POLICE & NURSES
MUTUAL BANKING

2009 | Annual Report

"By putting our members first, we are the most trusted & highly recommended financial institution".

Contents

This financial report covers both the separate financial statements of Police & Nurses Credit Society Ltd as an individual entity and the consolidated financial statements for the consolidated entity consisting of Police & Nurses Credit Society Ltd and its subsidiaries. The financial report is presented in the Australian 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 financial report was authorised for issue by the directors on 31 August 2009. The directors have the power to amend and reissue the financial report.

Directory

DIRECTORS
E L Smith (Chairman)
P M Gabb (Deputy Chairman)
F J Compton
M J Dean
M T Hinton (retired 27 October 2008)
E A Manley
S J Melville
K J O'Callaghan
A C Philp (appointed 27 October 2008)
A M Rial

CHIEF EXECUTIVE OFFICER & COMPANY SECRETARY
A E (Fred) Huis

REGISTERED OFFICE
(to 12 September 2009)
Police & Nurses Credit Society Ltd
ABN 69 087 651 876
246 Adelaide Terrace
Perth WA 6000
Tel 13 25 77
pncs.com.au

EXTERNAL AUDITORS
PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth WA 6000

INTERNAL AUDITORS
KPMG
235 St Georges Terrace
Perth WA 6000

	30 JUN 04[1] Audited	30 JUN 05[2] Audited	30 JUN 06[3] Audited	30 JUN 07[3] Audited	30 JUN 08[3] Audited	30 JUN 09[3] Audited	FY04-FY09 5 year CAGR*	FY08-FY09 1 year CAGR*
Total loans under management[4] ($B)	1.190	1.290	1.487	1.825	2.046	2.121	12.44%	3.67%
Total assets under management[4] ($B)	1.313	1.466	1.694	2.031	2.321	2.438	13.28%	5.04%
Deposits ($B)	0.791	0.855	0.976	1.067	1.202	1.564	14.87%	30.12%
Reserves ($M)	94.191	104.093	128.921	151.167	173.710	170.242	12.91%	(2.00)%
Group NPAT^ ($M)	7.720	9.921	21.057	19.652	19.165	9.680	16.42%	(49.49)%
Banking Business NPAT^ ($M)	8.441	9.876	12.089	16.096	17.393	11.394	9.22%	(34.49)%

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

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

Chairman's Report

"Real people, building real relationships, delivering real value".

I am pleased to present the 2009 Police & Nurses Annual Report.

The past financial year has been an extremely challenging one for the banking and finance industry. The global economic crisis has impacted on our business, as it did on all financial institutions throughout the world.

Despite this, we have still delivered a total group profit after tax of $9.7 million, which is a strong result given the difficult economic conditions at present.

Unlike publicly listed companies, such as banks, Police & Nurses is a mutual organisation. Rather than paying out profits made from customers as dividends to external shareholders like the banks do, our profits are reinvested back into the Society to benefit the members who are supporting us.

So whilst we need to run our business profitably, we are not under pressure to produce large profits for the sake of increasing shareholder returns, as other companies are.

Bearing this in mind, you may have noticed that we have added a new tagline to the Police & Nurses name. There are now two new words sitting underneath the Police & Nurses name – 'mutual' and 'banking'. We felt that 'Credit Society' didn't quite tell people exactly what we do or what we stand for. We feel 'mutual banking' sums it up better and truly reflects what we've always set out to be.

Within the business, we have further developed our strategic plans to map out the future direction of our organisation. Our purpose continues to be "By putting our members first, we are the most trusted and highly recommended provider of financial services." We have also now defined our vision, which is "Real people, building real relationships, delivering real value."

In order to achieve our vision and purpose, we have established five key strategies:

- Putting the member first through enhanced distribution
- Developing a member first brand
- Building a member first culture
- Putting the member first using better information & knowledge
- Putting the member first through profitable balanced growth

Chairman's Report

To ensure that these overarching strategies filter down to all our staff and the everyday business decisions they make, over the past twelve to eighteen months we have embarked on a cultural change program. This program will assist us to embed the 'member first' philosophy in the working culture of the business and the approach taken by our staff.

The results we achieved this year in our member satisfaction survey (conducted by independent research group, Wallis Consulting) are very encouraging and indicate that our approach is having an impact on our members and how happy they are with our performance. In May 2009, 96% of our members were either very satisfied or satisfied with the Society.

This compares favourably to satisfaction levels amongst customers of the four major banks, all of whom scored ratings of less than 80% according to a survey conducted by Roy Morgan Research in March 2009.

As well as putting our members first, Police & Nurses is also committed to supporting the communities in which our business operates. We run a sponsorship program that supports over 70 different charities and community groups every year. Some of the groups we support include Crime Stoppers WA, Variety WA, RSPCA, Police Legacy, Radio Lollipop and the WA Police Officer of the Year award. Police & Nurses also runs an annual student scholarship program exclusively for members (or their children), which offers two Year 11 students scholarships to the value of $1,000. And providing the scholarship winners continue to do well academically, their scholarships will be renewed for a further $1,000 once they reach Year 12. More information on applying for our student scholarships can be found on our website at www.pncs.com.au/community/Scholarships.html.

On behalf of Police & Nurses I would like to thank my fellow Directors for their efforts over the past financial year. In particular I would like to acknowledge Jim Compton and Mike Dean, both of whom will be retiring from the Board as of this year's Annual General Meeting on Monday, 26 October 2009.

Jim Compton is a long serving member of the Police & Nurses Board of Directors, having been on the Board for the past 30 years. During this time he has served on several committees, the most recent of which being Chairman of the Board Governance Committee. Jim served as a police officer with the WA Police for forty years. He is also a Trustee to the Police Family Advisory Council and Treasurer of the Retired Police Officers Association of WA.

Mike Dean was elected to the Police & Nurses Board of Directors six years ago and has served on several committees, including most recently the Board Governance Committee. Mike joined the WA Police in 1971 and served as the President of the WA Police Union for 13 years.

Both Jim and Mike have made outstanding contributions to Police & Nurses during their time as Directors. I thank them for all their hard work and dedication over the years and wish them well with their future endeavours.

I would also like to welcome our newest Board member, Alan Philp, who was elected to the Police & Nurses Board in October 2008. Alan is the Health Director at the Department of Health & Ageing and has 34 years experience in the nursing profession. Alan has been a member with Police & Nurses for 32 years and I'm sure he will continue to make an excellent contribution to the Board and our organisation in the years ahead.

I would also like to take this opportunity to thank our CEO, Fred Huis, and his management team for their hard work over the past year and ongoing commitment to put our members first in all that they do.

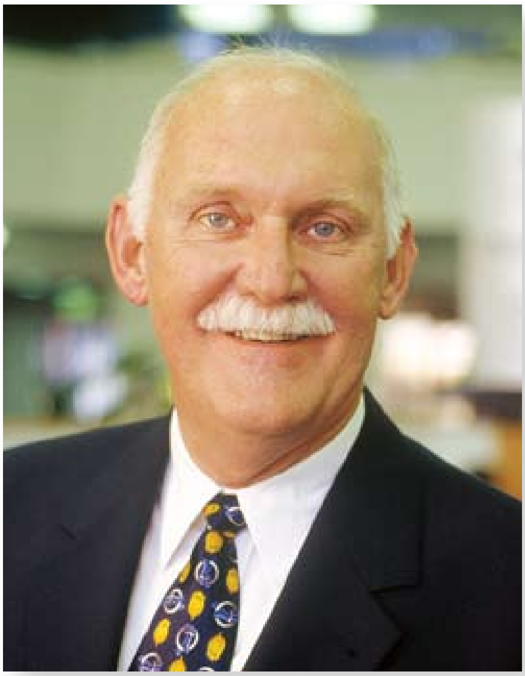
E Smith

E L SMITH
Chairman

Perth WA
31 August 2009

CEO's Report

"Western Australia's largest home-grown and locally run financial institution".



Police & Nurses is Western Australia's largest home-grown and locally run financial institution. Whilst our profit results have been impacted by the tough global financial environment, our organisation continued to grow in the 2009 financial year and overall performance was positive.

FINANCIAL RESULTS

Our growth in membership, loans and deposits clearly demonstrates the strength and value of the mutual business model, even in tough economic times such as these.

In the past year we have welcomed more than 9,000 new members, with more than $700 million worth of new loans advanced to members and deposits increasing by $362 million (30.1%) to $1.6 billion.

Our total assets increased by $117.6 million (5.1%) to $2.44 billion, with overall loans and advances increasing by $75.4 million (3.7%) to $2.1 billion.

Net interest income fell $9.3 million (17.8%) to $42.8 million, which was largely due to a reduction in average interest margins from 2% to 1.5%. Bad and doubtful debts expense increased by $0.6 million (16.4%) to $3.9 million.

Net profit after tax for the Society fell $6 million (35.4%) to $11.4 million, with the fall in net interest income being the main contributor to the decline. Total group profit after tax was $9.7 million.

MUTUALITY

As our Chairman pointed out in his report, Police & Nurses is a mutual organisation and our business objectives are not solely driven to generate external shareholder profit, so we have been able to absorb some of the pain of the economic crisis on behalf of our members.

A member first philosophy is the clear mandate for our business. As we are owned by our members, delivering value and flexibility is the clear focus of a mutual in meeting our member's banking needs. Our primary goal is to provide members with competitive products, improved member services and technology solutions.

This is the reason that we have added the words

CEO's Report

'mutual' and 'banking' underneath the Police & Nurses name, as we believe this truly reflects who we are and what we stand for.

rediATM NETWORK

March 2009 saw the introduction of ATM direct charging. This new system, which was recommended by the Reserve Bank of Australia, enables ATM owners to directly charge cardholders who do not bank with that particular financial institution a fee for using their ATM.

In order to minimise the need for our members to use "foreign" ATMs and incur these charges, Police & Nurses joined the rediATM network. This greatly expanded the number of direct charge free ATMs available to our members across Australia.

