Hume Building Society

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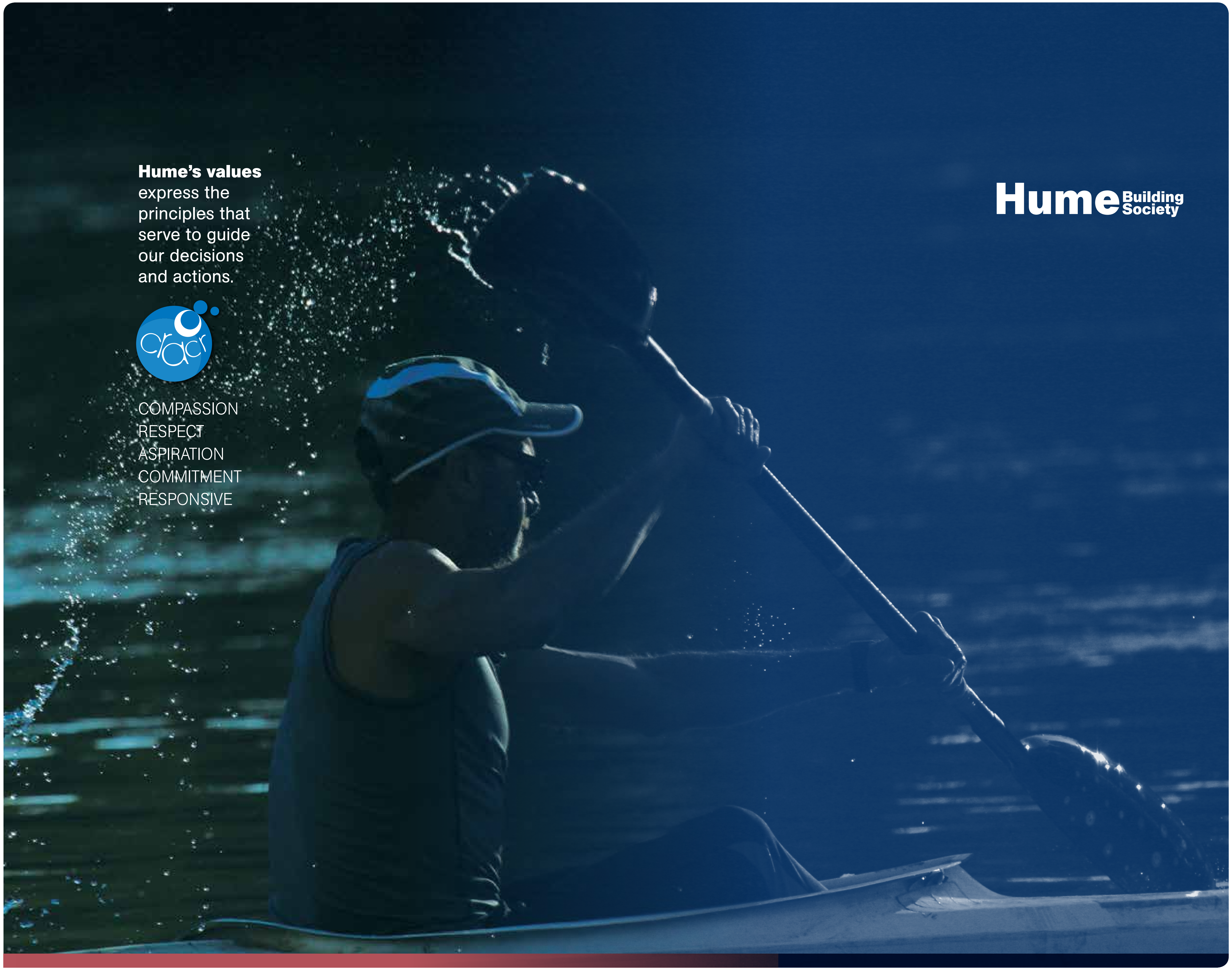
Annual Financial Report **2012**

Hume Building Society



FINANCIAL STATEMENTS
for the year ended 30 June **2012**

Contents

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

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 2012 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 between August 1998 and June 2012. Member of the Remuneration and Succession Committee and the Audit 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 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. Member of the Audit Committee and former member of the Remuneration and Succession Committee. Joy is a member of the Charles Sturt University Regional Consultative Committee.
Henrietta Rachel Cruddas B. Sc (Hons) Non-independent, non-executive Director.	Solicitor. Board member since May 2011. Member of the Audit 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 and Chairman since July 2012. Chairman of 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 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. Member of the Audit Committee. Chairperson of the Albury Wodonga Corporation and Chairman of AlburyCity Audit Committee until December 2011. Bill has an ongoing association with Charles Sturt University.
Leo Francis O'Reilly Independent, non-executive Director.	Former Chartered Accountant - former partner of an Accounting Firm. Board member since February 1998. Chairman of the Audit Committee. Leo is the Chairman of the AlburyCity Audit Committee, a community representative Director of the Albury Wodonga Regional GP Network and a Director of Hume Medicare Local.
Karyl Denise Osborne Independent, non-executive Director.	Board member since March 2007. Member of the Remuneration and Succession Committee and former member of the Audit Committee. Denise is the Mayor of the Greater Hume Shire Council and is on the Boards of YES Youth & Family Services, Back to Reality, Murray Arts, UPA 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.

