2008 Annual Report

POLICE & NURSES
CREDIT SOCIETY


"By putting our members
first we will become the
most trusted and
highly recommended
financial institution."

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 the 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 11 to 14, which is not part of this financial report.

The financial report was authorised for issue by the directors on 25 August 2008. The directors have the power to amend and reissue the financial report.

Directory

Directors

E L Smith (Chairman)
P M Gabb (Deputy Chairman)
F J Compton
M J Dean
M T Hinton
E A Manley
S J Melville
K J O'Callaghan
A M Rial

Chief Executive Officer & Company Secretary

A E (Fred) Huis

Registered Office

Police & Nurses Credit Society Ltd
ABN 69 087 651 876

246 Adelaide Terrace
Perth 6000 Western Australia
Telephone No. 13 25 77

pncs.com.au

External Auditors

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth 6000 Western Australia

Internal Auditors

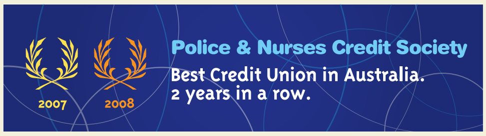
KPMG
Central Park
152-158 St Georges Terrace
Perth 6000 Western Australia

	30-Jun-03[1] Audited	30-Jun-04[1] Audited	30-Jun-05[2] Audited	30-Jun-06[3] Audited	30-Jun-07[3] Audited	30-Jun-08 Audited	FY03-FY08 5 year CAGR*	FY07-FR08 1 year CAGR*
Total loans under management[4] ($B)	1.106	1.190	1.290	1.487	1.825	2.046	13.2%	12.1%
Total assets under management[4] ($B)	1.470	1.313	1.466	1.694	2.031	2.321	10.1%	14.3%
Deposits ($B)	0.712	0.791	0.855	0.976	1.067	1.202	11.1%	12.6%
Total members funds ($M)	86.991	94.191	104.093	128.921	151.167	173.710	14.8%	14.9%
Group NPAT^ after minority interest ($M)	10.007	7.720	9.921	21.057	19.652	19.165	21.7%	(2.5)%
Banking business NPAT^ ($M)	10.903	8.441	9.876	12.089	16.096	17.393	11.6%	8.1%

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

Notes:
1 Previous AGAAP standards applied
2 Adjusted for effects of AIFRS and AASB 1 exemption to not restate comparatives for AASB 132/139 applied
3 AIFRS standards applied
4 Includes off balance sheet loans

Chairman's Report



> "By putting our members first we are the most trusted and highly recommended provider of financial services."

I am pleased to present the 2008 Annual Report for Police & Nurses Credit Society.

Whilst it has been a challenging year for all institutions in the banking and finance sector due to global credit conditions, we are confident that our business is well placed to withstand these pressures and continue to perform well over the long term.

Our Senior Leadership Team undertook a major strategic review in the early part of 2008. One of the outcomes of this review was the formulation of a new strategic purpose for the Society, which is,

"By putting our members first we are the most trusted and highly recommended provider of financial services"

I believe this statement encapsulates the primary purpose of the Society, which as a mutual organisation, has always been to provide the best possible service to our members.

Indeed, our member satisfaction ratings have remained strong over the past year, with the most recent survey in May 2008 indicating that 91% of Police & Nurses members are either very satisfied or satisfied with the Society.

This compares favourably to satisfaction ratings amongst bank customers. Research findings released by Roy Morgan in July 2008 indicated an overall decline in satisfaction levels amongst customers of the major banks, with their ratings ranging between 67% and 76%.

The Society also continues to receive positive recognition from our peers in the banking industry, with Police & Nurses being named as Australia's "Best Credit Union" by the Australian Banking & Finance (AB&F) magazine for the second year running.

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

As there are some 130 credit unions and credit societies operating throughout Australia, it is a great achievement for Police & Nurses to have won the award twice in consecutive years.

Police & Nurses also won two Silver awards in the 2008 *Money* magazine Best of the Best Awards in the categories of Best Investment Account and Best Term Deposit.

Chairman's Report

It is particularly encouraging for us to have won these awards, given the tougher operating environment over the last 12 months. With upward pressure on interest rates due to inflation and the rising cost of credit, the growth in WA house prices has slowed significantly in recent times, following several years of major increases. According to data from the Australian Bureau of Statistics (ABS), house prices in Perth fell 0.9% in the 12 months to June 2008, by comparison to the weighted average of an 8.2% increase for Australia's eight capital cities. There has also been a significant reduction in consumer spending, with retail figures from the ABS indicating a 0.3% fall in the March 2008 quarter and a 0.6% drop in the June 2008 quarter.

Whilst the WA economy overall remains strong, with the commodities and resources sector still experiencing boom conditions, many people are starting to feel the pinch from rising living costs.

As such, it is more important than ever that we support our members with the best possible products and services to meet their financial needs. Our CEO, Mr Fred Huis, will give more details in his report on how we are helping members to save money and repay their loans faster with innovative product features and good financial advice.

On behalf of Police & Nurses Credit Society I would like to thank my fellow directors for their efforts over the past financial year and in particular, acknowledge Mrs Maureen Hinton, who will retire from the Police & Nurses Board of Directors at the 2008 Annual General Meeting. Maureen has given over 20 years service to the Society and her contribution during this time has been greatly appreciated.

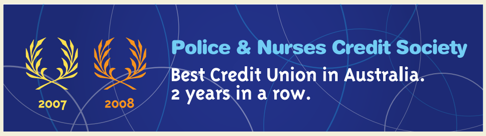
I would also like to take this opportunity to thank our CEO, Mr Fred Huis, and his management team for their hard work and dedication to Police & Nurses. Their ongoing commitment to the Society has meant the continuation of strong financial and operational performance that has come to characterise Police & Nurses throughout our history.

E L Smith

E L SMITH
Chairman

Perth WA
25 August 2008

CEO's Report



> "WA's largest home-grown and locally run financial institution."

At a time when the banking and finance industry across the globe is experiencing difficult market conditions, Police & Nurses has delivered a strong financial performance, with profit from our banking business increasing by 8.1% from the previous year.

The following is a snapshot of the key financial figures and business initiatives that have contributed to the success of the Society over the past financial year.

Financial Results

The Society's banking business net profit after tax (NPAT) was $17.4 million, an increase of around 8.1%. The NPAT for the Group was $19.2 million, a slight decrease from the previous year, due to the slowing property market and reduced returns from our property development investments.

These results indicate that our core financial services business remains strong, with member deposits rising by over 12% to $1.2 billion, total loans under management increasing by 12% to over $2 billion, total group assets up by over 14% to $2.32 billion and total group reserves up almost 15% to $173.7 million.

Our ability to manage our business profitably is critical for the continuing growth and success of the Society.

We continue to provide Western Australians with a true and attractive alternative to the major banks, as our increasing membership demonstrates, with the security as an Approved Deposit Taking Institution (ADI) and the "fairness" of a mutual. Our profits are not paid out to external shareholders, but reinvested back into the business to benefit our members.

Other key measures of business performance include the efficiency measure, cost to income ratio, which has improved 1.83% to 63.65%, and provision for impairment to total group loans, at 0.08%.

Our Members

We are proud to have been named as Australia's "Best Credit Union" by the Australian Banking & Finance magazine again in 2008. It is a credit to the loyalty of our members and staff that we have been able to win the award two years in a row.

With over 8,300 new members joining the Society in the past financial year and an overall membership of some 100,000, Police & Nurses is Western Australia's largest home-grown and locally run financial institution.

CEO's Report

As our Chairman mentioned in his report, the strategic purpose for the Society is,

"By putting our members first we are the most trusted and highly recommended provider of financial services"

By managing the Society in line with its strategic purpose we will continue to meet the needs of our members and grow our business in the process.

New Savings Accounts

Over the course of the past year we have introduced three new savings products, the FairSaver and CashSaver Accounts in September 2007 and the SwiftSaver Account in May 2008.

The FairSaver Account is ideal for members who need the functionality of an everyday transactional account, but also want to benefit from a high interest rate payable on every dollar of their savings. For a low flat monthly fee, members can use the FairSaver to make a range of unlimited fee-free transactions using Police & Nurses ATMs, EFTPOS, Phonelink telephone banking, Netlink online banking, direct credit/debits and BPAY and still earn interest on the funds in their account.

The CashSaver Account is designed to help members save for significant purchases, such as their first home or a dream holiday. It is an online account with high interest paid on every dollar over $5,000 and no account keeping fees.

For members with savings goals under $5,000 the SwiftSaver Account can help you reach your target faster, as it rewards regular repayments with a bonus interest rate.

This suite of new savings products has been designed to help our members manage their finances more easily and gain the maximum benefit from all their money.

Easypay Home Loan

We are also helping our members pay off their loans faster with products such as our Easypay Home Loan. This is our most popular home loan, with around 60% of mortgage holders choosing this product.

The Easypay Home loan has a low basic variable interest rate and gives borrowers the option of a 40 year loan term and interest only repayments for owner occupiers. Both these options help slash monthly repayment amounts and increase borrowing power, and importantly there are no restrictions or penalties on making additional repayments to pay off the loan faster.

Police & Nurses also provides members with the option of a 100% offset account (called a Mortgage Breaker Account) with the Easypay Home Loan, a feature not offered by any of the major banks for an equivalent base variable rate product. By using this feature members can make sure that all their money is working for them to reduce the amount of interest payable on their loan.

