

2005 Annual Report

Generating growth



POLICE & NURSES
CREDIT SOCIETY



Directory

DIRECTORS

E L Smith (Chairman)

P M Gabb (Deputy Chairman)

F J Compton | M J Dean | M T Hinton

E A Manley | S J Melville | K J O'Callaghan

A M Rial

CEO & COMPANY SECRETARY

A E (Fred) Huis

REGISTERED OFFICE

Police & Nurses Credit Society Ltd

ABN 69 087 651 876

246 Adelaide Terrace Perth WA 6000

13 25 77

EXTERNAL AUDITORS

PricewaterhouseCoopers

INTERNAL AUDITORS

KPMG

PNCS Group Financial Highlights	2000/01	2001/02	2002/03	2003/04	2004/05	Growth
Net profit after tax and before outside equity interest	6,960,714	15,991,233	10,006,632	7,720,170	10,214,295	32.31%
Total assets under management	1,108,772,943	1,365,848,814	1,470,271,042	1,312,871,082	1,469,475,249	11.93%
Member deposits	428,884,762	605,001,588	712,022,878	791,293,254	855,393,696	8.10%
Total loans under management	626,870,573	925,093,733	1,106,421,156	1,189,889,692	1,290,941,096	8.49%
Reserves	60,682,775	76,464,767	86,991,399	94,190,650	104,490,270	10.93%

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■ c h a i r m a n ' s r e p o r t

I am pleased to present the 2005 Annual Report for Police & Nurses Credit Society. The past financial year has seen the Society improve its profitability and consolidate its position as the largest Western Australian owned credit union.

It has been a busy year at Police & Nurses, with the biggest development being the implementation of a new core banking system. Under the new system all members now have their own individual membership number, and all accounts have received a unique account number for easy identification. Around a quarter of our members had multiple memberships, which have combined into the one membership number.

Benefits of this change include fewer passwords for members to remember, only one logon required to access all your accounts via Netlink online banking and Phonelink telephone banking, and less duplication of correspondence from the Society.



Chairman, E L Smith

Updating our banking technology is both an important and necessary investment for the Society and is fully supported by the Board of Directors.

It is encouraging to see that during the past year Police & Nurses has again either won or been nominated as a finalist in a number of prestigious awards. The Society was the winner of both the 2004 Customer Service Council's "Service Excellence Awards" in the large business category and the 2004 CUSCAL Community award for our support of the Cancer Council's "Relay for Life" fundraising event.

The Society was also a finalist in two awards, the 2005 Personal Investor Magazine Awards for our Reverse Mortgage and Term Deposit products, and the 2004 Western Australian Industry and Export Awards for our Easypay VISA credit card.

The Society's member research figures are also pleasing, with an 88% member satisfaction rating recorded in May this year. This is an increase of 4% from the previous year and we hope this is indicative of our ability to listen and respond to our member feedback and keep our standards of customer service at their usual high levels.

In the bigger picture, broader economic conditions have seen the Western Australian economy enjoy a strong period of growth, thanks largely to the ongoing resources boom and a buoyant housing market.

Amidst a slowdown in both housing activity and broader economic activity almost everywhere across Australia, Western Australia continues to buck the trend. Perth in particular has been relatively insulated from the effects of the property downturn, which has affected the eastern states capitals.

Interest rates still remain at low levels despite an increase in March this year when the Reserve Bank of Australia increased the cash rate. Commentators are divided on the future direction of interest rates

although one thing which is generally agreed upon is that the rate environment will remain relatively stable. The Australian economy will continue to experience steady growth for the next few years.

Police & Nurses has been able to pass on the benefits of these positive economic conditions to our members in the form of more competitive interest rates. Our Easypay suite of products, for instance, which includes a home loan, personal loan and credit card, offer interest rates which are amongst the lowest in the market and reward our members for bringing their payroll to the Society.

Two significant changes to the Police & Nurses Board of Directors occurred in June of this year, with the retirement of Edward (Jack) Billing and the appointment of Karl O'Callaghan. Jack Billing was elected as a Director to the Board in 1993. During his time on the Board, Jack has served as Chairman from 1996 to 2000 and Deputy Chairman from 2000 to 2004. On behalf of the Society I would like to wish Jack all the very best in his retirement and thank him for his years of outstanding service.

I would also like to welcome Karl O'Callaghan to the Board of Directors. As well as being the current Commissioner of Police, Karl is also a Director on the Australian Crime Commission Board of Control, the Arthritis Foundation Board and the Youth Focus WA Board, and brings significant experience with him as a new Police & Nurses Director.

In line with corporate governance standards, another significant change to the Police & Nurses Board of Directors has been the creation of a new nominations committee. The new nominations committee is designed to assess those members who nominate for a position as a Director and to ensure they are fit and proper to serve, with relevant knowledge, experience and qualifications as befitting a Director of the Society. In an increasingly complex operational and regulatory environment, it is important that as Directors we are equipped with the necessary skills and training to lead the Society in today's financial services market.

On behalf of Police & Nurses Credit Society I would like to recognise the efforts of my fellow directors who have willingly offered their time and expertise to develop and reinforce the strategic direction of the Society.

I would also like to take this opportunity to thank the Society's Chief Executive, Fred Huis, for his continued dedication and valued contributions to the success of Police & Nurses Credit Society. The efforts of Mr Huis, his management team and the staff at Police & Nurses in the past year have demonstrated the Society's commitment to helping people achieve financial freedom.

In looking forward to the coming year there are many challenges and opportunities ahead for Police & Nurses and I am confident that as a team, we will continue to meet these with the capability and drive that has made us Western Australia's leading credit union.

E L SMITH | Chairman

Perth
29 August 2005

As mentioned in the Chairman's Report, a major focus for the Society over the past 18 months has been the development and implementation of a new core banking system.

A key benefit of the new banking system is that it enables our staff to see a member's overall relationship with the Society on one screen. This in turn helps our staff to identify and tailor service to meet a member's present and future financial needs. Going forward the new system will also enable many improvements to our behind the scenes operations and more flexible banking options for our members.

Throughout the year the Society has undertaken a major staff training program to ensure all our staff are fully conversant with the new system. We also structured a comprehensive member communication campaign to ensure our members were made aware of any associated changes to their accounts prior to the system's introduction and to minimise the impact of the change.



CEO, AE (Fred) Huis

Financial Results

The 2005 financial year has been a successful one for Police & Nurses Credit Society. The Society has increased its profitability this year by 32.31% to \$10,214,295 after tax and is continuing to expand its presence as the largest Western Australian owned credit union. As a mutual member based organisation, all the Society's profits are reinvested back into the business to benefit our members.

Whilst the eastern states housing market has cooled off considerably during the last six to twelve months, the WA market continues to experience growth. The Society has also experienced growth in this area with total loans under management increasing by 8.49% from the previous year to \$1,290,941,096. Lending for home loans was responsible for a significant part of this growth.

One of the factors driving this increase in lending activity was a major home loan marketing campaign the Society undertook between March and May this year. The basis of the campaign was a competition, where a \$20,000 home/garden makeover prize was on offer for members who took out a home loan with the Society during this time. Our congratulations go to the winners of the competition, who were a young family with big plans to use their prize money on home improvements.

Another key factor was the competitiveness of our lending interest rates, which are regularly amongst the lowest available on the market.

Member deposits have also increased by 8.10%, lifting our overall deposit takings for the year to \$855,393,696. This figure is again reflective of our competitive product offerings in the savings and term deposit market.

There were increases in our total assets under management (growth of 11.93% to \$1,469,475,249) and our reserves (growth of 10.93% to

\$104,490,270). The Society's cost to income ratio has also improved and is now 75.90%, as opposed to 78.24% as it was in June 2004. This improvement has been achieved through greater internal efficiencies and management of costs, the benefit of which we can pass back to our members through the competitive products and services we offer. Likewise, our capital adequacy ratio has improved to 15.93%, where the APRA Prudential Standard for Approved Deposit Taking Institutions only requires an 8% minimum ratio.

Our Members

With the introduction of our new core banking system, we have been particularly proactive this year in ensuring our member data is regularly updated and dormant accounts are removed from the system. As such, the removal of dormant accounts has mitigated growth in our overall membership numbers this year, but ensures we have accurate and up to date information on our current membership base.

