

Pioneer Permanent Building Society Limited

ABN 36 087 652 042

Financial Report for the year ended 30 June 2005

DIRECTORS' REPORT

Your Directors present this report on the company and its controlled entities for the financial year ended 30 June 2005.

DIRECTORS

The names of each person who has been a Director during the year and to the date of this report are:

Mr Clifford Flor
Mr Anthony Phillip Francis Ghusn
Mr Richard Charles Deguara

Ms Vasiliki Bessie Comino
Mr Maxwell Thomas Bohlscheid
Mr Glen George Cerutti

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

OPERATING RESULT

The profit of the economic entity for the financial year after providing for income tax amounted to \$1,957,422.

REVIEW OF OPERATIONS

The Society maintains a distribution network throughout regional Queensland. The network ranges from Mossman in Far-North Queensland to the Sunshine Coast in South-East Queensland and West to Charleville and Longreach. The network has seen significant expansion in the past 5 years. Key strategies for the future are to focus on continuing improvement of customer service levels, ongoing product development and maximising business growth and returns from the expanded network. Details of specific initiatives are outlined in the General Manager's Report contained in the 2005 Annual Review.

A review of the operations of the economic entity during the financial year and results of those operations are:

- The consolidated pre-tax profit of the economic entity for the year was \$2,797,251, compared with a pre-tax profit for the previous year of \$1,935,704. Review of the general provision for doubtful debts and subsequent reduction to \$1.4 million made a one-off contribution of \$396,221 to the reported profit.
- Loan approvals for the year totalled \$131 million, a 36% increase on approvals of \$96 million for the previous year.
- Loan balances grew 10% over the year to \$307 million.
- The Society's capital adequacy ratio of 16.5% is significantly in excess of regulatory requirements. The high level of capital provides capacity for the Society to materially increase the loan portfolio without having to raise additional capital.
- The Society's cash and liquidity holdings of \$152 million provide a strong capacity to grow the loan portfolio.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the economic entity during the year under review, which are not otherwise disclosed in this report or in the financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity comprise the raising of funds from customers by providing a range of financial products and facilities to satisfy their savings and investment requirements. These funds are used to make advances, mainly for residential purposes on the security of first mortgages over freehold or leasehold property. Commercial, rural, business and personal lending products are also provided as well as insurance.

No significant changes in the nature of these activities occurred during the course of the year.

AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect:

- 1 The operations of the economic entity;
- 2 The results of these operations; or
- 3 The state of affairs of the economic entity in subsequent financial years.

FUTURE DEVELOPMENTS

The consolidated entity will continue with its principal activity of raising funds to provide advances to customers for the purchase of property.

ENVIRONMENTAL ISSUES

The economic entity's operations are not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The economic entity may however become subject to environmental regulation in enforcing securities over land for the recovery of loans. The economic entity has not incurred any liability under any environmental regulation.

DIVIDENDS

The dividends paid or declared since the start of the financial year are as follows:

In respect of the year ended 30 June 2004

- | | |
|---|-----------|
| • Final ordinary dividend of 5.50 cents per share fully franked paid on 28 September 2004 | \$558,327 |
|---|-----------|

In respect of the year ended 30 June 2005

- | | |
|--|-----------|
| • Interim ordinary dividend of 4.00 cents per share fully franked paid on 30 March 2005 | \$411,154 |
| • Final ordinary dividend of 6.00 cents per share fully franked declared by Directors and payable on 27 September 2005 | \$622,371 |

Indemnification of Officers

During the financial year, the economic entity paid an insurance premium in respect of Directors' and Officers' liability for the Directors, Company Secretary and Executives of the economic entity. The insurance policy prohibits the disclosure of the nature of the liability covered by the policy, the name of the insurer, the limit of liability and the amount of the premium.

DIRECTORS' PARTICULARS

The names, qualifications, special responsibilities and experience of the Directors are set out hereunder:

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Clifford Flor

ACA, ACIS, CPA, FAICD

- Chairman of the Board
- Chairman of Pioneer Permanent Insurance Services Limited
- Chairman of Pioneer Permanent Mortgage Insurance Pty Ltd

Mr Flor was appointed Chairman of the Board of Pioneer in 1985 and has been a Director of the Society since 1970. He is a Director of the Queensland Association of Permanent Building Societies and a Director of several other companies involving extensive commercial property assets or associated with the building industry.

Mr Flor has practised as a Public Accountant since 1970. He was the founding Partner of a Mackay-based accounting firm, retiring as a Partner on 30 June 2004.

Anthony Phillip Francis Ghusn

Solicitor of the Supreme Court Queensland, FAICD

- Deputy Chairman of the Board
- Director of Pioneer Permanent Insurance Services Limited
- Director of Pioneer Mortgage Insurance Pty Ltd

Mr Ghusn has been a Director of the Society since 1986. He was closely involved in the formation of the Society and was an alternative Director since the Society's formation until his appointment as a Director. He has also had a long association with the Society in a professional capacity. Mr Ghusn is currently an alternate Director of the Queensland Association of Permanent Building Societies.

Mr Ghusn has been a Solicitor of the Supreme Court of Queensland since 1965. From 1 July 1969 to 30 June 2001 he was successively a Partner, the Managing Partner and the Senior Partner of the firm Macrossan & Amiet Solicitors. Since 1 July 2001 he has been retained by Macrossan & Amiet as a Consultant. During his years as a Solicitor, Mr Ghusn has had wide experience in commercial and property related matters throughout Queensland.

Richard Charles Deguara

B. Ec. (Accg), FAICD

- Chairman of the Audit and Compliance Committee
- Director of Pioneer Permanent Insurance Services Limited

Mr Deguara was appointed to the Board of the Society in March 1990. He is the Managing Director of Carlisle Motor Group, a Mackay-based motor vehicle dealership.

Vasiliki Bessie Comino

B. Pharm

- Director of Pioneer Permanent Insurance Services Limited

Ms Comino was appointed to the Board of Directors in March 1990. Ms Comino worked throughout Queensland as a Pharmacist until 1986 and is currently the Managing Partner of a Mackay-based retail trading business.

Maxwell Thomas Bohlscheid

A. Ed.

- Director of Pioneer Permanent Insurance Services Limited

Mr Bohlscheid was appointed to the Board of Directors on 1 January 2001. He is the Managing Director of Max's Mitre 10 Group and has become recognised as an innovator in the hardware and building supply industry.

Mr Bohlscheid holds Directorships with Mitre 10 Australia Ltd and its subsidiary companies.

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Glen George Cerutti

B.Ec. (Accg), CPA, FAICD

- Chairman of the Risk Committee
- Director of Pioneer Permanent Insurance Services Limited

Mr Cerutti was appointed to the Board of Directors in July 2001. He is the Principal of the accountancy firm Coscer Accountants and has demonstrated expertise in understanding the financial needs of the people of North Queensland.

Mr Cerutti has held former Directorships with Northern and First Australian Building Societies and was Honorary Treasurer with the Development Bureau of Hinchinbrook and Cardwell Shire.

COMPANY SECRETARY PARTICULARS

The company secretary at the end of the financial year was Mr Larry Voltz. Mr Voltz commenced employment with the company in 1990. He has been a member of the company's executive team responsible for compliance with Prudential Standards, statutory reporting, treasury management, board and management reporting and strategic planning. He is also a member of the Society's Risk and Audit & Compliance committees.

Prior to joining Pioneer, Mr Voltz held senior accounting roles with a number of manufacturing organisations involved in the building materials and food industries.

Mr Voltz holds a degree in Accountancy and is a member of CPA Australia and the Institute of Financial Services.

MEETINGS OF DIRECTORS

During the financial year, 28 meetings of Directors (including Committees) were held. Attendances by each Director during the year were as follows:

DIRECTOR	BOARD		AUDIT & COMPLIANCE COMMITTEE		RISK COMMITTEE		ASSET PROTECTION COMMITTEE		BUDGET COMMITTEE		MARKETING COMMITTEE	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr C Flor	11	10	6	4	6	6	2	2	2	2	1	1
Mr APF Ghusn	11	11	6	6	6	6	2	2	2	2	1	1
Mr RC Deguara	11	11	6	6	6	6	2	2	2	2	1	1
Ms VB Comino	11	11	6	6	6	6	2	2	2	2	1	1
Mr MT Bohlscheid	11	11	6	6	6	6	2	2	2	2	1	1
Mr G Cerutti	11	10	6	5	6	6	2	2	2	2	1	1

A = Number of meetings eligible to attend
B = Number of meetings attended

BOARD COMMITTEES

The Board has established various Committees to review specific areas of the business. These Committees comprise the full Board with members of the Management team in attendance at the various Committee meetings at the discretion of the Committee Chairman.

Audit and Compliance Committee

The main responsibilities of the Audit and Compliance Committee are to:

- Formulate specific operational policy guidelines in relation to internal audit
- Review the work of the Internal Auditor
- Review the terms of the External Auditor's engagement each year; and
- Enquire of the External Auditor's independence in accordance with the Statement of Auditing Practice AUP 32 "Audit Independence".

