

2007

Annual Report



“To be the most trusted and highly recommended provider of financial services.”



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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

Chief Executive Officer & Company Secretary

A E (Fred) Huis

Registered Office

Police & Nurses Credit Society Ltd
ABN 69 087 651 876
246 Adelaide Terrace
Perth 6000 Western Australia
Telephone No. 13 25 77

External Auditors

PricewaterhouseCoopers

Internal Auditors

KPMG

(\$000 unless otherwise indicated)	30-Jun-02 ¹ Audited	30-Jun-03 ¹ Audited	30-Jun-04 ¹ Audited	30-Jun-05 ² Audited	30-Jun-06 ³ Audited	30-Jun-07 ³ Audited	FY02-FY07 5 year CAGR*	FY06-FY07 1 year CAGR*
Total loans under management ⁴	925,093	1,106,421	1,189,890	1,289,814	1,487,052	1,825,803	14.6%	22.8%
Total assets under management ⁴	1,365,849	1,470,271	1,312,871	1,466,088	1,694,117	2,030,221	8.3%	19.8%
Deposits	605,002	712,023	791,293	855,394	975,961	1,067,436	12.0%	9.4%
Reserves	76,465	86,991	94,191	104,093	128,921	151,167	14.6%	17.3%
PNCS Group NPAT [^]	15,991	10,007	7,720	9,921	21,057	19,653	4.2%	-6.7%
PNCS Banking Business NPAT [^]	5,965	10,903	8,441	9,876	12,089	16,096	22.0%	33.1%

* CAGR: Cumulative Annual Growth Rate

[^] NPAT: Net Profit After Tax

Notes:

1 Previous AGAAP standards applied

2 Adjusted for effects of AIFRS and AASB 1 exemption to not restate comparatives for AASB 132/139 applied

3 AIFRS standards applied

4 Includes off balance sheet loans



Chairman's Report



“to be the most trusted and highly recommended provider of financial services”

I am pleased to present the 2007 Annual Report for Police & Nurses Credit Society.

The Society has continued to perform strongly in the 2007 financial year, both in terms of our business results and servicing the needs of our customers.

Our strategic purpose is “to be the most trusted and highly recommended provider of financial services” and we continue to strive towards this vision in all that we do.

A highlight for the year was Police & Nurses winning the 2007 Australian Banking & Finance (AB&F) magazine “Best Credit Union” award.

AB&F is the premier national trade magazine for the banking and finance industry in Australia. Each year AB&F runs an awards program, where their readers nominate and vote on awards in a number of different categories.

By winning this award, Police & Nurses has been recognised by its peers in the banking and finance industry as an outstanding organisation. This award was achieved thanks to the hard work of our staff and the ongoing support of our customers, who currently number approximately 100,000.

Indeed, the contribution of our staff towards our business success has never been more valuable, with competition in the labour market for skilled employees continuing to intensify.

Like all businesses in Western Australia, the Society is facing fierce competition to both attract and retain quality employees. We have responded to this situation by increasing employee benefits, such as improved parental leave entitlements to promote a more family friendly work environment.

We also continue to run our values-based reward scheme, known as Horizons Values Champions, to recognise the outstanding efforts of our staff.

The Society also supports the communities in which we operate by providing sponsorship to over 70 different community groups, bond groups and charities. In the 2007 financial year our sponsorship contribution totalled over \$400,000 to such organisations as Crime Stoppers WA, Radio Lollipop, PCYC and the WA Nursing & Midwifery Excellence Awards.

Chairman's Report

I would also like to address the events which took place in the first half of the 2007 financial year concerning Home Building Society and their attempt to take over Police & Nurses.

As part of their strategy towards becoming a bank, Home targeted the Society with an unsolicited takeover proposal. Home's takeover proposal included two alternatives, being either a share proposal notionally valued at \$215 million or a cash payment of \$243 million.

After carefully reviewing the Home proposal the Board concluded that it substantially undervalued the Society and its prospects, and was not in the best interests of shareholding members.

Whilst we did not initiate the approach from Home and are not seeking a takeover, our business has continued to grow strongly in the 2007 financial year and as such, it is likely that Police & Nurses will continue to be an attractive takeover target for other financial institutions in future.

We have constantly stated that any takeover proposal, whether from Home or another party, would need to be compelling and reflect fair value before we would make a favourable recommendation to shareholders.

Indeed, as our business and profitability has grown over the past financial year, our expectations as to what constitutes fair value for the Society have also increased.

We will continue to keep our shareholders fully informed of all developments in relation to any takeover approach and will advise the appropriate actions to take throughout any such process.

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 Officer, 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 making Police & Nurses the most trusted and highly recommended provider of financial services.

Although we will face significant challenges in the coming financial year, we will also enjoy many opportunities, and I am confident that as a team, we will continue to meet both with the success that has made us WA's largest home-grown and locally run financial institution.



E L SMITH
Chairman

Perth WA
22 August 2007

CEO's Report



“ WA’s largest home-grown and locally run financial institution. ”

2007 was another successful year for Police & Nurses Credit Society. The Society has established a reputation for delivering profitable results and steady growth over many years, and this was further consolidated in the 2007 financial year.

The following information is a snapshot of the key financial figures and business initiatives that have contributed to the success of the Society in 2007.

Financial Results

The Society's banking business net profit after tax (NPAT) rose by 33.1% to \$16.1 million. The net profit after tax (NPAT) for the Group remained steady at \$19.7 million.

Our strong profit results were driven primarily by the Society's core financial services business. In particular, our lending activity continued to enjoy significant growth, with Total Loans Under Management increasing by nearly 23% to \$1,825.8 million and Total Group Assets increasing almost 20% to \$2,030.2 million. Deposits were also improved with a 9.4% increase to \$1,067.4 million.

This growth is underpinned by the increasing number of people who choose to do their banking with the Society. Police & Nurses currently has approximately 100,000 customers and more than 11,000 new customers joined the Society during the 2007 financial year.

Our customers continue to demonstrate their support and satisfaction, having access to all the facilities, services and security of a traditional bank, with the Society retaining profits for the benefit of all customers.

Clearly, Police & Nurses is providing a welcome option in regional banking for the WA community and remains a proudly WA-owned and managed, comprehensive financial services option for people disenchanted with traditional banks.

Other key business measures have also improved, such as the Society's Cost to Income Ratio, which is now at 64.60%, down from 68.91% in 2006, and Provision for Impairment to Total Group Loans which is now 0.06%, down from 0.24% in 2006. Group Reserves have also increased by 17.3% to \$151.2 million.

Our results are good news for the Society, as our long term viability is dependent upon sustained and superior financial performance. Unlike banks, as a mutual business we have no independent shareholders to pay dividends to and the Society's success benefits our members through lower fees, more competitive rates, and better products and services. All profits are reinvested into the Society for the benefit of our members.

It is worth noting, however, that the Society is not part of the 'non bank lenders' category that has been the focus of recent media attention concerning the US sub-prime mortgage market.

Credit Societies like Police & Nurses, along with banks, are Authorised Deposit-taking Institutions (ADIs) and are subject to the same high regulatory standards under the Banking Act 1959, and scrutiny from other government agencies such as APRA, ASIC, the Reserve Bank of Australia, AUSTRAC and the ACCC. The Society is also subject to many legislative measures, such as the Uniform Consumer Credit Code and the EFT code.

When looking at the bigger picture, there is no doubt that Western Australia's ongoing economic boom has supported our profitability as a business. With demand for WA resources from China and India still going strong, some commentators have predicted the boom will continue well into the next decade. This economic prosperity has underpinned WA's buoyant housing market, which remains strong despite the Reserve Bank raising the official cash rate by 25 basis points in August 2006, November 2006 and August 2007.

As such, residential real estate values in WA have continued to grow during the 2007 financial year. The Australian Bureau of Statistics house price index for Perth shows a 15.3% rise over the 12 months to June 2007, by comparison to the weighted average of 9.2% for Australia's eight capital cities.

Our Society

As our Chairman mentioned in his report, Police & Nurses won the 2007 Australian Banking & Finance (AB&F) magazine "Best Credit Union" award, as voted by our banking and finance industry peers. This is a major achievement for the Society and one that all staff at Police & Nurses can feel a great deal of pride in.

Our customer satisfaction levels have continued to improve this year, with results from an independent survey conducted in May 2007 showing that 93% of our customers are either very satisfied or satisfied with the Society. This is a 4% increase from the survey conducted in May 2006, which showed an 89% overall satisfaction level.

The Society's customer satisfaction levels have historically always been high, and are particularly impressive when compared to those at the major banks. According to a major review of financial institutions conducted by AC Nielsen, the average percentage of major bank customers who were either very or quite satisfied was 64% in the half year to June 2007.

An important factor which contributes to our strong customer satisfaction levels is our product offering. Police & Nurses offers a range of innovative products which provide many benefits to our customers.

An example of this is our upgraded Easypay home loan, which was launched in February this year. With strong growth in WA housing prices occurring over the past few years, personal affordability levels have sharply decreased for many people, in particular first home buyers.

The new features of the Easypay home loan, such as the 40 year loan term option and interest only repayments for owner occupiers, were developed in response to these difficult market conditions to help borrowers counter the housing affordability crisis.

The effect of these new features will be to slash monthly repayments and increase borrowing power, which may mean the difference between entering the housing market or not for some people. Given how important equity growth in the family home is in terms of creating wealth for people in retirement, this is a major advantage for home buyers.

It is also important to note that for borrowers who take up the 40 year loan option there is no restriction on making additional repayments to their loan and paying it off in a

Announcing the...

**“Yippee!
We can
go house
hunting
again!”**

Home Loan.

New 40 year Easypay Home Loan.

