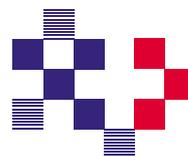




***Annual Report  
2002***



**POLICE & NURSES**  
CREDIT SOCIETY

***You're worth more than your money.***

## ***C o n t e n t s***

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## ***F i v e y e a r F i n a n c i a l H i g h l i g h t s***

### **Police & Nurses Credit Society Ltd**

	<b>1997/98</b>	<b>1998/99</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>% Growth</b>
Total Membership	41,875	44,430	49,858	54,931	70,844	28.97%
Members Deposits	\$280,458,885	\$320,549,617	\$358,682,126	\$428,884,762	\$605,001,588	41.06%
Loans Advanced to Members	\$225,464,124	\$250,316,891	\$328,917,843	\$397,091,379	\$529,122,741	33.25%
Total assets under management	\$680,349,354	\$838,880,158	\$1,000,336,293	\$1,108,772,943	\$1,365,848,814	23.19%
Net profit after tax	\$3,876,893	\$4,454,977	\$1,868,360	\$6,960,714	\$15,991,233	129.74%
Reserves	\$47,079,706	\$51,853,700	\$53,722,061	\$60,682,775	\$76,464,767	26.01%

## ***D i r e c t o r y***

### ***Directors***

E L Smith (Chairman)  
E J Billing (Deputy Chairman)  
F J Compton  
P M Gabb  
M T Hinton  
C A Hynes  
E A Manley  
S J Melville  
A M Rial

### ***Society Secretary***

A E (Fred) Huis

### ***Registered Office***

Police & Nurses Credit Society Ltd  
ABN 69 087 651 876

246 Adelaide Terrace  
Perth, WA, 6000  
Telephone No. 13 25 77

### ***External Auditors***

PricewaterhouseCoopers

### ***Internal Auditors***

Ernst & Young

## Chairman's Report

I am proud to present the 2002 Annual Report for Police & Nurses Credit Society.

It has been another year of change and volatility in the finance sector and a time of significant nervousness in the international stock market. This, coupled with the collapse of several high profile companies, has led many customers to take an even closer look at the organisations and financial institutions they do business with.

While the Australian Bankers Association looks at developing a new Code of Practice for banks, we are proud to say that our Society has been voluntarily operating under the Credit Union Code of Practice since 1996. This Code is monitored by ASIC (Australian Securities & Investments Commission) and governs how we operate our business and the manner in which we treat our members. The Code is in addition to operating guidelines set out by APRA (Australian Prudential Regulatory Authority).

Further controls on the industry will come with the new Financial Services Reform Act that will impact substantially on all providers of financial services. The spirit of the legislation is to put in place a framework to ensure informed and confident consumer choice and protection. We are already preparing our application for a compliance licence that is due to be lodged in September 2003.

Privacy is another issue that is causing increasing concerns for consumers and organisations. Many organisations treat their customers' personal information as a business asset and consumers are becoming increasingly aware of the value of that asset. To ensure tighter controls on how personal information is used, the Government has set out a new policy - the Privacy Amendment (Private Sector) Act which took effect from 21 December 2001.

At Police & Nurses Credit Society, the privacy of members' personal information has been, and will continue to be, an important priority. Previously we had established procedures to comply with the privacy provisions in the Credit Union Code of Practice and the Credit Reporting Code of Conduct. We have now enhanced our procedures, where required, to meet the new National Privacy Principles.

There have been social trends affecting our industry as well and the recent release of the National Census findings highlighted the demographic, social and lifestyle changes in Australian society. An increase in one and two person households, the aging population, and the fact

that more women are choosing to have fewer children at a later age, says much about the changing needs of our current and potential members.

The Census also revealed that more people are investing at a younger age with the view to securing wealth creation and financial freedom. Using this information and the feedback from our members we are able to develop financial solutions for our members that are in step with changing lifestyles and needs.

To remain competitive in our constantly changing environment where the speed of change is forever accelerating, we must continue to secure greater economies of scale and operating efficiencies to ensure our future performance and viability as an organisation. Our ability to expand our services to meet members changing needs, to remain focussed on strong member relationships and to venture into new areas is critical to our viability into the future.

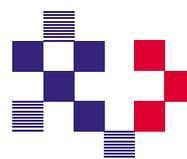
With the success of our merger with Energy Credit, we are already reaping benefits for our members. As such, we will continue to pursue merger opportunities - both locally and interstate - with organisations that complement our membership base and share our customer-focused work ethic.

With another year of significant achievements behind us, my fellow directors and I would like to express our gratitude for the continuing dedication and contribution made by Chief Executive Fred Huis. Mr Huis, his management team and every employee of the Society have worked energetically to bring successful results and we thank them all.

I also wish to express my appreciation to the Board of Directors, including our new Directors Stephen Melville and Craig Hynes, who joined us from Energy Credit, for the assistance, confidence and loyalty they continue to provide to both the Society and myself.

With a new financial year already on our doorstep, I strongly believe that we will continue to retain our position as Western Australia's leading credit union.

E L Smith  
Chairman



**POLICE & NURSES**  
CREDIT SOCIETY

## CEO's Review



Chief Executive, A E (Fred) Huis

The past financial year has been a rewarding time for Police & Nurses Credit Society - we have achieved much and become a considerably larger organisation. But, while it has again been a period of change and growth, the benchmarks of our Society have remained constant. Our mutuality and commitment to delivering high standards of service are always at the forefront of our business practice.

There is no doubt that one of the highlights of the year was our merger with Energy Credit, which took effect on 1 October 2001. The benefits this merger created have enabled us to take our organisation to new heights. With member numbers now exceeding 70,000 and with well over \$1 billion of funds under management, we are one of Australia's largest credit unions and by far the largest in Western Australia.

This year's financial results reflect our success and show a positive return on the Society's investment in technology and electronic services. This, combined with our continually expanding services, will see us reinforce our position in the highly competitive financial services market.

I would now like to recognise our achievements and financial results for the past year, and give some insight into our plans for the future.

### **Merger Success**

The most significant event of the year was the Society's merger with Energy Credit. Our goal was to provide a seamless transition for members and I am proud to report that this goal was achieved.

This positive result has enabled us to create a larger organisation with more members. Through greater economies of scale we are able to expand our services and, most importantly, reduce fees.

The immediate success of the merger can be seen in our ability to deliver on our pre-merger promise to reduce transaction fees. In April 2002 - just five months after the merger - we announced a 10% reduction on savings account transaction fees effective from 1 July 2002. Further fee reductions will be announced in September 2002.

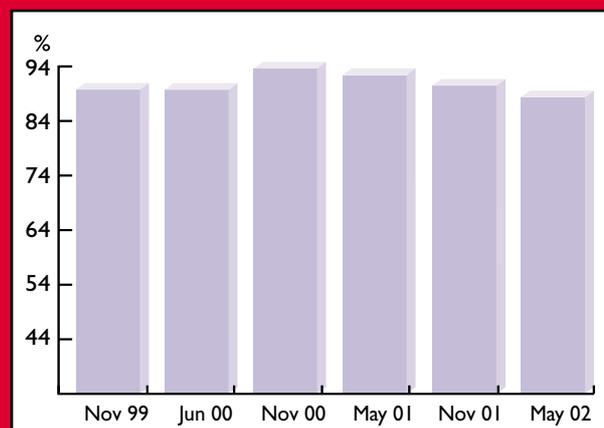
### **Our members**

I would like to take this opportunity to welcome the 14,500 Energy Credit members who joined our Society as a result of the merger. I would also like to thank them for their decision to endorse the merger and their support during the transition.

Our member numbers reached 70,000 in June 2002 consolidating our position as the largest credit union in Western Australia. The significant increase in numbers is not only due to the merger. We have enjoyed membership growth of an average 10% per annum since January 2002. This represents significant expansion of our membership in a very short period.

While dissatisfaction and frustration with traditional banks is still the main catalyst for consumers choosing to bring their business to a more people-focused organisation such as ours, we are proud to report that our members remain extremely satisfied with our provision of services and products. Our latest survey

### **Member Satisfaction**



## GEO's Review

reveals that 88% of members are satisfied with our delivery of service. This is a particularly pleasing result given that we welcomed 14,500 Energy Credit members during the survey period.

Unlike many other financial institutions, our Society has reduced transaction fees on savings accounts. The economies of scale achieved by the merger, and the success of our Kill Fees Fast message which has encouraged members to work together to reduce costs, has enabled us to deliver on our promise to pass on significant savings to members. As such the reduction became effective on 1 July 2002 and we look forward to this being the first of many regular fee reductions that will benefit all members.

We aim to continue our campaign of encouraging more members to embrace fee-free banking alternatives. Through greater use of online and telephone banking members can generate cost savings for our Society - ones that will be passed on to members.

### **Our Staff**

The merger was a time of great change for our collective staff. Their commitment to minimising disruption to members while providing the same high standard of service, is a source of great pride to my management team and myself. The smooth transition could not have been achieved without their unflinching enthusiasm and drive and for that I thank one and all.

We also welcomed the Energy Credit team into our organisation and their contribution has been significant in enabling us to manage the increased workload that came with our sudden membership growth. Since the merger, staff numbers have remained stable with natural attrition maintaining numbers close to our previous levels.

As a further means of improving productivity, our Business Process Review project has identified a number of ways in which our procedures can be improved and as such, many internal processes relating to members will be streamlined. In addition, we have addressed the new Financial Services Reform legislation with a dedicated project team. This ensures our staff are well prepared when the legislation takes full effect.

### **Expansion of Services**

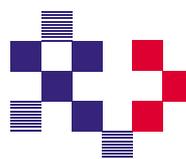
Research and trends show that there is a genuine need for products and services that help people achieve financial freedom. This has a different meaning for each of our members: from saving for a holiday or first home deposit to retirement and investment strategies or simply learning how to better manage personal finances.

To provide greater assistance we have expanded our financial planning services to help members achieve their financial goals. We also now offer the Investor Access Account which allows members to use the equity in their homes to create an investment portfolio, and the Achiever Account, which offers bonus interest for members who follow a savings plan.

The merger also enabled us to expand our branch network. This year we opened the Whitfords Moneybox, which now is our major north of the river representation and the first branch to offer the services of an in-house Financial Planner. South of the river will be serviced by our new Booragoon Moneybox where financial planning services are also available.

This year also saw us upgrade our telephone and internet banking services, which an increasing number of members are discovering is a convenient way to conduct their banking. Members too can now participate in a frequent flyer rewards program through our MyCard MasterCard, which is part of an ongoing commitment to secure more non-banking benefits for members.