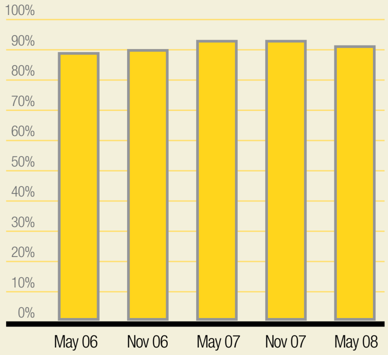
It is important to note that the interest rate on the Easypay Home Loan is the same for existing borrowers as it is for new borrowers. On the other hand, many banks offer a lower variable interest rate to attract new customers while maintaining a higher rate for existing borrowers. The Society is strongly of the view that our existing members should be treated fairly and equitably and broad range discounting for new customers is contrary to these principles.

Sponsorship

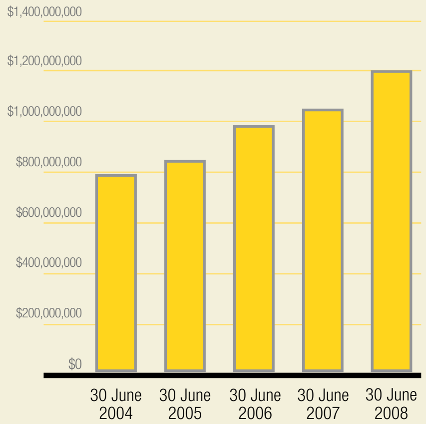
We also support our members through our sponsorship program. Throughout the year we have provided financial and/or in kind support to over 80 different organisations, the majority of which have close links to our membership or the communities in which they are involved.

A prime example is our long term support for Crime Stoppers WA. Through the support of sponsors like Police & Nurses, Crime Stoppers assists thousands of Western Australians every year, helping to solve crimes and seek missing persons. Thanks to Crime Stoppers there is now a far greater chance of criminals being exposed by people

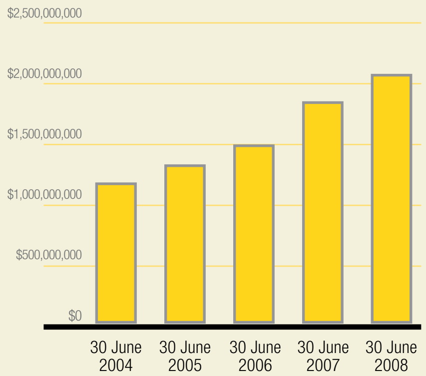
CEO's Report



Member Satisfaction



Total Deposits



Total Loans Under Management

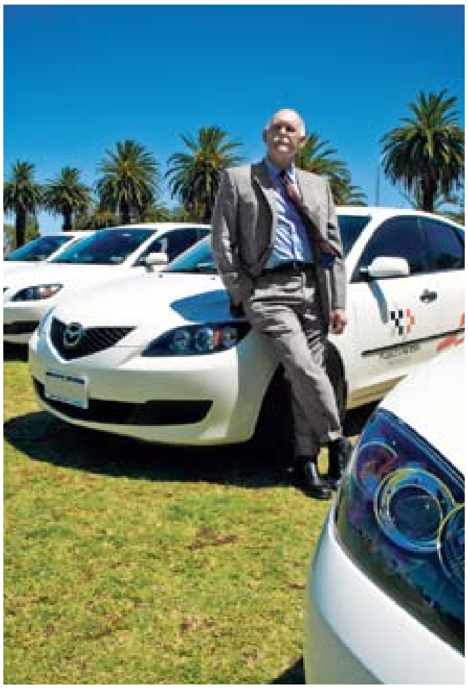
who previously would not contact police due to fear of becoming involved, or in some cases a genuine fear of retaliation.

Crime Stoppers is reliant on corporate sponsorship to fund its operations and represents a unique and highly effective partnership between the police, the community and commercial businesses.

We plan to expand our sponsorship program next year to further recognise and reward the loyalty of our members. More information will become available in early 2009 on the new elements of our sponsorship program.

In terms of our internal operations, the Society has made a significant investment in upgrading our lending software and procedures over the past 12 to 18 months. This initiative primarily impacts on our "behind the scenes" processing and will not require any changes on the part of our members. However, in the longer term these upgrades will help improve our efficiency and productivity, which will ultimately result in faster and more accurate processing of loan applications and documents, and better service for members.

CEO's Report



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Our Society

With the subprime crisis in the US impacting global financial markets over the past year there has been much media reporting of its impact on "non bank lenders".

I would like to point out that as a credit union we are categorised and licensed by the Australian Prudential Regulation Authority (APRA) as an approved deposit taking institution (ADI), as are all Australian banks and credit unions. As such Police & Nurses is subject to the same prudential standards, regulations and supervision as the major Australian banks.

As an ADI, Police & Nurses is also subject to regular inspections by government agencies, including APRA, ASIC, the Reserve Bank of Australia, AUSTRAC and the ACCC, and must abide by the Uniform Consumer Credit Code and the Electronic Funds Transfer Code.

The main difference between Police & Nurses and a bank is that as a mutual, all the profits we make are reinvested into the Society, not paid as dividends to external shareholders. This enables us to provide our members with competitive rates and products.

It will continue to be a busy year adapting to changes in terms of compliance and regulation in the banking industry.

Among the changes is the introduction of new legislation relating to AML/CTF, direct charging for ATMs, financial account switching reforms and "Basel 2" (which relates to corporate governance and financial reporting requirements).

The Society currently has projects in place to manage all requirements relating to these legislative changes.

Our Future

A significant development for the Society during the year was the signing of a lease agreement for new head office premises. The new premises will bring together the two existing head office locations (246 Adelaide Terrace and Level 1, 263 Adelaide Terrace) and provide modern accommodation and superior workflow benefits.

The new building, located at 130 Stirling Street, Perth WA, is currently under construction and we will be moving into these premises in late 2009. It will have a 4 star Green Star Rating and use the latest in ecological sustainable design, including chilled beam air-conditioning to greatly reduce energy consumption. It will also have an internal atrium to optimise the use of natural light.

Acknowledgements

The continued strong standing of Police & Nurses Credit Society is a tribute to the ongoing support of our members and the commitment of my management team and staff. I would also like to acknowledge the support and guidance of the Board of Directors, whose dedication and vision has made a significant contribution to the Society's success. In particular, I would like to thank Mrs Maureen Hinton, who retires from the Board of Directors this year, for her support and dedication to the Police & Nurses management team and the organisation as a whole.

I would like to sincerely thank all who have contributed to building Police & Nurses to become the successful financial institution it is today.

A E (FRED) HUIS
Chief Executive Officer

Perth WA
25 August 2008

Member Service Network

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

WA Branch Network

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

ATM Network

There are 56 Police & Nurses ATMs throughout WA, which our members can use without incurring ATM withdrawal fees.

Contact Centre

The Society has a 40 seat contact centre located in our head office in Perth. Our consultants can interact with members via phone, online webchat or email. The contact centre manages around 1,000 phone calls per day and its operating hours are from 8am to 6pm (WST), Monday to Friday. With a commitment to customer service and delivery, our skilled operators achieve industry best practice in regards to our service level key performance indicators.

Electronic Access Channels

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

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

Mobile Lending Consultants

We have a team of Mobile Lending Consultants who manage over 2,000 home loans every year. The service our consultants provide is perfect for the busy person who can't make it into a branch, but still want to discuss their home loan in person. The consultants are available to meet with members at a time and place convenient to them, such as in the workplace during office hours, or at home in the evenings or on the weekend.

Member Service Network

Financial Planning

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

Conveyancing

Police & Nurses offers an inhouse settlement service to home loan customers. The department processes around 1,000 settlements per annum.

Business Development Officers

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

Nurses First

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

Senior Leadership Team as at 30 June 2008

From left: Malcolm Bulley, Steve Nottage, Franca Fairclough, Fred Huis, Michael Bailey, David Spearman, Mark Smith

Board Members

Eric Laurence Smith
Chairman

Paul Marshall Gabb
Deputy Chairman

Frederick James Compton
Director

Michael James Dean
Director

Karl Joseph O'Callaghan
Director

Stephen John Melville
Director

Maureen Teresa Hinton
Director

Elizabeth Anne Manley
Director

Ann Maree Rial
Director

Report of the Directors

Your directors present their report on the financial statements of Police & Nurses Credit Society Ltd ("the Society") and Police & Nurses Credit Society Ltd and its controlled entities ("the Group") for the year ended 30 June 2008.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is responsible for the corporate governance of the Group. To ensure the Board can fulfil its responsibilities, it has established guidelines for the operations of the Board and a framework for ensuring internal control and business risk management processes are adequate and ethical standards are appropriate. Unless otherwise stated, all these practices were in place for the entire financial year.

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

- contributing to, evaluating, approving and monitoring strategic direction and business objectives as developed by management;
- monitoring the Group's progress against agreed performance measures linked to business objectives and strategies, and comparing these with those of peers in the marketplace;
- contributing to and enhancing the reputation and image of the Group to members/shareholders, the marketplace and the community at large;
- ensuring required frameworks are in place including risk and capital management policies, internal controls, compliance and public reporting; and
- accepting accountability to members/shareholders and responsibility to other stakeholders in the Group.

Directors

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

Eric Laurence SMITH FAICD FAMI (Chairman)
Police Inspector, Certificate in Police Studies, Diploma of Policing, Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Australian Institute of Company Directors Diploma, 14 years service as a Credit Society Director; 32 years service as a Police Officer. Audit Committee member.

Paul Marshall GABB B.Com (Accounting) CPA FAICD (Deputy Chairman)
Financial Analyst - Australian Federal Police, 10 years service as a Credit Society Director; 22 years service in Law Enforcement. Audit Committee member and Nominations Committee Chairman.

Frederick James COMPTON FAICD
Retired Police Superintendent; Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 29 years service as a Credit Society Director; 40 years service as a Police Officer. Audit Committee member.

Michael James DEAN APM MAICD
General President WA Police Union, 5 years service as a Credit Society Director; 36 years service as a Police Officer. Trustee of the Bluey Day Foundation. Audit Committee member.