7.65%^{PA*}

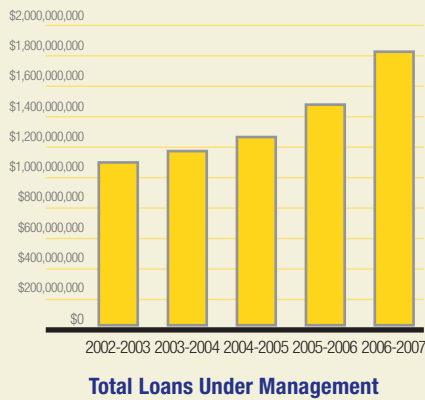
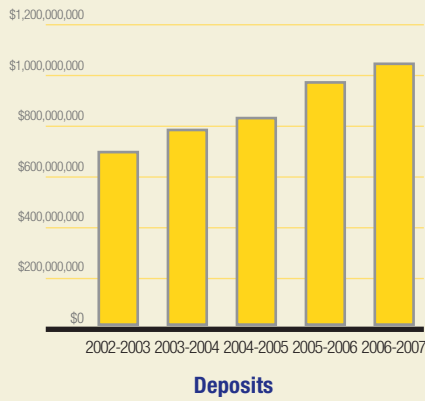
7.75%^{PA**}

13 22 77

13 22 77

POLICE & NURSES
CREDIT SOCIETY

CEO's Report



shorter time frame. We strongly encourage our customers to increase their repayment amount as their income levels and their capacity to pay back the loan increases, as this will reduce the amount of interest they pay overall.

Two new savings products, the FairSaver and CashSaver accounts, have also been launched recently.

The FairSaver is a transaction based account which for a flat monthly fee enables the customer to make unlimited transactions using Police & Nurses ATMs, EFTPOS, Phonelink telephone banking, Netlink online banking and BPAY. The FairSaver also offers a competitive interest rate which is calculated on every dollar saved. The CashSaver is an online savings account, offering high interest on balances over \$5,000 and no account fees.

Police & Nurses has also run successful campaigns during the year promoting our Best Credit Union award and SMS Txtlink service. Examples of advertising from each of these campaigns can be seen on this page and the next.



Our Future

In 2006 the Police & Nurses management team developed a five year strategic plan that was endorsed by the Board of Directors.

The business planning process for the 2008 financial year reaffirmed the continuation of that plan and our ongoing commitment to its key strategies and objectives.

Central to our plans continues to be the view that Police & Nurses has significant upside to its core business. We do, however, face some significant challenges in the coming 12 to 18 month period.

Those challenges include Basel 2 regulations being introduced in January 2008, new anti-money laundering legislation being introduced in December 2007, direct charging at ATMs and cost of fund pressures.

However, our business has always demonstrated a capacity to not only meet the operational challenges of the day, but also find opportunities for ongoing growth and profitability. Our expectation is this will continue to be the case for Police & Nurses in the future.

Acknowledgements

The continued strong standing of Police & Nurses Credit Society demonstrates the efforts and commitment of my 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 WA's largest home-grown and locally run financial institution.

A E (FRED) HUIS
Chief Executive Officer

Perth WA
22 August 2007

Customer Touchpoints



Customer Service Channels

The following information gives an overview of the service channels available to Police & Nurses customers.

WA Branch Network

There are currently 15 Police & Nurses branches in WA, with 13 of those in the Perth metropolitan area and two in the regional towns of Mandurah and Bunbury. Our branch network offers a full service capability including home lending, personal lending, insurance, transactional capability, savings accounts and planning advisory services.

ATM Network

There are 54 Police & Nurses ATMs throughout WA, which our customers can use without incurring ATM withdrawl fees.

Contact Centre

The Society has a 37 seat contact centre located in our head office in Perth. Our consultants can interact with customers via phone, online webchat or email. The contact centre manages around 1,000 phone calls per day and its operating hours are from 8am to 6pm WST. With a commitment to customer service and delivery, our skilled operators achieve industry 'best practice' in regards to our service level key performance indicators.

Electronic Access Channels

The Society makes it easy for people to access their money where and when they need it. Through Phonelink phone banking or Netlink online banking, people can transfer money, pay their bills via BPAY and check their accounts. We also offer a convenient and innovative service called Txtlink mobile phone banking. This uses SMS technology to send account information to customers via their mobile phone, 24 hours per day, 7 days per week.

There are also Police & Nurses internet kiosks in 10 of our branches and onsite at Royal Perth Hospital (in both their Wellington Street location and the Shenton Park campus), Armadale Hospital, Sir Charles Gairdner Hospital and King Edward Memorial Hospital, providing free access to the Police & Nurses website.

Mobile Mortgage Lenders

We have a mobile mortgage sales team of 15 consultants who manage over 4000 home loans every year. The service our consultants provide is perfect for the busy person who can't make it into a branch, but still want to discuss their home loan in person. The consultants are available to meet with customers at a time and place convenient to them, such as in the workplace during office hours, or at home in the evenings or on the weekend.



Customer Touchpoints

Financial Planning

Our team of qualified Financial Planners help our customers to plan for a financially secure future. Police & Nurses Financial Planning offers expertise in such areas as wealth creation, negative gearing, superannuation, retirement planning and aged care planning.

Conveyancing

Police & Nurses offers an inhouse settlement service to home loan customers. The department processes around 1200 settlements per annum.

Business Development Officers

The Society has strong historical connections to several professional groups, such as police, nurses, teachers, fire fighters, prison officers and western power workers. To manage these relationships, Police & Nurses has a team of Business Development Officers providing personal financial services exclusively to members from these groups.

Nurses First

Nurses First is a division of Police & Nurses Credit Society operating in Melbourne, Victoria. Nurses First provides a full range of banking products and services which are tailored specifically to the needs of nurses and health professionals.

Senior Management Team as at 30 June 2007



Board Members



Eric Laurence Smith
Chairman



Paul Marshall Gabb
Deputy Chairman



Frederick James Compton
Director



Michael James Dean
Director



Karl Joseph O'Callaghan
Director



Stephen John Melville
Director



Maureen Teresa Hinton
Director



Elizabeth Anne Manley
Director



Ann Maree Rial
Director

Report of the Directors

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 2007.

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.

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/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; and
- accepting accountability to members/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 FAMI (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), Advanced Diploma of Public Safety (Police Investigations), Australian Institute of Company Directors Diploma, 13 years service as a Credit Society Director; 31 years service as a Police Officer. Audit Committee and Takeover Response Committee Member. Nominations Committee Chairman.

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

Financial Analyst - Australian Federal Police, 9 years service as a Credit Society Director; 21 years service in Law Enforcement. Audit Committee and Takeover Response Committee member.

Frederick James COMPTON FAICD

Retired Police Superintendent; Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 28 years service as a Credit Society Director; 39 years service as a Police Officer. Audit Committee and Board Governance Committee member.

Michael James DEAN APM Dip Police Studies AICD

General President WA Police Union, 4 years service as a Credit Society Director; 35 years service as a Police Officer. Trustee of the Bluey Day Foundation. Audit Committee member.

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

Staff Educator, 20 years service as a Credit Society Director; 42 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; 7 years service as a Credit Society Director; 36 years service in the nursing/health profession. Board Governance Committee member.

Stephen John MELVILLE B.Bus (Accounting) FCPA MAICD

Executive Manager Finance & Administration - Forest Products Commission, 13 years service as a Credit Society Director; 24 years service in accounting, financial management and marketing. Audit Committee Chairman.

Karl Joseph O'CALLAGHAN BA B.ED (Hons) PhD

Commissioner of WA Police, 2 years service as a Credit Society Director; 34 years service as a Police Officer. Board Governance Committee member.

Ann Maree RIAL RN RM ICNC GC FAICD

Clinical Nurse Manager, 20 years service as a Credit Society Director; 34 years service in the nursing/health profession. Board Governance Committee member.

Each director holds one member share in the Society.

Report of the Directors

Company Secretary

A E (Fred) HUIS CA

Chartered Accountant, 24 years service as the Credit Society Company Secretary and Chief Executive Officer.

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; and
- 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 2007 and the number of meetings attended by each director.

Director	Directors' Meetings		Audit Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith	15	14	4	4	*	*
F J Compton	15	12	2	2	2	2
M J Dean	15	14	4	3	*	*
P M Gabb	15	15	4	4	*	*
M T Hinton	15	14	*	*	3	3
E A Manley	15	15	*	1	3	3
S J Melville	15	15	4	4	*	*
A M Rial	15	13	*	*	3	3
K J O'Callaghan	15	9	*	*	3	-

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 determined each year by the members/shareholders at the annual general meeting and divided amongst the Directors in such a manner as the Board determines.

Report of the Directors

Audit Committee

The Board has established an Audit Committee to assist in the execution of its responsibilities. The Committee comprises five Board members. 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 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.

The 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 property development. 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 \$336,104,000 to \$2,030,221,000, members' deposits increased by \$91,475,000 to \$1,067,436,000 and loans and advances increased by \$341,143,000 to \$1,824,650,000.

The profit of the Group and the Society for the financial year after income tax and before minority interest was \$20,426,000 (2006: \$22,186,000) and \$24,581,000 (2006: \$12,145,000) respectively. During the year, the fair value of the investment property, Jacaranda Gardens Retirement Village, was completely reassessed. This resulted in a current year profit before income tax and minority interest of \$4,130,000 (2006: \$8,931,000).

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.

Report of the Directors

BAD AND DOUBTFUL DEBTS

Before the financial statements were made out, the directors took reasonable steps to ascertain what action has 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 Group or Society 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 property developments. All developments have been undertaken in compliance with the necessary planning and environmental regulations.

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.

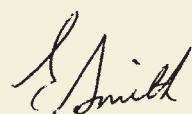
AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

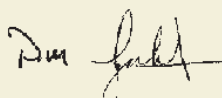
ROUNDING OF AMOUNTS

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.