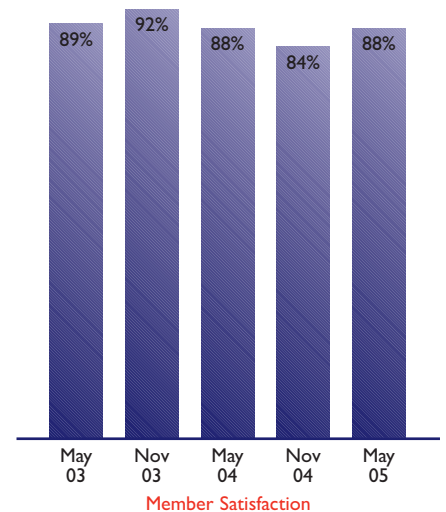
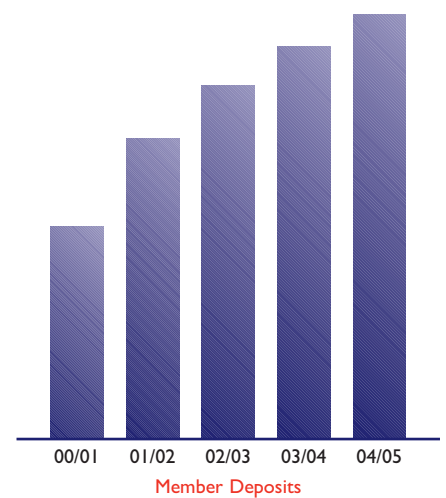
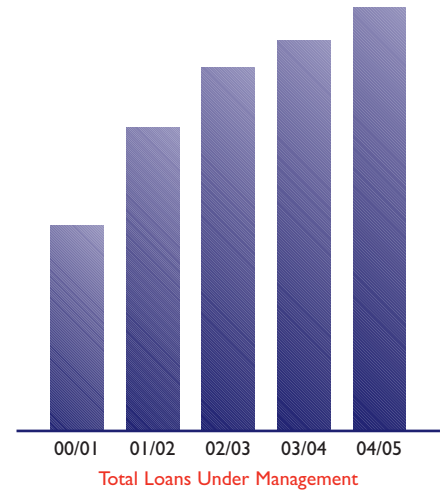
Notwithstanding this, the number of new members joining the Society during the year was 10,531, and overall membership numbers totalled 75,203 as at 30 June 2005.

It is pleasing to see that our member satisfaction levels still remain high, with the most recent result from research done in May 2005 showing 88% of members are either very satisfied or satisfied with their banking relationship with Police & Nurses. Such results compare extremely favourably with the level of satisfaction typical of customers with the major banks. This serves to highlight that a key strength of the Society is being able to offer members a competitive and customer friendly banking alternative.

This is further reflected in our member research which also shows 78% of members much preferred banking with Police & Nurses to any of the major banks, and 80% of members regarded Police & Nurses as their main financial institution.

Our member research also provides us with invaluable feedback with regard to specific products and services. For example, we have listened to feedback from our members and made the decision to re-introduce accepting deposits over the counter at our branches during the year. This decision has been welcomed by our members.

We continue to expand our retail network, with the Mandurah branch having been refurbished in July, a new retail branch planned to open in Ocean Keys in October and four new ATMs to be installed during the coming year.



Our Community

Police & Nurses Credit Society is proud to support the community and is involved with a number of sponsor partnerships, including Crime Stoppers WA, The Cancer Council WA, RSPCA Million Paws Walk, Bluey Day, the National Police Memorial Fundraising project and the WA Police Officer of the Year Award.

As a major sponsor of Crime Stoppers WA for the past four years, Police & Nurses has assisted thousands of Western Australians by supporting crime prevention and reporting activities. The program is a unique and highly effective partnership with the community, the media and the police, working together to reduce and solve crimes. Crime Stoppers has become a key element in assisting the police to reduce crime in WA. We are delighted to have been able to contribute over the years and wish to see the great success of the WA program continue.

Police & Nurses supports The Cancer Council WA through both corporate sponsorship and staff participation in their annual “Relay for Life” event. The event is a 24 hour relay walk around Perry Lakes Stadium in which approximately 160 teams participate to both celebrate cancer survivors and remember those who have lost their lives from cancer.

A Police & Nurses staff team has entered the event each year since its inception five years ago, and this year had the second highest corporate fundraising team, raising nearly \$13,000. Over the past five years the Police & Nurses Relay for Life team has raised a total of \$66,000 for The Cancer Council WA.

Another Police & Nurses initiative is our annual Year 11 Student Scholarship, which is designed to encourage and financially reward students who excel academically. Two scholarships are available annually to Police & Nurses members (or the children of members). Applicants are assessed by a judging panel from the Department of Education and Training and winners are encouraged to keep up the good work with the possibility that their scholarships will be continued in Year 12.



Our Future

The main challenge for the Society going forward is to continue to grow our membership base and their use of our competitive products and services. Growth is essential for all organisations in today's commercial business environment and as such, is a primary focus for Police & Nurses in the coming financial year.

With our upgraded core banking technology now in place we can look forward to providing our members with progressive and innovative banking services and personalised advice to help them achieve financial freedom.

Acknowledgements

The continued strong standing of Police & Nurses Credit Society demonstrates the efforts and commitment of our management team and staff. I would also like to acknowledge the support and guidance of the Board of Directors, whose dedication and vision has made a significant contribution to the Society's success.

We have achieved much in a successful year and I would like to sincerely thank all who have contributed to building Police & Nurses to its current standing as the largest Western Australian owned credit union.

A E (FRED) HUIS | Chief Executive

Perth
29 August 2005

Your directors present their report on the financial statements of Police & Nurses Credit Society Ltd (“the Society”) and Police & Nurses Credit Society Ltd and its controlled entities (“the Group”) for the year ended 30 June 2005.

Corporate Governance

The Board of Directors (“the Board”) is responsible for the corporate governance of the Group. 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.



Eric Laurence SMITH



Paul Marshall GABB



Edward John BILLING



Frederick James COMPTON



Michael James DEAN

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 Group'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 Group to members and shareholders, the marketplace and the community at large.
- Ensuring required frameworks are in place including risk and capital management policies, internal controls, compliance and public reporting.
- Accepting accountability to shareholders and responsibility to other stakeholders in the Group.

Directors

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

Eric Laurence SMITH | FAICD, (Chairman)

Police Senior Sergeant, Certificate in Police Studies, Diploma of Policing, Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Australian Institute of Company Directors Diploma, 11 years service as a Credit Society Director; 29 years service as a Police Officer. Audit Committee member.

Paul Marshall GABB | B.Com (Accounting), CPA, FAICD, (Deputy Chairman)

Financial Analyst - Australian Federal Police, 7 years service as a Credit Society Director; 19 years service in Law Enforcement. Audit Committee member.



Maureen Teresa HINTON

Elizabeth Anne MANLEY

Stephen John MELVILLE

Karl Joseph O'CALLAGHAN

Ann Maree RIAL

Edward John BILLING | APM FAIM FAICD, (retired 30 May 2005)

Retired Assistant Commissioner of Police (retired 1993), Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 12 years service as a Credit Society Director; 43 years service as a Police Officer. Board Governance Committee member.

Frederick James COMPTON | FAICD

Retired Police Superintendent; Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 26 years service as a Credit Society Director; 38 years service as a Police Officer. Board Governance Committee member.

Michael James DEAN | Dip Police Studies

General President WA Police Union, 1 year service as a Credit Society Director, 33 years service as a Police Officer. Board Governance Committee member.

Maureen Teresa HINTON | RN B App Sc (Nursing) Grad Dip HSc MPH FAICD

Staff Educator, 18 years service as a Credit Society Director; 40 years service in the nursing/health/education professional arena. Board Governance Committee Chairman.

Elizabeth Anne MANLEY | RN RM B App Sc (Nursing) MBA FRCNA FAICD

CEO & Director of Nursing; 5 years service as a Credit Society Director; 34 years service in the nursing/health profession. Board Governance Committee member.

Stephen John MELVILLE | B.Bus(Accounting) FCPA

11 years service as a Credit Society Director; 22 years service in accounting, customer services and marketing. Audit Committee Chairman.

Karl Joseph O'CALLAGHAN | BA B.ED(Hons) PhD (appointed 27 June 2005)

Commissioner of WA Police, 32 years service as a Police Officer.

Ann Maree RIAL | RN RM ICNC GC FAICD

Clinical Nurse Manager; 18 years service as a Credit Society Director; 32 years service in the nursing/health profession. Audit Committee member.

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 individual Board member's performance.

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the year ended 30 June 2005 and the number of meetings attended by each director.

Director	Director's Meetings		Audit Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith	13	13	4	4	*	*
E J Billing	11	11	2	2	3	3
F J Compton	13	13	*	*	4	4
M J Dean	13	10	*	*	4	4
P M Gabb	13	12	2	2	1	-
MT Hinton	13	13	*	*	4	4
E A Manley	13	11	2	2	3	3
S J Melville	13	13	4	4	*	*
A M Rial	13	10	2	2	1	1
K J O'Callaghan	1	1	*	*	*	*

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 relevant committee

Director Induction Program

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

The Directors also participate in further education to ensure that, in accordance with both strategic and regulatory business, they are capable of discharging the responsibilities of their office.

Directors' Remuneration

Board members are remunerated as per Division 17 of the constitution. The total remuneration for the Board is set 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 four 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 establishment and maintenance of a risk management framework; and
- the reliability and integrity of financial information for inclusion in public financial statements.

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

Board Governance Committee

The Board has established a Board Governance Committee (previously known as Corporate Governance Committee) to assist it by providing informed feedback to the Board on the Board's performance and to establish a framework to assist the Board to assess the performance of each Director on the Board and the Chief Executive Officer. The committee comprises a minimum of four directors.