We continue to review our products and services to ensure they remain relevant. A website redevelopment project is currently underway and the new site will contain information and services that complement our current product and services offering. The new website is being developed in consultation with members and staff and will cover a range of topics from health and home to family and finances - all aimed at providing assistance and benefits to members.



**POLICE & NURSES**  
CREDIT SOCIETY

# CEO's Review

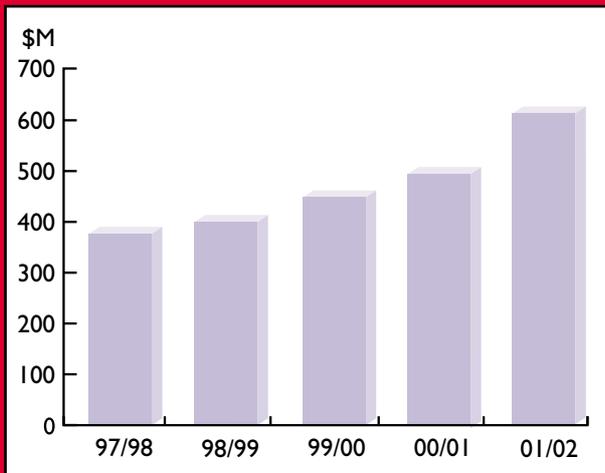
## Financial Growth

Police & Nurses Credit Society continues to reinforce its position in the finance market with this year's growth in total assets under management increasing by 23% to \$1.366 billion.

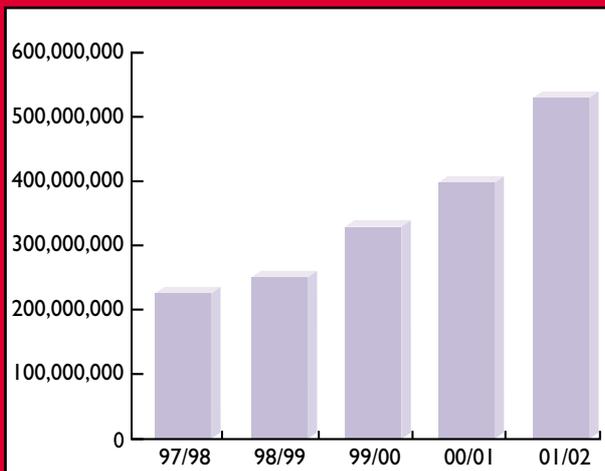
The Society's profitability before tax increased by some 110% to \$18.8 million. This figure includes \$9.5 million of reserves transferred with the Energy Credit merger. Total equity increased by 26% to \$76.5 million with a capital adequacy ratio of 15.3%, almost double the 8% statutory level required.

Loans funded to members have also substantially risen with a 33% growth to \$529 million. With a 29% increase in membership, we have also seen Members' deposits grow from \$428 million to \$605 million.

## Members Deposits



## Loans Advanced to Members



## The Future

With the merger now complete we are in an even better position to continue providing highly competitive financial services to our members.

Our focus on personalised customer service, and the philosophy to treat each member with concern and respect, will always remain our key point of difference from traditional banks. We believe this will guarantee our continued success as a profitable and progressive organisation.

There is no doubt that other mergers will occur in the future, as they are very important to our Society remaining competitive. Mutuality and the 'one member one vote' principle will be maintained and we will always look closely at a merger partner's organisational culture and operating ethics to ensure we attract a like-minded organisation.

Forward thinking is always essential and we are now in the final stages of developing a five-year strategic plan that extends to 2007. This plan enables us to consider the future needs of members and adjust or expand our products and services to meet those needs.

The excellent performance of the Society in the 2001/2002 period sees us retaining our enviable position as the pre-eminent credit union in Western Australia. Underpinning our success, now and in the future, is our philosophy that 'members are worth more than their money'.

## Acknowledgments

The Society's excellent performance during the last financial year is testament to the efforts and commitment of my management team and staff. With their support, and the guidance and trust provided by the Board of Directors, we have achieved much. My sincere thanks.

Also my thanks to Mr Robert Weir, CEO of Energy Credit, for his contribution in steering Energy Credit so successfully through the merger process.

A E (Fred) Huis  
Chief Executive

## Report of the Directors

Your directors present their report on the financial statements of the Group and the Society for the year ended 30 June 2002.

### Corporate Governance

The Board of Directors is responsible for the Corporate Governance of Police & Nurses Credit Society and its controlled entities ("the Society"). To ensure the Board can fulfil its responsibilities, it has established guidelines for the operations of the Board and a framework for ensuring internal control and business Risk Management processes are adequate and ethical standards are appropriate. Unless otherwise stated, all these practices were in place for the entire financial year.



(L-R): Jack Billing, Liz Manley and Jim Compton.

### Operations of the Board of Directors

Corporate Governance responsibilities of the Board include: -

- Contributing to, evaluating, approving and monitoring strategic direction and business objectives as developed by management.
- Monitoring the Society's progress against agreed performance measures linked to business objectives and strategies, and comparing these with those of peers in the marketplace.
- Contributing to and enhancing the reputation and image of the Society to members/shareholders, the marketplace and the community at large.



(L-R): Maureen Hinton, Eric Smith (Chairman) and Ann Rial.

- Ensuring required frameworks are in place including risk management policies, internal controls, compliance and public reporting.
- Accepting accountability to member/shareholders and responsibility to other stakeholders in the Society.

### Directors

The following persons held office as directors of the Society during the year and at the date of this report:

#### **Eric Laurence SMITH,**

*Adv Diploma of Business Management, Diploma of Criminal Investigations, (Chairman)*

Police Senior Sergeant, 8 years service as Credit Society Director; 26 years service as a Police Officer



(L-R): Steve Melville, Paul Gabb and Craig Hynes.

## *Report of the Directors*

Director	Directors' Meetings		Audit Committee Meetings	
	A	B	A	B
E L Smith	11	11	4	3
E J Billing	11	10	*	*
F J Compton	11	10	2	2
P M Gabb	11	10	4	4
M T Hinton	11	11	2	1
C A Hynes	9	8	*	*
M A Kimber	2	2	*	*
W T Neville	2	2	*	*
E A Manley	11	11	2	2
S J Melville	9	9	2	2
A M Rial	11	10	4	4

**A** Number of meetings held during the time the director held office or was a member of the committee during the year

**B** Number of meetings attended

\* Not a member of the committee

### **Edward John BILLING APM,**

*Retired Assistant Commissioner of Police (Deputy Chairman)*

FAIM (retired 1993), Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course, 9 years service as Credit Society Director; 43 years service as a Police Officer

### **Frederick James COMPTON,**

*MAICD, Retired Superintendent,*

Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course 23 years service as a Credit Society Director; 38 years service as a Police Officer

### **Paul Marshall GABB,**

*B.Com (Accounting), CPA*

Financial Analyst, Australian Federal Police 4 years service as a Credit Society Director; 16 years service in Law Enforcement

### **Maureen Teresa HINTON**

*RN BAppSc (Nursing) Grad Dip HSc MPH,*

Regional Learning & Development Manager for Mayne Health, 15 years service as a Credit Society Director; 37 years service in the nursing/health profession

### **Craig Anthony HYNES,**

*B.Com, Diploma Fire Eng. Mgmt (appointed as a director on 1 October 2001)*

Director of Training & Development for the Fire and Emergency Services Authority  
Grad. Certificate of Applied Management, 5 years service as a Credit Society Director

### **Maxwell Austin KIMBER OAM,**

*Retired Chief Inspector (retired as a director on 1 October 2001)*

21 years service as Credit Society Director; 31 years service as a Police Officer

### **Elizabeth Anne MANLEY**

*RN RM BAppSc (Nursing) MBA FRCNA FAICD*

Director of Nursing, 2 years service as Credit Society Director; 31 years service in the nursing/health profession

### **Stephen John MELVILLE,**

*B.Bus. FCPA (appointed as a director on 1 October 2001)*

Manager Customer Services, Alintagas  
8 years service as a Credit Society Director;  
19 years service in accounting, customer services and marketing

# Report of the Directors

## **Winston Thomas NEVILLE,**

*Retired Chief Superintendent (retired as a director on 1 October 2001)*

30 years service as Credit Society Director; 32 years service as a Police Officer

## **Ann Maree RIAL**

*RN RM ICNC GC, Nurse Manager*

15 years service as a Credit Society Director; 29 years service in the nursing/health profession

Each director holds one member share in the Society.

## **Composition and Meetings of the Board**

The Board's composition, its meetings and conduct are determined in accordance with the Society's Constitution, and the following -

- The Board is comprised of 9 non-executive members with an appropriate range of expertise, skills and qualifications.
- Each Board member maintains their own skills relevant to the business of the Society.
- The Board has a process for the evaluation of its own and the individual Board member's performance.

The table above sets out the number of directors' meetings (including meetings of committees of directors) held during the year ended 30 June 2002 and the number of meetings attended by each director.

## **Directors Induction Program**

The Directors have established a comprehensive induction program to newly elected or appointed Directors. The program assists new Directors to gain an understanding of the Society's operations and the financial environment.

## **Directors' Remuneration**

The Board member is remunerated as per the Constitution Division 17. The total remuneration for

the Board is determined each year by the shareholders at the Annual General Meeting and divided amongst the Directors in such a manner as the Board determines.

## **Audit Committee**

The Board has established an Audit Committee to assist in the execution of its responsibilities. The Committee comprises five Board Members and the Chief Executive Officer. This Committee has written Terms of Reference, which outline its role and responsibilities to enable it to assist the Board in relation to :

- the establishment and maintenance of an internal control framework,
- the organisation's ethics and behaviour,
- the reliability of financial information for inclusion in financial statements.

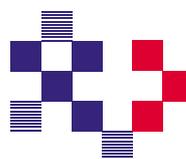
The Committee reports to the full Board after each Committee meeting.

## **Ethical Standards**

Board Members are expected to act in accordance with any Board approved Code of Conduct. The Board member who has a material pecuniary or non-pecuniary interest in any matter before the Board will neither be present at the Board meeting while the matter is considered nor vote on the matter.

## **Principal Activities**

The principal activities of the Group and the Society were the provision of financial and associated services to members, and there was no significant change in these activities during the year.



**POLICE & NURSES**  
CREDIT SOCIETY

# *Report of the Directors*

On 1 October 2001, Police & Nurses Credit Society Ltd merged with Energy Credit Union Ltd under the Financial Sector (Transfers of Business) Act 1999. Ongoing economic advantages will be gained from this merger for the benefit of all members and the Society.