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



E L SMITH Director



P M GABB Director

Date : 27 August 2007
PERTH WA

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Credit Society Ltd for the year ended 30 June 2007, 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

PricewaterhouseCoopers
ABN 52 780 433 757

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Perth
27 August 2007

Income Statements

YEAR ENDED 30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
INTEREST REVENUE	3	132,726	112,418	132,894	113,240
INTEREST EXPENSE	3	86,415	71,686	85,809	71,403
NET INTEREST INCOME		46,311	40,732	47,085	41,837
NON-INTEREST REVENUE					
Loan fee revenue		4,744	2,558	4,811	2,558
Financial services fees		9,452	8,780	9,452	8,780
Financial planning fees		2,083	-	-	-
Amenity fees and reserve fund contribution revenue		1,815	700	-	-
Other fee revenue		620	581	176	344
Insurance commissions		1,896	1,542	1,896	1,542
Other commissions		859	1,068	859	1,068
Revenue from sale of property developments		10,309	24,232	-	-
Dividend revenue		361	361	13,461	584
OTHER INCOME					
Bad debts recovered		130	136	130	136
Net gain on disposal of property, plant & equipment		-	16	-	16
Revaluation of investment property to fair value	15	2,163	8,922	-	-
Other income		494	591	330	416
TOTAL NON-INTEREST REVENUE AND OTHER INCOME		34,926	49,487	31,115	15,444
Share of net profit of associates accounted for using the equity method	13	-	28	-	-
BAD AND DOUBTFUL DEBTS EXPENSE	8(d)	(168)	742	(168)	742
OTHER EXPENSES					
Auditor's remuneration	29	221	319	174	266
Finance costs		591	379	591	379
Depreciation and amortisation		2,952	2,986	2,729	2,817
Fees and commissions		5,989	5,602	5,558	5,277
Property development costs		5,057	15,109	-	-
Employee benefits expense		19,847	17,699	18,173	17,319
Information Technology costs		2,473	2,304	2,473	2,304
Marketing Costs		2,992	2,270	2,992	2,270
Other general and administration costs		9,163	9,229	7,707	6,392
Net loss on disposal of property, plant & equipment		49	-	38	-
Rental – operating leases		2,624	2,492	2,580	2,447
TOTAL EXPENDITURE		51,790	59,131	42,847	40,213
PROFIT BEFORE INCOME TAX		29,447	31,116	35,353	17,068
INCOME TAX EXPENSE	4	9,021	8,930	10,772	4,923
PROFIT FOR THE YEAR		20,426	22,186	24,581	12,145
(PROFIT)/LOSS ATTRIBUTABLE TO MINORITY INTEREST		(773)	(1,129)	-	-
PROFIT ATTRIBUTABLE TO MEMBERS		19,653	21,057	24,581	12,145

The above income statements should be read in conjunction with the accompanying notes.

Balance Sheets

YEAR ENDED 30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
ASSETS					
Cash and cash equivalents	5	15,795	24,526	14,842	19,734
Receivables due from other financial institutions	6	121,000	120,500	121,000	120,500
Trade and other receivables	7	13,153	20,518	8,294	5,613
Loans and advances	8	1,824,650	1,483,507	1,824,650	1,478,639
Derivative financial instruments	9	3,097	1,331	3,097	1,331
Inventories	10	13,851	8,556	-	-
Available-for-sale financial assets	11	2,888	2,888	2,888	2,888
Due from controlled entities	12	-	-	12,125	10,922
Investments accounted for using the equity method	13	-	945	-	-
Property, plant and equipment	14	3,489	3,980	3,417	3,973
Investment properties	15	24,888	22,772	-	-
Other financial assets	16	-	-	3,083	1,658
Intangible assets	17	7,410	4,594	4,187	4,594
Deferred tax assets	18	-	-	-	569
TOTAL ASSETS		2,030,221	1,694,117	1,997,583	1,650,421
LIABILITIES					
Members' deposits	19	1,067,436	975,961	1,066,989	979,986
Trade and other payables	20	78,290	66,644	55,989	46,863
Current tax liabilities		5,690	1,642	6,110	1,642
Borrowings	21	722,484	516,146	717,131	500,039
Due to controlled entities	12	-	-	5,322	2,143
Provisions	22	418	471	402	459
Deferred tax liabilities	23	4,736	4,332	534	-
TOTAL LIABILITIES		1,879,054	1,565,196	1,852,477	1,531,132
NET ASSETS		151,167	128,921	145,106	119,289
MEMBERS' FUNDS					
Reserves	24	117,703	106,424	117,703	106,424
Retained earnings	24	31,132	21,465	27,403	12,865
Minority interest		2,332	1,032	-	-
TOTAL MEMBERS' FUNDS		151,167	128,921	145,106	119,289

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
Total members' funds (equity) at the beginning of the financial year		128,921	104,093	119,289	104,502
Adjustment on adoption of AASB 132 and AASB 139, net of tax to:					
Retained earnings	24	-	1,710	-	1,710
Reserves	24(c)	-	(505)	-	(505)
Restated total members' funds (equity) at the beginning of the financial year		128,921	105,298	119,289	105,707
Changes in the fair value of cash flow hedges, net of tax	24(c)	1,236	1,437	1,236	1,437
Minority interest on acquisition of subsidiary	34	527	-	-	-
Reversal of equity accounting loss prior to consolidation		57	-	-	-
Net income recognised directly in members' funds (equity)		1,820	1,437	1,236	1,437
Profit for the year		20,426	22,186	24,581	12,145
Total recognised income and expense for the year		22,246	23,623	25,817	13,582
Total members' funds (equity) at the end of the financial year		151,167	128,921	145,106	119,289
Total recognised income and expense for the year is attributable to:					
Members' of the Society		21,473	22,494	25,817	13,582
Minority interest		773	1,129	-	-
		22,246	23,623	25,817	13,582

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statements

YEAR ENDED 30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received from loans		123,979	105,669	123,661	105,669
Interest received from investments		8,638	7,793	9,123	8,615
Commissions and other income received		39,881	28,942	14,545	12,565
Borrowing costs – members		(44,738)	(36,244)	(44,738)	(36,244)
Borrowing costs – banks		(34,663)	(23,215)	(34,056)	(22,218)
Payments to employees and suppliers (inclusive of goods and services tax)		(49,947)	(35,600)	(37,784)	(32,083)
Net increase in loans and advances		(340,846)	(197,924)	(340,846)	(197,500)
Net increase in members' deposits		91,506	120,572	87,034	124,307
Income tax paid		(5,750)	(1,905)	(5,599)	(2,506)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	25(a)	(211,940)	(31,912)	(228,660)	(39,395)
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received		361	361	13,461	584
Proceeds from sale of property, plant and equipment		236	213	174	213
Net movement in interest earning deposits		(500)	(3,500)	(500)	(3,500)
Net movement in other investments		-	756	125	722
Payment for investments		(1,145)	-	(1,550)	-
Payments for property, plant and equipment		(1,466)	(4,535)	(1,396)	(1,346)
Payments for intangible assets		(583)	(2,310)	(583)	(2,310)
Loans from/(to) controlled entities		-	-	(3,025)	10,014
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		(3,097)	(9,015)	6,706	4,377
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of loans from other financial institutions		(13,091)	(27,673)	-	-
Loans from other financial institutions		213,671	75,531	211,336	43,567
Member shares issued		12	33	12	33
Member shares redeemed		(43)	(38)	(43)	(38)
NET CASH INFLOW FROM FINANCING ACTIVITIES		200,549	47,853	211,305	43,562
Net (decrease)/ increase in cash and cash equivalents held		(14,488)	6,926	(10,649)	8,544
Cash and cash equivalents at the beginning of the year		22,602	15,676	17,810	9,266
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25(b)	8,114	22,602	7,161	17,810

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

Notes to the Financial Statements

30 JUNE 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Police & Nurses Credit Society Ltd (the Society) as an individual entity and the consolidated entity consisting of Police & Nurses Credit Society Ltd and its subsidiaries (the Group).

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. The presentation currency is Australian dollars.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

In the prior financial year the Group adopted AASB 132 Financial Instruments: Presentation and Disclosure and AASB 139 Financial Instruments: Recognition and Measurement in accordance with the transitional rules of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the reconciliation of movements in equity (Note 24).

Early adoption of standards

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- Revised AASB 101 Presentation of Financial Statements (issued October 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group as at 30 June each year. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date at which control is transferred out of the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(z)).

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Investments in subsidiaries are carried at cost in the Society's financial statements.

All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated fully.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the Society's financial statements using the cost method and in the Group's financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to Note 13).

The financial statements of associates, prepared for the same reporting period as the Group and applying consistent accounting policies, are used by the Group to apply the equity method. The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the associate's after tax profit or loss from operations.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable, in the Consolidated Statement of Changes in Equity.

(iii) Jointly Controlled Assets

The proportionate interests in the assets, liabilities, income and expenses of the joint venture activities have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in Note 30.

(c) Loan provisioning

All loans are subject to recurring review and assessment for possible impairment. All bad debts are written off in the period in which they are identified. Specific provisions are raised for losses that have already been incurred for loans that are known to be impaired. The required provision is estimated on the basis of historical loss experience for assets with similar credit characteristics. The historical loss experience is adjusted based on current observable data. 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 income statement.

The Group and the Society make judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a loan pool before the decrease can be identified with an individual loan in that pool. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in the group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the pool when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in assumptions used for estimating future cash flows could result in a change in provisions for loan impairment and have a direct impact on the charge to the income statement.

(d) Property, plant and equipment

Land and buildings (except for investment properties – refer to Note 1(f)) are shown at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	50 years
Leasehold Improvements	3 – 8 years
Plant and Equipment	3 – 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(e) 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment property

Investment property, principally comprising freehold residential buildings, is held for long-term amenities fee income and is not occupied by the Group. Investment property is carried at fair value, representing open-market value determined annually. Changes in fair value are recorded in the income statement as part of other income.

(g) Investments and other financial assets

The Group classifies its investments as either available-for-sale or held for trading and these are initially recognised at fair value plus acquisition charges. The classification depends on the purpose for which the investments were acquired.

After initial recognition, investments are remeasured to fair value. Changes in available-for-sale financial assets are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative change in fair value, previously reported in equity, is included in earnings. Changes in held for trading investments are recognised in earnings.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. Where investments are not actively traded, fair value is established by using other market accepted valuation techniques. If the fair value cannot be reliably measured using other techniques, the investment is carried at cost.

(h) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of any entity include the carrying amount of goodwill relating to the entity sold.

(ii) Computer software costs

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls.

The Group carries capitalised software assets at cost less amortisation and any impairment losses, if any. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the implementation of the software.

These assets are amortised over the estimated useful lives (3 – 10 years) on a straight-line basis at a rate applicable to the expected useful life of the asset. Software maintenance costs continue to be expensed as incurred.

Any impairment loss is recognised in the income statement when incurred.

(iii) Client list

Client lists acquired as part of a business combination are recognised separately from goodwill. The client list is carried at its fair value at the date of acquisition less accumulated amortisation and any impairment losses. Amortisation is calculated based on the length of time of estimated benefits to the Group of the client list, which is 10 years.

Any impairment loss is recognised in the income statement when incurred.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Temporary differences arising from the initial recognition of an asset or a liability is not recognised if they arose in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

The Society and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003, with the Society as the head entity of the tax consolidated group.

The head entity, the Society, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Society also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Entities within the tax consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of the tax arrangement, the Society and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. Details about the tax sharing agreement are disclosed in Note 4.

(k) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(l) Interest

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

(m) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and short-term deposits with an original maturity of three months or less. Cash on hand, cash at bank and short-term deposits are stated at nominal value.