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*
Number of meetings held:	15	6	1	4
Number of meetings attended:				
Henrietta Rachel Cruddas [1]	14	2	1	n/a
Ulf Olof Ericson	14	5	1	4
Stuart James Gilchrist	14	n/a	-	4
William Thomas Hanrahan	15	6	-	n/a
Leo Francis O'Reilly	14	6	1	n/a
Karyl Denise Osborne [2]	14	4	1	2
Feynella Joy Stocker [3]	12	2	1	1

[1] Appointed to the Audit Committee in December 2011
[2] Appointed to the Remuneration and Succession Committee and resigned from the Audit Committee in December 2011
[3] Appointed to the Audit Committee and resigned from the Remuneration and Succession Committee in December 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 is a Board appointed committee comprising of five 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. Leo O'Reilly has been Chairman since January 2012; prior to which the Committee was chaired by Bill Hanrahan.

Risk Committee
The Risk Committee was established in July 2009 and ceased in November 2011 when oversight of risk matters reverted to the Board. It was a Board appointed committee comprising of all Directors. It oversaw the development and review of the risk management framework and the review and approval of Policies to ensure adherence to the requirements of the risk framework. It also made recommendations to the Board on the Society's risk appetite. The Committee was chaired by Joy Stocker. Since December 2011, the Board has managed these responsibilities by holding specific risk focussed meetings on a quarterly basis.

Remuneration & Succession Committee
The Remuneration and Succession Committee is a Board appointed committee of three 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 as well as the Remuneration and Human Resources Policy which establishes staff remuneration structures. It also develops Board succession planning for consideration by the Board. The Committee has been chaired by Stuart Gilchrist since August 2012; prior to which the Committee was 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 $4.754 million for the year (2011 - $6.037 million). Net profit after income tax was $3.321 million (2011 - $4.213 million). The result was based on an increase in total assets of 10.7% or $82.032 million to $850.880 million on the back of net loan approvals of $132 million (2011 - $138 million). Net loans and advances outstanding at 30 June 2012 were $647.497 million (2011 - $611.016 million) and deposits by members were $782.208 million (2011 - $703.227 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. The Society has agreed to participate in an issuance of term subordinated debt with a group of similar mutual ADIs. The $2 million requested will count as capital, and when issued, will have a minor positive impact on the prudential ratios.

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.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the financial year ended 30 June 2012.

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 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006), unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Stuart Gilchrist
Chairman

Joy Stocker
Deputy Chairman

Albury, 16 August 2012

WHK

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WHK Audit & Risk Assessment
ABN 16 673 023 918

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 2012 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, 16 August 2012

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Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	2012	2011
		$'000	$'000
Interest revenue	2	**53,080**	49,573
Interest expense	2	**(33,123)**	(29,864)
Net interest income		**19,957**	19,709
Non-interest income	3	**3,607**	3,272
Total operating income		**23,564**	22,981
Impairment of loans and advances	11	**(136)**	(168)
Other expenses	4	**(18,674)**	(16,776)
Profit before income tax		**4,754**	6,037
Income tax expense	5	**(1,433)**	(1,824)
Profit for the year		**3,321**	4,213
Other comprehensive income			
Revaluation of property		**-**	814
Other comprehensive income, net of tax		**-**	814
Total comprehensive income for the year		**3,321**	5,027

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

Statement of Changes in Equity

for the year ended 30 June 2012

	Note	Retained Earnings	General Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Total Reserves
		$'000	$'000	$'000	$'000	$'000
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
2012						
Opening balance at 1 July 2011		**48,601**	**1,056**	**814**	**593**	**2,463**
Net profit for the year		**3,321**	**-**	**-**	**-**	**-**
Total other comprehensive income		**-**	**-**	**-**	**-**	**-**
Transfers to/(from) reserves		**(74)**	**74**	**-**	**-**	**74**
Closing balance at 30 June 2012	21, 22	**51,848**	**1,130**	**814**	**593**	**2,537**