There has been continued expansion in this area, as in July this year it was announced that rediATM and National Australia Bank (NAB) had agreed to combine their ATM networks and create an overall network of some 3,100 machines nationally.

Since the initial announcement, regulatory approvals for combining of these two networks have been given, and from 1 September 2009 Police & Nurses members can use any rediATM or NAB ATM without incurring direct charge fees.

This means that in Western Australia the number of ATMs available to Police & Nurses members will more than doubled from 119 to 264.

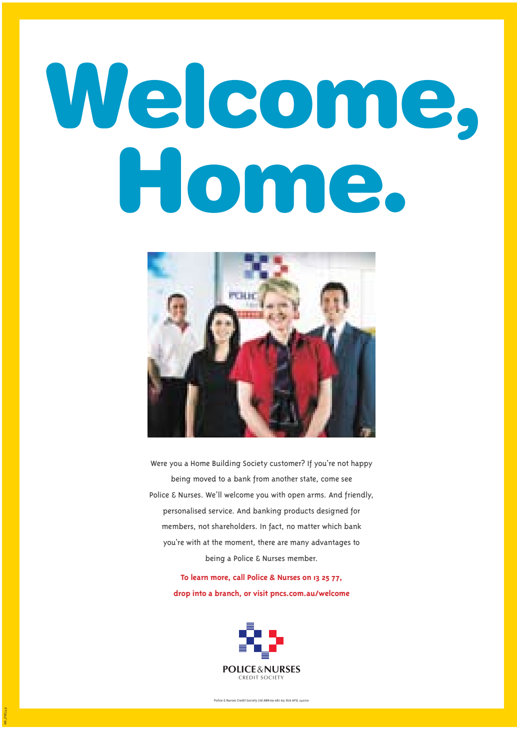
INSURANCE

To make taking out insurance an easier and more convenient process, we now offer members the option of getting quotes and buying MemberCare insurance online through the Police & Nurses website at www.pncs.com.au/insurance/index.html.

We have also increased the range of insurance products available to our members, with the new option of travel insurance recently becoming available.

ONLINE SHARE TRADING

In conjunction with GET Financial, Police & Nurses members can now access the GET Trader share trading platform. The platform enables members to trade multiple asset classes, including CFD's (contract for difference), forex (foreign currency), futures (futures contracts) and shares on the Australian Stock Exchange and 26 different exchanges throughout the world.



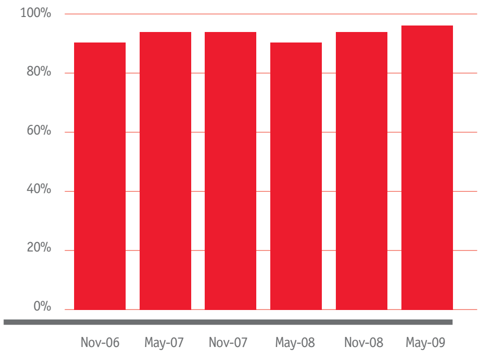
NETLINK ONLINE BANKING UPGRADE

Our Netlink online banking service was upgraded in June this year. The new version of Netlink offers members additional protection against internet banking fraud and improved layout and functionality.

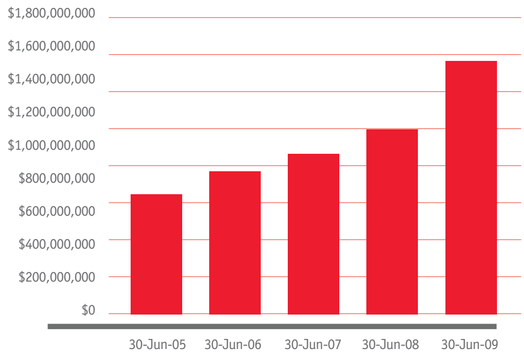
Changes to the layout of Netlink include the relocation of menu options from the top of the screen to the left of the screen, with the most commonly used functions being available in a 'Quick Link' menu.

Members can now personalise their account information by naming their own accounts for easier identification, and there is increased security around the creation of new external payees and BPAY payments, to better protect members from fraud.

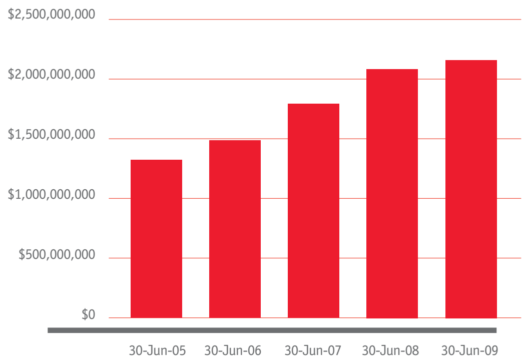
CEO's Report



MEMBER SATISFACTION



TOTAL DEPOSITS



TOTAL LOANS UNDER MANAGEMENT

FOREIGN EXCHANGE

We have recently switched to a new foreign exchange partner, Travelex. Through our new partnership, we can now offer our members cash passport cards, in addition to existing services such as foreign currency purchasing, traveller's cheques, foreign bank drafts and telegraphic transfers.

A cash passport card is a convenient and secure prepaid travel money card, with PIN protection. The PIN protection provides enhanced security, along with the prepaid feature which limits a loss should the card be stolen. A second card will also be issued for free if the first card is lost.

It's an alternative to cash or travellers cheques and an excellent travel budgeting tool, that allows you to lock in a foreign currency rate for up to 3 years.

FINANCIAL COUNSELLING

Given the difficult economic times at present, Police & Nurses took action in July 2008 to offer members a financial counselling service. We have previously offered this service over a number of years and we felt it was important to reinstate it for our members once the depth of the financial crisis became apparent.

A number of members have been assisted by this service, with many being able to significantly improve their financial circumstances as a result.

HEAD OFFICE MOVE

In September this year Police & Nurses moved into a new head office building at Level 7, 130 Stirling Street, Perth.

Our new premises consolidate our business into one head office location, whereas previously we were split between offices at 246 & 263 Adelaide Terrace, Perth. By removing the need for our staff to travel between buildings and providing us with a well planned layout to accommodate future growth, our new head office will help us to improve our efficiency and productivity levels.

Improving efficiency within our business will ultimately enable us to provide better service to our members and support our strategic purpose which is "By putting our members first, we are the

CEO’s Report

most trusted and highly recommended provider of financial services.”

Our new building is also environmentally sustainable, with a 4.5 Star Australian Building Greenhouse Rating and a 4 Star Green Rating.

Although we are moving our head office, we will be keeping our city branch in its current location at 246 Adelaide Terrace, Perth. We have made this decision after collecting feedback from members who use the Perth branch and researching other possible branch site locations.

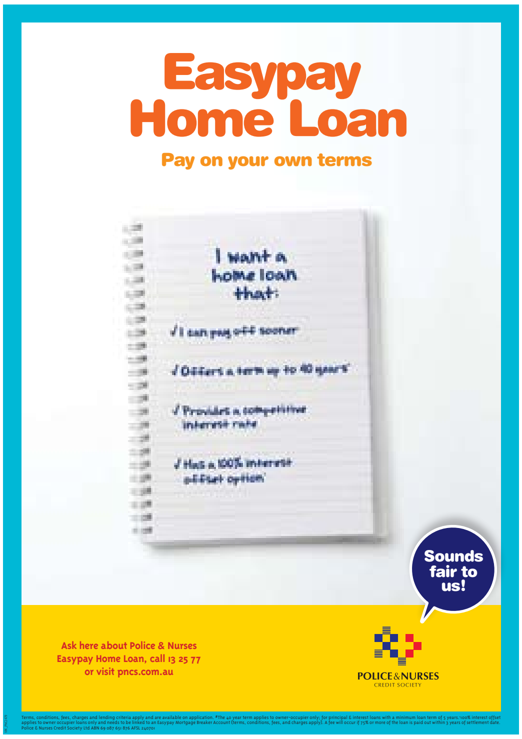
Our Perth branch will continue to provide members with the same high level of service they have come to expect, with the option of free rear parking during their visit.

BRANCH NETWORK UPGRADES

We have continued to expand and improve our branch network over the last 12 months. In December 2008 we opened a brand new Police & Nurses branch at Shop 229 in the Cockburn Gateway Shopping Centre. The new branch offers members a spacious and modern environment in which to conduct their banking business and expands our presence into the rapidly growing Success/Cockburn area.

We relocated our Morley and Rockingham branches in October 2008, with the Morley branch moving to Shop 82 in the Centro Galleria Shopping Centre and the Rockingham branch moving to Shop 64 in the Rockingham City Shopping Centre.

CEO's Report



Both branches are larger in floor space and more centrally located within their respective shopping centres.

In June 2009 our Warwick branch was expanded in size and refurbished. This effectively doubled the size of the old branch and has enabled an extra teller desk and two additional private offices to be created, all of which has contributed to an improved experience for members using this branch.

We are also planning to relocate our Cannington branch within the Westfield Carousel Shopping Centre and refurbish our Joondalup branch at Lakeside Joondalup Shopping Centre in the coming months.

NEW LENDING SYSTEM

In terms of our internal operations, the 2008/09 financial year saw the completion of a major project to significantly upgrade our lending software and procedures. Whilst this initiative mainly impacts our "behind the scenes" processing, it will put us in good stead to better manage our lending activity and services to members in the years ahead.

INTEREST RATES

There have been significant changes to interest rates, for both lending and deposit products, over the course of the year. Between September 2008 and April 2009 the Reserve Bank of Australia reduced the official cash rate overall by 4.25%.

The Society has made every effort to pass on as much of these rate reductions as possible, but like all other financial institutions, higher funding costs due to the global financial crisis have made it impossible to pass on the entire amount.

As a mutual, Police & Nurses generates funding for lending activities by raising retail deposits, and as such, must balance the needs of its borrowers with its term deposit investors. Reducing lending rates also reduces the level of interest payable on investment products, and Police & Nurses management must take this into account when setting the Society's interest rates.

