

happier banking

Members' Report **2010**

Our values



Compassion

We seek to understand and support the needs and goals of members, each other and the community.

Respect

We are inclusive and will act fairly, honestly and with integrity with consideration for others.

Aspiration

We empower and challenge each other to deliver operational excellence and will strive to improve everything we do.

Commitment

We work together as a team with dedication and loyalty to our organisation and take responsibility for our actions.

Responsive

We act with purpose, conviction and courage to deliver in a timely manner.

Our vision

To be the financial institution of choice to the people in, or aligned to, north eastern Victoria and southern New South Wales while providing national convenience.

Our mission

To build and enhance relationships with members to enable them to make rewarding financial choices.

Contents

Key Statistics	2
Chairman and CEO's Report	3
2010 Highlights	5
We give back more to our members	7
Convenient banking	8
Creating a clean and green future	10
Investing in the future	12

Summarised Financial Report

Statement of Comprehensive Income	16
Statement of Financial Position	17
Statement of Cash Flows	18
Independent Audit Report	19

93.1%
Customer Satisfaction
 (Roy Morgan Research)

Total Loans
\$555m

89.3%
Employee Satisfaction
 (Hay Group)

Members
52,100

Key Statistics



\$705m
Total Assets

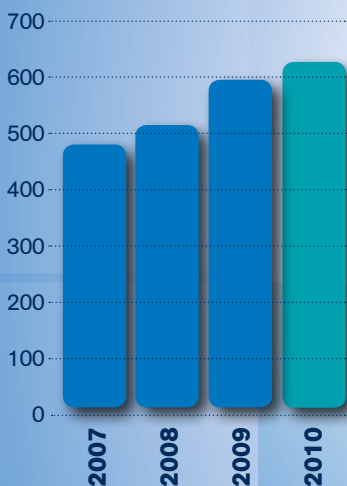
\$5m
Operating Profit Before Tax

\$635m
Total Deposits

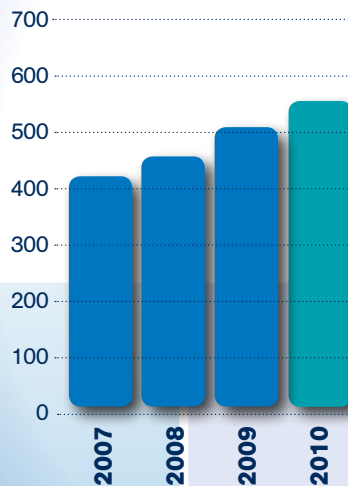
\$141m
Net Loan Approvals

Success is going beyond what is expected in everything we do, by the values we share.

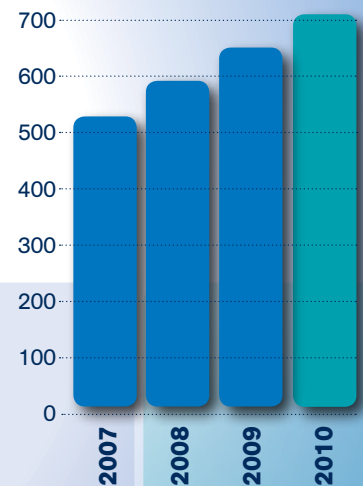
TOTAL DEPOSITS (\$m)



TOTAL LOANS (\$m)



TOTAL ASSETS (\$m)





Ulf Ericson Chairman
Andrew Saxby CEO

Hume's ability to achieve outstanding results this year is a testament to our strategic plan and dedication to provide exceptional service.

Review of Operations

As a member owned, mutual organisation, Hume Building Society measures success by the increase in the number of members, the number of relationships they have with Hume and by their satisfaction in the way Hume develops and maintains those relationships. Other measures of success include staff engagement or satisfaction as well as a number of financial and prudential measures.

By all measures, 2009/10 was a great year for Hume Building Society. The number of members continued to increase and exceeded 52,000 at year end. The strength of their relationships improved to 2 products per member according to Roy Morgan Research's Single Source data as a broader range of accounts and services were made available to them. Member satisfaction, extracted from Roy Morgan Research's database, remains comfortably above other financial institutions operating in north eastern victoria and Southern New South Wales and, at 93.1%, is a true recognition of Hume's success.

Staff satisfaction, measured by global management consulting firm, the Hay Group, also remains well above benchmark levels. A rating of 89.3% confirms that staff value the efforts Hume makes in keeping them involved in and

informed of Hume's plans and in ensuring they have the training and equipment they need to provide excellent service to members.

