Police & Nurses

annual report 2010

POLICE & NURSES
MUTUAL BANKING

A better wa to bank.

Directory

Directors

E L Smith (Chairman)
P M Gabb (Deputy Chairman)
F J Compton (retired 26 October 2009)
M J Dean (retired 26 October 2009)
M L Fyfe (appointed 26 October 2009)
W Gregson (appointed 26 October 2009)
E A Manley
S J Melville
K J O'Callaghan
A C Philp
A M Rial

Chief Executive Officer & Company Secretary

A E (Fred) Huis

Registered Office

Police & Nurses Credit Society Ltd
ABN 69 087 651 876

Level 7, 130 Stirling Street
Perth 6000 Western Australia
Telephone No. 13 25 77
pncs.com.au

External Auditors

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth 6000 Western Australia

Internal Auditors

KPMG
235 St Georges Terrace
Perth 6000 Western Australia

Contents

This annual 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 annual report is presented in the Australian currency.

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 13 to 17, which is not part of this financial report.

The annual report was authorised for issue by the directors on 30 August 2010. The directors have the power to amend and reissue the annual report.

Financial results at a glance:

	2005[1] Results	2006[2] Results	2007[2] Results	2008[2] Results	2009[2] Results	2010[2] Results	5 year CAGR*	1 year CAGR*
Total loans under management[3] ($M)	1,290	1,487	1,825	2,046	2,121	2,274	12.01%	7.21%
Total assets under management[3] ($M)	1,466	1,694	2,031	2,321	2,438	2,654	12.60%	8.86%
Deposits ($M)	855	976	1,067	1,202	1,564	1,686	14.55%	7.80%
Reserves ($M)	104.1	128.9	151.2	173.7	170.2	196.01	13.49%	15.14%
Group NPAT^ ($M)	9.9	21.1	19.7	19.2	9.7	23.12	18.44%	138.88%
Society NPAT^ ($M)	9.9	12.1	16.1	17.4	11.4	14.42	7.87%	26.58%

*CAGR: Cumulative Annual Growth Rate

^NPAT: Net Profit After Tax

Notes:

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

Chairman's Report

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

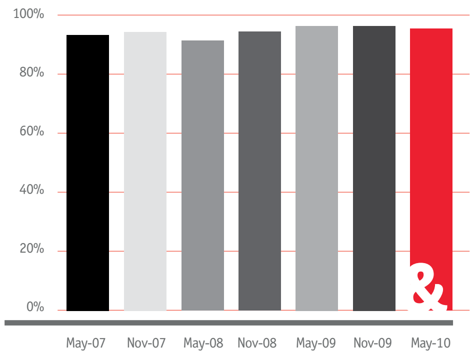
I am pleased to present the 2010 Police & Nurses Annual Report.

The past financial year has seen Police & Nurses deliver a substantial improvement in profitability and a growth in business activity of approximately 8% on the last financial year.

During 2009 and 2010 the financial services sector was impacted by successive interest rate rises and financial uncertainty from overseas markets. The Police & Nurses mutual business model has allowed us to absorb the majority of this impact while delivering competitive retail banking services to our members.

Being a mutual we don't have shareholders and therefore there is no drive to continually increase profits to pay dividends. Instead, profits are reinvested back into Police & Nurses for the benefit of our members. Because we are continually investing in our business, we have been able to grow despite uncertain economic conditions.

Chairman's Report



MEMBER SATISFACTION

Our focus on our members is a clear mandate for Police & Nurses as evidenced by our corporate purpose: 'By putting members first, we are the most trusted and highly recommended provider of financial services' and further carried out in the five actions within our Strategic Plan:

- Development of a Member First Brand
- Enhancing Member First Distribution
- Developing a Member First Culture
- Putting Members First through enhanced Information & Knowledge
- Putting Members First through Profitable Balanced Growth

These strategies filter through to every facet of the Police & Nurses business and set the framework for all future development.

A number of positive changes for Police & Nurses took place last financial year, and while Fred Huis will provide further detail in his CEO's report, I'd like to mention two key changes that point to a brighter future for our business.

In September 2009 the Police & Nurses head office and contact centre moved from Adelaide Terrace to a new building at 130 Stirling Street Perth. The office layout was designed to improve efficiency and productivity. The building represents our forward focus and has been designed to be environmentally sustainable. Natural light and an open plan design cuts down unnecessary costs for lighting and air conditioning, which is better for our business as well as the environment.

The Police & Nurses brand also received an upgrade with the inclusion of the words 'mutual' and 'banking' to our brand to better reflect our business model and the services we provide to our members. To welcome the refreshed name, a new look was developed for Police & Nurses, that better reflects who we are and what we stand for.

You may have seen evidence of our refreshed look in the current 'Make a Stand' campaign, which was launched in July this year.

The inclusion of a red ampisand '&' on our marketing materials and website reminds our members of our history, that we were established to help Western Australian police & nurses with their banking needs, and of what we have become today; WA's largest locally owned and run banking institution that is open to anyone to join.

In order to move forward positively, we first need to understand how we are performing. Every six months Police & Nurses, together with an independent research company, undertakes a member satisfaction survey to track our progress. For the two surveys undertaken during the financial year, Police & Nurses received satisfaction results of 96% and 95%.

It is interesting to note that research on our competitors, undertaken nationally and locally, returns satisfaction rates of well below 80% for the major banks. The results of these surveys validate what we already know; our Members First focus works.

As the Chairman of the Police & Nurses Board of Directors I am proud of the achievements we have made in the last financial year and look forward to seeing our business achieve further successes in the year ahead.

On behalf of Police & Nurses I would like to thank my fellow Directors for their efforts in the past year. I would also like to acknowledge Ann Rial who will be retiring from the Board at our Annual General Meeting on Monday, 25 October 2010.

Ann is currently our longest serving Director. During her time she served on a number of committees, most recently as a member of the Audit & Risk Committee.

She has seen a great number of changes to Police & Nurses in her time as a Director and her sound advice and experience will be missed. I would like to thank Ann for her support, her hard work and her dedication to Police & Nurses over the past 22 years.

My thanks also go to our CEO Fred Huis, his management team and the staff of Police & Nurses for their hard work and commitment to the Police & Nurses Vision of "Real people, building real relationships and delivering real value".

Finally I would like to thank our members for continuing to support Police & Nurses. Without your support we wouldn't have been able to grow to be the largest locally owned and managed banking institution in Western Australia.

E L Smith

E L Smith

Chairman

CEO's Report

Real people, building real relationships, delivering real value.

The past financial year was one of positive transformation for Police & Nurses and I believe that many of the changes undertaken will lay the groundwork for sustained growth into the future.

Significant improvements were made to products, services, partnerships and business processes. Underpinning all of these changes was one primary aim; to put the interests of our members first.

This philosophy underpins everything we do at Police & Nurses and can be demonstrated by our corporate purpose: 'By putting our members first, we are the most trusted and recommended financial institution.'

CEO's Report

Financial Results

The profit results for the year paint an encouraging picture and prove that Police & Nurses have emerged from an unsettled economic environment in a strong position.

The net profit for the Society after tax rose by $3.0 million to $14.4 million, an increase of around 26.6%. Our total Group profit after tax more than doubled with an increase of $13.2 million, improving from $10.0 million in 2009 to $23.2 million in 2010.

Our profit results for the Society were driven primarily by increased average interest margins from 1.5% to 1.9% during the year, and also by an overall improvement in business and economic recovery following the global financial crisis. The Group profit was also impacted by a revaluation of inventory held within The Reef development at Two Rocks.

Total assets increased by $215.5 million (8.8%) to $2.7 billion, with loans and advances increasing by $153 million (7.2%) to $2.3 billion.

Member deposits also improved by $122.4 million (7.8%) to $1.7 billion and total Group reserves increased by $25.8 million (15.1%) to $196.0 million.

Net interest income grew by $10.6 million (24.8%) and doubtful debts expense decreased $0.8 million (19.8%) to $3.2 million.

During the year we acquired the 25% minority interest in our Two Rocks property development venture and also acquired the 20% minority interest in our Jacaranda Gardens Retirement Village in Canning Vale.

Other key measures of the business performance include the Society's cost to income ratio efficiency measure, which improved 3.8% to 67.7%, and provisions for impairments to total Group loans, at 0.09%.

The results are good news for the Society as our long term success is dependent on profitable balanced growth. As a mutual business we have no shareholders to pay dividends to, so all our profit is reinvested in the business for the benefit of our members through lower fees, competitive rates and improved products and services.

New look and feel

Police & Nurses updated its brand to include the words 'mutual' and 'banking' in our brand to better reflect the services we provide to our members. The updated brand was teamed with a refreshed look and feel for the Society which has been carried through to our website, statements, marketing material and other printed information.

Our members may have noticed that we are using a lot of ampersands (&) in our new material. We believe the ampersand is a useful device to underline that we're not just for police and nurses - we're for everyone.

Police & Nurses was originated in WA to help Western Australian police and nurses with all their banking needs. We've since grown into WA's largest locally owned and run banking institution and are open to anyone to join, regardless of their profession.

ATM Network

From September 2009 Police & Nurses and Nurses First members were given significantly increased access to fee-free ATMs through the National Australia Bank (NAB) and rediATM partnership, the second largest ATM network in the country.

The partnership has meant that our members can now access approximately 3,200 fee-free rediATM or NAB ATMs Australia wide. The number of ATMs available to Police & Nurses members in Western Australia more than doubled during the year from 119 to 279. Members are able to search for their nearest ATM online via www.rediATM.com.au

Branch upgrades

Significant improvements were made to our branch network with the renovation or relocation of three of our branches. Each of these branches received a refreshed look that suits our new brand.

The Cannington branch relocated to larger premises within the Westfield Carousel Shopping Centre during September 2009 and our Bunbury Branch relocated within the Bunbury Forum Shopping Centre in February 2010. The Joondalup branch was also refurbished during April 2010.