AUSTRALIAN GOVERNMENT DEPOSIT GUARANTEE

A major change to have occurred in the banking & finance industry in the 2008/09 financial year was the introduction of the government deposit guarantee. The guarantee was initially introduced in October 2008 for a three year period to give reassurance to deposit holders in the wake of the global economic crisis.

The guarantee only applies to deposits held with Authorised Deposit Taking Institutions (ADIs). Like all credit unions, banks and building societies, Police & Nurses is an ADI, and is fully covered by this initiative. ADIs are highly regulated by such institutions as APRA and ASIC, and are subject to significant prudential supervision and legislative requirements.

In November 2008 the guarantee was amended such that deposits up to the amount of $1 million would be automatically guaranteed by the Australian Federal Government, and those over $1 million could also be guaranteed subject to the payment of a government fee.

CEO's Report

OUR FUTURE

There are a growing number of financial commentators speculating that we may have passed through the worst of the economic downturn triggered by the global financial crisis, and be entering into a period of gradual recovery and growth.

However, it is likely that this recovery will be slow, and with unemployment levels predicted to rise over the next 12 months, business conditions for the Society will continue to be difficult in the short to medium term.

Nevertheless it is a critical requirement that we are well positioned for upturn in business conditions. We are anticipating future growth opportunities for the society and are focusing our efforts on ensuring we can capitalise across all of our business.

ACKNOWLEDGEMENTS

Despite the challenges presented by the deterioration in economic conditions over the past year, Police & Nurses continues to be a financially strong and secure organisation that is committed to putting its members first.

My thanks go to the management and staff of Police & Nurses for their ongoing hard work and dedication, and our Board of Directors, whose support and guidance has been of great value to our business.

As has been mentioned by our Chairman, I would like to acknowledge Mr Jim Compton and Mr Mike Dean, both of whom will be retiring from our Board of Directors at this year's Annual General Meeting.

I would also like to welcome our newest Board member, Mr Alan Philp, who was elected in October 2008.

Thank you to all our members who have contributed to building Police & Nurses over the years to become the successful financial institution that it is today.

A E (FRED) HUIS
Chief Executive Officer

Perth WA
31 August 2009

Member Service Network

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

WA BRANCH NETWORK

There are currently 16 Police & Nurses branches in WA, with 14 of those in the Perth metropolitan area and two in the regional towns of Mandurah and Bunbury. Our branch network offers a full service capability including home lending, personal lending, insurance, transactional capability, savings accounts and financial planning advisory services.

Visit www.pncs.com.au or call 13 25 77 to locate your nearest Police & Nurses branch.

ATM NETWORK

Police & Nurses is a part of the rediATM network. With rediATM joining forces with NAB in September 2009 to create a combined network of some 3,100 machines across Australia, our members can now access one of the largest ATM networks in the country without incurring any direct charge fees.

At the WA level, there are now 264 direct charge free ATMs our members can access, more than double the number previously available.

Visit www.rediatm.com.au to find your nearest rediATM.

CONTACT CENTRE

We will have a 42 seat contact centre located in our new 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 8am to 6pm (WST), Monday to Friday. With a commitment to customer service and delivery, our skilled operators achieve industry best practice in regards to our service level key performance indicators.

Call us on 13 25 77 for more information.

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, people can transfer money, pay their bills via BPAY and check their accounts. We also offer a convenient service called Txtlink mobile phone banking, which uses SMS technology to send account information to members via their mobile phone, 24 hours per day, 7 days per week.

There are also Police & Nurses internet kiosks in 11 of our branches and onsite at Royal Perth Hospital (in both their Wellington Street location and the Shenton Park campus), Armadale Hospital, Sir Charles Gairdner Hospital and King Edward Memorial Hospital, providing free access the Police & Nurses website.

Visit www.pncs.com.au for more information.

MOBILE LENDING CONSULTANTS

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

To speak to a Mobile Lending Consultant, call us on 13 25 77.

Member Service Network

FINANCIAL PLANNING

Police & Nurses Financial Planning specialises in advising everyday West Australians. Although managing money is our business, we understand that for many of our clients, money is a means to financial security and enjoying the more important things in life. At Police & Nurses Financial Planning we focus on helping people make the most of their financial opportunities and offer expertise in areas such as Superannuation, Investments, Insurance and Retirement Planning.

Call us on (08) 9265 7722 for more information.

CONVEYANCING

Police & Nurses offers an in-house settlement service, which is available to both members and non-members. The department processes around 1,000 settlements per annum.

Call us on (08) 9219 7511 for more information.

BUSINESS DEVELOPMENT OFFICERS

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

To speak to a Business Development Officer call us on 13 25 77.

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 nurses and health professionals.

Come in and see us at 250 Victoria Parade, East Melbourne or visit www.nurses1st.com.au for more information.

From top left: Malcolm Bulley (Head of Retail), David Spearman (Chief Financial Officer),
Mark Smith (Head of Business Services), Fred Huis (Chief Executive Officer)
From bottom left: Franca Fairclough (Head of Credit Risk Management), Steve Nottage (Head of Marketing)
Absent: Michael Bailey (Head of Information Technology)

Board Members

Eric Laurence Smith
Chairman

Paul Marshall Gabb
Deputy Chairman

Frederick James Compton
Director

Michael James Dean
Director

Karl Joseph O'Callaghan
Director

Stephen John Melville
Director

Ann Maree Rial
Director

Elizabeth Anne Manley
Director

Alan Craig Philp
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 2009.

CORPORATE GOVERNANCE

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

OPERATIONS OF THE BOARD OF DIRECTORS

Corporate governance responsibilities of the Board include:

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

DIRECTORS

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

Eric Laurence SMITH FAICD FAMI (Chairman)

Police Inspector, Certificate in Police Studies, Diploma of Policing, Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Australian Institute of Company Directors Diploma, Graduate Certificate of Business (Leadership), 15 years service as a Credit Society Director; 33 years service as a Police Officer. Audit 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, 11 years service as a Credit Society Director; 23 years service in Law Enforcement. Audit Committee member.

Frederick James COMPTON FAICD

Retired Police Superintendent; Grad. Australian Police College - Senior Officers' Course & Senior Executive Police Officers' Course; 30 years service as a Credit Society Director; 38 years service as a Police Officer. Audit Committee member and Board Governance Committee Chairman.

Michael James DEAN APM MAICD

Retired General President WA Police Union, 6 years service as a Credit Society Director; 37 years service as a Police Officer. Audit Committee and Board Governance Committee member.

Maureen Teresa HINTON RN B App Sc (Nursing) Grad Dip HSc MPH FAICD (retired 27 October 2008)

Staff Educator, Certificate IV TAA, 22 years service as a Credit Society Director; 44 years service in the nursing/health/education professional arena. Board Governance Committee Chairman.

Report of the Directors

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

CEO & Director of Nursing; 9 years service as a Credit Society Director; 38 years service in the nursing/health profession. Audit Committee member.

Stephen John MELVILLE B.Bus (Accounting) FCPA MAICD

Executive Manager Corporate - Forest Products Commission, 15 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 Committee Chairman.

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

Commissioner of WA Police, 4 years service as a Credit Society Director; 36 years service as a Police Officer. Board Governance Committee member.

Alan Craig PHILP Dip Nursing & Midwifery, BA HSc, MPH (appointed 27 October 2008)

Health Director, Department of Health & Ageing, 33 years in nursing profession, 33 years as a member of the Credit Society. 1 years service as a Credit Society Director. Board Governance Committee member.

Ann Maree RIAL RN RM ICNC GC FAICD

Clinical Nurse Manager, 22 years service as a Credit Society Director; 37 years service in the nursing/health profession. Audit Committee member.

Each director holds one member share in the Society.

COMPANY SECRETARY

A E (Fred) HUIS CA

26 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 2009 and the number of meetings attended by each director.

Director	Directors' Meetings		Audit Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith***	11	10	4	4	1	1
F J Compton	11	11	2	2	1	1
M J Dean	11	10	2	2	1	1
P M Gabb	11	11	4	4	*	*
M T Hinton**	4	3	*	*	*	*
E A Manley	11	11	2	2	*	*
S J Melville	11	11	4	4	*	*
A M Rial	11	11	2	1	*	*
K J O'Callaghan	11	9	*	*	1	1
A C Philp**	7	7	*	*	1	1

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 COMMITTEE

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

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

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

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 $117,586,000 to $2,438,483,000, members' deposits increased by $362,080,000 to $1,563,750,000 and loans and advances increased by $75,420,000 to $2,121,029,000.

The profit of the Group and the Society for the financial year after income tax and before minority interest was $9,963,000 (2008: $19,508,000) and $11,394,000 (2008: $17,393,000), 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.

Report of the Directors

ASSETS

Before the financial statements were made out, the directors took reasonable steps to ascertain whether any assets were unlikely to realise, in the ordinary course of business, their value as shown in the accounting records. At the date of this report the directors are not aware of any circumstances which would render the value attributed to any assets in the financial statements misleading.

SIGNIFICANT CHANGES

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

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

ENVIRONMENTAL REGULATION

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

REGISTER OF DIRECTORS' INTERESTS

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

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

INSURANCE OF OFFICERS

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

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 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
31 August 2009

Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Credit Society Ltd for the year ended 30 June 2009, 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.

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Douglas Craig

Douglas Craig
Partner

Perth WA
31 August 2009

Liability limited by a scheme approved under Professional Standard Legislation.

