tax liabilities	<u>149</u>	<u>18</u>
<i>Deferred tax liabilities are attributable to the following:</i>		
Accrual of short-term bills	<u>149</u>	<u>18</u>
20. PROVISION FOR EMPLOYEE BENEFITS		
Salaries, wages and other benefits accrued	327	373
Provision for annual leave	644	568
Provision for long service leave	781	696
	<u>1,752</u>	<u>1,637</u>

Included in employee benefits is a non-current amount of \$321,000 (2010 - \$296,000) relating to long service leave.

	2011 \$'000	2010 \$'000
21. RESERVES		
General reserve for credit losses	1,056	973
Asset revaluation reserve	814	-
Capital profits reserve	593	593
	<u>2,463</u>	<u>1,566</u>
Movements in reserves		
General reserve for credit losses		
Balance at the beginning of the year	973	1,299
Transfer from retained earnings	83	(326)
Balance at the end of the year	<u>1,056</u>	<u>973</u>
This reserve is required to be maintained to comply with Society policy.		
Asset revaluation reserve		
Balance at the beginning of the year	-	-
Total other comprehensive income	814	-
Balance at the end of the year	<u>814</u>	<u>-</u>
This reserve includes gains made on property when a revaluation is carried out in line with Society policy.		
Capital profits reserve		
Balance at the beginning of the year	593	593
Transfer from retained earnings	-	-
Transfer from fair value reserve	-	-
Balance at the end of the year	<u>593</u>	<u>593</u>
This reserve includes the cumulative capital profits made on the disposal of assets.		
22. RETAINED EARNINGS		
Retained earnings at the beginning of the year	44,471	40,560
Net profit attributable to members	4,213	3,585
Transfers from/(to) reserves	(83)	326
Retained earnings at the end of the year	<u>48,601</u>	<u>44,471</u>

2011	2010
\$'000	\$'000

23. 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	55,239	23,547
Receivables due from other financial institutions less than 3 months	13,259	91,693
Investment securities less than 3 months	71,106	5,936
	139,604	121,176

(b) Reconciliation of cash flows from operating activities

Profit for the year	4,213	3,585
<i>Non-cash items</i>		
Charge for bad and doubtful debts	168	130
Depreciation	998	911
Amortisation of leasehold improvements	170	205
Amortisation of intangible assets	209	256
Provision for employee entitlements	161	104
(Profit) on disposal of plant and equipment	(5)	-
Loss on disposal of plant and equipment	3	3
Net (profit)/loss on revaluation of property	17	-
<i>Changes in assets and liabilities</i>		
Interest receivable	177	(407)
Other receivables	45	(113)
Interest payable	627	2,488
Income tax payable	9	(13)
Trade and other payables	(10,307)	11,330
Provision for employee benefits	(46)	229
Deferred tax assets	(167)	(85)
Deferred tax liabilities	131	(5)
	(3,597)	18,618
Net (increase)/decrease in loans and advances	(48,297)	(51,299)
Net increase/(decrease) in deposits	68,395	38,252
Net cash flow from operating activities	16,501	5,571

2011	2010
\$	\$

24. AUDITOR'S REMUNERATION

Amounts received or due and receivable by the External Auditor of Hume Building Society Ltd for:

- audit of the financial statements of the Society	58,190	54,648
- other services in relation to the Society	14,395	12,426
	72,585	67,074

25. 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. Staff may request the Society to contribute to an alternative accumulated superannuation fund.

26. 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 members. 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.

2011	2010
\$'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. They include undrawn balances of overdrafts and credit cards:

Approved but undrawn loans and credit limits	40,325	37,739
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Security analysis of credit-related commitments

Secured by mortgage over real estate	28,175	26,696
Secured by funds	318	206
Partly secured by goods mortgage	63	447
Wholly unsecured	11,769	10,390
	40,325	37,739

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.