Maureen Teresa HINTON RN B.App Sc (Nursing) Grad Dip HSc MPH FAICD
Staff Educator, Certificate IV TAA, 21 years service as a Credit Society Director; 43 years service in the nursing/health/education professional arena. Board Governance Committee Chairman.

Elizabeth Anne MANLEY RN RM B.App Sc (Nursing) MBA FRCNA FAICD
CEO & Director of Nursing; 8 years service as a Credit Society Director; 37 years service in the nursing/health profession. Board Governance Committee member.

Stephen John MELVILLE B.Bus (Accounting) FCPA MAICD
Executive Manager Finance & Administration - Forest Products Commission, 14 years service as a Credit Society Director; 25 years service in accounting, financial management and marketing. Audit Committee Chairman.

Karl Joseph O'CALLAGHAN BA B.ED (Hons) PhD
Commissioner of WA Police, 3 years service as a Credit Society Director; 35 years service as a Police Officer. Board Governance Committee member.

Ann Maree RIAL RN RM ICNC GC FAICD
Clinical Nurse Manager, 21 years service as a Credit Society Director; 35 years service in the nursing/health profession. Board Governance Committee member.

Each director holds one member share in the Society.

Report of the Directors

Company Secretary

Alfred Ernst HUIS CA

Chartered Accountant, 25 years service as the Credit Society Company Secretary and Chief Executive Officer.

Composition and Meetings of the Board

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

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

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the year ended 30 June 2008 and the number of meetings attended by each director.

Director	Directors' Meetings		Audit Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith	15	15	4	4	*	*
F J Compton	15	14	4	4	*	*
M J Dean	15	11	4	4	*	*
P M Gabb**	15	15	4	4	*	*
M T Hinton	15	14	*	*	3	3
E A Manley	15	13	*	*	3	3
S J Melville	15	15	4	4	*	*
A M Rial	15	14	*	*	3	3
K J O'Callaghan	15	12	*	*	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 3 meetings, which were fully attended. These meetings were chaired by Mr Paul Gabb 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 Committee

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

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

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

Board Governance Committee

The Board has established a Board Governance Committee to assist it by providing informed feedback to the Board on it's 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.

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 re-nominate 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 is comprised of 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 to appropriately balance both risk and reward components.

Ethical Standards

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

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

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

During the financial year, total assets of the Group increased by $289,953,000 to $2,320,897,000, members' deposits increased by $134,234,000 to $1,201,670,000 and loans and advances increased by $220,959,000 to $2,045,609,000.

The profit of the Group and the Society for the financial year after income tax and before minority interest was $19,508,000 (2007: $20,426,000) and $17,393,000 (2007: $24,581,000), 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.

Report of the Directors

BAD AND DOUBTFUL DEBTS

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

ASSETS

Before the financial statements were made out, the directors took reasonable steps to ascertain whether any assets were unlikely to realise in the ordinary course of business their value as shown in the accounting records. 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.

SIGNIFICANT CHANGES

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

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

ENVIRONMENTAL REGULATION

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

REGISTER OF DIRECTORS' INTERESTS

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

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

INSURANCE OF OFFICERS

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

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

ROUNDING OF AMOUNTS

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

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

Date : 25 August 2008
PERTH WA

Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

Auditor's Independence Declaration

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As lead auditor for the audit of Police & Nurses Credit Society Ltd for the year ended 30 June 2008, 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 Ltd and the entities it controlled during the period.

Justin Carroll

Partner
PricewaterhouseCoopers

Perth
25 August 2008

Income Statements

YEAR ENDED 30 JUNE 2008	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
INTEREST REVENUE	3	**176,645**	133,087	**177,096**	133,255
INTEREST EXPENSE	3	**124,621**	86,778	**124,439**	86,171
NET INTEREST INCOME		**52,024**	46,309	**52,657**	47,083
NON-INTEREST REVENUE					
Loan fee revenue		**8,092**	8,625	**8,092**	8,625
Financial services fees		**9,638**	9,046	**9,638**	9,046
Financial planning fees		**2,500**	2,084	**-**	-
Amenity fees		**1,104**	1,457	**-**	-
Other fee revenue		**879**	945	**530**	534
Insurance commissions		**2,068**	1,896	**2,068**	1,896
Other commissions		**695**	859	**695**	859
Revenue from sale of property developments		**5,072**	10,309	**-**	-
Dividend revenue		**361**	361	**361**	13,461
OTHER INCOME					
Bad debts recovered		**234**	130	**234**	130
Net gain on disposal of property, plant & equipment		**44**	-	**44**	-
Revaluation of investment property to fair value	15	**-**	2,521	**-**	-
Other income		**342**	443	**431**	273
TOTAL NON-INTEREST REVENUE AND OTHER INCOME		**31,029**	38,676	**22,093**	34,824
TOTAL INCOME		**83,053**	84,985	**74,750**	81,907
BAD AND DOUBTFUL DEBTS EXPENSE	8(b)	**3,391**	(168)	**3,391**	(168)
OTHER EXPENSES					
Auditor's remuneration	29	**415**	255	**373**	229
Finance costs		**652**	591	**652**	591
Depreciation and amortisation		**2,829**	2,960	**2,632**	2,736
Fees and commissions		**8,766**	9,748	**8,670**	9,364
Property development costs		**2,062**	5,057	**-**	-
Employee benefits expense		**21,117**	19,808	**19,299**	18,134
Information technology costs		**2,518**	2,439	**2,553**	2,462
Marketing costs		**2,978**	2,967	**2,972**	2,952
Other general and administration costs		**8,036**	9,210	**7,058**	7,638
Revaluation of investment property to fair value	15	**191**	-	**-**	-
Net loss on disposal of property, plant & equipment		**-**	49	**-**	38
Rental – operating leases		**3,435**	2,624	**3,371**	2,580
TOTAL EXPENDITURE		**56,390**	55,540	**50,971**	46,556
PROFIT BEFORE INCOME TAX		**26,663**	29,446	**23,779**	35,353
INCOME TAX EXPENSE	4	**7,155**	9,020	**6,386**	10,772
PROFIT FOR THE YEAR		**19,508**	20,426	**17,393**	24,581
(PROFIT)/LOSS ATTRIBUTABLE TO MINORITY INTEREST		**(343)**	(773)	**-**	-
PROFIT ATTRIBUTABLE TO MEMBERS		**19,165**	19,652	**17,393**	24,581

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

Balance Sheets

AS AT 30 JUNE 2008	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
ASSETS					
Cash and cash equivalents	5	**14,919**	15,932	**14,177**	14,842
Receivables due from other financial institutions	6	**169,777**	121,000	**169,777**	121,000
Trade and other receivables	7	**25,645**	13,153	**16,764**	8,294
Loans and advances	8	**2,045,609**	1,824,650	**2,045,609**	1,824,650
Derivative financial instruments	9	**7,433**	3,097	**7,433**	3,097
Inventories	10	**16,318**	13,851	**-**	-
Available-for-sale financial assets	11	**2,888**	2,888	**2,888**	2,888
Due from controlled entities	12	**-**	-	**9,294**	12,125
Property, plant and equipment	14	**2,570**	3,489	**2,493**	3,417
Investment properties	15	**25,301**	25,474	**-**	-
Other financial assets	16	**-**	-	**3,083**	3,083
Intangible assets	17	**10,437**	7,410	**7,401**	4,187
TOTAL ASSETS		**2,320,897**	2,030,944	**2,278,919**	1,997,583
LIABILITIES					
Members' deposits	19	**1,201,670**	1,067,436	**1,201,893**	1,066,989
Trade and other payables	20	**85,957**	78,290	**65,121**	55,989
Current tax liabilities		**959**	5,690	**932**	6,110
Borrowings	21	**849,637**	722,621	**838,463**	717,131
Due to controlled entities	12	**-**	-	**5,017**	5,322
Provisions	22	**1,201**	1,004	**285**	402
Deferred tax liabilities	23	**7,763**	4,736	**1,674**	534
TOTAL LIABILITIES		**2,147,187**	1,879,777	**2,113,385**	1,852,477
NET ASSETS		**173,710**	151,167	**165,534**	145,106
MEMBERS' FUNDS					
Reserves	24	**135,762**	117,703	**135,762**	117,703
Retained earnings	24	**35,273**	31,132	**29,772**	27,403
Minority interest		**2,675**	2,332	**-**	-
TOTAL MEMBERS' FUNDS		**173,710**	151,167	**165,534**	145,106

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

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2008	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
Total members' funds (equity) at the beginning of the financial year		**151,167**	128,921	**145,106**	119,289
Changes in the fair value of cash flow hedges, net of tax	24(c)	**3,035**	1,236	**3,035**	1,236
Minority interest on acquisition of subsidiary	34	**-**	527	**-**	-
Reversal of equity accounting loss prior to consolidation		**-**	57	**-**	-
Net income recognised directly in members' funds (equity)		**3,035**	1,820	**3,035**	1,236
Profit for the year		**19,508**	20,426	**17,393**	24,581
Total recognised income and expense for the year		**22,543**	22,246	**20,428**	25,817
Total members' funds (equity) at the end of the financial year		**173,710**	151,167	**165,534**	145,106
Total recognised income and expense for the year is attributable to:					
Members of the Society		**22,200**	21,473	**20,428**	25,817
Minority interest		**343**	773	**-**	-
		22,543	22,246	**20,428**	25,817