Income Statements

YEAR ENDED 30 JUNE 2009	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
INTEREST REVENUE	3	**161,915**	176,645	**162,383**	177,096
INTEREST EXPENSE	3	**119,155**	124,621	**118,850**	124,439
NET INTEREST INCOME		**42,760**	52,024	**43,533**	52,657
NON-INTEREST REVENUE					
Loan fee revenue		**5,329**	8,092	**5,329**	8,092
Financial services fees		**9,678**	9,638	**9,678**	9,638
Financial planning fees		**1,870**	2,500	**-**	-
Amenity fees		**1,382**	1,104	**-**	-
Other fee revenue		**780**	879	**435**	530
Insurance commissions		**2,319**	2,068	**2,319**	2,068
Other commissions		**744**	695	**744**	695
Revenue from sale of property developments		**1,069**	5,072	**-**	-
Dividend revenue		**1,025**	361	**2,127**	361
OTHER INCOME					
Bad debts recovered		**266**	234	**266**	234
Net gain on disposal of property, plant & equipment		**-**	44	**-**	44
Other income		**151**	342	**256**	431
TOTAL NON-INTEREST REVENUE AND OTHER INCOME		**24,613**	31,029	**21,154**	22,093
TOTAL INCOME		**67,373**	83,053	**64,687**	74,750
BAD AND DOUBTFUL DEBTS EXPENSE	8(b)	**3,946**	3,391	**3,946**	3,391
OTHER EXPENSES					
Auditor's remuneration	28	**658**	415	**535**	373
Finance costs		**592**	652	**592**	652
Depreciation and amortisation		**2,933**	2,829	**2,729**	2,632
Fees and commissions		**6,973**	8,766	**6,871**	8,670
Property development costs		**2,221**	2,062	**-**	-
Employee benefits expense		**21,196**	21,117	**19,627**	19,299
Information technology costs		**2,860**	2,518	**2,905**	2,553
Marketing costs		**2,811**	2,978	**2,781**	2,972
Other general and administration costs		**7,227**	8,036	**6,473**	7,058
Revaluation of investment property to fair value	14	**-**	191	**-**	-
Net loss on disposal of property, plant & equipment		**21**	-	**18**	-
Rental – operating leases		**3,797**	3,435	**3,730**	3,371
TOTAL EXPENDITURE		**55,235**	56,390	**50,207**	50,971
PROFIT BEFORE INCOME TAX		**12,138**	26,663	**14,480**	23,779
INCOME TAX EXPENSE	4	**2,175**	7,155	**3,086**	6,386
PROFIT FOR THE YEAR		**9,963**	19,508	**11,394**	17,393
(PROFIT)/LOSS ATTRIBUTABLE TO MINORITY INTEREST		**(283)**	(343)	**-**	-
PROFIT ATTRIBUTABLE TO MEMBERS		**9,680**	19,165	**11,394**	17,393

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

Balance Sheets

AS AT 30 JUNE 2009	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
ASSETS					
Cash and cash equivalents	5	**18,416**	14,919	**18,089**	14,177
Receivables due from other financial institutions	6	**221,838**	169,777	**221,838**	169,777
Trade and other receivables	7	**14,011**	25,645	**6,713**	16,764
Loans and advances	8	**2,121,029**	2,045,609	**2,121,029**	2,045,609
Derivative financial instruments	9	**-**	7,433	**-**	7,433
Inventories	10	**17,888**	16,318	**-**	-
Available-for-sale financial assets	11	**2,888**	2,888	**2,888**	2,888
Due from controlled entities	12	**-**	-	**10,431**	9,294
Property, plant and equipment	13	**2,965**	2,570	**2,857**	2,493
Investment properties	14	**25,296**	25,301	**-**	-
Other financial assets	15	**-**	-	**3,083**	3,083
Intangible assets	16	**12,127**	10,437	**9,276**	7,401
Current tax assets		**2,025**	-	**1,996**	-
Deferred tax assets	17	**-**	-	**4,756**	-
TOTAL ASSETS		**2,438,483**	2,320,897	**2,402,956**	2,278,919
LIABILITIES					
Members' deposits	18	**1,563,750**	1,201,670	**1,563,943**	1,201,893
Trade and other payables	19	**64,693**	85,957	**44,157**	65,121
Derivative financial instruments	9	**11,590**	-	**11,590**	-
Current tax liabilities		**-**	959	**-**	932
Borrowings	20	**625,684**	849,637	**613,627**	838,463
Due to controlled entities	12	**-**	-	**5,522**	5,017
Provisions	21	**1,730**	1,201	**505**	285
Deferred tax liabilities	22	**794**	7,763	**-**	1,674
TOTAL LIABILITIES		**2,268,241**	2,147,187	**2,239,344**	2,113,385
NET ASSETS		**170,242**	173,710	**163,612**	165,534
MEMBERS' FUNDS					
Reserves	23	**137,467**	135,762	**137,467**	135,762
Retained earnings	23	**29,932**	35,273	**26,145**	29,772
Minority interest		**2,843**	2,675	**-**	-
TOTAL MEMBERS' FUNDS		**170,242**	173,710	**163,612**	165,534

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

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2009	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Total members' funds (equity) at the beginning of the financial year		**173,710**	151,167	**165,534**	145,106
Changes in the fair value of cash flow hedges, net of tax	23(c)	**(13,316)**	3,035	**(13,316)**	3,035
Net income recognised directly in members' funds (equity)		**(13,316)**	3,035	**(13,316)**	3,035
Profit for the year		**9,963**	19,508	**11,394**	17,393
Total recognised income and expense for the year		**(3,353)**	22,543	**(1,922)**	20,428
Dividends paid to minority interest		**(115)**	-	**-**	-
Total members' funds (equity) at the end of the financial year		**170,242**	173,710	**163,612**	165,534
Total recognised income and expense for the year is attributable to:					
Members of the Society		**(3,636)**	22,200	**(1,922)**	20,428
Minority interest		**283**	343	**-**	-
		(3,353)	22,543	**(1,922)**	20,428

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2009	Notes	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
		2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received from loans		**148,546**	164,533	**148,546**	164,533
Interest received from investments		**14,194**	10,727	**14,663**	11,177
Commissions and other income received		**32,464**	16,511	**28,410**	14,319
Borrowing costs – members		**(68,727)**	(55,990)	**(68,727)**	(55,950)
Borrowing costs – banks		**(59,782)**	(68,268)	**(59,478)**	(68,086)
Payments to employees and suppliers (inclusive of goods and services tax)		**(59,620)**	(41,587)	**(55,328)**	(36,286)
Income tax paid		**(6,418)**	(10,161)	**(7,821)**	(10,112)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24(a)	**657**	15,765	**265**	19,595
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received		**1,025**	361	**2,127**	361
Net increase in loans and advances		**(79,099)**	(224,116)	**(79,099)**	(224,116)
Proceeds from sale of property, plant and equipment		**53**	169	**52**	169
Net movement in interest earning deposits		**(52,060)**	(48,778)	**(52,061)**	(48,778)
Payments for property, plant and equipment		**(1,639)**	(1,673)	**(1,592)**	(1,053)
Payments for intangible assets		**(3,447)**	(3,992)	**(3,448)**	(3,992)
Payments for investments		**(121)**	-	-	-
Loans from controlled entities		**-**	-	**452**	913
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(135,288)**	(278,029)	**(133,569)**	(276,496)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net increase in members' deposits		**362,093**	134,256	**362,063**	134,926
Loans (to)/from other financial institutions		**(223,901)**	134,782	**(224,835)**	129,012
Member shares issued		**9**	3	**9**	3
Member shares redeemed		**(21)**	(24)	**(21)**	(24)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**138,180**	269,017	**137,216**	263,917
Net increase in cash and cash equivalents held		**3,549**	6,753	**3,912**	7,016
Cash and cash equivalents at the beginning of the year		**14,867**	8,114	**14,177**	7,161
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24(b)	**18,416**	14,867	**18,089**	14,177

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

Notes to the Financial Statements

30 JUNE 2009

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.

(b) Principles of consolidation

(i) Subsidiaries

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

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting

Notes to the Financial Statements

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:

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

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

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

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

Notes to the Financial Statements

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.

(g) Investments and other financial assets

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

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

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

(h) Intangible assets

(i) Goodwill

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

(ii) Computer software costs

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

The Group carries capitalised software assets at cost less amortisation and any impairment losses, if any. Costs capitalised include external direct costs of materials and 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.

Notes to the Financial Statements

(iii) Client list

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

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

(i) Impairment of assets

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

(j) Income tax

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

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

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

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

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

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

Tax consolidation legislation

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

The head entity, the Society, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the

Notes to the Financial Statements

tax consolidated group continues to be a stand alone taxpayer in its own right.

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

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

(k) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(l) Interest

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

(m) Cash and cash equivalents

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

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

(n) Trade receivables

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

(o) Revenue recognition

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

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

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

For property development activities, revenue is recognised when risks and rewards have passed to the buyer, which is determined to be at least when there is a signed unconditional contract of sale and

Notes to the Financial Statements

the work on the property development is complete. All marketing and direct selling costs are expensed as incurred.

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

Amenities fee revenue, included in other fee revenue, is payable by a resident of the investment property as consideration for the right to the exclusive use of the dwelling occupied by the resident. 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 the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
Cash Flow Hedge	
Exposure to variability in cash flows associated with a highly probable forecasted transaction or a committed transaction.	The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to any ineffective portion is recognised in the income statement immediately. Amounts accumulated in equity are taken to the income statement in the periods when the hedged item affects income, for instance, when the forecast transaction that is hedged takes place.

Notes to the Financial Statements

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

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

(r) Fair value estimation

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

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

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

(s) Borrowings

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

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

(t) Borrowing costs

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

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

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

(u) Loan securitisation

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

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

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

Notes to the Financial Statements

(v) Other payables

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

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

(w) Loan origination fees and transaction costs

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

(x) Other receivables

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

(y) Segment reporting

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

(z) Goods and Services Tax (GST)

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

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

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

(aa) Business combinations

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

Notes to the Financial Statements

(bb) Rounding of amounts

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

(cc) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2009 reporting periods. The Group's assessment of the impact of these new standards is set out below.

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

AASB 8 replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. The new standard requires adoption of a 'management approach' to reporting on financial performance of segments with information being reported based on what key decision makers use internally to evaluate segment results and how to allocate resources to the various segments. AASB 8 and AASB 2007-3 are applicable for annual reporting periods beginning on or after 1 January 2009 and will not affect any of the amounts recognised in the financial statements, but will impact the disclosures in relation to the Group's segments.