Profitability and Growth

Hume's financial performance throughout 2009/10 was also pleasing; with a number of factors contributing to a much improved result. After tax profit of \$3.585 million is comparable to the \$3.567 million achieved in 2007/08 but is an increase of 85.8% from the \$1.929 million in 2008/09.

Total assets increased by 8.6% to \$705 million (\$649 million at June 2009) as a result of continued strong deposit growth which allowed record net loan approvals. Net interest income (the difference between what Hume earns on loans and investments and what it pays on deposits) increased to \$17.404 million from \$14.656 million the year before (an increase of 18.8%). Members benefit from much higher interest rates on term deposits and iSave accounts and these higher rates means net interest income is only 3.6% higher than the \$16.8 million earned in the year to June 2008; despite assets being 19.3% higher than 2 years ago.

Hume continues to focus on ways of generating non-interest income without increasing fees and

charges levied upon members. Fees and commissions from members decreased by 6.3% to \$1.075 million while income from non-members (Insurance and Visa commissions, ATM fees and rent) increased by 12.9% to \$1.839 million. This is a clear benefit of banking with a member-owned organisation that responds to members' feedback.

Operating expenses increased by 4.3% to \$15.275 million (\$14.646 million 2008/2009) with staffing expenses, which make up 51.1% of total expenses, increasing by 8.4%. The number of full-time equivalent staff increased by 4.8% to 104 at 30 June 2010; with most of the increase occurring in branches; including 3 staff in the Thurgoona branch which opened in the last week of June.

Marketing was the only other expense to increase by more than CPI; however that expense included significant rebranding costs as the remaining branches were refurbished to Hume's current, high standard.

The cost to assets ratio, Hume's preferred way of measuring efficiency, improved from 2.36% in 2009 to 2.26% in the year under review – despite an increase in the number of branches and staff to ensure Hume's high service levels are maintained or improved. Improved profitability allowed

the Capital Adequacy Ratio to remain at similar levels to last year despite comparably good growth in assets. The Capital Adequacy Ratio finished the year at 13.97% (down from 14.12% at June 2009) however, when compared to the international standard of 8%, Hume continues to exceed prudential requirements by a comfortable margin.

Local Economy

As economic growth recovered from the global slow-down in 2009, the Reserve Bank of Australia increased the cash rate 6 times during 2009/10 to reduce the stimulatory effect of low interest rates. Despite the average of the major banks' standard variable loan rates now being near the longer term average of around 7.50%, the Reserve Bank has indicated that further increases may be necessary to keep inflationary pressures at bay.

North east Victoria and southern New South Wales will not directly benefit from continuing investment in mining activities contributing to those inflationary pressures so the higher interest rates predicted by the Reserve Bank will tend to slow local growth.

Hume's standard variable and basic variable loan rates continue to lag those of its major competitors and contributed to record net lending during the year under review. Net Loan Approvals were \$140.776 million, 2.5% higher than the previous highest in 2005/06 and 6.6% higher than 2008/09. Despite this, the balances of Loans and Advances increased by only \$51.2 million as, collectively, borrowing members reduced their loans by over \$11 million more than was required. These extra "payments

in advance" are encouraged by Hume as they allow members to repay their loans faster or provide them with a buffer against higher interest rates.

Compared to a national benchmark for loan arrears of 1.44%, despite a slight increase in loans in arrears to 0.82% of balances (0.72% at June 2009) Hume's loan portfolio is performing well. Actual bad and doubtful debts written off during the year were a negligible \$28,057.

Convenience and Price

Over the past three years, Hume has opened new branches in Wangaratta, Rutherglen and, more recently, in Thurgoona. Hume's internet banking solution, iBank, is regularly upgraded and a mobile version, mBank was launched in August 2010. The number of ATMs continues to increase, however Hume recognises that many people prefer dealing face to face so branch expansion will continue.

The level of Hume's fees and charges is set to only recover costs incurred. When combined with increasing convenience from more branches and ATMs and improved internet banking options, it is no surprise that the number of Hume members increased by 1,489 during the year. At an annualised growth rate of 2.9%, the number of members is increasing at a faster rate than the local population.

Other improvements requested by members are being developed and will be announced and released in coming months and will give further demonstration of Hume's commitment to investing profits in improved levels of service to current and future members.

Regulations

As predicted in last year's Annual Report, regulatory change is almost certain following the financial crisis that beset global markets over the past 24 months. Changes to Capital Adequacy and Liquidity requirements are likely to be announced by APRA this financial year.