Expanding our branches has meant that we are more conveniently positioned for members. Whether visiting to open a new account or seek financial advice, our upgraded branches are designed to make members feel comfortable discussing their finances with us.

A number of our branch staff have undertaken training to step into our newly introduced branch manager roles in all of our branches. Our new branch managers have qualifications in financial services and will have more authority to make decisions for the benefit of our members.

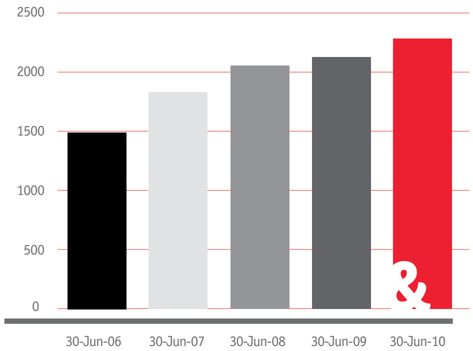
Everyday Banking

Product developments in 2010 included the introduction of student accounts, new look Visa and ATM cards and the reduction of exception fees on banking accounts.

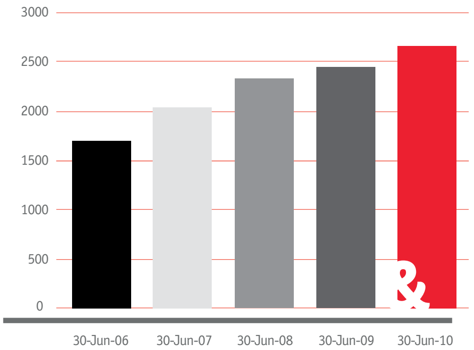
In January 2010 Police & Nurses commenced the staggered replacement of our standard VISA Credit and Debit Cards with chip enabled technology. Chip cards have been introduced because they provide members and retailers with a higher level of security than the previous magnetic strip cards. The new chip cards and the standard ATM cards were given a fresh new look to match the Police & Nurses brand.

Everyday banking products were improved with the introduction of student accounts for tertiary students aged 18 to 25 years, and exception fees were reduced to cover circumstances where insufficient funds are available to cover a transaction.

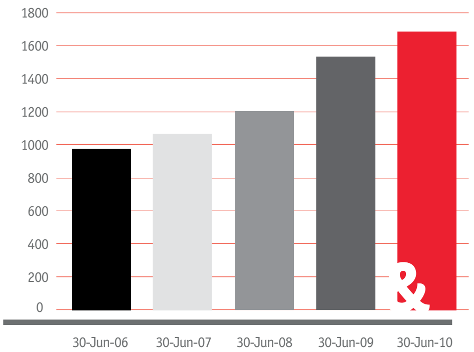
CEO's Report



TOTAL LOANS UNDER MANAGEMENT ($M)



TOTAL ASSETS UNDER MANAGEMENT ($M)



DEPOSITS ($M)

Loan Products

Police & Nurses newest home loan product, the Dream Home Loan, was introduced as a 'no-frills' loan option offering a low interest rate, the ability to make additional payments and to redraw funds if desired.

Our lending products received national recognition when Police & Nurses received an award for being Western Australia's best non-bank lender for first home buyers. Canstar Cannex, an independent research body for banking products, awarded Police & Nurses this accolade after analysing more than 400 mortgage products from 115 different lenders around Australia.

Non-banking services

Police & Nurses continued to provide its members with a range of auxiliary services including financial planning, mobile lending, conveyancing and the provision of insurance products through partnerships with CUNA mutual and GMHBA.

Last year, Police & Nurses entered into an arrangement with Travelex as our foreign exchange partner, allowing us to provide our members with a range of foreign exchange services including foreign currency exchange, travellers cheques, cash passport cards, foreign bank drafts and telegraphic transfers.

Members were also given the ability to trade shares online via the Police & Nurses website through the GET Trader share trading platform which allows users to trade multiple asset classes including shares on the Australian Stock Exchange and 26 different exchanges throughout the world.

Property

In September 2009 Police & Nurses moved premises to a new head office building. The Perth branch at 246 Adelaide Terrace was retained to provide a suitable site within the Perth CBD for our members to access, while the contact centre and other areas of the business were relocated to a newly built, environmentally sustainable building at 130 Stirling Street Perth.

Our property development arm increased its portfolio with the acquisition of 20% interest in the Jacaranda Gardens Retirement Village and 25% interest in The Reef land development at Two Rocks. The Reef offers titled blocks by the ocean and near the marina at Two Rocks, many with ocean views.

Regulation

Police & Nurses adopted the Mutual Banking Code of Practice in October 2009. The Code establishes higher standards than the law requires for many areas of banking and was developed specifically for Mutual Banking organisations. By establishing these higher standards, Police & Nurses has proven itself to be a responsible and ethical financial institution whose interest lies in providing security for our members rather than making quick profits for shareholders.

CEO's Report

In addition to the Mutual Banking Code of Practice, Police & Nurses is also subject to stringent regulatory measures as an Authorised Deposit Taking Institution under the Banking Act 1959. The Society operates under other regulatory measures such as the Trade Practices Act, the Anti-Money Laundering and Counter Terrorism Financing Act, the Privacy Act, the EFT code and more recently the National Consumer Credit Protection Act 2009.

The National Consumer Credit Protection Act was introduced last year to replace the Uniform Consumer Credit Code and all lending institutions will need to become compliant with the Act across the coming year. The Act provides higher protection for consumers when borrowing money from lenders. As our business model is currently built around ethical and responsible lending, we are confident that there will be only minor changes required to our business to enable us to meet the aims of this landmark legislation.

Community participation

Police & Nurses has an active sponsorship and scholarship program that invests in a better future for our members and their communities.

Key sponsorships undertaken during the year include the support of Crime Stoppers, RSPCA Million Paws Walk, Wall to Wall Charity Ride and many other community events and programs. Our Nurses First branch also supports events and programs specifically related to the Healthcare industry in Victoria.

The Police & Nurses student scholarship program awarded two Year 11 students with grants of $1,000 each; Amber Newton from John Septimus Roe Anglican Community School and Joshua Lake from Sacred Heart College. Our winners from 2009, Philip Gehrmann from Applecross Senior High School and Sam Scaife from Perth Modern School also received an additional grant of $1,000 to assist them with their final year of high school.

The student scholarship program is only open to Police & Nurses members, or the dependants of Police & Nurses members. The aim of the program is to recognise hard work and academic achievement of two students each year. Applications for the next program close on 31 December 2010 for current Year 10 students about to enter into Year 11 in 2011.

Looking forward

Preparation was undertaken last financial year for a widespread advertising campaign that will run from July 2010 until March 2011. The campaign is a timely reminder to West Australians that the money invested in Police & Nurses stays in Western Australia.

Twenty years ago, when Police & Nurses was first established, there was far more choice when it came to choosing a local banking institution. Over time the big banks have bought up many of our local competitors including BankWest, Challenge Bank, Home Building Society, Town & Country and StateWest Credit, so as a result we are the largest WA owned banking institution left.

Without essential choice and competition in banking, consumers will be the losers. The task ahead of us is to ensure we continue to be responsive to our members needs and remain a competitive alternative to banking with other institutions.

Over the coming year our products and services will be updated to meet the changing demands of our members. Our branch network will also be expanded to provide improved access points for our members, with upgrades to existing branches and the establishment of a new branch in Innaloo.

Police & Nurses will continue to focus on our electronic banking service to ensure we provide members with up to date banking technology. Unveiled in this coming financial year will be improvements to our Netlink internet banking and MiLink mobile banking service, which allows members to access internet banking from their mobile phones.

The coming years will also see a number of business improvements to respond to changes in legislation and to ensure Police & Nurses maintains its hard won reputation as a trustworthy provider of financial services.

Acknowledgements

My thanks go to the Board of Directors whose support has proved invaluable over the last financial year and I would also like to acknowledge Ann Rial who has been wonderful to work with over the past 22 years and will be retiring at the next Annual General Meeting.

I would also like to personally thank the management and staff of Police & Nurses who keep our organisation running so well and are dedicated to our vision of 'Real people, building real relationships, delivering real value.'

Thank you to all our members who have contributed so much to growing our business into the successful institution that it is today. Our members are most often our best advocates and we appreciate your loyalty and support.

I would also like to encourage our members to let us know when you are happy with our service and when you think we can improve by phoning 13 25 77 or filling in an online enquiry form on our website - assessing your feedback is one of the ways we are able to improve our services and retain your trust.

A E (FRED) HUIS

Chief Executive Officer

Member Service Network

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

WA Branch Network

The Society currently has 17 branches in WA, with 15 located within the metropolitan area and 2 in the Regional Centres of Bunbury and Mandurah. Our branch network offers home lending, personal lending, insurance, transactional capability, savings accounts and financial planning advice.

Contact Centre

We have a 42 seat contact centre located in our head office at 130 Stirling Street, 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 8.00am to 6.00pm (WST), Monday to Friday.

ATM Network

Police & Nurses is a part of the rediATM / National Australia Bank ATM network which provides access to approximately 3,200 ATM machines across Australia. It is the second largest ATM network in Australia. At the WA level, there are approximately 280 direct charge free ATMs our members can access. To locate your nearest rediATM, please visit www.rediATM.com.au or download the free rediATM locator iPhone application from the iTunes store.

Electronic Access Channels

Police & Nurses makes it easy for people to access their money where and when they need it. Through Phonelink phone banking or Netlink online banking, our members can view their accounts, transfer money, pay their bills via BPAY or register using BPAY View to see their statements online. We also offer MiLink banking, a mobile version of Netlink for web enabled mobile phones and Txtlink SMS banking, which uses SMS technology to send account information to members via their mobile phone.

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

Conveyancing

Police & Nurses has their own Settlement Agency offering a qualified experienced conveyancing team that provides efficient and personalised service to both members and non-members. As well as assisting with general sale and purchase dealings, they also handle change of title transactions due to marriage, divorce, death and name errors.

