POLICE & NURSES
CREDIT SOCIETY

2006 Annual Report

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

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

Registered Office

Police & Nurses Credit Society Ltd

ABN 69 087 651 876

246 Adelaide Terrace

Perth 6000 Western Australia

Telephone No. 13 25 77

Chief Executive Officer & Company Secretary

A E (Fred) Huis

External Auditors

PricewaterhouseCoopers

Internal Auditors

KPMG

PNCS Group Financial Highlights	2001/02[1]	2002/03[1]	2003/04[1]	2004/05[2]	2005/06[3]	Growth[4]
	$'000s	$'000s	$'000s	$'000s	$'000s	
Net profit after tax and before minority interest	15,991	10,007	7,720	9,921	22,186	123.63%
Total assets under management[5]	1,365,849	1,470,271	1,312,871	1,466,088	1,694,117	15.40%
Member Deposits	605,002	712,023	791,293	855,394	975,961	14.09%
Total loans under management[5]	925,094	1,106,421	1,189,890	1,289,814	1,487,052	15.29%
Reserves	76,465	86,991	94,191	104,093	128,921	22.43%

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 Determined with reference to 1 July 2005 AIFRS balances
5 Includes off balance sheet loans

Contents

Chairman's Report

Chairman, E L SMITH

I am pleased to present the 2006 Annual Report for Police & Nurses Credit Society.

It has been another outstanding year for us, where we continued to consolidate our position as Western Australia's leading credit union.

As a mutual organisation, our business model is fundamentally different to that of publicly listed companies, such as banks. Unlike banks, we do not pay dividends to external shareholders. This means that all profits are reinvested back into the Society for the benefit of members and customers through lower fees, competitive rates and better services, products and technology.

As such, this year's record profit of over $21 million is good news for all members and customers of the Society.

A major part of our mutuality is the commitment we have to the communities in which we operate. In the 2006 financial year the Society contributed over $400,000 in sponsorship to over 70 different community groups, bond groups and charities.

Some of the groups we support include Crime Stoppers WA, Radio Lollipop, the RSPCA, WA Police Officer of the Year Award, WA Nursing & Midwifery Excellence Awards and the Royal Perth Hospital Employee of the Month Awards.

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

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

As well as supporting the community, Police & Nurses also supports its staff members, and has had a values based reward and recognition program in place for some years now. In the 2006 financial year this values scheme was updated and re-launched.

Our new values are as follows:

- Focus on members and customers
- Earn trust and respect
- Encourage innovation
- Act with honesty and integrity
- Help each other
- Support personal and professional growth

Throughout each month, staff members nominate colleagues who they believe have best demonstrated any of the above mentioned values. A group of eight finalists are then chosen at the end of each month and attend a lunch with the CEO. The monthly winner is announced at this lunch and receives a $250 Myers gift voucher, $500 to donate to the charity of their choice, a trophy, certificate, key ring and lapel pin.

At the end of each financial year the Society awards the year's top three values champions with travel vouchers worth $4000, $2000 and $1000 for first, second and third respectively.

By supporting these values every Police & Nurses employee is helping to deliver our strategic purpose, which is:

"To be the most trusted and highly recommended provider of financial services"

In closing, I would also like to address the recent events concerning Home Building Society and the aggressive actions they have taken to attempt a takeover of Police & Nurses.

I wish to make it clear that Police & Nurses did not initiate this process and is not seeking a takeover.

It is likely that speculation will continue to gather over this issue in future, and it is possible that there may be some media coverage that will reflect the interests of parties who seek to undermine the Society and its performance.

I can also assure you that the Police & Nurses Board of Directors has no intention of handing to a third party millions of dollars in value which rightfully belongs to our shareholders.

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.

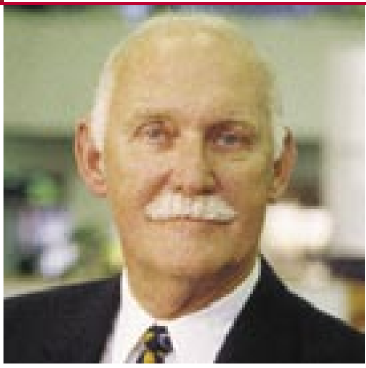
I would also like to take this opportunity to thank the Society's Chief Executive Officer, Fred Huis, for his continued dedication and valued contributions to the success of Police & Nurses Credit Society. The efforts of Mr Huis, his management team and the staff at Police & Nurses in the past year have 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 Western Australia's leading credit union.

E L Smith

E L SMITH | Chairman

Perth WA
28 August 2006



CEO, A E (Fred) HUIS

The 2006 financial year finished as one of Police & Nurses most successful to date, both in terms of our profitability and developing our business to better serve the needs of members and customers. The following information is a snapshot of the key financial figures and business activities that have made our 2006 financial year such a success.

Financial Results

The Group has achieved a record profit after tax of more than $21 million for the financial year to 30 June 2006. This is an increase in after tax profit of more than 100% on the 2005 financial year, where a profit of $9.9 million was achieved.

A strong profit result allows us to continue to grow and expand our services. As a mutual we are constantly looking at ways we use our profits to benefit members and customers with more competitive products and services. As a result we are planning improvements to our online services, branch network and other opportunities in regional areas.

It is an important distinction as, unlike publicly listed companies, our profits are not paid out to external shareholders as dividends, but retained in the business to benefit members and customers with competitive products and services.

It is also important to note that a significant part of the Society's record result was driven by sales of more than $24 million from seven property developments including a major land subdivision at Two Rocks, north of Perth. These property developments have been long term investments for the Society which are now coming to fruition and have been very profitable due to the housing boom in Western Australia. In addition, revenue of $9.7 million has resulted from the development, completion and operation of a retirement village in Canning Vale.

The Society's core financial services business has also performed strongly over the past financial year, with a 15.3% increase in loans under management to $1.484 billion and a 15.4% increase in total assets under management to $1.694 billion.

Again, WA's buoyant housing market and economy have been positive factors contributing to this strong growth. Perth is continuing to record strong growth in residential real estate values while most other capital city real estate markets are flat or in decline. The Australian Bureau of Statistics house price index for Perth shows a 35.4% rise over the 12 months to June 2006. In comparison house prices in Sydney fell by 0.5% and rose by 5.5% in Melbourne.

However, favourable operating conditions are not the only reason for the Society's growth. Being able to capitalise on these conditions and attract business to the Society is attributable to our competitive loans with interest rates which are regularly amongst the lowest available. By raising awareness of Police & Nurses as a mainstream provider of housing loans the Society has had much success in building its home loan business.

Our total member reserves are up $23.6 million to $128.9 million and there has been a 14.1% increase in member and customer deposits to $976.0 million.

Other key business measures have also improved, such as our cost to income ratio, which is now at 64.7% (down from 75.6% in 2005) and specific provisions, which have reduced to below 0.25% of loans.

Our Society

Our unique focus and market positioning is captured in our statement of strategic purpose:

"To be the most trusted and highly recommended provider of financial services"

This vision guides decision making and operational practice at all levels of the Society.

I am pleased to see that our satisfaction levels still remain high, with the most recent survey conducted in May 2006 showing 89% of members and customers are either very satisfied or satisfied with their banking relationship with Police & Nurses.

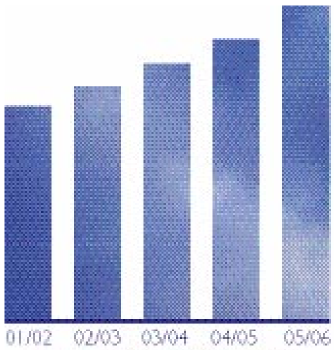
According to figures compiled by Roy Morgan Research in July this year, three out of the four big banks only managed to attain customer satisfaction levels between 62% and 68%. This highlights the strength of Police & Nurses as a genuine banking alternative, providing people with competitive products and friendly service.

One of the major achievements for the Society was the successful implementation of our new core banking system in September 2005. This was a significant undertaking for the Society and the culmination of nearly two years hard work and planning. Going forward the new banking system will enable many improvements to our behind the scenes operations and more flexible banking options for members and customers.

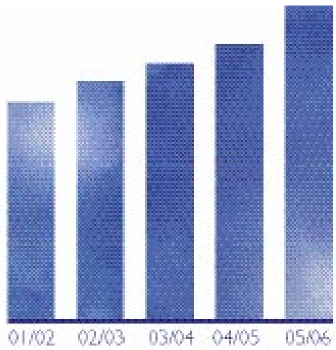
As well as the implementation of our new core banking system, the Police & Nurses website was also upgraded during the year and relaunched in August 2006. Significant improvements to the website included streamlining online application processes and creating a more user friendly site structure to allow easy access to key information. If you haven't already seen it, visit www.pncs.com.au to see our new website first hand.

In May 2006, the Mortgage Industry Association of Australia (MIAA) held its national conference in Perth. It is the first time the conference has been held in Western Australia and Police & Nurses took the opportunity to become a silver sponsor of the conference.

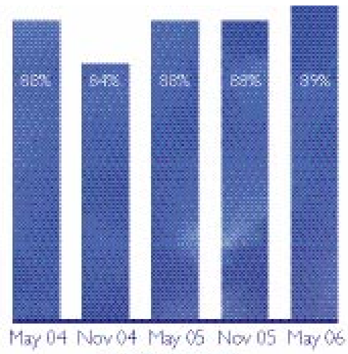
The MIAA conference attracted mortgage brokers from across the country and gave the Police & Nurses Broker Relationship Department the ability to promote its services to a national audience. The conference, and associated expo, was a huge success for Police & Nurses and will help to significantly lift our profile in the mortgage broking market.



Total Loans Under Management



Deposits



Satisfaction Levels

Our Future

I wish to highlight the strong prospects that the Police & Nurses Board and management team envisage for the Society as a stand alone provider of financial services.

In early 2006 a new five year strategic plan was developed for Police & Nurses which was endorsed by the Board of Directors in April 2006.

This plan identified four key strategic objectives which will underpin our annual business planning and provide a clear direction out to 2010. At the centrepiece of this review was the confirmation of our strategic purpose "To become the most trusted and recommended provider of financial services". In fact, by current benchmarking we already enjoy a competitive differential on this front against all the major banking groups.