## ***Review of Operations***

During the financial year, total assets of the Group increased by \$95.8 million to \$732.4 million, members' deposits increased by \$176.1 million to \$605.0 million and loans and advances increased by \$94.7 million to \$636.2 million.

The net profit of the Group and the Society for the financial year after income tax and before outside equity interest was \$15,991,233 and \$14,963,391 respectively. These results for the Group and Society include gains of \$9,500,819 and \$9,377,817 respectively from the application of the Accounting Standard AASB 1015 to the merger of Police & Nurses Credit Society Ltd with Energy Credit Union Ltd. This gain reflects the excess in value of net assets over the value of shares issued to members of Energy Credit Union Ltd. In addition, further costs of \$983,370, included in operating expenses, have been incurred since 1 October 2001 to integrate the two organisations.

Pursuant to the Rules of the Society, no dividend has or shall be paid in respect of any share.

## ***Future Development and Results***

Future financial periods are likely to include further improvements in the provision of services to members and a managed growth in financial performance.

## ***Bad and Doubtful Debts***

Before the financial statements were made out, the directors took reasonable steps to ascertain what action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and have caused all known bad debts to be written off and adequate provision to be made for doubtful debts.

## ***Assets***

Before the financial statements were made out, the directors took reasonable steps to ascertain whether any assets were unlikely to realise in the ordinary course of business their value as shown in the accounting records, and at the date of this report they are not aware of any circumstances which would render the value attributed to any assets in the financial statements misleading.

## ***Significant Changes***

On 2 August 2001, approval was given at a general meeting of members to accept the transfer of business of Energy Credit Union Ltd under the Financial Sector (Transfers of Business) Act 1999 Transfer Rules No. 1.

There has been no other significant change in the state of affairs of the Society or Group during the financial year.

## ***Events Subsequent to the End of the Financial Year***

No matter or circumstance has arisen since the end of the financial year that has or may significantly affect the operations, results of those operations, or the state of affairs of the Group or the Society.

## ***Environmental Regulation***

The consolidated entity is subject to environmental regulation in respect of its land and unit developments. All developments have been undertaken in compliance with the necessary planning and environmental regulation.

## ***Register of Directors' Interests***

The Society keeps a register containing information about the directors, including details of each director's interest in securities issued by the Society. The register is open for inspection:

## *Report of the Directors*

- a) by any member of the Society, without fee; and
- b) by any other person, on payment of the amount (if any) prescribed by the Society's rules.

### ***Insurance of Officers***

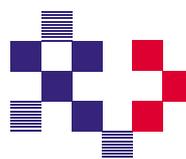
During the year, a premium was paid in respect of a contract insuring directors and officers of the company against liability. The officers of the company covered by the insurance contract include the directors, executive officers, company secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

E L SMITH  
Director

E J BILLING  
Director

Date : 19 August 2002  
PERTH WA



**POLICE & NURSES**  
CREDIT SOCIETY

# Statements of Financial Performance

Year ended 30 June 2002

	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2002 \$	2001 \$	2002 \$	2001 \$
<b>INTEREST REVENUE</b>	2(a)	<b>48,300,773</b>	46,644,537	<b>48,977,169</b>	46,700,129
<b>INTEREST EXPENSE</b>	2(a)	<b>24,180,017</b>	28,481,852	<b>24,153,607</b>	28,481,852
<b>NET INTEREST REVENUE</b>		<b>24,120,756</b>	18,162,685	<b>24,823,562</b>	18,218,277
Loan fee income		<b>7,366,558</b>	5,440,381	<b>5,219,204</b>	3,088,032
Other fee income		<b>9,867,287</b>	5,913,311	<b>9,786,070</b>	5,933,525
Insurance commissions		<b>986,831</b>	775,503	<b>892,097</b>	716,902
Other commissions		<b>2,259,778</b>	3,362,132	<b>1,128,440</b>	825,563
Share of net profit of joint venture partnerships	22(d)	<b>4,225</b>	32,254	-	-
Bad debts recovered		<b>86,316</b>	37,475	<b>86,316</b>	37,475
Proceeds on sale of plant and equipment		<b>371,440</b>	29,001	<b>264,349</b>	12,204
Proceeds on disposal of land and buildings		<b>63,636</b>	4,150,000	<b>63,636</b>	4,150,000
Revenue from sale of land & unit development		<b>7,170,957</b>	5,530,590	-	-
Gain on merger	8(c)	<b>9,500,819</b>	-	<b>9,377,817</b>	-
Other income		<b>1,121,340</b>	1,042,436	<b>584,212</b>	1,041,076
<b>NON-INTEREST REVENUES</b>		<b>38,799,187</b>	26,313,083	<b>27,402,141</b>	15,804,777
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>		<b>62,919,943</b>	44,475,768	<b>52,225,703</b>	34,023,054
<b>BAD AND DOUBTFUL DEBTS OTHER EXPENSES FROM ORDINARY ACTIVITIES</b>	7(d)	<b>2,203,797</b>	1,301,534	<b>2,203,797</b>	1,301,534
Amortisation		<b>108,161</b>	95,792	-	-
Auditor's remuneration	21	<b>196,111</b>	145,096	<b>178,458</b>	122,746
Borrowing costs		<b>296,117</b>	203,241	<b>296,117</b>	203,241
Depreciation		<b>2,573,832</b>	2,460,007	<b>2,473,431</b>	2,336,981
Fees and commissions		<b>5,276,361</b>	3,657,793	<b>5,185,055</b>	3,582,457
Land & unit development costs	2(b)	<b>5,737,965</b>	5,101,036	-	-
Personnel costs		<b>14,129,786</b>	11,987,115	<b>11,832,663</b>	9,228,046
Other general and admin costs		<b>10,174,713</b>	7,711,978	<b>9,394,843</b>	6,796,443
Book value of disposed property, plant & equipment		<b>445,535</b>	948,478	<b>271,670</b>	918,800
Provision for employee entitlements		<b>397,909</b>	242,191	<b>349,676</b>	173,556
Rental - operating leases		<b>1,576,980</b>	859,845	<b>1,541,056</b>	770,839
Superannuation contributions		<b>1,044,075</b>	864,689	<b>953,116</b>	685,563
<b>TOTAL EXPENDITURE</b>		<b>44,161,342</b>	35,578,795	<b>34,679,882</b>	26,120,206
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX</b>		<b>18,758,601</b>	8,896,973	<b>17,545,821</b>	7,902,848
<b>INCOME TAX EXPENSE</b>	3	<b>2,767,368</b>	1,936,259	<b>2,582,430</b>	1,682,765
<b>NET PROFIT</b>		<b>15,991,233</b>	6,960,714	<b>14,963,391</b>	6,220,083
<b>NET (PROFIT) / LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST</b>	23	<b>(10,252)</b>	72,414	-	-
<b>NET PROFIT ATTRIBUTABLE TO MEMBERS</b>		<b>15,980,981</b>	7,033,128	<b>14,963,391</b>	6,220,083

The above statements of financial performance should be read in conjunction with the accompanying notes.

# Statements of Financial Position

As at 30 June 2002

	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2002 \$	2001 \$	2002 \$	2001 \$
<b>ASSETS</b>					
Cash and liquid assets	4	11,431,791	15,299,233	11,430,841	15,147,924
Receivables due from other financial institutions	5	60,400,000	53,200,000	60,400,000	53,200,000
Other receivables	6	1,730,828	4,225,905	1,080,342	1,144,253
Loans and advances	7	636,213,084	541,535,665	636,213,084	541,537,037
Other investments	8(a)	5,723,780	4,732,640	6,173,022	4,803,286
Inventories	9	9,209,869	9,160,181	-	-
Property, plant and equipment	10	4,929,150	6,273,524	4,804,718	5,979,322
Other	11	2,795,997	2,203,381	11,947,133	11,820,145
<b>TOTAL ASSETS</b>		<b>732,434,499</b>	<b>636,630,529</b>	<b>732,049,140</b>	<b>633,631,967</b>
<b>LIABILITIES</b>					
Members' deposits	12	605,001,588	428,884,762	605,177,648	430,107,295
Accounts payable and other liabilities	13	17,913,259	14,891,741	20,878,888	13,477,140
Borrowings	14	29,524,225	130,819,370	29,524,225	130,819,370
Provisions	15	3,530,660	1,351,881	3,310,903	1,034,077
<b>TOTAL LIABILITIES</b>		<b>655,969,732</b>	<b>575,947,754</b>	<b>658,891,664</b>	<b>575,437,882</b>
<b>NET ASSETS</b>		<b>\$76,464,767</b>	<b>\$60,682,775</b>	<b>\$73,157,476</b>	<b>\$58,194,085</b>
<b>MEMBERS' FUNDS</b>					
Reserves	16	65,188,776	55,000,000	65,188,776	55,000,000
Retained profits	16(c)	11,361,399	5,569,194	7,968,700	3,194,085
Outside equity interest in controlled entities	23	(85,408)	113,581	-	-
<b>TOTAL MEMBERS' FUNDS</b>		<b>\$76,464,767</b>	<b>\$60,682,775</b>	<b>\$73,157,476</b>	<b>\$58,194,085</b>

The above statements of financial position should be read in conjunction with the accompanying notes.