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

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

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

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

(iv) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127

Revised AASB 3 and AASB 127 are applicable for annual reporting periods beginning on or after 1 January 2009. The revised AASB 3 continues to apply the purchase method to business combinations, but with some

Notes to the Financial Statements

significant changes. For example, the assets and liabilities are to continue being recorded at fair value at acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. Transaction costs must be expensed and the goodwill applicable to a minority interest's share may be recognised as an asset. This is different to the Group's current accounting policy set out in Note 1(aa). The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The current AASB 127 does not specify how these transactions should be recorded. The Group's current accounting policy set out in Note 1(b)(i) is consistent with the revised AASB 127. The Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

(v) *AASB 2008-6 Further Amendments to Australian Accounting Standards arising the from the Annual Improvements Project [AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards]*

The amendments to AASB 5 and AASB 1 clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures are also applicable. The Group will apply the revised standards prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vi) *AASB 2008-7 Amendments to Australian Accounting Standards [AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial statements]*

The amendments to AASB 1 and AASB 127 require that all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, however the investments may need to be tested for impairment due to the dividend payment. Under the entity's current policy these dividends are deducted from the cost of the investment. The Group will apply the revised standards prospectively from 1 July 2009.

(vii) *AASB Interpretation 15 Agreements for the Construction of Real Estate [AASB 118 Revenue and AASB 111 Construction Contracts]*

AASB-I 15 clarifies whether AASB 118 or AASB 111 should be applied in particular transactions. The Group has reviewed its treatment of sales of land from property developments and has determined that this interpretation does not change its current accounting policies and there will be no impact on the financial statements. The Group intends to apply the interpretation from 1 July 2009.

(viii) *AASB 2008-8 Amendment to IAS 39 Financial Instruments: Recognition and Measurement*

AASB 2008-8 must be applied retrospectively and is effective from 1 July 2009. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt and prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Notes to the Financial Statements

(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.

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

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

Notes to the Financial Statements

30 JUNE 2009

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	2009 Average Balance $'000	2009 Interest $'000	2009 Average Interest Rate %	2008 Average Balance $'000	2008 Interest $'000	2008 Average Interest Rate %
Interest earning assets						
Deposits with other banks/ADIs	**240,898**	**13,369**	**5.55%**	168,248	12,112	7.20%
Loans and advances	**2,078,085**	**148,546**	**7.15%**	1,966,370	164,533	8.37%
	2,318,983	**161,915**	**6.98%**	2,134,618	176,645	8.28%
Interest bearing liabilities						
Members' deposits	**1,356,955**	**66,592**	**4.91%**	1,148,956	59,948	5.22%
Borrowings from other banks/ADIs	**802,019**	**52,563**	**6.55%**	837,586	64,673	7.72%
	2,158,974	**119,155**	**5.52%**	1,986,542	124,621	6.27%

	2009	2008
Analysis of net interest income		
Net interest income	**42,760**	52,024
Average interest earning assets	**2,318,983**	2,134,618
Net interest margin (1)	**1.84%**	2.44%
Spread (2)	**1.46%**	2.01%

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

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

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**3,279**	6,968	**3,903**	6,914
Deferred tax	**(1,263)**	1,726	**(723)**	(161)
(Over) under provided in prior years	**159**	(1,539)	**(94)**	(367)
	2,175	7,155	**3,086**	6,386
Deferred income tax expense (revenue) included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 17)	**(1,634)**	(849)	**(995)**	(840)
Increase (decrease) in deferred tax liabilities (Note 22)	**371**	2,575	**272**	679
	(1,263)	1,726	**(723)**	(161)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**12,138**	26,663	**14,480**	23,780
Prima facie income tax calculated at 30% (2008 - 30%)	**3,641**	7,999	**4,344**	7,134
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non deductible entertainment	**6**	21	**6**	20
Deductible investment allowance	**(23)**	-	**(23)**	-
Tax offset for franked dividends	**(338)**	(155)	**(338)**	(155)
Under (over) provision for deferred tax in previous year	**(1,360)**	829	**(803)**	(246)
Sundry items	**90**	-	**(5)**	-
	2,016	8,694	**3,181**	6,753
(Over)/under provision in previous year	**159**	(1,539)	**(95)**	(367)
Income tax expense	**2,175**	7,155	**3,086**	6,386
(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)	**(5,707)**	1,301	**(5,707)**	1,301
(d) Franking credits				
Franking credits based on a tax rate of 30%	**49,532**	44,537	**49,493**	43,646

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

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

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

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

Notes to the Financial Statements

30 JUNE 2009

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	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**10,933**	8,081	**10,626**	7,361
Cash and deposits at call with banks	**3,079**	156	**3,059**	134
Cash and deposits at call with other Approved Deposit-Taking Institutions (ADIs)	**4,404**	6,682	**4,404**	6,682
	18,416	14,919	**18,089**	14,177
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits – banks	**179,838**	20,500	**179,838**	20,500
Interest earning deposits – other ADIs	**42,000**	149,277	**42,000**	149,277
	221,838	169,777	**221,838**	169,777

The deposits have an effective interest rate of 3.12% to 7.75% (2008: 7.62% to 8.50%).

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**1,677**	2,503	**1,677**	2,503
Trade debtors - sale of residential lots	**357**	2,303	**-**	-
Prepayments	**962**	970	**935**	940
Amenities and reserve fund fees	**5,233**	4,020	**-**	-
Member transaction clearing	**2,731**	12,428	**2,731**	12,428
Land and property development debtors	**1,349**	1,776	**-**	-
Other	**1,702**	1,645	**1,370**	893
	14,011	25,645	**6,713**	16,764

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

8. LOANS AND ADVANCES				
Revolving credit	**159,554**	145,260	**159,554**	145,260
Term loans	**1,959,737**	1,898,209	**1,959,737**	1,898,209
Related parties (a)	**4,218**	3,707	**4,218**	3,707
	2,123,509	2,047,176	**2,123,509**	2,047,176
Provision for impairment (b)	**(2,480)**	(1,567)	**(2,480)**	(1,567)
Net loans and advances	**2,121,029**	2,045,609	**2,121,029**	2,045,609

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 2009 securitised loans under management by the Society amounted to $574,444,073 (2008: $729,375,483) which are included in both the revolving credit and term loans above.

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
8. LOANS AND ADVANCES (cont'd)				
(a) Aggregate amounts receivable from related parties:				
Key management personnel and their related entities	**4,218**	3,707	**4,218**	3,707
(b) Provision for impairment				
Specific provision				
Opening balance	**1,567**	1,153	**1,567**	1,153
Bad debts previously provided for written off during the year	**(3,033)**	(2,977)	**(3,033)**	(2,977)
Bad and doubtful debts provided for/(reversed) during the year	**3,946**	3,391	**3,946**	3,391
Closing balance	**2,480**	1,567	**2,480**	1,567
(c) Bad Debts Written Off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**395**	405	**395**	405
Personal loans	**2,492**	2,572	**2,492**	2,572
Home loans	**146**	-	**146**	-
	3,033	2,977	**3,033**	2,977
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps – cash flow hedges (asset)	**-**	7,433	**-**	7,433
Interest rate swaps – cash flow hedges (liabilities)	**11,590**	-	**11,590**	-

a) Terms and conditions

At balance date, the Society has interest rate swap agreements with a notional amount of $304.7 million (2008: $295.1 million), on which it pays 3.44% to 7.55% (2008: 5.55% 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 August 2009 and September 2013.

Notes to the Financial Statements

30 JUNE 2009 **CONSOLIDATED**

10. INVENTORIES

	Land Acquisition Costs	Holding Costs	Development Costs	Total
Land held for sale	**$'000**	**$'000**	**$'000**	**$'000**
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**
2008				
Group inventory	900	6	63	969
Share of joint venture inventory	2,132	2,143	11,074	15,349
	3,032	2,149	11,137	16,318

Inventory of $8.2 million (2008: $7.5 million) is to be recovered greater than 12 months from balance date.

Inventory of $12.2 million (2008: $11.5 million) and trade and other receivables of $0.2 million (2008: $0.2 million) are pledged as security for borrowings of $11.9 million (2008: $11.2 million). The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories was $0.9million (2008: $1.5 million).

	Expenses incurred to balance date	Valuation	Valuation date	Interest held	Benificial Interest
	$'000	**$'000**			**$'000**
The valuations of land being developed by the consolidated entity are as follows:					
"The Reef" at Two Rocks – Two Rocks Road, Two Rocks	**12,282**	**55,000**	**30 June 2008**	**75.00%**	**41,250**

"The Reef" at Two Rocks

1. The valuation amount shown is based on a Directors Valuation prepared as at 30 June 2008 which is supported by a formal valuation prepared by a licensed valuer dated 15 June 2008.
2. The valuation is based on the generally accepted definition of Market Value – "Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction, after proper marketing wherein parties had each acted knowledgeably, prudentially and without compulsion."
3. Basis of valuation:
   (a) In relation to the partly developed land, a hypothetical static analysis approach has been undertaken to assess the potential gross realisation to be achieved for the various individual lots to be created, as determined from sales evidence, and reducing this by the estimated costs required to complete the partly developed land for realisation. The remaining undeveloped and vacant urban land holding is valued in its entirety using the direct sales comparison approach with transactions of equivalently sized parcels of land with similar characteristics.
   (b) The valuation amount is exclusive of GST.

Notes to the Financial Statements

30 JUNE 2009

10. INVENTORIES (cont'd)

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 2009, revenue of $1.43 million (2008: $3.8 million) has been recognised with expenses incurred of $1.39 million (2008: $2.5 million) in relation to lots sold at "The Reef" at Two Rocks. This represents 7 lots (2008: 18 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 2009 the net assets of the joint venture were $0.9 million (2008: $1.3 million).

"The Enclave" at Eagle Bay

1. A Directors Valuation has not been prepared for this development.
2. During the year 36 rural residential lots have been constructed.
3. Clearance and titles for the 36 lots is currently being applied for.