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

Statement of Financial Position

as at 30 June 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash and cash equivalents	6	**43,703**	55,239
Receivables due from other financial institutions	7	**58,935**	13,259
Investment securities	8	**90,570**	79,106
Trade and other receivables	9	**1,210**	1,065
Loans and advances	10	**647,497**	611,016
Other investments	12	**204**	204
Property, plant and equipment	13	**7,189**	7,514
Intangible assets	14	**342**	312
Deferred tax assets	15	**1,230**	1,133
Total assets		**850,880**	768,848
Liabilities			
Deposits	16	**782,208**	703,227
Trade and other payables	17	**11,957**	12,180
Income tax payable	18	**399**	476
Deferred tax liabilities	19	**142**	149
Provision for employee benefits	20	**1,789**	1,752
Total liabilities		**796,495**	717,784
Net assets		**54,385**	51,064
Members' funds			
Reserves	21	**2,537**	2,463
Retained earnings	22	**51,848**	48,601
Total members' funds		**54,385**	51,064

The statement of financial position 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 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Interest received		**52,858**	49,749
Interest paid		**(33,245)**	(29,237)
Other non-interest revenue received		**3,677**	3,312
Cash paid to suppliers and employees		**(17,177)**	(25,541)
Fees and commissions paid		**(35)**	(29)
Income tax paid	18	**(1,614)**	(1,851)
		4,464	(3,597)
(Increase)/decrease in operating assets:			
Net (increase)/decrease in loans and advances		**(36,617)**	(48,297)
Net increase/(decrease) in deposits		**78,981**	68,395
Net cash flows from operating activities	23	**46,828**	16,501
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		**-**	4,000
Net (increase)/decrease in investment securities		**8,000**	-
Payments for property, plant and equipment		**(998)**	(1,884)
Proceeds from sale of property, plant and equipment		**19**	22
Payments for intangible assets		**(245)**	(211)
Net cash flows from in investing activities		**6,776**	1,927
Cash flows from financing activities			
Repayment of borrowings		**-**	-
Net cash flows from in financing activities		**-**	-
Net increase/(decrease) in cash held		**53,604**	18,428
Cash at the beginning of the financial year		**139,604**	121,176
Cash at the end of the financial year	23	**193,208**	139,604

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 statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards ('AASBs') 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 16 August 2012.

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 balance 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% (2011 - 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.

Assets less than $500 are not capitalised.

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 – 7 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.

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

As a financial institution the Society is input taxed on all income except for income from commissions, rents and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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.

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.

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 standards and interpretations not yet adopted

The following standards have been identified as ones which may impact the Society in the period of initial application. They are 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 2015. 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.

- AASB 13 *Fair Value Measurement* - A new standard was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It defines fair value, and sets out in a singled standard a framework for measuring fair value. AASB 13 requires inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy. It also requires enhanced disclosures regarding all assets and liabilities. When this standard is adopted for the first time, additional disclosures may be required about fair values.

- AASB 119 *Employee Benefits* - A revised standard was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. The standard introduces a number of changes to the accounting and presentation of defined benefit plans. It also includes changes to the accounting for termination benefits. 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 2012			
Cash at authorised deposit-taking institutions	**42,274**	**1,984**	**4.69**
Receivables due from other financial institutions	**41,534**	**2,292**	**5.52**
Investment securities	**82,343**	**4,543**	**5.52**
Loans and advances	**627,569**	**44,261**	**7.05**
	793,720	**53,080**	**6.69**
Interest expense 2012			
Members' deposits	**749,965**	**33,123**	**4.42**
Borrowings	**-**	**-**	**-**
	749,965	**33,123**	**4.42**
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

3. NON-INTEREST INCOME

	2012 $'000	2011 $'000
Fees and commissions from members		
- Loan and overdraft fees	**193**	183
- Transaction fees	**644**	568
- Credit card fees	**9**	9
- Other fees	**476**	396
	1,322	1,156
Fees and commissions from non-members		
- Fees for service	**758**	662
- Commissions	**1,460**	1,380
	2,218	2,042
Total fees and commissions	**3,540**	3,198
Other non-interest income		
- Income from property	**26**	28
- Bad debts recovered	**12**	2
- Profit on disposal of property, plant and equipment	**7**	5
- Government grants	**20**	20
- Sundry income	**2**	19
	67	74
Total non-interest income	**3,607**	3,272

Government Grants

A Green Building Fund grant of $20,000 (2011 – $20,000) 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.

4. OTHER EXPENSES

	Note	2012 $'000	2011 $'000
Amortisation – leasehold improvements	13	**235**	170
Amortisation – intangible assets	14	**215**	209
Depreciation			
- Plant and equipment	13	**989**	917
- Buildings	13	**68**	81
Total depreciation		**1,057**	998
Fees and commissions		**35**	29
Personnel costs			
- Provision for long service leave		**81**	85
- Provision for annual leave		**107**	76
- Superannuation contributions		**778**	673
- Salaries and wages		**7,261**	6,394
- Payroll tax		**401**	350
- Other		**641**	696
Total personnel costs		**9,269**	8,274
Marketing expenses		**742**	753
Information technology expenses		**924**	790
Occupancy costs			
- Rental – operating leases		**1,139**	849
- Other occupancy costs		**979**	875
Total occupancy costs		**2,118**	1,724
ATM, Eftpos and electronic transaction processing costs		**1,438**	1,319
Other administration expenses		**2,621**	2,490
Loss on disposal of property, plant and equipment		**20**	3
Loss on revaluation of property		**-**	17
Total other expenses		**18,674**	16,776