The key strategic objectives developed around this theme included building the Police & Nurses brand, growing and improving the business, as well as developing our human and technological resources.

Central to this plan is the view that Police & Nurses has significant upside to its core business in the WA market. We can draw on our unique business model, product and service proposition at a time when the major banks continue to disaffect their customers.

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 the largest Western Australian owned credit union.

A E (FRED) HUIS | Chief Executive Officer

Perth WA
28 August 2006

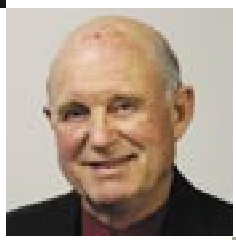
Senior Management Team (as at 28 August 2006)	
Fred Huis	Chief Executive Officer
David Spearman	Chief Financial Officer
Michael Bailey	Head of Information Technology
Malcolm Bulley	Head of Retail
Bill Gerrard	Head of Process & Quality
Franca Mezzatesta	Head of Credit & Loans Administration
Stephen Nottage	Head of Marketing
Mark Smith	Head of Human Resources

Eric Laurence
SMITH
Chairman

A E (Fred)
HUIS
Company Secretary & CEO

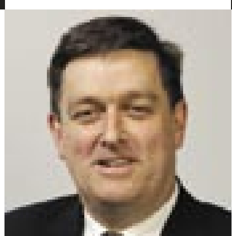
Paul Marshall
GABB
Deputy Chairman

Michael James
DEAN

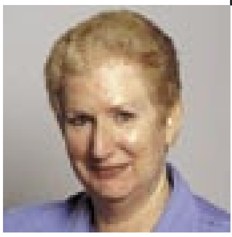


Frederick James
COMPTON

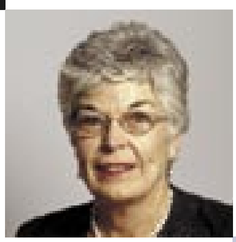
Stephen John
MELVILLE



Karl Joseph
O'CALLAGHAN



Elizabeth Anne
MANLEY



Maureen Teresa
HINTON

Ann Maree
RIAL

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 2006.

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 FACUI (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 (Criminal Investigations), Australian Institute of Company Directors Diploma, 12 years service as a Credit Society Director; 30 years service as a Police Officer. Audit Committee member.

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

Financial Analyst - Australian Federal Police, 8 years service as a Credit Society Director; 20 years service in Law Enforcement. Audit Committee member.

Frederick James COMPTON | FAICD

Retired Police Superintendent; Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 27 years service as a Credit Society Director; 39 years service as a Police Officer. Board Governance Committee member.

Michael James DEAN | APM Dip Police Studies

General President WA Police Union, 2 years service as a Credit Society Director; 34 years service as a Police Officer. Trustee of the Bluey Day Foundation. Board Governance Committee member and Audit Committee member.

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

Staff Educator, 19 years service as a Credit Society Director; 41 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; 6 years service as a Credit Society Director; 35 years service in the nursing/health profession. Board Governance Committee member.

Stephen John MELVILLE | B.Bus (Accounting) FCPA

Executive Manager Finance - Forest Products Commission, 12 years service as a Credit Society Director; 23 years service in accounting, customer services and marketing. Audit Committee Chairman.

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

Commissioner of WA Police, 1 year service as a Credit Society Director; 33 years service as a Police Officer. Board Governance Committee member.

Ann Maree RIAL | RN RM ICNC GC FAICD

Clinical Nurse Manager, 19 years service as a Credit Society Director; 33 years service in the nursing/health profession. Board Governance Committee member and Audit Committee member.

Each director holds one member share in the Society.

Company Secretary

A E (Fred) HUIS | CA

Chartered Accountant, 23 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 2006 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	12	10	4	4	*	*
F J Compton	12	9	*	*	3	2
M J Dean	12	8	2	2	1	0
P M Gabb	12	12	4	4	*	*
M T Hinton	12	11	*	*	3	3
E A Manley	12	8	*	*	3	2
S J Melville	12	12	4	4	*	*
A M Rial	12	11	2	2	2	2
K J O'Callaghan	12	5	*	*	2	0

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.

Audit Committee

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

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

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

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

Ethical Standards

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

Any Board member who has a material pecuniary or non-pecuniary interest in any matter before the Board will neither be present at the Board meeting while the matter is considered nor vote on the matter.

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

During the financial year, total assets of the Group increased by $648.8 million to $1,694.1 million, members' deposits increased by $120.6 million to $976.0 million and loans and advances increased by $620.6 million to $1,483.5 million. $420.8 million of the total assets and loans and advances increase was due to the re-recognition of securitised loans at 1 July 2005 on transition to AIFRS.

The profit of the Group and the Society for the financial year after income tax and before minority interest was $22.2 million (2005: $9.9 million) and $12.1 million (2005: $10.1 million), respectively. During the year, the development of the Jacaranda Gardens Retirement Village was completed and reclassified as an investment property which is recognised at fair value. This resulted in a current year profit after income tax and before minority interest of $5.7 million.

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

FUTURE DEVELOPMENT AND RESULTS

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

BAD AND DOUBTFUL DEBTS

Before the financial statements were made out, the directors took reasonable steps to ascertain what action 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 regulation.

REGISTER OF DIRECTORS' INTERESTS

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

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

INSURANCE OF OFFICERS

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

AUDITOR'S 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 14.

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

Perth WA
28 August 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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Australia
www.pwc.com/au
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Facsimile +61 8 9238 3999

Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Credit Society Ltd for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

JUSTIN CARROLL
Partner
PricewaterhouseCoopers

Perth WA
28 August 2006

Liability limited by a scheme approved under Professional Standards Legislation.

Income Statements

YEAR ENDED 30 JUNE 2006	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
INTEREST REVENUE	3	**112,418**	67,140	**113,240**	64,915
INTEREST EXPENSE	3	**71,686**	36,350	**71,403**	33,755
NET INTEREST INCOME		**40,732**	30,790	**41,837**	31,160
NON-INTEREST REVENUE					
Loan fee revenue		**2,558**	5,533	**2,558**	5,533
Other fee revenue		**10,061**	13,029	**9,124**	12,798
Insurance commissions		**1,542**	1,271	**1,542**	1,271
Other commissions		**1,068**	977	**1,068**	977
Revenue from sale of property developments		**24,232**	6,410	**-**	-
Dividend revenue		**361**	265	**584**	293
OTHER INCOME					
Bad debts recovered		**136**	130	**136**	130
Net gain on disposal of property, plant & equipment		**16**	-	**16**	-
Fair value adjustment to investment property	16	**8,922**	-	**-**	-
Other income		**591**	568	**416**	543
TOTAL NON-INTEREST REVENUE AND OTHER INCOME		**49,487**	28,183	**15,444**	21,545
Share of net profit of associates accounted for using the equity method	14	**28**	87	**-**	-
BAD AND DOUBTFUL DEBTS EXPENSE	8(d)	**742**	82	**742**	82
OTHER EXPENSES					
Auditor's remuneration	30	**319**	388	**266**	351
Finance costs		**379**	205	**379**	205
Depreciation and amortisation		**2,986**	2,512	**2,817**	2,398
Fees and commissions		**5,602**	7,015	**5,277**	6,622
Property development costs		**15,109**	4,736	**-**	-
Employee benefits expense		**17,699**	16,228	**17,319**	15,835
Other general and administration costs		**13,803**	11,335	**10,966**	10,504
Net loss on disposal of property, plant & equipment		**-**	66	**-**	66
Rental – operating leases		**2,492**	2,178	**2,447**	2,143
TOTAL EXPENDITURE		**59,131**	44,745	**40,213**	38,206
PROFIT BEFORE INCOME TAX		**31,116**	14,315	**17,068**	14,499
INCOME TAX EXPENSE	4	**8,930**	4,394	**4,923**	4,443
PROFIT FOR THE YEAR		**22,186**	9,921	**12,145**	10,056
(PROFIT)/LOSS ATTRIBUTABLE TO MINORITY INTEREST		**(1,129)**	13	**-**	-
PROFIT ATTRIBUTABLE TO MEMBERS		**21,057**	9,934	**12,145**	10,056

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

Balance Sheets

AS AT 30 JUNE 2006	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
ASSETS					
Cash and cash equivalents	5	**24,526**	15,688	**19,734**	9,278
Receivables due from other financial institutions	6	**120,500**	117,000	**120,500**	117,000
Trade and other receivables	7	**20,518**	9,431	**5,613**	4,264
Current tax assets		**-**	1,273	**-**	1,273
Loans and advances	8	**1,483,507**	862,934	**1,478,639**	825,032
Derivative financial instruments	9	**1,331**	-	**1,331**	-
Inventories	10	**8,556**	14,718	**-**	-
Available-for-sale financial assets	11	**2,888**	-	**2,888**	-
Investments	12	**-**	3,610	**-**	3,610
Due from controlled entities	13	**-**	-	**10,922**	20,086
Investments accounted for using the equity method	14	**945**	951	**1,000**	1,000
Property, plant and equipment	15	**3,980**	15,597	**3,973**	4,761
Investment properties	16	**22,772**	-	**-**	-
Investments in controlled entities	17	**-**	-	**658**	658
Intangible assets	18	**4,594**	3,165	**4,594**	3,165
Deferred tax assets	19	**-**	911	**569**	1,598
TOTAL ASSETS		**1,694,117**	1,045,278	**1,650,421**	991,725
LIABILITIES					
Members' deposits	20	**975,961**	855,394	**979,986**	855,684
Trade and other payables	21	**66,644**	39,685	**46,863**	29,029
Current tax liabilities		**1,642**	-	**1,642**	-
Borrowings	22	**516,146**	45,566	**500,039**	12
Due to controlled entities	13	**-**	-	**2,143**	1,968
Provisions	23	**471**	540	**459**	530
Deferred tax liabilities	24	**4,332**	-	**-**	-
TOTAL LIABILITIES		**1,565,196**	941,185	**1,531,132**	887,223
NET ASSETS		**128,921**	104,093	**119,289**	104,502
MEMBERS' FUNDS					
Reserves	25	**106,424**	95,454	**106,424**	95,454
Retained earnings	25	**21,465**	8,736	**12,865**	9,048
Minority interest		**1,032**	(97)	**-**	-
TOTAL MEMBERS' FUNDS		**128,921**	104,093	**119,289**	104,502