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

Group Risk Management

The purpose of Group risk management, which includes all subsidiaries of the Society, is to ensure that appropriate strategies and processes are developed to mitigate risks to the organisation.

Our risk management systems are maintained with the aim of achieving the following goals:

- identify, analyse and manage risk;
- through risk records provide a clear picture of the risk profile of the Group; and
- provide relevant information to management and the Board for decision making.

All business managers are responsible for risk management in their day-to-day activities and use the risk management framework which assists to appropriately balance both risk and reward components.

Ethical Standards

Board members are expected to act in accordance with any Board approved Code of Conduct.

Any 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.

Review of Operations

During the financial year, total assets of the Group increased by \$72.145 million to \$1,047.536 million, members' deposits increased by \$64.101 million to \$855.394 million and loans and advances increased by \$17.492 million to \$862.934 million.

The net profit of the Group and the Society for the financial year after income tax and before outside equity interest was \$10.214 million (2004: \$7.720 million) and \$10.056 million (2004: \$9.421 million) respectively.

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 impairment and have caused all known bad debts to be written off and adequate provision to be made for impairment.

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

There has been no 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 Group 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:

- by any member of the Society, without fee; and
- 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.

Rounding of Amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

E L SMITH | Director
P M GABB | Director

Perth
 29 August 2005

Auditors' Independence Declaration

As lead auditor for the audit of Police & Nurses Credit Society Ltd for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the Police & Nurses Credit Society Ltd and the entities it controlled during the period.

Justin Carroll

Partner
PricewaterhouseCoopers

Perth
29 August 2005

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
INTEREST REVENUE	2(a)	67,140	59,891	64,915	58,479
INTEREST EXPENSE	2(a)	36,350	30,318	33,755	28,528
NET INTEREST REVENUE		30,790	29,573	31,160	29,951
Loan fee income		5,533	6,740	5,533	5,664
Other fee income		13,029	11,474	12,798	11,612
Insurance commissions		1,271	1,182	1,271	1,168
Other commissions		977	1,107	977	1,077
Share of net profit of associates	22	40	392	-	-
Bad debts recovered		130	146	130	146
Proceeds on sale of plant and equipment		214	435	214	434
Revenue from sale of land & unit development		8,736	3,635	-	-
Dividend income		265	96	293	2,321
Proceeds from sale of rights – loan portfolio	2(c)	-	1,000	-	-
Other income		568	221	543	215
NON-INTEREST REVENUES		30,763	26,428	21,759	22,637
TOTAL REVENUE FROM ORDINARY ACTIVITIES		61,553	56,001	52,919	52,588
BAD AND DOUBTFUL DEBTS	7(d)	82	1,539	82	1,539
OTHER EXPENSES FROM ORDINARY ACTIVITIES					
Amortisation		-	30	-	-
Auditor's remuneration	21	388	290	351	234
Borrowing costs		205	916	205	916
Depreciation		2,512	2,323	2,398	2,309
Fees and commissions		7,015	6,976	6,622	6,506
Land & unit development costs	2(b)	6,577	2,751	-	-
Personnel costs		14,479	13,927	14,137	13,354
Other general and administration costs		11,335	12,063	10,504	11,065
Book value of disposed property, plant & equipment		280	497	280	490
Provision for employee benefits		545	717	520	694
Rental – operating leases		2,178	1,939	2,143	1,908
Superannuation contributions		1,204	1,357	1,178	1,310
TOTAL EXPENDITURE		46,800	45,325	38,420	40,325
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		14,753	10,676	14,499	12,263
INCOME TAX EXPENSE	3	4,539	2,956	4,443	2,842
NET PROFIT		10,214	7,720	10,056	9,421
NET LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST	24	13	81	-	-
NET PROFIT ATTRIBUTABLE TO MEMBERS		10,227	7,801	10,056	9,421

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

■ s t a t e m e n t s o f f i n a n c i a l p o s i t i o n

AS AT 30 JUNE 2005	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
ASSETS					
Cash and liquid assets	4	15,688	9,110	9,278	8,229
Receivables due from other financial institutions	5	117,000	84,000	117,000	84,000
Other receivables	6	13,292	4,099	4,502	1,849
Loans and advances	7	862,934	845,442	825,032	797,039
Inventories	8	12,224	10,838	-	-
Other investments	9(a)	4,514	5,745	5,268	6,471
Property, plant and equipment	10	18,762	12,663	7,926	6,016
Other	11	3,122	3,494	24,592	20,899
TOTAL ASSETS		1,047,536	975,391	993,598	924,503
LIABILITIES					
Members' deposits	12	855,394	791,293	855,684	791,520
Accounts payable and other liabilities	13	38,038	35,089	29,381	30,121
Borrowings	14	45,566	52,380	12	6,000
Provisions	15	4,048	2,438	4,019	2,416
TOTAL LIABILITIES		943,046	881,200	889,096	830,057
NET ASSETS		104,490	94,191	104,502	94,446
MEMBERS' FUNDS					
Reserves	16	95,454	85,356	95,454	85,356
Retained profits	16(c)	9,133	9,004	9,048	9,090
Outside equity interest in controlled entities	24	(97)	(169)	-	-
TOTAL MEMBERS' FUNDS		104,490	94,191	104,502	94,446

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

YEAR ENDED 30 JUNE 2005

Notes

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received from loans	63,327	58,383	60,057	56,072
Interest received from investments	4,411	4,334	5,457	5,234
Commissions and other income received	22,810	24,345	20,682	20,202
Borrowing costs – members	(32,653)	(26,021)	(32,653)	(26,021)
Borrowing costs – banks	(3,240)	(2,319)	(698)	(577)
Payments to employees and suppliers	(40,978)	(35,316)	(35,796)	(37,721)
Income tax paid	(4,305)	(6,234)	(4,520)	(5,904)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,372	17,172	12,529	11,285
CASH FLOWS FROM INVESTING ACTIVITIES				
Net increase in loans, advances and other receivables	(21,218)	(120,581)	(31,718)	(72,177)
Dividends received	265	96	293	96
Proceeds from sale of fixed assets	214	435	214	435
Net movement in interest earning deposits	(33,000)	(7,500)	(33,000)	(7,500)
Net movement in other investments	1,356	2,845	1,203	-
Payments for fixed assets	(8,365)	(7,362)	(4,588)	(3,153)
Proceeds from sale of rights – loan portfolio	667	267	-	-
NET CASH USED IN INVESTING ACTIVITIES	(60,081)	(131,800)	(67,596)	(82,299)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in member deposits	64,097	79,252	64,160	79,410
Net movement in bank loans	(6,826)	38,966	(6,000)	(5,500)
Member shares issued	102	98	102	98
Net movement in loans to controlled entities	-	-	(2,060)	(54)
Net movement in loans to associates	-	80	-	-
Member shares redeemed	(98)	(80)	(98)	(80)
NET CASH PROVIDED BY FINANCING ACTIVITIES	57,275	118,316	56,104	73,874
Net increase in cash held	6,566	3,688	1,037	2,860
Cash at the beginning of the year	9,110	5,422	8,229	5,369
CASH AT THE END OF THE YEAR	15,676	9,110	9,266	8,229

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

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian 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 the Society (“parent entity”) and its controlled entities (Note 9(b)) 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 consolidated 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. The specific provision for impairment is calculated using a dynamic credit risk system. The credit risk system percentages applied have been determined by both delinquency and write off rates for each loan portfolio.

In addition to the above specific 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. The general provision is also determined using the credit risk system. 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	50 years
Leasehold Improvements	3 – 8 years
Plant and Equipment	3 – 8 years

(d) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

(e) Investments

Interests in unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in Note 1(a).

(f) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise.

(g) Recoverable amount of assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the reporting period in which the recoverable amount write-down occurs. The expected net cash flows included in determining recoverable amounts are not discounted.

(h) 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 the benefit is virtually certain of realisation. 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.

Tax consolidation legislation

The Society and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision.

As a result, the Society, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense or revenue.

The tax deferred balances recognised by the parent entity in relation to wholly-owned entities joining the tax consolidated group are measured based on their carrying amounts at the level of the tax consolidated group before the implementation of the tax consolidation regime.

(i) Employee benefits

Provision is made for employee 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 the amounts expected to be paid when the liabilities are settled.

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 “Employee Benefits”, which uses future pay rates and discounted cash flows.

(j) 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.

(k) 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.

(l) Revenue recognition

Interest income is recognised as described in Note 1(j).

Commissions and fees are recognised on an accrual basis.

For land and unit development activities, where the outcome of a project can be reliably estimated, revenue and expenses are recognised by applying the percentage of completion method to that proportion of the project represented by the individual lots of property sold, as prescribed by Urgent Issues Group Consensus View Abstract 53. The proportion of the project to which the percentage of completion method is applied is determined as the ratio of the total expected revenue from the units contracted for sale to the total expected project revenue. Percentage of completion is measured by reference to project costs incurred to date as a percentage of estimated total project costs for each development.

Dividends receivable from controlled entities are recognised at the time such dividends are finalised, declared and approved by the controlled entity.

(m) Inventories

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.