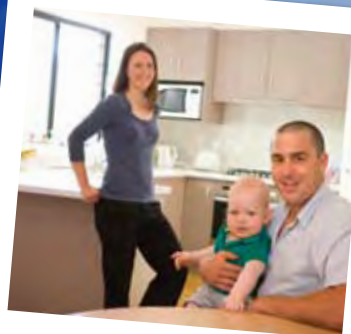
The impact of the new regulations will be assessed once they are released and, although there is recognition that smaller, member owned, mutual organisations like Hume did not contribute to the global financial crisis, they will be adversely impacted as responses are developed and implemented to the new rules and regulations.

Members should be confident that Hume will not only adhere to the letter of the law, it will continue to comply with the spirit of the regulations and will therefore continue to exceed prudential requirements.

Thanks

The results achieved by Hume are due to the efforts of many, many people. Directors and Senior Managers have developed a strategy that is proving not only to be resilient but very successful. Management's efforts in implementing the Strategy are carefully monitored and refined by the Directors via numerous Board and Committee meetings. It has been a challenging year and we thank them for their continued contributions.

We would also like to specially recognise the staff who made the results possible; not only those who serve on the counter or in offices, but also the staff in head-office that support their efforts – congratulations on a successful year and thank you.



Clinton, Rachelle and Caius Lowe



Kristy and Lily Groves



Mr Alan Ewart and Mrs Patricia Beryl Henderson



Andrew Carson
Murray Bushrangers Football Club

Excellent Service

- ➔ **National finalist Australian Marketing Institute (AMI) Awards for Marketing Excellence**
(September 2009)
- ➔ **Hume Building Society CEO Andrew Saxby elected Chair of Abacus Australian Mutuals**
(November 2009)
- ➔ **Hume awarded \$115,000 grant as part of the government's Green Building Fund to install 90 solar panels and at Head Office**
(November 2009)
- ➔ **Hume hosts the first Annual Albury Wodonga Sustainability Market coinciding with earth hour**
(March 2010)
- ➔ **Hume celebrates 55 years in serving the region**
(April 2010)
- ➔ **New travel insurance provider – Mondial Assistance Group**
(April 2010)
- ➔ **CANSTAR CANNEX 2010 Best Non-Bank First Home Buyer Award for Victoria**
(June 2010)
- ➔ **93.1% Customer Satisfaction Roy Morgan Research Survey**
(June 2010)
- ➔ **Membership growth at 2.9%, well above regional population growth rate**
(June 2010)
- ➔ **Opened Thurgoona branch**
(June 2010)
- ➔ **Lavington branch refurbished**
(July 2010)
- ➔ **Relocated Myer branch**
(July 2010)
- ➔ **Hume leases one of very few fully electric cars, Mitsubishi i-MiEV, brought to Australia**
(July 2010)



Scott and Natalie Jenkin
Scribbles Café

We give back more to our members



Members benefit from great savings rates, low loan rates and no monthly account fees.

Hume Building Society is committed to providing exceptional value and service to over 52,000 members.

We provide a local banking alternative as a regional financial services organisation based in the Albury-Wodonga region and employ over 110 staff.

Hume has one of the highest ratings in customer satisfaction at 93.1% for any bank, credit union or building society (Roy Morgan Research June 2010). Hume was also awarded 2010

Best Non-Bank First Home Buyer Award for Victoria by CANSTAR CANNEX. (June 2010).

As a mutual organisation, Hume's decisions are made locally to ensure members' needs come first. Individuals and businesses matter to Hume. Decisions are based on what is best for members not shareholders. Hume provides exceptional value with competitive rates on all saving, investment and transaction accounts and minimal fees.

Not only do members save money with Hume's excellent products, but also enjoy banking with exceptional customer service at branches where many members are on a first name basis with Hume staff.

This year, Hume celebrated 55 years of meeting the banking needs of so many in the region with a 350km bike ride, 'Tour De Hume', with staff and friends, visiting all Hume branches over a 3 day tour.



Hume is one of the most accessible financial institutions in the area, with 15 branches and 34 ATMs complemented by technologically advanced phone, online and mobile banking.

Hume's face-to-face service and branch network continues to expand with another new branch opened in Thurgoona and some older branches refurbished or moved.

In June 2010, the Centro Lavington branch was totally refurbished, providing more room for transacting members,

Convenient banking



With Australia wide access through Westpac Group ATMs and first class online banking facilities, there's even more ways to access your funds.

greater privacy for borrowing members and a more functional workplace for staff. Shortly after, Hume opened the Thurgoona branch in the newly established Thurgoona Plaza. The branch and ATM provide greater convenience for the 50% of the Thurgoona population who bank with Hume.