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

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2006	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
Total members' funds (equity) at the beginning of the financial year		**104,093**	94,172	**104,502**	94,446
Adjustment on adoption of AASB 132 and AASB 139, net of tax to:					
Retained earnings	25	**1,710**	-	**1,710**	-
Reserves	25(c)	**(505)**	-	**(505)**	-
Restated total members' funds (equity) at the beginning of the financial year		**105,298**	94,172	**105,707**	94,446
Changes in the fair value of cash flow hedges, net of tax	25(c)	**1,437**	-	**1,437**	-
Net income recognised directly in members' funds (equity)		**1,437**	-	**1,437**	-
Profit for the year		**22,186**	9,921	**12,145**	10,056
Total recognised income and expense for the year		**23,623**	9,921	**13,582**	10,056
Total members' funds (equity) at the end of the financial year		**128,921**	104,093	**119,289**	104,502
Total recognised income and expense for the year is attributable to:					
Members' of the Society		**22,494**	9,934	**13,582**	10,056
Minority interest		**1,129**	(13)	**-**	-
		23,623	9,921	**13,582**	10,056

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2006	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received from loans		**105,669**	63,327	**105,669**	60,057
Interest received from investments		**7,793**	4,411	**8,615**	5,457
Commissions and other income received		**28,942**	22,810	**12,565**	20,682
Borrowing costs – members		**(36,244)**	(32,653)	**(36,244)**	(32,653)
Borrowing costs – banks		**(23,215)**	(3,240)	**(22,218)**	(698)
Payments to employees and suppliers (inclusive of goods and services tax)		**(35,600)**	(40,978)	**(32,083)**	(35,796)
Net increase in loans and advances		**(197,924)**	(21,218)	**(197,500)**	(31,718)
Net increase in members' deposits		**120,572**	64,097	**124,307**	64,160
Income tax paid		**(1,905)**	(4,305)	**(2,506)**	(4,520)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	26(a)	**(31,912)**	52,251	**(39,395)**	44,971
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received		**361**	265	**584**	293
Proceeds from sale of property, plant and equipment		**213**	214	**213**	214
Net movement in interest earning deposits		**(3,500)**	(33,000)	**(3,500)**	(33,000)
Return of capital from investments		**756**	1,356	**722**	1,203
Payments for property, plant and equipment		**(4,535)**	(5,899)	**(1,346)**	(2,122)
Payments for intangible assets		**(2,310)**	(2,466)	**(2,310)**	(2,466)
Loans from/(to) controlled entities		**-**	-	**10,014**	(2,060)
Proceeds from sale of rights – loan portfolio		**-**	667	**-**	-
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		**(9,015)**	(38,863)	**4,377**	(37,938)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of loans from other financial institutions		**(27,673)**	(11,616)	**-**	(6,000)
Loans from other financial institutions		**75,531**	4,790	**43,567**	-
Member shares issued		**33**	102	**33**	102
Member shares redeemed		**(38)**	(98)	**(38)**	(98)
NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES		**47,853**	(6,822)	**43,562**	(5,996)
Net increase in cash and cash equivalents held		**6,926**	6,566	**8,544**	1,037
Cash and cash equivalents at the beginning of the year		**15,676**	9,110	**9,266**	8,229
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26(b)	**22,602**	15,676	**17,810**	9,266

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

30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle 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.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

This is the first year end financial statements prepared in accordance with AIFRS. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of the Society until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Society's 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in Note 37.

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. At acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. 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.

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.

(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 14).

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 31.

(c) Loan provisioning

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, specific provisions were raised for losses on loans that were impaired using a dynamic credit risk system. The credit risk system percentages applied were determined by both delinquency and write off rates for each loan portfolio. In addition, a general provision was raised against loans to address expected losses in the credit portfolio but which could not be ascribed to individual facilities. The general provision was determined using the credit risk system in accordance with APRA Credit Quality standard APS 220, which required the general provision to be prudent and based on a systematic approach to calculation, which was consistent and adequately documented.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that provisions are raised for losses that have already been incurred for loans that are known to be impaired. At the date of transition (1 July 2005) changes to the carrying amount of loan provisions were taken to retained earnings.

For further information concerning the adjustments on transition date reference should be made to:

- Loans and advances – Note 8
- Reserves and retained earnings – Note 25
- Explanation of transition to AIFRS – Note 37: section 5 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

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. 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.

(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

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, investments in unlisted securities, other than controlled entities and associates in the consolidated financial statements, were brought to account at cost and dividend income was recognised in the income statement when receivable.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that investments in unlisted securities are measured at fair value unless the investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. At the date of transition (1 July 2005), investments in unlisted securities were re-classified as available-for-sale financial assets.

For further information concerning the adjustments on transition date reference should be made to:

- Available-for-sale financial assets – Note 11
- Investments – Note 12
- Explanation of transition to AIFRS – Note 37: section 5 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

The Group classifies its investments as either available-for-sale or held for trading and are initially recognised at fair value plus acquisition charges, as appropriate.

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.

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.

(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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income for the year 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. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or 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 continue to 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.

(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. Under AGAAP, the effective interest method was not applied.

(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.

(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

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, assets or liabilities in relation to interest rate swaps were not recognised in the financial statements. Net receipts and payments were recognised as an adjustment to interest expense.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve. At the date of transition (1 July 2005) changes in the carrying amounts of derivatives were taken to retained earnings or reserves, depending on whether the criteria for hedge accounting were satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments – Note 9
- Reserves and retained earnings – Note 25
- Explanation of transition to AIFRS – Note 37: section 5 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

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
Fair Value Hedge	
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 risk that is attributable to the asset or liability or committed transaction.
Cash Flow Hedge	
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 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 transferred to the income statement for the year.

(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 on an active market are based on quoted market prices at the balance sheet date. The fair values of financial instruments not traded on an active market are 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 nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. 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 creditors.

(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.

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, loans securitised to investors were not included in the Group's loans and advances balance.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that loans previously de-recognised under the Society's securitisation programs must be recognised on the balance sheet of the Society and the Group. At the date of transition (1 July 2005) assets and liabilities were increased by the value of the loans required to be re-recognised.

For further information concerning the adjustments on transition date reference should be made to:

- Loans and advances – Note 8
- Borrowings – Note 22
- Explanation of transition to AIFRS – Note 37: section 5 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

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 22 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

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP loan origination fees and transaction costs were recognised in the income statement when incurred and excluded from the balance sheet. Under AIFRS, 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. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group and the Society was immaterial.

(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 engaged in providing products or services within a particular economic environment and is 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) 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.

(aa) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards is set out below.

(i) AASB 2005-6 Amendments to Australian Accounting Standards [AASB 3 Business Combinations]

AASB 2005-6 is applicable to annual periods beginning on or after 1 January 2006. The Group does not have business combinations involving entities or businesses under common control. The amendment to AASB 3 will have no current impact on the Group's financial statements.

(ii) 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 financial instruments.

(iii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4 Insurance Contracts, AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation and AASB 1023 General Insurance Contracts]

AASB 2005-9 is applicable to annual periods beginning on or after 1 January 2006. There are no financial guarantee contracts in existence within the Group. Therefore amendments to AASB 4, AASB 139, AASB 132 and AASB 1023 will have no current impact on the Group's financial statements.

(iv) AASB 2005-4 Amendments to Australian Accounting Standards [AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of AIFRS, AASB 1023 General Insurance Contracts and AASB 1028 Life Insurance Contracts]

AASB 2005-4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not adopted the standard early. The standard could apply to the Group's financial assets or liabilities that are acquired or incurred and designated after 1 July 2006. The Group is considering the impact of the standard on its future operations. The Group will designate financial assets or liabilities at fair value through profit or loss if it eliminates an accounting mismatch or if the documented risk management strategy is amended to require such treatment. Amendments to AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1028 will have no current impact on the Group's financial statements. The Group has currently no financial assets that are designated at fair value through profit or loss and that would have to be re-designated on applying the revised AASB 139.

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 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 16.

(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.

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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.

CONSOLIDATED						
Interest Revenue and Interest Expense	**2006**			2005		
	Average Balance	**Interest**	**Average Interest Rate**	Average Balance	Interest	Average Interest Rate
	$'000	**$'000**	**%**	$'000	$'000	%
Interest earning assets						
Deposits with other banks/ADIs	**128,764**	**7,149**	**5.55%**	101,014	5,500	5.45%
Loans and advances – not securitised	**919,588**	**70,003**	**7.61%**	862,732	61,640	7.14%
	1,048,352	**77,152**	**7.36%**	963,746	67,140	6.97%
Loans and advances – securitised	**472,637**	**35,266**	**7.46%**	*	*	*
	1,520,989	**112,418**	**7.39%**	963,746	67,140	6.97%
Interest bearing liabilities						
Members' deposits	**913,412**	**37,157**	**4.07%**	831,849	33,058	3.97%
Borrowings from other banks/ADIs – not securitised	**43,632**	**3,021**	**6.92%**	50,303	3,292	6.54%
	957,044	**40,178**	**4.20%**	882,152	36,350	4.12%
Borrowings from other banks/ADIs – securitised	**472,637**	**31,508**	**6.67%**	*	*	*
	1,429,681	**71,686**	**5.01%**	882,152	36,350	4.12%
Analysis of net interest income – excluding securitised balances	**2006**			2005		
Net interest income	**36,974**			30,790		
Average interest earning assets	**1,048,352**			963,746		
Net interest margin (1)	**3.53%**			3.19%		
Spread (2)	**3.16%**			2.85%		
Analysis of net interest income – including securitised balances						
Net interest income	**40,732**			**		
Average interest earning assets	**1,520,989**			**		
Net interest margin (1)	**2.68%**			**		
Spread (2)	**2.38%**			**		

* Due to the exemption taken under AASB 1 on transition to AIFRS, securitised loans and borrowings were not recognised in the balance sheet prior to 1 July 2005 (refer to Notes 8 and 22).

** As securitised loans and borrowings were not recognised in the 2005 financial year, a comparison does not provide meaningful information.

(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.