(n) Joint ventures

Joint Venture Operations

The proportionate interests in the assets, liabilities, income and expenses of joint venture operations have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in Note 23.

(o) 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.

(p) 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.

(q) Borrowings

Borrowings are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of our creditors.

(r) Loan securitisation

The Group, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions, the Group receives fees for various services provided to the program on an arm's length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The Group also provides arm's length interest rate swaps and liquidity facilities to the program in accordance with APRA Prudential Guidelines. In addition, the Group may receive residual income, comprising mortgage loan interest (net of swap payments) not due to the investors less trust expenses.

The timing and amount of the swap cash flows and the residual income cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swaps and the residual income receivable are not recognised as assets and no gain is recognised when loans are sold. The swap income/expense and residual income are therefore recognised when receivable/payable. The residual income is included on other non-risk fee income as profit on the sale of loans.

Where the loans are securitised to a Trust controlled by the Society, the Trust will be consolidated as part of the Group (Note 1(a)). The loans sold by the Society to the Trust and borrowings raised by the Trust will be included in the Group's loans and borrowings balances in Note 7 and 14 respectively.

(s) Rounding of Amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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2. OPERATING PROFIT

The following tables show the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Monthly averages are used provided they are representative of the Society's operations during the year.

CONSOLIDATED					
	2005			2004	
(a) Interest Revenue and Interest Expense	Average Interest	Average	Average	Interest	Average
	Balance	Interest	Balance	Interest	Interest
	\$'000	\$'000	\$'000	\$'000	Rate %
Interest earning assets					
Deposits and investments	101,014	5,500	91,624	4,696	5.12%
Loans and advances	862,732	61,640	779,737	55,195	7.08%
	963,746	67,140	871,361	59,891	6.87%
Interest bearing liabilities					
Members' deposits	831,849	33,058	756,510	27,951	3.69%
Borrowings	50,303	3,292	37,277	2,367	6.35%
	882,152	36,350	793,787	30,318	3.82%
Net interest income	30,790		29,573		
Average interest earning assets	963,746		871,361		
	2005		2004		
Net interest margin (1)	3.19%		3.39%		
Spread (2)	2.85%		3.05%		

(1) Net interest margin represents net interest income as a percentage of average interest earning assets.

(2) Spread represents the difference between the average interest rates earned and paid.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(b) Cost of sales of land and unit development	6,577	2,751	-	-
(c) Gain from sale of rights – loan portfolio	-	1,000	-	-
(d) Loss on disposal of plant and equipment	66	62	66	56

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3. INCOME TAX

Operating profit before income tax
 Prima facie income tax calculated at 30%
 Tax effect of permanent differences:
 Non-deductible expenses
 Non-deductible amortisation
 Rebate on dividend income
 Sundry items
 Income tax adjusted for permanent differences
 Under/(over) provision in previous year
 Income tax attributable to operating profit before impact of tax consolidation

Profit/(loss) from ordinary activities before income tax expense – tax consolidated group (excluding parent entity)

Income tax calculated at 30%
 Tax effect of permanent differences:
 Non-deductible expenses
 Non-deductible amortisation
 Sundry items
 Income tax adjusted for permanent differences
 Income tax expense – tax consolidated group (excluding parent entity)

Compensation receivable from tax consolidated group entities

Compensation payable to tax consolidated group entities

Income tax expense attributable to profit from ordinary activities

Franking credits based on a tax rate of 30%

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Operating profit before income tax	14,753	10,676	14,499	12,263
Prima facie income tax calculated at 30%	4,426	3,202	4,350	3,678
Tax effect of permanent differences:				
Non-deductible expenses	39	70	39	68
Non-deductible amortisation	-	9	-	-
Rebate on dividend income	-	-	-	(660)
Sundry items	(116)	(285)	(126)	-
Income tax adjusted for permanent differences	4,349	2,996	4,263	3,086
Under/(over) provision in previous year	190	(40)	180	-
Income tax attributable to operating profit before impact of tax consolidation	4,539	2,956	4,443	3,086
Profit/(loss) from ordinary activities before income tax expense – tax consolidated group (excluding parent entity)			261	(1,539)
Income tax calculated at 30%			78	(462)
Tax effect of permanent differences:				
Non-deductible expenses			-	3
Non-deductible amortisation			-	9
Sundry items			9	360
Income tax adjusted for permanent differences			87	(90)
Income tax expense – tax consolidated group (excluding parent entity)			87	(90)
Compensation receivable from tax consolidated group entities			4,530	2,996
Compensation payable to tax consolidated group entities			(87)	(228)
Income tax expense attributable to profit from ordinary activities	4,539	2,956	4,443	2,842
Franking credits based on a tax rate of 30%	26,468	21,949	26,468	21,949

Tax consolidation legislation

The Society and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision. The accounting policy on implementation of the legislation is set out in Note 1(h).

The entities have entered into a tax sharing agreement. Under the terms of this agreement, the wholly-owned entities will reimburse the Society for any current income tax payable by the Society arising in respect of their activities. The reimbursements will be payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related receivable by the Society (see Note 11). The tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by the Society.

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Notes

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
4. CASH AND LIQUID ASSET				
Cash on hand	6,262	5,974	6,247	5,969
Cash and deposits at call with banks	6,530	1,310	135	434
Cash and deposits at call with other ADIs	2,896	1,826	2,896	1,826
	15,688	9,110	9,278	8,229
5. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits – banks	21,500	-	21,500	-
Interest earning deposits – other ADIs	95,500	84,000	95,500	84,000
	117,000	84,000	117,000	84,000
Maturity Analysis				
Not longer than 3 months	91,000	52,000	91,000	52,000
Longer than 3 and not longer than 12 months	22,000	20,000	22,000	20,000
Longer than 1 and not longer than 5 years	4,000	12,000	4,000	12,000
	117,000	84,000	117,000	84,000
6. OTHER RECEIVABLES				
Interest receivable	2,052	971	2,052	971
Debtors from sale of land & unit developments	6,809	-	-	-
Current tax refund receivable	1,273	-	1,273	-
Other	3,158	3,128	1,177	878
	13,292	4,099	4,502	1,849
7. LOANS AND ADVANCES				
Revolving Credit	89,890	87,610	90,309	88,071
Term Loans	777,762	764,029	739,159	714,900
Related parties	1,352	771	1,352	771
	869,004	852,410	830,820	803,742
Provision for impairment	(6,070)	(6,968)	(5,788)	(6,703)
Net loans and advances	862,934	845,442	825,032	797,039

During the financial year the Society sold mortgage loans via securitisation programs. The Society continues to manage these loans and derives management fee income. As at 30 June 2005 securitised loans under management by the Society amounted to \$460,540,829 (2004: \$386,609,257). This includes \$38,603,531 (2004: \$49,129,364) of loans securitised to the Pinnacle Commercial Warehouse Trust No.1 which is consolidated as part of the Group (Note 9(c)).

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Notes

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
7. LOANS AND ADVANCES (cont'd)				
(a) Aggregate amounts receivable from related parties:				
Directors and director-related entities	1,352	771	1,352	771
Provision for impairment	-	-	-	-
	1,352	771	1,352	771
(b) Maturity Analysis				
Not longer than 3 months	15,613	17,187	14,950	16,232
Longer than 3 and not longer than 12 months	46,840	51,548	44,853	48,684
Longer than 1 and not longer than 5 years	139,164	152,213	133,162	143,648
Longer than 5 years	667,387	631,462	637,855	595,178
	869,004	852,410	830,820	803,742
(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:				
WA State government employees	295,241	297,437	294,605	296,988
Other	573,763	554,973	536,215	506,754
	869,004	852,410	830,820	803,742
(d) Provision for impairment				
General provision				
Opening balance	2,307	3,551	2,069	3,551
Bad debts previously provided for written off during the year	(175)	(344)	(175)	(344)
Bad and doubtful debts provided for/(reversed) during the year	340	(900)	296	(1,138)
Closing balance	2,472	2,307	2,190	2,069
Specific provision				
Opening balance	4,661	2,604	4,634	2,604
Bad debts previously provided for written off during the year	(805)	(382)	(805)	(382)
Bad and doubtful debts provided for/(reversed) during the year	(258)	2,439	(231)	2,412
Closing balance	3,598	4,661	3,598	4,634
Total provision for impairment	6,070	6,968	5,788	6,703
Charge/(credit) to statements of financial performance for bad and doubtful debts comprises:				
General provision	340	(900)	296	(1,138)
Specific provision	(258)	2,439	(231)	2,412
Deferred securitisation receivable provision	-	-	17	265
	82	1,539	82	1,539

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Notes

7. LOANS AND ADVANCES (cont'd)

(e) Impairment of Loans and Advances

Non accrual loans
Balances with specific provisions
for impairment
Specific provision for impairment
Net non accrual loans

Restructured Loans

Past Due Loans – 90 days

The interest and other revenue forgone
on impaired loans during the year was
\$805,536 (2004: \$943,660)

(f) Bad Debts Written Off

Bad debts written off during the year
were from the following loan types:

Revolving credit
Personal loans
Housing loans
Commercial loans

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
4,634	9,034	4,634	9,034
(2,992)	(3,316)	(2,992)	(3,316)
1,642	5,718	1,642	5,718
187	352	187	352
45	128	45	128
393	185	393	185
479	458	479	458
-	83	-	83
108	-	108	-
980	726	980	726

8. INVENTORIES

2005

Land held for sale

Group Inventory
Share of Joint Venture Inventory

2004

Land held for sale

Group Inventory
Share of Joint Venture Inventory

CONSOLIDATED			
Land Acquisition Costs \$'000	Holding Costs \$'000	Development Costs \$'000	Total Costs \$'000
626	6	816	1,448
9,490	372	914	10,776
10,116	378	1,730	12,224
735	-	111	846
9,471	54	467	9,992
10,206	54	578	10,838

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Notes

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
9. OTHER INVESTMENTS			
(a) Other investments			
Investments in CUSCAL	4,813	3,610	4,813
Controlled entities	-	658	658
Investments in associates (Note 22)	930	1,000	1,000
Other	2	-	-
4,514	5,745	5,268	6,471

(b) Investment in controlled entities

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

Notes

	Interests in Controlled Entities		Shares Held in Controlled Entities		Shares Held in Controlled Entities	
	2005 %	2004 %	Held by the Society 2005 \$	Held by Other Controlled Entities 2005 \$	Held by the Society 2004 \$	Held by Other Controlled Entities 2004 \$
Members Holding Company Pty Ltd	100	100	400,002	-	400,002	-
Advance Settlements Coy Pty Ltd	100	100	1	19,999	1	19,999
Police Employees Travel Pty Ltd	100	100	2	40,000	2	40,000
PCU Trading Pty Ltd	100	100	1	99,999	1	99,999
P&N Landreach Pty Ltd	100	100	1,900	-	1,900	-
Essential Service Homes Pty Ltd	100	100	10,000	-	10,000	-
P&N Management Pty Ltd	100	100	60,000	-	60,000	-
Encred Services Pty Ltd	100	100	125,000	-	125,000	-
National Home Loans Pty Ltd	100	100	61,500	-	61,500	-
Jacaranda Gardens Partnership	80	80	-	-	-	-
Pinnacle Commercial Warehouse Trust No.1 (c)	100	100	-	-	-	-
			658,406	159,998	658,406	159,998

(c) Pinnacle Commercial Warehouse Trust No.1

The Society entered into a commercial mortgage securitisation program in October 2003, and established the Pinnacle Commercial Warehouse Trust No. 1 (the Trust) to purchase commercial mortgage loans originated by the Society. The beneficial interest in the Trust is divided into 3 units: 2 Capital Units and 1 Income Unit. The Capital Units are divided into two classes: 1 Class A Capital Unit and 1 Class B Capital Unit. The Society holds the Income Unit and Class B Capital Unit. The beneficial interest of Class A Capital Unit is limited to a maximum of \$1,000, thereby giving the Society control of the Trust. As a result, the Trust is consolidated as part of the Group for the 2005 financial year.

To fund the initial purchase of the commercial mortgage loans, the Trust issued notes which have been recognised as borrowings in the consolidated financial statements. The Trust withheld deferred consideration of \$4.868 million which will be paid to the Society following settlement of all amounts owing to the Trust's note holders.

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10. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Freehold land				
At cost	1,260	1,260	-	-
Buildings under construction				
At cost	9,675	5,371	-	-
Provision for depreciation	(110)	-	-	-
	9,565	5,371	-	-
Leasehold improvements				
At cost	2,871	2,427	2,856	2,411
Provision for amortisation	(1,443)	(1,165)	(1,437)	(1,161)
	1,428	1,262	1,419	1,250
Total land and buildings	12,253	7,893	1,419	1,250
Plant and equipment				
At cost	17,009	14,514	16,986	14,478
Provision for depreciation	(10,500)	(9,744)	(10,479)	(9,712)
	6,509	4,770	6,507	4,766
Total property, plant and equipment	18,762	12,663	7,926	6,016

Reconciliation of the carrying amounts of each class of property, plant and equipment	Freehold Land	Building under Construction	Leasehold Improvements	Plant & Equipment	Plant & Equipment In Progress	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2004	1,260	5,371	1,262	4,512	258	12,663
Additions	-	4,304	612	1,722	2,253	8,891
Disposals	-	-	(39)	(241)	-	(280)
Depreciation expense	-	(110)	(407)	(1,995)	-	(2,512)
Carrying amount at 30 June 2005	1,260	9,565	1,428	3,998	2,511	18,762
Parent entity	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2004	-	-	1,250	4,508	258	6,016
Additions	-	-	612	1,723	2,253	4,588
Disposals	-	-	(39)	(241)	-	(280)
Depreciation expense	-	-	(404)	(1,994)	-	(2,398)
Carrying amount at 30 June 2005	-	-	1,419	3,996	2,511	7,926

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Notes

11. OTHER ASSETS

Prepayments	
Amounts receivable from controlled entities	
Future income tax benefit	
Tax related amounts receivable from controlled entities	
Deferred securitisation receivable	(a)
Less provision for impairment	(b)
Other	

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
497	546	427	542
-	-	15,230	12,115
2,582	2,676	2,582	2,676
-	-	1,159	217
-	-	4,868	4,868
-	-	(282)	(265)
43	272	608	746
3,122	3,494	24,592	20,899

(a) Deferred securitisation receivable

Under the terms of the commercial mortgage securitisation program (Note 9(c)), the Society will not receive the deferred securitisation receivable amount until the Trust has settled all amounts owing to its note holders.

(b) Provision for impairment of deferred securitisation receivable

Receipt of the deferred securitisation receivable is dependent upon losses incurred on the securitised loans. The provision for impairment has been determined in accordance with Group policy as described in Note 1(b).

12. MEMBERS' DEPOSITS

Call deposits	
Term deposits	
Withdrawal shares	
Maturity Analysis	
On call	
Not longer than 3 months	
Longer than 3 and not longer than 12 months	
Longer than 1 and not longer than 5 years	
Longer than 5 years	
Concentration of deposits	
WA State government employees	
Other entities	

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
315,409	283,617	315,699	283,844
539,307	507,002	539,307	507,002
678	674	678	674
855,394	791,293	855,684	791,520
317,777	287,168	318,067	287,395
334,687	344,905	334,687	344,905
198,006	153,374	198,006	153,374
4,894	5,772	4,894	5,772
30	74	30	74
855,394	791,293	855,684	791,520
179,726	159,765	179,725	159,765
675,668	631,528	675,959	631,755
855,394	791,293	855,684	791,520

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

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16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Reserves

General reserve
Share capital reserve

(a) General reserve
 balance at beginning of year
 transfer from retained profits
 balance at end of year

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
95,000	85,000	95,000	85,000
454	356	454	356
95,454	85,356	95,454	85,356
85,000	75,000	85,000	75,000
10,000	10,000	10,000	10,000
95,000	85,000	95,000	85,000

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 I capital and meets the minimum level of capital adequacy as required under Prudential Standards 111 and 110 for Authorised Deposit-Taking Institutions.

(b) Share capital reserve
 balance at beginning of year
 transfer from retained profits
 balance at end of year

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
356	276	356	276
98	80	98	80
454	356	454	356

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	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
9,004	11,283	9,090	9,749
10,227	7,801	10,056	9,421
19,231	19,084	19,146	19,170
(10,098)	(10,080)	(10,098)	(10,080)
9,133	9,004	9,048	9,090

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Notes

17. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of the operating profit after tax to the net cash flows from operations

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Operating profit after income tax	10,214	7,720	10,056	9,421
Increase in loan interest receivable	(1,090)	(361)	(1,090)	(361)
Decrease in investment income receivable	9	81	9	81
Increase in other receivables	(696)	(752)	(297)	(178)
(Increase)/decrease in debtors from sale of land	(6,809)	110	-	-
Increase in inventory	(1,386)	(1,877)	-	-
Increase in member interest payable	404	1,930	404	1,930
Increase in accrued expenses and other creditors	5,792	10,590	942	6,379
Depreciation	2,512	2,323	2,398	2,309
Bad and doubtful debts	82	1,539	82	1,539
Bad debts recovered	(130)	(146)	(130)	(146)
Amortisation – rights – loan portfolios	-	30	-	-
Loss on disposal of fixed assets	66	61	66	55
Dividend received	(265)	(96)	(293)	(2,321)
Share of net profit of associates	(40)	(392)	-	-
Gain on disposal of rights – loan portfolio	-	(1,000)	-	-
Increase in annual and long service leave provisions	195	429	188	454
Decrease in provision for taxation	(1,401)	(2,730)	(1,401)	(2,514)
Increase/(decrease) in future income tax benefit	94	(556)	94	(573)
Increase in deferred income tax	1,543	6	1,543	240
Decrease in other provisions	-	(71)	-	(71)
Decrease/(increase) in sundry debtors and prepayments	278	334	269	(4,742)
Increase in tax related amount receivable	-	-	(942)	(217)
Increase in tax related amount payable	-	-	631	-
Net cash flow from operating activities	9,372	17,172	12,529	11,285