# Statements of Cash Flows

Year ended 30 June 2002

	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2002 \$	2001 \$	2002 \$	2001 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Interest received from loans		46,701,147	44,177,639	46,701,147	44,177,639
Interest received from investments		2,713,101	3,042,272	3,393,417	3,097,863
Commissions and other income received		32,972,729	23,901,548	16,763,366	11,553,813
Borrowing costs - members		(24,022,781)	(15,378,192)	(24,022,781)	(15,378,192)
Borrowing costs - banks		(5,132,856)	(10,268,425)	(5,106,446)	(10,268,425)
Payments to employees and suppliers		(43,920,945)	(35,657,034)	(29,118,275)	(22,200,677)
Income tax paid		(1,669,370)	(2,550,405)	(1,415,782)	(2,124,267)
NET CASH PROVIDED BY OPERATING ACTIVITIES	17(a)	7,641,025	7,267,403	7,194,646	8,857,754
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Net increase in loans, advances and other receivables		(1,928,417)	(35,509,049)	(1,927,047)	(34,193,473)
Cash acquired on merger	8(c)	6,560,625	-	6,560,475	-
Proceeds from sale of fixed assets		435,076	4,179,001	327,985	4,162,204
Net movement in interest earning deposits		1,700,000	(4,000,000)	1,700,000	(4,000,000)
Net movement in other investments		(317,457)	(1,282,772)	(195,750)	(149,109)
Payments for fixed assets		(1,670,237)	(1,531,054)	(1,570,496)	(1,500,749)
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		4,779,590	(38,143,874)	4,895,167	(35,681,127)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Net increase in member deposits		100,023,933	70,147,395	98,977,460	69,910,865
(Decrease) / increase in bank loans		(117,007,762)	(34,999,998)	(117,007,762)	(34,999,998)
Member shares issued		104,040	106,570	104,040	106,570
Net (increase) / decrease in loans to controlled entities		-	-	1,462,566	(3,833,374)
Net (increase) / decrease in loans to associates		(45,439)	74,146	19,629	3,148
Member shares redeemed		(75,446)	(51,332)	(75,446)	(51,332)
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES		(17,000,674)	35,276,781	(16,519,513)	31,135,879
Net increase/(decrease) in cash held		(4,580,059)	4,400,310	(4,429,700)	4,312,506
Cash at the beginning of the year		14,479,878	10,079,568	14,328,569	10,016,063
<b>CASH AT THE END OF THE YEAR</b>	17(b)	\$9,899,819	\$14,479,878	\$9,898,869	\$14,328,569

The above statements of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

Year ended 30 June 2002

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial reports of the Group and the Society are prepared in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), the Corporations Act 2001 and the historical cost convention. Such convention has no regard either to the changing value of money, or to the increased cost of replacing operating capability used in operations. Comparative information is reclassified where appropriate to enhance comparability.

### (a) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Society (parent entity) and its controlled entities (note 8) as defined by AASB 1024 "Consolidated Accounts". The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

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

### (b) Bad and doubtful debts

Bad debts are written off as they arise and the prescribed provision for doubtful debts is based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears.

In addition to the above prescribed provision, the Board has recognised the need to make a general provision against loans to address latent losses known to exist in the credit portfolio but which cannot be ascribed to individual facilities. This approach is in accordance with APRA Credit Quality standard APS 220, which requires the general provision to be prudent and based on a systematic approach to calculation, which is consistent and adequately documented.

### (c) Depreciation

Except for freehold land which is not depreciated, depreciation is calculated on a straight line basis so as to write off the cost of each item of property, plant and equipment over its expected useful life. The expected useful lives are as follows:

Buildings	40 years
Leasehold Improvements	3 - 7 years
Plant and Equipment	3 - 7 years

### (d) Income tax

Tax effect accounting is adopted whereby income tax expense is matched with operating profit after allowing for permanent differences.

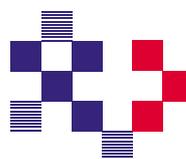
Future income tax benefits relating to timing differences are not brought to account unless their realisation is assured beyond reasonable doubt. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### (e) Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date.

These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wages and salaries and annual leave expected to be settled within twelve months of the reporting date are measured at their current pay rates.

For staff who receive their entitlement to long service leave after seven years of service, provision is made for pro-rata entitlements at current pay rates after three years of service, and for staff who receive their entitlement after ten years, provision is made after five years, on the basis that this method approximates that prescribed by AASB 1028 "Accounting for Employee Entitlements".



**POLICE & NURSES**  
CREDIT SOCIETY

# Notes to the Financial Statements

Year ended 30 June 2002

**(f) Rights - loan portfolios**

The amortisation is calculated so as to write off the cost of the acquisition in direct correlation to the receipt of the income stream.

**(g) Rent Rolls**

The amortisation is calculated so as to write off the cost of the acquisition over the period in which the income is expected to be derived.

**(h) Interest**

Interest on members' loans is calculated on an accrual basis except for non performing loans where interest is reduced to nil. Interest on members' deposits is calculated on an accrual basis and the accrual is included in the value of members' deposits disclosed in these financial statements.

**(i) Cash**

For purposes of the statements of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

**(j) Revenue recognition**

Land development and resale. Revenue is recognised where there is a signed unconditional contract of sale. Interest income is recognised as described in note 1(h). Commissions and fees are recognised on an accrual basis.

**(k) Inventories**

Land held for resale / capitalisation of borrowing costs.

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, and development and borrowing costs during development. When development is complete borrowing costs and other holding expenses are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

**(l) Joint ventures partnership**

The interest in the joint venture partnership is accounted for using the equity method. Under this method, the share of the profits or losses of the partnership is recognised as revenue in the statements of financial performance, and the share of movements in reserves is recognised in reserves in the statement of financial position. Details relating to the partnership are set out in note 22.

Profits or losses on transactions establishing the

joint venture partnership and transactions with the joint venture are eliminated to the extent of the consolidated entity's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

**(m) Interest rate swaps**

Interest rate swaps are used in order to avoid or minimise possible adverse financial effects of movements in interest rates. It is the Society's policy not to recognise assets or liabilities in relation to interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

**(n) Acquisition of assets**

The purchase method of accounting is used for all assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

**(o) Merger - Energy Credit Union Ltd**

The gain arising on the merger with Energy Credit Union Ltd is reflected in the statement of financial performance under the purchase method of accounting. Under this method the gain reflects the excess of the fair value of net assets over the value of shares issued to members and incidental costs directly attributable to the merger. The merger was effected by a transfer of business from Energy Credit Union Ltd in accordance with the Financial Sector (Transfer of Business) Act 1999.

A liability for restructuring costs was recognised as at the date of the merger where there was a demonstrable commitment to a restructuring of the Society and a reliable estimate of the amount of the liability could be made.

# Notes to the Financial Statements

Year ended 30 June 2002

## 2. OPERATING PROFIT

### (a) Interest Revenue and Interest Expense

#### Interest Revenue 2002

Deposits and investments  
Loans and advances

	CONSOLIDATED		
	Average Balance \$	Interest \$	Average Interest Rate %
	67,203,410	2,905,259	4.32%
	652,296,883	45,395,514	6.96%
	719,500,293	48,300,773	6.71%
<b>Interest Expense 2002</b>			
Members' deposits	553,520,412	19,755,748	3.57%
Borrowings	78,099,963	4,424,269	5.66%
	631,620,375	24,180,017	3.83%
Net Interest Income 2002	87,879,918	24,120,756	2.88%
<b>Interest Revenue 2001</b>			
Deposits and investments	74,479,889	4,419,130	5.93%
Loans and advances	530,905,482	42,225,407	7.95%
	\$605,385,371	\$46,644,537	7.70%
<b>Interest Expense 2001</b>			
Members' deposits	403,879,455	18,592,364	4.60%
Borrowings	153,160,818	9,889,488	6.46%
	\$557,040,273	\$28,481,852	5.11%
Net Interest Income 2001	\$48,345,098	\$18,162,685	2.59%

#### Interest Expense 2001

Members' deposits  
Borrowings

Net Interest Income 2001

### (b) Cost of sales of land and unit development

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2002 \$	2001 \$	2002 \$	2001 \$
\$5,737,965	\$5,101,036	-	-

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>3. INCOME TAX</b>				
Operating profit before income tax	18,758,601	8,896,973	17,545,821	7,902,848
Prima facie income tax calculated at 30% (2001: 34%)	5,627,580	3,024,971	5,263,746	2,686,968
Tax effect of permanent differences:				
Non-deductible expenses	11,403	35,979	11,078	9,467
Non-deductible amortisation	24,660	15,516	-	-
Non-deductible depreciation	675	6,626	675	6,626
Non assessable capital gain	-	(1,112,680)	-	(1,112,680)
Non assessable gain on merger	(2,850,246)	-	(2,813,345)	-
Sundry items	37,665	31,306	165,217	2,377
Income tax adjusted for permanent differences	2,851,737	2,001,718	2,627,371	1,592,758
Tax effect of timing differences not recognised	(36,273)	(82,347)	-	-
(Over)/under provision in previous year	(48,096)	(99,248)	(45,466)	(20,407)
Restatement of deferred tax assets and liabilities due to tax changes effective 1 July 2001	-	116,136	525	110,414
Income tax attributable to operating profit	\$2,767,368	\$1,936,259	\$2,582,430	\$1,682,765
<b>4. CASH AND LIQUID ASSETS</b>				
Cash on hand	4,597,762	3,815,706	4,596,812	3,814,276
Cash and deposits at call with banks	4,175,193	9,720,273	4,175,193	9,570,394
Cash and deposits at call with SSP	2,658,836	1,763,254	2,658,836	1,763,254
	\$11,431,791	\$15,299,233	\$11,430,841	\$15,147,924
<b>5. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS</b>				
Interest earning deposits - bank	-	200,000	-	200,000
Interest earning deposits - SSP	60,400,000	53,000,000	60,400,000	53,000,000
	\$60,400,000	\$53,200,000	\$60,400,000	\$53,200,000
Maturity Analysis				
Not longer than 3 months	30,000,000	23,100,000	30,000,000	23,100,000
Longer than 3 and not longer than 12 months	24,400,000	22,100,000	24,400,000	22,100,000
Longer than 1 and not longer than 5 years	6,000,000	8,000,000	6,000,000	8,000,000
	\$60,400,000	\$53,200,000	\$60,400,000	\$53,200,000

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>6. OTHER RECEIVABLES</b>				
Interest receivable	664,302	621,313	664,302	621,313
Debtors from sale of land & unit developments	-	2,450,646	-	-
Other	1,066,526	1,153,946	416,040	522,940
	<b>\$1,730,828</b>	<b>\$4,225,905</b>	<b>\$1,080,342</b>	<b>\$1,144,253</b>
<b>7. LOANS AND ADVANCES</b>				
Revolving Credit	28,803,746	90,243,484	28,803,746	90,243,484
Term Loans	610,650,190	452,750,852	610,650,190	452,752,224
Related parties	934,630	465,371	934,630	465,371
	<b>640,388,566</b>	<b>543,459,707</b>	<b>640,388,566</b>	<b>543,461,079</b>
Provision for impairment	(4,175,482)	(1,924,042)	(4,175,482)	(1,924,042)
Net loans and advances	<b>\$636,213,084</b>	<b>\$541,535,665</b>	<b>\$636,213,084</b>	<b>\$541,537,037</b>
<p>During the financial year the Society sold mortgage loans via a securitisation program. The Society continues to manage these loans and derives management fee income. As at 30 June 2002, securitised loans under management amounted to \$284,705,167 (2001 - \$83,410,866).</p>				
(a) Aggregate amounts receivable from related parties:				
Directors and director-related entities	934,630	465,371	934,630	465,371
Provision for impairment	-	-	-	-
	<b>\$934,630</b>	<b>\$465,371</b>	<b>\$934,630</b>	<b>\$465,371</b>
(b) Maturity Analysis				
Not longer than 3 months	18,706,798	41,414,982	18,706,798	41,416,354
Longer than 3 and not longer than 12 months	54,590,212	52,008,986	54,590,212	52,008,986
Longer than 1 and not longer than 5 years	154,568,002	141,959,323	154,568,002	141,959,323
Longer than 5 years	412,523,554	308,076,416	412,523,554	308,076,416
	<b>\$640,388,566</b>	<b>\$543,459,707</b>	<b>\$640,388,566</b>	<b>\$543,461,079</b>