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**5,080**	2,713	**5,106**	3,237
Deferred tax	**4,110**	1,491	**(104)**	1,026
(Over) under provided in prior years	**(260)**	190	**(79)**	180
	8,930	4,394	**4,923**	4,443
Deferred income tax expense (revenue) included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 19)	**595**	(1,234)	**(61)**	(251)
Increase (decrease) in deferred tax liabilities (Note 24)	**3,515**	2,725	**(43)**	1,277
	4,110	1,491	**(104)**	1,026
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**31,116**	14,315	**17,068**	14,499
Prima facie income tax calculated at 30% (2005 – 30%)	**9,335**	4,295	**5,120**	4,350
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Tax offset for franked dividends	**(118)**	(87)	**(118)**	(87)
Sundry items	**(27)**	(4)	**-**	-
	9,190	4,204	**5,002**	4,263
(Over) under provision in previous year	**(260)**	190	**(79)**	180
Income tax expense	**8,930**	4,394	**4,923**	4,443
(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 19 and 24)	**616**	-	**616**	-
(d) Franking credits				
Franking credits based on a tax rate of 30%	**30,185**	25,195	**30,185**	25,195

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 13).

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**4,751**	6,262	**4,749**	6,247
Cash and deposits at call with banks	**15,060**	6,530	**10,270**	135
Cash and deposits at call with other Approved Deposit-Taking Institutions (ADIs)	**4,715**	2,896	**4,715**	2,896
	24,526	15,688	**19,734**	9,278
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits – banks	**16,500**	21,500	**16,500**	21,500
Interest earning deposits – other ADIs	**104,000**	95,500	**104,000**	95,500
	120,500	117,000	**120,500**	117,000
Maturity Analysis				
Not longer than 3 months	**47,500**	91,000	**47,500**	91,000
Longer than 3 and not longer than 12 months	**48,000**	22,000	**48,000**	22,000
Longer than 1 and not longer than 5 years	**25,000**	4,000	**25,000**	4,000
	120,500	117,000	**120,500**	117,000
The deposits have an effective interest rate of 5.64% to 6.10%.				
7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**1,007**	2,052	**1,007**	2,052
Debtors from sale of property developments	**13,793**	4,610	**-**	-
Prepayments	**610**	497	**608**	427
Other	**5,108**	2,272	**3,998**	1,785
	20,518	9,431	**5,613**	4,264
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				
Term loans	**138,131**	89,745	**138,131**	90,164
Related parties (a)	**1,345,116**	775,155	**1,340,248**	736,552
	3,805	4,104	**3,805**	4,104
Provision for impairment (d)	**1,487,052**	869,004	**1,482,184**	830,820
Net loans and advances	**(3,545)**	(6,070)	**(3,545)**	(5,788)
	1,483,507	862,934	**1,478,639**	825,032

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 2006 securitised loans under management by the Society amounted to $504,053,344 (2005: $460,540,829). This includes $12,476,471 (2005: $38,603,531) of loans securitised to the Pinnacle Commercial Warehouse Trust No.1 which is consolidated as part of the Group (Note 17(a)). These loans are included in the balance of term loans disclosed above.

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
8. LOANS AND ADVANCES (cont'd)				
(a) Aggregate amounts receivable from related parties:				
Key management personnel and their related entities	**3,805**	4,104	**3,805**	4,104
(b) Maturity Analysis				
Not longer than 3 months	**37,557**	15,613	**32,690**	14,950
Longer than 3 and not longer than 12 months	**32,570**	46,840	**32,570**	44,853
Longer than 1 and not longer than 5 years	**337,452**	139,164	**337,452**	133,162
Longer than 5 years	**1,079,473**	667,387	**1,079,472**	637,855
	1,487,052	869,004	**1,482,184**	830,820
(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	**455,128**	295,241	**455,128**	294,605
Other	**1,031,924**	573,763	**1,027,056**	536,215
	1,487,052	869,004	**1,482,184**	830,820
(d) Provision for impairment				
General provision				
Opening balance	**2,472**	2,307	**2,190**	2,069
Adjustment on adoption of AASB 132 and AASB 139 (e)	**(2,472)**	-	**(2,190)**	-
Bad debts previously provided for written off during the year	**-**	(175)	**-**	(175)
Bad and doubtful debts provided for during the year	**-**	340	**-**	296
Closing balance	**-**	2,472	**-**	2,190
Specific provision				
Opening balance	**3,598**	4,661	**3,598**	4,634
Adjustment on adoption of AASB 132 and AASB 139 (e)	**26**	-	**26**	-
Bad debts previously provided for written off during the year	**(821)**	(805)	**(821)**	(805)
Bad and doubtful debts provided for/(reversed) during the year	**742**	(258)	**742**	(231)
Closing balance	**3,545**	3,598	**3,545**	3,598
Total provision for impairment	**3,545**	6,070	**3,545**	5,788
Charge/(credit) to income statement for bad and doubtful debts comprises:				
General provision	**-**	340	**-**	296
Specific provision	**742**	(258)	**742**	(231)
Deferred securitisation receivable provision (Note 13)	**-**	-	**-**	17
	742	82	**742**	82

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8. LOANS AND ADVANCES (cont'd)

(e) Transition to AASB 132 and AASB 139

The Group has taken 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. At the date of transition to these standards of 1 July 2005, the Group recognised a pre-tax net adjustment increase of $423,254,000 in loans and advances representing the reassessment of the provisions for impairment and the re-recognition of securitised loans under AASB 139. For further information refer to Notes 1(c), 1(t) and section 5 of Note 37.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
(f) Bad Debts Written Off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**297**	393	**297**	393
Personal loans	**364**	479	**364**	479
Commercial loans	**160**	108	**160**	108
	821	980	**821**	980
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps – cash flow hedges	**1,331**	-	**1,331**	-

(a) Transition to AASB 132 and AASB 139

The Group has taken 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. At the date of transition to these standards of 1 July 2005, the Group recognised a pre-tax net adjustment of $722,000 decrease in net assets representing the recognition of the fair value of interest rate cash flow hedges in equity under AASB 139. For further information refer to Note 1(p) and section 5 of Note 37.

(b) Terms and conditions

At balance date, the Society has interest rate swap agreements with a notional amount of $126.455 million, on which it pays 5.53% to 6.37% interest and receives Bank Bill swap rate calculated on the notional amount. The swaps are used to protect the Society from exposure to increasing interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance date. The swaps expire between October 2006 and April 2011.

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10. INVENTORIES	CONSOLIDATED			
	Land Acquisition Costs $'000	**Holding Costs $'000**	**Development Costs $'000**	**Total $'000**
Land held for sale				
2006				
Group Inventory	**910**	**-**	**63**	**973**
Share of Joint Venture Inventory	**2,353**	**1,012**	**4,218**	**7,583**
	3,263	**1,012**	**4,281**	**8,556**
2005				
Group Inventory	1,551	6	2,042	3,599
Share of Joint Venture Inventory	9,792	382	945	11,119
	11,343	388	2,987	14,718

Inventory of $6.932 million (2005: $6.613 million) is to be recovered greater than 12 months from balance date.

Inventory of $5.000 million (2005: $11.155 million) and trade and other receivables of $11.052 million (2005: $4.137 million) are pledged as security for borrowings of $10.625 million (2005: $6.301 million). The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories was $0.788 million (2005: $0.997 million).

Valuation of inventories	**Expenses incurred to balance date $'000**	**Expenses incurred to date of valuation $'000**	**Valuation $'000**	**Valuation date**	**Interest held**
The valuations of land being developed by the consolidated entity are as follows:					
"The Reef" at Two Rocks – Two Rocks Road, Two Rocks					
"The Enclave" at Eagle Bay – Lot 50 Eagle Crescent, Eagle Bay	**16,586**	**12,760**	**34,000**	**10 April 2006**	**75.00%**
	7,376	**7,376**	**17,000**	**30 June 2006**	**33.33%**

1. The valuations are prepared by independent licensed valuers.

2. The valuations are based on a current market value assessment of the net amount for which the property could be exchanged between willing parties on an arms length basis, exclusive of GST.

3. Basis of valuations:

(a) "The Reef" at Two Rocks - 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.

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10. INVENTORIES (cont'd)

(b) "The Enclave" at Eagle Bay - a hypothetical static cash flow approach has been undertaken to assess the current value attributable to the property to achieve a required return based on 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 subdivision for realisation, according to the proposed plan.

4. 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.

5. As at 30 June 2006, revenue of $14.736 million has been recognised with expenses incurred of $9.854 million in relation to lots sold at "The Reef" at Two Rocks. This represents 75 lots out of an estimated total of 704 lots.

6. There is no current valuation available for "The Grove" at Ashby, Wanneroo or Woollcott Road, Henley Brook.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in CUSCAL	**2,888**	-	**2,888**	-
Opening balance at 1 July	**-**	-	**-**	-
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**	-

(a) Transition to AASB 132 and AASB 139

The Group has taken 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. At the date of transition to these standards of 1 July 2005, for both the Group and the Society, the investment in CUSCAL with a carrying amount of $3,610,000 that was classified in the balance sheet under previous AGAAP as investments were designated and re-classified as available-for-sale investments. For further information refer to Note 1(g) and section 5 of Note 37.

(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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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
12. INVESTMENTS				
Investment in CUSCAL	**-**	3,610	**-**	3,610
(a) Transition to AASB 132 and AASB 139				
Refer to Note 11(a).				
13. DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (Assets)				
Amounts receivable from controlled entities	**-**	-	**5,714**	15,230
Tax related amounts receivable from controlled entities	**-**	-	**340**	270
Deferred securitisation receivable (a)	**-**	-	**4,868**	4,868
Less provision for impairment (b)	**-**	-	**-**	(282)
	-	-	**10,922**	20,086
Due to controlled entities (Liabilities)				
Amounts payable to controlled entities	**-**	-	**1,847**	1,349
Tax related amounts payable to controlled entities	**-**	-	**296**	619
	-	-	**2,143**	1,968

(a) Deferred securitisation receivable

Under the terms of the commercial mortgage securitisation program (Note 17(a)), the Society will not receive the deferred securitisation receivable amount until the Trust has settled all amounts owing to its note holders.