Financial Planning

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

Member Service Network

Insurance

Our MemberCare Insurance products include motor vehicle, boat and caravan, home and contents, loan protection, life insurance and travel insurance. These products made available to members through our affiliation with the CUNA Mutual Group. We also provide Health insurance options through our affiliation with GMHBA.

Online Share Trading

Members and non-members are able to trade shares online in the Australian stock exchange and over 26 foreign exchanges through the GET Trader share trading platform available on our website www.pncs.com.au

Foreign Exchange

Police & Nurses partnership with Travelex provides our members with a range of foreign exchange services from travellers cheques and cash passports to foreign currency exchange.

Nurses First

Nurses First is a division of Police & Nurses operating in Melbourne, Victoria. Nurses First provides a full range of banking products and services which are tailored specifically to the needs of all members & employees of the healthcare industry.

Pictured L-R: Michael Bailey (Head of Information Technology), Jill Jetson-Shumbusho (Head of Member Services), Fred Huis (Chief Executive Officer), Franca Fairclough (Head of Credit Risk Management), Steve Nottage (Head of Marketing), David Spearman (Chief Financial Officer), Mark Smith (Head of Business Services).

Board Members

Eric Laurence Smith
Chairman

Paul Marshall Gabb
Deputy Chairman

Michelle Louise Fyfe
Director

Wayne Gregson
Director

Elizabeth Anne Manley
Director

Stephen John Melville
Director

Karl Joseph O'Callaghan
Director

Alan Craig Philp
Director

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 2010.

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)

Detective 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, Graduate Certificate of Business (Leadership),Graduate Diploma of Business (Leadership & Management), 16 years service as a Credit Society Director; 34 years service as a Police Officer. Audit & Risk Committee member, Board Governance Committee member and Nominations Committee Chairman.

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

Financial Analyst - Australian Federal Police, 12 years service as a Credit Society Director; 24 years service in Law Enforcement. Audit & Risk Committee and Board Governance Committee Chairman.

Frederick James COMPTON FAICD (retired 26 October 2009)

Retired Police Superintendent; Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 30 years service as a Credit Society Director; 39 years service as a Police Officer. Former Board Governance Committee Chairman.

Michael James DEAN APM MAICD AFAMI
(retired 26 October 2009)

Retired General President WA Police Union, Diploma Police studies, 7 years service as a Credit Society Director; 37 years service as a Police Officer. Former Board Governance Committee member.

Michelle Louise FYFE MAICD (appointed 26 October 2009)

Commander State Traffic Operations – WA Police, Diploma of Policing, Diploma of Public Safety Policing, Diploma of Criminal Investigation, Graduate Certificate in Applied Management, 26 years service as a Police Officer, 1 year service as a Credit Society Director. Board Governance Committee member.

Report of the Directors

Wayne GREGSON **APM BA MBA GAICD**
(appointed 26 October 2009)

Assistant Police Commissioner for Judicial Services – WA Police, Diploma of Policing, Diploma of Criminal Investigation, 30 years service as a Police Officer, 1 year service as a Credit Society Director. Audit & Risk Committee member.

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

CEO & Director of Nursing; 10 years service as a Credit Society Director; 39 years service in the nursing/health profession. Audit & Risk Committee member.

Stephen John MELVILLE **B.Bus (Accounting) FCPA MAICD**

Executive Manager Corporate - Forest Products Commission, 16 years service as a Credit Society Director; has held senior executive positions in both private and government organisations with considerable experience in a range of accounting, financial management and marketing roles. Audit & Risk Committee Chairman.

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

Commissioner of WA Police, 5 years service as a Credit Society Director; 37 years service as a Police Officer. Board Governance Committee member.

Alan Craig PHILP **Dip Nursing & Midwifery, BA HSc, MPH GAICD**

Health Director, Department of Health & Ageing, 33 years in nursing profession, 34 years as a member of the Credit Society. 2 years service as a Credit Society Director. Audit & Risk Committee and Board Committee member.

Ann Maree RIAL **RN RM ICNC GC FAICD**

Clinical Nurse Manager, 23 years service as a Credit Society Director; 38 years service in the nursing/health profession. Audit & Risk Committee member.

Each director holds one member share in the Society.

Company Secretary

A E (Fred) HUIS **CA**

27 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.

Report of the Directors

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the year ended 30 June 2010 and the number of meetings attended by each director.

Director	Directors' Meetings		Audit & Risk Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith***	13	12	4	4	4	3
F J Compton**	5	5	*	*	2	2
P M Gabb	13	13	2	2	2	2
M J Dean**	5	2	*	*	2	1
M L Fyfe**	8	8	*	*	2	2
W Gregson**	8	7	2	2	*	*
E A Manley	13	12	4	4	*	*
S J Melville	13	13	4	4	*	*
A M Rial	13	12	4	4	*	*
K J O'Callaghan	13	10	*	*	4	3
A C Philp	13	13	2	2	2	2

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

B - Number of meetings attended

* - Not a member of the relevant committee

** - Director for part of the year

*** - During the year the nominations committee held 1 meeting, which was fully attended. This meeting was chaired by Mr Eric Smith and included two independent attendees.

Director Induction Program

The Directors have established a comprehensive induction program for newly elected or appointed Directors. The program assists new Directors to gain an understanding of the Group's operations and the financial environment. The Directors also participate in further education to ensure that, in accordance with both strategic and regulatory business, they are capable of discharging the responsibilities of their office.

Directors' Remuneration

Board members are remunerated as per Division 17 of the constitution. The total remuneration for the Board is determined each year by the members/shareholders at the annual general meeting and divided amongst the Directors in such a manner as the Board determines.

Audit & Risk Committee

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

Report of the Directors

Board Governance Committee

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

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 $215,457,000 to $2,653,940,000, members' deposits increased by $122,449,000 to $1,686,199,000 and loans and advances increased by $152,883,000 to $2,273,912,000.

The profit of the Group and the Society for the financial year after income tax and before minority interest was $23,172,000 (2009: $9,963,000) and $14,423,000 (2009: $11,394,000), respectively.

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

Future Development and Results

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

Bad and Doubtful Debts

Before the financial statements were 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.

Report of the Directors

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 18.

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

Perth WA

30 August 2010

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Credit Society Ltd for the year ended 30 June 2010, 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.

Douglas Craig

Douglas Craig
Partner
PricewaterhouseCoopers

Perth WA
30 August 2010

Income Statements

YEAR ENDED 30 JUNE 2010	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2010	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
Interest Revenue	3	**152,291**	161,915	**149,513**	162,383
Interest Expense	3	**98,937**	119,155	**95,245**	118,850
Net Interest Income		**53,354**	42,760	**54,268**	43,533
Non-Interest Revenue					
Loan fee revenue		**5,342**	5,329	**5,342**	5,329
Financial services fees		**7,467**	9,678	**7,467**	9,678
Financial planning fees		**2,129**	1,870	**-**	-
Amenity fees		**1,306**	1,382	**-**	-
Other fee revenue		**1,331**	780	**859**	435
Insurance commissions		**2,703**	2,319	**2,703**	2,319
Other commissions		**756**	744	**756**	744
Revenue from sale of property developments		**3,504**	1,069	**-**	-
Dividend revenue		**361**	1,025	**1,361**	2,127
OTHER INCOME					
Bad debts recovered		**307**	266	**307**	266
Net gain on disposal of property, plant & equipment		**-**	-	**6**	-
Gain on disposal of non-controlling interest	32	**14,652**	-	**-**	-
Other income		**197**	151	**318**	256
Total Non-Interest Revenue And Other Income		**40,055**	24,613	**19,119**	21,154
Total Income		**93,409**	67,373	**73,387**	64,687
Bad And Doubtful Debts Expense	8(b)	**3,164**	3,946	**3,164**	3,946
Other Expenses					
Auditor's remuneration	28	**276**	658	**243**	535
Finance costs		**330**	592	**330**	592
Depreciation and amortisation		**3,319**	2,933	**3,086**	2,729
Fees and commissions		**7,332**	6,973	**6,821**	6,871
Property development costs		**2,434**	2,221	**-**	-
Employee benefits expense		**21,952**	21,196	**20,178**	19,627
Information technology costs		**3,295**	2,860	**3,341**	2,905
Marketing costs		**3,153**	2,811	**3,109**	2,781
Other general and administration costs		**9,483**	7,227	**7,903**	6,473
Net loss on disposal of property, plant & equipment		**-**	21	**-**	18
Loss on revaluation of investment property		**701**	-	**-**	-
Rental – operating leases		**4,736**	3,797	**4,687**	3,730
Total Expenditure		**60,175**	55,235	**52,862**	50,207
Profit Before Income Tax		**33,234**	12,138	**20,525**	14,480
Income Tax Expense	4	**10,062**	2,175	**6,102**	3,086
Profit For The Year		**23,172**	9,963	**14,423**	11,394
(Profit)/Loss Attributable To Minority Interest		**(48)**	(283)	**-**	-
Profit Attributable To Members		**23,124**	9,680	**14,423**	11,394

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

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2010	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2010	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
Profit for the year		**23,124**	9,680	**14,423**	11,394
Other comprehensive income					
Other comprehensive income for the year, net of tax		**-**	-	**-**	-
		23,124	9,680	**14,423**	11,394
Total comprehensive income for the year is attributable to:					
Members of Society		**23,172**	9,963	**14,423**	11,394
Minority Interest		**(48)**	(283)	**-**	-
		23,124	9,680	**14,423**	11,394