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>7. LOANS AND ADVANCES (cont'd)</b>				
(c) 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:				
- State government employees	222,830,439	229,305,675	222,830,439	229,305,675
- Other	417,558,127	314,154,032	417,558,127	314,155,404
	<b>\$640,388,566</b>	<b>\$543,459,707</b>	<b>\$640,388,566</b>	<b>\$543,461,079</b>
(d) Provision for impairment				
General provision				
Opening balance	1,107,216	552,748	1,107,216	552,748
Bad debts previously provided for written off during the year	(444,312)	(300,384)	(444,312)	(300,384)
Provision transferred on merger	475,836	-	475,836	-
Transfer from/(to) specific provision	1,506,684	854,852	1,506,684	854,852
Closing balance	2,645,424	1,107,216	2,645,424	1,107,216
Specific provision				
Opening balance	816,826	621,339	816,826	621,339
Bad debts previously provided for written off during the year	(327,841)	(251,195)	(327,841)	(251,195)
Bad and doubtful debts provided for during the year	2,290,114	1,339,009	2,290,114	1,339,009
Provision transferred on merger	343,959	-	343,959	-
Transfer (to)/from general provision	(1,506,684)	(854,852)	(1,506,684)	(854,852)
Other adjustments				
- Recoveries of debts previously written off	(86,316)	(37,475)	(86,316)	(37,475)
Closing balance	1,530,058	816,826	1,530,058	816,826
Total provision for impairment	<b>\$4,175,482</b>	<b>\$1,924,042</b>	<b>\$4,175,482</b>	<b>\$1,924,042</b>

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>7. LOANS AND ADVANCES (cont'd)</b>				
Charge to statements of financial performance for bad and doubtful debts comprises:				
Bad debts written off:				
General provision	444,312	300,384	444,312	300,384
Specific provision	327,841	251,195	327,841	251,195
Movements in provision:				
General	1,062,371	554,468	1,062,371	554,468
Specific	369,273	195,487	369,273	195,487
	<b>\$2,203,797</b>	\$1,301,534	<b>\$2,203,797</b>	\$1,301,534
The specific provision for impairment equates to the provision required under the prudential standards at 30 June 2002				
The general provision for impairment has been determined in accordance with Board policy set under the prudential standards at 30 June 2002.				
(e) Impairment of Loans and Advances				
<i>Non accrual loans</i>				
Balances with specific provisions for impairment	1,278,143	1,602,899	1,278,143	1,602,899
Specific provision for impairment	(630,182)	(357,865)	(630,182)	(357,865)
Net non accrual loans	<b>\$647,961</b>	\$1,245,034	<b>\$647,961</b>	\$1,245,034
Restructured Loans	<b>\$348,664</b>	\$67,604	<b>\$348,664</b>	\$67,604
Past Due Loans - 90 days	<b>\$29,319</b>	\$142,193	<b>\$29,319</b>	\$142,193

# Notes to the Financial Statements

Year ended 30 June 2002

## 8. OTHER INVESTMENTS

### (a) Other investments

	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2002 \$	2001 \$	2002 \$	2001 \$
Investments in SSP		5,677,515	4,492,779	5,677,515	4,492,779
Controlled entities		-	-	658,407	473,407
Less provision for diminution		-	-	(162,900)	(162,900)
Goodwill on Consolidation		1,900	1,900	-	-
Investments in joint venture partnerships	22	402	2,486	-	-
Rent Rolls		-	389,400	-	-
Less provision for amortisation		-	(207,676)	-	-
Rights -loan portfolios		871,481	799,068	-	-
Less provision for amortisation		(827,518)	(745,317)	-	-

**\$5,723,780**      \$4,732,640      **\$6,173,022**      \$4,803,286

### (b) Investment in controlled entities

All controlled entities are incorporated in Australia and are ultimately wholly owned by the Society. The controlled entities are as follows:

	Controlled Entities		Controlled Entities	
	Held by the Society	Held by Other Controlled Entities	Held by the Society	Held by Other Controlled Entities
	2002 \$	2002 \$	2001 \$	2001 \$
Members Holding Company Pty Ltd	400,002	-	400,002	-
Advance Settlements Coy Pty Ltd	1	19,999	1	19,999
Police Employees Travel Pty Ltd	2	40,000	2	40,000
Police & Nurses Nominees Pty Ltd	1	5,000	1	5,000
PCU Trading Pty Ltd	1	99,999	1	99,999
P&N Landreach Pty Ltd	1,900	-	1,900	-
Essential Service Homes Pty Ltd	10,000	-	10,000	-
Energy Settlements Pty Ltd	60,000	-	-	-
Encred Services Pty Ltd	125,000	-	-	-
National Home Loans Pty Ltd	61,500	-	61,500	-
	<b>\$658,407</b>	<b>\$164,998</b>	<b>\$473,407</b>	<b>\$164,998</b>

Police & Nurses Credit Society Ltd acquired the controlled entities of Energy Settlements Pty Ltd and Encred Services Pty Ltd on 1 October 2001 as part of the merger with Energy Credit Union Ltd.

### (c) Merger - Energy Credit Union Ltd Group

On 1 October 2001, Police & Nurses Credit Society Ltd accepted the merger from Energy Credit Union Ltd under the Financial Sector (Transfers of Business) Act 1999. Energy Credit Union Ltd was deregistered on 21 February 2002 under section 601AA(4) of the Corporations Act 2001 by a resolution of the Board of Directors.

# Notes to the Financial Statements

Year ended 30 June 2002

## 8. OTHER INVESTMENTS (cont'd)

Merger - Energy Credit Union Ltd Group

Fair value of net assets transferred  
Less value of shares issued to members  
Less incidental costs  
Less restructuring costs

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
	10,205,581	-	10,082,579	-
	-	-	-	-
	(153,010)	-	(153,010)	-
	(551,752)	-	(551,752)	-
Total Gain on Merger	\$9,500,819	-	\$9,377,817	-

The restructuring costs include redundancies, directors termination payments and leasetails for Energy Credit Union premises.

Fair value of identifiable net assets transferred on merger

Cash  
Receivables from financial institutions  
Loans to members  
Other assets  
Members' deposits  
Borrowings  
Other liabilities

	6,560,625	-	6,560,475	-
	8,900,000	-	8,900,000	-
	86,451,478	-	86,451,478	-
	1,649,082	-	1,784,603	-
	(76,064,300)	-	(76,064,300)	-
	(15,000,000)	-	(15,000,000)	-
	(2,291,304)	-	(2,549,677)	-
Total fair value of net assets transferred	\$10,205,581	-	\$10,082,579	-

## 9. INVENTORIES

### 2002

Land held for sale

### 2001

Land held for sale

	CONSOLIDATED			
	Land Acquisition Costs	Holding Costs	Development Costs	Total
	\$	\$	\$	\$
2002 Land held for sale	\$7,701,748	\$219,401	\$1,288,720	\$9,209,869
2001 Land held for sale	\$7,600,030	\$235,811	\$1,324,340	\$9,160,181

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>10. PROPERTY, PLANT AND INVESTMENT</b>				
Freehold land				
At cost	-	15,429	-	15,429
Buildings on freehold land				
At cost	-	61,715	-	61,715
Provision for depreciation	-	(24,308)	-	(24,308)
	-	37,407	-	37,407
Leasehold improvements				
At cost	1,843,370	1,717,639	1,841,362	1,717,639
Provision for amortisation	(810,118)	(602,893)	(810,043)	(602,893)
	1,033,252	1,114,746	1,031,319	1,114,746
Total land and buildings	1,033,252	1,167,582	1,031,319	1,167,582
Plant and equipment				
At cost	10,853,232	10,331,186	10,481,423	9,688,686
Provision for depreciation	(6,957,334)	(5,225,244)	(6,708,024)	(4,876,946)
	3,895,898	5,105,942	3,773,399	4,811,740
Total property, plant and equipment	\$4,929,150	\$6,273,524	\$4,804,718	\$5,979,322

Reconciliation of the carrying amounts of each class of property, plant and equipment	Freehold Land	Buildings	Leasehold Improvements	Plant & Equipment	In Progress	Total
<b>Consolidated</b>	\$	\$	\$	\$	\$	\$
Carrying amount at 1 July 2001	15,429	37,407	1,114,746	4,649,785	456,157	6,273,524
Additions	-	-	180,653	1,046,445	447,895	1,674,993
Disposals	(15,429)	(35,867)	(21,533)	(372,706)	-	(445,535)
Transfers	-	-	4,864	663,461	(668,325)	-
Depreciation expense	-	(1,540)	(245,478)	(2,326,814)	-	(2,573,832)
Carrying amount at 30 June 2002	-	-	\$1,033,252	\$3,660,171	\$235,727	\$4,929,150
<b>Parent entity</b>	\$	\$	\$	\$	\$	\$
Carrying amount at 1 July 2001	15,429	37,407	1,114,746	4,355,583	456,157	5,979,322
Additions	-	-	178,645	943,956	447,895	1,570,496
Disposals	(15,429)	(35,867)	(21,533)	(198,841)	-	(271,670)
Transfers	-	-	4,864	663,461	(668,325)	-
Depreciation expense	-	(1,540)	(245,403)	(2,226,487)	-	(2,473,430)
Carrying amount at 30 June 2002	-	-	\$1,031,319	\$3,537,672	\$235,727	\$4,804,718

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>11. OTHER ASSETS</b>				
Prepayments	1,216,215	778,264	1,189,231	720,909
Amounts receivable from controlled entities	-	-	9,223,680	9,656,811
Amounts receivable from joint venture partners	-	-	-	19,629
Future income tax benefit	1,510,965	996,084	1,465,405	949,659
Other	68,817	429,033	68,817	473,137
	<b>\$2,795,997</b>	<b>\$2,203,381</b>	<b>\$11,947,133</b>	<b>\$11,820,145</b>
<b>12. MEMBERS' DEPOSITS</b>				
Call deposits	220,834,379	123,836,237	221,010,439	125,058,770
Term deposits	383,535,043	304,517,485	383,535,043	304,517,485
Withdrawal shares	632,166	531,040	632,166	531,040
	<b>\$605,001,588</b>	<b>\$428,884,762</b>	<b>\$605,177,648</b>	<b>\$430,107,295</b>
Maturity Analysis				
On call	225,117,860	177,629,436	225,293,920	178,851,969
Not longer than 3 months	228,198,888	142,665,740	228,198,888	142,665,740
Longer than 3 and not longer than 12 months	143,804,909	102,923,389	143,804,909	102,923,389
Longer than 1 and not longer than 5 years	7,798,003	5,666,197	7,798,003	5,666,197
Longer than 5 years	81,928	-	81,928	-
	<b>\$605,001,588</b>	<b>\$428,884,762</b>	<b>\$605,177,648</b>	<b>\$430,107,295</b>
Concentration of Deposits				
State government employees	117,828,630	90,864,223	117,828,630	90,864,223
Other entities	487,172,958	338,020,539	487,349,018	339,243,072
	<b>\$605,001,588</b>	<b>\$428,884,762</b>	<b>\$605,177,648</b>	<b>\$430,107,295</b>
The Society's deposit portfolio does not include any deposit which represents 5% or more of total liabilities.				