(b) Provision for impairment of deferred securitisation receivable

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

(c) Transition to AASB 132 and AASB 139

The Group has taken 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. At the date of transition to these standards of 1 July 2005, the Society recognised a pre-tax adjustment increase of $282,000 in due from controlled entities representing the reassessment of the provision for impairment. For further information refer to Note 1(c) and section 5 of Note 37.

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
Investments accounted for using the equity method	**945**	951	**1,000**	1,000

Name of Associate	Principal Activity	Ownership Interest		Carrying Amount		Carrying Amount	
		2006	2005	**2006**	2005	**2006**	2005
		%	%	**$'000**	$'000	**$'000**	$'000
IGP Financial Services Pty Ltd	Financial planning	**35.00**	35.00	**945**	951	**1,000**	1,000

IGP Financial Services Pty Ltd is incorporated in Australia.

A recent director's valuation of this company using fair value less costs to sell has resulted in a value prescribed to this interest of $1.785 million which exceeds the total carrying value of the investment.

	CONSOLIDATED	
	2006	2005
	$'000	$'000
Movements in carrying amounts of investments accounted for using the equity method		
Carrying amount at the beginning of the financial year		
Share of associate's profits	**951**	930
Dividends received/receivable	**28**	87
Carrying amount at the end of the financial year	**(34)**	(66)
	945	951
Results attributable to investor		
Profits before related income tax		
Income tax expense	**55**	93
Profits after related income tax	**(27)**	(6)
	28	87
Group's share of the income and balance sheet of associates		
Profits after related income tax		
Revenue	**33**	32
Assets	**318**	315
Liabilities	**203**	165
	100	56

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	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	POLICE & NURSES CREDIT SOCIETY LTD 2006 $'000	POLICE & NURSES CREDIT SOCIETY LTD 2005 $'000
15. PROPERTY, PLANT AND EQUIPMENT				
Freehold land				
At cost	-	1,260	-	-
Buildings under construction				
At cost	-	9,675	-	-
Provision for amortisation	-	(110)	-	-
	-	9,565	-	-
Leasehold improvements				
At cost	3,241	2,871	3,225	2,856
Provision for amortisation	(1,860)	(1,443)	(1,850)	(1,437)
	1,381	1,428	1,375	1,419
Plant and equipment				
At cost	10,037	9,790	10,014	9,767
Provision for depreciation	(7,438)	(6,446)	(7,416)	(6,425)
	2,599	3,344	2,598	3,342
Total property, plant and equipment	3,980	15,597	3,973	4,761

2006

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
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
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)	-
Transfer 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
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

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15. PROPERTY, PLANT AND EQUIPMENT (cont'd)

2005

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
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2004	1,260	5,371	1,262	3,376	-	11,269
Additions	-	4,304	612	1,399	110	6,425
Disposals	-	-	(39)	(241)	-	(280)
Depreciation expense	-	(110)	(407)	(1,300)	-	(1,817)
Carrying amount at 30 June 2005	1,260	9,565	1,428	3,234	110	15,597
Parent entity						
Carrying amount at 1 July 2004	-	-	1,250	3,372	-	4,622
Additions	-	-	612	1,400	110	2,122
Disposals	-	-	(39)	(241)	-	(280)
Depreciation expense	-	-	(404)	(1,299)	-	(1,703)
Carrying amount at 30 June 2005	-	-	1,419	3,232	110	4,761

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
16. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**-**	-	**-**	-
Net transfer from property, plant & equipment	**13,850**	-	**-**	-
Net gain from fair value adjustment	**8,922**	-	**-**	-
Closing balance	**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

The investment property was transferred from property, plant & equipment as of 30 June 2006 and other than the net gain from fair value adjustment, there are no amounts recognised in profit and loss during the period of its classification as investment property.

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16. INVESTMENT PROPERTIES (cont'd)

(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 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 as supported by market evidence for retirement villages with comparable locations;

(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;

(vi) discount rate of 14% 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.

Representation of valuation in financial statements

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

	CONSOLIDATED
	2006 **$'000**
Net value of property transferred from property, plant & equipment	**13,850**
Net gain from fair value adjustment	**8,922**
Investment property asset	**22,772**
Add: Amenities fees and reserve fund contribution revenue (Other receivables)	**1,025**
Less: Lease loan sum liability (Note 21)	**(19,477)**
	4,320

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
17. INVESTMENTS IN CONTROLLED ENTITIES				
Controlled entities	**-**	-	**658**	658

	Interests in Controlled Entities		Shares Held in Controlled Entities		Shares Held in Controlled Entities	
			Held by the Society	Held by Other Controlled Entities	Held by the Society	Held by Other Controlled Entities
All controlled entities are incorporated in Australia and are ultimately controlled by the Society. The controlled entities are as follows:	**2006 %**	2005 %	**2006 $**	**2006 $**	2005 $	2005 $
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
Police Employees Travel Pty Ltd *	**100**	100	**2**	**40,000**	2	40,000
PCU Trading Pty Ltd *	**100**	100	**1**	**99,999**	1	99,999
P&N Landreach Pty Ltd	**100**	100	**1,900**	**-**	1,900	-
Essential Service Homes Pty Ltd	**100**	100	**10,000**	**-**	10,000	-
P&N Management Pty Ltd	**100**	100	**60,000**	**-**	60,000	-
Encred Services Pty Ltd *	**100**	100	**125,000**	**-**	125,000	-
National Home Loans Pty Ltd	**100**	100	**61,500**	**-**	61,500	-
Jacaranda Gardens Partnership	**80**	80	**-**	**-**	-	-
Pinnacle Commercial Warehouse Trust No.1 (a)	**100**	100	**-**	**-**	-	-
			658,406	**159,998**	658,406	159,998

* These subsidiaries were deregistered on 23 July 2006.

(a) Pinnacle Commercial Warehouse Trust No.1

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

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

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
18. INTANGIBLE ASSETS				
Computer software (a) - At cost	**9,529**	7,219	**9,529**	7,219
- Accumulated amortisation	**(4,935)**	(4,054)	**(4,935)**	(4,054)
	4,594	3,165	**4,594**	3,165
(a) Computer software				
Opening carrying amount	**3,165**	1,394	**3,165**	1,394
Additions	**2,310**	2,466	**2,310**	2,466
Amortisation charge *	**(881)**	(695)	**(881)**	(695)
Net book amount	**4,594**	3,165	**4,594**	3,165

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

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
19. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,063**	1,821	**1,063**	1,821
Employee benefits	**687**	655	**675**	646
Accruals	**44**	26	**41**	21
Other provisions	**11**	83	**10**	82
Inventory	**89**	746	**-**	-
Depreciation	**413**	305	**413**	305
	2,307	3,636	**2,202**	2,875
Offset to/from deferred tax liabilities (Note 24)	**(2,307)**	(2,725)	**(1,633)**	(1,277)
Net deferred tax assets	**-**	911	**569**	1,598
Movements:				
Opening balance	**3,636**	2,402	**2,875**	2,624
Change on adoption of AASB 132 and AASB 139 (Note 25)	**(734)**	-	**(734)**	-
(Charged)/credited to the income statement (Note 4)	**(595)**	1,234	**61**	251
Closing balance	**2,307**	3,636	**2,202**	2,875

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
20. MEMBERS' DEPOSITS				
Call deposits	**379,076**	315,140	**383,101**	315,430
Term deposits	**595,611**	538,935	**595,611**	538,935
Withdrawable shares (a)	**673**	678	**673**	678
Related parties (b)	**601**	641	**601**	641
	975,961	855,394	**979,986**	855,684
Maturity Analysis				
On call	**380,189**	317,777	**384,214**	318,067
Not longer than 3 months	**411,042**	334,687	**411,042**	334,687
Longer than 3 and not longer than 12 months	**177,788**	198,006	**177,788**	198,006
Longer than 1 and not longer than 5 years	**6,842**	4,894	**6,842**	4,894
Longer than 5 years	**100**	30	**100**	30
	975,961	855,394	**979,986**	855,684
Concentration of deposits				
WA State government employees	**211,686**	179,726	**211,686**	179,725
Other entities	**764,275**	675,668	**768,300**	675,959
	975,961	855,394	**979,986**	855,684

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 71,268 (2005: 75,203) 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.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
21. TRADE AND OTHER PAYABLES				
Accrued interest payable	**8,681**	7,768	**8,681**	7,768
Securitised loan repayments payable	**25,906**	13,877	**25,906**	13,877
Lease loan sums (Note 16)	**19,477**	7,825	**-**	-
Other payables	**12,580**	10,215	**12,276**	7,384
	66,644	39,685	**46,863**	29,029

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

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
22. BORROWINGS				
Secured				
– Overdrafts from other ADIs (a)	**1,924**	12	**1,924**	12
– Loans from other ADIs (b)	**10,625**	6,301	**-**	-
– Notes payable (c)	**13,091**	39,253	**-**	-
– Securitised borrowings	**490,506**	-	**498,115**	-
	516,146	45,566	**500,039**	12

(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 28.

(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 17(a). The notes are secured by the underlying securitised loans. Repayments are made to noteholders in priority to the deferred securitisation recipient (Note 13).