1,860	2,403
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Security analysis of financial guarantees

Secured by mortgage over real estate	1,187	1,126
Secured by funds	645	1,239
Wholly unsecured	28	38
	1,860	2,403

	2011 \$'000	2010 \$'000
27. EXPENDITURE COMMITMENTS		
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	<u>95</u>	<u>305</u>
Operating leases (non-cancellable)		
Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	1,151	867
– later than 1 and not later than 2 years	916	805
– later than 2 and not later than 5 years	1,640	1,506
– later than 5 years	-	7
Aggregate lease expenditure contracted for at balance date	<u>3,707</u>	<u>3,185</u>

28. 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:

	2011 \$	2010 \$
Short-term employee benefits		
- Directors	301,528	257,686
- Other key management personnel	1,019,428	861,783
Post-employment benefits – superannuation contributions		
- Directors	190,037	207,501
- Other key management personnel	94,093	82,835
Other long-term benefits – net increase in long service leave provision		
- Directors	-	-
- Other key management personnel	16,290	16,852
	<u>1,621,376</u>	<u>1,426,657</u>

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.

28. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

Loans to key management personnel and other related parties

Loan transactions with key management personnel and related parties are as follows:

	2011 \$		2010 \$	
	Mortgage Secured Loans	Revolving Credit (unsecured)	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	-	22,191	-	19,967
Balance at reporting date	816,446	2,809	199,165	5,033
Loans advanced (including redraws)	-	20,312	6,000	48,373
Loan repayments	32,326	22,536	65,581	48,149
Interest and other revenue earned	21,515	-	13,257	73
Loans to Director related parties				
Funds available to be drawn	-	1,784	-	1,716
Balance at reporting date	635,766	216	643,045	284
Loans advanced (including redraws)	-	5,559	28,200	4,382
Loan repayments	51,268	5,627	46,056	4,196
Interest and other revenue earned	43,989	-	36,411	-
Loans to other key management personnel				
Funds available to be drawn	-	29,181	-	36,348
Balance at reporting date	1,029,429	25,819	1,131,896	18,652
Loans advanced (including redraws)	-	144,195	7,389	153,712
Loan repayments	158,942	137,027	134,529	148,275
Interest and other revenue earned	56,474	-	61,163	96

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

Prior to the 2011 year, 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.

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.

28. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

Deposits from key management personnel and other related parties

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

	2011	2010
	\$	\$
Deposits outstanding at balance date:		
- Directors	75,037	169,370
- Director related parties	8,788,098	8,839,169
- Other key management personnel	219,091	212,163
- Other key management personnel related parties	349,885	204,456
Interest paid on deposits:		
- Directors	4,997	6,194
- Director related parties	611,155	386,026
- Other key management personnel	622	3,829
- Other key management personnel related parties	18,840	6,449

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

There are no benefits paid or payable to 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 and Chairman of Abacus Australian Mutuals Pty Ltd. All transactions with this company are on normal terms and conditions.

29. 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.

30. SEGMENT INFORMATION

The Society operates exclusively in the finance industry within Australia.

31. 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 and to set appropriate risk limits and controls. Procedures are in place 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 Risk Committee oversees the development of the risk management framework in relation to the risks faced by the Society. The Committee also reviews and approves policies to require adherence to the requirements of the risk framework.

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.

The Society's Audit Committee oversees management's compliance with the Society's risk management policies and procedures. 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.

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

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 loans 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 members are creditworthy and capable of meeting the loan repayments;
- Requirements for lenders' mortgage insurance;
- Limits of acceptable exposure to individual borrowers, non mortgage secured loans and advances, commercial lending and industry groups considered at high risk of default;
- Reassessing and reviewing 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 with these policies is conducted by Internal Audit.

The Society minimises concentrations of credit risk in relation to loans receivable by lending to a large number of customers within each specified category. 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 the notes.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk – liquid investments

The risk of losses from the liquid investments held is reduced by the nature and quality of the independent rating of the investee and the limits of concentration to each 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 their credit rating. Given the high quality and/or relatively short duration 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.

Liquidity risk

Liquidity risk is the risk that the Society may encounter difficulties raising or retaining 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; and
- Monitoring the prudential ratio daily.

