Police & Nurses
Annual Report
2012

POLICE & NURSES
MUTUAL BANKING

A better wa to bank.

Directory

Directors

E L Smith (Chairman)
P M Gabb (Deputy Chairman)
M L Fyfe
W Gregson
E A Manley
S J Melville
K J O'Callaghan
A C Philp
G Sutherland

Chief Executive Officer & Company Secretary

A E (Fred) Huis

Registered Office

Police & Nurses Credit Society Ltd
ABN 69 087 651 876

Level 7, 130 Stirling Street
Perth 6000 Western Australia
Telephone 13 25 77
pncs.com.au

External Auditors

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth 6000 Western Australia

Internal Auditors

KPMG
235 St Georges Terrace
Perth 6000 Western Australia

Contents

This financial report covers both the separate financial statements of Police & Nurses Credit Society Ltd as an individual entity and the consolidated financial statements for the consolidated entity consisting of Police & Nurses Credit Society Ltd and its subsidiaries. The financial report is presented in Australian dollars.

Police & Nurses Credit Society Ltd is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the report of the Directors on pages 15 to 19, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 30 August 2012. The Directors have the power to amend and reissue the financial report.

Financial results at a glance

	2007[2] Results	2008[2] Results	2009[2] Results	2010[2] Results	2011[2] Results	2012[2] Results	5 year CAGR*	1 year CAGR*
Total loans under management[1] ($M)	1,825	2,046	2,121	2,274	2,439	2,387	5.52%	-2.13%
Total assets under management[1] ($M)	2,031	2,321	2,438	2,654	2,859	2,830	6.86%	-1.01%
Deposits ($M)	1,067	1,202	1,564	1,686	1,756	1,851	11.64%	5.39%
Reserves ($M)	151.2	173.7	170.2	196.0	210.8	218.3	7.63%	3.58%
Group NPAT^ ($M)	19.7	19.2	9.7	23.1	12.8	9.2	-14.11%	-28.0%
Society NPAT^ ($M)	16.1	17.4	11.4	14.4	14.3	11.1	-7.10%	-22.1%

*CAGR: Cumulative Annual Growth Rate ^NPAT: Net Profit After Tax

Notes:

1. Includes off balance sheet loans
2. AIFRS standards applied

Board Members

Eric Laurence Smith
Chairman

Paul Marshall Gabb
Deputy Chairman

Michelle Louise Fyfe
Director

Wayne Gregson
Director

Elizabeth Anne Manley
Director

Stephen John Melville
Director

Karl Joseph O'Callaghan
Director

Alan Craig Philp
Director

Gloria Jean Sutherland
Director

Chairman's Report

Whilst our name and branding is changing, I would like to reassure you that our business model and our operations will remain the same.

I am proud to present what will be our final Annual Report as Police & Nurses Credit Society Ltd as we change our company name to Police & Nurses Ltd on 1 October 2012.

You would be aware that our members voted overwhelmingly in support of this change at a Special General Meeting earlier in 2012. This company name change paved the way to seek APRA's approval for our brand name change to P&N Bank. Subject to that approval, we anticipate the change for early in the new year.

We often say that Police & Nurses was created in 1990 following the merger of the Police Credit Society of WA Ltd and the WA Nurses Credit Society Ltd, however many of our members have memories of our organisation that precedes this time.

Our organisation today is made up of around 15 credit unions; many of these companies came to us during our merger with Energy Credit in 2001.

The oldest organisation in our family can be traced back to 1949 and we have a number of members who can remember banking with us for half a century.

I became a member of this organisation through the Police Credit Society of WA and since that time have witnessed Police & Nurses grow from strength to strength.

The year I joined was the year we entered the digital age, with the acquisition on 1 October 1976 of our first computer. It had an impressive 50 kilobyte processor and took up a whole room.

Some 36 years later we plan to launch the latest version of our website and will soon be providing a host of online service options, including the ability to open accounts online and contact us directly through social media channels.

Our anticipated move towards rebranding as P&N Bank is one of the most significant points in our history and brings to mind a similar change we undertook in 1990, when we started trading under the name Police & Nurses.

For 22 years we have operated under the name Police & Nurses and during that time we continued to grow our membership and reinforce our role as a genuine local alternative in banking.

Whilst our name and branding is changing, I would like to reassure you that our business model and our operations will remain the same.

This means we will continue to operate as a mutual organisation, owned by you, our members, not by external shareholders. Our profits will continue to be reinvested in the business to improve our already competitive products and services for the benefit of our members.

As members, you can feel proud of the fact that when we rebrand, we will be the only locally owned and managed bank in Western Australia.

Key drivers for change

Recent Federal Government reforms have paved the way for mutual banking organisations like ours to use the word 'bank' in their name.

This reform was made to increase competition in Australia's banking sector and to provide an alternative to the four major banks.

Mutuals are just as safe and secure as banks, we are regulated to the same high standards of security, by such government agencies as APRA, ASIC, the Reserve Bank of Australia, AUSTRAC and the ACCC. We are also subject to the same government guarantee on our deposits.

Chairman’s Report

Overwhelmingly supported

In order to change our brand name, we also needed to change our company name. The company name of Police & Nurses Ltd was put to a vote of shareholding members in April 2012 and overwhelmingly agreed to, with 93% of returned or in-person votes in favour of the change.

We expect to receive APRA’s decision on our application to trade as P&N Bank later in 2012.

I would like to thank all the members who provided feedback, or voted for the company name change. Without your support we could not have taken this important step in our history.

Final words from the Chair

As Chairman of the Board of Directors, I am proud of the results we have achieved in the past financial year.

While the last 12 months has been characterised by continued uncertainty in global financial markets, we can nevertheless report a successful year with growth in members and member satisfaction, the development of competitive products and services and sound financial results. All this has been achieved by prudent management and putting the member first.

I would like to acknowledge and thank my fellow Directors for their contributions over the past year.

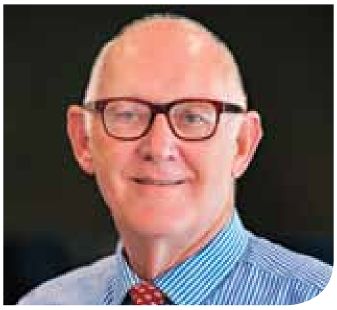
My thanks also go to our enduring and energetic CEO, Fred Huis and to his management team and staff who are working exceptionally hard to make the transition from Police & Nurses towards our new brand as seamless as possible, with minimal disruption to our members.

Finally, I would like to thank you, our members for your loyalty and support. There are exciting times ahead and we anticipate the changes I’ve already outlined in this report will lead to more and more people joining you as shareholding members.

E L SMITH

Chairman

CEO's Report



We will continue to focus on our members while advancing strategies to strengthen and sustain our organisation...

In a year of continued economic uncertainty and fierce competition, I am very pleased to report that we have achieved strong growth in membership while continuing to invest in the future. With a net profit after tax (Society) of $11.1 million, our annual results reflect Police & Nurses approach to balanced growth, consistent with the mutual model of putting members ahead of profit.

Since we announced our intention to rebrand to P&N Bank late last year, which is subject to APRA's approval, we have implemented a number of important operational and procedural practices towards that goal. Benefits from our strategic investments aimed at enhancing and expanding our services have already started to flow onto members.

We expect to receive the regulator's decision later in December. We then look forward to proceeding with our brand name change early in the new year.

This new name, together with our fresh new branding and design, will be an important part of our plan to strengthen our position as an alternative to the major banks.

However, while our name may change, I want to reassure you that our commitment to our mutual business model is stronger than ever.

As you will see from the overviews that follow, we have continued to put members first by developing competitive products and services.

Just as we are proud to be Western Australia's largest locally owned financial institution, I trust you share our excitement at the prospect of becoming the State's only locally owned and managed member bank.

We will continue to focus on our members while advancing strategies to strengthen and sustain our organisation, in a world increasingly reliant on technology and in a financial landscape of continued uncertainty.

Financial Results 2011/12

The past financial year has again presented challenges to the financial industry, with continued global economic uncertainty leading to generally flat equity and property markets both here and overseas.

As a mutual organisation, we are better placed to weather difficult times than many of our competitors because we are not compelled to grow profits for external shareholders. Our long term success is reliant upon balanced growth and a clear focus on providing competitive financial services for our members.

Despite the slow-growing market, we have been able to maintain a strong position through prudent management of costs alongside a steady growth in membership during the year, up by a healthy 6%.

This year witnessed a slight decrease in the loan funding side of our business, but an increase in deposits, demonstrating a trend in the banking industry this year that people are borrowing less but saving more.

The after-tax net profit for the Police & Nurses (Society) was $11.1 million, below that of the previous year of $14.3 million.

We have made a number of investments in our future and this has contributed to the reduction in our net profit. We believe these investments are vital to the sustainability of our organisation.

Total Group profit after-tax was $9.2 million compared to $12.8 million for the previous year. This is in line with the decrease in our Society profit, in addition to some impact from our property development area.

CEO's Report

Our capital levels have remained constant at 15%, which is higher than the minimum required by our regulator, demonstrating our strength as an organisation and ability to weather difficult times.

During 2011/2012, total assets of the Society decreased by $23 million (-1%) to $2,830 million, with loans and advances decreasing by $51 million (-2%) to $2,387 million.

Member deposits improved by $95 million (+5%) to $1,851 million, with total Group reserves, including retained earnings, increasing by $8 million (+4%) to $218 million.

Group net interest income fell by $3 million (-5%) and doubtful debts expense increased by $2.7 million (+119%) to $4.9 million, largely influenced by the relatively poor economic climate.

Group non-interest income reduced by $3.6 million (-15%). This can be attributed to lower property development sales and lower loan fees passed on to our members.

Member Services

Over the past 12 months we have introduced and improved a number of products and services for members.

Easypay Plus Package

The Easypay Plus Package, launched July 2011, not only provides discounted interest rates for home loans but also provides benefits for bundling a transaction account, credit card and home loan together. It also includes optional additional benefits, such as financial planning, insurance and personal loan discounts.

VISA payWave

VISA payWave was launched in January 2012, enabling members to make purchases under $100 quickly via their VISA Debit or Credit cards. With VISA payWave, cardholders 'tap' their card onto a contactless point-of-sale device without needing to enter a PIN or sign for the transaction.

This facility will apply to all new cards issued from this year. It ensures that our members have access to leading technology and that we continue to compete with the major banks.

Way Cool Saver

Our first account specifically for children, the Way Cool Saver was introduced in February this year. For children aged 0-15 years, this account pays a high rate of interest on every dollar up to $4,999.

In addition to incurring no ongoing fees or charges, members' children qualify for a high rate of interest without the usual minimum monthly deposit requirements.

Cash Passport

We upgraded to MasterCard Multi-Currency Cash Passports in April 2012 to assist members travelling overseas who are seeking the convenience of a cash passport card.

This product allows members to have multiple currencies on one card and the ability to withdraw local currency at over 1.9 million MasterCard® ATMs worldwide.

Access

Our goal is to introduce more Western Australians to the benefits of member-owned banking.

To maintain our focus on putting our members first, we have continued to support the training and development of our staff in 2011/2012.

A new telephone system was also installed to improve our local call centre experience and we invested in new technology to support our online banking facilities.

New Technology

We recognise that the way our members bank with us is changing and our organisation is committed to keeping up to date with new technologies.

As a mutual organisation, we have continued to invest in a strong infrastructure to keep our business secure and operating effectively.