(d) Transition to AASB 132 and AASB 139

The Group has taken 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. At the date of transition to these standards of 1 July 2005, the Group recognised a pre-tax net adjustment of $420,810,000 increase in borrowings representing the re-recognition of securitised loans under AASB 139. For further information refer to Notes 1(t) and section 5 of Note 37.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Maturity Analysis				
Not longer than 3 months	**1,924**	7,031	**1,924**	12
Longer than 3 and not longer than 12 months	**23,716**	2,156	**-**	-
Longer than 1 and not longer than 5 years	**490,506**	6,350	**498,115**	-
Longer than 5 years	**-**	30,029	**-**	-
	516,146	45,566	**500,039**	12

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
23. PROVISIONS				
Employee benefits	**471**	540	**459**	530
24. DEFERRED TAX LIABILTIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**4**	-	**4**	-
Receivables	**641**	1,632	**388**	749
Intangible assets	**842**	528	**842**	528
Temporary differences in respect of partnerships	**554**	286	**-**	-
Fair value adjustment to investment property	**2,677**	-	**-**	-
Interest in joint ventures	**1,522**	279	**-**	-
	6,240	2,725	**1,234**	1,277
Amounts recognised directly in equity				
Cash flow hedges	**399**	-	**399**	-
	6,639	2,725	**1,633**	1,277
Offset to/from deferred tax assets (Note 19)	**(2,307)**	(2,725)	**(1,633)**	(1,277)
Net deferred tax liabilities	**4,332**	-	**-**	-
Movements:				
Opening balance	**2,725**	-	**1,277**	-
Change on adoption of AASB 132 and AASB 139 (Note 25)	**(217)**	-	**(217)**	-
Charged/(credited) to the income statement (Note 4)	**3,515**	2,725	**(43)**	1,277
Charged to equity	**616**	-	**616**	-
Closing balance	**6,639**	2,725	**1,633**	1,277

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
25. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**105,000**	95,000	**105,000**	95,000
Share capital reserve (b)	**492**	454	**492**	454
Hedging reserve – cash flow hedges (c)	**932**	-	**932**	-
	106,424	95,454	**106,424**	95,454
Retained earnings				
Balance at beginning of year	**8,736**	8,900	**9,048**	9,090
Adjustment on adoption of AASB 132 and AASB 139, net of tax (Note 8, 19 and 24)	**1,710**	-	**1,710**	-
Profit for the year	**21,057**	9,934	**12,145**	10,056
Total available for appropriation	**31,503**	18,834	**22,903**	19,146
Aggregate of amounts transferred to reserves	**(10,038)**	(10,098)	**(10,038)**	(10,098)
Balance at end of year	**21,465**	8,736	**12,865**	9,048
(a) General reserve				
Balance at beginning of year	**95,000**	85,000	**95,000**	85,000
Transfer from retained profits	**10,000**	10,000	**10,000**	10,000
Balance at end of year	**105,000**	95,000	**105,000**	95,000

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.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
(b) Share capital reserve				
Balance at beginning of year	**454**	356	**454**	356
Transfer from retained profits	**38**	98	**38**	98
Balance at end of year	**492**	454	**492**	454

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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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
25. RESERVES AND RETAINED EARNINGS (cont'd)				
(c) Hedging reserve – cash flow hedges				
Balance at beginning of year	**-**	-	**-**	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (Note 9 and Note 24)	**(505)**	-	**(505)**	-
Revaluation – gross	**2,053**	-	**2,053**	-
Deferred tax (Note 24)	**(616)**	-	**(616)**	-
Balance at end of year	**932**	-	**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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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
26. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the profit after tax to the net cash flows from operations				
Profit after income tax	**22,186**	9,921	**12,145**	10,056
Decrease/(increase) in loan interest receivable	**645**	(1,090)	**645**	(1,090)
Decrease in investment income receivable	**400**	9	**400**	9
(Increase)/decrease in other receivables	**(2,630)**	233	**(2,008)**	(297)
Increase in debtors from sale of land	**(9,183)**	(5,412)	**-**	-
Decrease/(increase) in inventory	**6,162**	(3,227)	**-**	-
Increase in loans and advances	**(197,924)**	(21,218)	**(197,500)**	(31,718)
Increase in members' deposits	**120,572**	64,097	**124,307**	64,160
Increase in member interest payable	**913**	404	**913**	404
Increase in accrued expenses and trade and other payables	**26,045**	5,792	**16,920**	942
Depreciation and amortisation	**2,986**	2,512	**2,817**	2,398
Bad and doubtful debts	**742**	82	**742**	82
Bad debts recovered	**(136)**	(130)	**(136)**	(130)
(Gain)/loss on disposal of property, plant and equipment	**(16)**	66	**(16)**	66
Dividend received	**(361)**	(265)	**(584)**	(293)
Share of net profit of associates	**(28)**	(87)	**-**	-
(Decrease)/increase in employee benefits provisions	**(69)**	195	**(71)**	188
Increase/(decrease) in current tax liabilities	**2,915**	(1,546)	**2,915**	(1,401)
Increase in deferred tax assets	**394**	94	**512**	94
Increase/(decrease) in deferred tax liabilities	**3,716**	1,543	**(616)**	1,543
Decrease/(increase) in sundry debtors and prepayments	**(319)**	278	**(386)**	269
Fair value adjustment to investment property	**(8,922)**	-	**-**	-
Increase in tax related amount receivable	**-**	-	**(70)**	(942)
(Decrease)/increase in tax related amount payable	**-**	-	**(324)**	631
Net cash (outflow) inflow from operating activities	**(31,912)**	52,251	**(39,395)**	44,971
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
– Cash (Note 5)	**24,526**	15,688	**19,734**	9,278
– Bank overdraft (Note 22)	**(1,924)**	(12)	**(1,924)**	(12)
Closing cash and cash equivalents balance	**22,602**	15,676	**17,810**	9,266

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
27. 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**	3,095	**-**	586
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than 1 year	**2,112**	1,950	**2,112**	1,950
– later than 1 and not later than 5 years	**1,500**	2,767	**1,500**	2,767
– later than 5 years	**-**	-	**-**	-
Aggregate lease expenditure contracted for at balance date	**3,612**	4,717	**3,612**	4,717
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
– payable not later than one year	**694**	166	**-**	-
28. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	**196,147**	139,599	**196,147**	139,599

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 2006)
- Multi Option Wholesale Facility (Uncommitted): $20,000,000 (Unused as at 30 June 2006)
- Derivatives Guarantee Facility: $2,000,000 ($1,435,000 used as at 30 June 2006)
- Overdraft: $2,000,000 ($1,925,330 used as at 30 June 2006)

Under the terms of the above agreements, the Society has executed an equitable mortgage of a fixed and floating charge over all its assets and undertakings except for those assets provided as security for the borrowing facilities set out below. The charge is to secure all monies owing by the Society to the above named organisations. The above facilities are subject to annual review and may be drawn at any time with the exception of the Multi Option Wholesale Facility. The facilities may be withdrawn if terms and conditions of the agreements are breached by the Society.

iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: $200,000. This facility was unused at 30 June 2006. This facility may be drawn at any time and may be terminated by the bank without notice.

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28. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES (cont'd)

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.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$	$	**$**	$
29. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,166,175**	2,072,037	**2,166,175**	2,072,037
Short-term employee benefits	**1,842,853**	1,603,391	**1,842,853**	1,603,391
Long-term employee benefits	**87,142**	119,319	**87,142**	119,319
Post-employment benefits	**130,126**	127,384	**130,126**	127,384
Termination benefits	**106,054**	221,943	**106,054**	221,943
	2,166,175	2,072,037	**2,166,175**	2,072,037

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 2006 amounted to $1,536,707 (2005: $1,361,203). During the year loan advances amounted to $737,662 (2005: $1,678,963) and repayments amounted to $655,341 (2005: $1,164,507). Interest on these loans amounted to $93,183 (2005: $55,098). All of these loans are secured, except loan balances of $9,102 (2005: $1,447).

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 2006 amounted to $2,268,517 (2005: $2,742,533). During the year loan advances amounted to $2,062,147 (2005: $3,311,236) and repayments amounted to $1,578,630 (2005: $1,822,867). Interest on these loans amounted to $177,854 (2005: $183,077). All of these loans are secured, except loan balances of $29,009 (2005: $52,431).

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 2006 amounted to $601,305 (2005: $640,789). During the year additional deposits amounted to $3,063,408 (2005: $3,955,829) and withdrawals amounted to $3,079,726 (2005: $3,869,616). Interest on these deposits amounted to $19,873 (2005: $28,518). Each current key management person holds one member share in the Society.

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	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	$	$	**$**	$
30. 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	**163,818**	111,534	**129,870**	76,884
- other assurance services	**35,626**	56,243	**35,626**	56,243
	199,444	167,777	**165,496**	133,127
(b) Remuneration for other services – auditor of the parent entity - PricewaterhouseCoopers:				
- income tax advice	**33,493**	57,171	**33,493**	55,246
- GST advice	**-**	48,016	**-**	48,016
- fringe benefits tax advice	**6,607**	6,515	**6,607**	6,515
- other tax advice	**22,291**	14,183	**3,381**	14,183
- advice in relation to AIFRS	**39,862**	90,280	**39,862**	90,280
- other	**16,934**	3,837	**16,934**	3,837
	119,187	220,002	**100,277**	218,077
Total auditor's remuneration	**318,631**	387,779	**265,773**	351,204

31. 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.

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31. INTERESTS IN JOINT VENTURES (cont'd)

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:

	CONSOLIDATED	
	2006	2005
	$'000	$'000
Trade and other receivables	**14,902**	1,390
Inventories (land held for sale)	**7,583**	11,119
Share of assets employed in joint ventures	**22,485**	12,509

32. ECONOMIC DEPENDENCY

Normal trading activities are economically dependent on Credit Union Services Corporation (Australia) Limited ("CUSCAL").

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

- automatic teller machines (ATMs);
- visa cards;
- redicards; and
- member chequing.

33. 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.

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33. RELATED PARTY DISCLOSURES (cont'd)

	POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005
	$'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	**4,010**	1,263
Dividend revenue	**189**	-
Other fee revenue	**239**	318
Aggregate amounts receivable from entities in the wholly-owned group at balance date	**5,714**	15,230

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2006	2005	**2006**	2005
	No.	No.	**No.**	No.
34. EMPLOYEE NUMBERS				
Number of employees at reporting date	**310**	306	**306**	302
Full time equivalents at reporting date	**281**	276	**277**	272

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35. 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 20. 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 current year. Since the completion of this development, the consolidated entity has reclassified this as an investment property.

2006	Services to Members	Property Development	Retirement Village	Inter-segment Eliminations/ Unallocated	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

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35. SEGMENT INFORMATION (cont'd)

2005	Services to Members	Property Development	Retirement Village	Inter-segment Eliminations/ Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000
Net interest income from external customers	30,790	-	-	-	30,790
Inter-segment interest income	1,263	-	-	(1,263)	-
Net interest income	32,053	-	-	(1,263)	30,790
Sales to external customers	-	6,410	-	-	6,410
Share of net profits of associates	49	38	-	-	87
Other revenue/income	21,439	362	-	(28)	21,773
Total segment revenue/income	53,541	6,810	-	(1,291)	59,060
Segment result	14,109	2	-	204	14,315
Profit before income tax expense					14,315
Income tax expense					4,394
Profit for the year					9,921
Segment assets	1,030,641	32,585	-	(17,948)	1,045,278
Segment liabilities	925,684	32,535	-	(17,034)	941,185
Investments in associates and joint venture partnerships	951	-	-	-	951
Acquisitions of property, plant and equipment and intangible assets	4,587	4,304	-	-	8,891
Depreciation and amortisation expense	2,402	110	-	-	2,512
Other non-cash expenses	624	3	-	-	627

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35. SEGMENT INFORMATION (cont'd)

Inter-segment transfers

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

(b) Secondary reporting – geographical segments

The consolidated entity operates in Australia.