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

Balance Sheets

AS AT 30 JUNE 2010	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2010	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
ASSETS					
Cash and cash equivalents	5	**20,145**	18,416	**12,077**	18,089
Receivables due from other financial institutions	6	**247,704**	221,838	**247,704**	221,838
Trade and other receivables	7	**24,558**	14,011	**10,325**	6,713
Loans and advances	8	**2,273,912**	2,121,029	**2,051,475**	2,121,029
Inventories	10	**41,898**	17,888	**-**	-
Available-for-sale financial assets	11	**2,888**	2,888	**2,888**	2,888
Due from controlled entities	12	**-**	-	**33,328**	10,431
Property, plant and equipment	13	**7,009**	3,091	**6,892**	2,983
Investment properties	14	**24,595**	25,296	**-**	-
Other financial assets	15	**-**	-	**3,083**	3,083
Intangible assets	16	**11,231**	12,001	**8,566**	9,150
Current tax assets		**-**	2,025	**-**	1,996
Deferred tax assets	17	**-**	-	**1,690**	4,756
Total Assets		**2,653,940**	2,438,483	**2,378,028**	2,402,956
LIABILITIES					
Members' deposits	18	**1,686,199**	1,563,750	**1,686,339**	1,563,943
Trade and other payables	19	**67,717**	64,693	**45,176**	44,157
Derivative financial instruments	9	**5,176**	11,590	**5,176**	11,590
Current tax liabilities		**4,629**	-	**4,683**	-
Borrowings	20	**687,828**	625,684	**448,164**	613,627
Due to controlled entities	12	**-**	-	**5,455**	5,522
Provisions	21	**2,000**	1,730	**509**	505
Deferred tax liabilities	22	**4,380**	794	**-**	-
Total Liabilities		**2,457,929**	2,268,241	**2,195,502**	2,239,344
Net Assets		**196,011**	170,242	**182,526**	163,612
MEMBERS' FUNDS					
Reserves	23	**157,044**	137,467	**157,044**	137,467
Retained earnings	23	**38,444**	29,932	**25,482**	26,145
Minority interest		**523**	2,843	**-**	-
Total Members' Funds		**196,011**	170,242	**182,526**	163,612

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

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2010	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2010	2009	**2009**	2009
		$'000	$'000	**$'000**	$'000
Total members' funds (equity) at the beginning of the financial year		**170,242**	173,710	**163,612**	165,534
Changes in the fair value of cash flow hedges, net of tax	23(c)	**4,491**	(13,316)	**4,491**	(13,316)
Minority interest on acquisition of retirement village		**(2,374)**	-	**-**	-
Increase in investment of Jacaranda Gardens Retirement Village	23	**480**	-	**-**	-
Net income recognised directly in members' funds (equity)		**2,597**	(13,316)	**4,491**	(13,316)
Profit for the year		**23,172**	9,963	**14,423**	11,394
Total recognised income and expense for the year		**25,769**	(3,353)	**18,914**	(1,922)
Dividends paid to minority interest		**-**	(115)	**-**	-
				-	-
Total members' funds (equity) at the end of the financial year		**196,011**	170,242	**182,526**	163,612
Total recognised income and expense for the year is attributable to:					
Members of the Society		**25,721**	(3,636)	**18,914**	(1,922)
Minority interest		**48**	283	**-**	-
		25,769	(3,353)	**18,914**	(1,922)

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2010	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2010	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
Cash Flows From Operating Activities					
Interest received from loans		**140,722**	148,546	**137,592**	148,546
Interest received from investments		**11,351**	14,194	**11,703**	14,663
Commissions and other income received		**48,474**	32,464	**18,169**	28,410
Borrowing costs – members		**(62,224)**	(68,727)	**(62,224)**	(68,727)
Borrowing costs – banks		**(38,437)**	(59,782)	**(34,746)**	(59,478)
Payments to employees and suppliers (inclusive of goods and services tax)		**(85,544)**	(59,620)	**(47,983)**	(55,328)
Income tax paid		**(1,749)**	(6,418)	**(2,311)**	(7,821)
Net Cash Inflow From Operating Activities	24(a)	**12,593**	657	**20,200**	265
Cash Flows From Investing Activities					
Dividends received		**361**	1,025	**1,361**	2,127
Net increase in loans and advances		**(155,740)**	(79,099)	**64,417**	(79,099)
Proceeds from sale of property, plant and equipment		**138**	53	**118**	52
Payment for acquisition of subsidiary, net of cash acquired	32(b)	**(5,892)**	-	**-**	-
Net movement in interest earning deposits		**(25,865)**	(52,060)	**(25,866)**	(52,061)
Net movement in other investments		**36**	-	**-**	-
Payments for property, plant and equipment		**(6,641)**	(1,639)	**(6,560)**	(1,592)
Net movement in intangible assets		**37**	(3,447)	**37**	(3,448)
Payments for investments		**(1,892)**	(121)	**-**	-
Loans from controlled entities		**-**	-	**(16,651)**	452
Net Cash Outflow From Investing Activities		**(195,458)**	(135,288)	**16,856**	(133,569)
Cash Flows From Financing Activities					
Net increase in members' deposits		**122,492**	362,093	**122,439**	362,063
Loans (to)/from other financial institutions		**58,841**	(223,901)	**(168,768)**	(224,835)
Member shares issued		**44**	9	**44**	9
Member shares redeemed		**(87)**	(21)	**(87)**	(21)
Net Cash Inflow From Financing Activities		**181,290**	138,180	**(46,372)**	137,216
Net (decrease)/increase in cash and cash equivalents held		**(1,575)**	3,549	**(9,316)**	3,912
Cash and cash equivalents at the beginning of the year		**18,416**	14,867	**18,089**	14,177
Cash And Cash Equivalents At The End Of The Year	24(b)	**16,841**	18,416	**8,773**	18,089

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

30 JUNE 2010

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

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

Financial statements presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) Subsidiaries

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

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

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

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

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

(ii) Jointly Controlled Assets

The proportionate interests in the assets, liabilities, income and expenses of the joint venture activities have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in Note 29.

(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 – 10 years
Plant and Equipment	3 – 8 years

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

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

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

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

(e) Leasehold improvements

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

(f) Investment property

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

Changes in accounting policy

Investment property now also includes properties that are under construction for the future use as investment properties. These are also carried at fair value unless the fair value can not yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete. This is different from previous years where properties under construction were accounted for at cost and presented under property, plant and equipment until construction was complete.

The change in policy was necessary following changes made to AASB 140 *Investment Property* as a result of the IASB's 2008 Improvements standard.

(g) Investments and other financial assets

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

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

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

(h) Intangible assets

(i) Goodwill

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

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

(ii) Computer software costs

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

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

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

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

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.

Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowances reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Tax consolidation legislation

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

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

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

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

(k) Employee benefits

(i) Short- term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled in 12 months after the period in which the employees render the related service is recognised in the provision for employee benefits and measured as at the present value of the expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with term to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(l) Interest

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

(m) Cash and cash equivalents

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

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

(n) Trade receivables

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

(o) Revenue recognition

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

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

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

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

Dividends receivable from controlled entities are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(g).

Change in accounting policy

The group has changed its accounting policy for dividends paid out of pre-acquisition profits from 1 July 2009 when the revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment.

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

(p) Inventories

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and borrowing costs during development. Development costs are allocated to individual lots on the basis of the proportion of each lot's sales value relative to total expected development sales. When development is complete borrowing costs and other holding expenses are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

(q) Derivatives

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

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

Hedge accounting

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

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

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

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

(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) Goods and Services Tax (GST)

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

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

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

(z) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

Where settlement of any part of cash consideration is deferred, the amounts payable is the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition related costs are expensed as incurred. Previously, they were recognised as part of the cost of the acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised as its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

The changes were implemented prospectively from July 2009 and affected the accounting for the acquisition of the 25% interest in Two Rocks Joint Venture disclosed in note 32.

(aa) Rounding of amounts

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

(bb) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards is set out below.

(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB

AASB 9 addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

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 14.

(iii) Estimated fair values of investment properties

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

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

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

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3. OPERATING PROFIT

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

	CONSOLIDATED					
Interest Revenue and Interest Expense	**2010**			2009		
	Average Balance $'000	**Interest $'000**	**Average Interest Rate %**	Average Balance $'000	Interest $'000	Average Interest Rate %
Interest earning assets						
Deposits with other banks/ADIs	**257,589**	**11,569**	**4.49%**	240,898	13,369	5.55%
Loans and advances	**2,171,819**	**140,722**	**6.48%**	2,078,085	148,546	7.15%
	2,429,408	**152,291**	**6.27%**	2,318,983	161,915	6.98%
Interest bearing liabilities						
Members' deposits	**1,668,905**	**67,478**	**4.04%**	1,356,955	66,592	4.91%
Borrowings from other banks/ADIs	**596,205**	**31,459**	**5.28%**	802,019	52,563	6.55%
	2,265,110	**98,937**	**4.37%**	2,158,974	119,155	5.52%

	2010	2009
Analysis of net interest income		
Net interest income	**53,354**	42,760
Average interest earning assets	**2,429,408**	2,318,983
Net interest margin (1)	**2.20%**	1.84%
Spread (2)	**1.90%**	1.46%

(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 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	7,839	3,279	4,415	3,903
Deferred tax	1,661	(1,263)	1,141	(723)
(Over) under provided in prior years	562	159	546	(94)
	10,062	2,175	6,102	3,086
Deferred income tax expense (revenue) included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 17)	4,287	(1,634)	4,343	(995)
Increase (decrease) in deferred tax liabilities (Note 22)	(2,625)	371	(3,202)	272
	1,662	(1,263)	1,141	(723)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	33,234	12,138	20,525	14,480
Prima facie income tax calculated at 30% (2009 - 30%)	9,970	3,641	6,157	4,344
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment	24	6	2	6
Deductible investment allowance	(98)	(23)	(91)	(23)
Tax offset for franked dividends	(155)	(338)	(155)	(338)
Under (over) provision for deferred tax in previous year	(410)	(1,360)	(410)	(803)
Sundry items	169	90	53	(5)
	9,500	2,016	5,556	3,181
(Over)/under provision in previous year	562	159	546	(95)
Income tax expense	10,062	2,175	6,102	3,086
(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 17 and 22)	1,924	(5,707)	1,924	(5,707)
(d) Franking credits				
Franking credits based on a tax rate of 30%	58,254	49,532	58,142	49,493

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.