(b) Reconciliation of cash

Cash balance comprises:

Cash	4	15,688	9,110	9,278	8,229
Bank overdraft	14	(12)	-	(12)	-
Closing cash balance		15,676	9,110	9,266	8,229

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18. EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments
Estimated capital expenditure contracted for at balance date but not provided for payable not later than one year

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

3,095	1,295	586	341
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(b) Lease expenditure commitments
Operating leases (non-cancellable)

not later than 1 year
later than 1 and not later than 2 years
later than 2 and not later than 5 years

1,950	1,752	1,950	1,752
1,686	1,317	1,686	1,317
1,081	1,732	1,081	1,732

Aggregate lease expenditure contracted for at balance date

4,717	4,801	4,717	4,801
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(c) Land development commitments
Estimated land development commitments contracted for at balance date but not provided for payable not later than one year

166	1,363	-	-
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19. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

(a) Credit related commitments
Approved but undrawn loans and credit limits

139,599	126,556	139,599	126,556
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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: \$35,000,000 (Unused as at 30 June 2005)
 - Multi Option Wholesale Facility (Uncommitted): \$20,000,000 (Unused as at 30 June 2005)
 - Derivatives Guarantee Facility: \$2,000,000 (\$1,857,000 used as at 30 June 2005)
 - Overdraft: \$2,000,000 (Unused as at 30 June 2005)

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. The above facilities are subject to annual review and may be drawn at any time with the exception of the Multi Option Wholesale Facility. The facilities may be withdrawn if terms and conditions of the agreements are breached by the Society.

- iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: \$200,000. This facility was unused at 30 June 2005. This facility may be drawn at any time and may be terminated by the bank without notice.
- 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

Directors' remuneration

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

\$'000
0 – 10
10 – 20
20 – 30

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005	2004	2005	2004
\$	\$	\$	\$
240,275	233,011	240,275	233,011
<hr/>			
2005	2004	2005	2004
No.	No.	No.	No.
-	1	-	1
-	1	-	1
9	8	9	8

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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:
statutory financial reports audit services
other assurance services

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2005	2004	2005	2004
	\$	\$	\$	\$
	111,534	115,907	76,884	82,632
	56,243	45,695	56,243	45,695
	167,777	161,602	133,127	128,327
(b) Remuneration for other services:				
auditor of the parent entity -				
PricewaterhouseCoopers:				
income tax advice	57,171	6,144	55,246	6,144
securitisation transactions advice	-	17,644	-	17,644
GST advice	48,016	-	48,016	-
fringe benefits tax advice	6,515	6,006	6,515	6,006
TFN withholding tax advice	-	23,819	-	16,959
other tax advice	14,183	32,406	14,183	32,406
audit of managed entity	-	15,224	-	-
advice in relation to IFRS	90,280	21,170	90,280	21,170
other	3,837	5,842	3,837	5,347
	220,002	128,255	218,077	105,676
Total auditor's remuneration	387,779	289,857	351,204	234,003

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22.INTEREST IN ASSOCIATES

Name of Associate	Principal Activity	Ownership Interest	
		2005	2004
		%	%
IGP Financial Services Pty Ltd	Financial planning	35.00	35.00

CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
Carrying Amount		Carrying Amount	
2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000
904	930	1,000	1,000
904	930	1,000	1,000

Movements in carrying amounts of investment in associates

Carrying amount at the beginning of the financial year	930	3,383
Share of associates' profits	40	392
Return of funds invested	-	(2,000)
Dividends received/receivable	(66)	(845)
Carrying amount at the end of the financial year	904	930

Notional goodwill arising upon consolidation of the investment in IGP Financial Services Pty Ltd is being amortised over 20 years.

Results attributable to associates

Profits from ordinary activities before related income tax	46	407
Income tax expense	(6)	(15)
Profits from ordinary activities after related income tax	40	392
Less: dividends received	66	845
Share of associates' profits	(26)	(453)

Retained profits attributable to associates

At the beginning of the financial year	(70)	383
At the end of the financial year	(96)	(70)

Summary of the performance and financial position of associates

Profits from ordinary activities after related income tax	92	3,169
Assets	472	685
Liabilities	161	200

CONSOLIDATED	
2005	2004
\$'000	\$'000
930	3,383
40	392
-	(2,000)
(66)	(845)
904	930
46	407
(6)	(15)
40	392
66	845
(26)	(453)
(70)	383
(96)	(70)
92	3,169
472	685
161	200

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23. INTERESTS IN JOINT VENTURES

Joint venture operations

A controlled entity has entered into the following joint venture operations:

Wanneroo North Joint Venture

The controlled entity has a 14.29% participating interest in this joint venture to develop a subdivision of land for residential housing and is entitled to 14.29% of its output.

Two Rocks Joint Venture

The controlled entity has a 75% participating interest in this joint venture, which is subject to joint control, to develop a subdivision of land for residential housing and is entitled to 75% of its output.

Eagle Bay Joint Venture

The controlled entity has a 33.33% participating interest in this joint venture to develop a subdivision of land for residential housing and is entitled to 33.33% of its output.

The consolidated entity's interests in the assets employed in the joint ventures are included in the consolidated statement of financial position, in accordance with the accounting policy described in Note 1(o), under the following classifications:

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
Other receivables	1,933	1,340
Inventories (land held for sale)	10,776	9,992
Share of assets employed in joint ventures	12,709	11,332

24. OUTSIDE EQUITY INTEREST IN CONTROLLED ENTITIES

Interest in:

Partnership capital
Partnership loss

	2005 \$'000	2004 \$'000
Partnership capital	-	(85)
Partnership loss	(97)	(84)
	(97)	(169)

25. 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

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26. RELATED PARTY DISCLOSURES

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

- E J Billing
- M J Dean
- MT Hinton
- S J Melville
- A M Rial
- F J Compton
- P M Gabb
- E A Manley
- K J O'Callaghan
- 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 2005 amounted to \$1,351,594 (2004: \$771,343). During the year loan advances amounted to \$1,680,746 (2004: \$604,144) and repayments amounted to \$1,155,593 (2004: \$729,983). Interest on loans to directors amounted to \$55,098 (2004: \$51,815). All directors except 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 accounts with the Society under normal commercial terms.

The Society transacted with its wholly-owned Australian controlled entities under the proposed accounting tax sharing agreement described in Note 3.

The Society received fees for various services provided to the Pinnacle Commercial Warehouse Trust No.1 ("the Trust") on an arm's length basis, including servicing fees, management fees and trustee fees. The Group also provided arm's length interest rate swaps and liquidity facilities to the Trust in accordance with APRA Prudential Guidelines. In addition, the Society received residual income, comprising mortgage loan interest (net of swap payments) not due to the investors less trust expenses.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group:

Interest revenue

Dividend revenue

Aggregate amounts receivable from entities in the wholly-owned group at balance date

POLICE & NURSES CREDIT SOCIETY LTD	
2005 \$'000	2004 \$'000
1,263	1,094
-	2,200
15,230	12,115

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CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
2005 No.	2004 No.	2005 No.	2004 No.
306	301	302	295
276	275	272	270

27. EMPLOYEE NUMBERS

Number of employees at reporting date
Full time equivalents at reporting date

28. 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 and 12. The consolidated entity is also involved in property development activities, currently through the Jacaranda Gardens Partnership in the development of a retirement village, as well as development of other residential land around Perth, Western Australia.

2005

	Services to Members	Property Development	Other	Inter-segment Eliminations\ Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Net interest revenue from external customers	30,790	-	-	-	30,790
Intersegment interest revenue	1,263	-	-	(1,263)	-
Net interest revenue	32,053	-	-	(1,263)	30,790
Sales to external customers	-	8,736	-	-	8,736
Shares of net profits of associates and joint ventures partnerships	2	38	-	-	40
Other revenue	21,653	362	-	(28)	21,987
Total segment revenue	53,708	9,136	-	(1,291)	61,553
Segment result	14,473	622	(225)	(117)	14,753
Profit from ordinary activities before income tax expense					14,753
Income tax expense					4,539
Profit from ordinary activities after income tax expense					10,214
Segment assets	1,032,333	33,054	530	(18,381)	1,047,536
Segment liabilities	927,511	32,842	162	(17,469)	943,046
Investments in associates and joint venture partnership	904	-	-	-	904
Acquisitions of property, plant and equipment	4,772	4,304	-	-	9,076
Depreciation and amortisation expense	2,402	110	-	-	2,512
Other non-cash expenses	624	3	-	-	627

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28. SEGMENT INFORMATION (cont'd)

2004	Services to Members	Property Development	Other	Inter-segment Eliminations/ Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Net interest revenue from external customers	29,573	-	-	-	29,573
Intersegment interest revenue	1,094	-	-	(1,094)	-
Net interest revenue	30,667	-	-	(1,094)	29,573
Sales to external customers	-	3,635	-	-	3,635
Shares of net profits of associates and joint venture partnership	(35)	427	-	-	392
Other revenue	22,702	24	1,900	(2,225)	22,401
Total segment revenue	53,334	4,086	1,900	(3,319)	56,001
Segment result	12,058	(510)	1,347	(2,219)	10,676
Profit from ordinary activities before income tax expense					10,676
Income tax expense					2,956
Profit from ordinary activities after income tax expense					7,720
Segment assets	968,097	19,652	838	(13,196)	975,391
Segment liabilities	873,944	19,458	401	(12,603)	881,200
Investments in associates and joint venture partnership	930	-	-	-	930
Acquisitions of property, plant and equipment	3,153	4,209	-	-	7,362
Depreciation and amortisation expense	2,316	-	37	-	2,353
Other non-cash expenses	2,240	11	4	-	2,255

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28. 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.