Recognising that it is not always convenient to attend one of our branches, we introduced a facility in May 2012 that enables new members to join online and we have improved the security software working in the background of Netlink online banking. We plan to expand this service soon to allow members to apply for loans and deposit accounts and track the progress of their loan applications online.

Additionally we plan to launch a new website and make it easy for members to get in touch with us through Facebook and Twitter. We will continue to invest in developing our online banking facilities during 2012, allowing members to open new accounts through Netlink, to activate their new cards and to report cards that are lost or stolen.

CEO's Report

Establishing One Brand

As part of our proposed rebrand activities, we plan to include our Nurses First division in our proposed change of name to P&N Bank. Merging the two divisions of the company under one name means that members will benefit from the economies of one parent brand.

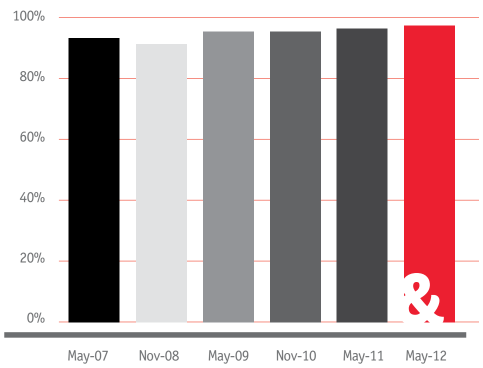
The vast majority of Nurses First members actively use our online and electronic banking services, but few accessed our sales office in Melbourne. As a result, we closed the office in May this year and are investing in improved technology to enhance their online and mobile banking experience.

Member Satisfaction Continues to Rise

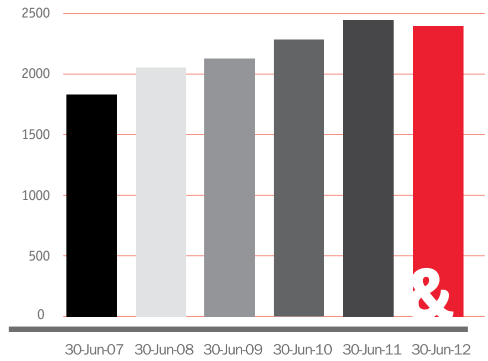
Our annual, independently-conducted Member Satisfaction Survey has demonstrated that our 'members first' approach is genuinely appreciated by our members.

Up from 96% in 2011, the overall satisfaction result for 2012 is an impressive 97%.

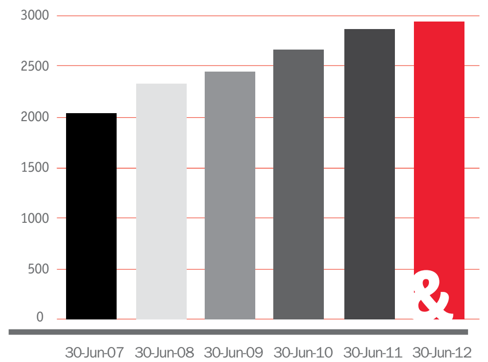
Echoing this result, in April and July 2012 we were acknowledged in a Roy Morgan customer satisfaction poll for having the highest member satisfaction of any credit union in Australia.



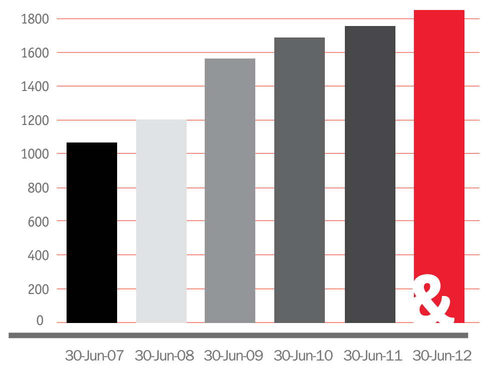
MEMBER SATISFACTION



TOTAL LOANS UNDER MANAGEMENT ($M)



TOTAL ASSETS UNDER MANAGEMENT ($M)



DEPOSITS ($M)

CEO's Report

Community

During the last financial year we again sponsored a number of initiatives to support our members and their local communities. Some of the larger partnerships are summarised below.

RSPCA WA

We continued to support RSPCA WA as a major sponsor of the Million Paws Walk held in May 2012. Police & Nurses has been a sponsor of Million Paws Walk for over nine years and a number of our staff took part in the walk to raise money for the RSPCA.

We also supported the RSPCA through sales of Happy Tails Day merchandise at our branches in October 2011.

BHP Billiton Ramble

The Perth Ramble took place on 9 October 2011 and we were proud to support this event in its inaugural year. Around 5,000 entrants took part in a race around Perth to raise money for Telethon and Australian Rotary Health.

Crime Stoppers WA

We have been a long-time supporter of Crime Stoppers WA, the telephone hotline service that enables members of the community to provide information about criminal activity. Supporting Crime Stoppers is one way we are contributing to the safety of our local community.

Student Scholarships

Each year, Police & Nurses runs a student scholarship program to support four high school students with their studies. Two year 11 students are chosen each year to receive financial assistance and if those winners continue to work hard, their scholarship is then renewed in Year 12. The 2012 Police & Nurses scholarship winners were Ashleigh Ballantyne from Perth Modern School and Jascinta Mijatovic from Geraldton Senior College.

Police & Nurses Student Scholarship recipients 2012

CEO Fred Huis; Winner 2012 – Jascinta Mijatovic (absent), Ashleigh Ballantyne; Runner up 2012 – Melissa Dowding, Krystal Hayes; Winner 2011 – Angel Hanna, Jayden Kennedy; Commisioner Karl O'Callaghan.

CEO's Report

Perth Wildcats

In June 2012 we announced an exciting new sponsorship for our organisation by becoming the official membership partner of the Perth Wildcats. A highly successful club on the court, the Wildcats, like us, have a very strong member focus and high member loyalty.

Supporting the Perth Wildcats is just another way we are investing in the future of our great state.

Looking Ahead

While not wanting to sound too pessimistic, it is hard to envisage significant upward movements in financial markets over the next 6 to 12 months.

The ongoing challenges in our economic climate will see our organisation continue to take a prudent and conservative attitude over the next financial year, an approach that has served us well since the global financial crisis in 2009.

On a more optimistic note, we are confident that we will continue to build on our solid membership base and expect to see the benefits of our proposed name change translated into member growth. Increasing our membership creates more opportunities for our organisation to enhance or expand services to members.

We will look to make targeted investments in our business over the coming year, including a continuation of our digital strategy, ongoing product development and upgrading our branch network.

Perth Wildcats

Acknowledgements

While the financial and retail sectors of our economy have experienced another challenging year, I am pleased to be able to say that we have again risen to that challenge and forged ahead as an even stronger organisation.

I would like to publically acknowledge the dedication and work ethic of our management and staff who have continued to embrace and adapt to the changes being made across our network. Equally important, our staff has ensured that changes are communicated to our members and the broader community in a clear and timely fashion.

Thank you to our Board of Directors for their leadership over the past year. Their support and guidance has been invaluable to me and the management team.

I also wish to thank all of our members for their continued loyalty and support and for promoting the benefits of Police & Nurses membership to others. I encourage you to pass on any feedback in relation to our products and services as we strive to make Police & Nurses the best it can be.

A E (FRED) HUIS

Chief Executive Officer

Member Services

Accessible Banking

Police & Nurses makes it easy for our members to access our services whenever and wherever they need it.

Branches

We have 17 branches in WA, with 15 located within the metropolitan area and 2 in the regional centres of Bunbury and Mandurah. Our branch network offers home and personal lending, insurance, transactional capability, savings accounts and financial planning services.

Local Contact Centre

Our Contact Centre is located in our Head Office at 130 Stirling Street, Perth. Our consultants can interact with members via phone, online web chat or email. The Contact Centre manages around 1,000 phone calls per day and its operating hours are from 8.00am to 6.00pm (WST), Monday to Friday.

Online Banking

Through Netlink online banking, our members can view their accounts, transfer money, pay their bills via BPAY or register using BPAY View to see their statements online.

Phone & Mobile Banking

Through Phonelink telephone banking our members can retrieve account information, transfer money and pay their bills. We also offer MiLink mobile banking, a mobile version of Netlink for web enabled mobile phones and Txtlink SMS banking, which uses SMS technology to send account information to members via their mobile phone.

ATM Network

Police & Nurses is a part of the rediATM/NAB ATM network, one of the largest ATM networks in Australia. By using a rediATM, NAB or BOQ ATMs our members aren't charged for ATM withdrawals.

Internet Kiosks

There are Police & Nurses internet kiosks in all our branches and onsite at Royal Perth Hospital, Armadale Hospital, Sir Charles Gairdner Hospital and King Edward Memorial Hospital, providing free access to the Police & Nurses website.

Financial Planning

Police & Nurses Financial Planning was established to help people make the most of their financial opportunities, offering expert advice in areas such as superannuation, investments, insurance and retirement planning.

Member Services

Insurance

Our MemberCare Insurance products include motor vehicle, boat and caravan, home and contents and loan protection insurance. These products are made available to members through our affiliation with QBE Insurance Australia. We also provide life insurance options through Zurich and health insurance options through our affiliation with GMHBA.

Conveyancing

We have our own settlement agency offering a qualified experienced conveyancing team that provides efficient and personalised service to both members and non-members. As well as assisting with general sale and purchase dealings, we also handle change of title transactions due to marriage, divorce, death and name errors.

Foreign Exchange

We can provide our members with a range of foreign exchange services from travellers cheques and cash passports to foreign currency exchange.

The Executive Team (L-R): Simon Walsh, Chief Information Officer; Jill Jetson-Shumbusho, Chief Operating Officer; Dave Spearman, Chief Financial Officer; Fred Huis, Chief Executive Officer.

Report of the Directors

Your Directors present their report on the financial statements of Police & Nurses Credit Society Ltd ("the Society") and Police & Nurses Credit Society Ltd and its controlled entities ("the Group") for the year ended 30 June 2012.

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 developed in conjunction with 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 (Chairman) FAICD FAMI

Certificate in Police Studies, Diploma of Policing,
Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing),
Advanced Diploma of Public Safety (Police Investigations),
Graduate Certificate of Business (Leadership),
Graduate Diploma of Business (Leadership & Management).

Detective Inspector – WA Police. 18 years service as a Credit Society Director; 36 years service as a Police Officer. Audit & Risk Committee & Board Governance Committee member.

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

Financial Analyst - Australian Federal Police, 14 years service as a Credit Society Director; 26 years service in Law Enforcement. Board Governance Committee Chairman.

Michelle Louise FYFE APM GAICD

Dip (Policing) Dip Public Safety Policing, Dip (Criminal Investigation), Grad Cert (Applied Management), Grad Dip of Executive Leadership (Policing & Emergency Services)

Commander State Traffic Operations – WA Police. 28 years service as a Police Officer, 3 years service as a Credit Society Director. Board Governance Committee member.

Wayne GREGSON APM BA MBA GAICD

Chief Executive Officer, Fire & Emergency Services Authority of WA. 31 years service as a Police Officer, 3 years service as a Credit Society Director. Audit & Risk Committee member.

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

CEO & Director of Nursing, 12 years service as a Credit Society Director; 41 years service in the nursing/health profession. Audit & Risk Committee member.

Report of the Directors

Stephen John MELVILLE B.Bus (Accounting) FCPA GAICD

Director – Corporate Services, Department of State Development. Eighteen years service as a Credit Society Director. Has held senior executive positions in both private and government organisations with considerable experience in a range of accounting, financial management and marketing roles. Audit & Risk Committee Chairman.