Risk Committee

The main responsibilities of the Risk Committee during the year were to:

- Establish the Society's view on future interest rate movements; and
- Set limits in relation to interest rate risk and provide direction to management in managing the Society's interest rate risk exposure.

During the 2005/06 financial year, the scope of the committee will be expanded to monitor and review all areas of risk across the company.

Asset Protection Committee

The main responsibility of the Asset Protection Committee was to identify potential credit risks in the Society's lending portfolio and take appropriate action to minimise those risks and maximise returns to the Society. The Committee has been wound up and its functions delegated to management.

Budget Committee

The main responsibilities of the Budget Committee were to:

- Review the Society's budgets to ensure they meet the Board's objectives; and
- Review the Society's areas of operation to ensure that appropriate resources are in place to achieve budget expectations.

The Committee has been wound up and its functions delegated to management.

Marketing Committee

The main responsibilities of the Marketing Committee were to:

- Approve the Society's advertising budget for the year; and
- Approve advertising campaigns and review the effectiveness of such.

The Committee has been wound up and its functions delegated to management.

DIRECTORS' INTERESTS

At the date of this report the relevant interest in shares and capital instruments of the Society by Directors or entities associated with Directors are:

	Ordinary Shares	Pioneer Income Notes	Subordinated Capital Notes
Mr C Flor	477,294	-	-
Mr APF Ghush	541,466	740	-
Mr RC Deguara	234,444	500	-
Ms VB Comino	213,200	800	-
Mr MT Bohlscheid	183,839	-	-
Mr GG Cerutti	33,100	-	-

REMUNERATION REPORT

The remuneration for each of the board members is set by the board within an aggregate limit approved by shareholders. Remuneration of the General Manager and Company Secretary / Assistant General Manager

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is determined by the Board. Remuneration of other executives is determined by the General Manager. The policy in determining remuneration packages is to ensure that the remuneration reflects the relevant officer's duties and responsibilities and is competitive in attracting and retaining highly qualified people. The company relies upon reports from external consultants to assist in assessment of market remuneration levels. The remuneration paid for the 2005 financial year did not contain a specific performance-based component, however the amount of remuneration was set based upon regular reviews of the performance of the officer and the company.

To enable assessment of company performance, the following table shows the pre-tax earnings, earnings per share and dividends for the last 5 years for the company, as well as the share price at the end of the respective financial years.

	2001	2002	2003	2004	2005
Pre-tax earnings	\$2.315m	\$2.715m	(\$1.168m)	\$1.936m	\$2.797m
Earnings per share	18.81c	20.95c	(8.51c)	13.39c	19.06c
Dividends paid	14.25c	14.75c	2.00c	8.00c	10.0 c
Share price	\$2.85	\$3.05	\$2.93	\$3.00	\$3.10

The remuneration of each director and each of the 5 executives of the company and consolidated entity who received the highest remuneration for the year ended 30 June 2005 is as follows:

Directors

		Primary Salary & Fees	Non- Monetary Benefits	Post Employment Super- annuation Benefits	Total
Mr C Flor	2005	66,699	-	18,000	84,699
	2004	66,699	-	18,000	84,699
Mr APF Ghusn	2005	58,858 *	-	5,245	64,103
	2004	58,280	-	5,245	63,525
Mr RC Deguara	2005	38,853	-	3,497	42,350
	2004	38,853	-	3,497	42,350
Ms VB Comino	2005	38,853	-	3,497	42,350
	2004	38,853	-	3,497	42,350
Mr MT Bohlscheid	2005	40,677 *	-	3,497	44,174
	2004	39,897 *	-	3,497	43,394
Mr GG Cerutti	2005	40,259 *	-	3,497	43,756
	2004	41,389 *	-	3,497	44,886
<hr/>					
Total	2005	284,199	-	37,233	321,432
	2004	283,971	-	37,233	321,204

* includes travel allowance payments

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Specified Executives

		Primary Salary & Fees	Non- Monetary Benefits	Post Employment Super- annuation Benefits	Total
Mr AA Richardson (commenced 2/8/04)	2005	164,973	7,821	47,000	219,794
<i>General Manager</i>	2004	-	-	-	-
Mr LJ Voltz	2005	69,623	14,012	85,618	169,253
<i>Company Secretary / Assistant General Manager</i>	2004	58,200	14,012	84,590	156,802
Mr MB McLennan	2005	76,086	17,140	18,951	112,177
<i>Senior Manager - Finance</i>	2004	69,730	16,195	6,276	92,201
Mr JF Hocking	2005	65,688	6,705	17,526	89,919
<i>Senior Manager – Operations</i>	2004	64,504	6,705	12,889	84,098
Mr DP Tome (commenced 11/10/04)	2005	62,615	8,356	18,506	89,477
<i>Senior Manager - Lending</i>	2004	-	-	-	-
Total, all specified executives	2005	438,985	54,034	187,601	680,620
	2004	165,994	39,011	95,372	300,377

Group totals in respect of 2004 do not equal sums of amounts disclosed for 2004 for individuals specified in 2005, as different individuals were specified in 2004.

Terms of employment for the General Manager and Company Secretary / Assistant General Manager are formalised in employment contracts. Major provisions of the agreements relating to remuneration are set out below:

A A Richardson, General Manager

- Term of agreement – 2 August 2004 to 31 July 2006, with option to extend for a further 1 year term.
- Fixed annual remuneration of \$250,000, inclusive of superannuation and non-cash benefits.
- Payment of termination payment on early termination, other than for proven misconduct, criminal behaviour or behaviour detrimental to the welfare of the Society.
- The company may terminate employment by making payment to the officer equal to the salary equivalent for the period from the proposed termination date until 31 July 2006.
- In the event the Society should merge with or be taken over by another organisation prior to 31 July 2006 and the officer shall cease to be employed by the merged organisation, a termination payment is payable equal to the salary equivalent for the period from the proposed termination date until 31 July 2006 plus an additional four months salary.

L J Voltz, Company Secretary / Assistant General Manager

- Term of agreement – 26 March 2003 to 31 January 2014.
- Payment of termination payment on early termination, other than for proven misconduct, criminal behaviour or behaviour detrimental to the welfare of the Society.
- The officer may terminate the contract by providing 13 weeks notice plus one week's notice for each year of service. Mr Voltz commenced employment with the Society in 1990.
- The Society may terminate the contract by providing a termination payment of 13 weeks salary plus one week's salary for each year of service up to seven years and two weeks salary for each year of service over 7 years.
- In the event the Society should merge with or be taken over by another organisation and the officer shall cease to be employed by the merged organisation, a termination payment is payable equal to one year's remuneration plus six week's remuneration for each completed year in excess of seven years of service, to a maximum of two year's remuneration.

SENIOR EXECUTIVE DECLARATIONS

The directors have received the required declarations from officers performing the Chief Executive Officer and Chief Financial Officer functions in accordance with Section 295A of the Corporations Act.

NON-AUDIT SERVICES

The amount of \$5,960 was paid or payable to the auditor, S.H. Tait & Co, for non-audit services provided during the 2004/05 financial year. Details were:

	\$
Taxation services	4,915
Accounting advice	825
Business continuity planning	220
	<u>5,960</u>

The board of directors has considered the position and, in accordance with advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of the non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- The services do not undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

APF Ghusn

Deputy Chairman

Mackay, 23 August 2005

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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PIONEER PERMANENT BUILDING SOCIETY LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

S H Tait & Co

L E Manning
Partner

Mackay QLD
22 August 2005

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Statement of Financial Performance

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
Interest revenue	2	30,695,144	29,844,213	30,695,144	29,844,213
Borrowing costs expense	2	(18,877,649)	(18,266,111)	(18,877,649)	(18,266,111)
Net interest revenue		11,817,495	11,578,102	11,817,495	11,578,102
Other revenue from ordinary activities	3	6,027,444	5,975,169	6,027,444	5,975,169
Bad and doubtful debts (expense) / recovery	4	454,833	(774,771)	454,833	(774,771)
Employee benefits expense		(5,369,932)	(5,098,597)	(5,369,932)	(5,098,597)
Occupancy expense		(816,501)	(745,404)	(816,501)	(745,404)
Depreciation and amortisation expense		(830,826)	(884,096)	(830,826)	(884,096)
Fees and commissions		(4,184,124)	(3,830,303)	(4,184,124)	(3,830,303)
Other expenses from ordinary activities		(4,301,138)	(4,284,396)	(4,301,138)	(4,284,396)
Profit / (loss) from ordinary activities before income tax		2,797,251	1,935,704	2,797,251	1,935,704
Income tax (expense) / benefit	5	(839,829)	(584,704)	(839,829)	(584,704)
Net profit/(loss) from ordinary activities after income tax attributable to members of the company		1,957,422	1,351,000	1,957,422	1,351,000
Total changes in equity other than those resulting from transactions with owners as owners		1,957,422	1,351,000	1,957,422	1,351,000
Basic earnings per share (cents per share)	33	19.06	13.39	19.06	13.39

As there were no other securities on issue during the financial year that could be converted to permanent shares, diluted earnings per share is equal to basic earnings per share.