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>13. ACCOUNTS PAYABLE AND OTHER LIABILITIES</b>				
Trade creditors	242,000	166,095	-	-
Accrued interest payable	4,432,022	7,594,641	4,432,022	7,594,641
Amounts payable to controlled entities	-	-	3,635,782	2,262,008
Amounts payable to J.V. partners	17,319	62,758	-	-
Other creditors & deferred income	13,221,918	7,068,247	12,811,084	3,620,491
	<b>\$17,913,259</b>	<b>\$14,891,741</b>	<b>\$20,878,888</b>	<b>\$13,477,140</b>
<b>14. BORROWINGS</b>				
Secured				
- Overdrafts from SSP	1,531,972	819,355	1,531,972	819,355
- Loan from SSP	27,992,253	-	27,992,253	-
- Bills of exchange - secured	-	130,000,015	-	130,000,015
	<b>\$29,524,225</b>	<b>\$130,819,370</b>	<b>\$29,524,225</b>	<b>\$130,819,370</b>
The securities for borrowings are described in Note 19				
Maturity Analysis				
Not longer than 3 months	29,524,225	80,819,370	29,524,225	80,819,370
Longer than 3 months and not longer than 12 months	-	50,000,000	-	50,000,000
	<b>\$29,524,225</b>	<b>\$130,819,370</b>	<b>\$29,524,225</b>	<b>\$130,819,370</b>
<b>15. PROVISIONS</b>				
Taxation	1,770,420	116,474	1,718,553	-
Deferred income tax liability	67,874	158,478	67,874	154,968
Employee entitlements	1,495,268	1,076,929	1,327,378	879,109
Restructuring	197,098	-	197,098	-
	<b>\$3,530,660</b>	<b>\$1,351,881</b>	<b>\$3,310,903</b>	<b>\$1,034,077</b>

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002	2001	2002	2001
	\$	\$	\$	\$
<b>15. PROVISIONS (cont'd)</b>				
<b>Employee Numbers</b>				
Number of employees at balance date	<b>304</b>	299	<b>276</b>	221

## Employee Numbers

Number of employees at balance date

## Superannuation Commitments

Superannuation plans in existence during the financial year were:

- AMP Customsuper
- AMP Life Ltd
- BT Funds Management
- Colonial First State Investment
- CUES
- Futurelink
- ING Corporate Super (Credit Union Industry Superannuation Scheme)
- Tyndall Life Insurance Co Ltd

All superannuation plans provide accumulation benefits for their members. There is no obligation to meet any unfunded amounts, with minimum contributions set at a level to comply with the Superannuation Guarantee Charge.

## 16. RESERVES AND RETAINED PROFITS

### Reserves

General reserve

Share capital reserve

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002	2001	2002	2001
	\$	\$	\$	\$
General reserve	<b>65,000,000</b>	55,000,000	<b>65,000,000</b>	55,000,000
Share capital reserve	<b>188,776</b>	-	<b>188,776</b>	-
	<b>\$65,188,776</b>	\$55,000,000	<b>\$65,188,776</b>	\$55,000,000
<b>(a) General reserve</b>				
- balance at beginning of year	<b>55,000,000</b>	50,000,000	<b>55,000,000</b>	50,000,000
- transfer from retained profits	<b>10,000,000</b>	5,000,000	<b>10,000,000</b>	5,000,000
- balance at end of year	<b>\$65,000,000</b>	\$55,000,000	<b>\$65,000,000</b>	\$55,000,000

### Nature and purpose of general reserve

The general reserve ensures that sufficient capital is retained by the Society to comply with the capital adequacy requirements set by the Australian Prudential Regulation Authority. The reserve is eligible to be included as Tier 1 capital and meets the minimum level of capital adequacy as required under Prudential Standards 111 and 110 for Authorised Deposit-Taking Institutions.

# Notes to the Financial Statements

Year ended 30 June 2002

## 16. RESERVES AND RETAINED PROFITS (cont'd)

### (b) Share capital reserve

- balance at beginning of year
- transfer from retained profits
- balance at end of year

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
	-	-	-	-
	<b>188,776</b>	-	<b>188,776</b>	-
	<b>\$188,776</b>	-	<b>\$188,776</b>	-

### Nature and purpose of share capital reserve

The share capital reserve reflects the share capital created on redemption of members' withdrawal shares. Under section 254K of the Corporations Act 2001, these redemptions must be made from retained profits. This reserve is also eligible to be included as Tier I capital.

### (c) Retained profits

- Retained profits at the beginning of the financial year
- Net profit attributable to members
- Total available for appropriation
- Aggregate of amounts transferred to reserves
- Retained profits at the end of the financial year

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
	<b>5,569,194</b>	3,536,066	<b>3,194,085</b>	1,974,002
	<b>15,980,981</b>	7,033,128	<b>14,963,391</b>	6,220,083
	<b>21,550,175</b>	10,569,194	<b>18,157,476</b>	8,194,085
	<b>10,188,776</b>	5,000,000	<b>10,188,776</b>	5,000,000
	<b>\$11,361,399</b>	\$5,569,194	<b>\$7,968,700</b>	\$3,194,085

# Notes to the Financial Statements

Year ended 30 June 2002

	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2002 \$	2001 \$	2002 \$	2001 \$
<b>17. NOTES TO THE STATEMENTS OF CASH FLOWS</b>					
a) Reconciliation of the operating profit after tax to the net cash flows from operations					
Operating profit after income tax		15,991,233	6,960,714	14,963,391	6,220,083
(Increase)/decrease in loan interest receivable		40,171	(69,995)	40,171	(68,638)
Decrease in investment income receivable		99,191	644,011	99,191	644,011
Increase in fees and commission receivable		(475,100)	(13,283)	(470,122)	(91,154)
Increase in inventory		(49,688)	(2,007,233)	-	-
(Decrease)/increase in member interest payable		(3,832,328)	3,214,171	(3,832,332)	3,214,171
Decrease in other interest payable		(406,911)	(250,056)	(406,911)	(250,056)
Increase/(decrease) in accrued expenses and other creditors		(2,255,082)	1,437,095	710,651	(326,010)
Depreciation		2,573,832	2,460,007	2,473,431	2,336,981
Bad debts written off		772,152	551,579	772,152	551,579
Bad debts recovered		(86,316)	(37,475)	(86,316)	(37,475)
Provision for doubtful debts		1,431,645	749,955	1,431,645	749,955
Amortisation - rights - loan portfolios		82,201	17,916	-	-
Amortisation - rent roll		25,960	77,876	-	-
Gain on merger		(9,987,770)	-	(9,854,740)	-
Gain on disposal of fixed assets		10,458	(3,230,523)	(56,315)	(3,243,404)
Increase in annual and long service leave provisions		121,204	87,582	194,240	72,059
Increase /(decrease) in provision for taxation		1,535,264	(380,957)	1,599,872	(217,558)
Increase in future income tax benefit		(232,317)	(282,304)	(233,182)	(271,474)
(Decrease)/increase in deferred income tax		(203,551)	49,987	(200,042)	47,530
Net (increase)/decrease in sundry debtors and prepayments		2,486,777	(2,711,664)	49,862	(472,846)
Net cash flow from operating activities		\$7,641,025	\$7,267,403	\$7,194,646	\$8,857,754
b) Reconciliation of cash					
Cash balance comprises:					
- Cash	4	11,431,791	15,299,233	11,430,841	15,147,924
- Bank overdraft	14	(1,531,972)	(819,355)	(1,531,972)	(819,355)
Closing cash balance		\$9,899,819	\$14,479,878	\$9,898,869	\$14,328,569

# Notes to the Financial Statements

Year ended 30 June 2002

Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2002 \$	2001 \$	2002 \$	2001 \$
<b>18. EXPENDITURE COMMITMENTS</b>				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
- payable not later than one year	\$177,172	\$343,390	\$176,452	\$343,390
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
- not later than 1 year	1,430,997	1,068,166	1,430,334	1,013,062
- later than 1 and not later than 2 years	1,113,665	1,058,057	1,113,665	1,020,854
- later than 2 and not later than 5 years	2,135,338	2,086,179	2,135,338	2,076,750
- more than 5 years	118,667	450,430	118,667	450,430
- aggregate lease expenditure contracted for at balance date	\$4,798,667	\$4,662,832	\$4,798,004	\$4,561,096
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
- payable not later than one year	\$669,002	\$794,659	-	-
<b>19. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS</b>				
(a) Contingent liabilities				
Financial guarantees are issued by the Society to guarantee the payment by a subsidiary to a third party.				
Guarantees	-	-	\$363,000	\$363,000
(b) Credit related commitments				
Approved but undrawn loans and credit limits	\$92,361,997	\$71,156,680	\$92,361,997	\$71,156,680

# Notes to the Financial Statements

Year ended 30 June 2002

## 19. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (cont'd)

The Society has entered into the following arrangements with:

- i. Credit Union Services Corporation (Australia) Limited and VISA International Services Association to participate in the "VISA Card Programme".
- ii. Credit Union Services Corporation (Australia) Limited to participate in the "Redinet Scheme".
- iii. Credit Union Services Corporation (Australia) Limited to participate in the:
  - Standby Credit Facility: \$22,000,000 (\$19,992,253 used as at 30 June 2002)
  - Fixed Standby Credit Facility: \$13,000,000 (\$8,000,000 used as at 30 June 2002)
  - Multi Option Wholesale Facility (Uncommitted): \$20,000,000 (Unused as at 30 June 2002)
  - Derivatives Guarantee Facility: \$2,000,000 (\$718,640 used as at 30 June 2002)
  - Overdraft: \$2,000,000 (\$1,531,972 used as at 30 June 2002)

Under the terms of the above agreements, the Society has executed an equitable mortgage of a fixed and floating charge over all its assets and undertakings except for those assets provided as security for the borrowing facilities set out below. The charge is to secure all monies owing by the Society to the above named organisations.

- iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: \$200,000. This facility was unused at 30 June 2002.
- v. Credit Union Financial Support System Limited - with effect from 1 July 1999, Police & Nurses Credit Society Limited is a party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that all Credit Unions who are affiliated with Credit Unions Services Corporation (Australia) Limited (CUSCAL) have agreed to participate in. CUFSS is a company limited by guarantee, each Credit Union's guarantee being \$100. As a member of CUFSS, the Credit Union:
  - May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another Credit Union requiring financial support;
  - May be required to advance permanent loans of up to 0.2% of total assets per financial year to another Credit Union requiring financial support;
  - Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

## 20. REMUNERATION OF DIRECTORS

(a) Directors' remuneration

The number of directors of Police & Nurses Credit Society Ltd whose income (including superannuation contributions) falls within the following bands is:

\$'000  
10 - 20  
20 - 30  
30 - 40

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2002	2001	2002	2001
\$	\$	\$	\$
<b>\$237,744</b>	\$158,751	<b>\$237,744</b>	\$158,751

	2002	2001	2002	2001
	No.	No.	No.	No.
10 - 20	8	9	8	9
20 - 30	1	-	1	-
30 - 40	2	-	2	-

The above total directors' remuneration includes an amount of \$69,144 for termination payments.

# Notes to the Financial Statements

Year ended 30 June 2002

## 21. AUDITOR'S REMUNERATION

(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:

- auditor of the parent entity -  
PricewaterhouseCoopers

(b) Remuneration for other services - auditor of the parent entity - PricewaterhouseCoopers:

- income tax returns advice  
- securitisation transactions advice  
- GST advice  
- fringe benefits tax advice  
- other tax advice  
- advice in relation to the merger  
- other

Total auditors' remuneration

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2002	2001	2002	2001
\$	\$	\$	\$
<b>\$93,282</b>	\$72,691	<b>\$80,312</b>	\$50,341
<b>50,386</b>	35,032	<b>49,151</b>	35,032
<b>11,470</b>	6,830	<b>11,470</b>	6,830
<b>9,813</b>	2,792	<b>9,813</b>	2,792
<b>6,944</b>	3,276	<b>6,944</b>	3,276
<b>14,104</b>	10,435	<b>14,104</b>	10,435
<b>2,273</b>	-	<b>2,273</b>	-
<b>7,839</b>	14,040	<b>4,391</b>	14,040
<b>\$102,829</b>	\$72,405	<b>\$98,146</b>	\$72,405
<b>\$196,111</b>	\$145,096	<b>\$178,458</b>	\$122,746

## 22. INTERESTS IN JOINT VENTURES

A controlled entity has entered into two joint venture partnerships called PNJC partnership No.1 and PNJC partnership No.2 to develop properties for residential housing. The controlling entity has a 50% participating interest in each of these joint ventures and is entitled to 50% of their outputs. The consolidated entity's interests in the assets employed in the joint venture are included in the consolidated statement of financial position, in accordance with the accounting policy described in note 1(l)

### a) PNJC partnership No 1

#### Retained profit attributable to the partnership

At the beginning of the financial year

At the end of the financial year

#### Movement in carrying amount of investment in partnership

Carrying amount at the beginning of the financial year

Share of operating profit before tax

CONSOLIDATED	
2002	2001
\$	\$
<b>5,325</b>	-
<b>\$6,994</b>	\$5,325
<b>60,825</b>	55,500
<b>1,669</b>	5,325
<b>\$62,494</b>	\$60,825



# Notes to the Financial Statements

Year ended 30 June 2002

## 24. ECONOMIC DEPENDENCY

Normal trading activities are economically dependent on:

Credit Union Services Corporation (Australia) Limited ("CUSCAL")

This related party enables the Society to supply the following financial services:

- Automatic teller machines (ATMs)
- Visa Cards
- Redicards
- Member Chequing

CUSCAL also supplies and maintains the application software utilised by the Society.

## 25. RELATED PARTY DISCLOSURES

The directors of Police & Nurses Credit Society Ltd at any time during the financial year were:

E J Billing  
F J Compton  
P M Gabb  
M T Hinton  
C A Hynes  
M A Kimber  
E A Manley  
S J Melville  
W T Neville  
A M Rial  
E L Smith

As members of the Society, the directors and director-related entities have available to them all of the services under normal member terms and conditions. Total loans outstanding to directors and their spouses as at 30 June 2002 amounted to \$934,630 (2001: \$465,371). During the year loan advances amounted to \$861,987 (2001: \$433,616) and repayments amounted to \$436,405 (2001: \$581,940). Interest on loans to directors amounted to \$43,677 (2001: \$46,935). All directors except C A Hynes, S J Melville and E L Smith had loans with the Society during the year.

The terms and conditions in respect of all loans to directors and their spouses have not been breached. All directors have also placed deposits with the Society during the year under normal member terms and conditions.

Each director holds one member share in the Society.

The Society charges its controlled entities for occupancy and other costs.

The Society acts as banker for some of the subsidiaries in the wholly owned group, with cash transactions being undertaken on behalf of the subsidiaries and adjusted for through amounts payable/receivable to/from the Society. All inter company balances are non interest bearing. Some subsidiaries maintain separate deposit account with the Society under normal commercial terms.

Loans advanced to:  
Associates

2002	2001
\$	\$
-	\$1,372

# Notes to the Financial Statements

Year ended 30 June 2002

## 26. SEGMENT INFORMATION

### (a) Primary reporting - business segments

The consolidated entity operates predominantly in the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans. Specific segmentation of loans and deposits are set out in Notes 7 & 12. The consolidated entity is also involved in property development activities.

2002	Services to Members	Property Development	Other	Inter-segment Eliminations\ Unallocated	Consolidated
	\$	\$	\$	\$	\$
Net interest revenue from external customers	24,120,756	-	-	-	24,120,756
Intersegment interest revenue	581,239	-	-	(581,239)	-
Net interest revenue	24,701,995	-	-	(581,239)	24,120,756
Sales to external customers	-	7,170,957	-	-	7,170,957
Share of net profits of joint venture partnerships	-	4,225	-	-	4,225
Gain on merger	9,500,819	-	-	-	9,500,819
Other revenue	20,150,453	-	1,972,733	-	22,123,186
Total segment revenue	54,353,267	7,175,182	1,972,733	(581,239)	62,919,943
Segment result	18,024,445	545,840	411,918	(223,602)	18,758,601
Profit from ordinary activities before income tax expense					18,758,601
Income tax expense					2,767,368
Profit from ordinary activities after income tax expense					15,991,233
Segment assets	731,689,037	9,839,147	377,325	(9,471,010)	732,434,499
Segment liabilities	658,128,209	8,980,019	268,042	(11,406,538)	655,969,732
Investments in associates and joint venture partnerships	-	402	-	-	402
Acquisitions of property, plant and equipment	1,603,905	-	71,088	-	1,674,993
Depreciation and amortisation expense	2,531,866	15,968	134,159	-	2,681,993
Other non-cash expenses	2,565,722	4,152	31,832	-	2,601,706

# Notes to the Financial Statements

Year ended 30 June 2002

## 26. SEGMENT INFORMATION (cont'd)

### (a) Primary reporting - business segments

2001	Services to Members	Property Development	Other	Inter-segment Eliminations\ Unallocated	Consolidated
	\$	\$	\$	\$	\$
Net interest revenue from external customers	18,162,685	-	-	-	18,162,685
Intersegment interest revenue	722,145	-	-	(722,145)	-
Net interest revenue	18,884,830	-	-	(722,145)	18,162,685
Sales to external customers	-	5,530,590	-	-	5,530,590
Share of net profits of associates and joint venture partnerships	-	32,255	-	-	32,255
Proceeds on sale of land and buildings	4,150,000	-	-	-	4,150,000
Other revenue	14,393,889	-	2,206,349	-	16,600,238
Total segment revenue	37,428,719	5,562,845	2,206,349	(722,145)	44,475,768
Segment result	7,670,636	456,771	825,158	(55,592)	8,896,973
Profit from ordinary activities before income tax expense					8,896,973
Income tax expense					1,936,259
Profit from ordinary activities after income tax expense					6,960,714
Segment assets	624,472,040	11,803,581	443,440	(88,532)	636,630,529
Segment liabilities	573,596,149	2,024,169	310,140	17,296	575,947,754
Investments in associates and joint venture partnerships	-	2,486	-	-	2,486
Acquisitions of property, plant and equipment	1,524,291	-	8,798	-	1,533,089
Depreciation and amortisation expense	2,482,500	-	73,299	-	2,555,799
Other non-cash expenses	1,510,431	-	33,294	-	1,543,725

# Notes to the Financial Statements

Year ended 30 June 2002

## 26. SEGMENT INFORMATION (cont'd)

### Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

### (b) Secondary reporting - geographical segments

The consolidated entity operates in Australia.

## 27. FINANCIAL INSTRUMENTS

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

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

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
<i>(i) Financial assets</i>			
Loans and Advances	7	The loan 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. Loans and advances are recorded at their recoverable amount.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Short-term deposits	5	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised when earned.	Short-term deposits have a maturity of less than 180 days and effective interest rates of 4.59% to 5.16%.
Other receivables	6	Other receivables are carried at the lower of cost or recoverable amount.	Receivables are short term in nature and dependent on the terms & conditions of the related contract, where one exists.
Investments in unlisted shares (SSP)	8	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are declared by the investee.	

# Notes to the Financial Statements

Year ended 30 June 2002

## 27. FINANCIAL INSTRUMENTS (cont'd)

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

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
<b>(ii) Financial liabilities</b>			
Bank overdrafts	14	The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate. Details of the security over the bank overdrafts are set out in note 19.
Due to other financial institutions	14	The borrowings are carried at the principal amount. Interest is charged as an expense as it accrues.	Amounts due to other financial institutions are interest bearing with interest charged at the financial institution's floating rate.
Trade creditors and accruals	13	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30 day terms.
Deposits	12	Deposits are recorded at the principal amount.	Details of maturity terms are set out in note 12. Interest is calculated on the daily balance outstanding.
<b>(iii) Unrecognised Financial Instruments</b>			
Interest Rate Swaps		The Society enters into interest rate swap agreements that are used to convert its fixed rate loans and advances to variable interest rates. It is the Society's policy not to recognise assets or liabilities in relation to interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.	At balance date, the Society has interest rate swap agreements with a notional amount of \$84.6 million, on which it pays 4.51% to 7.26% interest and receives Bank Bill Swap rate calculated on the notional amount. The swaps are used to protect the Society from exposure to increasing interest rates. The swaps in place cover a proportion of the fixed rate loans and advances at balance date. The swaps expire between July 2002 and June 2008.