For the purposes of the cash flow statement, cash and cash equivalents are reported net of outstanding bank overdrafts.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue (inclusive of loan origination fees and transaction costs) is recognised as interest accrues using the effective interest method, which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Fees and commissions related to services provided over a period are recognised on an accruals basis.

For property development activities, revenue is recognised when risks and rewards have passed to the buyer, which is determined to be at least when there is a signed unconditional contract of sale and the work on the property development is complete. All marketing and direct selling costs are expensed as incurred.

Dividends receivable from controlled entities are recognised when the right to receive payment is established.

Amenities fee revenue, included in other fee revenue, is payable by a resident of the investment property as consideration for the right to the exclusive use of the dwelling occupied by the resident. Reserve fund contribution revenue, included in other fee revenue, is for the replacement of capital assets utilised by the residents of the investment property. These revenues are accrued on a daily basis at a percentage of the estimate of the value of the dwelling at balance date. These revenues are due for payment by a resident when a new lease is granted to the subsequent resident or 36 months after the dwelling is vacated.

(o) 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. Development costs are allocated to individual lots on the basis of the proportion of each lot's sales value relative to total expected development sales. 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.

(p) Derivatives

The Group uses derivative financial instruments such as interest rate swaps to avoid or minimise possible adverse financial effects of movements in interest rates.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value in line with market fluctuations. The unrealised gain or loss on remeasurement is immediately recognised in the income statement as an adjustment to interest expense, except where hedge accounting applies.

Hedge accounting

When a derivative is designated as a hedge for accounting purposes, the Group documents the relationship between the derivative and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge type and risk	Accounting treatment
<i>Fair Value Hedge</i>	
Exposure to changes in the fair value of a recognised asset or liability or committed transaction.	Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
<i>Cash Flow Hedge</i>	
Exposure to variability in cash flows associated with a highly probable forecasted transaction or a committed transaction.	The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to any ineffective portion is recognised in the income statement immediately. Amounts accumulated in equity are taken to the income statement in the periods when the hedged item affects income, for instance, when the forecast transaction that is hedged takes place.

Hedge accounting is discontinued when the hedging instrument expires or no longer qualifies for hedge accounting or is terminated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is immediately transferred to the income statement.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair values of financial instruments that are traded in active markets are based on quoted market prices at the balance sheet date. The fair value of financial instruments not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest is accrued over the period it becomes due and is recorded as part of trade and other payables.

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the Society's Mortgage Link Rate plus 0.5%, which fluctuates as market interest rates move.

Finance costs incurred relate to facility fees paid to other financial institutions.

(t) Loan securitisation

The Group, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors.

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 in 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 is consolidated as part of the Group (Note 1(a)). The loans sold by the Society to the Trust and borrowings raised by the Trust are included in the Group's loans and borrowings balances in Note 8 and 21 respectively.

(u) Other payables

Lease loan sum liability, included in other payables, represents the funds received from incoming residents to the investment property in respect of the lease for life granted to the resident of each dwelling. These amounts are interest free and are repayable either when a new lease is granted to the subsequent resident (from a new lease loan sum received from the subsequent resident), or 36 months after the dwelling is vacated.

All other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(v) 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 are recognised at inception and included in the carrying amounts. These fees and transaction costs are deferred over the expected life of the instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. This applies to all financial assets or liabilities except for those that are measured at fair value through profit or loss.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Other receivables

Other receivables, including receivables from related parties, are stated at their amortised cost less impairment losses (refer Note 1(i)).

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(z) Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. At acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(aa) 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.

(bb) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards is set out below.

(i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of AIFRS, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts]*

AASB 7 and AASB 2005-10 are applicable to annual periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.

(ii) *AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards [AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 6 Exploration for and Evaluation of Mineral Resources, AASB 102 Inventories, AASB 107 Cash Flow Statements, AASB 119 Employee Benefits, AASB 127 Consolidated and Separate Financial Statements, AASB 134 Interim Financial Reporting, AASB 136 Impairment Assets, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts]*

AASB 8 replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 and AASB 2007-3 are applicable for annual reporting periods beginning on or after 1 January 2009 and will not affect any of the amounts recognised in the financial statements, but will impact the disclosures in relation to the Group's segments.

Notes to the Financial Statements

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Loan provisioning

Loan provisions are calculated for loans where objective evidence of impairment is present. The calculation is based on a combination of the Group's historical bad debt write off trends according to risks which are grouped based on credit risk gradings, considering recent trends that might suggest that past cost information may differ from future write offs and by determining future cash flows and discounting these cash flows where the recovery will exceed 12 months. The Group has provided for all loans where there is objective evidence of impairment and security is less than the loan due.

Factors that could impact the estimated bad debt write off trend include future interest rates, levels of unemployment, legislative changes and the status of the housing market.

Refer to Note 8 and 1(c) for more details.

(ii) Fair value of investment property

Investment property is carried at fair value, representing open-market value determined by an external valuer. The valuation represents what the investment property can be sold for on a "willing seller – willing buyer" basis in an arm's length transaction. The assumptions used in the estimation of fair value of investment property are discussed in Note 15.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has not made judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

3. 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.

Interest Revenue and Interest Expense	CONSOLIDATED					
	Average Balance \$'000	2007 Interest \$'000	Average Interest Rate %	Average Balance \$'000	2006 Interest \$'000	Average Interest Rate %
Interest earning assets						
Deposits with other banks/ADIs	136,931	8,748	6.39%	128,764	7,149	5.55%
Loans and advances	1,634,845	123,978	7.58%	1,392,225	105,269	7.56%
	1,771,776	132,726	7.49%	1,520,989	112,418	7.39%
Interest bearing liabilities						
Members' deposits	1,023,419	44,271	4.33%	913,412	37,157	4.07%
Borrowings from other banks/ADIs	633,512	42,144	6.71%	516,269	34,529	6.69%
	1,656,931	86,415	5.23%	1,429,681	71,686	5.01%
		2007			2006	
Analysis of net interest income						
Net interest income		46,311			40,732	
Average interest earning assets		1,771,776			1,520,989	
Net interest margin (1)		2.61%			2.68%	
Spread (2)		2.26%			2.38%	

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

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

Notes to the Financial Statements

30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
4. INCOME TAX EXPENSE					
(a) Income tax expense					
Current tax		9,391	5,080	9,885	5,106
Deferred tax		(684)	4,110	573	(104)
(Over) under provided in prior years		314	(260)	314	(79)
		9,021	8,930	10,772	4,923
Deferred income tax expense (revenue) included in income tax expense comprises:					
Decrease (increase) in deferred tax assets (Note 18)		1,406	595	1,322	(61)
Increase (decrease) in deferred tax liabilities (Note 23)		(2,090)	3,515	(749)	(43)
		(684)	4,110	573	(104)
(b) Numerical reconciliation of income tax expense to prima facie tax payable					
Profit before income tax expense		29,447	31,116	35,355	17,068
Prima facie income tax calculated at 30% (2006 - 30%)		8,834	9,335	10,606	5,120
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Non deductible amortisation		63	-	-	-
Tax offset for franked dividends		(155)	(118)	(155)	(118)
Sundry items		(35)	(27)	7	-
		8,707	9,190	10,458	5,002
(Over) under provision in previous year		314	(260)	314	(79)
Income tax expense		9,021	8,930	10,772	4,923
(c) Amounts recognised directly in equity					
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity					
Net deferred tax – debited (credited) directly to equity (Note 23)		530	616	530	616
(d) Franking credits					
Franking credits based on a tax rate of 30%		34,001	30,185	34,001	30,185

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the current tax liability, and
- (ii) franking debits that will arise from the refund receivable of the amount of the current tax asset.

The tax consolidated amounts include franking credits that would be available to the Society if distributable profits of subsidiaries were paid as dividends.

(e) Tax consolidation legislation

The Society and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy on implementation of the legislation is set out in Note 1(j).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, the Society. Under the terms of this agreement, the wholly-owned entities will fully compensate the Society for any current tax payable assumed and are compensated by the Society for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Society under the tax consolidation legislation. The amounts receivable/payable are recognised as tax-related receivable or payable by the Society (see Note 12).

Notes to the Financial Statements

30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
5. CASH AND CASH EQUIVALENTS					
Cash on hand		3,940	4,751	3,892	4,749
Cash and deposits at call with banks		3,329	15,060	2,424	10,270
Cash and deposits at call with other Approved Deposit -Taking Institutions (ADIs)		8,526	4,715	8,526	4,715
		15,795	24,526	14,842	19,734
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS					
Interest earning deposits – banks		15,000	16,500	15,000	16,500
Interest earning deposits – other ADIs		106,000	104,000	106,000	104,000
		121,000	120,500	121,000	120,500
Maturity Analysis					
Not longer than 3 months		65,000	47,500	65,000	47,500
Longer than 3 and not longer than 12 months		52,000	48,000	52,000	48,000
Longer than 1 and not longer than 5 years		4,000	25,000	4,000	25,000
		121,000	120,500	121,000	120,500
The deposits have an effective interest rate of 5.82% to 6.65% (2006: 5.64% to 6.10%).					
7. TRADE AND OTHER RECEIVABLES					
Interest receivable		1,117	1,007	1,117	1,007
Trade debtors - sale of residential lots		1,121	13,793	-	-
Prepayments		925	610	888	608
Amenities and reserve fund fees		2,636	1,024	-	-
Member transaction clearing		2,258	85	2,258	85
Land and property development debtors		1,879	1,120	2,819	1,679
Other		3,217	2,879	1,212	2,234
		13,153	20,518	8,294	5,613
Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists.					
8. LOANS AND ADVANCES					
Revolving credit		140,195	138,131	140,195	138,131
Term loans		1,681,580	1,345,116	1,681,580	1,340,248
Related parties (a)		4,028	3,805	4,028	3,805
		1,825,803	1,487,052	1,825,803	1,482,184
Provision for impairment (d)		(1,153)	(3,545)	(1,153)	(3,545)
Net loans and advances		1,824,650	1,483,507	1,824,650	1,478,639

All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

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 2007 securitised loans under management by the Society amounted to \$657,629,367 (2006: \$504,053,344). This includes \$nil (2006: \$12,476,471) of loans securitised to the Pinnacle Commercial Warehouse Trust No.1 which is consolidated as part of the Group (Note 16(b)). These loans are included in the balance of term loans disclosed above.