The accompanying notes form part of these financial statements.

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Statement of Financial Position

as at 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
ASSETS					
Cash and liquid assets	6	14,667,097	10,001,234	14,667,097	10,001,234
Receivables due from other financial institutions	7	75,287,826	71,500,000	75,287,826	71,500,000
Accrued receivables	8	1,922,303	1,964,367	1,922,303	1,964,367
Investment securities	9	61,679,446	92,926,323	61,679,446	92,926,323
Loans and advances	10	307,586,080	280,253,219	307,586,080	280,253,219
Other investments	13	563,166	563,166	623,753	623,753
Property, plant and equipment	15	4,900,049	4,420,740	4,900,049	4,420,740
Deferred tax assets	16	767,224	1,095,624	767,224	1,095,624
Intangible assets	17	57,749	66,867	57,749	66,867
Other assets	18	525,336	488,385	525,336	488,385
TOTAL ASSETS		467,956,276	463,279,925	468,016,863	463,340,512
LIABILITIES					
Deposits	19	423,549,932	420,186,462	423,610,519	420,247,049
Payables and other liabilities	20	5,117,640	5,877,384	5,117,640	5,877,384
Interest bearing liabilities	21	17,416,439	17,416,439	17,416,439	17,416,439
Tax liabilities	22	444,286	196,376	444,286	196,376
Provisions	23	578,979	450,876	578,979	450,876
TOTAL LIABILITIES		447,107,276	444,127,537	447,167,863	444,188,124
NET ASSETS		20,849,000	19,152,388	20,849,000	19,152,388
EQUITY					
Contributed equity	24	16,165,850	15,534,846	16,165,850	15,534,846
Reserves	25	1,511,781	1,434,111	1,511,781	1,434,111
Retained profits	26	3,171,369	2,183,431	3,171,369	2,183,431
TOTAL EQUITY		20,849,000	19,152,388	20,849,000	19,152,388

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005 \$	2004 \$	2005 \$	2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		31,226,214	28,903,912	31,226,214	28,903,912
Interest paid		(19,320,340)	(17,494,240)	(19,320,340)	(17,494,240)
Fees and commissions received		5,534,034	5,246,924	5,534,034	5,246,924
Fees and commissions paid		(2,470,110)	(2,829,024)	(2,470,110)	(2,829,024)
Dividends received		790	4,396	790	4,396
Sundry income received		317,682	275,317	317,682	275,317
Payments to suppliers and employees		(12,525,868)	(11,363,203)	(12,526,868)	(11,363,203)
Net GST refunded on cashflows from operating activities		213,845	233,903	213,845	233,903
Income tax (paid)/refunded		(263,519)	226,084	(263,519)	226,084
NET CASH PROVIDED BY OPERATING ACTIVITIES	(a)	<u>2,712,728</u>	<u>3,204,069</u>	<u>2,712,728</u>	<u>3,204,069</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Net (increase) / decrease in receivables due from other financial institutions		(3,787,826)	(44,300,000)	(3,787,826)	(44,300,000)
Net (increase) / decrease in investment securities		31,220,550	(28,457,014)	31,220,550	(28,457,014)
Net (increase) / decrease in other securities		73,094	668,528	73,094	668,528
Loans advanced		(118,110,682)	(74,532,574)	(118,110,682)	(74,532,574)
Loans repaid		91,232,654	111,904,515	91,232,654	111,904,515
Proceeds from disposal of property, plant and equipment		367,960	81,381	367,960	81,381
Payments for property, plant and equipment		(1,650,571)	(629,047)	(1,650,571)	(629,047)
Net GST refunded on cash flows from investing activities		16	(13,713)	16	(13,713)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(654,805)</u>	<u>(35,277,924)</u>	<u>(654,805)</u>	<u>(35,277,924)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Net increase in deposits		2,946,418	24,106,801	2,946,418	24,106,801
Proceeds from share issue	(c)	631,004	178,438	631,004	178,438
Dividends paid	(c)	(969,482)	(252,212)	(969,482)	(252,212)
NET CASH PROVIDED BY FINANCING ACTIVITIES		<u>2,607,940</u>	<u>24,033,027</u>	<u>2,607,940</u>	<u>24,033,027</u>
Net increase / (decrease) in cash and liquid assets		4,665,863	(8,040,828)	4,665,863	(8,040,828)
Cash and liquid assets at beginning of financial year		10,001,234	18,042,062	10,001,234	18,042,062
CASH AND LIQUID ASSETS AT END OF FINANCIAL YEAR		<u>14,667,097</u>	<u>10,001,234</u>	<u>14,667,097</u>	<u>10,001,234</u>

The accompanying notes form part of these financial statements.

Notes to the Statement of Cash Flows
for the year ended 30 June 2005

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
(a) Reconciliation of net profit from ordinary activities after income tax to net cash provided by operating activities				
Net profit / (loss) from ordinary activities	1,957,422	1,351,000	1,957,422	1,351,000
Decrease / (Increase) in interest receivable	504,743	(1,016,075)	504,743	(1,016,075)
Increase / (Decrease) in interest payable	(442,691)	771,871	(442,691)	771,871
Decrease / (Increase) in fees and commissions receivable	(35,643)	(3,066)	(35,643)	(3,066)
Increase / (Decrease) in fees and commissions payable	222,759	(224,119)	222,759	(224,119)
Decrease / (Increase) in sundry income receivable	(199,642)	(48,315)	(199,642)	(48,315)
Increase / (Decrease) in accrued expenses	(209,700)	(124,661)	(209,700)	(124,661)
Decrease / (Increase) in other receivables	(134,618)	206,589	(134,618)	206,589
Decrease / (Increase) in GST receivable	(6,637)	(7,396)	(6,637)	(7,396)
Increase / (Decrease) in income tax payable	186,472	893,189	186,472	893,189
Decrease / (Increase) in future income tax benefits	328,400	(71,625)	328,400	(71,625)
Increase / (Decrease) in provision for deferred income tax	61,438	(10,776)	61,438	(10,776)
Increase / (Decrease) in employee entitlements	128,103	(13,258)	128,103	(13,258)
Increase / (Decrease) in doubtful debts	(740,427)	37,945	(740,427)	37,945
Decrease / (Increase) in prepayments	(36,951)	60,227	(36,951)	60,227
Realised discounts on investments	(22,622)	(15,257)	(22,622)	(15,257)
Realised premiums on investments	48,949	91,031	48,949	91,031
Net gain on sale of investments	(73,094)	(478,954)	(73,094)	(478,954)
Net (gain) / loss on sale of property, plant and equipment	50,929	175,679	50,929	175,679
Goodwill written off	9,118	9,118	9,118	9,118
Bad debts written off	285,594	736,826	285,594	736,826
Amortisation	186,024	163,687	186,024	163,687
Depreciation	644,802	720,409	644,802	720,409
Net cash flow from operating activities	2,712,728	3,204,069	2,712,728	3,204,069

- (b) Cash Flows presented on a net basis
Cash Flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:
- (i) deposits to and withdrawals from deposits accounts
 - (ii) deposits with and withdrawals from accounts with other financial institutions
 - (iii) sale and purchase of investment securities
 - (iv) sale and purchase of other securities

- (c) Non-cash transactions
For the purpose of the Statement of Cash Flows, shares issued under the Society's dividend reinvestment scheme have been treated as a cashflow item under the heading "Proceeds from Share Issue", as it involved the conversion of liabilities to equity. Dividends paid comprised a cash component of \$338,478 and a non-cash component of \$631,004 representing dividends converted to equity.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Pioneer Permanent Building Society Limited and controlled entities, and Pioneer Permanent Building Society Limited as an individual parent entity. Pioneer Permanent Building Society Limited is a financial institution, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Cash and liquid assets

Cash and liquid assets includes cash on hand, cash held in bank accounts, and money market investments readily convertible to cash.

b) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

c) Derivative Financial Instruments

The Society uses interest rate swaps as part of its risk management strategy. These off-balance sheet transactions are taken out to hedge underlying assets or liabilities. Any arising profit or loss is accounted for on the same basis as the underlying exposure. Further details are provided in Note 38(e).

d) Employee Benefits

Provision is made for the Society's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at their nominal amount. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows expected to be made for those entitlements. Sick Leave entitlements are non-vesting, and as they are not material they are treated as an expense when payment is made.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

f) Income Tax

Tax-effect accounting procedures are applied whereby the income tax expense shown in the statement of financial performance is based on the profit from ordinary activities before income tax adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account either as provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

Notes continued
for year ended 30 June 2005

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the financial institution will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

g) Investments

Investments are carried at lower of cost or recoverable amount. The recoverable amount is assessed from the investments' current market value by discounting the net cash flows to their present value.

h) Loans and Advances

Loans and advances are recognised at their recoverable amount, after assessing required provisions for doubtful debts. A provision for doubtful debts is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month.