Karl Joseph O'CALLAGHAN APM BA B.Ed (Hons) PhD GAICD

Commissioner of WA Police. Seven years service as a Credit Society Director, 39 years service as a Police Officer. Board Governance Committee member.

Alan Craig PHILP Dip Nursing & Midwifery BA HSc Masters of Public Health GAICD

Director, Grants Management Unit (Substance Misuse and Indigenous Wellbeing Programs Branch) Mental Health and Drug Treatment Division, 33 years in nursing profession, 36 years as a member of Police & Nurses. 4 years service as a Credit Society Director. Audit & Risk Committee member.

Gloria Jean SUTHERLAND B App Sc (Nursing) Post Grad Dip Health Education Master of Science GAICD MAMI

Strategic Consultant (Health Planning) with a Perth-based business and advisory consultancy; Extensive health leadership experience at regional, state and national levels, 40 years service in nursing/health profession; 2 year service as a Credit Society Director; Board and Governance Committee member.

Each Director holds one member share in the Society.

Company Secretary

A E (Fred) HUIS FCA SF Fin GAICD

Twenty-nine 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 comprises nine 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 2012 and the number of meetings attended by each Director.

Report of the Directors

Director	Directors' Meetings		Audit & Risk Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith**	12	12	4	4	3	3
P M Gabb	12	11	*	*	3	3
M L Fyfe	12	12	*	*	3	3
W Gregson	12	11	4	3	*	*
E A Manley	12	10	4	4	*	*
S J Melville	12	11	4	3	*	*
K J O'Callaghan	12	10	*	*	3	2
A C Philp	12	10	4	4	*	*
G J Sutherland	12	11	*	*	3	3

A - Number of meetings held during the time the Director held office or was a member of the committee during the year

B - Number of meetings attended

* - Not a member of the relevant committee

** - During the year the nominations committee held one meeting, which was fully attended. This meeting was chaired by Mr Eric Smith and included two independent attendees.

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 & Risk Committee

The Board has established an Audit & Risk Committee to assist in the execution of its responsibilities. The Committee comprises five Board members. This Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to:

- the establishment and maintenance of an internal control framework;
- the establishment and maintenance of a risk management framework; and
- the reliability and integrity of financial information for inclusion in public financial statements.

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

Report of the Directors

Board Governance Committee

The Board has established a Board Governance Committee to assist it by providing informed feedback to the Board on its performance, and to establish a framework to assist the Board to assess the performance of each Director and the Chief Executive Officer. The Committee comprises a minimum of four Directors.

This Committee has written terms of reference, which outlines its roles and responsibilities to enable it to assist the Board in relation to maintaining practices in compliance with the requirements of the prudential standards on Fit & Proper and on Governance. An appraisal of the Board's performance is conducted annually, with an independent consultant engaged to facilitate the process every third year. The Chairman of the Board through the Board Governance Committee is responsible for the annual assessment methodology of the Board's performance and that of each individual Board member ensuring that both the Board and individual Board members meet the requirements of the prudential standards.

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

Nominations Committee

The Board has established a Nominations Committee to conduct Fit & Proper assessments of the Group's Directors who renominate by rotation and of any other person nominating as a candidate for election as Director. The Committee has written terms of reference, which outlines its roles and responsibilities. The Committee comprises the Chairperson and two independent members. None of the Nominations Committee members are employees of the credit society.

Group Risk Management

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

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

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

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

Ethical Standards

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

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

Principal Activities

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

Review of Operations

During the financial year, total assets of the Group decreased by $29,285,000 to $2,830,129,000, members' deposits increased by $94,650,000 to $1,850,618,000, and loans and advances decreased by $51,565,000 to $2,387,060,000.

The profit of the Group and the Society for the financial year after income tax and before minority interest was $9,210,000 (2011: $12,835,000) and $11,142,000 (2011: $14,321,000) respectively.

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

Future Development and Results

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

Bad and Doubtful Debts

Before the financial statements were completed, 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 completed, 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. At the date of this report, the Directors are not aware of any circumstances which would render the value attributed to any assets in the financial statements misleading.

Report of the Directors

Significant Changes

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

On 30 April 2012 a Special General Meeting of members was held to vote on removing the words 'Credit Society' from our company name. Approximately 93% of votes returned were in favour of the change. Effective from 1 October 2012 our company name will change to Police & Nurses Ltd.

Events Subsequent to the End of the Financial Year

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

Environmental Regulation

The Group is subject to environmental regulation in respect of its property developments. All developments have been undertaken in compliance with the necessary planning and environmental regulations.

Register of Directors' Interests

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

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

Insurance of Officers

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

Auditors' Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars or in certain cases to the nearest dollar.

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

E L SMITH
Director

P M GABB
Director

Perth WA
30 August 2012

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Credit Society Limited for the year ended 30 June 2012, 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 Police & Nurses Credit Society Limited and the entities it controlled during the period.

Douglas Craig
Partner
PricewaterhouseCoopers

Perth WA
30 August 2012

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Income Statements

YEAR ENDED 30 JUNE 2012	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Interest revenue	3	**186,300**	193,606	**186,736**	189,088
Interest expense	3	**128,609**	132,971	**127,153**	126,912
Net interest income		**57,691**	60,635	**59,582**	62,176
Non-interest revenue					
Loan fee revenue		**4,114**	4,711	**4,114**	4,711
Financial services fees		**4,803**	5,630	**4,803**	5,630
Financial planning fees		**2,315**	2,259	**-**	-
Amenity fees		**1,298**	1,464	**-**	-
Other fee revenue		**1,178**	771	**768**	229
Insurance commissions		**3,265**	2,939	**3,265**	2,939
Other commissions		**823**	768	**823**	768
Revenue from sale of property developments		**1,366**	3,566	**-**	-
Dividend revenue		**621**	905	**1,121**	905
Other income					
Bad debts recovered		**436**	436	**436**	436
Net gain on disposal of property, plant and equipment		**48**	385	**45**	386
Other income		**536**	614	**444**	578
Total non-interest revenue and other income		**20,803**	24,448	**15,819**	16,582
Total income		**78,494**	85,083	**75,402**	78,757
Bad and doubtful debts expense	8(b)	**4,873**	2,222	**4,873**	2,222
Other expenses					
Auditor's remuneration	28	**367**	404	**345**	350
Finance costs		**867**	767	**867**	767
Depreciation and amortisation		**4,186**	3,546	**3,928**	3,299
Fees and commissions		**6,094**	7,326	**5,976**	7,240
Property development costs		**1,143**	2,108	**-**	-
Employee benefits expense		**26,909**	25,167	**24,740**	23,172
Information technology costs		**3,699**	3,636	**3,697**	3,633
Marketing costs		**3,342**	5,203	**3,299**	5,173
Other general and administration costs		**6,928**	7,181	**5,943**	6,600
Loss on revaluation of invesment property		**804**	286	**-**	-
Loss on disposal of plant and equipment		**77**	-	**77**	-
Rental - operating leases		**5,458**	5,004	**5,254**	4,802
Total expenditure		**64,747**	62,850	**59,000**	57,258
Profit before income tax		**13,747**	22,233	**16,402**	21,500
Income tax expense	4	**4,537**	9,398	**5,259**	7,179
Profit for the year		**9,210**	12,835	**11,142**	14,321
(Profit)/loss attributable to minority interests		**(6)**	(18)	**-**	-
Profit attributable to members		**9,204**	12,817	**11,142**	14,321

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

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2012	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Profit for the year		**9,210**	12,835	**11,142**	14,321
Other comprehensive income	23c	**(1,651)**	1,943	**(1,651)**	1,943
Other comprehensive income for the year, net of tax		**(1,651)**	1,943	**(1,651)**	1,943
		7,560	14,778	**9,492**	16,264
Total comprehensive income for the year is attributable to:					
Members of Society		**7,554**	14,760	**9,492**	16,264
Minority interest		**6**	18	**-**	-
		7,560	14,778	**9,492**	16,264

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

Balance Sheets

AS AT 30 JUNE 2012	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	5	**27,619**	20,939	**9,520**	4,025
Receivables due from other financial institutions	6	**297,130**	280,248	**297,130**	280,248
Trade and other receivables	7	**31,011**	30,517	**18,235**	17,834
Loans and advances	8	**2,387,060**	2,438,625	**2,387,060**	2,438,625
Inventories	10	**43,039**	43,044	**-**	-
Available-for-sale financial assets	11	**2,951**	2,951	**2,888**	2,888
Due from controlled entities	12	**-**	-	**43,786**	39,020
Property, plant and equipment	13	**6,742**	7,996	**6,578**	7,839
Investment properties	14	**23,465**	24,309	**-**	-
Other financial assets	15	**-**	-	**3,083**	3,083
Intangible assets	16	**11,113**	10,785	**8,820**	8,307
Deferred tax assets	17	**-**	-	**2,734**	1,108
Total assets		**2,830,129**	2,859,414	**2,779,834**	2,802,977
Liabilities					
Members' deposits	18	**1,850,618**	1,755,968	**1,850,918**	1,756,655
Trade and other payables	19	**68,912**	70,427	**46,960**	46,128
Derivative financial instruments	9	**4,758**	2,400	**4,758**	2,400
Current tax liabilities		**2,957**	5,159	**3,739**	5,107
Borrowings	20	**676,153**	804,850	**274,630**	350,922
Due to controlled entities	12	**-**	-	**387,781**	439,912
Provisions	21	**5,008**	4,933	**2,765**	3,063
Deferred tax liabilities	22	**3,374**	4,888	**-**	-
Total liabilities		**2,611,780**	2,648,625	**2,571,552**	2,604,187
Net assets		**218,349**	210,789	**208,282**	198,790
Members' funds					
Reserves	23	**187,372**	174,006	**187,372**	174,006
Retained earnings	23	**30,430**	36,242	**20,910**	24,784
Minority interest		**547**	541	**-**	-
Total members' funds		**218,349**	210,789	**208,282**	198,790

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

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2012	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Total members' funds (equity) at the beginning of the financial year		**210,789**	196,011	**198,790**	182,526
Changes in the fair value of cash flow hedges, net of tax	23(c)	**(1,651)**	1,943	**(1,651)**	1,943
Net income recognised directly in members' funds (equity)		**(1,651)**	1,943	**(1,651)**	1,943
Profit for the year		**9,210**	12,835	**11,142**	14,321
Total comprehensive income for the year		**7,560**	14,778	**9,492**	16,265
Total members' funds (equity) at the end of the financial year		**218,349**	210,789	**208,282**	198,790
Total comprehensive income for the year is attributable to:					
Members of the Society		**7,554**	14,760	**9,492**	16,265
Minority interest		**6**	18	**-**	-
		7,560	14,778	**9,492**	16,265

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2012	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2012	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Interest received from loans		**174,068**	173,580	**170,491**	173,581
Interest received from investments		**15,909**	14,785	**16,345**	14,601
Commissions and other income received		**28,497**	10,006	**13,576**	5,521
Borrowing costs – members		**(89,476)**	(80,938)	**(89,476)**	(80,938)
Borrowing costs – banks		**(42,413)**	(38,350)	**(40,957)**	(46,559)
Payments to employees and suppliers (inclusive of GST)		**(55,952)**	(53,852)	**(46,162)**	(54,813)
Income tax (outflow)/inflow		**(7,608)**	(9,192)	**(7,547)**	(3,813)
Net cash inflow from operating activities	24(a)	**23,024**	16,039	**16,270**	7,580
Cash flows from investing activities					
Dividends received		**621**	905	**1,121**	905
(Increase)/decrease in loans and advances		**47,129**	(166,500)	**47,129**	(166,500)
Proceeds from sale of property, plant and equipment		**91**	988	**66**	988
Net movement in interest earning deposits		**(16,882)**	(32,544)	**(16,882)**	(32,544)
Net movement in other investments		**(202)**	(196)	**(4)**	-
Payments for property, plant & equipment		**(2,827)**	(3,274)	**(2,766)**	(3,173)
Payments for intangible assets		**(328)**	(1,415)	**(514)**	(1,415)
Loans from controlled entities		**-**	-	**(57,802)**	213,032
Net cash inflow/(outflow) from investing activities		**27,602**	(202,036)	**(29,653)**	11,293
Cash flows from financing activities					
Net increase in member' deposits		**94,609**	**69,715**	**94,221**	**70,261**
Loans (to)/from other financial institutions		**(138,641)**	118,919	**(75,428)**	(95,343)
Member shares issued		**58**	74	**58**	74
Member shares redeemed		**(17)**	(19)	**(17)**	(19)
Net cash inflow/(outflow) from financing activities		**(43,990)**	188,689	**18,834**	(25,027)
Net increase/(decrease) in cash and cash equivalents held		**6,636**	2,692	**5,451**	(6,154)
Cash and cash equivalents at the beginning of the year		**19,533**	16,841	**2,619**	8,773
Cash and cash equivalents at the end of the year	24(b)	**26,169**	19,533	**8,070**	2,619

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

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Compliance with IFRS

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

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.