	Note	2012 $'000	2011 $'000
5. INCOME TAX EXPENSE			
Income tax expense		**1,433**	1,824
Recognised in statement of comprehensive income			
Income tax expense comprises amounts set aside as:			
Income tax payable – current year	18	**1,537**	1,860
Under/(over) provision in prior years		**-**	-
Increase/(decrease) in deferred tax liabilities		**(7)**	131
(Increase)/decrease in deferred tax assets		**(97)**	(167)
		1,433	1,824
Reconciliation between tax expense and pre-tax profit			
Profit before income tax		**4,754**	6,037
Prima facie income tax expense calculated at 30%		**1,426**	1,811
Increase/(decrease) in income tax expense due to:			
Non-deductible expenses		**25**	36
Other deductible expenses		**(18)**	(23)
Non-assessable income		**-**	-
		1,433	1,824
Income tax (over)/under provided in prior period		**-**	-
Income tax expense attributable to profit		**1,433**	1,824
Dividend franking account			
Franking credits held at balance date		**23,661**	22,048
6. CASH AND CASH EQUIVALENTS			
Cash on hand and at authorised deposit-taking institutions at call		**43,703**	55,239
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS			
Interest earning deposits		**58,935**	13,259
Maturity analysis			
Not later than 1 month		**30,935**	6,973
Later than 1 and not later than 3 months		**28,000**	6,286
Later than 3 and not later than 12 months		**-**	-
Later than 1 and not later than 5 years		**-**	-
		58,935	13,259

	Note	2012 $'000	2011 $'000
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS (continued)			
Credit rating of receivables due from other financial institutions			
Authorised Deposit-taking Institutions rated A and above		**27,000**	10,000
Authorised Deposit-taking Institutions rated below A		**9,000**	-
Unrated Authorised Deposit-taking Institutions		**22,935**	3,259
		58,935	13,259
8. INVESTMENT SECURITIES			
Negotiable certificates of deposit		**90,570**	79,106
Maturity analysis			
Not later than 1 month		**27,741**	26,691
Later than 1 and not later than 3 months		**62,829**	44,415
Later than 3 and not later than 12 months		**-**	8,000
Later than 1 and not later than 5 years		**-**	-
		90,570	79,106
Credit rating of investment securities			
Authorised Deposit-taking Institutions rated A and above		**-**	-
Authorised Deposit-taking Institutions rated below A		**90,570**	79,106
Unrated Authorised Deposit-taking Institutions		**-**	-
		90,570	79,106
9. TRADE AND OTHER RECEIVABLES			
Interest receivable on investments		**1,009**	787
Sundry debtors, accrued income and prepayments		**201**	278
		1,210	1,065
10. LOANS AND ADVANCES			
Overdrafts and Credit Cards		**9,768**	9,683
Term loans		**638,624**	602,291
Loans and advances before deferred fees and costs		**648,392**	611,974
Deferred loan transaction costs		**330**	331
Deferred loan origination fees		**(975)**	(1,010)
Deferred fixed rate loan renegotiation fees		**(5)**	(20)
Total loans and advances		**647,742**	611,275
Provision for impairment	11	**(245)**	(259)
Net loans and advances		**647,497**	611,016

	2012 $'000	2011 $'000
10. LOANS AND ADVANCES (continued)		
Maturity analysis		
Not later than 1 month	**11,799**	11,503
Later than 1 and not later than 3 months	**3,740**	3,431
Later than 3 and not later than 12 months	**17,513**	16,107
Later than 1 and not later than 5 years	**90,377**	82,520
Later than 5 years	**524,313**	497,714
	647,742	611,275

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:

	2012 $'000	2011 $'000
- Southern NSW and North East Victoria	**591,034**	566,201
- Other – non-concentrated	**57,358**	45,773
	648,392	611,974

	2012 $'000	2011 $'000
Security held against loans and advances		
Secured by mortgage over residential property	**597,472**	560,274
Secured by mortgage over commercial property	**31,617**	33,265
Total loans and advances secured by real estate	**629,089**	593,539
Secured by funds	**477**	625
Partly secured by goods mortgage	**8,598**	8,511
Wholly unsecured	**10,228**	9,299
	648,392	611,974

Credit quality - loan to value ratio on loans and advances secured by real estate

It is not practical to value all collateral as at the balance date due to the variety of assets and their nature and condition. A breakdown of the quality of the mortgage security on a portfolio basis is as follows:

	2012 $'000	2011 $'000
Loan to value ratio of 80% or less	**516,974**	491,372
Loan to value ratio of more than 80% but mortgage insured	**107,162**	96,492
Loan to value ratio of more than 80% not mortgage insured	**4,953**	5,675
	629,089	593,539

	2012 $'000	2011 $'000
11. IMPAIRMENT OF LOANS AND ADVANCES		
Provision for impairment		
Collective provision	**215**	237
Specific provision	**30**	22
	245	259

	2012 $'000	2011 $'000
11. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
Provision for impairment – collective provision		
Opening balance	**237**	203
Bad debts previously provided for written off during the year	**(122)**	(121)
Bad and doubtful debts provided for during the year	**100**	155
Closing balance	**215**	237
Provision for impairment – specific provision		
Opening balance	**22**	15
Bad debts previously provided for written off during the year	**(28)**	(6)
Bad and doubtful debts provided for during the year	**36**	13
Closing balance	**30**	22
Bad and doubtful debts expense comprises:		
Collective provision increase/(decrease)	**100**	155
Specific provision increase/(decrease)	**36**	13
Total bad debts expense/(benefit)	**136**	168

	2012 $'000	2011 $'000
Ageing analysis of loans and advances past due		
Loans and advances past due and not impaired		
Up to 30 days	**15,915**	13,914
More than 30 days but less than 90 days	**3,382**	4,889
More than 90 days but less than 180 days	**1,078**	1,317
More than 180 days but less than 270 days	**244**	199
More than 270 days but less than 365 days	**-**	169
More than 365 days	**286**	423
Accounts overdrawn and overdrafts over limit less than 14 days	**42**	518
	20,947	21,429
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	**66**	47
More than 180 days but less than 270 days	**2**	46
More than 270 days but less than 365 days	**42**	18
More than 365 days	**133**	42
Accounts overdrawn and overdrafts over limit less than 14 days	**235**	277
	478	430
Total past due loans and advances	**21,425**	21,859

	2012 $'000	2011 $'000

11. IMPAIRMENT OF LOANS AND ADVANCES (continued)

Security analysis of loans and advances past due

	2012 $'000	2011 $'000
Loans and advances past due and not impaired		
Secured by mortgage over real estate	**20,475**	20,707
Secured by funds	**2**	29
Partly secured by goods mortgage	**255**	472
Wholly unsecured	**215**	221
	20,947	21,429
Loans and advances past due and impaired		
Secured by mortgage over real estate	**81**	-
Secured by funds	**-**	-
Partly secured by goods mortgage	**142**	112
Wholly unsecured	**255**	318
	478	430
Total past due loans and advances	**21,425**	21,859
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	**-**	-
Net fair value of real estate assets acquired through the enforcement of security during the financial period	**120**	-
Net fair value of other assets acquired through the enforcement of security during the financial period	**-**	-

12. OTHER INVESTMENTS

	2012 $'000	2011 $'000
Unlisted shares – at cost	**204**	204

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

	2012 $'000	2011 $'000
Land and buildings		
At independent valuation – June 2011	**4,145**	4,145
At cost	**-**	-
Provision for depreciation	**(68)**	-
Total freehold land and buildings	**4,077**	4,145

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	2012 $'000	2011 $'000
Leasehold improvements		
At cost	**1,483**	1,479
Provision for amortisation	**(929)**	(694)
Total leasehold improvements	**554**	785
Plant and equipment		
At cost	**6,517**	6,799
Provision for depreciation	**(3,959)**	(4,215)
Total plant and equipment	**2,558**	2,584
Total property, plant and equipment at net book value	**7,189**	7,514

Reconciliations

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

	2012 $'000	2011 $'000
Land and buildings		
Carrying amount at the beginning of the year	**4,145**	3,565
Additions	**-**	-
Revaluations	**-**	797
Depreciation	**(68)**	(81)
Transfers to plant & equipment	**-**	(136)
Carrying amount at the end of the year	**4,077**	4,145
Leasehold improvements		
Carrying amount at the beginning of the year	**785**	408
Additions	**4**	547
Amortisation	**(235)**	(170)
Carrying amount at the end of the year	**554**	785
Plant and equipment		
Carrying amount at the beginning of the year	**2,584**	2,048
Additions	**994**	1,337
Disposals	**(31)**	(20)
Depreciation	**(989)**	(917)
Transfers from land and buildings	**-**	136
Carrying amount at the end of the year	**2,558**	2,584

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.

In the opinion of the Directors there have been no significant changes in market value since this date.