Notes to the Financial Statements

30 JUNE 2007	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
8. LOANS AND ADVANCES (cont'd)					
(a) Aggregate amounts receivable from related parties:					
Key management personnel and their related entities		4,028	3,805	4,028	3,805
(b) Maturity Analysis					
Not longer than 3 months		25,176	37,557	25,176	32,690
Longer than 3 and not longer than 12 months		75,659	32,570	75,659	32,570
Longer than 1 and not longer than 5 years		440,427	337,452	440,427	337,452
Longer than 5 years		1,284,541	1,079,473	1,284,541	1,079,472
		1,825,803	1,487,052	1,825,803	1,482,184
(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:					
Western Australian state government employees		301,314	305,033	301,314	305,033
Other		1,524,489	1,182,019	1,524,489	1,177,151
		1,825,803	1,487,052	1,825,803	1,482,184
(d) Provision for impairment					
General provision					
Opening balance		-	2,472	-	2,190
Adjustment on adoption of AASB 132 and AASB 139 (e)		-	(2,472)	-	(2,190)
Closing balance		-	-	-	-
Specific provision					
Opening balance		3,545	3,598	3,545	3,598
Adjustment on adoption of AASB 132 and AASB 139 (e)		-	26	-	26
Bad debts previously provided for written off during the year		(2,224)	(821)	(2,224)	(821)
Bad and doubtful debts provided for/(reversed) during the year		(168)	742	(168)	742
Closing balance		1,153	3,545	1,153	3,545
Total provision for impairment		1,153	3,545	1,153	3,545

Notes to the Financial Statements

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8. LOANS AND ADVANCES (cont'd)

(e) Transition to AASB 132 and AASB 139

The Group took the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. For further information refer to our annual report for the year ended 30 June 2006.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
(f) Bad Debts Written Off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	85	297	85	297
Personal loans	2,024	364	2,024	364
Commercial loans	115	160	115	160
	2,224	821	2,224	821
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps – cash flow hedges	3,097	1,331	3,097	1,331

(a) Transition to AASB 132 and AASB 139

The Group took the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. For further information refer to our annual report for the year ended 30 June 2006.

(b) Terms and conditions

At balance date, the Society has interest rate swap agreements with a notional amount of \$240.9 million (2006: \$126.5 million), on which it pays 5.53% to 7.49% (2006: 5.53% to 6.37%) interest and receives Bank Bill swap rates calculated on the notional amount. The swaps are used to protect the Society from movements on interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance date. The swaps expire between December 2007 and November 2011.

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10. INVENTORIES

	Land Acquisition Costs	Holding Costs	Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
Land held for sale				
2007				
Group Inventory	900	2	63	965
Share of Joint Venture Inventory	3,090	1,540	8,256	12,886
	<u>3,990</u>	<u>1,542</u>	<u>8,319</u>	<u>13,851</u>
2006				
Group Inventory	910	-	63	973
Share of Joint Venture Inventory	2,353	1,012	4,218	7,583
	<u>3,263</u>	<u>1,012</u>	<u>4,281</u>	<u>8,556</u>

Inventory of \$6.7 million (2006: \$6.9 million) is to be recovered greater than 12 months from balance date.

Inventory of \$9.5 million (2006: \$5.0 million) and trade and other receivables of \$0.6 million (2006: \$11.1 million) are pledged as security for borrowings of \$7.1 million (2006: \$10.6 million). The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories was \$0.5 million (2006: \$0.8 million).

Valuation of inventories

	Expenses incurred to balance date	Valuation	Valuation date	Interest held	Beneficial Interest
	\$'000	\$'000			\$'000
The valuations of land being developed by the consolidated entity are as follows:					
"The Reef" at Two Rocks – Two Rocks Road, Two Rocks	12,160	56,850	30 June 2007	75.00%	42,637

"The Reef" at Two Rocks

- The valuation amount shown is based on a Directors Valuation prepared as at 30 June 2007 which is supported by a formal valuation prepared by a licensed valuer dated 31 December 2006.
- The valuation is based on the international definition of Market Value – "Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction, after proper marketing wherein parties had each acted knowledgeably, prudentially and without compulsion".
- Basis of valuation:
 - In relation to the partly developed land, a hypothetical static analysis approach has been undertaken to assess the potential gross realisation to be achieved for the various individual lots to be created, as determined from sales evidence, and reducing this by the estimated costs required to complete the partly developed land for realisation. The remaining undeveloped and vacant urban land holding is valued in its entirety using the direct sales comparison approach with transactions of equivalently sized parcels of land with similar characteristics.
 - The valuation amount is exclusive of GST.
- Expenses incurred to balance date represent all costs attributable to the development as at balance date. Expenses incurred to date of valuation represent all costs attributable to the development as at the date of valuation.
- As at 30 June 2007, revenue of \$6.1 million (2006: \$14.7 million) has been recognised with expenses incurred of \$3.6 million (2006: \$9.9 million) in relation to lots sold at "The Reef" at Two Rocks. This represents 22 lots (2006: 75 lots) out of an estimated total of 704 lots.

"The Grove at Ashby", Wanneroo

- A Directors Valuation has not been prepared for this development.
- The development is substantially completed with approximately 5.0% of the development remaining.
- The development is coordinated by the Satterley Property Group. The share of the joint venture held is 14.29%.
- As at 30 June 2007 the net assets of the joint venture were \$5.1 million.

"The Enclave" at Eagle Bay & Lot 19 Woolcott Road, Henley Brook

- A Directors Valuation has not been prepared for this development.

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in CUSCAL	2,888	2,888	2,888	2,888
Opening balance at 1 July	2,888	-	2,888	-
Reclassification on adoption of AASB 132 and AASB 139	-	3,610	-	3,610
Return of capital	-	(722)	-	(722)
Closing balance at 30 June	2,888	2,888	2,888	2,888

(a) Transition to AASB 132 and AASB 139

The Group took the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. For further information refer to our annual report for the year ended 30 June 2006.

(b) Unlisted securities – Investments in CUSCAL

The investment in CUSCAL is measured at cost as according to its constitution, the equity instruments can only be sold to another credit union at paid up value and therefore do not have a quoted market price in an active market. Additionally, the fair value cannot be reliably measured as there is no publicly available information. The investment is required to enable the Society to use financial services provided by CUSCAL.

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
12. DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (Assets)				
Amounts receivable from controlled entities	-	-	7,877	5,714
Tax related amounts receivable from controlled entities	-	-	4,248	340
Deferred securitisation receivable	-	-	-	4,868
	-	-	12,125	10,922
Due to controlled entities (Liabilities)				
Amounts payable to controlled entities	-	-	985	1,847
Tax related amounts payable to controlled entities	-	-	4,337	296
	-	-	5,322	2,143

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13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Associate	Principal Activity	Ownership Interest		Carrying Amount		Carrying Amount	
		2007	2006	2007	2006	2007	2006
		%	%	\$'000	\$'000	\$'000	\$'000
Police & Nurses Financial Planning Pty Ltd	Financial planning	65.00	35.00	-	945	-	-

Police & Nurses Financial Planning Pty Ltd (formerly IGP Financial Services Pty Ltd) is incorporated in Australia.

Following the purchase of an additional 30% interest in Police & Nurses Financial Planning Pty Ltd on 4 August 2006, the entity was controlled by the Society and is consolidated into the Group's results. Refer to Note 34 for details.

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	2007	2006
	\$'000	\$'000
Movements in carrying amounts of investments accounted for using the equity method		
Carrying amount at the beginning of the financial year	945	951
Share of associate's profits/(losses)	-	28
Dividends received/receivable	-	(34)
Investments consolidated due to controlling interest acquired	945	-
Carrying amount at the end of the financial year	-	945
Results attributable to investor		
Profits before related income tax	-	55
Income tax expense	-	(27)
Profits after related income tax	-	28
Group's share of the income and balance sheet of associates		
Profits after related income tax	-	33
Revenue	-	318
Assets	-	203
Liabilities	-	100

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
14. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	3,387	3,241	3,371	3,225
Provision for amortisation	(2,239)	(1,860)	(2,226)	(1,850)
	1,148	1,381	1,145	1,375
Plant and equipment				
At cost	10,085	10,037	9,974	10,014
Provision for depreciation	(7,744)	(7,438)	(7,702)	(7,416)
	2,341	2,599	2,272	2,598
Total property, plant and equipment	3,489	3,980	3,417	3,973

Reconciliation of the carrying amounts of each class of property, plant and equipment

	Freehold Land	Buildings under Construction	Leasehold Improvements	Plant & Equipment	Plant & Equipment In Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated						
Carrying amount at 1 July 2005	1,260	9,565	1,428	3,234	110	15,597
Additions	-	3,190	494	851	-	4,535
Disposals	-	-	(4)	(193)	-	(197)
Transfers in/(out)	-	-	-	110	(110)	-
Transfers to investment properties	(1,260)	(12,590)	-	-	-	(13,850)
Depreciation expense	-	(165)	(537)	(1,403)	-	(2,105)
Carrying amount at 30 June 2006	-	-	1,381	2,599	-	3,980
Carrying amount at 1 July 2006	-	-	1,381	2,599	-	3,980
Additions	-	-	353	1,113	-	1,466
Disposals	-	-	(41)	(87)	-	(128)
Depreciation expense	-	-	(545)	(1,284)	-	(1,829)
Carrying amount at 30 June 2007	-	-	1,148	2,341	-	3,489
Parent entity						
Carrying amount at 1 July 2005	-	-	1,419	3,232	110	4,761
Additions	-	-	494	852	-	1,346
Disposals	-	-	(4)	(193)	-	(197)
Transfers in/(out)	-	-	-	110	(110)	-
Depreciation expense	-	-	(534)	(1,403)	-	(1,937)
Carrying amount at 30 June 2006	-	-	1,375	2,598	-	3,973
Carrying amount at 1 July 2006	-	-	1,375	2,598	-	3,973
Additions	-	-	353	1,043	-	1,396
Disposals	-	-	(41)	(88)	-	(129)
Depreciation expense	-	-	(542)	(1,281)	-	(1,823)
Carrying amount at 30 June 2007	-	-	1,145	2,272	-	3,417

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
15. INVESTMENT PROPERTIES				
At fair value				
Opening balance	22,772	-	-	-
Net transfer (to) from property, plant & equipment	(47)	13,850	-	-
Net gain from fair value adjustment	2,163	8,922	-	-
Closing balance	24,888	22,772	-	-

(a) Description of investment property

The investment property is the Jacaranda Gardens Retirement Village, owned by the Jacaranda Gardens Partnership, in which the Group has an 80% interest.