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2008	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received from loans		**164,533**	123,979	**164,533**	123,661
Interest received from investments		**10,727**	8,638	**11,177**	9,123
Commissions and other income received		**16,511**	39,523	**14,319**	14,545
Borrowing costs – members		**(55,990)**	(44,738)	**(55,950)**	(44,738)
Borrowing costs – banks		**(68,268)**	(34,663)	**(68,086)**	(34,056)
Payments to employees and suppliers (inclusive of goods and services tax)		**(41,587)**	(49,361)	**(36,286)**	(37,784)
Income tax paid		**(10,161)**	(5,750)	**(10,112)**	(5,599)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	25(a)	**15,765**	37,628	**19,595**	25,152
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received		**361**	361	**361**	13,461
Net increase in loans and advances		**(224,116)**	(340,846)	**(224,116)**	(340,846)
Proceeds from sale of property, plant and equipment		**169**	236	**169**	174
Net movement in interest earning deposits		**(48,778)**	(500)	**(48,778)**	(500)
Net movement in other investments		**-**	-	**-**	125
Payment for investments		**-**	(1,145)	**-**	(1,550)
Payments for property, plant and equipment		**(1,673)**	(1,694)	**(1,053)**	(1,396)
Payments for intangible assets		**(3,992)**	(583)	**(3,992)**	(583)
Loans from/(to) controlled entities		**-**	-	**913**	(3,025)
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		**(278,029)**	(344,171)	**(276,496)**	(334,140)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of loans from other financial institutions		**-**	(13,091)	**-**	-
Net increase in members' deposits		**134,256**	91,506	**134,926**	87,034
Loans from other financial institutions		**134,782**	213,671	**129,012**	211,336
Member shares issued		**3**	12	**3**	12
Member shares redeemed		**(24)**	(43)	**(24)**	(43)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**269,017**	292,055	**263,917**	298,339
Net (decrease)/ increase in cash and cash equivalents held		**6,753**	(14,488)	**7,016**	(10,649)
Cash and cash equivalents at the beginning of the year		**8,114**	22,602	**7,161**	17,810
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25(b)	**14,867**	8,114	**14,177**	7,161

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

Notes to the Financial Statements

30 JUNE 2008

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.

Critical accounting estimates

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

Comparatives

Due to reclassifications, the comparatives for the 2007 year have been changed to reflect these reclassifications.

(b) Principles of consolidation

(i) Subsidiaries

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

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

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 30.

(c) Loan provisioning

All loans are subject to recurring review and assessment for possible impairment. All bad debts are written off in the period in which they are identified. Specific provisions are raised for losses that have already been incurred for loans that are known to be impaired. The required provision is estimated on the basis of historical loss experience for assets with similar credit characteristics. The historical loss experience is adjusted based on current observable data. The estimated losses on these impaired loans are then discounted to their present value. As this discount unwinds, there is a resulting recognition of interest in the income statement.

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

(d) Property, plant and equipment

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

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

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

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

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

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

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

(e) Leasehold improvements

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

(f) Investment property

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

(g) Investments and other financial assets

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

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

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

(h) Intangible assets

(i) Goodwill

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

(ii) Computer software costs

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

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

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

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

(iii) Client list

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

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

(i) Impairment of assets

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

(j) Income tax

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

(k) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(l) Interest

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

(m) Cash and cash equivalents

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

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

(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.

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

(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.

Notes to the Financial Statements

(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 the income statement, 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 equity in the hedging reserve. The gain or loss relating to any ineffective portion is recognised in the income statement immediately. Amounts accumulated in equity are taken to the income statement in the periods when the hedged item affects income, for instance, when the forecast transaction that is hedged takes place.

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

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

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

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

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

(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) Segment reporting

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

(z) 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.

(aa) Business combinations

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

(bb) Rounding of amounts

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

Notes to the Financial Statements

(cc) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards is set out below.

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

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

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual report periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and requires the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This will not affect any of the amounts recognised in the financial statements or disclosures of the Group as it is consistent with the current accounting policy.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and making changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. The Group may need to disclose a third balance sheet (statement of financial position), as at the beginning of the comparative period, to show prior period adjustments or reclassified items in the financial statements, if any.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Loan provisioning

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

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

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

(ii) Fair value of investment property

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

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

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

30 JUNE 2008

3. OPERATING PROFIT

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

CONSOLIDATED

Interest Revenue and Interest Expense	**2008** Average Balance $'000	**2008** Interest $'000	**2008** Average Interest Rate %	2007 Average Balance $'000	2007 Interest $'000	2007 Average Interest Rate %
Interest earning assets						
Deposits with other banks/ADIs	**168,248**	**12,112**	**7.20%**	136,931	8,748	6.39%
Loans and advances	**1,966,370**	**164,533**	**8.37%**	1,634,845	124,339	7.58%
	2,134,618	**176,645**	**8.28%**	1,771,776	133,087	7.49%
Interest bearing liabilities						
Members' deposits	**1,148,956**	**59,948**	**5.22%**	1,023,419	44,632	4.33%
Borrowings from other banks/ADIs	**837,586**	**64,673**	**7.72%**	633,512	42,146	6.71%
	1,986,542	**124,621**	**6.27%**	1,656,931	86,778	5.23%

	2008	2007
Analysis of net interest income		
Net interest income	**52,024**	46,309
Average interest earning assets	**2,134,618**	1,771,776
Net interest margin (1)	**2.44%**	2.61%
Spread (2)	**2.01%**	2.26%

(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.

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**6,968**	9,391	**6,914**	9,885
Deferred tax	**1,726**	(684)	**(161)**	573
(Over) under provided in prior years	**(1,539)**	314	**(367)**	314
	7,155	9,021	**6,386**	10,772
Deferred income tax expense (revenue) included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 18)	**(849)**	1,406	**(840)**	1,322
Increase (decrease) in deferred tax liabilities (Note 23)	**2,575**	(2,090)	**679**	(749)
	1,726	(684)	**(161)**	573
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**26,663**	29,447	**23,780**	35,355
Prima facie income tax calculated at 30% (2007: 30%)	**7,999**	8,834	**7,134**	10,606
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment	**21**	63	**20**	-
Tax offset for franked dividends	**(155)**	(155)	**(155)**	(155)
Under (over) provision for deferred tax in previous year	**829**	-	**(246)**	-
Sundry items	**-**	(35)	**-**	7
	8,694	8,707	**6,753**	10,458
(Over)/under provision in previous year	**(1,539)**	314	**(367)**	314
Income tax expense	**7,155**	9,021	**6,386**	10,772
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited (credited) directly to equity (Note 18 and 23)	**1,301**	530	**1,301**	530
(d) Franking credits				
Franking credits based on a tax rate of 30%	**44,537**	34,001	**43,646**	34,001

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

(i) franking credits that will arise from the payment of the amount of the current tax liability, and

(ii) franking debits that will arise from the refund receivable of the amount of the current tax asset.

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

(e) Tax consolidation legislation

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

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

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**8,081**	4,077	**7,361**	3,892
Cash and deposits at call with banks	**156**	3,329	**134**	2,424
Cash and deposits at call with other Approved Deposit-Taking Institutions (ADIs)	**6,682**	8,526	**6,682**	8,526
	14,919	15,932	**14,177**	14,842
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits – banks	**20,500**	15,000	**20,500**	15,000
Interest earning deposits – other ADIs	**149,277**	106,000	**149,277**	106,000
	169,777	121,000	**169,777**	121,000

The deposits have an effective interest rate of 7.62% to 8.50% (2007: 5.82% to 6.65%).

7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**2,503**	1,117	**2,503**	1,117
Trade debtors - sale of residential lots	**2,303**	1,121	**-**	-
Prepayments	**970**	925	**940**	888
Amenities and reserve fund fees	**4,020**	2,636	**-**	-
Member transaction clearing	**12,428**	2,258	**12,428**	2,258
Land and property development debtors	**1,776**	1,879	**-**	2,819
Other	**1,645**	3,217	**893**	1,212
	25,645	13,153	**16,764**	8,294

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

8. LOANS AND ADVANCES				
Revolving credit	**145,260**	140,195	**145,260**	140,195
Term loans	**1,898,209**	1,681,580	**1,898,209**	1,681,580
Related parties (a)	**3,707**	4,028	**3,707**	4,028
	2,047,176	1,825,803	**2,047,176**	1,825,803
Provision for impairment (b)	**(1,567)**	(1,153)	**(1,567)**	(1,153)
Net loans and advances	**2,045,609**	1,824,650	**2,045,609**	1,824,650

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

During the financial year the Society sold mortgage loans via a securitisation program. The Society continues to manage these loans and derives management fee income. As at 30 June 2008 securitised loans under management by the Society amounted to $729,375,483 (2007: $657,629,367) which are included in the revolving credit and term loans above.

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
8. LOANS AND ADVANCES (cont'd)				
(a) Aggregate amounts receivable from related parties:				
Key management personnel and their related entities	**3,707**	4,028	**3,707**	4,028
(b) Provision for impairment				
Specific provision				
Opening balance	**1,153**	3,545	**1,153**	3,545
Bad debts previously provided for written off during the year	**(2,977)**	(2,224)	**(2,977)**	(2,224)
Bad and doubtful debts provided for/(reversed) during the year	**3,391**	(168)	**3,391**	(168)
Closing balance	**1,567**	1,153	**1,567**	1,153
(c) Bad Debts Written Off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**405**	85	**405**	85
Personal loans	**2,572**	2,024	**2,572**	2,024
Commercial loans	**-**	115	**-**	115
	2,977	2,224	**2,977**	2,224
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps – cash flow hedges	**7,433**	3,097	**7,433**	3,097

a) Terms and conditions

At balance date, the Society has interest rate swap agreements with a notional amount of $295.1 million (2007: $240.9 million), on which it pays 5.55% to 7.55% (2007: 5.53% to 7.49%) interest and receives Bank Bill swap rates calculated on the notional amount. The swaps are used to protect the Society from movements on interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance date. The swaps expire between July 2008 and April 2013.