(i) Provision for Doubtful Debts

A specific provision for doubtful debts is calculated in accordance with the method prescribed under the APRA Prudential Standards and by specific identification against individual loans. A general provision is maintained to recognise bad debts inherent in the loans portfolio which have not yet been identified.

Bad debts are written off in the period in which they are recognised. Bad debts previously provided for are written off against the specific provision. Any subsequent cash recovered in the same financial year is credited to the provision. Cash recovered outside the financial year is taken to the profit and loss as a bad debt recovered.

(ii) Impaired Assets

Non-accrual loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.

Past due loans are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. Loans against which a provision for impairment is required have been included in non-accrual loans.

i) Principle of Consolidation

A controlled entity is any entity controlled by Pioneer Permanent Building Society Limited (the Society). Control exists where the Society has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Society to achieve the objectives of the Society. A list of controlled entities appears in Note 14.

All inter-company balances and transactions between entities in the economic entity, have been eliminated on consolidation.

j) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Freehold land and buildings are measured on the cost basis on initial purchase and are revalued by an independent valuer every three (3) years.

Where freehold land and buildings have been revalued, the potential effect of capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

Plant and equipment

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Notes continued
for year ended 30 June 2005

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal. The gain or loss is included in the operating profit before income tax of the economic entity in the year of disposal.

Depreciation

The depreciable amount of all fixed assets, including buildings, but excluding freehold land, are depreciated on a straight line or reducing balance method over their estimated useful lives commencing from the time the asset is held ready for use. The useful lives of each class of assets are reviewed annually and are as follows:

Class of Fixed Asset	Depreciation Rate
Freehold Buildings	40 years
Leasehold Improvements	Over the unexpired term of the lease
Plant and Equipment	4 to 20 years
Computer Software	4 to 10 years

k) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rate applicable to financial assets. All revenue received arises from operating activities.

Fees and commissions are recognised upon the rendering of the service to the customers.

All revenue is stated net of the amount of Goods and Services Tax (GST).

l) Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill is amortised on a straight line basis over a period of 10 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

m) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian Equivalents to International Reporting Standards (AIRFS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On the first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 31 July 2004.

The economic entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or implementation of the AIFRS requirements changes from the continuing work of the economic entity's AIFRS committee.

- Investments
Under the pending AASB 139: Financial Instruments: Recognition and Measurement, financial instruments are classified into four categories, which determines the accounting treatment of the item. The categories and various treatments are:
 - held to maturity, measured at amortised cost;
 - held for trading, measured at fair value with unrealized gains or losses charged to the profit and loss;
 - loans and receivables, measured at amortised cost;
 - available for sale instruments, measured at fair value with unrealized gains or losses taken to equity.

The economic entity's financial assets comprise available for sale financial instruments. Under AASB 139: Financial Instruments: Recognition and Measurement, the measurement of available for sale instruments at fair value differs to current accounting policy which measures non-current investments at cost with an annual

Notes continued

for year ended 30 June 2005

review by directors to ensure the carrying amounts are not in excess of the recoverable value of the instrument. The impact of the change is unlikely to be material.

AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year, and the first time adoption of this standard will apply from 1 July 2005. The economic entity has decided that it will adopt this election and will not restate comparative information for the 30 June 2005 financial year.

- **Income Tax**

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

There will be no significant impact on the balance sheet with regards to the changes in the method of accounting for income tax.

- **Derivative Financial Instruments**

The economic entity does not currently recognise derivative financial instruments in the financial statements. AASB139: Financial Instruments: Recognition and Measurement requires a change to the method of accounting for derivative financial instruments and hedging activities so that they are recorded in the financial statements. There is not expected to be any significant impact on the balance sheet with regard to derivative financial instruments. AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year and the first time adoption of this standard will apply from 1 July 2005. The economic entity has decided that it will adopt this election and will not restate comparative information for the financial year ending 30 June 2005.

- **Impairment of Assets**

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. Changes are not expected to be material for conversion to AIFRS.

- **Revaluations**

Revaluation increments and decrements relating to property, plant and equipment will be recognized on an individual assets basis, not a class of assets basis.

- **Intangible Assets**

Intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised.

Impairment testing of goodwill confirmed that the written down value of goodwill in the economic entity's financial statements at 30 June 2005 was not impaired.

Revaluation of intangible assets prior to June 2005 will be unwound under AIFRS. The impact on retained earnings will be reduction of \$294,119.

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for year ended 30 June 2005

2. INTEREST REVENUE AND INTEREST EXPENSE

The following table shows 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. Daily averages or month-end averages have been used where appropriate. Where interest was not received or paid for the full year, the average interest rate has been calculated based on the balance held for the period applicable.

	CONSOLIDATED		
	Average Balance	Interest	Average Interest Rate
	\$	\$	%
Interest Revenue 2005			
Deposits at call	9,779,462	538,368	5.51
Deposits with other financial institutions	73,170,310	4,096,473	5.60
Investment securities	85,189,374	4,730,843	5.55
Other investments	717,524	71,303	9.94
Loans:			
- Residential (owner occupied and investment)	226,507,897	15,126,428	6.68
- Commercial	35,411,768	3,141,838	8.87
- Personal	8,606,514	889,407	10.33
- Overdrafts	26,887,172	2,095,156	7.79
Derivative financial instruments (interest settled on a net basis)		5,328	0.03
		<u>30,695,144</u>	<u>6.58</u>
Interest Expense 2005			
Customer Deposits	433,235,796	17,550,013	4.05
Short-term borrowings	35,094	3,556	10.13
Term subordinated debt	9,716,439	730,353	7.52
Perpetual subordinated debt	7,700,000	578,790	7.52
Derivative financial instruments (interest settled on a net basis)		14,937	0.10
		<u>18,877,649</u>	<u>4.19</u>
Net Interest Income 2005		<u>11,817,495</u>	<u>2.39</u>
Interest Revenue 2004			
Deposits at call	11,482,376	551,803	4.81
Deposits with other financial institutions	45,964,617	2,491,031	5.42
Investment securities	99,243,865	5,259,914	5.30
Other investments	1,305,531	63,289	4.85
Loans:			
- Residential (owner occupied and investment)	208,314,156	13,856,047	6.65
- Commercial	46,710,566	4,302,171	9.21
- Personal	8,079,730	826,406	10.23
- Overdrafts	31,978,252	2,493,552	7.80
		-	-
		<u>29,844,213</u>	<u>6.59</u>
Interest Expense 2004			
Customer deposits	419,687,542	17,011,732	4.05
Short-term borrowings	22,041	3,152	14.30
Term subordinated debt	9,716,439	695,542	7.17
Perpetual subordinated debt	7,700,000	553,094	7.17

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Derivative financial instruments (interest settled on a net basis)	2,591	0.03
	18,266,111	4.18
Net Interest Income 2004	11,578,102	2.41

Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
3. REVENUE FROM ORDINARY ACTIVITIES					
Interest revenue	2	30,695,144	29,844,213	30,695,144	29,844,213
Other revenue from ordinary activities:					
Dividends					
- Other parties		<u>790</u>	<u>4,396</u>	<u>790</u>	<u>4,396</u>
		790	4,396	790	4,396
Fees and commissions					
- Loan fee income		2,513,883	2,450,754	2,513,883	2,450,754
- Other fee income		2,955,076	2,638,896	2,955,076	2,638,896
- Insurance commissions		298,591	266,097	298,591	266,097
- Other commissions		<u>63,342</u>	<u>58,612</u>	<u>63,342</u>	<u>58,612</u>
		5,830,892	5,414,359	5,830,892	5,414,359
Bad debts recovered		<u>26,046</u>	<u>8,294</u>	<u>26,046</u>	<u>8,294</u>
Other revenue					
- Rent		75,300	44,409	75,300	44,409
- Profit on disposal of property, plant and equipment		21,322	24,757	21,322	24,757
- Profit on disposal of investments		<u>73,094</u>	<u>478,954</u>	<u>73,094</u>	<u>478,954</u>
		169,716	548,120	169,716	548,120
Total other revenue from ordinary activities		<u>6,027,444</u>	<u>5,975,169</u>	<u>6,027,444</u>	<u>5,975,169</u>
TOTAL OPERATING REVENUE		<u>36,722,588</u>	<u>35,819,382</u>	<u>36,722,588</u>	<u>35,819,382</u>
Proceeds on sale of property, plant and equipment					
		<u>357,700</u>	<u>65,898</u>	<u>357,700</u>	<u>65,898</u>

Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
4. PROFIT FROM ORDINARY ACTIVITIES					
Profit from ordinary activities before income tax expense has been determined after:					
Interest expense	2	18,877,649	18,266,111	18,877,649	18,266,111
Bad and doubtful debts expense / (recovery)		(454,833)	774,771	(454,833)	774,771
No bad or doubtful debts have occurred that are associated with related parties or controlled entities					
Other Expenses:					
Amortisation					
– Leasehold improvements		28,057	33,482	28,057	33,482
– Computer Software		186,024	163,687	186,024	163,687
		214,081	197,169	214,081	197,169
Depreciation					
– Plant and equipment		588,908	655,385	588,908	655,385
– Buildings		27,837	31,542	27,837	31,542
		616,745	686,927	616,745	686,927
Fees & commissions		4,184,124	3,830,303	4,184,124	3,830,303
General and administration					
– Employee expenses		5,369,932	5,098,597	5,369,932	5,098,597
– Other		4,228,887	4,083,960	4,228,887	4,083,960
		9,598,819	9,182,557	9,598,819	9,182,557
Rental – operating leases		816,501	745,404	816,501	745,404
Loss on disposal of property, plant and equipment		72,251	200,436	72,251	200,436
Total other expenses		15,502,521	14,842,796	15,502,521	14,842,796
TOTAL OPERATING EXPENSES		33,925,337	33,883,678	33,925,337	33,883,678

Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
5. INCOME TAX					
The prima facie tax on operating profit is reconciled to the income tax provided as follows:					
Prima facie tax on operating profit / (loss) at 30% (2004 – 30%)		839,175	580,711	839,175	580,711
Add: Tax effect of non-deductible expenses					
Depreciation on buildings		16,769	9,463	16,769	9,463
Other Items		4,180	3,361	4,180	3,361
Underprovision / (Overprovision) of income tax in respect of prior year		9,143	(940)	9,143	(940)
		869,267	592,595	869,267	592,595
Less: Tax effect of permanent differences					
Building amortisation		3,531	4,658	3,531	4,658
Costs associated with capital raising		1,688	1,688	1,688	1,688
Capital profit not subject to income tax		24,219	-	24,219	-
Income tax expense / (benefit) attributable to current year's operating profit / (loss)		839,829	586,249	839,829	586,249
Less: Tax effect of:					
Imputation credit on franked dividends		-	1,545	-	1,545
Income tax expense / (benefit) attributable to operating profit / (loss)		839,829	584,704	839,829	584,704
Income tax expense / (benefit) is reconciled as follows:					
Provision for income tax transferred from/(to) debtors	8	-	19,933	-	19,933
Income Tax payable	22	315,649	129,179	315,649	129,179
Income tax paid on current year profits / (losses)		134,341	517,994	134,341	517,994
Decrease / (Increase) in future income tax benefits		328,401	(71,626)	328,401	(71,626)
Increase / (Decrease) in provision for deferred income tax		61,438	(10,776)	61,438	(10,776)
Income tax expense/ (benefit) attributable to operating profit		839,829	584,704	839,829	584,704
6. CASH AND LIQUID ASSETS					
Cash on hand and at banks		11,167,097	9,001,234	11,167,097	9,001,234
Deposits at call		3,500,000	1,000,000	3,500,000	1,000,000
		14,667,097	10,001,234	14,667,097	10,001,234

Notes continued

for the year ended 30 June 2005

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
7. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits	<u>75,287,826</u>	<u>71,500,000</u>	<u>75,287,826</u>	<u>71,500,000</u>
Maturity analysis				
Not longer than 3 months	74,687,826	71,500,000	74,687,826	71,500,000
Longer than 3 and not longer than 12 months	<u>600,000</u>	<u>-</u>	<u>600,000</u>	<u>-</u>
	<u>75,287,826</u>	<u>71,500,000</u>	<u>75,287,826</u>	<u>71,500,000</u>
8. ACCRUED RECEIVABLES				
Interest receivable	1,008,964	1,413,659	1,008,964	1,413,659
Sundry debtors	<u>913,339</u>	<u>550,708</u>	<u>913,339</u>	<u>550,708</u>
	<u>1,922,303</u>	<u>1,964,367</u>	<u>1,922,303</u>	<u>1,964,367</u>
9. INVESTMENT SECURITIES				
Bills of exchange	23,278,837	42,784,080	23,278,837	42,784,080
Bank bonds	-	6,492,685	-	6,492,685
Negotiable certificates of deposit	36,400,000	29,600,000	36,400,000	29,600,000
Floating rate notes	2,000,609	8,004,688	2,000,609	8,004,688
Government bonds	<u>-</u>	<u>6,044,870</u>	<u>-</u>	<u>6,044,870</u>
	<u>61,679,446</u>	<u>92,926,323</u>	<u>61,679,446</u>	<u>92,926,323</u>
Maturity Analysis				
Not longer than 3 months	52,578,837	77,381,744	52,578,837	77,381,744
Longer than 3 and not longer than 12 months	9,100,609	13,542,564	9,100,609	13,542,564
Longer than 1 and not longer than 5 years	<u>-</u>	<u>2,002,015</u>	<u>-</u>	<u>2,002,015</u>
	<u>61,679,446</u>	<u>92,926,323</u>	<u>61,679,446</u>	<u>92,926,323</u>

Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
10. LOANS AND ADVANCES					
Term loans					
Residential (owner occupied and investment)		238,929,902	206,265,709	238,929,902	206,265,709
Commercial		34,849,807	39,194,205	34,849,807	39,194,205
Personal		9,920,737	7,858,050	9,920,737	7,858,050
Overdrafts		25,809,742	29,599,790	25,809,742	29,599,790
Total loans and advances		309,510,188	282,917,754	309,510,188	282,917,754
Provision for doubtful debts	11	1,924,108	2,664,535	1,924,108	2,664,535
Net loans and advances		307,586,080	280,253,219	307,586,080	280,253,219
(a) Loans by maturity					
Overdrafts		25,809,742	29,599,790	25,809,742	29,599,790
Loans					
Not longer than 3 months		3,126,454	2,869,060	3,126,454	2,869,060
Longer than 3 and not longer than 12 months		8,628,705	8,043,945	8,628,705	8,043,945
Longer than 1 and not longer than 5 years		42,493,528	41,626,057	42,493,528	41,626,057
Longer than 5 years		229,451,759	200,778,902	229,451,759	200,778,902
		309,510,188	282,917,754	309,510,188	282,917,754
(b) Loans by security					
Secured by mortgage		293,608,577	267,615,682	293,608,577	267,615,682
Secured – other		11,245,997	14,109,355	11,245,997	14,109,355
Unsecured		4,655,614	1,192,717	4,655,614	1,192,717
		309,510,188	282,917,754	309,510,188	282,917,754
(c) Concentration of risk					
Loans from Queensland		299,509,900	278,840,694	299,509,900	278,840,694
Loans from outside Queensland		10,000,288	4,077,060	10,000,288	4,077,060
		309,510,188	282,917,754	309,510,188	282,917,754

The loan portfolio of the Society has no large exposure which exceeds 10% of the Society's capital base. The Society has an exposure to groupings of individual loans which concentrate risks and create exposure to particular segments as above.

Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
11. PROVISION FOR DOUBTFUL DEBTS					
General Provision					
Opening balance		1,796,221	1,291,221	1,796,221	1,291,221
Bad and doubtful debts provided for / (recovered) during the year		(396,221)	505,000	(396,221)	505,000
Closing balance		1,400,000	1,796,221	1,400,000	1,796,221
Specific provision					
Opening balance		868,314	1,335,369	868,314	1,335,369
Bad debts previously provided for and written off during the year		(285,594)	(736,826)	(285,594)	(736,826)
Bad and doubtful debts provided for / (recovered) during the year		(58,612)	269,771	(58,612)	269,771
Closing balance		524,108	868,314	524,108	868,314
Total provision for doubtful debts		1,924,108	2,664,535	1,924,108	2,664,535
Charge to / (recovery) profit and loss for bad and doubtful debts comprises:					
General provision		(396,221)	505,000	(396,221)	505,000
Specific provision		(58,612)	269,771	(58,612)	269,771
		(454,833)	774,771	(454,833)	774,771

The specific provision for doubtful debts includes the provision required under the Prudential Standards at 30 June 2005, and a provision for specifically identified individual loans.

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Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
12. ASSET QUALITY					
(a) Impairment of loans and advances					
Non-accrual loans					
	Balances with specific provisions for doubtful debts	1,897,934	1,917,984	1,897,934	1,917,984
	Specific provision for doubtful debts	(524,108)	(868,314)	(524,108)	(868,314)
	Net non-accrual loans	1,373,826	1,049,670	1,373,826	1,049,670
	Interest foregone on non-accrual loans	21,511	58,395	21,511	58,395
(b) Past due loans					
	Balance	732,140	1,291,858	732,140	1,291,858

13. OTHER INVESTMENTS

Shares and interest bearing notes	13,166	13,166	13,166	13,166
Controlled entities	-	-	60,587	60,587
Deposits with special service providers	550,000	550,000	550,000	550,000
	563,166	563,166	623,753	623,753

14. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Name	Country of incorporation	Percentage of equity interest held by the economic entity		Contribution to consolidated operating profit / (loss) after income tax	
		2005	2004	2005	2004
		%	%	\$	\$
Ultimate Holding Company:					
Pioneer Permanent Building Society Limited	Australia	-	-	1,957,422	1,351,000
Controlled Entities:					
Pioneer Permanent Insurance Services Limited	Australia	100	100	-	-
- ordinary shares					
Pioneer Mortgage Insurance Pty Ltd	Australia	100	100	-	-
- ordinary shares					
				1,957,422	1,351,000

During the year there were no operations performed by Pioneer Permanent Insurance Services Limited and Pioneer Mortgage Insurance Pty Ltd.