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.

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'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.

12. DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (Assets)				
Amounts receivable from controlled entities	-	-	**10,407**	6,728
Tax related amounts receivable from controlled entities	-	-	**24**	2,566
	-	-	**10,431**	9,294
Due to controlled entities (Liabilities)				
Amounts payable to controlled entities	-	-	**4,882**	749
Tax related amounts payable to controlled entities	-	-	**640**	4,268
	-	-	**5,522**	5,017

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
13. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	**4,024**	3,417	**4,009**	3,401
Provision for amortisation	**(2,853)**	(2,555)	**(2,838)**	(2,539)
	1,171	862	**1,171**	862
Plant and equipment				
At cost	**11,032**	10,400	**10,887**	10,267
Provision for depreciation	**(9,238)**	(8,692)	**(9,201)**	(8,636)
	1,794	1,708	**1,686**	1,631
Total property, plant and equipment	**2,965**	2,570	**2,857**	2,493

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

	CONSOLIDATED			POLICE & NURSES CREDIT SOCIETY LTD		
	Leasehold Improvements $'000	**Plant & Equipment $'000**	**Total $'000**	**Leasehold Improvements $'000**	**Plant & Equipment $'000**	**Total $'000**
Carrying amount at 1 July 2007	1,148	2,341	3,489	1,145	2,272	3,417
Additions	249	828	1,077	249	812	1,061
Disposals	(16)	(121)	(137)	(16)	(121)	(137)
Depreciation expense	(519)	(1,340)	(1,859)	(516)	(1,332)	(1,848)
Carrying amount at 30 June 2008	862	1,708	2,570	862	1,631	2,493
Carrying amount at 1 July 2008	**862**	**1,708**	**2,570**	**862**	**1,631**	**2,493**
Additions	**787**	**1,048**	**1,835**	**787**	**1,000**	**1,787**
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**	**1,794**	**2,965**	**1,171**	**1,686**	**2,857**

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
14. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**25,301**	25,474	**-**	-
Net transfer (to) from inventory	**(5)**	18	**-**	-
Net gain (loss) from fair value adjustment	**-**	(191)	**-**	-
Closing balance	**25,296**	25,301	**-**	-

(a) Description of investment property

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

b) Amounts recognised in profit and loss for investment property

Other income - amenities fees and interest	**1,083**	1,118	**-**	-
Direct operating expenses from property that generated other income	**(63)**	(63)	**-**	-
Net gain (loss) from fair value adjustment	**-**	(191)	**-**	-
	1,020	864	**-**	-

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 2009 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.

The basis for the directors' valuation was a formal independent valuation prepared by Richard Noble & Company. The date of the valuation is 30 June 2009 and valued the retirement village at an amount of $9.85 million.

Notes to the Financial Statements

30 JUNE 2009

14. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

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 cashflows over a period of 35 years (2008: 40 years). The discounted cashflows are based on the following assumptions:

(i) unit values are based on a weighted average of $385,000 (2008: $400,000) per unit;

(ii) escalation factor of 6% (2008: 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 2009 and 3% capital appreciation in 2010;

(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% (2008: 13%) 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 (2008: $9.0 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2009 $'000	2008 $'000
Net value of property transferred from property, plant & equipment	**13,815**	13,804
Add: Transfer (to)/from inventories	**2**	18
Net gain from fair value adjustment	**11,479**	11,479
Investment property asset	**25,296**	25,301
Included in property plant and equipment	**55**	21
Add: Accrued Amenities fees (Other receivables)	**4,069**	3,155
Less: Lease loan sum liability (Note 19)	**(19,477)**	(19,477)
	9,943	9,000

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 **$'000**	2008 $'000	**2009** **$'000**	2008 $'000
15. OTHER FINANCIAL ASSETS				
Investments in controlled entities	**-**	-	**3,083**	3,083

CONSOLIDATED

	Interests in Controlled Entities		Shares Held in Controlled Entities		Shares Held in Controlled Entities	
			Held by the Society	**Held by Other Controlled Entities**	Held by the Society	Held by Other Controlled Entities
	2009 **%**	2008 %	**2009** **$**	**2009** **$**	2008 $	2008 $
All controlled entities are incorporated in Australia and are ultimately controlled by the Society. The controlled entities are as follows:						
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
P&N Landreach Pty Ltd	**100**	100	**1,900**	**-**	1,900	-
Essential Service Homes Pty Ltd	**100**	100	**10,000**	**-**	10,000	-
P&N Management Pty Ltd	**100**	100	**60,000**	**-**	60,000	-
National Home Loans Pty Ltd	**100**	100	**61,500**	**-**	61,500	-
Jacaranda Gardens Partnership (jointly controlled)	**80**	80	**-**	**-**	-	-
Police & Nurses Financial Planning Pty Ltd	**65**	65	**2,550,080**	**-**	2,550,080	-
			3,083,483	**19,999**	3,083,483	19,999

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
16. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
Computer software (ii)				
At cost	**17,552**	14,105	**17,552**	14,105
Accumulated amortisation	**(8,276)**	(6,704)	**(8,276)**	(6,704)
	9,276	7,401	**9,276**	7,401
Client list (iii)				
At cost	**1,861**	1,861	**-**	-
Accumulated amortisation	**(582)**	(397)	**-**	-
	1,279	1,464	**-**	-
Total intangible assets	**12,127**	10,437	**9,276**	7,401
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	**7,401**	4,187	**7,401**	4,187
Additions	**3,477**	3,993	**3,477**	3,993
Amortisation charge *	**(1,602)**	(779)	**(1,602)**	(779)
Closing carrying amount	**9,276**	7,401	**9,276**	7,401
(iii) Client list				
Opening carrying amount	**1,464**	1,651	**-**	-
Amortisation charge *	**(185)**	(187)	**-**	-
Closing carrying amount	**1,279**	1,464	**-**	-

* 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.

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
17. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**744**	470	**744**	470
Intangible assets – client list	**175**	-	**-**	-
Business related costs	**161**	-	**120**	-
Provisions	**519**	-	**151**	-
Depreciation	**1,261**	154	**1,261**	154
Accruals	**524**	1,126	**439**	1,096
	3,384	1,750	**2,715**	1,720
Amounts recognised directly in equity				
Cash flow hedges	**3,477**	-	**3,477**	-
	6,861	1,750	**6,192**	1,720
Offset to/from deferred tax liabilities (Note 22)	**(6,861)**	(1,750)	**(1,436)**	(1,720)
Net deferred tax assets	**-**	-	**4,756**	-
Movements:				
Opening balance	**1,750**	901	**1,720**	880
(Charged)/credited to the income statement (Note 4)	**1,634**	849	**995**	840
Closing balance	**3,384**	1,750	**2,715**	1,720
18. MEMBERS' DEPOSITS				
Call deposits	**517,525**	437,692	**517,718**	437,915
Term deposits	**1,044,929**	762,604	**1,044,929**	762,604
Withdrawable shares (a)	**608**	620	**608**	620
Related parties (b)	**688**	754	**688**	754
	1,563,750	1,201,670	**1,563,943**	1,201,893

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 64,423 (2008: 65,780) member shares on issue at the end of the year.

(b) Deposits for related parties are in relation to key management personnel and their related entities.

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
19. TRADE AND OTHER PAYABLES				
Accrued interest payable	**10,076**	12,213	**10,076**	12,213
Securitised loan repayments payable	**22,573**	29,792	**22,573**	29,792
Lease loan sums (Note 14)	**19,477**	19,477	**-**	-
Other payables	**12,567**	24,475	**11,508**	23,116
	64,693	85,957	**44,157**	65,121

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

20. BORROWINGS				
Secured				
– Overdrafts from other ADIs (a)	**-**	52	**-**	-
– Loans from other ADIs (b)	**51,240**	120,210	**39,183**	109,088
– Securitised borrowings	**574,444**	729,375	**574,444**	729,375
	625,684	849,637	**613,627**	838,463

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

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

21. PROVISIONS				
Employee benefits	**530**	308	**505**	285
Refurbishment	**1,200**	893	**-**	-
	1,730	1,201	**505**	285

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
22. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**-**	8	**-**	-
Receivables	**2,073**	2,583	**503**	751
Intangible assets - software	**933**	908	**933**	413
Inventory	**942**	165	**-**	-
Fair value adjustment to investment property	**3,444**	3,444	**-**	-
Depreciation	**-**	2	**-**	-
Capital works	**263**	173	**-**	-
	7,655	7,283	**1,436**	1,164
Amounts recognised directly in equity				
Cash flow hedges	**-**	2,230	**-**	2,230
	7,655	9,513	**1,436**	3,394
Offset to/from deferred tax assets (Note 17)	**(6,861)**	(1,750)	**(1,436)**	(1,720)
Net deferred tax liabilities	**794**	7,763	**-**	1,674
Movements:				
Opening balance	**9,513**	5,637	**3,394**	1,414
Charged/(credited) to the income statement (Note 4)	**371**	2,575	**272**	679
Charged to equity	**(2,229)**	1,301	**(2,230)**	1,301
Closing balance	**7,655**	9,513	**1,436**	3,394
23. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**145,000**	130,000	**145,000**	130,000
Share capital reserve (b)	**580**	559	**580**	559
Hedging reserve – cash flow hedges (c)	**(8,113)**	5,203	**(8,113)**	5,203
	137,467	135,762	**137,467**	135,762
Retained earnings				
Balance at beginning of year	**35,273**	31,132	**29,772**	27,403
Profit for the year	**9,680**	19,165	**11,394**	17,393
Total available for appropriation	**44,953**	50,297	**41,166**	44,796
Aggregate of amounts transferred to reserves	**(15,021)**	(15,024)	**(15,021)**	(15,024)
Balance at end of year	**29,932**	35,273	**26,145**	29,772

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000

23. RESERVES AND RETAINED EARNINGS (cont'd)

(a) General reserve

	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at beginning of year	**130,000**	115,000	**130,000**	115,000
Transfer from retained profits	**15,000**	15,000	**15,000**	15,000
Balance at end of year	**145,000**	130,000	**145,000**	130,000