# Notes to the Financial Statements

Year ended 30 June 2002

## 27. FINANCIAL INSTRUMENTS (cont'd)

### 27(b) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing or repriced in:					Non-interest bearing		Total carrying amount as per the statement of financial position				Weighted average effective interest rate		
			1 year or less		Over 1 year to 5 years		Over 5 years				2002		2001			
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	%	%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
<i>(i) Financial Assets</i>																
Cash and liquid assets	6,834	11,483	-	-	-	-	-	-	4,598	3,816	11,432	15,299	N/A	N/A	N/A	N/A
Due from other financial institutions	-	-	54,400	45,200	6,000	8,000	-	-	-	-	60,400	53,200	4.98	4.98	5.07	5.07
Unlisted shares - investment in SSP	-	-	-	-	-	-	-	-	5,678	4,493	5,678	4,493	N/A	N/A	N/A	N/A
Loans and advances	450,981	430,036	150,119	93,377	35,613	20,047	3,676	-	-	-	640,389	543,460	6.93	6.93	7.40	7.40
Loans approved but undrawn	92,362	71,157	-	-	-	-	-	-	-	-	***	***	N/A	N/A	N/A	N/A
Other receivables	-	-	-	-	-	-	-	-	1,731	4,226	1,731	4,226	N/A	N/A	N/A	N/A
Interest rate swaps	84,621	68,115	(52,006)	(52,898)	(29,075)	(15,217)	(3,540)	-	-	-	***	***	***	***	***	***
Total financial assets	634,798	580,791	152,513	85,679	12,538	12,830	136	-	12,007	12,535	719,630	620,678	-	-	-	-
<i>(ii) Financial Liabilities</i>																
Bank overdrafts	1,532	819	-	-	-	-	-	-	-	-	1,532	819	N/A	N/A	N/A	N/A
Deposits	225,118	177,630	372,004	245,589	7,798	5,666	82	-	-	-	605,002	428,885	3.38	3.38	4.31	4.31
Due to other financial institutions	-	-	27,992	-	-	-	-	-	-	-	27,992	-	5.29	5.29	N/A	N/A
Bills of exchange	-	-	-	130,000	-	-	-	-	-	-	-	130,000	-	-	-	5.64
Trade creditors and accruals	-	-	-	-	-	-	-	-	17,913	14,892	17,913	14,892	N/A	N/A	N/A	N/A
Total financial liabilities	226,650	178,449	399,996	375,589	7,798	5,666	82	-	17,913	14,892	652,439	574,596	-	-	-	-

N/A Not applicable for non interest bearing financial instruments.

\*\*\* Not applicable since financial instruments are not recognised in the financial statements.

\*\*\*\* The disclosure of effective interest rates is not applicable to derivative financial instruments.

# Notes to the Financial Statements

Year ended 30 June 2002

## 27. FINANCIAL INSTRUMENTS (cont'd)

### 27(c) Net fair values

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

	Total carrying amount as per the statement of financial position		Aggregate net fair value	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>Financial assets</b>				
Cash and Liquid Assets	11,432	15,299	11,432	15,299
Due from other financial institutions	60,400	53,200	60,400	53,200
Unlisted shares	5,678	4,493	5,678	4,493
Loans and Advances	640,389	543,460	639,533	543,234
Other receivables	1,731	4,226	1,731	4,226
<b>Total financial assets</b>	<b>\$719,630</b>	<b>\$620,678</b>	<b>\$718,774</b>	<b>\$620,452</b>
<b>Financial liabilities</b>				
Bank overdrafts	1,532	819	1,532	819
Deposits	605,002	428,885	605,052	428,891
Due to other financial institutions	27,992	-	27,992	-
Bills of exchange	-	130,000	-	130,000
Trade creditors and accruals	17,913	14,892	17,913	14,892
Interest rate swaps	**	**	(155)	(66)
<b>Total financial liabilities</b>	<b>\$652,439</b>	<b>\$574,596</b>	<b>\$652,334</b>	<b>\$574,536</b>

\*\* Not applicable since financial instruments are not recognised in the financial statements.

### 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 due from other financial institutions:* The carrying amount approximates fair value because of their short-term to maturity, or being receivable on demand.

*Trade payables and due to other financial institutions:* The carrying amount approximates fair value as they are short term in nature.

*Short-term borrowing and deposits:* The carrying amount approximates fair value because of their short-term to maturity.

*Loan and advances and deposits:* The fair values of loans receivable excluding impaired loans, are estimated using 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 discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

*Long-term deposits:* The fair values of long-term deposits are estimated using discounted cash flow analysis, based on current incremental deposit rates for similar types of deposit arrangements.

#### Unrecognised financial instruments

*Interest rate swap agreements:* The fair values of interest rate swap contracts is determined as the difference in present value of the future interest cash flows.

# Notes to the Financial Statements

Year ended 30 June 2002

## 27. FINANCIAL INSTRUMENTS (cont'd)

### 27(d) Credit risk exposures

The consolidated entity's maximum exposures\* to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

In relation to unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The consolidated entity's maximum credit risk exposure in relation to interest rate forward start swap contracts - is limited to the net fair value of the swap agreement at balance date, being \$154,626 (2001: \$66,388).

### Concentrations of credit risk

The Society minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of customers within the specified category. However, the majority of customers are state government employees.

Concentrations of credit risk on loans receivable arise in the following categories:

Industry	Maximum credit risk exposure(*) for each concentration			
	Consolidated		\$'000	
	Percentage of total loans receivable (%)			
	2002	2001	2002	2001
State government employees	34.8%	42.2%	222,831	229,306
Other non-concentrated	65.2%	57.8%	417,558	314,154
	100.0%	100.0%	\$640,389	\$543,460

Credit risk in loans receivable is managed in the following ways:

- a risk assessment process is used for all customers; and
- credit insurance is obtained for high risk customers.

\*The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

### 27(e) Hedging instruments

As disclosed above, Police & Nurses Credit Society Ltd has entered into forward start interest rate swaps during the financial year for the specific hedging of 1, 3 and 5 year fixed interest rate loans. These derivative contracts swap a 1, 3 and 5 year fixed rate receivable into a 90 or 180 day BBSW floating rate receivable.

## *Directors' Declaration*

The directors declare that the financial statements and notes set out on pages 10 to 39:

- (a) comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;
- and
- (b) give a true and fair view of the Society and Group's financial position as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the opinion of the directors:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
  - (b) there are reasonable grounds to believe that the Society will be able to pay its debts as and when they fall due;
- as far as they concern the members of the Society.

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

E L SMITH  
Director

E J BILLING  
Director

Date: 19 August 2002

PERTH WA

# Independent Audit Report

## Independent Audit Report To the Members of Police & Nurses Credit Society Limited

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

This audit report relates to the financial report of Police & Nurses Credit Society Limited (the Company) for the financial year ended 30 June 2002 included on Police & Nurses Credit Society Limited's web site. The Company's directors are responsible for the integrity of the Police & Nurses Credit Society Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

### **Audit opinion**

In our opinion, the financial report, set out on pages 10 to 40:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Police & Nurses Credit Society Limited and the Police & Nurses Credit Society Group (defined below) as at 30 June 2002 and of their performance for the year ended on that date
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

### **Scope and summary of our role**

#### **The financial report - responsibility and content**

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the directors of Police & Nurses Credit Society Limited. It includes the financial statements for Police & Nurses Credit Society Limited (the Company) and for the Police & Nurses Credit Society Group (the Group), which incorporates the Company and the entities it controlled during the year ended 30 June 2002.

#### **The auditor's role and work**

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report
- obtaining written confirmation regarding material representations made to us in connection with the audit
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

#### **Independence**

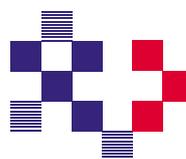
As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. These services are disclosed in note 21 to the financial statements. In our opinion the provision of these services has not impaired our independence.

PricewaterhouseCoopers  
Chartered Accountants

John O'Connor  
Partner

Date: 21 August 2002  
PERTH WA



**POLICE & NURSES**  
CREDIT SOCIETY

## Location Guide

### Moneyboxes

#### BOORAGOON

Shop 10, Riseley Corporate Centre  
135 Riseley Street  
Telephone: 13 25 77

#### CANNINGTON

Shop 1003, Westfield Carousel  
Shopping Centre  
1382 Albany Highway  
Telephone: 13 25 77

#### MADDINGTON

Shop 33, Maddington  
Shopping Centre  
Attfield Street  
Telephone: 13 25 77

#### MANDURAH

Shop 54A, Mandurah Forum  
Shopping Centre  
Mandurah Bypass Road  
Telephone: 13 25 77

#### MIDLAND

Shop 25, Midland Centrepoint  
Shopping Centre  
Great Eastern Highway  
Telephone: 13 25 77

#### MIRRABOOKA

Shop 91A, Mirrabooka Square  
Shopping Centre  
43 Yirrigan Drive  
Telephone: 13 25 77

#### ROCKINGHAM

Shop 48, Rockingham City  
Shopping Centre  
Read Street  
Telephone: 13 25 77

#### WARWICK

Shop 49, Warwick Grove  
Shopping Centre  
Cnr Beach & Erindale Roads  
Telephone: 13 25 77

#### WHITFORDS

Shop 158, Whitford City Shopping Centre  
Corner Whitfords and Marmion Avenue  
Telephone: 13 25 77

### Branches

#### PERTH

246 Adelaide Terrace  
PO Box 6132, East Perth WA 6892  
Telephone: 13 25 77

#### 132 Murray Street

Telephone: 13 25 77

#### FREMANTLE

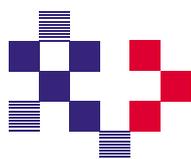
Shop 18, 35 William Street  
Telephone: 13 25 77

#### MORLEY

2A Progress Street  
Telephone: 13 25 77

#### BUNBURY

18 Arthur Street  
Telephone: 13 25 77



**POLICE & NURSES**  
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