The Society is required to maintain at least 9% of total adjusted liabilities as 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 to meet member withdrawal requests. Should the liquidity ratio fall below this level, Management and the 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 2011, the Society held 16.20% of total adjusted liabilities as liquid assets (2010 – 17.53%). The average during the financial year was 16.81% (2010 – 17.71%).

The Society also maintains 1.80% of total adjusted liabilities as liquid assets (2010 – nil) as part of an internal standby facility.

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 will have an adverse effect on the Society's financial condition or results. The Society does not trade in the financial instruments it holds. The Society is not exposed to currency risk and 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 difference between asset and liability maturities are not excessive. The gap is monitored monthly to identify any large exposure 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 32(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 2011 using a 20 day holding period, 99% confidence level and a 250 day observation period, the VaR was 0.99% of capital. VaR as at 31 March 2010 was 1.13% of

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Based on independent EaR calculations as at 31 March 2011 using a shift in interest rates of 200 basis points for one year, EaR was a \$3,478,708 variation or 16.28% from the base case. EaR as at 31 March 2010 was a \$2,867,488 variation or 15.48% from the base case, using the same parameters.

The Society's internal model identifies that there has only been minimal change in VaR and EaR from 31 March 2011 to 30 June 2011.

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 adverse 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. The Society uses the standardised approach for credit risk and operational risk.

APRA requires Authorised Deposit-taking Institutions ("ADIs") to have a minimum ratio of capital to risk weighted assets of 8%. In addition, APRA imposes ADIs 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 intangible assets, certain capitalised expenses, deferred tax assets and 50 per cent of equity investments in other ADI's. Tier 2 capital includes the reserve for credit losses. Deductions from tier 2 capital include 50 per cent of equity investments in other ADI's.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital adequacy ratio calculation

	2011 \$'000	2010 \$'000
Tier 1 capital		
Retained earnings	48,601	44,471
Capital profits reserve	593	593
Deferred fee income	699	712
	49,893	45,776
Less prescribed deductions	(1,400)	(1,355)
Net tier 1 capital	48,493	44,421
Tier 2 capital		
General reserve for credit losses	1,056	973
Asset revaluation reserve	366	-
Less prescribed deductions	(103)	(103)
Net tier 2 capital	1,319	870
Total capital	49,812	45,291
Risk profile		
Credit risk	308,777	285,128
Operational risk	42,847	39,005
Total risk weighted assets	351,624	324,133
Capital adequacy ratio	14.17%	13.97%

32. 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	Note	Accounting policies	Terms and conditions
Financial assets			
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 th 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 91 days with effective interest rates of 4.88% to 5.96% (2010: 4.54% to 7.00%).
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 32(d). Interest revenue is recognised when earned.	Negotiable certificates of deposit have an average maturity of 104 days and effective interest rates of 5.12% to 5.90% (2010: 5.14% to 5.50%).
Financial liabilities			
Deposits	16	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 16.
Trade and other payables	17	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.

32. 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 2010 and 2011 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	Weighted average effective interest rate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
2011								
Financial assets								
Cash and cash equivalents	44,348					10,891	55,239	5.18
Receivables due from FI's	6,973	6,286					13,259	5.71
Negotiable certificates of deposit	30,191	48,915					79,106	5.57
Trade and other receivables						1,065	1,065	n/a
Loans and advances	539,128	4,397	20,959	47,255	235	(958)	611,016	7.25
Other investments						204	204	n/a
Total financial assets	620,640	59,598	20,959	47,255	235	11,202	759,889	
Financial liabilities								
Deposits	359,356	191,076	141,355	11,440			703,227	4.50
Trade and other payables						12,180	12,180	n/a
Total financial liabilities	359,356	191,076	141,355	11,440	-	12,180	715,407	