Comparatives

Comparative balance in the income statement and balance sheet have been reclassified where appropriate with no impact on profit or net assets of the prior year to enhance comparability and understanding of the financial statements.

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011.

(i) AASB 2010-4 Amendments arising from the third annual improvements project;

(ii) ASIC guidance on non-conforming financial information;

(iii) AASB 2010-6 Amendments to the disclosures required for transfers of financial assets.

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

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

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

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

(ii) 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 29.

Notes to the Financial Statements

(c) Loan provisioning

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

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

(d) Property, plant and equipment

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

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

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

Buildings	50 years
Leasehold Improvements	3 – 10 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.

Any investment allowance applicable to depreciable assets is offset against income tax expense.

(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 or expenses.

(g) Investments and other financial assets

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

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

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

(h) Intangible assets

(i) Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

(ii) Computer software costs

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

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

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

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

(iii) Client list

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

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

(i) Impairment of assets

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

Notes to the Financial Statements

(j) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Temporary differences arising from the initial recognition of an asset or a liability is not recognised if they arose in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss. Details about the tax sharing agreement are disclosed in Note 4.

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.

Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowances reduce income tax payable and current tax expense.

A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Tax consolidation legislation

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

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

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

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

(k) Employee benefits

The liability for long service leave and annual leave is recognised in the provision for employee benefits and measured as at the present value of the expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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 end of the reporting period on national government bonds with term to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements

(l) Interest

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

(m) Cash and cash equivalents

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

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

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

(o) 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. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(g).

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. This revenue is accrued on a daily basis at a percentage of the estimate of the value of the dwelling at balance date. This revenue is due for payment by a resident when a new lease is granted to the subsequent resident or 36 months after the dwelling is vacated.

(p) Inventories

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, 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.

(q) Derivatives

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

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

Hedge accounting

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

Hedge type and risk	Accounting treatment
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 profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
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 that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, for instance, when the forecast transaction that is hedged takes place.

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

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

Notes to the Financial Statements

(r) Fair value estimation

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

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

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

(s) Borrowings

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

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

(t) 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.

(u) Loan securitisation

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

The Society 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 Society also provides arm's length interest rate swaps and liquidity facilities to the program in accordance with APRA Prudential Guidelines. In addition, the Society 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.

(v) 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.

(w) Loan origination fees and transaction costs

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

(x) Other receivables

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

(y) Goods and Services Tax (GST)

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

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

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

(z) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(aa) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(bb) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards is set out below.

AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and *AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

Notes to the Financial Statements

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Group does not have any such liabilities.
The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013).

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Group has public accountability as defined in AASB 1053 and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012).

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying value of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group does not expect the new standard to have a significant impact on its disclosures.

Notes to the Financial Statements

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group 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 investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012).

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013).

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. *The Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

Notes to the Financial Statements

AASB 2011-5 ***Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*** **and AASB 2011-6** ***Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements.*** (The amendments apply from 1 July 2012 and 1 July 2013 respectively.)

AASB 2011-5 and AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Group.

AASB 2012-3 ***Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities*** **and AASB 2012-2** ***Disclosures - Offsetting Financial Assets and Financial Liabilities*** (effective 1 January 2014 and 1 January 2013 respectively).

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the Group's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013).

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group will apply the amendments from 1 July 2013. See below table for a summary of the amendments; the Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

Notes to the Financial Statements

Standard	Amendment	Practical implications
Amendment to AASB 1 *First time adoption of AASB*	The amendment clarifies that an entity may apply AASB 1 more than once under certain circumstances.	An entity that previously applied Australian Accounting Standards or IFRS but then stopped is permitted but not required to apply AASB 1 when it recommences applying IFRS or full Australian Accounting Standards (A-IFRS). The AASB 1 provisions are designed to ease the process of transition to IFRS / full Australian Accounting Standards (A-IFRS). For an entity that was previously an IFRS preparer or complied with full Australian Accounting Standards, applying AASB 1 as if no IFRS / full A-IFRS financial statements had ever been prepared may be more burdensome than simply resuming the preparation of IFRS/full A-IFRS financial statements. The amendment permits a choice of whether to apply AASB 1. To avoid abuse, the amendment requires management to disclose why it stopped preparing IFRS / full A-IFRS financial statements and why it has resumed.
Amendment to AASB 1 *First time adoption of AASB*	The amendment clarifies that an entity can choose to adopt AASB 123 Borrowing costs', either from its date of transition or from an earlier date.	From whichever date the entity chooses to adopt AASB 123: - Borrowing costs under previous GAAP are not restated; and - AASB 123 applies to borrowing costs on qualifying assets that were under construction at the date of transition, irrespective of whether borrowing costs were capitalised under previous GAAP.
Amendment to AASB 101 *Presentation of financial statements*	The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: - as required by AASB 108 Accounting policies, changes in accounting estimates and errors; - or voluntarily.	When an entity produces an additional balance sheet as required by AASB 108, the balance sheet should be as at the date of the beginning of the preceding period – that is, the opening position. No notes are required to support this balance sheet. When management provides additional comparative information voluntarily – for example, statement of profit and loss, balance sheet – it should present the supporting notes to these additional statements.

Notes to the Financial Statements

Standard	Amendment	Practical implications
Amendment to AASB 1 as a result of the above amendment to AASB 101	The consequential amendment clarifies that a first-time adopter should provide the supporting notes for all statements presented.	A first-time adopter should provide supporting notes for its transition balance sheet.
Amendment to AASB 116 *Property, plant and equipment*	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	The previous wording of AASB 116 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. Following the amendment, this equipment used for more than one period is classified as property, plant and equipment.
Amendment to AASB 132 *Financial instruments: Presentation*	The amendment clarifies the treatment of income tax relating to distributions and transaction costs.	Prior to the amendment, AASB 132 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. The amendment clarifies that the treatment is in accordance with AASB 112. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity.
Amendment to AASB 134 *Interim financial reporting*	The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.	The amendment brings AASB 134 into line with the requirements of AASB 8 Operating segments. A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the CODM and there has been a material change in those measures since the last annual financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Loan provisioning

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

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

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

(ii) Estimated fair values of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations at least every 2 years, with a Director's valuation done in between. At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The key assumptions used in this determination are set out in note 14.

(iii) Carrying value of goodwill & client list

The Group carries its goodwill & client list at fair value at the date of acquisition less any accumulated impairment loss or amortisation recognised in profit or loss. The key assumptions used in the determination of impairment loss and amortisation are set out 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.

Notes to the Financial Statements

30 JUNE 2012

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 Group's operations during the year.

	CONSOLIDATED					
Interest Revenue and Interest Expense		**2012**			2011	
	Average Balance $'000	**Interest $'000**	**Average Interest Rate %**	Average Balance $'000	Interest $'000	Average Interest Rate %
Interest earning assets						
Deposits with other banks/ADIs	**326,831**	**15,908**	**4.87%**	305,380	15,691	5.14%
Loans and advances	**2,402,659**	**170,392**	**7.09%**	2,386,271	177,915	7.46%
	2,729,490	**186,300**	**6.83%**	2,691,650	193,606	7.19%
Interest bearing liabilities						
Members' deposits	**1,796,431**	**86,196**	**4.80%**	1,738,761	84,185	4.84%
Borrowings from other banks/ ADIs	**731,328**	**42,413**	**5.80%**	758,358	48,786	6.42%
	2,527,759	**128,609**	**5.09%**	2,497,119	132,971	5.32%

	2012	2011
Analysis of net interest income		
Net interest income	**57,691**	60,635
Average interest earning assets	**2,729,490**	2,691,650
Net interest margin (1)	**2.11%**	2.25%
Spread (2)	**1.74%**	1.87%

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

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

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**4,907**	6,325	**5,842**	6,002
Deferred tax	**(807)**	(325)	**(919)**	(251)
Under provided in prior years	**437**	3,398	**336**	1,428
	4,537	9,398	**5,259**	7,179
Deferred income tax expense / (revenue) included in income tax expense comprises:				
(Increase) in deferred tax assets (Note 17)	**(1,375)**	(691)	**(1,231)**	(431)
Increase in deferred tax liabilities (Note 22)	**568**	366	**312**	180
	(807)	(325)	**(919)**	(251)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**13,747**	22,233	**16,402**	21,500
Prima facie income tax calculated at 30% (2011 - 30%)	**4,124**	6,670	**4,921**	6,450
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment	**2**	1	**1**	1
Tax offset for franked dividends	**(480)**	(388)	**(480)**	(388)
Sundry items	**693**	(283)	**495**	(312)
	4,339	6,000	**4,937**	5,751
Under provision in previous year	**198**	3,398	**322**	1,428
Income tax expense	**4,537**	9,398	**5,259**	7,179
(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 directly to equity (Note 17 and 22)	**707**	833	**707**	833
(d) Franking credits				
Franking credits based on a tax rate of 30%	**60,627**	56,103	**60,530**	55,992

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.

Notes to the Financial Statements

30 JUNE 2012

(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 is recognised as tax-related receivable or payable by the Society (see Note 12).

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**698**	871	**698**	870
Cash and deposits at call with banks	**26,159**	16,986	**8,060**	73
Cash and deposits at call with other ADIs	**762**	3,082	**762**	3,082
	27,619	20,939	**9,520**	4,025
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits - banks	**236,638**	209,077	**236,638**	209,077
Interest earning deposits – other ADIs	**60,492**	71,171	**60,492**	71,171
	297,130	280,248	**297,130**	280,248
The deposits have an effective interest rate of 3.5% to 6.9% (2011: 5.03% to 6.14%).				
7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**2,701**	2,802	**2,701**	2,802
Prepayments	**1,639**	1,845	**1,626**	1,802
Amenities and reserve fund fees	**8,151**	7,157	**-**	-
Member transaction clearing	**30**	3,211	**30**	3,211
Land and property development debtors	**4,280**	1,311	**-**	-
Other	**14,210**	14,191	**13,877**	10,019
	31,011	30,517	**18,235**	17,834

Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists.