(b) Amounts recognised in profit and loss for investment property

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Other income - amenities fees, reserve fund contribution revenue and interest	2,026	767	-	-
Direct operating expenses from property that generated other income	(59)	(758)	-	-
Net gain from fair value adjustment	2,163	8,922	-	-
	4,130	8,931	-	-

The investment property was transferred from property, plant & equipment as of 30 June 2006.

(c) Valuation

Valuation basis

The basis of the valuation of the investment property is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction. The 30 June 2006 and 30 June 2007 valuation was based on an independent assessment made by a Certified Practising Valuer who is a member of the Australian Property Institute. The valuation is on the basis that the property must be sold as a whole and continue to be operated as a retirement village. Additionally, it is a requirement of the lease contract entered into with the residents for the community facilities of the retirement village to be maintained.

Assumptions underlying the valuation

The value of the investment property is attributable to the future amenities fee income. This value has been determined by the valuer on an assessment of discounted cashflows over a period of 30 years. The discounted cashflows are based on the following assumptions:

- (i) unit values are based on a weighted average of \$440,000 per unit;
- (ii) escalation factor attributable to the unit values which is the market determined long-term growth rate for residential property;
- (iii) unit re-leasing rate equivalent to a comparison of current residents to life expectancy tables produced by the Australian Bureau of Statistics for Western Australia, coupled with a market determined rate of re-leasing occurring for reasons other than death;
- (iv) rate of amenities fee income based on the length of anticipated occupancy;
- (v) allocation to a sinking fund for future capital maintenance being 15% of anticipated income, commencing in year nine;
- (vi) discount rate of 12% per annum pre-tax; and
- (vii) current prevailing economic conditions.

The escalation factor and unit resale rate are based on historical external data and are not necessarily indicative of patterns that may occur. It is not possible to predict with accuracy the impact of future fluctuations in economic conditions on valuations in the future. Based on current knowledge, it is not anticipated that a material adjustment to the investment property will occur during the next annual reporting period.

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15. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

Representation of valuation in financial statements

The valuation resulted in a net value of \$8.100 million (2006:\$4.320 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2007	2006
	\$'000	\$'000
Net value of property transferred from property, plant & equipment	13,850	13,850
Add: Transfer (to)/from inventories	(46)	-
Net gain from fair value adjustment	11,084	8,922
Investment property asset	24,888	22,772
Included in property plant and equipment	53	-
Add: Amenities fees and reserve fund contribution revenue (Other receivables)	2,636	1,025
Less: Lease loan sum liability (Note 20)	(19,477)	(19,477)
	<u>8,100</u>	<u>4,320</u>

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
16. OTHER FINANCIAL ASSETS				
Investments in controlled entities	-	-	3,083	1,658

Consolidated	Interests in Controlled Entities		Shares Held in Controlled Entities		Shares Held in Controlled Entities	
	2007 %	2006 %	2007 \$	2007 \$	2006 \$	2006 \$
All controlled entities are incorporated in Australia and are ultimately controlled by the Society. The controlled entities are as follows:						
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	-	-	2	40,000
PCU Trading Pty Ltd *	-	100	-	-	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	-	-	125,000	-
National Home Loans Pty Ltd	100	100	61,500	-	61,500	-
Jacaranda Gardens Partnership	80	80	-	-	-	-
Police & Nurses Financial Planning Pty Ltd (a)	65	-	2,550,080	-	-	-
Pinnacle Commercial Warehouse Trust No.1 (b)	-	100	-	-	-	-
			3,083,483	19,999	658,406	159,998

* These subsidiaries were deregistered on 23 July 2006.

(a) Police & Nurses Financial Planning Pty Ltd

The Society acquired an additional 30% interest in Police & Nurses Financial Planning Pty Ltd (formerly IGP Financial Services Pty Ltd) on 4 August 2006. Prior to this date the Society held a 35% non-controlling interest in the entity. Police & Nurses Financial Planning Pty Ltd formed part of the consolidated Group from 4 August 2006. Refer to Note 34 for details.

(b) 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 Trust was consolidated as part of the Group until 17 November 2006, at which time the Trust was wound up.

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
17. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	1,572	-	-	-
Computer software (ii)				
At cost	10,113	9,529	10,113	9,529
Accumulated amortisation	(5,926)	(4,935)	(5,926)	(4,935)
	4,187	4,594	4,187	4,594
Client list (iii)				
At cost	1,861	-	-	-
Accumulated amortisation	(210)	-	-	-
	1,651	-	-	-
Total intangible assets	7,410	4,594	4,187	4,594

Reconciliation of the carrying amounts of each class of intangible assets

(i) Goodwill				
Opening carrying amount	-	-	-	-
Acquisition of subsidiary	1,572	-	-	-
Net book amount	1,572	-	-	-
(ii) Computer software				
Opening carrying amount	4,594	3,165	4,594	3,165
Additions	584	2,310	584	2,310
Amortisation charge *	(991)	(881)	(991)	(881)
Net book amount	4,187	4,594	4,187	4,594
(iii) Client list				
Opening carrying amount	-	-	-	-
Acquisition of subsidiary	1,861	-	-	-
Amortisation charge *	(210)	-	-	-
Net book amount	1,651	-	-	-

* The amortisation charge is included in depreciation and amortisation in the income statement.

(a) Impairment tests for goodwill

Goodwill acquired is in relation to Police & Nurses Financial Planning Pty Ltd (formerly IGP Financial Services Pty Ltd). The recoverable value of the goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

(b) Key assumptions used for value-in-use calculations

Management determined value-in-use based on past performance and its expectations for the future. The discount rates used reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd.

(c) Impact of possible changes in key assumptions

Management does not consider a significant change in any of the key assumptions to be reasonably possible.

(d) Impairment charge

The impairment tests for goodwill determined no charge for impairment was required.

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	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
18. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Doubtful debts	346	1,063	346	1,063
Employee benefits	441	687	442	675
Accruals	114	44	92	41
Other provisions	-	11	-	10
Inventory	-	89	-	-
Depreciation	-	413	-	413
	901	2,307	880	2,202
Offset to/from deferred tax liabilities (Note 23)	(901)	(2,307)	(880)	(1,633)
Net deferred tax assets	-	-	-	569
 Movements:				
Opening balance	2,307	3,636	2,202	2,875
Change on adoption of AASB 132 and AASB 139 (Note 24)	-	(734)	-	(734)
(Charged)/credited to the income statement (Note 4)	(1,406)	(595)	(1,322)	61
Closing balance	901	2,307	880	2,202

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
19. MEMBERS' DEPOSITS				
Call deposits	419,144	379,076	418,697	383,101
Term deposits	647,329	595,611	647,329	595,611
Withdrawable shares (a)	642	673	642	673
Related parties (b)	321	601	321	601
	1,067,436	975,961	1,066,989	979,986
Maturity Analysis				
On call	420,234	380,189	419,786	384,214
Not longer than 3 months	426,669	411,042	426,669	411,042
Longer than 3 and not longer than 12 months	165,265	177,788	165,265	177,788
Longer than 1 and not longer than 5 years	55,268	6,842	55,269	6,842
Longer than 5 years	-	100	-	100
	1,067,436	975,961	1,066,989	979,986
Concentration of deposits				
WA State government employees	224,131	211,686	224,131	211,686
Other entities	843,305	764,275	842,858	768,300
	1,067,436	975,961	1,066,989	979,986

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

Interest is calculated on a daily balance outstanding.

- (a) Withdrawable shares are member shares that are redeemable on demand, subject to certain conditions. There were 68,068 (2006: 71,268) member shares on issue at the end of the year.
- (b) Deposits for related parties are in relation to key management personnel and their related entities.

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
20. TRADE AND OTHER PAYABLES				
Accrued interest payable	8,214	8,681	8,214	8,681
Securitised loan repayments payable	33,387	25,906	33,387	25,906
Lease loan sums (Note 15)	19,477	19,477	-	-
Other payables	17,212	12,580	14,388	12,276
	78,290	66,644	55,989	46,863

Trade and other payables are normally settled on 30 day terms.

21. BORROWINGS

Secured

- Overdrafts from other ADIs (a)	7,681	1,924	7,681	1,924
- Loans from other ADIs (b)	57,174	10,625	51,821	-
- Notes payable (c)	-	13,091	-	-
- Securitised borrowings	657,629	490,506	657,629	498,115
	722,484	516,146	717,131	500,039

(a) Interest charged on overdrafts from other ADIs is at the bank's benchmark rate. Details of the security over the bank overdrafts are set out in Note 27.

(b) Interest charged on loans from other ADIs is at the financial institutions floating rate. The securities for loans from other ADIs are described in Note 10.

(c) The notes were issued to fund the securitisation program described in Note 16(b). The notes were secured by the underlying securitised loans. Repayments were made to noteholders during the year.

(d) Transition to AASB 132 and AASB 139

The Group took the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. For further information refer to our annual report for the year ended 30 June 2006.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Maturity Analysis				
Not longer than 3 months	7,681	1,924	7,682	1,924
Longer than 3 and not longer than 12 months	7,174	23,716	1,820	-
Longer than 1 and not longer than 5 years	707,629	490,506	707,629	498,115
Longer than 5 years	-	-	-	-
	722,484	516,146	717,131	500,039

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	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
22. PROVISIONS				
Employee benefits	418	471	402	459
23. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	7	4	5	4
Receivables	345	641	44	388
Intangible assets	799	842	204	842
Temporary differences in respect of partnerships	-	554	-	-
Fair value adjustment to investment property	3,325	2,677	-	-
Interest in joint ventures	-	1,522	-	-
Depreciation	232	-	232	-
	4,708	6,240	485	1,234
Amounts recognised directly in equity				
Cash flow hedges	929	399	929	399
	5,637	6,639	1,414	1,633
Offset to/from deferred tax assets (Note 18)	(901)	(2,307)	(880)	(1,633)
Net deferred tax liabilities	4,736	4,332	534	-
Movements:				
Opening balance	6,639	2,725	1,633	1,277
Change on adoption of AASB 132 and AASB 139 (Note 24)	-	(217)	-	(217)
Charged/(credited) to the income statement (Note 4)	(2,090)	3,515	(749)	(43)
Charged to equity	530	616	530	616
Charged to Investment in controlled entities (Note 34)	558	-	-	-
Closing balance	5,637	6,639	1,414	1,633

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
24. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	115,000	105,000	115,000	105,000
Share capital reserve (b)	535	492	535	492
Hedging reserve – cash flow hedges (c)	2,168	932	2,168	932
	117,703	106,424	117,703	106,424
Retained earnings				
Balance at beginning of year	21,465	8,736	12,865	9,048
Reversal of equity accounting loss prior to consolidation	57	-	-	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (Note 8, 18 and 23)	-	1,710	-	1,710
Profit for the year	19,653	21,057	24,581	12,145
Total available for appropriation	41,175	31,503	37,446	22,903
Aggregate of amounts transferred to reserves	(10,043)	(10,038)	(10,043)	(10,038)
Balance at end of year	31,132	21,465	27,403	12,865
(a) General reserve				
Balance at beginning of year	105,000	95,000	105,000	95,000
Transfer from retained profits	10,000	10,000	10,000	10,000
Balance at end of year	115,000	105,000	115,000	105,000

Nature and purpose of general reserve

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

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(b) Share capital reserve				
Balance at beginning of year	492	454	492	454
Transfer from retained profits	43	38	43	38
Balance at end of year	535	492	535	492

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 1 capital.