36. 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 28(v)); and
- sustain prescribed minimum HQLA 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.

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36.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: less than 1 year		1 to less than 5 years		5 years or more		NON-INTEREST BEARING		TOTAL CARRYING AMOUNT AS PER THE BALANCE SHEET		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 %**	2005 %
(i) Financial assets														
Cash and cash equivalents	**19,775**	9,426	**-**	-	**-**	-	**-**	-	**4,751**	6,262	**24,526**	15,688	**N/A**	N/A
Due from other financial institutions	**-**	-	**95,500**	113,000	**25,000**	4,000	**-**	-	**-**	-	**120,500**	117,000	**5.87**	5.71
Unlisted shares - investment in CUSCAL	**-**	-	**-**	-	**-**	-	**-**	-	**2,888**	3,610	**2,888**	3,610	**N/A**	N/A
Loans and advances*	**848,897**	686,117	**520,458**	108,662	**117,697**	74,225	**-**	-	**-**	-	**1,487,052**	869,004	**7.38**	7.30
Trade and other receivables	**-**	-	**-**	-	**-**	-	**-**	-	**20,518**	9,431	**20,518**	9,431	**N/A**	N/A
Interest rate swaps	**126,455**	87,335	**(21,300)**	(2,000)	**(105,155)**	(80,335)	**-**	(5,000)	**-**	-	**1,331**	**	*******	***
Total financial assets	**995,127**	782,878	**594,658**	219,662	**37,542**	(2,110)	**-**	(5,000)	**28,157**	19,303	**1,656,815**	1,014,733	**-**	-
(ii) Financial liabilities														
Overdrafts from other ADIs	**1,924**	12	**-**	-	**-**	-	**-**	-	**-**	-	**1,924**	12	**N/A**	N/A
Members' deposits	**380,189**	315,409	**588,157**	534,383	**6,842**	4,894	**100**	30	**673**	678	**975,961**	855,394	**4.08**	3.99
Loans from other ADIs	**10,625**	6,301	**-**	-	**-**	-	**-**	-	**-**	-	**10,625**	6,301	**7.69**	7.21
Notes payable	**13,091**	39,253	**-**	-	**-**	-	**-**	-	**-**	-	**13,091**	39,253	**8.03**	6.79
Securitised borrowings	**-**	-	**490,506**	-	**-**	-	**-**	-	**-**	-	**490,506**	**	**6.42**	**
Trade and other payables	**-**	-	**-**	-	**-**	-	**-**	-	**66,644**	39,685	**66,644**	39,685	**N/A**	N/A
Total financial liabilities	**405,829**	360,975	**1,078,663**	534,383	**6,842**	4,894	**100**	30	**67,317**	40,363	**1,558,751**	940,645	**-**	-

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

* provisions for impairment of $3.545 million (2005: $6.070 million) have been made against total loans and advances

** not applicable as interest rate swaps and securitised borrowings were not recognised in the financial statements

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

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36. 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	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Financial assets				
Cash and cash equivalents	**24,526**	15,688	**24,526**	15,688
Due from other financial institutions	**120,500**	117,000	**120,500**	117,000
Unlisted shares – investment in CUSCAL	**2,888**	3,610	**2,888**	3,610
Loans and advances	**1,487,052**	862,934	**1,482,660**	861,925
Trade and other receivables	**20,518**	9,431	**20,518**	9,431
Interest rate swaps	**1,331**	*	**1,331**	793
Total financial assets	**1,656,815**	1,008,663	**1,652,423**	1,008,447
Financial liabilities				
Overdrafts from other ADIs	**1,924**	12	**1,924**	12
Members' deposits	**975,961**	855,394	**975,804**	855,388
Loans from other ADIs	**10,625**	6,301	**10,625**	6,301
Notes payable	**13,091**	39,253	**13,091**	39,253
Securitised borrowings	**490,506**	-	**490,506**	-
Trade and other payables	**66,644**	39,685	**66,644**	39,685
Interest rate swaps	**-**	*	**-**	-
Total financial liabilities	**1,558,751**	940,645	**1,558,594**	940,639

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

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 institutions – the carrying amount approximates fair value because of their short-term to maturity or are receivable on demand.
- Trade payables and due to other financial institutions – the carrying amount approximates fair value as they are short-term in nature.
- Short-term borrowing and deposits – the carrying amount approximates fair value because of their short-term to maturity.
- Loan and advances and deposits – the fair values of loans receivable excluding impaired loans, are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.
- Long-term deposits – the fair values of long-term deposits are estimated using discounted cash flow analysis, based on current incremental deposit rates for similar types of deposit arrangements.
- Notes payable – the carrying amount approximates fair value.
- 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.

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36. 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:

	CONSOLIDATED Maximum credit risk exposure* for each concentration			
	Percentage of total loans receivable (%)		$'000	
Industry	**2006**	2005	**2006**	2005
Western Australian state government employees	**31.0%**	34.0%	**455,128**	295,241
Other non-concentrated	**69.0%**	66.0%	**1,031,924**	573,763
	100.0%	100.0%	**1,487,052**	869,004

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.

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37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(1) Reconciliation of reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	NOTES	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS 1 July 2004	Previous AGAAP	Effect of transition to AIFRS	AIFRS 1 July 2004
		$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Cash and cash equivalents		9,110	-	9,110	8,229	-	8,229
Receivables due from other financial institutions		84,000	-	84,000	84,000	-	84,000
Trade and other receivables	b	4,918	(802)	4,116	3,138	-	3,138
Loans and advances		845,442	-	845,442	797,039	-	797,039
Inventories	b	10,838	653	11,491	-	-	-
Investments		5,745	-	5,745	6,471	-	6,471
Due from controlled entities	c	-	-	-	16,935	(267)	16,668
Property, plant and equipment	e	12,663	(1,394)	11,269	6,016	(1,394)	4,622
Intangible assets	e	-	1,394	1,394	-	1,394	1,394
Deferred tax assets	b,c	2,357	45	2,402	2,357	267	2,624
TOTAL ASSETS		975,073	(104)	974,969	924,185	-	924,185
LIABILITIES							
Members' deposits		791,293	-	791,293	791,520	-	791,520
Trade and other payables	g	35,004	1,474	36,478	29,827	1,452	31,279
Current tax liabilities		128	-	128	128	-	128
Due to controlled entities		-	-	-	294	-	294
Borrowings		52,380	-	52,380	6,000	-	6,000
Provisions	g	1,992	(1,474)	518	1,970	(1,452)	518
TOTAL LIABILITIES		880,797	-	880,797	829,739	-	829,739
NET ASSETS		94,276	(104)	94,172	94,446	-	94,446
MEMBERS' FUNDS							
Reserves		85,356	-	85,356	85,356	-	85,356
Retained earnings	h	9,004	(104)	8,900	9,090	-	9,090
Minority interest		(84)	-	(84)	-	-	-
TOTAL MEMBERS' FUNDS		94,276	(104)	94,172	94,446	-	94,446

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37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

(b)At the end of the last reporting period under previous AGAAP: 30 June 2005

	NOTES	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
		Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS 30 June 2005 $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS 30 June 2005 $'000
ASSETS							
Cash and cash equivalents		15,688	-	15,688	9,278	-	9,278
Receivables due from other financial institutions		117,000	-	117,000	117,000	-	117,000
Trade and other receivables	b	12,559	(3,128)	9,431	4,264	-	4,264
Current tax assets		1,273	-	1,273	1,273	-	1,273
Loans and advances		862,934	-	862,934	825,032	-	825,032
Inventories	b	12,224	2,494	14,718	-	-	-
Investments	a	4,514	47	4,561	5,268	-	5,268
Due from controlled entities	c	-	-	-	20,974	(888)	20,086
Property, plant and equipment	e	18,762	(3,165)	15,597	7,926	(3,165)	4,761
Intangible assets	e	-	3,165	3,165	-	3,165	3,165
Deferred tax assets	b,c	721	190	911	722	876	1,598
TOTAL ASSETS		1,045,675	(397)	1,045,278	991,737	(12)	991,725
LIABILITIES							
Members' deposits		855,394	-	855,394	855,684	-	855,684
Trade and other payables	g	38,038	1,647	39,685	27,401	1,628	29,029
Borrowings		45,566	-	45,566	12	-	12
Due to controlled entities	c	-	-	-	1,980	(12)	1,968
Provisions	g	2,187	(1,647)	540	2,158	(1,628)	530
TOTAL LIABILITIES		941,185	-	941,185	887,235	(12)	887,223
NET ASSETS		104,490	(397)	104,093	104,502	-	104,502
MEMBERS' FUNDS							
Reserves		95,454	-	95,454	95,454	-	95,454
Retained earnings	h	9,133	(397)	8,736	9,048	-	9,048
Minority interest		(97)	-	(97)	-	-	-
TOTAL MEMBERS' FUNDS		104,490	(397)	104,093	104,502	-	104,502

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37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