	CONSOLIDATED			
10. INVENTORIES	**Land Acquisition Costs**	**Holding Costs**	**Development Costs**	**Total**
Land held for sale	**$'000**	**$'000**	**$'000**	**$'000**
2008				
Group inventory	**900**	**6**	**63**	**969**
Share of joint venture inventory	**2,132**	**2,143**	**11,074**	**15,349**
	3,032	**2,149**	**11,137**	**16,318**
2007				
Group inventory	900	2	63	965
Share of joint venture inventory	3,090	1,540	8,256	12,886
	3,990	1,542	8,319	13,851

Inventory of $7.5 million (2007: $6.7 million) is to be recovered greater than 12 months from balance date.

Inventory of $11.5 million (2007: $9.5 million) and trade and other receivables of $0.2 million (2007: $0.6 million) are pledged as security for borrowings of $11.2 million (2007: $7.1 million). The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories was $1.5 million (2007: $0.5 million).

30 JUNE 2008 **CONSOLIDATED**

10. INVENTORIES (cont'd)

Valuation of inventories	Expenses incurred to balance date	Valuation	Valuation date	Interest held	Beneficial Interest
	$'000	$'000			$'000
The valuations of land being developed by the consolidated entity are as follows:					
"The Reef" at Two Rocks – Two Rocks Road, Two Rocks	**12,160**	**55,000**	**30 June 2008**	**75.00%**	**41,250**

"The Reef" at Two Rocks

1. The valuation amount shown is based on a Directors Valuation prepared as at 30 June 2008 which is supported by a formal valuation prepared by a licensed valuer dated 15 June 2008.
2. The valuation is based on the generally accepted definition of Market Value – "Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction, after proper marketing wherein parties had each acted knowledgeably, prudentially and without compulsion."
3. Basis of valuation:

   (a) In relation to the partly developed land, a hypothetical static analysis approach has been undertaken to assess the potential gross realisation to be achieved for the various individual lots to be created, as determined from sales evidence, and reducing this by the estimated costs required to complete the partly developed land for realisation. The remaining undeveloped and vacant urban land holding is valued in its entirety using the direct sales comparison approach with transactions of equivalently sized parcels of land with similar characteristics.

   (b) The valuation amount is exclusive of GST.
4. Expenses incurred to balance date represent all costs attributable to the development as at balance date. Expenses incurred to date of valuation represent all costs attributable to the development as at the date of valuation.
5. As at 30 June 2008, revenue of $3.8 million (2007: $6.1 million) has been recognised with expenses incurred of $2.5 million (2007: $3.6 million) in relation to lots sold at "The Reef" at Two Rocks. This represents 18 lots (2007: 22 lots) out of an estimated total of 704 lots.

"The Grove at Ashby", Wanneroo

1. A Directors Valuation has not been prepared for this development.
2. The development is substantially completed with approximately 5.0% of the development remaining.
3. The development is coordinated by the Satterley Property Group. The share of the joint venture held is 14.29%.
4. As at 30 June 2008 the net assets of the joint venture were $1.3 million (2007: $5.1 million).

"The Enclave" at Eagle Bay

1. A Directors Valuation has not been prepared for this development.
2. During the year 36 rural residential lots have been constructed.
3. Clearance and titles for the 36 lots will be applied for in the second half of 2008.
4. A number of lots in the development have been marketed since March 2008, which has resulted in three sales.

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 planned for the forthcoming financial year.
3. The land is subject to the Albion District Structure Plan, which was issued April 2008. Until the plan has been approved, no development activity can be undertaken.

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in CUSCAL	**2,888**	2,888	**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.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
12. DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (Assets)				
Amounts receivable from controlled entities	**-**	-	**6,728**	7,877
Tax related amounts receivable from controlled entities	**-**	-	**2,566**	4,248
	-	-	**9,294**	12,125
Due to controlled entities (Liabilities)				
Amounts payable to controlled entities	**-**	-	**749**	985
Tax related amounts payable to controlled entities	**-**	-	**4,268**	4,337
	-	-	**5,017**	5,322

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Police & Nurses Financial Planning Pty Ltd is incorporated in Australia and its principal activity is financial planning.

Following the purchase of an additional 30% interest in Police & Nurses Financial Planning Pty Ltd on 4 August 2006, the entity was controlled by the Society and is consolidated into the Group's results. The Society's ownership interest in Police & Nurses Financial Planning Pty Ltd at the end of the year is 65% (2007 : 65%). Refer to Note 34 for details.

	CONSOLIDATED	
	2008	2007
	$'000	$'000
Movements in carrying amounts of investments accounted for using the equity method		
Carrying amount at the beginning of the financial year	**-**	945
Investments consolidated due to controlling interest acquired	**-**	(945)
Carrying amount at the end of the financial year	**-**	-

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
14. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	**3,417**	3.387	**3,401**	3,371
Provision for amortisation	**(2,555)**	(2,239)	**(2,539)**	(2,226)
	862	1,148	**862**	1,145
Plant and equipment				
At cost	**10,400**	10,085	**10,267**	9,974
Provision for depreciation	**(8,692)**	(7,744)	**(8,636)**	(7,702)
	1,708	2,341	**1,631**	2,272
Total property, plant and equipment	**2,570**	3,489	**2,493**	3,417

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

	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
	Leasehold Improvements $'000	**Plant & Equipment $'000**	**Total $'000**	**Leasehold Improvements $'000**	**Plant & Equipment $'000**	**Total $'000**
Carrying amount at 1 July 2006	1,381	2,599	3,980	1,375	2,598	3,973
Additions	353	1,113	1,466	353	1,043	1,396
Disposals	(41)	(87)	(128)	(41)	(88)	(129)
Depreciation expense	(545)	(1,284)	(1,829)	(542)	(1,281)	(1,823)
Carrying amount at 30 June 2007	1,148	2,341	3,489	1,145	2,272	3,417
Carrying amount at 1 July 2007	**1,148**	**2,341**	**3,489**	**1,145**	**2,272**	**3,417**
Additions	**249**	**828**	**1,077**	**249**	**812**	**1,061**
Disposals	**(16)**	**(121)**	**(137)**	**(16)**	**(121)**	**(137)**
Depreciation expense	**(519)**	**(1,340)**	**(1,859)**	**(516)**	**(1,332)**	**(1,848)**
Carrying amount at 30 June 2008	**862**	**1,708**	**2,570**	**862**	**1,631**	**2,493**

Notes to the Financial Statements

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
15. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**25,474**	23,000	**-**	-
Net transfer (to) from inventory	**18**	(47)	**-**	-
Net gain (loss) from fair value adjustment	**(191)**	2,521	**-**	-
Closing balance	**25,301**	25,474	**-**	-

(a) Description of investment property

The investment property is the Jacaranda Gardens Retirement Village, owned by the Jacaranda Gardens Partnership, in which the Group has an 80% interest. The minority partner in the Jacaranda Gardens Partnership gave notice to resign from the partnership on 30 April 2008 and the Group has, subsequent to 30 June 2008, agreed to purchase this 20% interest.

b) Amounts recognised in profit and loss for investment property

Other income - amenities fees, reserve fund contribution revenue and interest	**1,118**	1,668	**-**	-
Direct operating expenses from property that generated other income	**(63)**	(59)	**-**	-
Net gain (loss) from fair value adjustment	**(191)**	2,521	**-**	-
	864	4,130	**-**	-

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

c) Valuation

Valuation basis

The basis of the valuation of the investment property is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction. The 30 June 2008 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 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 cashflows over a period of 40 years (2007: 30 years). The discounted cashflows are based on the following assumptions:

(i) unit values are based on a weighted average of $400,000 (2007: $440,000) per unit;

(ii) escalation factor of 6% (2007: 6%) attributable to the unit values which is the market determined long-term growth rate for residential property;

(iii) unit re-leasing rate equivalent to a comparison of current residents to life expectancy tables produced by the Australian Bureau of Statistics for Western Australia, coupled with a market determined rate of re-leasing occurring for reasons other than death;

(iv) rate of amenities fee income based on the length of anticipated occupancy;

(v) discount rate of 13% (2007: 12%) 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. Based on current knowledge, it is not anticipated that a material adjustment to the investment property will occur during the next annual reporting period.

30 JUNE 2008

15. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

Representation of valuation in financial statements

The valuation resulted in a net value of $9.0 million (2007: $8.1 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2008 $'000	2007 $'000
Net value of property transferred from property, plant & equipment	**13,804**	13,850
Add: Transfer (to)/from inventories	**18**	(46)
Net gain from fair value adjustment	**11,479**	11,670
Investment property asset	**25,301**	25,474
Included in property plant and equipment	**21**	53
Add: Accrued Amenities fees (Other receivables)	**3,155**	2,050
Less: Lease loan sum liability (Note 20)	**(19,477)**	(19,477)
	9,000	8,100

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
16. OTHER FINANCIAL ASSETS				
Investments in controlled entities	**-**	-	**3,083**	3,083

	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
	2008	2007	**2008**	**2008**	2007	2007
	%	%	**$**	**$**	$	$
All controlled entities are incorporated in Australia and are ultimately controlled by the Society. The controlled entities are as follows:						
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
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 Partnership (jointly controlled)	**80**	80	**-**	**-**	-	-
Police & Nurses Financial Planning Pty Ltd	**65**	65	**2,550,080**	**-**	2,550,080	-
			3,083,483	**19,999**	3,083,483	19,999