29. FINANCIAL INSTRUMENTS

- (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 member'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 5.35% to 5.90%.
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 (CUSCAL)	9	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are declared by the investee.	

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29. FINANCIAL INSTRUMENTS (cont'd)

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
(ii) Financial liabilities			
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.
Members' 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.
Notes Payable	14	Notes payable are recorded at the principal amount.	Repayments are made to note holders (Note 9(c)) in priority to the deferred securitisation recipient (Note 11).
(iii) Unrecognised Financial Instruments			
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 \$87.335 million, on which it pays 5.25% to 6.37% 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 held at balance date. The swaps expire between September 2005 and July 2010.

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29. FINANCIAL INSTRUMENTS (cont'd)

(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	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	Over 1 yr to 5 years	Over 5 years	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 %	2004 %
(i) Financial assets												
Cash and liquid assets	9,426	3,136	-	-	-	-	6,262	5,974	15,688	9,110	N/A	N/A
Due from other financial institutions	-	-	113,000	72,000	4,000	12,000	-	-	117,000	84,000	5.71	5.52
Unlisted shares - investment in CUSCAL	-	-	-	-	-	-	3,610	4,813	3,610	4,813	N/A	N/A
Loans and advances*	686,117	624,116	108,662	177,220	74,225	51,074	-	-	869,004	852,410	7.30	7.14
Other receivables	-	-	-	-	-	-	13,292	4,099	13,292	4,099	N/A	N/A
Interest rate swaps	87,335	54,930	(2,000)	(18,635)	(80,335)	(36,295)	-	-	**	**	***	***
Total financial assets	782,878	682,182	219,662	230,585	(2,110)	26,779	23,164	14,886	1,018,594	954,432	-	-
(ii) Financial liabilities												
Bank overdrafts	12	-	-	-	-	-	-	-	12	-	N/A	N/A
Members' deposits	315,409	283,617	534,383	501,156	4,894	5,772	678	674	855,394	791,293	3.99	3.90
Due to other financial institutions	6,301	1,728	-	6,000	-	-	-	-	6,301	7,728	7.21	5.68
Notes payable	39,253	44,652	-	-	-	-	-	-	39,253	44,652	6.79	6.54
Trade creditors and accruals	-	-	-	-	-	-	38,038	35,089	38,038	35,089	N/A	N/A
Total financial liabilities	360,975	329,997	534,383	507,156	4,894	5,772	38,716	35,763	938,998	878,762	-	-

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

* provisions for impairment of \$6.070 million (2004: \$6.968 million) have been made against total loans and advances

** not applicable as interest rate swaps are not recognised in the financial statements

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

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29. FINANCIAL INSTRUMENTS (cont'd)

(c) Net fair values

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

	Total carrying amount as per the Statement of Financial Position		Aggregate net fair value	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Financial assets				
Cash and liquid assets	15,688	9,110	15,688	9,110
Due from other financial institutions	117,000	84,000	117,000	84,000
Unlisted shares	3,610	4,813	3,610	4,813
Loans and advances	862,934	845,442	861,925	845,006
Other receivables	13,292	4,099	13,292	4,099
Total financial assets	1,012,524	947,464	1,011,515	947,028
Financial liabilities				
Bank overdrafts	12	-	12	-
Members' deposits	855,394	791,293	855,388	791,277
Due to other financial institutions	6,301	7,728	6,301	7,728
Notes payable	39,253	44,652	39,253	44,652
Trade creditors and accruals	38,038	35,089	38,038	35,089
Interest rate swaps	*	*	(793)	(191)
Total financial liabilities	938,998	878,762	938,199	878,555

* not applicable as 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 are 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.

Notes payable: The carrying amount approximates fair value.

Unrecognised financial instruments

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

30 JUNE 2005

29. FINANCIAL INSTRUMENTS (cont'd)

(d) Credit risk exposures

The consolidated entity's maximum exposures* to credit risk at balance sheet 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 swap contracts is limited to the net fair value of the swap agreement at balance date, being \$792,731 (2004: \$191,476).

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.

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

Industry	Maximum credit risk exposure* for each concentration Consolidated			
	Percentage of total loans receivable (%)		\$'000	
	2005	2004	2005	2004
WA State government employees	34.0%	34.9%	295,241	297,437
Other non-concentrated	66.0%	65.1%	573,763	554,973
	100.0%	100.0%	869,004	852,410

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.

(e) Hedging instruments

As disclosed above, Police & Nurses Credit Society Ltd has entered into interest rate swaps during the financial year for the specific hedging of fixed interest rate loans of up to 5 years. These derivative contracts swap fixed rate receivables of up to 5 years into 90 day BBSW floating rate receivables.

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30. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the Group's financial statements for the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004 or 1 July 2005 where an exemption is available on first time adoption.

The Group has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the Group.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are detailed below with descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

a) Income tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

There would be no impact to the Group or Society's financial statements if the policy required by AASB 112 had been applied during the year ended 30 June 2005.

Tax consolidation legislation

Under UIG 1052 Tax Consolidation Accounting, the Society, as the head entity in the tax consolidated group, will be required to recognise the current tax payable of the tax consolidated subsidiaries and deferred tax assets relating to tax losses of these subsidiaries. The net difference between these amounts and amounts receivable or payable under the tax sharing agreement will result in equity contributions or distributions being recognised in the head entity and other members of the tax consolidated group.

30 JUNE 2005

30. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

The Society's own tax amounts will be measured using one of the acceptable allocation methods in UIG 1052.

This differs from the current accounting policy, under which the Society recognises current and deferred tax amounts relating to transactions, events and balances of the tax consolidated subsidiaries as if those transactions, events and balances were its own, and measures its own tax amounts by applying the principles in AASB 1020.

As the Society is intending to change the tax sharing agreement to fund only current tax and tax losses and credits, it is expecting to apply the transitional rules in UIG 1052 paragraph 65. Under these rules, the Society will derecognise the deferred tax balances relating to tax consolidated subsidiaries against the relevant intercompany account, resulting in a reduction of deferred tax assets, deferred tax liabilities and tax related amounts receivable and payable of \$11,323, \$869,300, \$869,300, and \$11,323 respectively. There will be no impact on the net assets or tax expense of the Group or Society as at the AIFRS transition date of 1 July 2004.

The Group's tax balances will not change as a result of UIG 1052.

b) Intangible assets - goodwill

Under AASB 3 Business Combinations, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

If the policy required by AASB 3 had been applied during the year ended 30 June 2005, the Group's goodwill at 30 June 2005 would have been \$46,761 higher and the Group's amortisation expense for the year ended 30 June 2005 would have been \$46,761 lower. There would have been no impact on the Society's financial statements.

c) Revenue recognition - land and unit development

Under AIFRS, profit from land and unit development activities cannot be recognised until the significant risks and rewards of ownership have been transferred to the buyer. This is in contrast to the current policy where revenues and expenses are recognised by applying the percentage of completion method to that proportion of the project represented by the individual lots of property subject to unconditional sales contracts. As such, under AIFRS, revenue and associated costs on lots subject to unconditional sales contracts that had not reached settlement before 30 June 2005, would not have been reported in the Group accounts.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the Group's:

- revenue from sale of land and unit development would have been \$6,418,946 lower;
- land and unit development costs would have been \$5,119,752 lower;
- impact on net profit would be a net reduction of \$1,360,376;
- opening retained profits would have been \$42,827 lower;
- accrued receivables would have been \$6,809,245 lower;
- inventory would have been \$5,448,869 higher; and
- provision for deferred income tax would have been \$408,113 lower.

There would have been no impact on the Society's financial statements.

30 JUNE 2005

30. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

d) Financial Instruments

The Group will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Group to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Securitisation

AIFRS introduces new requirements for the de-recognition of financial assets. Existing securitisation programmes have been reviewed to determine whether securitised loans will need to be re-recognised and/or whether securitisation vehicles will need to be consolidated under AIFRS. It is expected that loans currently de-recognised under the Society's securitisation programmes will not satisfy the requirements for de-recognition and therefore will require recognition on the Group's and Society's statements of financial position.

Loan origination fees and transaction costs

Loan origination fees and transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability will continue to be recognised at the inception of loans. AIFRS requires any fee integral to the yield of an originated financial instrument, net of any direct incremental costs, to be capitalised and deferred over the expected life of the instrument. The Group's accounting policy remains unchanged on the basis that the treatment does not result in an outcome materially different from that required by AIFRS.