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
8. LOANS AND ADVANCES				
Revolving credit	**131,023**	149,011	**131,023**	149,011
Term loans	**2,258,867**	2,289,025	**2,258,867**	2,289,025
Related parties (a)	**2,757**	3,129	**2,757**	3,129
	2,392,647	2,441,165	**2,392,647**	2,441,165
Provision for impairment (b)	**(5,587)**	(2,540)	**(5,587)**	(2,540)
Net loans and advances	**2,387,060**	2,438,625	**2,387,060**	2,438,625

All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis. The Society sells mortgage loans via securitisation programs which it manages and from which it derives management fee income.

As at 30 June 2012, securitised loans under management by the Society amounted to $615,415,316 (2011: $743,608,767) which are included in both the revolving credit and term loans above.

This includes $209,226,623 (2011: $201,890,967) of loans securitised to the Pinnacle RMBS Warehouse Trust No.1, and $172,645,420 (2011: $232,201,213) of loans securitised to the Pinnacle Series Trust 2010 – T1.

Both trusts are consolidated as part of the Group (Note 15). In accordance with AASB 139 the mortgages securitised in the trusts remain on the balance sheet of the Society.

(a) Aggregate amounts receivable from related parties:				
Directors and Director-related entities	**2,757**	3,129	**2,757**	3,129
	2,757	3,129	**2,757**	3,129
(b) Provision for impairment				
Specific provision				
Opening balance	**2,540**	2,093	**2,540**	2,093
Bad debts previously provided for written off	**(1,826)**	(1,775)	**(1,826)**	(1,775)
Bad & doubtful debts provided for during the year	**4,873**	2,222	**4,873**	2,222
Closing balance	**5,587**	2,540	**5,587**	2,540
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**298**	420	**298**	420
Personal loans	**730**	994	**730**	994
Home loans	**798**	361	**798**	361
	1,826	1,775	**1,826**	1,775
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps - cash flow hedges (liabilities)	**4,758**	2,400	**4,758**	2,400

(a) Terms and conditions

At balance date, the Society has interest rate swaps with a notional amount of $174 million (2011: $139 million), on which it pays 3.08% to 7.55% (2011: 3.44% to 7.55%) interest and receives Bank Bill swap rates calculated on the notional amount. The swaps are used to protect the Society from movements in interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance date. The swaps expire between July 2012 and April 2017.

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED			
10. INVENTORIES	**Land Acquisition Costs**	**Holding Costs**	**Development Costs**	**Total**
Land held for sale	**$'000**	**$'000**	**$'000**	**$'000**
2012				
Group inventory	**35,089**	**180**	**3,292**	**38,561**
Share of joint venture inventory	**843**	**342**	**3,293**	**4,478**
	35,932	**522**	**6,585**	**43,039**
2011				
Group inventory	35,511	189	2,838	38,538
Share of joint venture inventory	1,362	321	2,823	4,506
	36,873	510	5,661	43,044

Inventory of $33,233,139 (2011: $18,700,000) is to be recovered greater than 12 months from balance date.

Inventory of $37,600,000 (2011: $37,500,000) and trade and other receivables of $Nil (2011: $Nil) are pledged as security for borrowings of $11,100,000 (2011: $11,700,000).

The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories was $32,500 (2011: $100,000).

"The Reef" at Two Rocks

1. A Directors' valuation has not been prepared for this development.

2. During the year 3 lots (2011: 7 lots) were sold and settled.

"The Grove at Ashby", Wanneroo

1. A Directors' valuation has not been prepared for this development.

2. The development is substantially completed.

3. The development is coordinated by the Satterley Property Group. The share of the joint venture held is 14.29%.

"The Enclave" at Eagle Bay

1. A Directors' valuation has not been prepared for this development.

2. During the year 3 lots (2011: 8 lots) were sold and settled.

3. Titles for the remaining 25 unsold lots are currently held.

4. The share of the joint venture held is 33.33%.

Lot 19 Woollcott Road, Henley Brook

1. A Directors' valuation has not been prepared for this development.

2. No development activity has occurred during the year or is planned for the forthcoming financial year.

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in CUSCAL (a)	**2,888**	2,888	**2,888**	2,888
Investment in "Heron Park" at Harrisdale (b)	**63**	63	**-**	-
	2,951	2,951	**2,888**	2,888

(a) Unlisted securities – Investment 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.

(b) "Heron Park", Harrisdale

P&N Landreach owns a 5.56% interest in the Heron Park development in Harrisdale. This ownership includes 62,500 shares valued at $1 each. These shares are measured at cost as the shares are able to be sold, however they must only be sold to those other parties involved in the development as per the agreement.

P&N Landreach advanced a $4,000,000 (2011: $1,900,000) interest free loan to the Syndicate with no commitment to advance any further amounts. This loan is included in Trade & other receivables (Note 7).

The first stage of the development construction has been completed, with titles for 62 lots to be received in August 2012, which will result in the first settlements for the development. Further construction work is being undertaken in a staged manner.

12. DUE FROM/TO CONTROLLED ENTITIES

	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Due from controlled entities (Assets)				
Amounts receivable from controlled entities	**-**	-	**33,569**	28,804
Tax related amounts receivable from controlled entities	**-**	-	**317**	316
Deferred securitisation receivable	**-**	-	**9,900**	9,900
	-	-	**43,786**	39,020
Due to controlled entities (Liabilities)				
Amounts payable to controlled entities	**-**	-	**387,686**	439,816
Tax related amounts payable to controlled entities	**-**	-	**95**	96
	-	-	**387,781**	439,912

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
13. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	**7,826**	7,605	**7,826**	7,605
Provision for amortisation	**(4,083)**	(2,855)	**(4,083)**	(2,855)
	3,743	4,750	**3,743**	4,750
Plant and equipment				
At cost	**10,765**	10,376	**10,538**	10,164
Provision for depreciation	**(7,766)**	(7,130)	**(7,703)**	(7,075)
	2,999	3,246	**2,835**	3,089
Total property, plant and equipment	**6,742**	7,996	**6,578**	7,839

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

	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
	Leasehold Improvements	Plant & Equipment	Total	Leasehold Improvements	Plant & Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2010	3,883	3,126	7,009	3,883	3,009	6,892
Additions	1,757	1,512	3,269	1,757	1,455	3,212
Disposals	-	(598)	(598)	-	(603)	(603)
Depreciation expense	(890)	(794)	(1,684)	(890)	(772)	(1,662)
Carrying amount at 30 June 2011	4,750	3,246	7,996	4,750	3,089	7,839
Carrying amount at 1 July 2011	**4,750**	**3,246**	**7,996**	**4,750**	**3,089**	**7,839**
Additions	**221**	**731**	**952**	**221**	**676**	**897**
Disposals	**-**	**(342)**	**(342)**	**-**	**(302)**	**(302)**
Depreciation expense	**(1,228)**	**(636)**	**(1,864)**	**(1,228)**	**(628)**	**(1,856)**
Carrying amount at 30 June 2012	**3,743**	**2,999**	**6,742**	**3,743**	**2,835**	**6,578**

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
14. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**24,309**	24,595	**-**	-
Net transfer to inventory	**(40)**	-	**-**	-
Net loss from fair value adjustment	**(804)**	(286)	**-**	-
Closing balance	**23,465**	24,309	**-**	-

(a) Description of investment property

The investment property is the Jacaranda Gardens Retirement Village, which is 100% owned by the Group.

(b) Amounts recognised in income statement for investment property

Other income - amenities fees and interest	**957**	1,143	**-**	-
Direct operating expenses from property that generated other income	**(57)**	(60)	**-**	-
Net loss on revaluation of investment property	**(804)**	(286)	**-**	-
	96	797	**-**	-

(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 2012 valuation was based on a Director's valuation. 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 formal valuation

The value of the investment property is attributable to the future amenities fee income. This value has been determined on an assessment of discounted cash flows over a period of 34 years (2011: 35 years). The discounted cash flows are based on the following assumptions:

(i) unit values are based on a weighted average of $395,000 (2011: $405,000) per unit;

(ii) escalation factor of 6% (2011: 6%) attributable to the unit values which is the market determined long-term growth rate for residential property, adjusted to reflect market conditions with no capital appreciation during 2012-13 and 6% capital appreciation annually thereafter;

(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) discount rate of 12.50% (2011: 12.75%) per annum pre-tax; and

(vi) 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.

Notes to the Financial Statements

30 JUNE 2012

14. INVESTMENT PROPERTIES (cont'd)

c) Valuation (cont'd)

Representation of valuation in financial statements

The Directors valuation resulted in a net value of $10.31 million (2011: $10.45 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2012	2011
	$'000	$'000
Net value of property transferred from property, plant & equipment	**13,815**	13,815
Add: Transfer (to)/from inventories	**(38)**	2
Net gain from fair value adjustment	**9,688**	10,492
Investment property asset	**23,465**	24,309
Included in property plant and equipment	**55**	55
Add: Accrued amenities fees (Other receivables)	**6,264**	5,563
Less: Lease loan sum liability (Note 19)	**(19,477)**	(19,477)
	10,307	10,450

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
15. OTHER FINANCIAL ASSETS				
Investments in controlled entities	**-**	-	**3,083**	3,083

Notes to the Financial Statements

30 JUNE 2012

15. OTHER FINANCIAL ASSETS (cont'd)

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

	CONSOLIDATED					
	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
	2012	2011	**2012**	**2012**	2011	2011
	%	%	**$**	**$**	$	$
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
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	-
National Home Loans Pty Ltd	**100**	100	**61,500**	**-**	61,500	-
Jacaranda Gardens Retirement Village	**100**	100	**-**	**-**	-	-
Police & Nurses Financial Planning Pty Ltd	**65**	65	**2,550,080**	**-**	2,550,080	-
Pinnacle RMBS Warehouse Trust No 1	**100**	100	**-**	**-**	-	-
Pinnacle Series Trust 2010 - T1	**100**	100	**-**	**-**	-	-
			3,083,483	**19,999**	3,083,483	19,999

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
16. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	1,572	1,572	-	-
	1,572	1,572	-	-
Computer software (ii)				
At cost	21,342	18,930	21,342	18,930
Accumulated amortisation	(12,522)	(10,623)	(12,522)	(10,623)
	8,820	8,307	8,820	8,307
Client list (iii)				
At cost	1,861	1,861	-	-
Accumulated amortisation	(1,140)	(955)	-	-
	720	906	-	-
Total intangible assets	11,113	10,785	8,820	8,307
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	1,572	1,572	-	-
Closing carrying amount	1,572	1,572	-	-
(ii) Computer software				
Opening carrying amount	8,307	8,566	8,307	8,566
Additions	2,412	1,416	2,412	1,416
Amortisation charge *	(1,899)	(1,675)	(1,899)	(1,675)
Closing carrying amount	8,820	8,307	8,820	8,307
(iii) Client list				
Opening carrying amount	906	1,093	-	-
Amortisation charge *	(186)	(187)	-	-
Closing carrying amount	720	906	-	-

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

(a) Impairment tests for goodwill

Goodwill acquired is in relation to Police & Nurses Financial Planning Pty Ltd. The recoverable value of the goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

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

Management determined value-in-use based on past performance and its expectations for the future. The assumptions used reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd. The value used in this calculation is based on discount rate of 13.00% (2011: 13.00%).