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

	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at beginning of year	559	535	559	535
Transfer from retained profits	21	24	21	24
Balance at end of year	580	559	580	559

Nature and purpose of share capital reserve

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

(c) Hedging reserve – cash flow hedges

	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at beginning of year	**5,203**	2,168	**5,203**	2,168
Revaluation – net	**(13,316)**	3,035	**(13,316)**	3,035
Balance at end of year	**(8,113)**	5,203	**(8,113)**	5,203

Nature and purpose of hedging reserve – cash flow hedges

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

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
24. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the profit after tax to the net cash flows from operations				
Profit after income tax	**9,963**	19,508	**11,394**	17,393
Depreciation and amortisation	**2,933**	2,829	**2,729**	2,632
Bad and doubtful debts	**3,946**	3,390	**3,946**	3,390
Bad debts recovered	**(267)**	(234)	**(266)**	(234)
Loss/(gain) on disposal of property, plant and equipment	**20**	(44)	**18**	(44)
Dividend received	**(1,025)**	(361)	**(2,127)**	(361)
Increase/(decrease) in provisions	**529**	197	**220**	(117)
Decrease/(increase) in loan interest receivable	**826**	(1,386)	**825**	(1,386)
Decrease/(increase) in other receivables	**9,137**	(9,408)	**9,503**	(7,147)
Decrease/(increase) in debtors from sale of land	**1,946**	(1,183)	**-**	-
Increase in inventory	**(1,570)**	(2,466)	**-**	-
(Decrease)/increase in member interest payable	**(2,136)**	3,999	**(2,136)**	3,999
Increase/(decrease) in accrued expenses and trade and other payables	**(19,128)**	3,709	**(18,828)**	5,133
Decrease in current tax liabilities	**(2,988)**	(4,732)	**(2,928)**	(5,179)
Decrease in future income tax benefit	**-**	-	**(4,472)**	-
(Decrease)/increase in deferred tax liabilities	**(1,254)**	1,726	**3,750**	(161)
Decrease/(increase) in sundry debtors and prepayments	**(275)**	30	**(278)**	(1,086)
Fair value adjustment to investment property	**-**	191	**-**	-
Decrease in tax related amount receivable	**-**	-	**2,542**	2,831
Decrease in tax related amount payable	**-**	-	**(3,627)**	(68)
Net cash outflow from operating activities	**657**	15,765	**265**	19,595
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
– Cash (Note 5)	**18,416**	14,919	**18,089**	14,177
– Bank overdraft (Note 20)	**-**	(52)	**-**	-
Closing cash and cash equivalents balance	**18,416**	14,867	**18,089**	14,177

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'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	**5,283**	1,125	**5,283**	1,125
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than 1 year	**4,191**	5,516	**4,191**	5,516
– later than 1 and not later than 5 years	**13,301**	10,686	**13,301**	10,686
– later than 5 years	**12,109**	11,408	**12,109**	11,408
Aggregate lease expenditure contracted for at balance date	**29,601**	27,610	**29,601**	27,610
As at 30 June 2009, the Society had entered into an agreement to lease premises at 130 Stirling Street, Perth to provide accommodation for head office staff relocating out of two buildings in Adelaide Terrace, Perth, by September 2009. The amount that relates to this commitment is $22,829,002 (2008: $22,829,002).				
(c) Land development commitments				
Estimated land development commitments contracted for at balance date but not provided for				
– payable not later than one year	**-**	275	**-**	-

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
26. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	**152,863**	173,303	**152,863**	173,303

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 2009)
- Derivatives Guarantee Facility: $3,000,000 ($520,000 used as at 30 June 2009)
- Overdraft: $2,000,000 (Unused as at 30 June 2009)
- Wholesale Funding Multi-Option Facility: $70,000,000 (Unused as at 30 June 2009)

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

iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: $2,000,000. This facility was unused at 30 June 2009. 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.

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009	2008	**2009**	2008
27. KEY MANAGEMENT PERSONNEL DISCLOSURES	**$**	$	**$**	$
Total key management personnel remuneration	**2,098,739**	2,081,409	**2,098,739**	2,081,409
Short-term employee benefits	**2,041,838**	2,037,719	**2,041,838**	2,037,719
Post-employment benefits	**56,901**	43,690	**56,901**	43,690
	2,098,739	2,081,409	**2,098,739**	2,081,409

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 2009 amounted to $1,145,877 (2008: $1,267,747). During the year loan advances amounted to $462,357 (2008: $487,395) and repayments amounted to $649,695 (2008: $964,520). Interest on these loans amounted to $64,191 (2008: $108,914). All of these loans are secured, except loan balances of $4,640 (2008: $25,158).

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 2009 amounted to $3,071,908 (2008: $2,425,140). During the year loan advances amounted to $1,952,542 (2008: $550,344) and repayments amounted to $1,518,692 (2008: $1,349,545). Interest on these loans amounted to $212,660 (2008: $228,213). All of these loans are secured, except loan balances of $1,214 (2008: $26,726).

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 2009 amounted to $687,995 (2008: $753,800). During the year additional deposits amounted to $3,204,256 (2008: $3,843,108) and withdrawals amounted to $3,307,126 (2008: $3,443,987). Interest on these deposits amounted to $35,934 (2008: $28,385).

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

Notes to the Financial Statements

30 JUNE 2009	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'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	**203**	177	**157**	159
- other assurance services	**19**	23	**15**	23
	222	200	**172**	182
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers:				
- income tax advice	**171**	60	**150**	38
- GST advice	**204**	126	**204**	126
- fringe benefits tax advice	**6**	12	**5**	11
- other	**55**	17	**4**	16
	436	215	**363**	191
Total auditor's remuneration	**658**	415	**535**	373

Notes to the Financial Statements

30 JUNE 2009

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

Eagle Bay Joint Venture

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

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

	CONSOLIDATED	
	2009 $'000	2008 $'000
Trade and other receivables	**730**	7,248
Inventories (land held for sale)	**16,904**	15,348
Share of assets employed in joint ventures	**17,634**	22,596

Notes to the Financial Statements

30 JUNE 2009

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	
	2009 $'000	2008 $'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	**691**	613
Dividend revenue	**1,102**	-
Other fee revenue	**-**	-
Aggregate amounts receivable from entities in the wholly-owned group at balance date	**10,353**	6,728

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 No.	2008 No.	**2009 No.**	2008 No.
31. EMPLOYEE NUMBERS				
Number of employees at reporting date	**297**	305	**283**	291

Notes to the Financial Statements

30 JUNE 2009

32. SEGMENT INFORMATION

(a) Primary reporting – business segments

The consolidated entity operates predominantly in the finance industry within Australia. The operations comprise the acceptance of deposits and the provision of loans. Specific segmentation of loans and members' deposits are set out in Notes 8, 18 and 33. The consolidated entity is also involved in property development activities through the development of residential land in Western Australia and the operation of a retirement village through the Jacaranda Gardens Partnership.

2009	Services to Members	Property Development	Retirement Village	Inter-segment Eliminations\ Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000
Net interest income from external customers	42,760	-	-	-	42,760
Inter-segment interest income	691	-	-	(691)	-
Net interest income	43,451	-	-	(691)	42,760
Sales to external customers	-	1,069	-	-	1,069
Other revenue/income	22,205	2	1,390	-	23,597
Total segment revenue/income	65,656	1,071	1,390	(691)	67,426
Segment result	12,768	(1,650)	1,020	-	12,138
Profit before income tax expense					12,138
Income tax expense					2,175
Profit for the year					9,963
Segment assets	2,410,799	19,805	31,476	(23,597)	2,438,483
Segment liabilities	2,240,935	29,291	20,489	(22,474)	2,268,241
Acquisitions of property, plant and equipment and intangible assets	5,312	-	-	-	5,312
Depreciation and amortisation expense	2,933	-	-	-	2,933
Other non-cash expenses	4,519	(2)	-	-	4,516

Notes to the Financial Statements

30 JUNE 2009

32. SEGMENT INFORMATION (cont'd)

2008	Services to Members	Property Development	Retirement Village	Inter-segment Eliminations\ Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000
Net interest income from external customers	52,016	-	-	-	52,016
Inter-segment interest income	613	-	-	(613)	-
Net interest income	52,629	-	-	(613)	52,016
Sales to external customers	-	5,072	-	-	5,072
Other revenue/income	22,888	76	927	(68)	23,823
Total segment revenue/income	75,517	5,148	927	(681)	80,911
Segment result	23,581	2,150	864	68	26,663
Profit before income tax expense					26,663
Income tax expense					7,155
Profit for the year					19,508
Segment assets	2,288,706	21,056	30,301	(19,166)	2,320,897
Segment liabilities	2,117,673	27,690	20,335	(18,511)	2,147,187
Acquisitions of property, plant and equipment and intangible assets	4,953	-	-	-	4,953
Depreciation and amortisation expense	2,829	-	-	-	2,829
Other non-cash expenses	4,052	25	-	-	4,077

Inter-segment transfers

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

(b) Secondary reporting – geographical segments

The consolidated entity operates in Australia.