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
17. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
Computer software (ii)				
At cost	**14,105**	10,113	**14,105**	10,113
Accumulated amortisation	**(6,704)**	(5,926)	**(6,704)**	(5,926)
	7,401	4,187	**7,401**	4,187
Client list (iii)				
At cost	**1,861**	1,861	**-**	-
Accumulated amortisation	**(397)**	(210)	**-**	-
	1,464	1,651	**-**	-
Total intangible assets	**10,437**	7,410	**7,401**	4,187
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	**1,572**	-	**-**	-
Acquisition of subsidiary	**-**	1,572	**-**	-
Closing carrying amount	**1,572**	1,572	**-**	-
(ii) Computer software				
Opening carrying amount	**4,187**	4,594	**4,187**	4,594
Additions	**3,993**	584	**3,993**	584
Amortisation charge *	**(779)**	(991)	**(779)**	(991)
Closing carrying amount	**7,401**	4,187	**7,401**	4,187
(iii) Client list				
Opening carrying amount	**1,651**	-	**-**	-
Acquisition of subsidiary	**-**	1,861	**-**	-
Amortisation charge *	**(187)**	(210)	**-**	-
Closing carrying amount	**1,464**	1,651	**-**	-

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

(a) Impairment tests for goodwill

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

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

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

(c) Impact of possible changes in key assumptions

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

(d) Impairment charge

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

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
18. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**470**	346	**470**	346
Provisions	**-**	441	**-**	442
Depreciation	**154**	-	**154**	-
Accruals	**1,126**	114	**1,096**	92
	1,750	901	**1,720**	880
Offset to/from deferred tax liabilities (Note 23)	**(1,750)**	(901)	**(1,720)**	(880)
Net deferred tax assets	**-**	-	**-**	-
Movements:				
Opening balance	**901**	2,307	**880**	2,202
(Charged)/credited to the income statement (Note 4)	**849**	(1,406)	**840**	(1,322)
Closing balance	**1,750**	901	**1,720**	880
19. MEMBERS' DEPOSITS				
Call deposits	**437,692**	419,144	**437,915**	418,697
Term deposits	**762,604**	647,329	**762,604**	647,329
Withdrawable shares (a)	**620**	642	**620**	642
Related parties (b)	**754**	321	**754**	321
	1,201,670	1,067,436	**1,201,893**	1,066,989

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 65,780 (2007: 68,068) 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.

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
20. TRADE AND OTHER PAYABLES				
Accrued interest payable	**12,213**	8,214	**12,213**	8,214
Securitised loan repayments payable	**29,792**	33,387	**29,792**	33,387
Lease loan sums (Note 15)	**19,477**	19,477	**-**	-
Other payables	**24,475**	17,212	**23,116**	14,388
	85,957	78,290	**65,121**	55,989

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

21. BORROWINGS				
Secured				
– Overdrafts from other ADIs (a)	**52**	7,818	**-**	7,681
– Loans from other ADIs (b)	**120,210**	57,174	**109,088**	51,821
– Securitised borrowings	**729,375**	657,629	**729,375**	657,629
	849,637	722,621	**838,463**	717,131

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

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

22. PROVISIONS				
Employee benefits	**308**	418	**285**	402
Refurbishment	**893**	586	**-**	-
	1,201	1,004	**285**	402

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
23. DEFERRED TAX LIABILTIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**8**	7	**-**	5
Receivables	**2,583**	345	**751**	44
Intangible assets	**908**	799	**413**	204
Inventory	**165**	-	**-**	-
Fair value adjustment to investment property	**3,444**	3,325	**-**	-
Depreciation	**2**	232	**-**	232
Capital works	**173**	-	**-**	-
	7,283	4,708	**1,164**	485
Amounts recognised directly in equity				
Cash flow hedges	**2,230**	929	**2,230**	929
	9,513	5,637	**3,394**	1,414
Offset to/from deferred tax assets (Note 18)	**(1,750)**	(901)	**(1,720)**	(880)
Net deferred tax liabilities	**7,763**	4,736	**1,674**	534
Movements:				
Opening balance	**5,637**	6,639	**1,414**	1,633
Charged/(credited) to the income statement (Note 4)	**2,575**	(2,090)	**679**	(749)
Charged to equity	**1,301**	530	**1,301**	530
Charged to investment in controlled entities (Note 34)	**-**	558	**-**	-
Closing balance	**9,513**	5,637	**3,394**	1,414
24. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**130,000**	115,000	**130,000**	115,000
Share capital reserve (b)	**559**	535	**559**	535
Hedging reserve – cash flow hedges (c)	**5,203**	2,168	**5,203**	2,168
	135,762	117,703	**135,762**	117,703
Retained earnings				
Balance at beginning of year	**31,132**	21,465	**27,403**	12,865
Reversal of equity accounting loss prior to consolidation	**-**	57	**-**	-
Profit for the year	**19,165**	19,653	**17,393**	24,581
Total available for appropriation	**50,297**	41,175	**44,796**	37,446
Aggregate of amounts transferred to reserves	**(15,024)**	(10,043)	**(15,024)**	(10,043)
Balance at end of year	**35,273**	31,132	**29,772**	27,403

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
24. RESERVES AND RETAINED EARNINGS (cont'd)				
(a) General reserve				
Balance at beginning of year	**115,000**	105,000	**115,000**	105,000
Transfer from retained profits	**15,000**	10,000	**15,000**	10,000
Balance at end of year	**130,000**	115,000	**130,000**	115,000

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	**535**	492	**535**	492
Transfer from retained profits	**24**	43	**24**	43
Balance at end of year	**559**	535	**559**	535

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) Hedging reserve – cash flow hedges				
Balance at beginning of year	**2,168**	932	**2,168**	932
Revaluation – net	**3,035**	1,236	**3,035**	1,236
Balance at end of year	**5,203**	2,168	**5,203**	2,168

Nature and purpose of hedging reserve – cash flow hedges

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

Notes to the Financial Statements

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
25. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the profit after tax to the net cash flows from operations				
Profit after income tax	**19,508**	20,426	**17,393**	24,581
Depreciation and amortisation	**2,829**	2,952	**2,632**	2,729
Bad and doubtful debts	**3,390**	(168)	**3,390**	(168)
Bad debts recovered	**(234)**	(130)	**(234)**	(130)
Loss/(gain) on disposal of property, plant and equipment	**(44)**	(99)	**(44)**	38
Dividend received	**(361)**	(361)	**(361)**	(13,461)
Increase/(decrease) in provisions	**197**	1,376	**(117)**	(56)
(Increase)/decrease in loan interest receivable	**(1,386)**	(110)	**(1,386)**	(110)
Increase in other receivables	**(9,408)**	(4,778)	**(7,147)**	(2,981)
Decrease/(increase) in debtors from sale of land	**(1,183)**	12,672	**-**	-
(Increase)/decrease in inventory	**(2,466)**	(5,296)	**-**	-
(Decrease)/increase in member interest payable	**3,999**	(467)	**3,999**	(467)
Increase in accrued expenses and trade and other payables	**3,709**	10,958	**5,133**	9,595
(Decrease)/increase in current tax liabilities	**(4,732)**	4,445	**(5,179)**	4,465
(Decrease)/increase in deferred tax liabilities	**1,726**	(1,081)	**(161)**	574
Decrease/(increase) in sundry debtors and prepayments	**30**	(191)	**(1,086)**	410
Fair value adjustment to investment property	**191**	(2,521)	**-**	-
Decrease/(increase) in tax related amount receivable	**-**	-	**2,831**	(3,907)
(Decrease)/increase in tax related amount payable	**-**	-	**(68)**	4,041
Net cash outflow from operating activities	**15,765**	37,627	**19,595**	25,153
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
– Cash (Note 5)	**14,919**	15,795	**14,177**	14,842
– Bank overdraft (Note 21)	**(52)**	(7,681)	**-**	(7,681)
Closing cash and cash equivalents balance	**14,867**	8,114	**14,177**	7,161

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
26. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– payable not later than one year	**1,125**	-	**1,125**	-
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than 1 year	**2,573**	2,645	**2,573**	2,645
– later than 1 and not later than 5 years	**7,538**	2,237	**7,538**	2,237
– later than 5 years	**8,505**	21	**8,505**	21
Aggregate lease expenditure contracted for at balance date	**18,616**	4,903	**18,616**	4,903
As at 30 June 2008, the Society had entered into an agreement to lease premises at 130 Stirling Street, Perth to provide accommodation for head office staff relocating out of two buildings in Adelaide Terrace, Perth, by September 2009. The amount that relates to this commitment is $17,010,850.				
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
– payable not later than one year	**275**	1,403	**-**	-

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
27. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	**173,303**	251,532	**173,303**	251,532

The Society has entered into the following financing arrangements with:

i. Credit Union Services Corporation (Australia) Limited and VISA International Services Association to participate in the "VISA Card Programme".

ii. Credit Union Services Corporation (Australia) Limited to participate in the "Redinet Scheme".

iii. Credit Union Services Corporation (Australia) Limited to participate in the:

- Standby Credit Facility: $35,000,000 (Unused as at 30 June 2008)
- Multi Option Wholesale Facility (Uncommitted): $45,000,000 (Unused as at 30 June 2008)
- Derivatives Guarantee Facility: $3,000,000 ($1,475,000 used as at 30 June 2008)
- Overdraft: $2,000,000 (Unused as at 30 June 2008)
- Wholesale Funding Multi-Option Facility: $70,000,000 (fully drawn as at 30 June 2008)

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

iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: $2,000,000. This facility was unused at 30 June 2008. This facility may be drawn at any time and may be terminated by the bank without notice.

v. Credit Union Financial Support System Limited - with effect from 1 July 1999, Police & Nurses Credit Society Limited is a party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that all Credit Unions who are affiliated with Credit Union Services Corporation (Australia) Limited (CUSCAL) have agreed to participate in. CUFSS is a company limited by guarantee, each Credit Union's guarantee being $100. As a member of CUFSS, the Credit Union:

- May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another Credit Union requiring financial support;
- May be required to advance permanent loans of up to 0.2% of total assets per financial year to another Credit Union requiring financial support;
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$	$	**$**	$
28. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,081,409**	2,226,672	**2,081,409**	2,226,672
Short-term employee benefits	**2,037,719**	2,092,433	**2,037,719**	2,092,433
Post-employment benefits	**43,690**	134,239	**43,690**	134,239
	2,081,409	2,226,672	**2,081,409**	2,226,672

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

As members of the Society, the key management personnel and their related entities have available to them all of the services under normal member terms and conditions. These loans outstanding to key management personnel and their related entities as at 30 June 2008 amounted to $1,267,747 (2007: $1,633,232). During the year loan advances amounted to $487,395 (2007: $821,951) and repayments amounted to $964,520 (2007: $814,751). Interest on these loans amounted to $108,914 (2007: $114,208). All of these loans are secured, except loan balances of $25,158 (2007: $58,711).