		2012 $'000	2011 $'000
14.	**INTANGIBLE ASSETS**		
	Computer software and licences		
	At cost	**2,154**	1,961
	Provision for amortisation	**(1,812)**	(1,649)
		342	312

Reconciliations

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

	2012 $'000	2011 $'000
Computer software and licences		
Carrying amount at the beginning of the year	**312**	310
Additions	**245**	211
Disposals	**-**	-
Amortisation	**(215)**	(209)
Carrying amount at the end of the year	**342**	312

		2012 $'000	2011 $'000
15.	**DEFERRED TAX ASSETS**		
	Deferred tax assets	**1,230**	1,133
	Deferred tax assets are attributable to the following:		
	Property, plant and equipment and intangible assets	**401**	353
	Provisions for employee benefits	**489**	432
	Provision for impairment on loans	**74**	78
	Borrowing Costs	**11**	6
	Expenses not currently deductible	**31**	26
	Deferred loan fees and transaction costs	**195**	210
	Deferred income	**29**	28
		1,230	1,133

		2012 $'000	2011 $'000
16.	**DEPOSITS**		
	Call deposits	**280,813**	256,165
	Term deposits	**501,395**	447,062
		782,208	703,227
	Maturity analysis		
	Not later than 1 month	**437,477**	359,356
	Later than 1 and not later than 3 months	**242,237**	191,076
	Later than 3 and not later than 12 months	**86,712**	141,355
	Later than 1 and not later than 5 years	**15,782**	11,440
		782,208	703,227
	Concentration of deposits		
	Southern NSW and North East Victoria	**710,748**	648,461
	Other – non-concentrated	**71,460**	54,766
		782,208	703,227

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

		2012 $'000	2011 $'000
17.	**TRADE AND OTHER PAYABLES**		
	Accrued interest payable	**6,220**	6,342
	Creditors and other liabilities	**5,737**	5,838
		11,957	12,180

		2012 $'000	2011 $'000
18.	**INCOME TAX PAYABLE**		
	Income tax payable	**399**	476
	Movement during the year was as follows:		
	Balance at the beginning of the year	**476**	467
	Current year's income tax expense on profit before tax	**1,537**	1,860
	Income tax paid – Current year	**(1,138)**	(1,384)
	Income tax paid – Prior year	**(476)**	(467)
	Under/(over) provision in prior period	**-**	-
		399	476

		2012 $'000	2011 $'000
19.	**DEFERRED TAX LIABILITIES**		
	Deferred tax liabilities	**142**	149
	Deferred tax liabilities are attributable to the following:		
	Accrual of short-term bills	**142**	149

		2012 $'000	2011 $'000
20.	**PROVISION FOR EMPLOYEE BENEFITS**		
	Salaries, wages and other benefits accrued	**176**	327
	Provision for annual leave	**751**	644
	Provision for long service leave	**862**	781
		1,789	1,752

Included in employee benefits is a non-current amount of $339,000 (2011 - $321,000) relating to long service leave.

	2012 $'000	2011 $'000

21. RESERVES

	2012 $'000	2011 $'000
General reserve for credit losses	**1,130**	1,056
Asset revaluation reserve	**814**	814
Capital profits reserve	**593**	593
	2,537	2,463

Movements in reserves

General reserve for credit losses

	2012 $'000	2011 $'000
Balance at the beginning of the year	**1,056**	973
Transfer from retained earnings	**74**	83
Balance at the end of the year	**1,130**	1,056

This reserve is required to be maintained to comply with Society policy.

Asset revaluation reserve

	2012 $'000	2011 $'000
Balance at the beginning of the year	**814**	-
Total other comprehensive income	**-**	814
Balance at the end of the year	**814**	814

This reserve includes gains made on property when a revaluation is carried out in line with Society policy.

Capital profits reserve

	2012 $'000	2011 $'000
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	**593**	593

This reserve includes the cumulative capital profits made on the disposal of assets.

22. RETAINED EARNINGS

	2012 $'000	2011 $'000
Retained earnings at the beginning of the year	**48,601**	44,471
Net profit attributable to members	**3,321**	4,213
Transfers from/(to) reserves	**(74)**	(83)
Retained earnings at the end of the year	**51,848**	48,601

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:

	2012 $'000	2011 $'000
Cash on hand and at authorised deposit-taking institutions	**43,703**	55,239
Receivables due from other financial institutions less than 3 months	**58,935**	13,259
Investment securities less than 3 months	**90,570**	71,106
	193,208	139,604

(b) Reconciliation of cash flows from operating activities

	2012 $'000	2011 $'000
Profit for the year	**3,321**	4,213
Non-cash items		
Charge for bad and doubtful debts	**136**	168
Depreciation	**1,057**	998
Amortisation of leasehold improvements	**235**	170
Amortisation of intangible assets	**215**	209
Provision for employee entitlements	**188**	161
(Profit) on disposal of plant and equipment	**(7)**	(5)
Loss on disposal of plant and equipment	**20**	3
Net (profit)/loss on revaluation of property	**-**	17
Changes in assets and liabilities		
Interest receivable	**(222)**	177
Other receivables	**77**	45
Interest payable	**(122)**	627
Income tax payable	**(77)**	9
Trade and other payables	**(101)**	(10,307)
Provision for employee benefits	**(152)**	(46)
Deferred tax assets	**(97)**	(167)
Deferred tax liabilities	**(7)**	131
	4,464	(3,597)
Net (increase)/decrease in loans and advances	**(36,617)**	(48,297)
Net increase/(decrease) in deposits	**78,981**	68,395
Net cash flow from operating activities	**46,828**	16,501