(c) Impact of possible changes in key assumptions

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

(d) Impairment charge

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

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
17. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,676**	762	**1,676**	762
Intangible assets – client list	**342**	286	**-**	-
Business related costs	**177**	135	**159**	116
Provisions	**1,458**	769	**829**	225
Depreciation	**804**	882	**742**	813
Accruals	**183**	431	**105**	364
	4,640	3,265	**3,511**	2,280
Amounts recognised directly in equity				
Cash flow hedges	**1,427**	720	**1,427**	720
	6,067	3,985	**4,938**	3,000
Offset to/from deferred tax liabilities (Note 22)	**(6,067)**	(3,985)	**(2,204)**	(1,892)
Net deferred tax assets	**-**	-	**2,734**	1,108
Movements:				
Opening balance	**3,985**	4,127	**3,000**	3,402
(Charged)/credited to the income statement (Note 4)	**1,375**	691	**1,231**	431
(Charged)/credited to equity	**707**	(833)	**707**	(833)
Closing balance	**6,067**	3,985	**4,938**	3,000
18. MEMBERS' DEPOSITS				
Call deposits	**611,681**	575,713	**611,681**	576,400
Term deposits	**1,236,960**	1,177,854	**1,237,260**	1,177,854
Withdrawable shares (a)	**662**	620	**662**	620
Related parties (b)	**1,315**	1,781	**1,315**	1,781
	1,850,618	1,755,968	**1,850,918**	1,756,655

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 69,034 (2011: 65,081) 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.

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
19. TRADE AND OTHER PAYABLES				
Accrued interest payable	**15,299**	18,578	**15,299**	18,578
Securitised loan repayments payable	**7,947**	11,763	**7,947**	11,763
Lease loan sums (Note 14)	**19,477**	19,477	**-**	-
Other payables	**26,189**	20,609	**23,714**	15,787
	68,912	70,427	**46,960**	46,128

Trade and other payables other than lease loan sums are normally settled on 30 day terms.

20. BORROWINGS	2012	2011	2012	2011
Secured				
Overdrafts from other ADIs (a)	**1,450**	1,406	**1,450**	1,406
Loans from other ADIs (b)	**13,484**	14,206	**-**	-
Notes payable	**388,039**	439,722	**-**	-
Securitised borrowings	**233,543**	309,516	**233,543**	309,516
Unsecured	**39,637**	40,000	**39,637**	40,000
	676,153	804,850	**274,630**	350,922

(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 26.

(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.

21. PROVISIONS	2012	2011	2012	2011
Employee benefits	**2,846**	3,075	**2,698**	2,979
Make good	**66**	84	**66**	84
Refurbishment	**2,096**	1,774	**-**	-
	5,008	4,933	**2,764**	3,063

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
22. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**2,470**	2,146	**-**	-
Intangible assets - software	**2,203**	1,892	**2,204**	1,892
Inventory	**1,598**	1,501	**-**	-
Fair value adjustment to investment property	**2,681**	2,922	**-**	-
Capital works	**489**	412	**-**	-
	9,441	8,873	**2,204**	1,892
Offset to/from deferred tax assets (Note 17)	**(6,067)**	(3,985)	**(2,204)**	(1,892)
Net deferred tax liabilities	**3,374**	4,888	**-**	-
Movements:				
Opening balance	**8,873**	8,507	**1,892**	1,712
Charged to the income statement (Note 4)	**568**	366	**312**	180
Closing balance	**9,441**	8,873	**2,204**	1,892
23. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**190,000**	175,000	**190,000**	175,000
Share capital reserve (b)	**703**	686	**703**	686
Cash flow hedges (c)	**(3,331)**	(1,680)	**(3,331)**	(1,680)
	187,372	174,006	**187,372**	174,006
Retained earnings				
Balance at beginning of year	**36,242**	38,444	**24,784**	25,482
Profit for the year	**9,204**	12,817	**11,142**	14,321
Total available for appropriation	**45,446**	51,261	**35,926**	39,803
Aggregate of amounts transferred to reserves	**(15,017)**	(15,019)	**(15,017)**	(15,019)
Balance at end of year	**30,430**	36,242	**20,910**	24,784

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
23. RESERVES AND RETAINED EARNINGS (cont'd)				
(a) General reserve				
Balance at beginning of year	**175,000**	160,000	**175,000**	160,000
Transfer from retained profits	**15,000**	15,000	**15,000**	15,000
Balance at end of year	**190,000**	175,000	**190,000**	175,000

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.

(b) Share capital reserve				
Balance at beginning of year	**686**	667	**686**	667
Transfer from retained profits	**17**	19	**17**	19
Balance at end of year	**703**	686	**703**	686

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.

(c) Cash flow hedges				
Balance at beginning of year	**(1,680)**	(3,623)	**(1,680)**	(3,623)
Revaluation – net	**(1,651)**	1,943	**(1,651)**	1,943
Balance at end of year	**(3,331)**	(1,680)	**(3,331)**	(1,680)

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 other comprehensive income, as described in Note 1(q). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
24. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the profit after tax to the net cash flows from operations				
Profit after income tax	**9,210**	12,835	**11,142**	14,321
Depreciation and amortisation	**4,186**	3,546	**3,928**	3,299
Bad and doubtful debts	**4,872**	2,222	**4,872**	2,222
Bad debts recovered	**(436)**	(436)	**(436)**	(436)
Loss/(gain) on disposal of property, plant and equipment	**30**	(386)	**32**	(386)
Dividend received	**(621)**	(905)	**(1,121)**	(905)
Increase/(decrease) in provisions	**78**	566	**(353)**	241
(Increase)/decrease in loan interest receivable	**(100)**	(906)	**(100)**	(906)
(Increase)/decrease in other receivables	**(19)**	(5,627)	**(3,858)**	(9,306)
(Increase)/decrease in debtors from sale of land	**-**	424	**-**	-
Increase in inventory	**(5)**	(1,146)	**-**	-
Increase/(decrease) in member interest payable	**3,280**	3,547	**3,280**	3,547
Decrease in accrued expenses and trade and other payables	**(1,765)**	1,966	**(3,934)**	18
Increase/(decrease) in current tax liabilities	**2,202**	531	**1,368**	424
Increase/(decrease) in deferred tax asset	**(3,985)**		**(266)**	402
Increase/(decrease) in deferred tax liabilities	**5,499**	(325)	**1,892**	(652)
Increase in sundry debtors and prepayments	**(206)**	(153)	**(176)**	(7,496)
Fair value adjustment to investment property	**804**	286	**-**	-
(Increase)/decrease in tax related amount receivable	**-**	-	**-**	3,398
Decrease in tax related amount payable	**-**	-	**-**	(205)
Net cash inflow from operating activities	**23,024**	16,039	**16,270**	7,580
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
– Cash	**27,619**	20,938	**9,520**	4,025
– Bank overdraft	**(1,450)**	(1,406)	**(1,450)**	(1,406)
Closing cash balance	**26,169**	19,532	**8,070**	2,619

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
25. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– payable not later than one year	**549**	621	**549**	621
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than one year	**5,531**	4,732	**5,531**	4,732
– later than one and not later than five years	**17,213**	14,924	**17,213**	14,924
– later than five years	**6,434**	7,735	**6,434**	7,735
Aggregate lease expenditure contracted for at balance date	**29,178**	27,391	**29,178**	27,391
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
– payable not later than one year	**-**	327	**-**	-
(d) Financial commitments				
Financial commitments contracted for at balance date				
– payable not later than one year	**-**	2,000	**-**	-

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
26. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	**180,841**	178,336	**180,841**	178,336

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: $45,000,000 (unused as at 30 June 2012);
- derivatives guarantee facility: $3,000,000 ($400,000 used as at 30 June 2012);
- overdraft: $2,000,000 (unused as at 30 June 2012).

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. 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: $5,000,000. This facility was unused at 30 June 2012. This facility may be drawn at any time and may be terminated by the bank without notice.

v. Credit Union Financial Support System Limited - with effect from 1 July 1999, Police & Nurses Credit Society Ltd 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.

Notes to the Financial Statements

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$	$	**$**	$
27. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,763,651**	2,466,544	**2,763,651**	2,466,544
Short-term employee benefits	**2,254,129**	2,081,922	**2,254,129**	2,081,922
Post-employment benefits	**193,582**	328,194	**193,582**	328,194
Termination Benefits	**315,940**	56,428	**315,940**	56,428
	2,763,651	2,466,544	**2,763,651**	2,466,544

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.

Included in the total key management personnel remuneration is Directors' remuneration (including superannuation contributions) of $384,882 (2011: $372,692).

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 2012 amounted to $1,148,563 (2011: $1,433,398).

During the year loan advances amounted to $635,948 (2011: $15,856) and repayments amounted to $1,003,300 (2011: $76,833). Interest on these loans amounted to $82,431 (2011: $5,983).

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 2012 amounted to $1,607,980 (2011: $1,695,573). During the year loan advances amounted to nil (2011: $670,728) and repayments amounted to $165,305 (2011: $729,198). Interest on these loans amounted to $77,723 (2011: $173,675). All of these loans are secured, except loan balances of nil (2011: $4,376). 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 2012 amounted to $1,315,082 (2011: $1,792,718). During the year additional deposits amounted to $4,692,637 (2011: $3,643,438) and withdrawals amounted to $5,095,873 (2011: $3,351,162). Interest on these deposits amounted to $46,335 (2011: $49,550).

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

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
28. 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	**154**	150	**154**	118
– other assurance services	**91**	66	**73**	61
	245	216	**227**	179
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers:				
– income tax advice	**66**	58	**66**	46
– GST advice	**-**	1	**-**	-
– fringe benefits tax advice	**11**	12	**7**	8
– other	**45**	117	**45**	117
	122	188	**118**	171
Total auditor's remuneration	**367**	404	**345**	350

Notes to the Financial Statements

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29. 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.

Eagle Bay Joint Venture

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

The consolidated entity's interests in the assets and liabilities 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	
	2012 $'000	2011 $'000
Trade and other receivables	**4,804**	4,925
Inventories (land held for sale)	**6,347**	6,243
Share of assets employed in joint ventures	**11,151**	11,168
Other liabilities	**133**	133
Borrowings	**2,558**	2,516
Share of liabilities employed in joint ventures	**2,690**	2,648

Notes to the Financial Statements

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30. 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.

	POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011
	$'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	**4,465**	5,249
Interest expense	**27,063**	25,009
Dividend revenue	**500**	-
Aggregate amounts receivable from entities in the wholly-owned Group at balance date	**33,569**	28,804

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT

The Society and Group have exposure to the following risks from their use of financial instruments:

- market risk;
- liquidity risk;
- credit risk.

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit & Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board on its activities.

Risk management policies are established to identify and analyse the risks faced by the Society and the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Society's and Group's activities. The Society and Group, through their training and management standards and procedures, aim to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit & Risk Committee oversees how management monitors compliance with the Society's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Society and the Group. The Audit & Risk Committee is assisted in its oversight role by Internal Auditors. The Internal Auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee.

(a) Market Risk Management – Objectives and Policies

Market risk exposure is the risk that the fair value or future cash flows from banking activities will fluctuate because of changes in market rates. The Society's only exposure is to changes in interest rates as it does not have any dealings in foreign currencies, commodities or equity products. The Society does not have a trading book and uses derivatives to minimise exposures arising out of normal banking activities as part of its hedging strategy. The Society applies a 'Value at Risk' methodology (VaR) to its non-trading portfolio to estimate the market risk of positions taken and the maximum losses expected based upon a number of assumptions for various changes in market conditions.