Banking outside the region is also easy. Hume members have Australia wide ATM access to over 2,700 ATMs free of direct charge through Westpac Group ATMs, including St.George and Bank SA ATMs.

Hume's online offering also continues to expand to meet members banking needs. Hume recently launched mBank, a dedicated mobile banking facility. By offering internet and mobile banking via iBank and mBank, Hume offers members first class banking facilities 24 hours a day, 7 days a week.

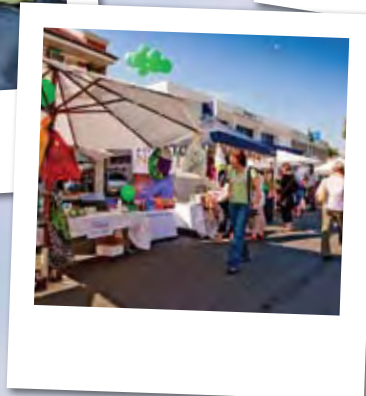
Hume provides a high level of security against fraud in internet and mobile banking, complemented by security devices. These security devices are free of charge and ensure accounts are protected

even if another person is in possession of a member number and password. Security devices can be used wherever a member can log into iBank or mBank, including overseas and remote areas.

Hume's online applications continue to provide members additional convenience with online credit card applications now comprising almost 50% of all credit card applications. Insurance products can also be purchase online with quotes taking less than 60 seconds.

We save 1.74 million black balloons every year...

Hume seeks to embed environmental sustainability in everything we do while providing affordable banking to the local community and surrounding region. We will actively work to reduce the environmental impact of our business activities through engaging and collaborating with our staff, members, suppliers and contractors.



Creating a clean and green future



Hume is committed to improving sustainability by developing green initiatives for the benefit of members, staff and the environment.



This year, Hume received a \$115,000 grant from the Australian Government's Green Building Fund to help reduce its carbon footprint. Hume used this funding to install 90 solar panels on the roof of Head Office. The project will see a 14% decrease in Head Office's annual electricity bill as well as emitting 87 tonnes less of CO² each year. This is equivalent to saving 1.74 million black balloons of carbon pollution.

To celebrate the launch of the solar panels Hume hosted the inaugural Albury Wodonga Sustainability Market coinciding with Earth Hour. The Market was an inspiring community event for businesses, residents

and families, with 33 stalls promoting green products and ideas. The Murray Conservatorium orchestra played throughout the day and there was face painting and games for the children.

The solar panels were launched by Federal Parliamentary Secretary Richard Marles with Sussan Ley, Federal Member for Farrer, Greg Aplin, State Member for Albury, the Mayor of Albury, Cr Alice Glachan, and hundreds of local residents also joining the celebrations.

Hume has since established a Green Team to identify further initiatives that will help Hume become greener.

Since inception, the team has reinvigorated and extended the recycling program to include not only paper, but other waste, including food.

Hume also joined the Department of Environment and Climate Change Sustainability Advantage Program in April 2010 to strengthen its commitment to the environment.

Hume is now leasing a Mitsubishi i-MiEV, (Mitsubishi innovative Electric Vehicle) for the next 3 years. The car is one of very few fully electric cars Mitsubishi is bringing into Australia.



Eleanor Murtagh



Hume is committed to improving financial literacy across the region, while making a real difference to the lives of members, regardless of age.

Hume staff regularly speak at primary, secondary and tertiary schools about the importance of having good money habits. As part of Hume's financial literacy strategy, Hume provides school banking to 31 primary schools in the region with 3 more schools joining this year. School banking continues to grow with many other schools showing interest in all aspects of the program.

Investing in the future



Hume continues to develop ways to engage people of all ages to better understand financial matters.

Hume's school banking program includes working closely with primary schools to ensure Hume is providing necessary financial education which is not traditionally covered at school. By visiting schools Hume is able to help students understand the importance of saving.

Hume also presents to hundreds of secondary school students on the importance of budgeting and hundreds of adults on investing, retirement and property assets.

In an effort to drive children to save, Hume recently launched a

major competition for all holders of a Clancy Koala Account. Each week, when a student banks money, they receive a Hume swap card. Once all 12 Hume swap cards are collected, the child can win a prize. The children are encouraged to swap cards so they can collect a full set and it is hoped that talking in the playground will encourage discussions about banking. Parents are also reporting a dramatic increase in chores at home as children seek to earn more money to deposit and collect another card.