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 2008 amounted to $2,425,140 (2007: $2,995,823). During the year loan advances amounted to $550,344 (2007: $1,506,671) and repayments amounted to $1,349,545 (2007: $948,570). Interest on these loans amounted to $228,213 (2007: $145,051). All of these loans are secured, except loan balances of $26,726 (2007: $15,461).

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 2008 amounted to $753,800 (2007: $320,587). During the year additional deposits amounted to $3,843,108 (2007: $2,544,031) and withdrawals amounted to $3,443,987 (2007: $2,822,592). Interest on these deposits amounted to $28,385 (2007: $25,306).

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

30 JUNE 2008	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
29. AUDITOR'S REMUNERATION				
(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity - PricewaterhouseCoopers:				
- statutory financial reports audit services	**177**	198	**159**	180
- other assurance services	**23**	23	**23**	23
	200	221	**182**	203
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers:				
- income tax advice	**60**	23	**38**	17
- GST advice	**126**	-	**126**	-
- fringe benefits tax advice	**12**	9	**11**	7
- other	**17**	2	**16**	-
	215	34	**191**	26
Total auditor's remuneration	**415**	255	**373**	229

30. INTERESTS IN JOINT VENTURES

Jointly controlled assets

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

Wanneroo North Joint Venture

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

Two Rocks Joint Venture

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

Eagle Bay Joint Venture

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

The consolidated entity's interests in the assets employed in the joint ventures are included in the consolidated balance sheet, in accordance with the accounting policy described in Note 1(b), under the following classifications:

	CONSOLIDATED	
	2008	2007
	$'000	$'000
Trade and other receivables	**7,248**	4,767
Inventories (land held for sale)	**15,348**	12,172
Share of assets employed in joint ventures	**22,596**	16,939

30 JUNE 2008

31. RELATED PARTY DISCLOSURES

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

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

The Society transacted with its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in Note 4.

	POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007
	$'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	**613**	1,185
Dividend revenue	**-**	13,100
Other fee revenue	**-**	135
Aggregate amounts receivable from entities in the wholly-owned group at balance date	**6,728**	7,877

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008	2007	**2008**	2007
	No.	No.	**No.**	No.
32. EMPLOYEE NUMBERS				
Number of employees at reporting date	**305**	317	**291**	303
Full time equivalents at reporting date	**266**	285	**256**	274

30 JUNE 2008

33. SEGMENT INFORMATION

(a) Primary reporting – business segments

The consolidated entity operates predominantly in the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans. Specific segmentation of loans and members' deposits are set out in Notes 8 and 19. The consolidated entity is also involved in property development activities through the development of residential land in Western Australia, including the development of a retirement village through the Jacaranda Gardens Partnership, which was completed during the 2006 financial year. Since the completion of this development, the consolidated entity has reclassified this as an investment property.

2008	Services to Members	Property Development	Retirement Village	Inter-segment Eliminations\ Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000
Net interest income from external customers	52,016	-	-	-	52,016
Inter-segment interest income	613	-	-	(613)	-
Net interest income	52,629	-	-	(613)	52,016
Sales to external customers	-	5,072	-	-	5,072
Other revenue/income	22,888	76	927	(68)	23,823
Total segment revenue/income	75,517	5,148	927	(682)	80,911
Segment result	23,581	2,150	864	68	26,663
Profit before income tax expense					26,663
Income tax expense					7,155
Profit for the year					19,508
Segment assets	2,288,706	21,056	30,301	(19,166)	2,320,897
Segment liabilities	2,117,673	27,690	20,335	(18,511)	2,147,187
Acquisitions of property, plant and equipment and intangible assets	4,953	-	-	-	4,953
Depreciation and amortisation expense	2,829	-	-	-	2,829
Other non-cash expenses	4,052	25	-	-	4,077

30 JUNE 2008

33. SEGMENT INFORMATION (cont'd)

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

Inter-segment transfers

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

(b) Secondary reporting – geographical segments

The consolidated entity operates in Australia.

30 JUNE 2008

34. BUSINESS COMBINATIONS

(a) Summary of acquisition

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

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

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

	4 August 2006 acquisition (65%) $'000
Purchase consideration (refer to (b) below in relation to 4 August 2006 acquisition)	
Cash paid	2,586
Direct costs relating to the acquisition	10
Total purchase consideration	2,596
Fair value of net identifiable assets acquired	1,024
Goodwill (refer to Note 17)	1,572

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
(b) Purchase consideration				
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	-	2,586	-	2,586
Less: Balances acquired				
Cash	-	264	-	-
Net outflow of cash	-	2,322	-	2,586

30 JUNE 2008

35. 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 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 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 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 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 no changes to the Society's market risk policies from the prior year.

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.

30 JUNE 2008

35. 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					POLICE & NURSES CREDIT SOCIETY LTD				
		+100bp		-100bp			+100bp		-100bp	
Market Risk	**Carrying Amount**	**Income Statement**	**Other Movements in Equity**	**Income Statement**	**Other Movements in Equity**	**Carrying Amount**	**Income Statement**	**Other Movements in Equity**	**Income Statement**	**Other Movements in Equity**
2008	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**14,919**	**12**	**-**	**(12)**	**-**	**14,177**	**12**	**-**	**(12)**	**-**
Due from banks	**169,777**	**1,750**	**-**	**(1,750)**	**-**	**169,777**	**1,750**	**-**	**(1,750)**	**-**
Loans (i)	**2,047,176**	**16,894**	**-**	**(16,894)**	**-**	**2,047,176**	**16,894**	**-**	**(16,894)**	**-**
Derivatives	**7,433**	**-**	**6,080**	**-**	**(6,080)**	**7,433**	**-**	**6,080**	**-**	**(6,080)**
Overdrafts	**(52)**	**(1)**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**
Members' deposits (ii)	**(1,201,670)**	**(4,383)**	**-**	**4,383**	**-**	**(1,201,893)**	**(4,383)**	**-**	**4,383**	**-**
Borrowings	**(846,925)**	**(8,632)**	**-**	**8,632**	**-**	**(838,463)**	**(8,632)**	**-**	**8,632**	**-**
Total Increase/(Decrease)		**5,640**	**6,080**	**(5,640)**	**(6,080)**		**5,641**	**6,080**	**(5,641)**	**(6,080)**
2007										
Cash and cash equivalents	15,932	31	-	(31)	-	14,842	31	-	(31)	-
Due from banks	121,000	1,210	-	(1,210)	-	121,000	1,210	-	(1,210)	-
Loans (i)	1,825,803	15,490	-	(15,490)	-	1,825,803	15,490	-	(15,490)	-
Derivatives	3,097	-	5,742	-	(5,742)	3,097	-	5,742	-	(5,742)
Overdrafts	(7,818)	(77)	-	77	-	(7,681)	(77)	-	77	-
Members' deposits (ii)	(1,067,436)	(4,188)	-	4,188	-	(1,066,989)	(4,188)	-	4,188	-
Borrowings	(714,803)	(7,368)	-	7,368	-	(709,450)	(7,368)	-	7,368	-
Total Increase/(Decrease)		5,098	5,742	(5,098)	(5,742)		5,098	5,742	(5,098)	(5,742)

(i) 1% of the value of variable loans held at year end calculated on $1,689,397,648 (2007: $1,548,981,692). The remaining balance represents fixed rate loans for 2008/2009, which are not subject to interest rate movements for the period.

(ii) 1% of the value of variable deposits held at year end calculated on $438,260,268 (2007: $418,798,920). The remaining balance represents fixed rate deposits for 2008/2009, which are not subject to interest rate movements for the period.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
Fair Value of Derivatives	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Fair value estimation (interest rate swaps)	**7,433**	3,097	**7,433**	3,097

30 JUNE 2008

35. FINANCIAL RISK MANAGEMENT (cont'd)

(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.

Policy change in the 2008 financial year for the Society was to increase the minimum high quality liquid assets held, from 10% to 12%.

Financing Arrangements

The Society also maintains $35.0 million (2007: $35.0 million) of CUSCAL standby facilities and $45.0 million (2007: $35.0 million) of CUSCAL uncommitted facilities to support its liquidity arrangements. Additional liquidity support is available in the form of $4.0 million (2007: $2.2 million) of overdraft facilities, of which $2.0 million (2007: $2.0 million, fully drawn, nil available) is with CUSCAL and $2.0 million (2007:$0.2 million, un-drawn) is with Bankwest.

The Society also utilises Bridges funding facilities via CUSCAL. This facility has a limit of $40.0 million, of which $0.9 million (2007: $18.2 million) remained undrawn at 30 June 2008. Also maintained by the Society the Tasman securitisation facility of $850.0 million, of which $95.8 million (2007: $165.0 million) was available at 30 June 2008.