The largest risk exposure is the repricing risk associated with the Society's fixed rate lending and fixed term deposit portfolios, though these are off-set with the risk being largely removed through the utilisation of derivative contracts provided by third parties which swap the longer fixed rate exposures for short-term variable rate exposures.

The Society manages limits and controls its market risk through its Assets and Liabilities Committee reporting via the Chief Executive Officer to the Board. The Society calculates its VaR and compares this result with limits set and approved by the Board. The Society structures the levels of market risk it accepts by placing limits on the amount of exposure in different time periods and the overall exposure. Such risks are governed by the Market Risk Policy and monitored on an ongoing basis with annual reviews by the Board.

Significant policies and processes for managing risk include:

- adherence to market risk policy;
- independent interest rate sensitivity analysis;
- independent VaR and market risk exposure review on a quarterly basis;
- limits in relation to VaR and market risk exposures;
- independent duration and gap analysis; and
- independent hedging review and recommendations.

There have been updates to the Society's market risk policies from the prior year to reflect enhanced risk controls.

The Society's market risk exposure is considered to be consistent with what are normal acceptable industry levels for an entity without a trading book and hence it is considered that the market risk is low.

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate sensitivity analysis

The following table illustrates the impact on the Group and Society of a 100bp change in interest rates. It is assumed that the change is parallel across the yield curve.

	CONSOLIDATED				
		+100bp		-100bp	
	Carrying Amount	Income Statement	Other Movements in Equity	Income Statement	Other Movements in Equity
	$'000	$'000	$'000	$'000	$'000
2012					
Cash and cash equivalents	**27,619**	**298**	**-**	**(272)**	**-**
Due from banks	**297,130**	**2,971**	**-**	**(2,971)**	**-**
Loans (i)	**2,387,060**	**21,930**	**-**	**(21,930)**	**-**
Derivatives	**(4,758)**	**-**	**592**	**-**	**(592)**
Overdrafts	**(1,450)**	**(14)**	**-**	**14**	**-**
Members' deposits (ii)	**(1,850,618)**	**(6,116)**	**-**	**6,116**	**-**
Borrowings	**(674,704)**	**(6,759)**	**-**	**6,759**	**-**
Total increase/(decrease)	**180,280**	**12,310**	**592**	**(12,284)**	**(592)**
2011					
Cash and cash equivalents	20,939	17	-	(17)	-
Due from banks	280,248	2,614	-	(2,614)	-
Loans (i)	2,438,625	22,676	-	(22,676)	-
Derivatives	(2,400)	-	307	-	(307)
Overdrafts	(1,406)	(14)	-	14	-
Members' deposits (ii)	(1,755,968)	(5,774)	-	5,774	-
Borrowings	(804,850)	(5,637)	-	5,637	-
Total increase/(decrease)	175,188	13,882	307	(13,882)	(307)

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31. FINANCIAL RISK MANAGEMENT (cont'd)

POLICE & NURSES CREDIT SOCIETY LTD

	Carrying Amount	+100bp Income Statement	+100bp Other Movements in Equity	-100bp Income Statement	-100bp Other Movements in Equity
	$'000	$'000	$'000	$'000	$'000
2012					
Cash and cash equivalents	**9,520**	**117**	**-**	**(92)**	**-**
Due from banks	**297,130**	**2,971**	**-**	**(2,971)**	**-**
Loans (i)	**2,387,060**	**21,930**	**-**	**(21,930)**	**-**
Derivatives	**(4,758)**	**-**	**592**	**-**	**(592)**
Overdrafts	**(1,450)**	**(14)**	**-**	**14**	**-**
Members' deposits (ii)	**(1,850,918)**	**(6,117)**	**-**	**6,117**	**-**
Borrowings	**(273,180)**	**(2,737)**	**-**	**2,737**	**-**
Due to controlled entities	**(387,781)**	**(3,878)**	**-**	**3,878**	**-**
Total increase/(decrease)	**175,622**	**12,273**	**592**	**(12,248)**	**(592)**
2011					
Cash and cash equivalents	4,025	17	-	(17)	-
Due from banks	280,248	2,614	-	(2,614)	-
Loans (i)	2,438,625	22,676	-	(22,676)	-
Derivatives	(2,400)	-	307	-	(307)
Overdrafts	(1,406)	(14)	-	14	-
Members' deposits (ii)	(1,756,655)	(5,774)	-	5,774	-
Borrowings	(350,922)	(2,501)	-	2,501	-
Due to controlled entities	(439,912)	(3,136)	-	3,136	-
Total increase/(decrease)	171,603	13,882	307	(13,882)	(307)

(i) 1% shift applied to the value of variable loans held at year end calculated on $2,192,979,565 (2011: $2,267,636,784). The remaining balance represents fixed rate loans for 2012/2013, which are not subject to interest rate movements for the period.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $611,632,679 (2011: $577,407,973). The remaining balance represents fixed rate deposits for 2012/2013, which are not subject to interest rate movements for the period.

30 JUNE 2012	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
31. FINANCIAL RISK MANAGEMENT (cont'd)	**2012**	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Fair value estimation - interest rate swaps (liability)	**4,758**	2,400	**4,758**	2,400

The fair value of interest rate swaps is calculated as the present value of the estimated cash flows using the forward interest rates quoted in active markets.

(b) Liquidity risk management - objectives and policies

Liquidity risk is the risk that the Society is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Society manages limits and controls its liquidity risk through its Assets and Liabilities Committee reporting via the Chief Executive Officer to the Board. The Society structures the levels of liquidity risk it accepts by placing minimum limits on the amount of liquidity held. Such risks are governed by policies and monitored on an ongoing basis with annual reviews by the Board.

The Society sets aside a portfolio of high quality liquid assets at all times. The Society's liquid assets are predominantly short-term deposits.

There have been updates to the Society's liquidity risk policies from the prior year to enhance liquidity management.

Financing arrangements

The Society also maintains $45.0 million (2011: $45.0 million) of CUSCAL standby facilities to support its liquidity arrangements. Additional liquidity support is available in the form of $7.0 million (2011: $7.0 million) of overdraft facilities, of which $2.0 million (2011: $2.0 million, un-drawn) is with CUSCAL and $5.0 million (2011: $5.0 million, un-drawn) is with Bankwest. Both these facilities were undrawn as at 30 June 2012.

The Society also utilises Bridges funding facilities via CUSCAL. This facility has a limit of $40.0 million, of which $363k (2011: $Nil) remained undrawn at 30 June 2012. Also maintained by the Society is the Entourage securitisation facility with The Royal Bank of Scotland of $239.8 million (2011: $318.8 million), of which $Nil (2011: $Nil) was available at 30 June 2012, a securitisation facility with ANZ under the Pinnacle RMBS Warehouse Trust of $500.0 million (2011: $500 million), of which $291 million (2011: $295.1 million) was available at 30 June 2012 and a term securitisation facility under the Pinnacle Series Trust 2010-T1 of $177.5 million (2011: $243.3 million).

The Group and the Society had access to the following undrawn borrowing facilities at 30 June 2012.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Floating rate				
Expiring within 1 year (overdrafts and standby facilities)	**52,000**	52,000	**52,000**	52,000
	52,000	52,000	**52,000**	52,000

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31. FINANCIAL RISK MANAGEMENT (cont'd)

CONSOLIDATED

Maturities of financial liabilities	On Demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000
2012				
Overdrafts	**1,450**	**-**	**-**	**-**
Borrowings	**-**	**82,160**	**130,334**	**462,210**
Members' deposits	**612,324**	**990,542**	**223,488**	**24,265**
Derivative financial instruments	**-**	**22**	**1,263**	**3,473**
	613,774	**1,072,724**	**355,085**	**489,948**
2011				
Overdrafts	1,406	-	-	-
Borrowings	-	40,000	530,652	232,792
Members' deposits	576,333	761,404	396,055	22,176
Derivative financial instrument	-	75	196	2,129
	577,739	801,479	926,903	257,097

POLICE & NURSES CREDIT SOCIETY LTD

Maturities of financial liabilities	On Demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000
2012				
Overdrafts	**1,450**	**-**	**-**	**-**
Borrowings	**-**	**57,925**	**60,932**	**154,323**
Members' deposits	**612,324**	**990,542**	**223,788**	**24,265**
Derivative financial instruments	**-**	**22**	**1,263**	**3,473**
	613,774	**1,048,489**	**285,983**	**182,061**
2011				
Overdrafts	1,406	-	-	-
Borrowings	-	40,000	309,516	-
Members' deposits	577,020	761,404	396,055	22,176
Derivative financial instrument	-	75	196	2,129
	578,426	801,479	705,767	24,305

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Credit risk management – objectives and policies

Credit risk is the risk of a counterparty failing to meet contractual obligations as they fall due.

Credit risk may arise from both lending activities to members and liquidity investments in banks.

The Group has established a risk appetite statement which sets out the level of risk tolerance the business is willing to take across its operations including credit risk. The Group also operates within an established risk management framework and has an appropriate risk structure to ensure robust management of credit risk.

Management and control of credit risk is centralised in a Credit Committee which reports to the Board and the Chief Executive Officer on a monthly basis. The Chairperson of the Credit Committee presents at least quarterly to the Board Audit & Risk Committee on credit risk issues.

Lending activities to members cover both secured and unsecured retail lending and secured commercial lending. The Society maintains policies, credit decision-making systems and processes to ensure appropriate analysis is undertaken to mitigate credit risk.

To determine credit quality, the Society has implemented a credit risk grading system. The credit risk grading system highlights changes in the Society's credit risk profile and trends in asset quality. Retail loans with similar risk characteristics are managed on a portfolio basis. In relation to the home loan portfolio, credit quality is closely aligned to the Basel II Standardised approach to credit risk. Within the commercial loan portfolio each exposure is graded on an individual basis. All credit exposures are regularly monitored to ensure that any deterioration in credit quality is identified and appropriately managed. Where recoverability is in doubt, loans are individually managed and appropriate provisions are raised.

The Society manages and monitors credit concentration risk through a series of key risk indicators with defined limits and tolerance thresholds based on a comprehensive risk assessment. Policies are also in place to manage large exposures to an individual counterparty or group.

There have been no material changes to the Society's credit risk policies from the prior year, though the Group continues to implement required legislative changes encompassed within the *National Consumer Credit Protection Act 2009*.