Notes continued

for the year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
15. PROPERTY, PLANT AND EQUIPMENT					
Freehold land					
At the independent valuation – June 2003	15(b)	<u>405,000</u>	<u>505,000</u>	<u>405,000</u>	<u>505,000</u>
Building on freehold land					
At cost		-	2,614	-	2,614
At the independent valuation – June 2003	15(b)	<u>742,614</u>	<u>840,000</u>	<u>742,614</u>	<u>840,000</u>
Less: Provision for depreciation		<u>54,566</u>	<u>31,542</u>	<u>54,566</u>	<u>31,542</u>
		<u>688,048</u>	<u>811,072</u>	<u>688,048</u>	<u>811,072</u>
Total freehold land and buildings		<u>1,093,048</u>	<u>1,316,072</u>	<u>1,093,048</u>	<u>1,316,072</u>
Leasehold improvements					
At cost		<u>332,606</u>	<u>328,767</u>	<u>332,606</u>	<u>328,767</u>
Less: Provision for amortisation		<u>150,269</u>	<u>122,212</u>	<u>150,269</u>	<u>122,212</u>
		<u>182,337</u>	<u>206,555</u>	<u>182,337</u>	<u>206,555</u>
Total land and buildings		<u>1,275,385</u>	<u>1,522,627</u>	<u>1,275,385</u>	<u>1,522,627</u>
Plant and equipment					
At cost		<u>4,883,170</u>	<u>4,764,934</u>	<u>4,883,170</u>	<u>4,764,934</u>
Less: Provision for depreciation		<u>3,438,126</u>	<u>3,195,641</u>	<u>3,438,126</u>	<u>3,195,641</u>
Total plant and equipment		<u>1,445,044</u>	<u>1,569,293</u>	<u>1,445,044</u>	<u>1,569,293</u>
Computer software					
At cost		<u>2,203,757</u>	<u>2,213,521</u>	<u>2,203,757</u>	<u>2,213,521</u>
Less: Provision for amortisation		<u>24,137</u>	<u>884,701</u>	<u>24,137</u>	<u>884,701</u>
Total computer software		<u>2,179,620</u>	<u>1,328,820</u>	<u>2,179,620</u>	<u>1,328,820</u>
Total property, plant and equipment					
At cost		<u>7,419,533</u>	<u>7,309,836</u>	<u>7,419,533</u>	<u>7,309,836</u>
Independent valuation – June 2003	15(b)	<u>1,147,614</u>	<u>1,345,000</u>	<u>1,147,614</u>	<u>1,345,000</u>
		<u>8,567,147</u>	<u>8,654,836</u>	<u>8,567,147</u>	<u>8,654,836</u>
Less: Provision for depreciation and amortisation		<u>3,667,098</u>	<u>4,234,096</u>	<u>3,667,098</u>	<u>4,234,096</u>
Total written down amount		<u>4,900,049</u>	<u>4,420,740</u>	<u>4,900,049</u>	<u>4,420,740</u>

Notes continued

for the year ended 30 June 2005

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

(a) Movement in carrying amounts

Movements in carrying amount for each class of property, plant and equipment between the beginning and the end of the current financial year. The movements are identical for both the Society and the consolidated group.

	Freehold Land	Buildings	Leasehold Improvements	Plant and Equipment	Computer Software	Total
	\$	\$	\$	\$	\$	\$
Balance at the beginning of year	505,000	811,072	206,555	1,569,293	1,328,820	4,420,740
Purchases and additions	-	3,912	3,839	546,171	1,086,803	1,640,725
Disposals	(100,000)	(99,100)	-	(81,511)	(4,048)	(284,659)
Revaluation	-	-	-	-	(45,931)	(45,931)
Depreciation / amortisation expense	-	(27,837)	(28,057)	(588,909)	(186,023)	(830,826)
Carrying amount at the end of year	405,000	688,047	182,337	1,445,044	2,179,621	4,900,049

(b) The economic entity has a policy of revaluing all freehold land and building every 3 years by an independent valuer.

The properties located in Mackay were restated to independent valuations determined by JD Dodds FAPI (Val) on 30 June 2003. They were assessed by capitalisation of net income and direct comparison methods.

The property located in Alpha was restated to the independent valuation determined by GR Williams AAPI (Val) on 30 June 2003. It was valued based on the "Highest and Best Use" which is defined as the most profitable legal use to which the property may be put.

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
16. DEFERRED TAX ASSETS					
Future income tax benefit		<u>767,224</u>	<u>1,095,624</u>	<u>767,224</u>	<u>1,095,624</u>
17. INTANGIBLE ASSETS					
Goodwill at cost		<u>91,183</u>	<u>91,183</u>	<u>91,183</u>	<u>91,183</u>
Less accumulated amortisation		<u>33,434</u>	<u>24,316</u>	<u>33,434</u>	<u>24,316</u>
		<u>57,749</u>	<u>66,867</u>	<u>57,749</u>	<u>66,867</u>
18. OTHER ASSETS					
Prepayments		<u>525,336</u>	<u>488,385</u>	<u>525,336</u>	<u>488,385</u>

Notes continued
for year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
19. DEPOSITS					
Call deposits		162,360,938	144,700,919	162,421,525	144,761,506
Term deposits		261,188,994	275,485,543	261,188,994	275,485,543
		423,549,932	420,186,462	423,610,519	420,247,049
Maturity Analysis					
On call		162,360,938	144,700,919	162,421,525	144,761,506
Not longer than 3 months		179,430,133	205,959,845	179,430,133	205,959,845
Longer than 3 and not longer than 12 months		72,096,616	60,740,878	72,096,616	60,740,878
Longer than 1 and not longer than 5 years		9,662,245	8,784,820	9,662,245	8,784,820
		423,549,932	420,186,462	423,610,519	420,247,049
Concentration of Deposits					
Deposits from Queensland		420,886,494	417,282,047	420,947,081	417,342,634
Deposits from outside Queensland		2,663,438	2,904,415	2,663,438	2,904,415
		423,549,932	420,186,462	423,610,519	420,247,049
The Society's deposit portfolio does not include any deposit which represents 10% or more of total liabilities.					
20. PAYABLES AND OTHER LIABILITIES					
Trade creditors		2,006,239	2,323,294	2,006,239	2,323,294
Accrued interest payable		3,111,401	3,554,090	3,111,401	3,554,090
		5,117,640	5,877,384	5,117,640	5,877,384

Notes continued
for year ended 30 June 2005

	Notes	CONSOLIDATED		SOCIETY	
		2005	2004	2005	2004
		\$	\$	\$	\$
21. INTEREST BEARING LIABILITIES					
Term subordinated debt		9,716,439	9,716,439	9,716,439	9,716,439
Perpetual subordinated debt		7,700,000	7,700,000	7,700,000	7,700,000
		17,416,439	17,416,439	17,416,439	17,416,439
Maturity Analysis					
Longer than 5 years		17,416,439	17,416,439	17,416,439	17,416,439
22. TAX LIABILITIES					
Provision for income tax		315,651	129,179	315,651	129,179
Provision for deferred income tax		128,635	67,197	128,635	67,197
		444,286	196,376	444,286	196,376
23. PROVISIONS					
Employee entitlements		578,979	450,876	578,979	450,876
Number of employees at year end (full time and casual employees)		137	131	137	131
24. CONTRIBUTED EQUITY					
10,372,847 fully paid ordinary shares (2004: 10,151,404)		16,165,850	15,534,846	16,165,850	15,534,846
Balance at beginning of the period		15,534,846	15,356,407	15,534,846	15,356,407
30 June 2004 – 62,841 shares issued under the Society's dividend reinvestment scheme		-	178,439	-	178,439
28 September 2004 – 127,457 shares issued under the Society's dividend reinvestment scheme		360,034	-	360,034	-
30 March 2005 – 93,986 shares issued under the Society's dividend reinvestment scheme		270,970	-	270,970	-
		16,165,850	15,534,846	16,165,850	15,534,846

Ordinary Shares participate in dividends and the proceeds in the event of the company winding up in proportion to the number of shares held. At shareholders' meetings where a poll or postal ballot is called, every shareholder has one vote for each share held.