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4. INCOME TAX EXPENSE (cont'd)

(e) Tax consolidation legislation

The Society and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy on implementation of the legislation is set out in Note 1 (j). On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, the Society. Under the terms of this agreement, the wholly-owned entities will fully compensate the Society for any current tax payable assumed and are compensated by the Society for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Society under the tax consolidation legislation. The amounts receivable/payable is recognised as tax-related receivable or payable by the Society (see Note 12).

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**7,881**	10,933	**7,514**	10,626
Cash and deposits at call with banks	**7,820**	3,079	**119**	3,059
Cash and deposits at call with other Approved Deposit-Taking Institutions (ADIs)	**4,444**	4,404	**4,444**	4,404
	20,145	18,416	**12,077**	18,089
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits – banks	**177,503**	179,838	**177,503**	179,838
Interest earning deposits – other ADIs	**70,201**	42,000	**70,201**	42,000
	247,704	221,838	**247,704**	221,838
The deposits have an effective interest rate of 4.80% to 6.35% (2009: 3.12% to 7.75%).				
7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**1,895**	1,677	**1,895**	1,677
Trade debtors - sale of residential lots	**424**	357	**-**	-
Prepayments	**2,078**	962	**2,052**	935
Amenities and reserve fund fees	**6,138**	5,233	**-**	-
Member transaction clearing	**2,100**	2,731	**2,100**	2,731
Land and property development debtors	**640**	1,349	**-**	-
Other	**11,283**	1,702	**4,278**	1,370
	24,558	14,011	**10,325**	6,713

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

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
8. LOANS AND ADVANCES				
Revolving credit	**160,098**	159,554	**160,098**	159,554
Term loans	**2,112,464**	1,959,737	**1,890,027**	1,959,737
Related parties (a)	**3,443**	4,218	**3,443**	4,218
	2,276,005	2,123,509	**2,053,568**	2,123,509
Provision for impairment (b)	**(2,093)**	(2,480)	**(2,093)**	(2,480)
Net loans and advances	**2,273,912**	2,121,029	**2,051,475**	2,121,029

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

During the financial year the Society sold mortgage loans via securitisation programs. The Society continues to manage these loans and derives management fee income. As at 30 June 2010 securitised loans under management by the Society amounted to $627,296,881 (2009: $574,444,073) which are included in both the revolving credit and term loans above. This includes $222,437,282 (2009: $Nil) of loans securitised to the Pinnacle RMBS Warehouse Trust No.1 which is consolidated as part of the Group (Note 15(a)).

(a) Aggregate amounts receivable from related parties:				
Key management personnel and their related entities	**3,443**	4,218	**3,443**	4,218
(b) Provision for impairment				
Specific provision				
Opening balance	**2,480**	1,567	**2,480**	1,567
Bad debts previously provided for written off during the year	**(3,551)**	(3,033)	**(3,551)**	(3,033)
Bad and doubtful debts provided for/(reversed) during the year	**3,164**	3,946	**3,164**	3,946
Closing balance	**2,093**	2,480	**2,093**	2,480
(c) Bad Debts Written Off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**810**	395	**810**	395
Personal loans	**2,120**	2,492	**2,120**	2,492
Home loans	**621**	146	**621**	146
	3,551	3,033	**3,551**	3,033
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps – cash flow hedges (liabilities)	**5,176**	11,590	**5,176**	11,590

(a) Terms and conditions

At balance date, the Society has interest rate swap agreements with a notional amount of $200.7 million (2009: $304.7 million), on which it pays 3.44% to 7.55% (2009: 3.44% to 7.55%) interest and receives Bank Bill swap rates calculated on the notional amount. The swaps are used to protect the Society from movements in interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance date. The swaps expire between July 2010 and September 2013.

30 JUNE 2010	CONSOLIDATED			
10. INVENTORIES	Land Acquisition Costs	Holding Costs	Development Costs	Total
Land held for sale	$'000	$'000	$'000	$'000
2010				
Group inventory	36,185	19	65	36,269
Share of joint venture inventory	2,347	228	3,054	5,629
	38,532	247	3,119	41,898
2009				
Group inventory	900	19	65	984
Share of joint venture inventory	2,356	2,282	12,266	16,904
	3,256	2,301	12,331	17,888

Inventory of $20.1 million (2009: $8.2 million) is to be recovered greater than 12 months from balance date.

Inventory of $21.1million (2009: $12.2 million) and trade and other receivables of $Nil (2009: $0.2 million) are pledged as security for borrowings of $11.6 million (2009: $11.9 million). The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories was $0.8 million (2009: $0.9million).

During the year, the additional 25% interest of Two Rocks Joint Venture was purchased by the Group giving it 100% ownership and dissolving the joint venture, therefore transferring the inventory from the joint venture share, to the Group. In accordance with the accounting policy at note 1(z), this acquisition resulted in inventory being recognised at fair value on the date control was obtained.

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	21,132	35,085	30 June 2010	100.00%	35,085

"The Reef" at Two Rocks

1. The valuation amount shown is based on a Directors Valuation prepared as at 30 June 2010 which is supported by the recent purchase of the 25% minority interest, which was based on an arms length transaction.
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."

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10. INVENTORIES (cont'd)

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 2010, revenue of $3.50 million (2009: $1.43 million) has been recognised with expenses incurred of $3.91 million (2009: $1.39 million) in relation to lots sold at "The Reef" at Two Rocks. This represents 19 lots (2009: 7 lots) out of an estimated total of 775 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 2010 the net assets of the joint venture were $1.5 million (2009: $0.9 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 were constructed.

3. Titles for the 36 lots are currently held.

4. No sales have been recognised.

Lot 19 Woollcott Road, Henley Brook

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

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

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'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.

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
12. DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (Assets)				
Amounts receivable from controlled entities	**-**	-	**27,333**	10,407
Tax related amounts receivable from controlled entities	**-**	-	**3,715**	24
Deferred securitisation receivable (a)	**-**	-	**2,280**	-
	-	-	**33,328**	10,431
Due to controlled entities (Liabilities)				
Amounts payable to controlled entities	**-**	-	**5,155**	4,882
Tax related amounts payable to controlled entities	**-**	-	**300**	640
	-	-	**5,455**	5,522

(a) Deferred securitisation receivable

Under the terms of the Pinnacle residential mortgage securitisation program (Note 15(b)), the Society will not receive the deferred securitisation receivable amount until the Trust has settled all amounts owing to its note holders.

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
13. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	**6,296**	4,024	**6,296**	4,009
Provision for amortisation	**(2,413)**	(2,853)	**(2,413)**	(2,838)
	3,883	1,171	**3,883**	1,171
Plant and equipment				
At cost	**12,411**	11,032	**12,256**	10,887
Provision for depreciation	**(9,285)**	(9,112)	**(9,247)**	(9,075)
	3,126	1,920	**3,009**	1,812
Total property, plant and equipment	**7,009**	3,091	**6,892**	2,983

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

	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
	Leasehold Improvements	Plant & Equipment	Total	Leasehold Improvements	Plant & Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2008	862	1,708	2,570	862	1,631	2,493
Additions	787	1,174	1,961	787	1,126	1,913
Disposals	(21)	(53)	(74)	(21)	(50)	(71)
Depreciation expense	(457)	(909)	(1,366)	(457)	(895)	(1,352)
Carrying amount at 30 June 2009	1,171	1,920	3,091	1,171	1,812	2,983
Carrying amount at 1 July 2009	**1,171**	**1,920**	**3,091**	**1,171**	**1,812**	**2,983**
Additions	**3,373**	**3,307**	**6,680**	**3,373**	**3,202**	**6,575**
Disposals	**(1)**	**(212)**	**(213)**	**(1)**	**(132)**	**(133)**
Depreciation expense	**(660)**	**(1,889)**	**(2,549)**	**(660)**	**(1,873)**	**(2,533)**
Carrying amount at 30 June 2010	**3,883**	**3,126**	**7,009**	**3,883**	**3,009**	**6,892**

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
14. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**25,296**	25,301	**-**	-
Net transfer (to) from inventory	**-**	(5)	**-**	-
Net loss from fair value adjustment	**(701)**	-	**-**	-
Closing balance	**24,595**	25,296	**-**	-

(a) Description of investment property

The investment property is the Jacaranda Gardens Retirement Village, owned by the Jacaranda Gardens Partnership, in which the Group previously had an 80% interest. The minority interest in the Jacaranda Gardens Partnership was purchased on 9 September 2009, therefore dissolving the partnership and giving the Group 100% interest in the retirement village.

(b) Amounts recognised in income statement for investment property

Other income - amenities fees and interest	**1,020**	1,083	**-**	-
Direct operating expenses from property that generated other income	**(60)**	(63)	**-**	-
	960	1,020	**-**	-

(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 2010 valuation was based on a director's valuation. The valuation is on the basis that the property must be sold as a whole and continue to be operated as a retirement village. Additionally, it is a requirement of the lease contract entered into with the residents for the community facilities of the retirement village to be maintained.

Assumptions underlying the formal valuation

The value of the investment property is attributable to the future amenities fee income. This value has been determined on an assessment of discounted cash flows over a period of 35 years (2009: 35 years). The discounted cash flows are based on the following assumptions:

(i) unit values are based on a weighted average of $385,000 (2009: $385,000) per unit;

(ii) escalation factor of 6% (2009: 6%) attributable to the unit values which is the market determined long-term growth rate for residential property, adjusted to reflect market conditions with no capital appreciation during 2010 and 6% capital appreciation in 2011;

30 JUNE 2010

14. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

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

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

(v) discount rate of 12.5% (2009: 12.5%) 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.