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31. FINANCIAL RISK MANAGEMENT (cont'd)

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Concentration of loans				
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	**566,056**	579,225	**566,056**	476,228
Other	**1,826,591**	1,861,940	**1,826,591**	1,964,937
	2,392,647	2,441,165	**2,392,647**	2,441,165
Concentration of deposits				
Western Australian State government employees	**339,044**	304,038	**339,044**	303,820
Other	**1,511,574**	1,451,930	**1,511,874**	1,452,835
	1,850,618	1,755,968	**1,850,918**	1,756,655

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT (cont'd)

2012	Maximum Exposure to Credit Risk	Credit Risk Rating Grade 1 (Low)	Grade 2 (Sound)	Grade 3 (Stable)	Grade 4 (Moderate)	Grade 5 (Acceptable)	Grade 6
	$'000	$'000	$'000	$'000	$'000	$'000	
Fully performing loans							
Home loans	1,480,090	944,191	487,304	48,595	-	-	-
Secured overdrafts	47,459	46,436	1,023	-	-	-	-
Commercial loans	47,661	-	4,336	5,125	8,613	16,599	12,988
Personal loans	79,941	-	-	-	79,941	-	-
Unsecured overdrafts and credit cards	16,404	-	-	-	-	16,404	-
Total fully performing loans	1,671,554	990,627	492,662	53,720	88,554	33,002	12,988
Past due loans							
Home loans							
1-7 days	32,495	18,399	10,053	4,042	-	-	-
8-30 days	26,623	14,167	6,339	6,118	-	-	-
31-60 days	4,426	2,375	1,000	1,052	-	-	-
61-89 days	1,021	524	-	497	-	-	-
Total	64,564	35,464	17,391	11,708	-	-	-
Fair value security held (1)	105,301						
Secured overdrafts							
1-7 days	111	111	-	-	-	-	-
8-30 days	290	290	-	-	-	-	-
31-60 days	30	30	-	-	-	-	-
61-89 days	-	-	-	-	-	-	-
Total	431	431	-	-	-	-	-
Fair value security held (1)	9,364						
Commercial loans							
1-7 days	-	-	-	-	-	-	-
8-30 days	2,344	-	-	-	-	678	1,666
31-89 days	5,883	-	-	-	-	5,883	-
Total	8,227	-	-	-	-	6,560	1,666
Fair value security held (2)	11,115						
Personal loans							
1-7 days	2,413	-	-	-	2,413	-	-
8-30 days	1,228	-	-	-	1,228	-	-
31-89 days	560	-	-	-	560	-	-
Total (3)	4,200	-	-	-	4,200	-	-

Notes to the Financial Statements

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT (cont'd)

2012	Maximum Exposure to Credit Risk	Credit Risk Rating Grade 1 (Low)	Grade 2 (Sound)	Grade 3 (Stable)	Grade 4 (Moderate)	Grade 5 (Acceptable)	Grade 6
	$'000	$'000	$'000	$'000	$'000	$'000	
Unsecured overdrafts and credit cards							
1-7 days	5,433	-	-	-	-	5,433	-
8-30 days	164	-	-	-	-	164	-
31-89 days	148	-	-	-	-	148	-
Total	5,745	-	-	-	-	5,745	-
Total past due loans	83,167	35,895	17,391	11,708	4,200	12,305	1,666
Impaired loans							
Home loans							
90 days plus	6,065						
Fair value security held (1)	8,953						
Secured overdrafts							
90 days plus	388						
Fair value security held (1)	1,032						
Commercial loans							
90 days plus	15,040						
Fair value security held (2)	12,323						
Personal loans							
90 days plus	801						
Unsecured overdrafts and credit cards							
90 days plus	216						
Total impaired loans	22,510						
Securitised loans	615,416						
Total loans portfolio	2,392,647						
Other interest bearing receivables							
Interest earning deposits-banks	236,638	236,638	-	-	-	-	-
Interest earning deposits-other ADIs	60,492	60,492	-	-	-	-	-
Accrued interest receivable	2,701	2,701	-	-	-	-	-
Total other interest bearing receivables	299,831	299,831	-	-	-	-	-

Notes to the Financial Statements

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT (cont'd)

2011	Maximum Exposure to Credit Risk	Credit Risk Rating Grade 1 (Low)	Grade 2 (Sound)	Grade 3 (Stable)	Grade 4 (Moderate)	Grade 5 (Acceptable)
	$'000	$'000	$'000	$'000	$'000	$'000
Derivatives	(2,400)	(2,400)	-	-	-	-
Fully performing loans						
Home loans	1,351,385	830,162	470,578	50,645	-	-
Secured overdrafts	51,748	50,991	756	-	-	-
Commercial loans	85,322	-	5,276	13,987	21,795	44,264
Personal loans	76,786	-	-	-	76,786	-
Unsecured overdrafts and credit cards	16,044	-	-	-	-	16,045
Total fully performing loans	1,581,285	881,153	476,610	64,632	98,581	60,309
Past due loans						
Home loans						
1-7 days	26,380	12,013	7,417	6,950	-	-
8-30 days	26,920	10,325	5,416	11,180	-	-
31-60 days	10,726	4,439	2,764	3,521	-	-
61-89 days	4,065	1,635	1,731	699	-	-
Total	68,091	28,412	17,328	22,350	-	-
Fair value security held (1)	171,487					
Secured overdrafts						
1-7 days	165	166	-	-	-	-
8-30 days	639	524	115	-	-	-
31-60 days	-	-	-	-	-	-
61-89 days	106	106	-	-	-	-
Total	910	796	115	-	-	-
Fair value security held (1)	1,386					
Commercial loans						
1-7 days	840					840
8-30 days	5,136	-	-	-	412	4,724
31-89 days	1,459	-	-	-	628	831
Total	7,435	-	-	-	1,040	6,395
Fair value security held (2)	10,399					
Personal loans						
1-7 days	2,179	-	-	-	2,179	-
8-30 days	1,367	-	-	-	1,367	-
31-89 days	370	-	-	-	370	-
Total (3)	3,916	-	-	-	3,916	-

Notes to the Financial Statements

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT (cont'd)

2011	Maximum Exposure to Credit Risk	Credit Risk Rating: Grade 1 (Low)	Grade 2 (Sound)	Grade 3 (Stable)	Grade 4 (Moderate)	Grade 5 (Acceptable)
	$'000	$'000	$'000	$'000	$'000	$'000
Unsecured overdrafts and credit cards						
1-7 days	4,953	-	-	-	-	4,953
8-30 days	137	-	-	-	-	137
31-89 days	252	-	-	-	-	252
Total	5,342	-	-	-	-	5,342
Total past due loans	85,694	29,208	17,443	22,350	4,956	11,737
Impaired loans						
Home loans						
90 days plus	12,257					
Fair value security held (1)	22,856					
Secured overdrafts						
90 days plus	395					
Fair value security held (1)	495					
Commercial loans						
90 days plus	16,487					
Fair value security held (2)	17,210					
Personal loans						
90 days plus	657					
Unsecured overdrafts and credit cards						
90 days plus	271					
Total impaired loans	30,067					
Securitised loans	744,126					
Total loans portfolio	2,441,174					
Other interest bearing receivables						
Interest earning deposits-banks	209,077	209,077	-	-	-	-
Interest earning deposits-other ADIs	71,171	71,171	-	-	-	-
Accrued interest receivable	2,802	2,802	-	-	-	-
Total other interest bearing receivables	283,050	283,050	-	-	-	-

(1) Home loans are secured by registered mortgages over residential properties. Lenders mortgage insurance contracts are entered into in terms of the Society's lending policy to manage credit risk in the home lending portfolio.

(2) Commercial loans are secured by registered mortgages over commercial or residential properties. Certain commercial loans on watch list are included in Grades 5 and 6.

(3) Personal loans are provided on both a secured or unsecured basis. Secured loans are secured by a goods mortgage over motor vehicles.

Notes to the Financial Statements

30 JUNE 2012

31. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Capital Management

The Society maintains an appropriate level of capital commensurate with the level and extent of risks to which the Society is exposed from its activities. The purpose of capital is to absorb losses from loans, investments and general operations. Capital also functions as a cushion against credit risk, liquidity risk, interest rate risk, operational risk and other risks. Capital allows for operational growth and is designed to maintain the confidence of depositors and creditors. The Society has in place an Internal Capital Adequacy Assessment Process "ICAAP" that includes:

- adequate systems and procedures in place to identify, assess, measure, monitor and manage the risks arising from its activities on a continuous basis to ensure that capital is held at a level consistent with the Society's risk profile; and
- a capital management plan, consistent with the overall business plan, for managing its capital levels as a buffer against the risks involved in the Society's activities on an ongoing basis. The capital management plan which not only measures current capital requirements after the consideration of risk but also projects forwards (one to three years), managing the balance sheet within the Society's risk parameters.

The capital management plan includes a capital management strategy which includes the capital target for providing a buffer against risk, how the target is to be met and the means for sourcing additional capital. The overall objective of having a capital management strategy is for the Board and management to create value for the Society's shareholders while maintaining a sound and viable business through the effective management of its risks.
The actual level of capital adequacy is calculated every month and reported to the Board, to ensure compliance with the minimum capital ratio. The actual level of capital adequacy is also calculated every quarter and reported to APRA.

There have been updates to the Society's capital management plan from the prior year to align with changing prudential and regulatory requirements.

The Society is required by APRA to measure and report capital on a risk weighted basis in accordance with the requirements of the Prudential Standards. This risk weighted approach measures the ratio of actual eligible capital held against a risk weighted balance for all on and off balance sheet risk positions as well as for other non balance sheet risk positions.

The Prudential Standards reflect the international risk based capital measurement practises commonly known as Basel II. This change results in a difference in the measurement of the capital ratio of the consolidated entity, as defined by the Australian Prudential Standards, to include the Society and subsidiaries involved in financial service activities (referred to as level 2) and the Society for the current financial year compared to the prior financial year.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2012	2011	**2012**	2011
Capital Adequacy ratio as reported to APRA at 30 June (unaudited)	**14.97%**	14.96%	**15.39%**	15.32%

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 21 to 73 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 2012 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

E L SMITH
Director

P M GABB
Director

Perth WA
30 August 2012

Independent Audit Report

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

Report on the financial report

We have audited the accompanying financial report of Police & Nurses Credit Society Ltd (the Society), which comprises the balance sheet as at 30 June 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Society and Police & Nurses Credit Society Group (the consolidated entity). The consolidated entity comprises the Society and the entities it controlled at the year end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Society are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
QV1, 250 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

pwc

Independent auditor's report to the members of Police & Nurses Credit Society Limited (continued)

Auditor's opinion

In our opinion:

(a) the financial report of Police & Nurses Credit Society Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Society's and the Group's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of the Society for the year ended 30 June 2012 included on Police & Nurses Credit Society Ltd's web site. The Society's directors are responsible for the integrity of the Police & Nurses Credit Society Ltd web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Pricewaterhousecoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth WA
30 August 2012

Police & Nurses Head Office

Level 7, 130 Stirling Street
Perth WA 6000
PO Box 8609
Perth BC WA 6849
Tel: 13 25 77

Branches

Belmont
Shop 120, Belmont Forum Shopping Centre,
227 Belmont Avenue

Booragoon
Suite 10 Riseley Corporate Centre,
135 Riseley Street

Bunbury
Shop 46, Bunbury Forum Shopping Centre,
Sandridge Road

Cannington
Shop 1047A, Westfield Carousel Shopping Centre,
1382 Albany Highway

Fremantle
Shop 2, Woolstores Shopping Centre.
Cnr Queen Street & Cantonment Street

Innaloo
Shop 1100, Westfield Innaloo Shopping Centre.
Ellen Stirling Boulevard

Joondalup
Shop 62, Lakeside Joondalup Shopping Centre,
420 Joondalup Drive

Maddington
Shop 61, Centro Maddington Shopping Centre,
Attfield Street

Mandurah
Shop 62, Centro Mandurah Shopping Centre,
Mandurah Bypass Road

Midland
Shop T49, Midland Gate Shopping Centre,
Great Eastern Highway

Morley
Shop 82, Centro Galleria Shopping Centre,
Cnr Old Collier & Walter Roads

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

Perth
246 Adelaide Terrace

Rockingham
Shop 64, Rockingham City Shopping Centre,
Read Street

Success
Shop 229, Cockburn Gateway Shopping Centre,
Beeliar Drive

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

Whitfords
Shop 158, Westfield Whitford City Shopping Centre,
Marmion Avenue

Notes

POLICE & NURSES
MUTUAL BANKING

A better wa to bank.

Police & Nurses Credit Society Limited
ABN 69 087 651 876 Australian Credit Licence/AFSL 240701

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