Notes to the Financial Statements

30 JUNE 2009

33. FINANCIAL RISK MANAGEMENT

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

- market risk
- liquidity risk
- credit risk

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

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

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

(a) Market Risk Management - Objectives and Policies

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

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

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

Significant policies and processes for managing risk include:

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

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

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

Notes to the Financial Statements

30 JUNE 2009

33. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate sensitivity analysis

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

	CONSOLIDATED					POLICE & NURSES CREDIT SOCIETY LTD				
		+100bp		-100bp			+100bp		-100bp	
Market Risk	**Carrying Amount**	**Income Statement**	**Other Movements in Equity**	**Income Statement**	**Other Movements in Equity**	**Carrying Amount**	**Income Statement**	**Other Movements in Equity**	**Income Statement**	**Other Movements in Equity**
2009	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
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)**
2008										
Cash and cash equivalents	14,919	12	-	(12)	-	14,177	12	-	(12)	-
Due from banks	169,777	1,750	-	(1,750)	-	169,777	1,750	-	(1,750)	-
Loans (i)	2,047,176	16,894	-	(16,894)	-	2,047,176	16,894	-	(16,894)	-
Derivatives	7,433	-	6,080	-	(6,080)	7,433	-	6,080	-	(6,080)
Overdrafts	(52)	(1)	-	1	-	-	-	-	-	-
Members' deposits (ii)	(1,201,670)	(4,383)	-	4,383	-	(1,201,893)	(4,383)	-	4,383	-
Borrowings	(846,925)	(8,632)	-	8,632	-	(838,463)	(8,632)	-	8,632	-
Total Increase/(Decrease)	190,658	5,640	6,080	(5,640)	(6,080)	198,207	5,641	6,080	(5,641)	(6,080)

(i) 1% shift applied to the value of variable loans held at year end calculated on $1,823,267,326 (2008: $1,689,397,648). The remaining balance represents fixed rate loans for 2009/2010, 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 $518,093,775 (2008: $438,260,268). The remaining balance represents fixed rate deposits for 2009/2010, which are not subject to interest rate movements for the period.

Notes to the Financial Statements

30 JUNE 2009

33. FINANCIAL RISK MANAGEMENT (cont'd)	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Fair Value of Derivatives				
Fair value estimation - interest rate swaps (asset)	**-**	7,433	**-**	7,433
Fair value estimation - interest rate swaps (liability)	**11,590**	-	**11,590**	-

(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 (2008: $35.0 million) of CUSCAL standby facilities to support its liquidity arrangements. Additional liquidity support is available in the form of $4.0 million (2008: $4.0 million) of overdraft facilities, of which $2.0 million (2008: $2.0 million, un-drawn) is with CUSCAL and $2.0 million (2008:$2.0 million, un-drawn) is with Bankwest. Both these facilities were undrawn as at 30 June 2009

The Society also utilises Bridges funding facilities via CUSCAL. This facility has a limit of $40.0 million, of which $0.8 million (2008: $0.9 million) remained undrawn at 30 June 2009. Also maintained by the Society is the Entourage securitisation facility with The Royal Bank of Scotland of $600.0 million (2008: $850.0 million with ABN Amro Bank), of which $Nil (2008: $95.8 million) was available at 30 June 2009.

The Group and the Society had access to the following undrawn borrowing facilities at 30 June 2009.

Notes to the Financial Statements

30 JUNE 2009

33. FINANCIAL RISK MANAGEMENT (cont'd)

	CONSOLIDATED		POLICE & NURSES CREDIT SOCIETY LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Floating Rate				
Expiring within 1 year				
(overdrafts and standby facilities)	**49,000**	39,913	**49,000**	39,913
Expiring beyond 1 year				
(Entourage securitisation facility)	**-**	95,844	**-**	95,844
	49,000	135,757	**49,000**	135,757

Maturities of Financial Liabilities

	CONSOLIDATED				POLICE & NURSES CREDIT SOCIETY LTD			
Liquidity Risk	**On Demand**	**Less Than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**On Demand**	**Less Than 3 Months**	**3 to 13 Months**	**1 to 5 Years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
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**
2008								
Borrowings	-	66,135	117,883	1,038,266	-	66,083	117,883	1,029,804
Members' deposits	439,340	554,118	259,026	5,685	439,117	554,118	259,026	5,685
	439,340	620,253	376,909	1,043,951	439,117	620,201	376,909	1,035,489

Notes to the Financial Statements

30 JUNE 2009

33. 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	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'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	**577,364**	578,471	**577,364**	578,471
Other	**1,546,144**	1,468,705	**1,546,144**	1,468,705
	2,123,508	2,047,176	**2,123,508**	2,047,176
Concentration of deposits				
WA State government employees	**284,504**	251,277	**284,504**	251,277
Other entities	**1,279,246**	950,393	**1,279,246**	950,616
	1,563,750	1,201,670	**1,563,750**	1,201,893

These notes relate to the table on page 65

(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.

Notes to the Financial Statements

30 JUNE 2009

33. 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)	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Derivatives	**(11,590)**	7,433	**(11,590)**	7,443	**-**	-	**-**	-	**-**	-	**-**	-
Fully Performing Loans												
Home Loans	**1,235,597**	1,015,757	**966,843**	700,983	**237,330**	193,498	**78,771**	121,276	**-**	-	**-**	-
Secured Overdrafts	**47,347**	40,870	**46,564**	39,988	**783**	882	**-**	-	**-**	-	**-**	-
Commercial Loans	**84,805**	76,919	**-**	-	**-**	-	**2,987**	2,280	**26,807**	25,155	**55,011**	49,484
Personal Loans	**71,812**	80,087	**-**	-	**-**	-	**-**	-	**71,812**	80,087	**-**	-
Unsecured Overdrafts and Credit Cards	**14,564**	13,305	**-**	-	**-**	-	**-**	-	**-**	-	**14,564**	13,305
Total Fully Performing Loans	**1,454,125**	1,226,938	**1,013,407**	740,971	**238,113**	194,380	**81,758**	123,556	**98,619**	105,242	**69,575**	62,789
Past Due Loans												
Home Loans												
1-7 days	**17,092**	19,802	**8,917**	12,370	**2,812**	2,447	**5,363**	4,985	**-**	-	**-**	-
8-30 days	**24,757**	31,784	**9,457**	17,181	**5,722**	8,348	**9,578**	6,255	**-**	-	**-**	-
31-60 days	**13,326**	10,705	**1,994**	4,423	**3,258**	2,377	**8,074**	3,905	**-**	-	**-**	-
61-89 days	**5,597**	1,387	**2,173**	521	**1,348**	724	**2,076**	142	**-**	-	**-**	-
Total	**60,772**	63,678	**22,541**	34,495	**13,140**	13,896	**25,091**	15,287	**-**	-	**-**	-
Fair Value Security Held (1)	**85,884**	148,143										
Secured Overdrafts												
1-7 days	**-**	1,857	**-**	1,857	**-**	-	**-**	-	**-**	-	**-**	-
8-30 days	**459**	264	**96**	264	**142**	-	**221**	-	**-**	-	**-**	-
31-60 days	**173**	552	**56**	552	**117**	-	**-**	-	**-**	-	**-**	-
Total	**632**	2,673	**152**	2,673	**259**	-	**221**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**2,417**	12,562										
Commercial Loans												
8-30 days	**-**	4,339	**-**	-	**-**	-	**-**	-	**-**	-	**-**	4,339
31-89 days	**297**	211	**-**	-	**-**	-	**-**	-	**-**	-	**297**	211
Total	**297**	4,550	**-**	-	**-**	-	**-**	-	**-**	-	**-**	4,550
Fair Value Security Held (2)	**640**	9,820										
Personal Loans												
1-7 days	**2,695**	3,422	**-**	-		-	**-**	-	**2,695**	3,422	**-**	-
8-30 days	**2,599**	3,145	**-**	-		-	**-**	-	**2,599**	3,145	**-**	-
31-89 days	**1,862**	1,526	**-**	-		-	**-**	-	**1,862**	1,526	**-**	-
Total (3)	**7,156**	8,093	**-**	-		-	**-**	-	**7,156**	8,093	**-**	-
Unsecured Overdrafts and Credit Cards												
1-7 days	**4,674**	5,766	**-**	-	**-**	-	**-**	-	**-**	-	**4,674**	5,766
8-30 days	**81**	175	**-**	-	**-**	-	**-**	-	**-**	-	**81**	175
31-89 days	**479**	398	**-**	-	**-**	-	**-**	-	**-**	-	**479**	398
Total	**5,234**	6,339	**-**	-	**-**	-	**-**	-	**-**	-	**5,234**	6,339
Total Past Due Loans	**74,901**	85,333	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Impaired Loans												
Home Loans												
90 days plus	**8,614**	2,424	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**11,191**	3,280	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Secured Overdrafts												
90-180 days	**39**	236	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (1)	**381**	236	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Commercial Loans												
90 days plus	**9,258**	998	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Fair Value Security Held (2)	**9,887**	1,250	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Personal Loans												
90 days plus	**1,730**	1,651	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Unsecured Overdrafts and Credit Cards												
90 days plus	**484**	221	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total Impaired Loans	**20,125**	5,530	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Securitised Loans	**574,444**	729,375	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total Loans Portfolio	**2,122,785**	2,047,176	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Other Interest Bearing Receivables												
Interest Earning Deposits -Banks	**179,838**	20,500	**179,838**	20,500	**-**	-	**-**	-	**-**	-	**-**	-
Interest Earning Deposits -Other ADIs	**42,000**	149,277	**42,000**	149,277	**-**	-	**-**	-	**-**	-	**-**	
Accrued Interest Receivable	**1,677**	2,503	**1,677**	2,503	**-**	-	**-**	-	**-**	-	**-**	-
Total Other Interest Bearing Receivables	**223,515**	172,280	**223,515**	172,280	**-**	-	**-**	-	**-**	-	**-**	-

Notes to the Financial Statements

30 JUNE 2009

33. 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	
	2009 %	2008 %	**2009** %	2008 %
Capital Adequacy ratio as reported to APRA at 30 June	**15.92**	16.63	**16.22**	16.52

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 19 to 66 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 2009 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

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

E L SMITH
Director

P M GABB
Director

Perth WA
31 August 2009

Independent Audit Report

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 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Police & Nurses Credit Society Ltd (the Society) and the Police & Nurses Credit Society Group (the consolidated entity). The consolidated entity comprises the Society and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Independent Audit Report

PricewaterhouseCoopers

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 2009 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 audit report relates to the financial report of Police & Nurses Credit Society Ltd (the Society) and the Police & Nurses Credit Society Group (the consolidated entity) for the year ended 30 June 2009 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 the financial report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth WA
31 August 2009

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Beeliar Drive

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

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