Representation of valuation in financial statements

The directors' valuation resulted in a net value of $9.9 million (2009: $9.9 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2010	2009
	$'000	$'000
Net value of property transferred from property, plant & equipment	**13,815**	13,815
Add: Transfer (to)/from inventories	**2**	2
Net gain from fair value adjustment	**10,778**	11,479
Investment property asset	**24,595**	25,296
Included in property plant and equipment	**55**	55
Add: Accrued Amenities fees (Other receivables)	**4,770**	4,069
Less: Lease loan sum liability (Note 19)	**(19,477)**	(19,477)
	9,943	9,943

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
15. OTHER FINANCIAL ASSETS				
Investments in controlled entities	**-**	-	**3,083**	3,083

30 JUNE 2010	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
	2010	2009	**2010**	**2010**	2009	2009
	%	%	**$**	**$**	$	$
15. OTHER FINANCIAL ASSETS (cont'd)						
All controlled entities are incorporated in Australia and are ultimately controlled by the Society. The controlled entities are as follows:						
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
P&N Landreach Pty Ltd	**100**	100	**1,900**	**-**	1,900	-
Essential Service Homes Pty Ltd	**100**	100	**10,000**	**-**	10,000	-
P&N Management Pty Ltd	**100**	100	**60,000**	**-**	60,000	-
National Home Loans Pty Ltd	**100**	100	**61,500**	**-**	61,500	-
Jacaranda Gardens Retirement Village (a)	**100**	80	**-**	**-**	-	-
Police & Nurses Financial Planning Pty Ltd	**65**	65	**2,550,080**	**-**	2,550,080	-
Pinnacle RMBS Warehouse Trust No 1 (b)	**100**	-	**-**	**-**	-	-
			3,083,483	**19,999**	3,083,483	19,999

(a) Jacaranda Gardens Retirement Village

The minority interest of 20% in the Jacaranda Gardens Partnership was purchased in September 2009, dissolving the partnership and giving the Group 100% interest in the retirement village. The additional 20% was purchased for $1.18 million, with the carrying amount of the non-controlling interests in Jacaranda Gardens Retirement Village at the date of acquisition being $2.40 million. The changes in the ownership interest in Jacaranda Gardens Retirement Village on the equity attributable to the Group during the year is summarised as follows:

	2010	2009
	$'000	$'000
Carrying amount of non-controlling interests acquired	**2,401**	-
Consideration paid to non-controlling interests	**(1,175)**	-
Shortage on consideration paid recognised within equity	**1,226**	-

(b) Pinnacle RMBS Warehouse Trust No.1

The Society entered into a residential mortgage securitisation program in March 2010, and established the Pinnacle RMBS Warehouse Trust No. 1 (the Trust) to purchase residential mortgage loans originated by the Society. The beneficial interest in the Trust is divided into three units: two Capital Units and one Income Unit. The Capital Units are divided into two classes: one Class A Capital Unit and one Class B Capital Unit. The Society holds the Income Unit and Class B Capital Unit. The beneficial interest of Class A Capital Unit is limited to a maximum of $1,000, thereby giving the Society control of the Trust. As a result, the Trust is consolidated as part of the Group.

To fund the initial purchase of the residential mortgage loans, the Trust issued notes which have been recognised as borrowings in the consolidated financial statements.

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
16. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
Computer software (ii)				
At cost	**17,515**	17,426	**17,515**	17,426
Accumulated amortisation	**(8,949)**	(8,276)	**(8,949)**	(8,276)
	8,566	9,150	**8,566**	9,150
Client list (iii)				
At cost	**1,861**	1,861	**-**	-
Accumulated amortisation	**(768)**	(582)	**-**	-
	1,093	1,279	**-**	-
Total intangible assets	**11,231**	12,001	**8,566**	9,150
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	**1,572**	1,572	**-**	-
Closing carrying amount	**1,572**	1,572	**-**	-
(ii) Computer software				
Opening carrying amount	**9,150**	7,401	**9,150**	7,401
Additions	**-**	3,351	**-**	3,351
Amortisation charge *	**(584)**	(1,602)	**(584)**	(1,602)
Closing carrying amount	**8,566**	9,150	**8,566**	9,150
(iii) Client list				
Opening carrying amount	**1,279**	1,464	**-**	-
Amortisation charge *	**(186)**	(185)	**-**	-
Closing carrying amount	**1,093**	1,279	**-**	-

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

(a) Impairment tests for goodwill

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

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

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

(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 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
17. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**628**	744	**628**	744
Intangible assets – client list	**230**	175	**-**	-
Business related costs	**85**	161	**65**	120
Provisions	**613**	519	**153**	151
Depreciation	**550**	1,261	**550**	1,261
Accruals	**468**	524	**453**	439
	2,574	3,384	**1,849**	2,715
Amounts recognised directly in equity				
Cash flow hedges	**1,553**	3,477	**1,553**	3,477
	4,127	6,861	**3,402**	6,192
Offset to/from deferred tax liabilities (Note 22)	**(4,127)**	(6,861)	**(1,712)**	(1,436)
Net deferred tax assets	**-**	-	**1,690**	4,756
Movements:				
Opening balance	**6,861**	1,750	**6,192**	1,720
(Charged)/credited to the income statement (Note 4)	**(4,287)**	1,634	**(4,343)**	995
Credited/charged to equity	**1,553**	3,477	**1,553**	3,477
Closing balance	**4,127**	6,861	**3,402**	6,192
18. MEMBERS' DEPOSITS				
Call deposits	**540,377**	517,525	**540,517**	517,718
Term deposits	**1,144,287**	1,044,929	**1,144,287**	1,044,929
Withdrawable shares (a)	**565**	608	**565**	608
Related parties (b)	**970**	688	**970**	688
	1,686,199	1,563,750	**1,686,339**	1,563,943

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 59,744 (2009: 64,423) 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 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
19. TRADE AND OTHER PAYABLES				
Accrued interest payable	**15,331**	10,076	**15,331**	10,076
Securitised loan repayments payable	**15,595**	22,573	**15,595**	22,573
Lease loan sums (Note 14)	**19,477**	19,477	**-**	-
Other payables	**17,314**	12,567	**14,250**	11,508
	67,717	64,693	**45,176**	44,157

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

20. BORROWINGS				
Secured				
– Overdrafts from other ADIs (a)	**3,304**	-	**3,304**	-
– Loans from other ADIs (b)	**15,365**	12,057	**-**	-
– Notes payable (c)	**224,299**	-	**-**	-
– Securitised borrowings	**404,860**	574,444	**404,860**	574,444
Unsecured	**40,000**	39,183	**40,000**	39,183
	687,828	625,684	**448,164**	613,627

(a) Interest charged on overdrafts from other ADIs is at the bank's benchmark rate. Details of the security over the bank overdrafts are set out in Note 26.

(b) Interest charged on loans from other ADIs is at the financial institutions floating rate. The securities for loans from other ADIs are described in Note 6.

(c) The notes were issued to fund the securitisation programme described in Note 15(b). The notes are secured by the underlying securitised loans. Repayments are made to note holders in priority to the deferred securitisation recipient (Note 12).

21. PROVISIONS				
Employee benefits	**505**	530	**473**	505
Make good	**36**	-	**36**	-
Refurbishment	**1,459**	1,200	**-**	-
	2,000	1,730	**509**	505

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
22. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**2,412**	2,073	**569**	503
Intangible assets - software	**1,143**	933	**1,143**	933
Inventory	**1,376**	942	**-**	-
Fair value adjustment to investment property	**3,234**	3,444	**-**	-
Capital works	**342**	263	**-**	-
	8,507	7,655	**1,712**	1,436
Amounts recognised directly in equity				
Cash flow hedges	**-**	-	**-**	-
	8,507	7,655	**1,712**	1,436
Offset to/from deferred tax assets (Note 17)	**(4,127)**	(6,861)	**(1,712)**	(1,436)
Net deferred tax liabilities	**4,380**	794	**-**	-
Movements:				
Opening balance	**7,655**	9,513	**1,436**	3,394
Charged/(credited) to the income statement (Note 4)	**(2,625)**	371	**(3,202)**	272
Charged to equity	**3,477**	(2,229)	**3,477**	(2,230)
Closing balance	**8,507**	7,655	**1,712**	1,436
23. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**160,000**	145,000	**160,000**	145,000
Share capital reserve (b)	**667**	580	**667**	580
Cash flow hedges (c)	**(3,623)**	(8,113)	**(3,623)**	(8,113)
	157,044	137,467	**157,044**	137,467
Retained earnings				
Balance at beginning of year	**29,932**	35,273	**26,145**	29,772
Increase in investment of Jacaranda Gardens Retirement Village	**475**	-	**-**	-
Profit for the year	**23,124**	9,680	**14,423**	11,394
Total available for appropriation	**53,531**	44,953	**40,568**	41,166
Aggregate of amounts transferred to reserves	**(15,087)**	(15,021)	**(15,087)**	(15,021)
Balance at end of year	**38,444**	29,932	**25,482**	26,145

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
23. RESERVES AND RETAINED EARNINGS (cont'd)				
(a) General reserve				
Balance at beginning of year	**145,000**	130,000	**145,000**	130,000
Transfer from retained profits	**15,000**	15,000	**15,000**	15,000
Balance at end of year	**160,000**	145,000	**160,000**	145,000

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	**580**	559	**580**	559
Transfer from retained profits	**87**	21	**87**	21
Balance at end of year	**667**	580	**667**	580

Nature and purpose of share capital reserve

The share capital reserve reflects the share capital created on redemption of members' withdrawal shares. Under section 254K of the *Corporations Act 2001*, these redemptions must be made from retained profits. This reserve is also eligible to be included as Tier 1 capital.