A dedicated microsite has been developed to engage children

and provide financial literacy tips. The competition has received tremendous support from schools and parents, as well as significantly increasing the number of school banking transactions. It has also created such excitement that a record number of Clancy Koala accounts have been opened by school children.

An information evening was recently provided for parents that focused on 'Kids and Money Matters, an essential guide for parents'. The evening covered financial literacy for children, education bonds and life insurance.



Board of Directors

(Pictured left - right)

Stuart Gilchrist, Denise Osborne, Joy Stocker Deputy Chairman,
Leo O'Reily, Ulf Ericson Chairman, Lou Lieberman, Bill Hanrahan



Summarised Financial Report

for the year ended 30 June 2010

Contents

Statement of Comprehensive Income	16
Statement of Financial Position	17
Statement of Cash Flows	18
Independent Audit Report	19

Senior Managers

(Pictured left - right)

Melissa Sweetland General Manager Customer Service, Sales and Marketing, Andrew Saxby CEO
David Rowe General Manager Information Technology, Cindy Mundy General Manager Human Resources
Wayne Nagle General Manager Finance and Administration

Statement of Comprehensive Income

for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
Interest income		
Interest revenue	39,201	41,889
Interest expense	(21,797)	(27,233)
Net interest income	17,404	14,656
Non-interest income		
Fees and commissions from non-members	1,839	1,629
Fees and commissions from members	1,075	1,147
Other non-interest income	100	22
Total non-interest income	3,014	2,798
Total operating income	20,418	17,454
Operating expenses		
Personnel costs	(7,811)	(7,207)
Occupancy costs	(1,399)	(1,396)
ATM, Eftpos & electronic transaction processing costs	(1,098)	(1,224)
Depreciation and amortisation	(1,372)	(1,332)
Information technology expenses	(673)	(734)
Marketing expenses	(745)	(579)
Other operating expenses	(2,177)	(2,174)
Total operating expenses	(15,275)	(14,646)
Impairment of loans and advances	(130)	(56)
Profit before income tax	5,013	2,752
Income tax expense	(1,428)	(823)
Profit for the year	3,585	1,929
Other comprehensive income		
Other comprehensive income, net of income tax	-	-
Total comprehensive income for the year	3,585	1,929

The statement of comprehensive income has been extracted from the annual statutory financial statements.

Statement of Financial Position

as at 30 June 2010

	2010 \$'000	2009 \$'000
Assets		
Cash and cash equivalents	23,547	16,927
Receivables due from other financial institutions	95,693	74,334
Investment securities	13,936	37,310
Trade and other receivables	1,287	767
Loans and advances	562,887	511,718
Other investments	204	204
Property, plant and equipment	6,021	6,383
Intangible assets	310	358
Deferred tax assets	966	881
Total assets	704,851	648,882
Liabilities		
Deposits	634,832	596,580
Trade and other payables	21,860	8,043
Income tax payable	467	480
Deferred tax liabilities	18	23
Provision for employee benefits	1,637	1,304
Total liabilities	658,814	606,430
Net assets	46,037	42,452
Members' funds		
Reserves	1,566	1,892
Retained earnings	44,471	40,560
Total members' funds	46,037	42,452

The statement of financial position has been extracted from the annual statutory financial statements.

Statement of Cash Flows

for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
Cash flows from operating activities		
Interest received	38,794	42,185
Interest paid	(19,309)	(29,939)
Other non-interest revenue received	2,901	2,843
Cash paid to suppliers and employees	(2,211)	(13,480)
Fees and commissions paid	(26)	(27)
Income tax paid	(1,531)	(884)
	<u>18,618</u>	<u>698</u>
(Increase)/decrease in operating assets:		
Net (increase)/decrease in loans and advances	(51,299)	(42,638)
Net increase/(decrease) in deposits	38,252	79,593
Net increase/(decrease) in deposits from other financial institutions	-	(500)
Net cash flows from operating activities	<u>5,571</u>	<u>37,153</u>
Cash flows from investing activities		
Net (increase)/decrease in receivables due from other financial institutions	-	3,000
Net (increase)/decrease in investment securities	-	(8,000)
Payments for property, plant and equipment	(838)	(1,303)
Proceeds from sale of property, plant and equipment	81	8
Payments for intangible assets	(208)	(246)
Net cash flows from investing activities	<u>(965)</u>	<u>(6,541)</u>
Cash flows from financing activities		
Repayment of borrowings	-	(20,000)
Net cash flows from financing activities	<u>-</u>	<u>(20,000)</u>
Net increase/(decrease) in cash held	4,606	10,612
Cash at the beginning of the financial year	116,570	105,958
Cash at the end of the financial year	<u>121,176</u>	<u>116,570</u>

The statement of cash flows has been extracted from the annual statutory financial statements.