(2)Reconciliation of profit for the year ended 30 June 2005

	NOTES	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
		Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS 30 June 2005 $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS 30 June 2005 $'000
INTEREST REVENUE		67,140	-	67,140	64,915	-	64,915
INTEREST EXPENSE		36,350	-	36,350	33,755	-	33,755
NET INTEREST INCOME		30,790	-	30,790	31,160	-	31,160
NON-INTEREST REVENUE							
Loan fee income		5,533	-	5,533	5,533	-	5,533
Other fee income		13,029	-	13,029	12,798	-	12,798
Insurance commissions		1,271	-	1,271	1,271	-	1,271
Other commissions		977	-	977	977	-	977
Revenue from sale of property developments	b	8,736	(2,326)	6,410	-	-	-
Dividend income		265	-	265	293	-	293
OTHER INCOME							
Share of net profit of associates accounted for using the equity method	a	40	47	87	-	-	-
Bad debts recovered		130	-	130	130	-	130
Proceeds on sale of property, plant & equipment	f	214	(214)	-	214	(214)	-
Other income		568	-	568	543	-	543
TOTAL NON-INTEREST REVENUE AND OTHER INCOME		30,763	(2,493)	28,270	21,759	(214)	21,545
Bad and doubtful debts expense		82	-	82	82	-	82
OTHER EXPENSES							
Auditor's remuneration		388	-	388	351	-	351
Finance costs		205	-	205	205	-	205
Depreciation and amortisation		2,512	-	2,512	2,398	-	2,398
Fees and commissions		7,015	-	7,015	6,622	-	6,622
Property development costs	b	6,577	(1,841)	4,736	-	-	-
Employee benefits expense		16,228	-	16,228	15,835	-	15,835
Other general and administration costs		11,335	-	11,335	10,504	-	10,504
Book value of disposed property, plant & equipment	f	280	(280)	-	280	(280)	-
Net loss on disposal of property, plant & equipment	f	-	66	66	-	66	66
Rental – operating leases		2,178	-	2,178	2,143	-	2,143
TOTAL EXPENDITURE		46,800	(2,055)	44,745	38,420	(214)	38,206
PROFIT BEFORE INCOME TAX		14,753	(438)	14,315	14,499	-	14,499
INCOME TAX EXPENSE	b	4,539	(145)	4,394	4,443	-	4,443
PROFIT FOR THE YEAR		10,214	(293)	9,921	10,056	-	10,056
LOSS ATTRIBUTABLE TO MINORITY INTEREST		13	-	13	-	-	-
PROFIT ATTRIBUTABLE TO MEMBERS		10,227	(293)	9,934	10,056	-	10,056

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37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

(3)Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4)Notes to the reconciliations

a) Intangible assets – goodwill

The Group has chosen to adopt the exemption available under AASB 1 of not retrospectively applying AASB 3 Business Combinations to its business combinations occurring before transition date. Under AASB 3, amortisation of goodwill is prohibited, and is replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This is different to the previous AGAAP where goodwill was amortised on a straight line basis over the period during which the benefits were expected to arise and not exceeding 20 years.

The effect is:

At 1 July 2004

There is no effect on the Group or the Society.

At 30 June 2005

For the Group investments and retained earnings increase by $47,000. There is no effect on the Society.

For the year ended 30 June 2005

For the Group share of net profit of associates accounted for using the equity method increased by $47,000. There is no effect on the Society.

b) Revenue recognition – land development

Under AIFRS, profit from land development activities cannot be recognised until the significant risks and rewards of ownership have been transferred to the buyer which has been determined to be at least when there is a signed unconditional contract of sale and the work on the land development is substantially complete. This is in contrast to previous AGAAP where revenues and expenses were recognised by applying the UIG 53 percentage of completion method to that proportion of the project represented by the individual lots of property subject to unconditional sales contracts. As such, under AIFRS, lots subject to unconditional sales contracts where the work on the land development was not substantially complete before year end would not have been reported in the Group accounts and the amount of revenue and associated costs in relation to these lots would have differed. The effect of this is:

At 1 July 2004

For the Group there is a decrease in trade and other receivables of $802,000, an increase in inventory of $653,000, a decrease in retained earnings of $104,000 and an increase in deferred tax assets of $45,000. There is no effect on the Society.

At 30 June 2005

For the Group there is a decrease in trade and other receivables of $3,128,000, an increase in inventory of $2,494,000, a decrease in retained earnings of $444,000 and an increase in deferred tax assets of $190,000. There is no effect on the Society.

For the year ended 30 June 2005

For the Group revenue from sale of property developments decreased by $2,326,000, land & development costs decreased by $1,841,000 and income tax expense decreased by $145,000. There is no effect on the Society.

30 JUNE 2006

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

c) Tax consolidation

Under AIFRS, the Society, as the head entity in the tax consolidated group, recognises the current tax payable of the tax consolidated subsidiaries and deferred tax assets relating to unused tax losses of these subsidiaries. The net difference between these amounts and amounts receivable or payable under the tax sharing agreement result in the recognition of equity contributions or distributions in the head entity and other members of the tax consolidated group.

This differs from the previous AGAAP, under which the Society recognised current and deferred tax amounts relating to transactions, events and balances of the tax consolidated subsidiaries as if those transactions, events and balances were its own.

The effect is:

At 1 July 2004

There is no effect on the Group. For the Society there is an increase in deferred tax assets of $267,000 and a decrease in tax related amounts receivable of $267,000.

At 30 June 2005

There is no effect on the Group. For the Society there is an increase in deferred tax assets of $876,000, a decrease in tax related amounts receivable of $888,000, and a decrease in tax related amounts payable of $12,000.

For the year ended 30 June 2005

There is no effect on the Group or the Society.

d) Financial Instruments

The Group has elected to apply the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Group to apply previous AGAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report. The adjustments required for differences between previous AGAAP and AASB 132 and AASB 139 have been determined and recognised at 1 July 2005. Refer to section 5 of this Note and Note 1 for further details.

e) Intangible assets – computer software

Under previous AGAAP, computer software was classified as property, plant & equipment. Under AASB 138 Intangible Assets, computer software is classified as an intangible asset. Therefore, computer software has been reclassified from property, plant & equipment to intangible assets. The effect of this is:

At 1 July 2004

For the Group and the Society, there has been an increase in intangible assets of $1,394,000 and a decrease in property, plant & equipment of $1,394,000.

At 30 June 2005

For the Group and the Society, there has been an increase in intangible assets of $3,165,000 and a decrease in property, plant & equipment of $3,165,000.

For the year ended 30 June 2005

There is no effect on the Group or the Society.

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37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

f) Proceeds on sale of non-current assets

Under previous AGAAP, proceeds from the sale of non-current assets were included in revenue and the book value of the assets sold were included in other expense. Under AIFRS, net gains on the sale of assets are presented in other income and net losses in other expense. The effect of this is:

At 1 July 2004 and 30 June 2005

There is no effect on the Group or the Society.

For the year ended 30 June 2005

For the Group and the Society, proceeds on sale of property, plant and equipment has decreased by $214,000, book value of disposed property, plant & equipment has decreased by $280,000 and loss on disposal of property, plant & equipment has increased by $66,000.

g) Annual leave

Under previous AGAAP, annual leave expected to be settled within 12 months was included in provisions. Under AASB 119 Employee Benefits, annual leave expected to be settled within 12 months is included in trade and other payables. The effect of this is:

At 1 July 2004

For the Group, trade and other payables increased by $1,474,000 and provisions decreased by $1,474,000. For the Society, trade and other payables increased by $1,452,000 and provisions decreased by $1,452,000.

At 30 June 2005

For the Group, trade and other payables increased by $1,647,000 and provisions decreased by $1,647,000. For the Society, trade and other payables increased by $1,628,000 and provisions decreased by $1,628,000.

For the year ended 30 June 2005

There is no effect on the Group or the Society.

h) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

	NOTES	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		1 July 2004 $'000	30 June 2005 $'000	1 July 2004 $'000	30 June 2005 $'000
Land development revenue recognition	b	(104)	(444)	-	-
Goodwill amortisation	a	-	47	-	-
Total adjustment		(104)	(397)	-	-
Attributable to:					
Equity holders of the parent		(104)	(397)	-	-

30 JUNE 2006

37. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

(5)Adjustments on transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement: 1 July 2005

	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000
ASSETS						
Cash and cash equivalents	15,688	-	15,688	9,278	-	9,278
Receivables due from other financial institutions	117,000	-	117,000	117,000	-	117,000
Trade and other receivables	9,431	-	9,431	4,264	-	4,264
Current tax assets	1,273	-	1,273	1,273	-	1,273
Loans and advances	862,934	423,254	1,286,188	825,032	456,710	1,281,742
Inventories	14,718	-	14,718	-	-	-
Available-for-sale financial assets	-	3,610	3,610	-	3,610	3,610
Investments	3,610	(3,610)	-	3,610	(3,610)	-
Due from controlled entities	-	-	-	20,086	282	20,368
Investments in associates	951	-	951	1,000	-	1,000
Property, plant and equipment	15,597	-	15,597	4,761	-	4,761
Investments in controlled entities	-	-	-	658	-	658
Intangible assets	3,165	-	3,165	3,165	-	3,165
Deferred tax assets	911	(517)	394	1,598	(517)	1,081
TOTAL ASSETS	1,045,278	422,737	1,468,015	991,725	456,476	1,448,200
LIABILITIES						
Members' deposits	855,394	-	855,394	855,684	-	855,684
Trade and other payables	39,685	-	39,685	29,029	-	29,029
Derivative financial instruments	-	722	722	-	722	722
Borrowings	45,566	420,810	466,376	12	454,548	454,560
Due to controlled entities	-	-	-	1,968	-	1,968
Provisions	540	-	540	530	-	530
TOTAL LIABILITIES	941,185	421,532	1,362,717	887,223	455,270	1,342,493
NET ASSETS	104,093	1,205	105,298	104,502	1,205	105,707
MEMBERS' FUNDS						
Reserves	95,454	(505)	94,949	95,454	(505)	94,949
Retained earnings	8,736	1,710	10,446	9,048	1,710	10,758
Minority interest	(97)	-	(97)	-	-	-
TOTAL MEMBERS' FUNDS	104,093	1,205	105,298	104,502	1,205	105,707

Refer to Notes 1(c), 1(g), 1(p) and 1(t) for further information on the transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement on 1 July 2005.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 15 to 70 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 2006 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

Perth WA
28 August 2006

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

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Police & Nurses Credit Society Limited (the Company) for the financial year ended 30 June 2006 included on Police & Nurses Credit Society Limited web site. The Company's directors are responsible for the integrity of the Police & Nurses Credit Society Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report 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 remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

Audit opinion

In our opinion, the financial report of Police & Nurses Credit Society Ltd:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Police & Nurses Credit Society Ltd and the Police & Nurses Credit Society Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

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

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for both Police & Nurses Credit Society Ltd (the company) and the Police & Nurses Credit Society Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll
Partner

Perth WA
28 August 2006

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