(c) Cash flow hedges				
Balance at beginning of year	**(8,113)**	5,203	**(8,113)**	5,203
Revaluation – net	**4,490**	(13,316)	**4,490**	(13,316)
Balance at end of year	**(3,623)**	(8,113)	**(3,623)**	(8,113)

Nature and purpose of hedging reserve – cash flow hedges

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

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
24. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the profit after tax to the net cash flows from operations				
Profit after income tax	**23,172**	9,963	**14,423**	11,394
Depreciation and amortisation	**3,319**	2,933	**3,086**	2,729
Bad and doubtful debts	**3,164**	3,946	**3,164**	3,946
Bad debts recovered	**(307)**	(267)	**(307)**	(266)
Loss/(gain) on disposal of property, plant and equipment	**-**	20	**(6)**	18
Dividend received	**(361)**	(1,025)	**(1,361)**	(2,127)
Increase in provisions	**270**	529	**3**	220
(Increase)/decrease in loan interest receivable	**(218)**	826	**(218)**	825
(Increase)/decrease in other receivables	**(8,822)**	9,137	**329**	9,503
(Increase)/decrease in debtors from sale of land	**(67)**	1,946	**-**	-
Increase in inventory	**(3,467)**	(1,570)	**-**	-
Movement due to revaluation of inventory to fair value	**(14,652)**	-	**-**	-
Increase/(decrease) in member interest payable	**5,254**	(2,136)	**5,254**	(2,136)
Decrease in accrued expenses and trade and other payables	**(2,266)**	(19,128)	**(4,235)**	(18,828)
Increase/(decrease) in current tax liabilities	**6,652**	(2,988)	**6,680**	(2,928)
Increase/(decrease) in deferred tax asset	**-**	-	**2,790**	(4,472)
Increase/(decrease) in deferred tax liabilities	**1,661**	(1,254)	**(1,649)**	3,750
Increase in sundry debtors and prepayments	**(1,440)**	(275)	**(3,722)**	(278)
Fair value adjustment to investment property	**701**	-	**-**	-
(Increase)/decrease in tax related amount receivable	**-**	-	**(3,691)**	2,542
Decrease in tax related amount payable	**-**	-	**(340)**	(3,627)
Net cash inflow from operating activities	**12,593**	657	**20,200**	265
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
– Cash (Note 5)	**20,145**	18,416	**12,077**	18,089
– Bank overdraft (Note 20)	**(3,304)**	-	**(3,304)**	-
Closing cash and cash equivalents balance	**16,841**	18,416	**8,773**	18,089

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
25. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– payable not later than one year	**382**	5,283	**382**	5,283
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than 1 year	**4,245**	4,191	**4,245**	4,191
– later than 1 and not later than 5 years	**13,509**	13,301	**13,509**	13,301
– later than 5 years	**9,565**	12,109	**9,565**	12,109
Aggregate lease expenditure contracted for at balance date	**27,319**	29,601	**27,319**	29,601
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
– payable not later than one year	**1,774**	-	**-**	-

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
26. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	**197,565**	152,863	**197,565**	152,863

The Society has entered into the following financing arrangements with:

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

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

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

- Standby Credit Facility: $45,000,000 (Unused as at 30 June 2010)
- Derivatives Guarantee Facility: $3,000,000 ($310,000 used as at 30 June 2010)
- Overdraft: $2,000,000 (Unused as at 30 June 2010)

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. The facilities may be withdrawn if terms and conditions of the agreements are breached by the Society.

iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: $5,000,000. This facility was unused at 30 June 2010. 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 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$	$	**$**	$
27. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,370,070**	2,098,739	**2,370,070**	2,098,739
Short-term employee benefits	**1,947,194**	2,041,838	**1,947,194**	2,041,838
Post-employment benefits	**197,481**	56,901	**197,481**	56,901
Termination Benefits	**225,395**	-	**225,395**	-
	2,370,070	2,098,739	**2,370,070**	2,098,739

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 2010 amounted to $307,144 (2009: $1,145,877). During the year loan advances amounted to $295,051 (2009: $462,357) and repayments amounted to $1,042,998

(2009: $649,695). Interest on these loans amounted to $34,495 (2009: $64,191). All of these loans are secured, except loan balances of $4,368 (2009: $4,640).

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 2010 amounted to $3,135,956 to $ (2009: $3,071,908). During the year loan advances amounted to $1,577,159 (2009: $1,952,542) and repayments amounted to $2,316,100 (2009: $1,518,692). Interest on these loans amounted to $209,569 (2009: $212,660). All of these loans are secured, except loan balances of $10 (2009: $1,214).

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 2010 amounted to $1,372,789 (2009: $687,995). During the year additional deposits amounted to $4,836,688 (2009: $3,204,256) and withdrawals amounted to $4,163,468 (2009: $3,307,126). Interest on these deposits amounted to $20,486 (2009: $35,934).

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

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
28. AUDITOR'S REMUNERATION				
(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity - PricewaterhouseCoopers:				
- statutory financial reports audit services	**123**	203	**130**	157
- other assurance services	**70**	19	**65**	15
	193	222	**195**	172
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers:				
- income tax advice	**23**	171	**(6)**	150
- GST advice	**9**	204	**9**	204
- fringe benefits tax advice	**14**	6	**12**	5
- other	**37**	55	**33**	4
	83	436	**48**	363
Total auditor's remuneration	**276**	658	**243**	535

29. INTERESTS IN JOINT VENTURES

Jointly controlled assets

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

Wanneroo North Joint Venture

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

Two Rocks Joint Venture

The controlled entity previously had a 75% participating interest in this joint venture, to develop a subdivision of land for residential housing and was entitled to 75% of its output. As at 20 April 2010, the controlled entity purchased the additional 25% in the joint venture, making the total interest 100% and dissolved the joint venture.

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	
	2010	2009
	$'000	$'000
Trade and other receivables	**4,922**	730
Inventories (land held for sale)	**5,629**	16,904
Share of assets employed in joint ventures	**10,551**	17,634

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30. RELATED PARTY DISCLOSURES

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

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

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

	POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009
	$'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	**508**	691
Dividend revenue	**1,000**	1,102
Aggregate amounts receivable from entities in the wholly-owned group at balance date	**27,333**	10,353

31. FINANCIAL RISK MANAGEMENT

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

- market risk
- liquidity risk
- credit risk

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

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

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

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31. FINANCIAL RISK MANAGEMENT (cont'd)

(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 Committ ee 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.

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31. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate sensitivity analysis

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

	CONSOLIDATED					POLICE & NURSES CREDIT SOCIETY LTD				
		+100bp		-100bp			+100bp		-100bp	
	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
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2010										
Cash and cash equivalents	**20,145**	**27**	**-**	**(27)**	**-**	**12,077**	**27**	**-**	**(27)**	**-**
Due from banks	**247,704**	**2,477**	**-**	**(2,477)**	**-**	**247,704**	**2,477**	**-**	**(2,477)**	**-**
Loans (i)	**2,273,912**	**20,497**	**-**	**(20,497)**	**-**	**2,051,475**	**20,497**	**-**	**(20,497)**	**-**
Derivatives	**(5,176)**	**-**	**2,195**	**-**	**(2,195)**	**(5,176)**	**-**	**2,195**	**-**	**(2,195)**
Overdrafts	**(3,304)**	**(33)**	**-**	**33**	**-**	**(3,304)**	**(33)**	**-**	**33**	**-**
Members' deposits (ii)	**(1,686,199)**	**(5,411)**	**-**	**5,411**	**-**	**(1,686,339)**	**(5,411)**	**-**	**5,411**	**-**
Borrowings	**(684,524)**	**(6,803)**	**-**	**6,803**	**-**	**(444,860)**	**(6,803)**	**-**	**6,803**	**-**
Total Increase/(Decrease)	**162,558**	**10,754**	**2,195**	**(10,754)**	**(2,195)**	**171,577**	**10,754**	**2,195**	**(10,754)**	**(2,195)**
2009										
Cash and cash equivalents	18,416	39	-	(39)	-	18,514	39	-	(39)	-
Due from banks	221,838	2,218	-	(2,218)	-	221,838	2,218	-	(2,218)	-
Loans (i)	2,123,508	18,233	-	(18,233)	-	2,123,508	18,233	-	(18,233)	-
Derivatives	(11,590)	-	2,667	-	(2,667)	(11,590)	-	2,667	-	(2,667)
Members' deposits (ii)	(1,563,750)	(5,181)	-	5,181	-	(1,563,943)	(5,181)	-	5,181	-
Borrowings	(625,684)	(6,334)	-	6,334	-	(613,627)	(6,334)	-	6,334	-
Total Increase/(Decrease)	162,738	8,975	2,667	(8,975)	(2,667)	174,700	8,975	2,667	(8,975)	(2,667)

(i) 1% shift applied to the value of variable loans held at year end calculated on $2,049,673,316 (2009: $1,823,267,326). The remaining balance represents fixed rate loans for 2010/2011, which are not subject to interest rate movements for the period.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $541,135,138 (2009: $518,093,775). The remaining balance represents fixed rate deposits for 2010/2011, which are not subject to interest rate movements for the period.

30 JUNE 2010	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
31. FINANCIAL RISK MANAGEMENT (cont'd)	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Fair value estimation - interest rate swaps (liability)	**5,176**	11,590	**5,176**	11,590

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

(b) Liquidity Risk Management - Objectives and Policies

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

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

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

There have been no changes to the Society's liquidity risk policies from the prior year.

Financing Arrangements

The Society also maintains $45.0 million (2009: $45.0 million) of CUSCAL standby facilities to support its liquidity arrangements. Additional liquidity support is available in the form of $7.0 million (2009: $4.0 million) of overdraft facilities, of which $2.0 million (2009: $2.0 million, un-drawn) is with CUSCAL and $5.0 million (2009:$2.0 million, un-drawn) is with Bankwest. Both these facilities were undrawn as at 30 June 2010

The Society also utilises Bridges funding facilities via CUSCAL. This facility has a limit of $40.0 million, of which $Nil (2009: $0.8 million) remained undrawn at 30 June 2010. Also maintained by the Society is the Entourage securitisation facility with The Royal Bank of Scotland of $417.8 million (2009: $417.8 million with ABN Amro Bank), of which $Nil (2009: $Nil) was available at 30 June 2010. During the year, the Society entered into another securitisation facility with ANZ under the Pinnacle RMBS Warehouse Trust of $500.0 million (2009: $Nil), of which $277.6 million (2009: $Nil) was available at 30 June 2010.

The Group and the Society had access to the following undrawn borrowing facilities at 30 June 2010.