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

Report on the summarised financial statements

We have audited the accompanying summarised financial statements of Hume Building Society Ltd (the Company), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income and statement of cash flows for the year ended on that date as set out on pages 16 to 18 which were derived from the financial statements of Hume Building Society Ltd for the year ended 30 June 2010. We expressed an unmodified Auditor's opinion on those financial statements in our auditor's report dated 19 August 2010.

Directors' responsibility for the summarised financial report

The Directors of the Company are responsible for the preparation and fair presentation of the summarised financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on the summarised financial statements based on our procedures, which were conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements.

Auditor's opinion

In our opinion, the information reported in the summarised financial statements is consistent, in all material respects, with financial statements from which it was derived. For a better understanding of the scope of our audit, this auditor's report should be read in conjunction with our audit report on the financial statements.

WHK Audit & Risk Assessment

Bradley D Bohun, Partner
Albury, 19 August 2010

better advice for a better life

Senior Managers

Andrew Saxby
Chief Executive Officer

Cindy Mundy
General Manager Human Resources

Wayne Nagle
General Manager Finance and Administration

David Rowe
General Manager Information Technology

Melissa Sweetland
General Manager Customer Service,
Sales and Marketing

Management Team

Managers

Olympia Andronicos
Retail Services Manager

Jessie Arney
Communications and
Performance Manager

Dyani Bonacci
Marketing Manager

Carly Brown
Finance Manager

Judy Clohesy
Support Services Manager

Frederikke Jensen
E-Marketing Manager

Tyler Peachey
Credit Manager

Kylie Pettiford
Enhanced Service Manager

Kevin Phillips
Management Accountant

Bill Quinn
IT Manager

Melissa Ralph
Project Manager

Trish Reis
Customer Service Manager

David Kiefel
Internal Auditor

Service Centres

Albury

Head Office

492 Olive Street,
Albury NSW 2640
Phone (02) 6051 3211
Fax (02) 6051 3255

Myer City Centre

David & Swift Streets,
Albury NSW 2640
Phone (02) 6051 3306
Fax (02) 6041 3314

Centro Albury Shopping Centre

487 Kiewa Street,
Albury NSW 2640
Phone (02) 6051 3308
Fax (02) 6041 5697

Centro Lavington Shopping Centre

Griffith Road,
Lavington NSW 2641
Phone (02) 6051 3302
Fax (02) 6040 3508

Thurgoona Plaza

Shuter Avenue,
Thurgoona NSW 2640
Phone (02) 6051 3325
Fax (02) 6043 3140

Wodonga

131 High Street,
Wodonga VIC 3690
Phone (02) 6051 3309
Fax (02) 6022 9066

Centro Wodonga Shopping Centre

Elgin Street,
Wodonga VIC 3690
Phone (02) 6051 3303
Fax (02) 6022 9022

Centro Birallee Shopping Centre

97 Melrose Drive,
Wodonga VIC 3690
Phone (02) 6051 3304
Fax (02) 6043 4304

Wangaratta

56-58 Murphy Street,
Wangaratta VIC 3677
Phone (03) 5721 3322
Fax (03) 5721 3977

Regional

Corowa

79 Sanger Street,
Corowa NSW 2646
Phone (02) 6051 3305
Fax (02) 6033 4312

Culcairn

50 Balfour Street,
Culcairn NSW 2660
Phone (02) 6051 3310
Fax (02) 6029 8121

Howlong

45 Hawkins Street,
Howlong NSW 2643
Phone (02) 6051 3317
Fax (02) 6026 8322

Jindera

8-9 Jindera Plaza,
Jindera NSW 2642
Phone (02) 6051 3323
Fax (02) 6026 3718

Rutherglen

128-130 Main Street,
Rutherglen VIC 3685
Phone (02) 6051 3321
Fax (02) 6032 7017

Yackandandah

10 High Street,
Yackandandah VIC 3749
Phone (02) 6051 3311
Fax (02) 6027 1184



Hume Building Society uses
**National Carbon
Offset Standard**
Certified ENVI Recycled
Super Smooth carbon neutral paper
An Australian Government Initiative



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