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
24. RESERVES AND RETAINED EARNINGS (cont'd)				
(c) Hedging reserve – cash flow hedges				
Balance at beginning of year	932	-	932	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (Note 9 and Note 23)	-	(505)	-	(505)
Revaluation – gross	1,766	2,053	1,766	2,053
Deferred tax (Note 23)	(530)	(616)	(530)	(616)
Balance at end of year	2,168	932	2,168	932

Nature and purpose of hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(p). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

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	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
25. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the profit after tax to the net cash flows from operations				
Profit after income tax	20,426	22,186	24,582	12,145
Depreciation and amortisation	2,952	2,986	2,729	2,817
Bad and doubtful debts	(168)	742	(168)	742
Bad debts recovered	(130)	(136)	(130)	(136)
Loss/(gain) on disposal of property, plant and equipment	(99)	(16)	38	(16)
Dividend received	(361)	(361)	(13,461)	(584)
Share of net profit of associates	-	(28)	-	-
Increase/(decrease) in employee benefits provisions	1,018	(69)	1,015	(71)
(Increase)/decrease in loan interest receivable	(110)	645	(110)	645
Decrease in investment income receivable	-	400	-	400
Increase in other receivables	(5,006)	(2,630)	(2,981)	(2,008)
Decrease/(increase) in debtors from sale of land	12,672	(9,183)	-	-
(Increase)/decrease in inventory	(5,296)	6,162	-	-
Increase in loans and advances	(340,846)	(197,924)	(340,846)	(197,500)
Increase in members' deposits	91,506	120,572	87,034	124,307
(Decrease)/increase in member interest payable	(467)	913	(467)	913
Increase in accrued expenses and trade and other payables	10,958	26,045	8,522	16,920
Increase in current tax liabilities	4,445	2,915	4,465	2,915
(Decrease)/increase in deferred tax assets	-	394	(310)	512
(Decrease)/increase in deferred tax liabilities	(1,081)	3,716	884	(616)
Increase/(decrease) in sundry debtors and prepayments	(191)	(319)	410	(386)
Fair value adjustment to investment property	(2,162)	(8,922)	-	-
Increase in tax related amount receivable	-	-	(3,907)	(70)
(Decrease)/increase in tax related amount payable	-	-	4,041	(324)
Net cash outflow from operating activities	(211,940)	(31,912)	(228,660)	(39,395)
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
- Cash (Note 5)	15,795	24,526	14,842	19,734
- Bank overdraft (Note 21)	(7,681)	(1,924)	(7,681)	(1,924)
Closing cash and cash equivalents balance	8,114	22,602	7,161	17,810

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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
26. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– payable not later than one year	-	289	-	-
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than 1 year	2,645	2,112	2,645	2,112
– later than 1 and not later than 5 years	2,237	1,500	2,237	1,500
– later than 5 years	21	-	21	-
Aggregate lease expenditure contracted for at balance date	4,903	3,612	4,903	3,612
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
– payable not later than one year	1,403	694	-	-
27. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	251,532	196,147	251,532	196,147

The Society has entered into the following financing 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 2007)
 - Multi Option Wholesale Facility (Uncommitted): \$35,000,000 (Unused as at 30 June 2007)
 - Derivatives Guarantee Facility: \$2,000,000 (\$863,000 used as at 30 June 2007)
 - Overdraft: \$2,000,000 (\$2,000,000 used as at 30 June 2007)
 - Wholesale Funding Multi-Option Facility: \$50,000,000 (fully drawn as at 30 June 2007)

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 and the Wholesale Funding Multi-Option 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 2007. 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 Union 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.



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	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
28. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	2,226,672	2,166,175	2,226,672	2,166,175
Short-term employee benefits	2,092,433	1,842,853	2,092,433	1,842,853
Long-term employee benefits	-	87,142	-	87,142
Post-employment benefits	134,239	130,126	134,239	130,126
Termination benefits	-	106,054	-	106,054
	2,226,672	2,166,175	2,226,672	2,166,175

Persons who had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, during the financial year are considered to be key management personnel.

As members of the Society, the key management personnel and their related entities have available to them all of the services under normal member terms and conditions. These loans outstanding to key management personnel and their related entities as at 30 June 2007 amounted to \$1,633,232 (2006: \$1,536,707). During the year loan advances amounted to \$821,951 (2006: \$737,662) and repayments amounted to \$814,751 (2006: \$655,341). Interest on these loans amounted to \$114,208 (2006: \$93,183). All of these loans are secured, except loan balances of \$58,711 (2006: \$9,102).

In addition, to encourage recruitment and retention of employees, the Society offers staff discounts primarily in relation to home loans (up to certain limits), to which a discount to the market interest rate of up to 0.75% is offered. As employees of the Society, key management personnel that are not directors can access these discounts. The total of these loans outstanding as at 30 June 2007 amounted to \$2,995,823 (2006: \$2,268,517). During the year loan advances amounted to \$1,506,671 (2006: \$2,062,147) and repayments amounted to \$948,570 (2006: \$1,578,630). Interest on these loans amounted to \$145,051 (2006: \$177,854). All of these loans are secured, except loan balances of \$15,461 (2006: \$29,009).

The terms and conditions in respect of all loans to key management personnel and their related entities have not been breached.

All key management personnel and their related entities have placed deposits with the Society during the year under normal member terms and conditions. The balance of these deposits as at 30 June 2007 amounted to \$320,587 (2006: \$601,305). During the year additional deposits amounted to \$2,544,031 (2006: \$3,063,408) and withdrawals amounted to \$2,822,592 (2006: \$3,079,726). Interest on these deposits amounted to \$25,306 (2006: \$19,873).

Each current key management person holds one member share in the Society.

Notes to the Financial Statements

30 JUNE 2007

CONSOLIDATED

POLICE & NURSES
CREDIT SOCIETY LTD

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
29. 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	187	164	148	130
- other assurance services	-	36	-	36
	187	200	148	166
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers:				
- income tax advice	23	33	17	33
- GST advice	-	-	-	-
- fringe benefits tax advice	9	7	7	7
- other tax advice	-	22	-	3
- advice in relation to AIFRS	-	40	2	40
- other	2	17	-	17
	34	119	26	100
Total auditor's remuneration	221	319	174	266

30. INTERESTS IN JOINT VENTURES

Jointly controlled assets

A controlled entity has entered into the following joint venture activities, all of which are subject to joint control:

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, 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 balance sheet, in accordance with the accounting policy described in Note 1(b), under the following classifications:

Notes to the Financial Statements

30 JUNE 2007

30. INTERESTS IN JOINT VENTURES (cont'd)

	CONSOLIDATED	
	2007	2006
	\$'000	\$'000
Trade and other receivables	4,767	14,902
Inventories (land held for sale)	12,172	7,583
Share of assets employed in joint ventures	16,939	22,485

31. RELATED PARTY DISCLOSURES

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 accounting tax sharing agreement described in Note 4.

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.

	POLICE & NURSES CREDIT SOCIETY LTD	
	2007	2006
	\$'000	\$'000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the wholly-owned group:		
Interest revenue	1,185	4,010
Dividend revenue	13,100	189
Other fee revenue	135	239
Aggregate amounts receivable from entities in the wholly-owned group at balance date	7,877	5,714

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2007	2006	2007	2006
	No.	No.	No.	No.
32. EMPLOYEE NUMBERS				
Number of employees at reporting date	317	310	303	306
Full time equivalents at reporting date	285	281	274	277

Notes to the Financial Statements

30 JUNE 2007

33. 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 members' deposits are set out in Notes 8 and 19. The consolidated entity is also involved in property development activities through the development of residential land in Western Australia, including the development of a retirement village through the Jacaranda Gardens Partnership, which was completed during the 2006 financial year. Since the completion of this development, the consolidated entity has reclassified this as an investment property.

2007	Services to Members	Property Development	Retirement Village Unallocated	Inter-segment Eliminations\	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Net interest income from external customers	46,311	-	-	-	46,311
Inter-segment interest income	1,185	-	-	(1,185)	-
Net interest income	47,496	-	-	(1,185)	46,311
Sales to external customers	-	10,309	-	-	10,309
Share of net profits of associates	-	-	-	-	-
Other revenue/income	20,455	25	4,189	(52)	24,617
Total segment revenue/income	67,951	10,334	4,189	(1,237)	81,237
Segment result	21,920	2,984	4,130	413	29,447
Profit before income tax expense					29,447
Income tax expense					9,021
Profit for the year					20,426
Segment assets	2,002,793	14,314	31,443	(18,329)	2,030,221
Segment liabilities	1,852,047	23,587	19,621	(18,031)	1,877,224
Investments in associates and joint venture partnerships	-	-	-	-	-
Acquisitions of property, plant and equipment and intangible assets	5,484	-	-	-	5,484
Depreciation and amortisation expense	2,952	-	-	-	2,952
Other non-cash expenses	648	-	-	-	648

Notes to the Financial Statements

30 JUNE 2007

33. SEGMENT INFORMATION (cont'd)

2006	Services to Members	Property Development	Retirement Village Unallocated	Inter-segment Eliminations\	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Net interest income from external customers	40,732	-	-	-	40,732
Inter-segment interest income	4,010	-	-	(4,010)	-
Net interest income	44,742	-	-	(4,010)	40,732
Sales to external customers	-	24,232	-	-	24,232
Share of net profits of associates	28	-	-	-	28
Other revenue/income	15,745	811	8,922	(223)	25,255
Total segment revenue/income	60,515	25,043	8,922	(4,233)	90,247
Segment result	17,270	4,990	8,922	(66)	31,116
Profit before income tax expense					31,116
Income tax expense					8,930
Profit for the year					22,186
Segment assets	1,654,202	23,814	27,743	(11,642)	1,694,117
Segment liabilities	1,534,520	19,790	22,232	(11,346)	1,565,196
Investments in associates and joint venture partnerships	945	-	-	-	945
Acquisitions of property, plant and equipment and intangible assets	3,655	3,190	-	-	6,845
Depreciation and amortisation expense	2,821	165	-	-	2,986
Other non-cash expenses	1,338	-	-	-	1,338

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.