The Group and the Society had access to the following undrawn borrowing facilities at 30 June 2008.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
Floating Rate	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Expiring within 1 year (overdrafts and standby facilities)	**39,913**	53,380	**39,913**	53,380
Expiring beyond 1 year (Tasman securitised loans facility)	**95,844**	165,003	**95,844**	165,003
	135,757	218,383	**135,757**	218,383

Maturities of Liabilities

	CONSOLIDATED				POLICE & NURSES CREDIT SOCIETY LTD			
Liquidity Risk	**On Demand**	**Less Than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**On Demand**	**Less Than 3 Months**	**3 to 12 Months**	**1 to 5 Years**
2008	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Borrowings	**-**	**66,135**	**117,883**	**1,038,266**	**-**	**66,083**	**117,883**	**1,029,804**
Members' deposits	**439,340**	**554,118**	**259,026**	**5,685**	**439,117**	**554,118**	**259,026**	**5,685**
	439,340	**620,253**	**376,909**	**1,043,951**	**439,117**	**620,201**	**376,909**	**1,035,489**
2007								
Borrowings	-	11,048	40,242	888,169	-	11,048	34,888	888,169
Members' deposits	419,656	496,088	156,001	5,422	419,209	496,088	156,001	5,422
	419,656	507,136	196,243	893,591	419,209	507,136	190,889	893,591

30 JUNE 2008

35. 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 Society maintains significant management and controls in its operations to cover credit risk. The Society's credit risk management and control is centralised in a Credit Committee which reports to the Chief Executive Officer, the Asset and Liability Committee and the Board on a monthly basis.

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.

Policy changes in the 2008 financial year involved amending the rules in relation to acceptable loan to valuation ratios and serviceability ratios in response to rising interest rates, softening property prices and the overall uncertainty in the global credit market.

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 exposure limits based on the risk profile of various loan portfolios, industry, security and exposures to various counterparties. Policies are also in place to manage large exposures to an individual counterparty or group.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'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	**578,471**	301,314	**578,471**	301,314
Other	**1,468,705**	1,524,489	**1,468,705**	1,524,489
	2,047,176	1,825,803	**2,047,176**	1,825,803
Concentration of deposits				
WA State government employees	**251,277**	224,131	**422,826**	224,131
Other entities	**950,393**	843,305	**779,067**	842,858
	1,201,670	1,067,436	**1,201,893**	1,066,989

30 JUNE 2008

35. FINANCIAL RISK MANAGEMENT (cont'd)

Maximum Exposure to Credit Risk			Credit Risk Rating									
			Grade 1 (Low)		Grade 2 (Sound)		Grade 3 (Stable)		Grade 4 (Moderate)		Grade 5 (Acceptable)	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Fully Performing Loans												
Home Loans	**1,015,757**	931,204	**700,983**	628,520	**193,498**	176,402	**121,276**	126,282	**-**	-	**-**	-
Secured Overdrafts	**40,870**	37,527	**39,988**	36,529	**882**	998	**-**	-	**-**	-	**-**	-
Commercial Loans	**76,919**	76,366	**-**	-	**-**	-	**2,280**	2,263	**25,155**	24,975	**49,484**	49,128
Unsecured Overdrafts and Credit Cards	**13,305**	15,636	**-**	-	**-**	-	**-**	-	**-**	-	**13,305**	15,636
Total Performing Loans	**1,226,938**	1,133,304	**740,971**	665,049	**194,380**	177,400	**123,556**	128,545	**105,242**	97,546	**62,789**	64,764
Derivatives	**7,433**	3,097	**7,443**	3,097	**-**	-	**-**	-	**-**	-	**-**	-
Past Due Loans												
Home Loans												
1-7 Days	**19,802**	13,970	**12,370**	12,229	**2,447**	619	**4,985**	1,122	**-**	-	**-**	-
8-30 Days	**31,784**	6,929	**17,181**	5,841	**8,348**	682	**6,255**	406	**-**	-	**-**	-
31-60 Days	**10,705**	1,423	**4,423**	631	**2,377**	-	**3,905**	792	**-**	-	**-**	-
61-89 Days	**1,387**	206	**521**	206	**724**	-	**142**	-	**-**	-	**-**	-
Total	**63,678**	22,528	**34,495**	18,907	**13,896**	1,301	**15,287**	2,320	**-**	-	**-**	-
Fair Value Security Held (1)	**148,143**	54,176	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Secured Overdrafts												
1-7 Days	**1,857**	989	**1,857**	989	**-**	-	**-**	-	**-**	-	**-**	-
8-30 Days	**264**	75	**264**	75	**-**	-	**-**	-	**-**	-	**-**	-
31-60 Days	**552**	319	**552**	319	**-**	-	**-**	-	**-**	-	**-**	-
Total	**2,673**	1,383	**2,673**	1,383	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**12,562**	7,939	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Commercial Loans												
8-30 Days	**4,339**	613	**-**	-	**-**	-	**-**	-	**-**	-	**4,339**	613
31-89 Days	**211**	109	**-**	-	**-**	-	**-**	-	**-**	-	**211**	109
Total	**4,550**	722	**-**	-	**-**	-	**-**	-	**-**	-	**4,550**	722
Fair Value Security Held (2)	**9,820**	4,850	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Personal Loans												
1-7 Days	**3,422**	3,358	**-**	-	**-**	-	**-**	-	**3,422**	3,358	**-**	-
8-30 Days	**3,145**	2,907	**-**	-	**-**	-	**-**	-	**3,145**	2,907	**-**	-
31-89 Days	**1,526**	946	**-**	-	**-**	-	**-**	-	**1,526**	946	**-**	-
Total (3)	**8,093**	7,211	**-**	-	**-**	-	**-**	-	**8,093**	7,211	**-**	-
Unsecured Overdrafts and Credit Cards												
1-7 Days	**5,766**	632	**-**	-	**-**	-	**-**	-	**-**	-	**5,766**	632
8-30 Days	**175**	248	**-**	-	**-**	-	**-**	-	**-**	-	**175**	248
31-89 Days	**398**	140	**-**	-	**-**	-	**-**	-	**-**	-	**398**	140
Total	**6,339**	1,020	**-**	-	**-**	-	**-**	-	**-**	-	**6,339**	1,020
Total Past Due Loans	**85,333**	32,864	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Impaired Loans												
Home Loans												
90 Days Plus	**2,424**	527	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**3,280**	2,058	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Secured Overdrafts												
90-180 Days	**236**	112	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**236**	112	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Commercial Loans												
90 Days Plus	**998**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (2)	**1,250**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Personal Loans												
90 Days Plus	**1,651**	1,147	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Unsecured Overdrafts & Credit Cards												
90 Days Plus	**221**	220	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total Impaired Loans	**5,530**	2,006	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Securitised Loans	**729,375**	657,629	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total Loans Portfolio	**2,047,176**	1,825,803	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Other Interest Bearing Receivables												
Interest Earning Deposits-Banks	**20,500**	15,000	**20,500**	15,000	**-**	-	**-**	-	**-**	-	**-**	-
Interest Earning Deposits-Other ADI's	**149,277**	106,000	**149,277**	106,000	**-**	-	**-**	-	**-**	-	**-**	-
Accrued Interest Receivable	**2,503**	1,117	**2,503**	1,117	**-**	-	**-**	-	**-**	-	**-**	-
Total Interest Bearing Receivables	**172,280**	122,117	**172,280**	122,117								

(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.

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

35. FINANCIAL RISK MANAGEMENT (cont'd)

d) 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.

The Society is required by APRA to measure and report capital on 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.

During the year APRA amended the Prudential Standards to reflect new 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	
	2008	2007	**2008**	2007
Capital Adequacy as reported to APRA at 30 June	**16.63%**	15.89%	**16.52%**	16.18%

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 16 to 56 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 2008 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable.

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

E L SMITH Director

P M GABB Director

Date : 25 August 2008
PERTH WA

Independent Audit Report

PRICEWATERHOUSECOOPERS

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

PricewaterhouseCoopers
ABN 52 780 433 757

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250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
www.pwc.com/au
Telephone +61 8 9238 3000
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Report on the financial report

We have audited the accompanying financial report of Police & Nurses Credit Society Ltd, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Police & Nurses Credit Society Ltd (the Society) and the Police & Nurses Credit Society Group (the consolidated entity). The consolidated entity comprises the Society and the entities it controlled at the year's 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

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

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

Independent Audit Report

PRICEWATERHOUSECOOPERS

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Police & Nurses Credit Society Ltd (the Society) and the Police & Nurses Credit Society Group (the consolidated entity) for the financial year ended 30 June 2008 included on Police & Nurses Credit Society Ltd's website. The Society's directors are responsible for the integrity of the Police & Nurses Credit Society Ltd's website. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report. 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 website.

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Independence

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

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 consolidated entity's financial position as at 30 June 2008 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll

Justin Carroll

Partner
PricewaterhouseCoopers

Perth
25 August 2008

Notes

POLICE & NURSES
CREDIT SOCIETY

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NURSES FIRST
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NURSES FIRST HEAD OFFICE

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227 Belmont Avenue

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135 Riseley Street

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Shop 21A, Bunbury Forum Shopping Centre
Sandridge Road

Cannington
Shop 1003
Westfield Carousel Shopping Centre
1382 Albany Highway

Fremantle
Shop 18, 35 William Street

Joondalup
Shop 62, Lakeside Joondalup Shopping Centre
420 Joondalup Drive

Maddington
Shop 61, Centro Maddington
Attfield Street

Mandurah
Shop 54A, Centro Mandurah
Mandurah Bypass Road

Midland
Shop T49, Midland Gate Shopping Centre
Great Eastern Highway

Morley
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

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

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

Police & Nurses Credit Society Limited • ABN 69 087 651 876 • BSB 806-015 • AFSL 240701

POLICE & NURSES
CREDIT SOCIETY