24. AUDITOR'S REMUNERATION

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

	2012 $	2011 $
– audit of the financial statements of the Society	**63,231**	**58,190**
– other services in relation to the Society	**15,301**	**14,395**
	78,532	**72,585**

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 staff member's account in the fund. No actuarial assessment is required. The Society contributed 9% of each fund staff member's gross salary to cover its occupational superannuation obligations. Staff 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 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.

	2012 $'000	2011 $'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	**44,201**	40,325
Security analysis of credit-related commitments		
Secured by mortgage over real estate	**31,133**	28,175
Secured by funds	**359**	318
Partly secured by goods mortgage	**144**	63
Wholly unsecured	**12,565**	11,769
	44,201	40,325
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.	**1,744**	1,860
Security analysis of financial guarantees		
Secured by mortgage over real estate	**1,144**	1,187
Secured by funds	**592**	645
Wholly unsecured	**8**	28
	1,744	1,860

	2012 $'000	2011 $'000
27. EXPENDITURE COMMITMENTS		
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	**283**	95
Operating leases (non-cancellable)		
Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	**1,352**	1,151
– later than 1 and not later than 2 years	**1,207**	916
– later than 2 and not later than 5 years	**1,947**	1,640
– later than 5 years	**149**	-
Aggregate lease expenditure contracted for at balance date	**4,655**	3,707

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:

	2012 $	2011 $
Short-term employee benefits		
- Directors	**286,192**	301,528
- Other key management personnel	**1,092,578**	1,019,428
Post-employment benefits – superannuation contributions		
- Directors	**187,800**	190,037
- Other key management personnel	**93,965**	94,093
Other long-term benefits – net increase in long service leave provision		
- Directors	**-**	-
- Other key management personnel	**12,394**	16,290
	1,672,929	1,621,376

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:

	2012 $		2011 $	
	Mortgage Secured Loans	**Revolving Credit (unsecured)**	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	**-**	**20,167**	-	22,191
Balance at reporting date	**799,011**	**4,833**	816,446	2,809
Loans advanced (including redraws)	**5,000**	**40,871**	-	20,312
Loan repayments	**77,489**	**38,934**	32,326	22,536
Interest and other revenue earned	**55,054**	**87**	21,515	-
Loans to Director related parties				
Funds available to be drawn	**-**	**1,508**	-	1,784
Balance at reporting date	**621,990**	**492**	635,766	216
Loans advanced (including redraws)	**-**	**3,651**	-	5,559
Loan repayments	**56,186**	**3,375**	51,268	5,627
Interest and other revenue earned	**42,410**	**-**	43,989	-
Loans to other key management personnel				
Funds available to be drawn	**-**	**25,084**	-	29,181
Balance at reporting date	**1,776,398**	**29,916**	1,029,429	25,819
Loans advanced (including redraws)	**875,252**	**158,340**	-	144,195
Loan repayments	**215,468**	**154,254**	158,942	137,027
Interest and other revenue earned	**87,185**	**11**	56,474	-

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 customers for each class of loan.

There are no loans to either Directors or 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:

	2012 $	2011 $
Deposits outstanding at balance date:		
- Directors	**95,385**	75,037
- Director related parties	**9,534,710**	8,788,098
- Other key management personnel	**254,769**	219,091
- Other key management personnel related parties	**234,155**	349,885
Interest paid on deposits:		
- Directors	**2,410**	4,997
- Director related parties	**531,475**	611,155
- Other key management personnel	**1,128**	622
- Other key management personnel related parties	**16,874**	18,840

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 customers.

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 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, Eftpos and VISA 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 Board oversees the development of the risk management framework in relation to the risks faced by the Society. It 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 customers, 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 borrowers 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.

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 and other liquidity ratios 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 2012, the Society held 15.76% of total adjusted liabilities as liquid assets (2011 – 16.20%). The average during the financial year was 16.20% (2011 – 16.81%).

The Society also maintains 1.80% of total adjusted liabilities as liquid assets (2011 – 1.80%) 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 2012 using a 20 day holding period, 99% confidence level and a 250 day observation period, the VaR was 1.54% of capital. VaR as at 31 March 2011 was 0.99% of capital using the same parameters.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Based on independent EaR calculations as at 31 March 2012 using a shift in interest rates of 200 basis points for one year, EaR was a $3,266,490 variation or 16.30% from the base case. EaR as at 31 March 2011 was a $3,478,708 variation or 16.28% 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 2012 to 30 June 2012.