Pioneer Permanent Building Society Limited

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Notes continued

for the year ended 30 June 2005

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
25. RESERVES				
Contingency reserve	525,305	525,305	525,305	525,305
Asset revaluation reserve	336,768	259,098	336,768	259,098
General reserve	649,708	649,708	649,708	649,708
	1,511,781	1,434,111	1,511,781	1,434,111
Asset revaluation reserve movements during the year:				
Balance at beginning of year	259,098	259,098	259,098	259,098
Transfer of prior year revaluation decrement from asset revaluation reserve being decrement realised on sale of freehold property	77,670	-	77,670	-
	336,768	259,098	336,768	259,098
26. RETAINED PROFITS				
Retained profits at the beginning of the financial year	2,183,429	1,084,643	2,183,429	1,084,643
Net profit / (loss) attributable to members of the company	1,957,422	1,351,000	1,957,422	1,351,000
Dividends provided for or paid	(969,482)	(252,212)	(969,482)	(252,212)
Retained profits at the end of the financial year	3,171,369	2,183,431	3,171,369	2,183,431

Notes continued

for the year ended 30 June 2005

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
27. DIVIDENDS				
Interim dividend paid 4.00 cents per share fully franked at the tax rate of 30% (2004: 2.50 cents per share fully franked at the tax rate of 30%)	411,154	252,212	411,154	252,212
Since the end of the financial year, the Directors have declared a final dividend of 6.00 cents per share fully franked at the tax rate of 30% (2004: 5.50 cents per share fully franked at the tax rate of 30%)	622,371	558,327	622,371	558,327

The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

Franking Account

Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years

2,244,565	2,935,585	2,238,881	2,929,901
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28. EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments:

Estimated capital expenditure contracted for at balance date but not provided for

- Computer software	55,000	436,920	55,000	436,920
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Payable

- not later than 1 year	55,000	436,920	55,000	436,920
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(b) Lease expenditure commitments:

Operating leases (rental commitments)

- not later than 1 year	670,645	639,863	670,645	639,863
- later than 1 and not later than 2 years	540,179	606,736	540,179	606,736
- later than 2 and not later than 5 years	233,722	615,000	233,722	615,000

Aggregate lease expenditure contracted for at balance date

1,444,546	1,861,599	1,444,546	1,861,599
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Notes continued

for the year ended 30 June 2005

29. SUPERANNUATION COMMITMENTS

The Society has established superannuation plans for the provision of benefits to employees on retirement, death and disability. Benefits provided under each plan is based on contributions plus accumulated earnings. During the year the Society contributed to each plan in order to satisfy the requirements of the Superannuation Guarantee Charge Legislation. Employees contribute on a voluntary basis.

It is reasonably expected that funds will be available to satisfy all benefits payable in the event of:

- (i) termination of the plan; or
- (ii) voluntary or compulsory termination of the employment of each employee.

30. BANK OVERDRAFT AND OTHER LIQUIDITY FACILITIES

The Westpac Banking Corporation provided an overdraft facility with an overdrawn balance of \$2,595,524 at 30 June 2005 secured by equitable mortgages over securities financed by the Society and a deposit at 30 June 2005 of \$4,933,187. These amounts were set-off in the balance sheet. The undrawn balance available under this facility is nil.

A securitisation facility of \$50 million has been established for liquidity support purposes. At 30 June 2005, the undrawn balance available under this facility was \$48,827,820.

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
31. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
(a) Contingent liabilities				
(i) performance guarantees provided to members	<u>768,874</u>	<u>345,426</u>	<u>768,874</u>	<u>345,426</u>
(ii) the Society has a contingent liability in respect of encashment authorities established with its bankers				
(b) Lending commitments				
Loans and credit limits approved but undrawn	<u>24,417,063</u>	<u>23,088,346</u>	<u>24,417,063</u>	<u>23,088,346</u>

Some commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

32. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect:

- (a) the operations of the economic entity
- (b) the results of these operations; or
- (c) the state of affairs of the economic entity in subsequent financial years.

Notes continued

for the year ended 30 June 2005

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
33. EARNINGS PER SHARE				
Basic earnings per share (cents per share)	19.06	13.39	19.06	13.39
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share.	10,271,123	10,088,563	10,271,123	10,088,563

As there were no other securities on issue during the year that could be converted to permanent shares, diluted earnings per share is equal to basic earnings per share.

34. DIRECTORS' AND EXECUTIVES' DISCLOSURES

- (a) Names and positions held of parent entity Directors and specified executives in office at any time during the financial year are:

Parent Entity Directors

Mr C Flor	Chairman – Non-executive
Mr APF Ghush	Deputy Chairman – Non-executive
Mr RC Deguara	Director – Non-executive
Ms VB Comino	Director – Non-executive
Mr MT Bohlscheid	Director – Non-executive
Mr GG Cerutti	Director – Non-executive

Specified Executives

Mr AA Richardson	General Manager
Mr LJ Voltz	Company Secretary/ Assistant General Manager
Mr MB McLennan	Financial Controller
Mr DP Tome	Senior Manager - Lending
Mr JF Hocking	Senior Manager - Operations

- (b) Equity Interests

The movement during the reporting period in the number of ordinary shares of Pioneer Permanent Building Society Ltd held directly, indirectly or beneficially, by each specified Director and specified executive, including their personally related entities is as follows:

	Held at 1 July 2004	Received as Remuneration	Net Change Other*	Held at 30 June 2005
Parent Entity Directors				
Mr C Flor	659,789	-	40,970	700,759
Mr APF Ghush	602,210	-	9,624	611,834
Mr RC Deguara	330,388	-	11,094	341,482
Ms VB Comino	313,884	-	9,207	323,091
Mr MT Bohlscheid	191,633	-	6,442	198,075
Mr GG Cerutti	43,300	-	-	43,300
Specified Executives				
Mr LJ Voltz	155,633	-	5,826	161,459
Mr JF Hocking	9,141	-	309	9,450

* Net change other refers to shares purchased or sold during the financial year.

Notes continued

for the year ended 30 June 2005

34. DIRECTORS' AND EXECUTIVES' DISCLOSURES continued

(c) Debt Security Interests

The number of debt securities in which Directors and specified executives had an interest at 30 June 2005 was:

	Pioneer Income Notes	Subordinated Capital Notes
Parent Entity Directors		
Mr C Flor	600	150,000
Mr APF Ghusn	740	-
Mr RC Deguara	500	-
Ms VB Comino	1,000	-
Mr MT Bohlscheid	-	-
Mr GG Cerutti	-	-
Specified Executives		
Mr LJ Voltz	170	-

(d) Director and Executive Remuneration

Details of remuneration of directors and executives are contained in the Directors' Report.

Notes continued

for the year ended 30 June 2005

34. DIRECTORS' AND EXECUTIVES' DISCLOSURES continued

(e) Loans and other transactions with specified directors and specified executives

The Australian Securities and Investments Commission issued a class order 98/110 dated 10 July 1998 (as amended by class order 04/665 dated 15 July 2004) exempting Australian Financial Institutions from providing details of financial instrument transactions with related parties (other than specified directors and specified executives) entered into in the ordinary course of business and on an arms length basis.

Details regarding loans outstanding at the reporting date to specified Directors and specified executives, where the individual's aggregate loan balance exceeds \$100,000 at any time in the reporting period are as follows:

	Balance 1 July 2004	Balance 30 June 2005	Interest paid and payable in the reporting period	Highest balance in period
Specified Directors				
None				
Specified Executives				
LJ Voltz	306,177	638,786	44,116	644,459

Financial instrument transactions with specified directors, executives and director and executive related entities during the financial year were on normal terms and conditions and are no more favourable than those available to other parties, unless otherwise stated.

Other transactions with the Society or its controlled entities

- (i) motor vehicle fleet dealings with Carlisle Motors Pty Ltd a company for which Mr R.C. Deguara is a Director. The amount paid to Carlisle Motors Pty Ltd for the year totalled \$158,528 (2004: \$67,861);
- (ii) the partnership of Coscer Accountants, of which Mr G.G. Cerutti is a partner, was paid commission of \$92,567 (2004: \$100,626) for the period, for acting as the agent of the Society in Ingham. These amounts were in accordance with the normal terms and conditions of the agency commission paid by the Society;
- (iii) rental of business premises from a partnership which includes Mr C Flor totaled \$nil (2004: \$15,000) for the year;
- (iv) deposits lodged with the chief entity on normal customer terms by directors and related entities;
- (v) insurance policies placed on normal customer terms on behalf of directors and related entities by the controlled entity.

	CONSOLIDATED		SOCIETY	
	2005	2004	2005	2004
	\$	\$	\$	\$
35. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the auditors of Pioneer Permanent Building Society Limited for:				
- an audit or review of the financial statements of the entity and any other entity in the economic entity	65,728	62,018	65,728	62,018
- other services in relation to the entity and any other entity in the economic entity.	5,960	5,734	5,960	5,734
	71,688	67,752	71,688	67,752

Notes continued

for the year ended 30 June 2005

36. ECONOMIC DEPENDENCY

The Society has an economic dependency on the Mackay region, which is the source of most of its deposits and loans. This economic dependency will reduce as the Society further expands its operations to other areas of Queensland.

37. SEGMENT INFORMATION

Business Segments

The consolidated entity's operations comprise one segment, being the provision of financial services.