2010								
Financial assets								
Cash and cash equivalents	8,087					15,460	23,547	4.48
Receivables due from FI's	46,693	45,000	4,000				95,693	5.40
Negotiable certificates of deposit	5,473	8,463					13,936	5.72
Trade and other receivables						1,287	1,287	n/a
Loans and advances	486,441	4,678	17,052	54,912	734	(930)	562,887	6.97
Other investments						204	204	n/a
Total financial assets	546,694	58,141	21,052	54,912	734	16,021	697,554	
Financial liabilities								
Deposits	320,040	193,568	113,853	7,371			634,832	4.25
Trade and other payables						21,860	21,860	n/a
Total financial liabilities	320,040	193,568	113,853	7,371	-	21,860	656,692	

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

32. FINANCIAL INSTRUMENTS (continued)

(c) Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

	Within 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total cash flows	Total carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2011								
Financial assets								
Cash and cash equivalents	55,393						55,393	55,239
Receivables due from FI's	7,059	6,365					13,424	13,259
Negotiable certificates of deposit	27,024	45,131	8,251				80,406	79,106
Trade and other receivables	278						278	1,065
Loans and advances	15,164	10,920	48,571	239,325	555,812		869,792	611,016
Other investments						204	204	204
Total financial assets	104,918	62,416	56,822	239,325	555,812	204	1,019,497	759,889
Financial liabilities								
Deposits	361,759	195,726	147,293	12,605			717,383	703,227
Trade and other payables	6,342						6,342	12,180
On balance sheet	368,101	195,726	147,293	12,605	-	-	723,725	715,407
Undrawn credit commitments	40,325						40,325	40,325
Total financial liabilities	408,426	195,726	147,293	12,605	-	-	764,050	755,732

2010								
Financial assets								
Cash and cash equivalents	23,547						23,547	23,547
Receivables due from FI's	47,281	45,586	4,280				97,147	95,693
Negotiable certificates of deposit	2,422	4,260	319	8,821			15,822	13,936
Trade and other receivables	323						323	1,287
Loans and advances	13,469	9,909	43,975	216,018	507,330		790,701	562,887
Other investments						204	204	204
Total financial assets	87,042	59,755	48,574	224,839	507,330	204	927,744	697,554
Financial liabilities								
Deposits	321,906	198,128	118,643	8,077			646,754	634,832
Trade and other payables	16,145						16,145	21,860
On balance sheet	338,051	198,128	118,643	8,077	-	-	662,899	656,692
Undrawn credit commitments	37,739						37,739	37,739
Total financial liabilities	375,790	198,128	118,643	8,077	-	-	700,638	694,431

32. FINANCIAL INSTRUMENTS (continued)

(d) 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		Aggregate net fair value	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Financial assets					
Cash and cash equivalents	6	55,239	23,547	55,389	23,547
Receivables due from other FI's	7	13,259	95,693	13,372	96,574
Negotiable certificates of deposit	8	79,106	13,936	79,610	13,987
Loans and advances	10	611,016	562,887	615,084	562,307
Trade and other receivables	9	1,065	1,287	278	323
Other investments	12	204	204	204	204
Total financial assets		759,889	697,554	763,937	696,942
Financial liabilities					
Deposits	16	703,227	634,832	701,363	632,950
Trade and other payables	17	12,180	21,860	12,180	21,860
Total financial liabilities		715,407	656,692	713,543	654,810

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.

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.

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.

Directors' Declaration

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

- the financial statements and notes, set out on pages 7 to 40, are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the financial position of the Society as at 30 June 2011 and of its performance, for the financial year ended on that date; and
 - complying with Australia Accounting Standards (including Accounting Interpretations) and the Corporations Regulations 2001; and
- the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.
- 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 Ericson
Chairman

Joy Stocker
Deputy Chairman

Albury, 25 August 2011



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WHK Audit & Risk Assessment
ABN 16 673 023 918



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

Report on the financial statements

We have audited the accompanying financial statements of Hume Building Society Ltd (the Company), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 32 and the directors' declaration as set out on pages 7 to 41.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001 and for such internal controls as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Company, comprising the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view 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 controls. 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 statements.

We performed the procedures to assess whether in all material respects the financial statements present 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 statements of Hume Building Society Ltd are 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 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards 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

Bradley D Bohun
Partner
Albury, 25 August 2011

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