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31. FINANCIAL RISK MANAGEMENT (cont'd)

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Floating Rate				
Expiring within 1 year (overdrafts and standby facilities)	**52,000**	49,000	**52,000**	49,000
	52,000	49,000	**52,000**	49,000

	CONSOLIDATED				POLICE & NURSES CREDIT SOCIETY LTD			
	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
Maturities of Financial Liabilities	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2010								
Overdrafts	**3,304**	**-**	**-**	**-**	**3,304**	**-**	**-**	**-**
Borrowings	**-**	**40,000**	**228,055**	**416,470**	**-**	**40,000**	**-**	**404,860**
Members' deposits	**541,622**	**814,637**	**314,624**	**15,316**	**541,762**	**814,637**	**314,624**	**15,316**
	544,926	**854,637**	**542,679**	**431,786**	**545,066**	**854,637**	**314,624**	**420,176**
2009								
Borrowings	-	39,183	8,916	577,584	-	39,183	-	574,444
Members' deposits	521,077	814,652	212,949	15,073	521,077	814,652	212,949	15,073
	521,077	853,835	221,865	592,657	521,077	853,835	212,949	592,657

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31. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Credit Risk Management - Objectives and Policies

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

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

The 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.

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.

There have been no changes to the Society's credit risk policies from the prior year.

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Concentration of loans				
The loan portfolio of the Society does not include any loan which represents 10% or more of capital.				
The Society has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:				
Western Australian state government employees	**625,828**	577,364	**564,665**	577,364
Other	**1,650,177**	1,546,144	**1,488,903**	1,546,144
	2,276,005	2,123,508	**2,053,568**	2,123,508
Concentration of deposits				
WA State government employees	**288,015**	284,504	**288,155**	284,504
Other entities	**1,398,184**	1,279,246	**1,398,184**	1,279,246
	1,686,199	1,563,750	**1,686,339**	1,563,750

30 JUNE 2010

31. 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)	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Derivatives	**(5,176)**	(11,590)	**(5,176)**	(11,590)	**-**	-	**-**	-	**-**	-	**-**	-
Fully Performing Loans												
Home Loans	**1,301,409**	1,235,597	**885,351**	966,843	**342,536**	237,330	**73,523**	78,771	**-**	-	**-**	-
Secured Overdrafts	**53,390**	47,347	**52,768**	46,564	**574**	783	**48**	-	**-**	-	**-**	-
Commercial Loans	**99,558**	84,805	**-**	-	**-**	-	**15,357**	2,987	**28,955**	26,807	**55,246**	55,011
Personal Loans	**72,005**	71,812	**-**	-	**-**	-	**-**	-	**72,005**	71,812	**-**	-
Unsecured Overdrafts and Credit Cards	**15,243**	14,564	**-**	-	**-**	-	**-**	-	**-**	-	**15,243**	14,564
Total Fully Performing Loans	**1,541,605**	1,454,125	**938,119**	1,013,407	**343,110**	238,113	**88,928**	81,758	**100,960**	98,619	**70,489**	69,575
Past Due Loans												
Home Loans												
1-7 days	**26,082**	17,092	**14,386**	8,917	**7,198**	2,812	**4,498**	5,363	**-**	-	**-**	-
8-30 days	**36,132**	24,757	**17,449**	9,457	**10,326**	5,722	**8,357**	9,578	**-**	-	**-**	-
31-60 days	**10,258**	13,326	**4,289**	1,994	**2,705**	3,258	**3,263**	8,074	**-**	-	**-**	-
61-89 days	**3,736**	5,597	**1,728**	2,173	**536**	1,348	**1,472**	2,076	**-**	-	**-**	-
Total	**76,208**	60,772	**37,852**	22,541	**20,765**	13,140	**17,590**	25,091	**-**	-	**-**	-
Fair Value Security Held *(1)*	**131,172**	85,884										
Secured Overdrafts												
1-7 days	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
8-30 days	**789**	459	**523**	96	**266**	142	**-**	221	**-**	-	**-**	-
31-60 days	**-**	173	**-**	56	**-**	117	**-**	-	**-**	-	**-**	-
Total	**789**	632	**523**	152	**266**	259	**-**	221	**-**	-	**-**	-
Fair Value Security Held (1)	**3,124**	2,417										
Commercial Loans												
8-30 days	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
31-89 days	**-**	297	**-**	-	**-**	-	**-**	-	**-**	-	**-**	297
Total	**-**	297	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (2)	**-**	640										
Personal Loans												
1-7 days	**2,635**	2,695	**-**	-	**-**	-	**-**	-	**2,635**	2,695	**-**	-
8-30 days	**1,823**	2,599	**-**	-	**-**	-	**-**	-	**1,823**	2,599	**-**	-
31-89 days	**625**	1,862	**-**	-	**-**	-	**-**	-	**625**	1,862	**-**	-
Total (3)	**5,083**	7,156	**-**	-	**-**	-	**-**	-	**5,083**	7,156	**-**	-
Unsecured Overdrafts and Credit Cards												
1-7 days	**4,521**	4,674	**-**	-	**-**	-	**-**	-	**-**	-	**4,521**	4,674
8-30 days	**202**	81	**-**	-	**-**	-	**-**	-	**-**	-	**202**	81
31-89 days	**623**	479	**-**	-	**-**	-	**-**	-	**-**	-	**623**	479
Total	**5,346**	5,234	**-**	-	**-**	-	**-**	-	**-**	-	**5,346**	5,234
Total Past Due Loans	**87,426**	74,901	**38,375**	22,693	**21,031**	13,399	**17,590**	25,312	**5,083**	7,156	**5,346**	5,234
Impaired Loans												
Home Loans												
90 days plus	**8,060**	8,614	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**8,438**	11,191	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Secured Overdrafts												
90-180 days	**210**	39	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**1,154**	381	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Commercial Loans												
90 days plus	**9,237**	9,258	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (2)	**8,742**	9,887	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Personal Loans												
90 days plus	**1,027**	1,730	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Unsecured Overdrafts and Credit Cards												
90 days plus	**408**	484	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total Impaired Loans	**18,942**	20,125	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Securitised Loans	**627,297**	574,444	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total Loans Portfolio	**2,275,270**	2,122,785	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Other Interest Bearing Receivables												
Interest Earning Deposits-Banks	**177,503**	179,838	**177,503**	179,838	**-**	-	**-**	-	**-**	-	**-**	-
Interest Earning Deposits-Other ADIs	**70,201**	42,000	**70,201**	42,000	**-**	-	**-**	-	**-**	-	**-**	-
Accrued Interest Receivable	**1,895**	1,677	**1,895**	1,677	**-**	-	**-**	-	**-**	-	**-**	-
Total Other Interest Bearing Receivables	**249,599**	223,515	**249,599**	223,515	**-**	-	**-**	-	**-**	-	**-**	-

(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.

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31. 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 a risk weighted basis in accordance with the requirements of the Prudential Standards. This risk weighted approach measures the ratio of actual eligible capital held against a risk weighted balance for all on and off balance sheet risk positions as well as for other non balance sheet risk positions.

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	
	2010	2009	**2010**	2009
Capital Adequacy ratio as reported to APRA at 30 June	**15.39%**	15.92%	**15.72%**	16.22%

32. BUSINESS COMBINATIONS

(a) Summary of acquisition

On 20 April 2010 P & N Landreach Pty Ltd , a subsidiary of the parent entity, acquired an additional 25% interest in the Two Rocks Joint Venture in which the entity previously held a 75% interest in the Joint Venture. The total interest held in Two Rocks Joint Venture from 20 April 2010 is a controlling interest of 100% and therefore has dissolved the joint venture and the total interest has been consolidated into the results of the Group from this date.

The acquired business contributed net profit of $14,728,607 to the Group for the period from 20 April 2010 to 30 June 2010. If the acquisition had occurred on 1 July 2009, consolidated revenue and consolidated profit for the year ended 30 June 2010 would have been $20,354,064 and $14,061,603, 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 2009, together with the consequential tax effects.

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32. BUSINESS COMBINATIONS (cont'd)

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

30 JUNE 2010	20 April 2010 acquisition (100%)
	$'000
Purchase consideration	
Cash paid (refer to (b) below in relation to 20 April 2010 acquisition)	6,000
Fair value of net assets in previously held interest	18,000
Total purchase consideration	24,000
Fair value of net identifiable assets acquired (refer to (c) below)	24,000
Goodwill (refer to (c) below	-

	CONSOLIDATED	
	2010	2009
	$'000	$'000
(b) Purchase consideration		
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	6,000	-
Less: Balances acquired		
Cash	108	-
Net outflow of cash	5,892	-

	Acquiree's carrying amount 100%	Fair value 100%
	$'000	$'000
(c) Assets and liabilities acquired		
The assets and liabilities arising from the acquisition are as follows:		
Cash	434	434
Trade receivables	530	530
Inventory	15,550	35,085
Trade payables	(439)	(439)
Borrowings	(11,610)	(11,610)
Net assets	4,465	24,000
Net identifiable assets acquired		24,000

The fair value of assets and liabilities acquired are based on market transactions.

Due to the acquisition of the additional 25% interest in Two Rocks, the Group has recorded a gain on disposal of non-controlling interest within the Income Statement. This was an adjustment of $14.6m to increase the inventory balance to its market fair value on acquisition.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 19 to 64 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 2010 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

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

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

E Smith

E L SMITH
Director

P.M. Gabb

P M GABB
Director

Perth WA
30 August 2010

PRICEWATERHOUSECOOPERS

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

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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 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both 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.

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.

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 2010 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.

Matters relating to the electronic presentation of the audited financial report

This auditor's 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 year ended 30 June 2010 included on Police & Nurses Credit Society Ltd's web site. The Society's directors are responsible for the integrity of the Police & Nurses Credit Society Ltd's web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth WA
30 August 2010

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Shop 1047A, Westfield Carousel Shopping Centre,
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Attfield Street

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Mandurah Bypass Road

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Ocean Keys Boulevard

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POLICE&NURSES
MUTUAL BANKING