Geographic Segments

The consolidated entity's business segment operates in Australia, with the majority of business being in Queensland.

38 FINANCIAL INSTRUMENTS

38(a) Terms, conditions and accounting policies

The economic entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
(i) Financial Assets			
Receivables due from other financial institutions	7	Receivables due from other financial institutions are stated at cost. Further details are shown in Note 1 (g).	Receivables due from other financial institutions comprise term deposits with banks and other building societies, having various terms to maturity.
Investment securities	9	Investment securities are carried at amortised cost. Amortised cost is calculated by taking into account the discount or premium on acquisition. Interest revenue is recognised on an effective yield basis.	All investment securities can be sold prior to maturity. Floating rate notes with a face value of \$2,000,000 have a term to maturity of no more than 12 months. All other investments have maturity dates of less than 1 year.
Loans and Advances	10	Loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Loans and advances are recorded at their recoverable amount.	The majority of loans are written over a maximum term of 25 years with principal and interest repayments. All overdrafts are reviewed on an annual basis. Security details are provided in Note 10 (b).
Other investments	13	Shares and notes are carried at the lower of cost or recoverable amount. Dividend/Interest income is recognised when it is received. Deposits with special service providers are carried at face value.	Most of the shares and notes held are in organisations that are associated with the Society or in the same industry, and as such are considered to be long term investments. Funds are on deposit with special service providers to cover settlements for electronic transactions.

Notes continued

for the year ended 30 June 2005

38. FINANCIAL INSTRUMENTS (cont'd)

38(a) Terms, conditions and accounting policies (cont'd)

The economic entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:-

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
(ii) Financial liabilities			
Deposits	19	Deposits are recorded at the principal amount.	Details of maturity terms are set out in Note 19. Interest is calculated on the daily balance outstanding.
Payables and other liabilities	20	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity.	Trade liabilities are normally settled on 30 day terms.
Subordinated debt	21	<p>Term subordinated debt is carried at the principal amount.</p> <p>Perpetual subordinated debt is carried at the principal amount.</p>	<p>Term subordinated debt has a maturity of 10 years with interim maturity dates commencing at 5 years. The first interim maturity date is 25 January 2007.</p> <p>Perpetual subordinated debt (Pioneer Income Notes) does not have a maturity date. The Society has the right to exchange each Pioneer Income Note for its face value of \$100 (plus any outstanding accrued interest) at any time after 25 October 2004.</p>

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Notes continued

for the year ended 30 June 2005

38. FINANCIAL INSTRUMENTS (cont'd)

38(b) Interest rate risk

The economic entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Variable interest rate		Fixed interest rate maturing:						Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
			Within Year		1 to 5 years		Over 5 years							
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 %	2004 %
(i) Financial assets														
Cash and liquid assets	10,903,162	6,225,409	-	-	-	-	-	-	3,763,935	3,775,825	14,667,097	10,001,234	5.26	4.97
Receivables due from other financial institutions	-	-	75,287,826	71,500,000	-	-	-	-	-	-	75,287,826	71,500,000	5.88	5.63
Investment securities	-	-	61,679,446	90,924,308	-	2,002,015	-	-	-	-	61,679,446	92,926,323	5.75	6.23
Loans and advances	233,429,644	220,463,364	21,585,474	17,248,173	52,143,188	42,130,219	427,774	259,433	-	152,030	307,586,080	280,253,219	7.31	7.31
Other investments	550,000	550,000	-	-	-	-	-	-	13,166	13,166	563,166	563,166	5.50	5.25
Total financial assets	244,882,806	227,238,773	158,552,746	179,672,481	52,143,188	44,132,234	427,774	259,433	3,777,101	3,941,021	459,783,615	455,243,942		

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Notes continued

for the year ended 30 June 2005

NOTE 38. FINANCIAL INSTRUMENTS (cont'd)

38(b) Interest rate risk (cont'd)

Financial Instruments	Variable interest rate		Fixed interest rate maturing:						Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
			Within year		1 to 5 years		Over 5 years							
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2003 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 %	2004 %
(ii) Financial liabilities														
Deposits	162,360,938	144,700,919	251,526,749	266,700,723	9,662,245	8,784,820	-	-	-	-	423,549,932	420,186,462	4.05	4.08
Payables and other liabilities	-	-	-	-	-	-	-	-	5,117,640	5,877,384	5,117,640	5,877,384	n/a	n/a
Subordinated debt	-	-	17,416,439	17,416,439	-	-	-	-	-	-	17,416,439	17,416,439	7.42	7.17
Interest rate swaps	(10,000,000)	(10,000,000)	(10,000,000)	-	20,000,000	10,000,000	-	-	-	-	*	*	**	**
Total financial liabilities	152,360,938	134,700,919	258,943,188	284,117,162	29,662,245	18,784,820	-	-	5,117,640	5,877,384	446,084,011	443,480,285		

n/a not applicable for non-interest bearing financial instruments

* not applicable since financial instruments are not recognised in the financial statements

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

Notes continued

for the year ended 30 June 2005

NOTE 38. FINANCIAL INSTRUMENTS (cont'd)

(c) Net fair values

	Total carrying amount as per the balance sheet		Aggregate net fair value	
	2005	2004	2005	2004
Financial assets				
Cash and liquid assets	14,667,097	10,001,234	14,667,097	10,001,234
Receivables due from other financial institutions	75,287,826	71,500,000	75,419,501	72,029,817
Investment securities	61,679,446	92,926,323	62,610,232	93,721,196
Loans and advances	307,586,080	280,253,219	305,659,603	279,239,025
Other investments	563,166	563,166	563,166	563,166
Total financial assets	459,783,615	455,243,942	458,919,599	455,554,438
Financial liabilities				
Deposits	423,549,932	420,186,462	423,549,932	420,186,462
Payables and other liabilities	5,117,640	5,877,384	5,117,640	5,877,384
Dividends payable	-	-	-	-
Subordinated debt	17,416,439	17,416,439	17,416,439	17,416,439
Interest rate swaps	*	*	*	*
Total financial liabilities	446,084,011	443,480,285	446,084,011	443,480,285

* not applicable since derivative financial instruments are not recognised in the financial statements.

Notes continued

for the year ended 30 June 2005

38. FINANCIAL INSTRUMENTS (cont'd)

(c) Net fair values (cont'd)

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Cash and liquid assets and deposits with special service providers:	The carrying amount approximates fair value because of their short-term to maturity or are receivable on demand.
Receivables due from other financial institutions and investments securities:	The fair value is determined by reference to the current market value of another instrument which is substantially the same.
Loans and advances:	The fair values of loans receivable excluding impaired loans, are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending agreements.
Unlisted shares:	The carrying amount approximates fair value.
Deposits:	The carrying amount approximates their fair value as they are short term in nature.
Term subordinated debt:	The value is determined by reference to the current quoted market price.
Perpetual subordinated debt:	The value is determined by reference to the current quoted market price.

(d) Credit risk exposures

The economic entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

In relation to unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

Concentrations of credit risk

The Society has clearly defined policies and procedures for the approval and management of credit risk. The Society minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of customers within a specified category. However, at present security in relation to loans is concentrated in Queensland.

Credit risk in loans receivable is managed in the following ways:

- a risk assessment process is used for all customers;
- mortgage insurance is obtained where possible; and
- appropriate loan security is taken and appropriate loan insurance cover in respect of that security is required.

Loan exposures are disclosed in Note 10.

(e) Hedging instruments

The Society is exposed to interest rate fluctuations to the extent that the Society has a difference of interest earning assets and the amount of interest bearing liabilities that reprice in differing periods. The senior management of the Society is responsible for implementing strategies to manage this risk within limits set by the Directors. One of the strategies has been the use of interest rate swaps. At 30 June 2005 the Society had in place interest rate swaps to the value of \$20,000,000 in which the Society pays a fixed rate and receives a variable rate of interest. The Society does not enter into transactions involving derivative financial instruments other than for hedging risk.

Directors' Declaration

The directors of Pioneer Permanent Building Society Limited declare that:

1. The financial statements and notes of the Society and of the Consolidated Entity, as set out on pages 10 to 42, are in accordance with the Corporations Act 2001 and:
 - (a) comply with the Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and the economic entity;
2. The persons performing the Chief Executive Officer and Chief Financial Officer functions have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporation Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion, there are reasonable grounds to believe that the company 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.

APF Ghusn
Deputy Chairman

Dated this 23rd day of August 2005

Independent Audit Report

TO THE MEMBERS OF PIONEER PERMANENT BUILDING SOCIETY LIMITED

Scope

We have audited the financial report of Pioneer Permanent Building Society and controlled entities for the financial year ended 30 June 2005 comprising Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, Notes to and forming part of the Financial Statements, Directors' Declaration and the Remuneration Report contained within the Directors' Report.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration included in the Directors Report has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion, the financial report of Pioneer Permanent Building Society is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

S H Tait & Co

L E Manning
Partner

Mackay QLD
23 August 2005