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

	2012	2011
	$'000	$'000
Tier 1 capital		
Retained earnings	**51,848**	48,601
Capital profits reserve	**593**	593
Deferred fee income	**650**	699
	53,091	49,893
Less prescribed deductions	**(1,531)**	(1,400)
Net tier 1 capital	**51,560**	48,493
Tier 2 capital		
General reserve for credit losses	**1,130**	1,056
Asset revaluation reserve	**366**	366
Less prescribed deductions	**(103)**	(103)
Net tier 2 capital	**1,393**	1,319
Total capital	**52,953**	49,812
Risk profile		
Credit risk	**329,604**	308,777
Operational risk	**46,817**	42,847
Total risk weighted assets	**376,421**	351,624
Capital adequacy ratio	**14.07%**	14.17%

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 15th 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 93 days with effective interest rates of 3.25% to 5.95% (2011: 4.88% to 5.96%).
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 86 days and effective interest rates of 3.81% to 5.25% (2011: 5.12% to 5.90%).
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 2011 and 2012 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	%
2012								
Financial assets								
Cash and cash equivalents	**32,520**					**11,183**	**43,703**	**4.08**
Receivables due from FI's	**30,935**	**28,000**					**58,935**	**4.96**
Negotiable certificates of deposit	**27,741**	**62,829**					**90,570**	**4.41**
Trade and other receivables						**1,210**	**1,210**	**n/a**
Loans and advances	**578,179**	**4,738**	**25,430**	**39,918**	**127**	**(895)**	**647,497**	**6.39**
Other investments						**204**	**204**	**n/a**
Total financial assets	**669,375**	**95,567**	**25,430**	**39,918**	**127**	**11,702**	**842,119**	
Financial liabilities								
Deposits	**437,477**	**242,237**	**86,712**	**15,782**			**782,208**	**4.05**
Trade and other payables						**11,957**	**11,957**	**n/a**
Total financial liabilities	**437,477**	**242,237**	**86,712**	**15,782**	**-**	**11,957**	**794,165**	
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	

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
2012								
Financial assets								
Cash and cash equivalents	**43,784**						**43,784**	**43,703**
Receivables due from FI's	**31,257**	**28,409**					**59,666**	**58,935**
Negotiable certificates of deposit	**28,000**	**63,500**					**91,500**	**90,570**
Trade and other receivables	**201**						**201**	**1,210**
Loans and advances	**15,230**	**10,751**	**47,765**	**236,112**	**578,536**		**888,394**	**647,497**
Other investments						**204**	**204**	**204**
Total financial assets	**118,472**	**102,660**	**47,765**	**236,112**	**578,536**	**204**	**1,083,749**	**842,119**
Financial liabilities								
Deposits	**440,299**	**247,125**	**90,892**	**16,958**			**795,274**	**782,208**
Trade and other payables	**5,737**						**5,737**	**11,957**
On balance sheet	**446,036**	**247,125**	**90,892**	**16,958**	**-**	**-**	**801,011**	**794,165**
Undrawn credit commitments	**44,201**						**44,201**	**44,201**
Total financial liabilities	**490,237**	**247,125**	**90,892**	**16,958**	**-**	**-**	**845,212**	**838,366**

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	5,838						5,838	12,180
On balance sheet	367,597	195,726	147,293	12,605	-	-	723,221	715,407
Undrawn credit commitments	40,325						40,325	40,325
Total financial liabilities	407,922	195,726	147,293	12,605	-	-	763,546	755,732

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	
		2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Financial assets					
Cash and cash equivalents	6	**43,703**	55,239	**43,769**	55,389
Receivables due from other FI's	7	**58,935**	13,259	**59,408**	13,372
Negotiable certificates of deposit	8	**90,570**	79,106	**91,052**	79,610
Loans and advances	10	**647,497**	611,016	**653,632**	615,084
Trade and other receivables	9	**1,210**	1,065	**201**	278
Other investments	12	**204**	204	**204**	204
Total financial assets		**842,119**	759,889	**848,266**	763,937
Financial liabilities					
Deposits	16	**782,208**	703,227	**781,816**	701,363
Trade and other payables	17	**11,957**	12,180	**11,957**	12,180
Total financial liabilities		**794,165**	715,407	**793,773**	713,543

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:

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 2012 and of its performance, for the financial year ended on that date; and

   (b) complying with Australia Accounting Standards and the Corporations Regulations 2001; and

2. the financial statements also comply with International Financial Reporting ; and.

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:

Stuart Gilchrist
Chairman

Joy Stocker
Deputy Chairman

Albury, 16 August 2012

WHK

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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 2012, 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 set out on pages 6 to 40.

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 and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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 2012 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, 16 August 2012

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