Hedge accounting

Under AIFRS all derivative financial instruments are to be recognised on-balance sheet and measured at fair value. Hedge accounting can be applied, subject to certain rules, for fair value hedges, cash flow hedges and hedges of investments in foreign operations.

The Group has formulated an interest rate risk management strategy based on the use of cash flow hedges. Where a hedge's effectiveness is outside the prescribed range, AASB 139 precludes the use of hedge accounting, which may result in significant volatility in earnings. To the extent hedges are ineffective but within the prescribed range, AIFRS requires the ineffective portion to be recognised in the income statement. The Group is aiming to ensure that the majority of hedge transactions meet hedge effectiveness testing requirements, thereby limiting any earnings volatility arising from ineffectiveness. To the extent that cash flow hedges are effective, the fair value movements will be taken to equity rather than the statement of financial performance. As a result, cash flow hedging may create volatility in equity reserve balances.

Loan provisioning

AIFRS adopts an approach known as "incurred losses" for loan provisioning and provides guidance on measurement of incurred losses. Provisions are raised for losses that have already been incurred for loans that are known to be impaired. The estimated losses on these impaired loans are then discounted to their present value. As this discount unwinds, there is a resulting recognition of interest in the statement of financial performance based upon the original effective interest rate.

30 JUNE 2005

30. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

Loans found not to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for impairment. The required provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The general provision based on the Group's credit risk system will be replaced by provisions based on collective assessment in accordance with AIFRS. Specific provision will continue but will be measured based on AIFRS requirements. It is anticipated that the proposed changes may result in a reduction in the level of provisioning that the Group holds against its credit exposures.

A methodology is being developed to determine the provisions required under AIFRS.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will only be recognised from 1 July 2005 as a result of the exemption.

e) *Regulatory capital treatment*

A number of the above AIFRS impacts affect the asset and equity items currently included in the calculation of the Group's capital adequacy determined in accordance with APRA requirements. APRA has issued a discussion paper on its approach to a number of the impacts of AIFRS including fair value measurement, loan loss provisioning, treatment of hedges and employee benefits. APRA are yet to issue discussion papers on securitisation and Tier 1 capital requirements. The impact on the Group's capital position will be determined following the release and finalisation of APRA's regulatory approach to AIFRS.

30. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

Impact on the statements of financial performance

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
		Existing GAAP	Effect of Change	AIFRS	Existing GAAP	Effect of Change	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
INTEREST REVENUE		67,140	-	67,140	64,915	-	64,915
INTEREST EXPENSE		36,350	-	36,350	33,755	-	33,755
NET INTEREST REVENUE		30,790	-	30,790	31,160	-	31,160
Loan fee income		5,533	-	5,533	5,533	-	5,533
Other fee income		13,029	-	13,029	12,798	-	12,798
Insurance commissions		1,271	-	1,271	1,271	-	1,271
Other commissions		977	-	977	977	-	977
Share of net profit of associates b		40	47	87	-	-	-
Bad debts recovered		130	-	130	130	-	130
Proceeds on sale of plant and equipment		214	-	214	214	-	214
Revenue from sale of land & unit development c		8,736	(6,419)	2,317	-	-	-
Dividend income		265	-	265	293	-	293
Other income		568	-	568	543	-	543
NON-INTEREST REVENUES		30,763	(6,372)	24,391	21,759	-	21,759
TOTAL REVENUE FROM ORDINARY ACTIVITIES		61,553	(6,372)	55,181	52,919	-	52,919
BAD AND DOUBTFUL DEBTS		82	-	82	82	-	82
OTHER EXPENSES FROM ORDINARY ACTIVITIES							
Auditor's remuneration		388	-	388	351	-	351
Borrowing costs		205	-	205	205	-	205
Depreciation		2,512	-	2,505	2,398	-	2,398
Fees and commissions		7,015	-	7,015	6,622	-	6,622
Land & unit development costs c		6,577	(5,120)	1,457	-	-	-
Personnel costs		14,479	-	14,479	14,137	-	14,137
Other general and administration costs		11,335	-	11,342	10,504	-	10,504
Book value of disposed property, plant & equipment		280	-	280	280	-	280
Provision for employee benefits		545	-	545	520	-	520
Rental - operating leases		2,178	-	2,178	2,143	-	2,143
Superannuation contributions		1,204	-	1,204	1,178	-	1,178
TOTAL EXPENDITURE		46,800	(5,120)	41,680	38,420	-	38,420
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOMETAX		14,753	(1,252)	13,501	14,499	-	14,499
INCOME TAX EXPENSE a		4,539	(390)	4,149	4,443	-	4,443
NET PROFIT		10,214	(862)	9,359	10,056	-	10,056
NET (PROFIT) / LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST		13	-	13	-	-	-
NET PROFIT ATTRIBUTABLE TO MEMBERS		10,227	(862)	9,365	10,056	-	10,056

30. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

Impact on the statements of financial position

AS AT 30 JUNE 2005	Notes	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
		Existing GAAP	Effect of Change	AIFRS	Existing GAAP	Effect of Change	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Cash and liquid assets		15,688	-	15,688	9,278	-	9,278
Receivables due from other financial institutions		117,000	-	117,000	117,000	-	117,000
Other receivables	c	13,292	(6,809)	6,483	4,502	-	4,502
Loans and advances		862,934	-	862,934	825,032	-	825,032
Inventories	c	12,224	5,449	17,673	-	-	-
Other investments	b	4,514	47	4,561	5,268	-	5,268
Property, plant and equipment		18,762	-	18,762	7,926	-	7,926
Other	a	3,122	-	3,112	24,592	(900)	23,692
TOTAL ASSETS		1,047,536	(1,313)	1,046,223	993,598	(900)	992,698
LIABILITIES							
Members' deposits		855,394	-	855,394	855,684	-	855,684
Accounts payable and other liabilities	a	38,038	-	38,038	29,389	(11)	29,378
Borrowings		45,566	-	45,566	12	-	12
Provisions	a, c	4,048	(408)	3,640	4,019	(889)	3,130
TOTAL LIABILITIES		943,046	(408)	942,638	889,096	(900)	888,196
NET ASSETS		104,490	(905)	103,585	104,502	-	104,502
MEMBERS' FUNDS							
Reserves		95,454	-	95,454	95,454	-	95,454
Opening retained profits	c	9,004	(43)	8,961	9,090	-	9,090
Current year profits	b, c	10,227	(862)	9,365	10,056	-	10,056
Aggregate of amounts transferred to reserves		(10,098)	-	(10,098)	(10,098)	-	(10,098)
Outside equity interest in controlled entities		(97)	-	(97)	-	-	-
TOTAL MEMBERS' FUNDS		104,490	(905)	103,585	104,502	-	104,502

■ d i r e c t o r s ' d e c l a r a t i o n

In the directors' opinion:

- (a) the financial statements and notes set out on pages 14 to 50 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulation 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Society's and Group's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

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

E L SMITH | Director
P M GABB | Director

Perth
29 August 2005

Independent audit report to the members of Police & Nurses Credit Society Ltd

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Police & Nurses Credit Society Ltd (the company) and the Police & Nurses Credit Society Group (defined below) for the financial year ended 30 June 2005 included on Police & Nurses Credit Society Ltd's web site. The company's directors are responsible for the integrity of the Police & Nurses Credit Society Ltd 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 of Police & Nurses Credit Society Ltd:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Police & Nurses Credit Society Ltd and the Police & Nurses Credit Society Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Police & Nurses Credit Society Ltd (the company) and the Police & Nurses Credit Society Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

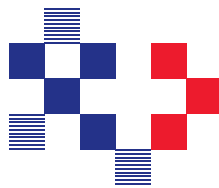
Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

Justin Carroll
Partner

Perth
29 August 2005



POLICE & NURSES
CREDIT SOCIETY

13 25 77

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Police & Nurses Branches

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Shopping Centre
227 Belmont Avenue

BOORAGOON

Suite 10, Riseley Corporate Centre
135 Riseley Street

BUNBURY

Shop 21A, Bunbury Forum Shopping
Centre
Sandridge Road

CANNINGTON

Shop 1003, Westfield Carousel
Shopping Centre
1382 Albany Highway

FREMANTLE

Shop 18, 35 William Street

JOONDALUP

Shop T62, Lakeside Joondalup
Shopping Centre
Joondalup Drive

MADDINGTON

Shop 61, Centro Maddington
Attfield Street

MANDURAH

Shop 54A, Centro Mandurah
Mandurah Bypass Road

MIDLAND

Shop 25, Midland Centrepoint
Shopping Centre
Great Eastern Highway

MIRRABOOKA

Shop 91A, Mirrabooka Square
Shopping Centre
43 Yirrigan Drive

MORLEY

2A Progress Street

OCEAN KEYS

Shop 56, Ocean Keys Shopping Centre
Ocean Keys Boulevard

ROCKINGHAM

Shop 48, Rockingham City
Shopping Centre
Read Street

WARWICK

Shop 80A, Centro Warwick
Cnr Beach & Erindale Road

WHITFORDS

Shop 158, Whitford City
Shopping Centre
Cnr Whitfords & Marmion Ave