Notes to the Financial Statements

30 JUNE 2007

34. BUSINESS COMBINATIONS

(a) Summary of acquisition

On 4 August 2006 the parent entity acquired 30% of the issued share capital of Police & Nurses Financial Planning Pty Ltd (formerly IGP Financial Services Pty Ltd). The parent entity previously held a 35% interest in the issued share capital of Police & Nurses Financial Planning Pty Ltd. The total interest held in Police & Nurses Financial Planning Pty Ltd from 4 August 2006 is a controlling interest of 65% and has been consolidated into the results of the Group from this date.

The acquired business contributed net profit of \$48,630 to the Group for the period from 4 August 2006 to 30 June 2007. If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated profit for the year ended 30 June 2007 would have been \$2,063,939 and \$45,075, respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the intangible assets had applied from 1 July 2006, together with the consequential tax effects.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	4 August 2006 acquisition (65%)
	\$'000
Purchase consideration (refer to (b) below in relation to 4 August 2006 acquisition)	
Cash paid	2,586
Direct costs relating to the acquisition	10
Total purchase consideration	<u>2,596</u>
Fair value of net identifiable assets acquired (refer to (c) below)	1024
Goodwill (refer to (c) below and Note 17)	<u>1,572</u>

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
(b) Purchase consideration				
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	2,586	-	2,586	-
Less: Balances acquired				
Cash	264	-	-	-
Net outflow of cash	<u>2,322</u>	<u>-</u>	<u>2,586</u>	<u>-</u>

Notes to the Financial Statements

30 JUNE 2007

34. BUSINESS COMBINATIONS (cont'd)

2006	Acquiree's carrying amount	Fair value
	\$'000	\$'000
(c) Assets and liabilities acquired		
The assets and liabilities arising from the acquisition are as follows:		
Cash	405	405
Trade receivables	192	192
Plant and equipment	33	33
Intangible assets: client list	-	1,861
Trade payables	(302)	(302)
Provision for employee benefits	(80)	(80)
Deferred tax liability	23	(558)
Net assets	<u>248</u>	<u>1551</u>
Minority interests		<u>(527)</u>
Net identifiable assets acquired		<u>1,024</u>

The goodwill is attributable to the workforce of the acquired business. The fair value of assets and liabilities acquired are based on discounted cash flow models. There were no acquisitions in the year ended 30 June 2006.

35. FINANCIAL INSTRUMENTS

(a) Financial risk management and objectives and policies

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to:

- meet its financial commitments as and when they fall due;
- meet abnormal cash flow and liquidity risks including excessive withdrawals, excessive demand for loan funding, concentration of large deposits, slow or irregular deposits, concentration of maturing term deposits, increase in interest rate sensitivity of products and large unplanned expenditure;
- meet extreme liquidity pressure such as a run on deposits;
- meet the Society's obligations under CUFSS (refer Note 27(v)); and
- sustain prescribed minimum High Quality Liquid Asset ratio as contained in APRA Minimum Liquidity Requirements standard APS 210.

The Group continually monitors and tests its forecast financial position against these criteria and, in general, will undertake hedging activity only when necessary to ensure that these objectives are achieved.

Interest rate and credit risk arise in the normal course of the Group's business. These risks are managed through Board-approved policies and processes. The Group's principal financial instruments comprise loans & advances, members' deposits, interest-bearing borrowings, cash, short-term deposits and derivatives. Other financial instruments include trade and other receivables and payables, which arise directly from operations.

Notes to the Financial Statements

30 JUNE 2007

35. 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 Balance Sheet		Weighted Average Effective Interest Rate		
	Rate		Less than 1 year		1 year to less than 5 years		5 years or more		Bearing		Amount as per the Balance Sheet		Rate		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
(i) Financial assets															
Cash and cash equivalents	11,855	19,775	-	-	-	-	-	-	3,940	4,751	15,795	24,526	N/A	N/A	N/A
Due from other financial institutions	-	-	117,000	95,500	4,000	25,000	-	-	-	-	121,000	120,500	6.16	5.87	5.87
Unlisted shares - investment in CUSCAL	-	-	-	-	-	-	-	-	2,888	2,888	2,888	2,888	N/A	N/A	N/A
Loans and advances*	914,039	848,897	665,868	520,458	245,896	117,697	-	-	-	-	1,825,803	1,487,052	7.58	7.38	7.38
Trade and other receivables	-	-	-	-	-	-	-	-	13,153	20,518	13,153	20,518	N/A	N/A	N/A
Interest rate swaps	240,945	126,455	(35,302)	(21,300)	(202,546)	(105,155)	-	-	-	-	3,097	1,331	**	**	**
Total financial assets	1,166,839	995,127	747,566	594,658	47,350	37,542	-	-	19,981	28,157	1,981,736	1,656,815	-	-	-
(ii) Financial liabilities															
Overdrafts from other ADIs	7,681	1,924	-	-	-	-	-	-	-	-	7,681	1,924	11.35	10.85	10.85
Members' deposits	420,233	380,189	591,935	588,157	55,268	6,842	-	-	-	673	1,067,436	975,961	4.59	4.08	4.08
Loans from other ADIs	5,354	10,625	51,820	-	-	-	-	-	-	-	57,174	10,625	6.85	7.69	7.69
Notes payable	-	13,091	-	-	-	-	-	-	-	-	-	13,091	-	8.03	8.03
Securitised borrowings	-	-	-	490,506	657,629	-	-	-	-	-	657,629	490,506	6.75	6.42	6.42
Trade and other payables	-	-	-	-	-	-	-	-	77,218	66,644	77,218	66,644	N/A	N/A	N/A
Total financial liabilities	433,268	405,829	643,755	1,078,663	712,897	6,842	-	-	77,218	67,317	1,867,138	1,558,751	-	-	-

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

* provisions for impairment of \$1.153 million (2006: \$3.545 million) have been made against total loans and advances

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

Notes to the Financial Statements

30 JUNE 2007

35. 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 balance sheet		Aggregate net fair value	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	15,795	24,526	15,795	24,526
Due from other financial institutions	121,000	120,500	121,000	120,500
Unlisted shares – investment in CUSCAL	2,888	2,888	2,888	2,888
Loans and advances	1,825,803	1,487,052	1,825,446	1,482,660
Trade and other receivables	13,153	20,518	13,153	20,518
Interest rate swaps	3,097	1,331	3,097	1,331
Total financial assets	1,981,736	1,656,815	1,981,378	1,652,423
Financial liabilities				
Overdrafts from other ADIs	7,681	1,924	7,681	1,924
Members' deposits	1,067,436	975,961	1,067,394	975,804
Loans from other ADIs	57,174	10,625	57,174	10,625
Notes payable	-	13,091	-	13,091
Securitised borrowings	657,629	490,506	657,629	490,506
Trade and other payables	77,218	66,644	77,218	66,644
Interest rate swaps	-	-	-	-
Total financial liabilities	1,867,138	1,558,751	1,867,096	1,558,594

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash and cash equivalents and due from other financial institution - 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 institution - 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.

Securitised borrowings - the carrying amount approximates fair value.

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.

Notes to the Financial Statements

30 JUNE 2007

35. 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 balance sheet.

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	
	2007	2006	2007	2006
Western Australian state government employees	16.5%	31.0%	301,314	455,128
Other non-concentrated	83.5%	69.0%	1,524,489	1,031,924
	100.0%	100.0%	1,825,803	1,487,052

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. Where effective, these derivatives are accounted for as cash flow hedges.

Directors' Declaration

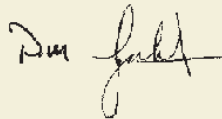
In the directors' opinion:

- (a) the financial statements and notes set out on pages 16 to 57 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 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 2007 and of their performance, as represented by the results of their operations, changes in equity 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

Date : 27 August 2007
PERTH WA

Independent Audit Report



Independent auditor's report to the members of Police & Nurses Credit Society Ltd

Report on the financial report

We have audited the accompanying financial report of Police & Nurses Credit Society Ltd, which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Police & Nurses Credit Society Ltd (the company) and the Police & Nurses Credit Society Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Independent Audit Report



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 (the consolidated entity) for the financial year ended 30 June 2007 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's 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 and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. 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.

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Police & Nurses Credit Society Ltd is in accordance with the *Corporations Act 2001*, including:
- i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.


PricewaterhouseCoopers


Justin Carroll

Partner
PricewaterhouseCoopers

Perth
27 August 2007



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Sandridge Road

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Shop 1003, Westfield Carousel Shopping
Centre
1382 Albany Highway

Fremantle
Shop 18, 35 William Street

Joondalup
Shop 62, Lakeside Joondalup Shopping Centre
420 Joondalup Drive

Maddington
Shop 61, Centro Maddington
Attfield Street

Mandurah
Shop 54A, Centro Mandurah
Mandurah Bypass Road

Midland
Shop T49, Midland Gate Shopping Centre
Great Eastern Highway

Morley
2A Progress Street

Ocean Keys
Shop 56, Ocean Keys Shopping Centre
Ocean Keys Boulevard

Perth
246 Adelaide Terrace

Rockingham
Shop 48, Rockingham City Shopping Centre
Read Street

Warwick
Shop 80A, Centro Warwick
Cnr Beach & Erindale Roads

Whitfords
Shop 158, Westfield Whitford City Shopping
Centre
Cnr Whitfords & Marmion Avenues

