# INTERIM FINANCIAL REPORT

# 31 DECEMBER 2005

PIONEER

Personalised Regional Banking

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Pioneer Permanent Building Society Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Pioneer Permanent Building Society Limited
ABN 36 087 652 042

## LETTER TO SHAREHOLDERS

It is pleasing to report that the period from 1 July 2005 to 31 December 2005 has been one of continuing steady growth for the Society with future initiatives being put into place to continue our strong presence in the marketplace.

Net profit before tax is up 5.6% over the previous corresponding period to $1.3 million. The implementation of the international accounting standards only had a marginal impact on the result.

Loans and deposits have both grown over the last 6 months with loan balances up $11 million to $318 million and deposits up $31 million to $454 million. Total assets as at 31 December 2005 stood at $499 million, an increase of 6.7% since June 2005.

The Board has continued its policy of increasing dividends while retaining sufficient profits to build up the Society's reserves for the benefit of shareholders. An interim dividend of 5 cents per share fully franked has been declared, an increase of 25% on the previous corresponding period. This dividend equates to a payout ratio of 56% of after tax profits. The Dividend Reinvestment Scheme has remained suspended for the payment of this dividend.

Capital adequacy continues to remain well above regulatory requirements. During the 6 month period, the Society announced an on-market buyback of $2 million in total of Pioneer Income Notes and Term Subordinated Capital Notes. The buyback will reduce the Capital Adequacy Ratio as well as contribute to profit going forward. The face value of Notes repurchased to date is $302,000.

The new computer system, installed last June, is delivering benefits throughout the network. We are now reviewing staff processes to ensure we are making the most of efficiency and cost improvements the new system offers, although it goes without saying the quality of our personalised member services will not be compromised.

From now until 30 June 2006, the Society expects to complete the installation of a number of new products, including BPay View, Visa credit card and on-line loan applications via the Internet. The Society's website will also be improved. BPay Biller has recently been installed which will be of benefit to our business customers.

Liquidity remains at a very high level. All efforts are being made to further increase the balance of the loan portfolio, however with the tight employment market being experienced in Central Queensland, progress is slower than Management would like.

Lastly, we advise that the Board has resolved to list the Society's shares on the Australian Stock Exchange (ASX). To help facilitate this, a Special General Meeting will be held in April 2006 to vote on amending the Society's constitution to meet the ASX requirements.

We are very pleased to be making this move forward and expect that the ASX listing will improve the marketability of the Society's shares, which will benefit all shareholders.

With a number of new initiatives in place, and a dedicated team of staff and associates, the Board and Management remain confident about the Society's longer term growth prospects.

**Clifford Flor**
CHAIRMAN

**Allan Richardson**
GENERAL MANAGER

# DIRECTORS' REPORT

Your Directors submit the financial report of the economic entity for the half-year ended 31 December 2005.

**DIRECTORS**

The names of directors who held office during or since the end of the half-year:

Mr Clifford Flor (Chairman)
Mr Anthony P.F. Ghusn (Deputy Chairman)
Mr Richard C. Deguara
Ms Vasiliki B. Comino
Mr Maxwell T. Bohlscheid
Mr Glen G. Cerutti

**REVIEW OF OPERATIONS**

The principal activities of the Society during the half-year comprised of raising funds on deposit and making advances, mainly on the security of registered first mortgage over real property. The Society provides finance for residential, commercial, business, rural and personal purposes.

The consolidated net profit before income tax for the half year was $1,342,361 with net profit after tax of $931,373.

Loan approvals for the half-year totalled $64 million. Loan balances at 31 December 2005 were $318 million.

Total assets at 31 December 2005 were $499 million.

Further details of the Society's operations for the half-year are contained in the Chairman's Letter to Shareholders.

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

The lead auditor's independence declaration is set out below and forms part of the Directors' report for the half-year ended 31 December 2005.

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

C Flor
Chairman of Directors
Dated this 27th day of February 2006.

# INDEPENDENCE DECLARATION BY LEAD AUDITOR UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF PIONEER PERMANENT BUILDING SOCIETY LTD.

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005 there have been:

I. No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

II. No contraventions of any applicable code of professional conduct in relation to the review.

Laurence Manning
SH Tait & Co
Chartered Accountants
27th day of February 2006

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

for the Half-Year Ended 31 December 2005

| | Note | Economic Entity | |
|---|---|---|---|
| | | **31 December 2005** | 31 December 2004 |
| | | **$** | $ |
| Interest revenue | | **16,193,317** | 15,345,568 |
| Borrowing costs | | **(9,796,080)** | (9,547,080) |
| Net interest revenue | | **6,397,237** | 5,798,488 |
| Other revenue from ordinary activities | 4 | **2,576,750** | 3,166,958 |
| Bad and doubtful debts net (expense)/ recovery | 8 | **179,024** | 130,127 |
| Employee benefits expense | | **(3,192,248)** | (2,863,287) |
| Occupancy expense | | **(424,292)** | (394,265) |
| Depreciation and amortisation expense | | **(489,777)** | (410,712) |
| Fees and commissions | | **(1,602,285)** | (2,182,398) |
| Other expenses from ordinary activities | | **(2,102,048)** | (1,974,027) |
| Profit from ordinary activities before income tax | | **1,342,361** | 1,270,884 |
| Income tax expense | | **(410,988)** | (386,341) |
| Net profit from ordinary activities after income tax attributable to members of the company | | **931,373** | 884,543 |
| Total changes in equity other than those resulting from transactions with owners as owners | | **931,373** | 884,543 |
| Basic and diluted earnings per share (cents) | | **8.98** | 8.61 |

The accompanying notes form part of these financial reports.

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

as at 31 December 2005

| | Economic Entity | |
|---|---|---|
| | **31 December 2005** | 30 June 2005 |
| | **$** | $ |
| **ASSETS** | | |
| Cash and cash equivalents | **18,998,007** | 14,667,097 |
| Investments held to maturity | **151,223,974** | 0 |
| Receivables due from other financial institutions | **0** | 75,287,826 |
| Sundry debtors and accrued receivables | **3,154,485** | 1,922,303 |
| Investment securities | **0** | 61,679,446 |
| Loans and advances | **318,456,124** | 307,911,763 |
| Other financial assets | **678,953** | 0 |
| Other investments | **0** | 563,166 |
| Property, plant and equipment | **3,791,968** | 2,753,911 |
| Deferred tax assets | **760,413** | 799,179 |
| Intangible assets | **1,930,361** | 1,946,512 |
| Other assets | **99,627** | 199,653 |
| | | 0 |
| **TOTAL ASSETS** | **499,093,912** | 467,730,856 |
| | | 0 |
| **LIABILITIES** | | 0 |
| Deposits | **454,630,493** | 423,549,932 |
| Payables and other liabilities | **5,459,231** | 5,117,640 |
| Interest bearing liabilities | **17,113,739** | 17,416,439 |
| Current tax liabilities | **146,341** | 315,651 |
| Provisions | **737,846** | 718,979 |
| Deferred tax liabilities | **230,844** | 128,635 |
| | | 0 |
| **TOTAL LIABILITIES** | **478,318,494** | 447,247,276 |
| **NET ASSETS** | **20,775,418** | 20,483,580 |
| | | 0 |
| **EQUITY** | | 0 |
| Contributed equity | **16,165,850** | 16,165,850 |
| Reserves | **1,484,464** | 1,511,781 |
| Retained profits | **3,125,104** | 2,805,949 |
| **TOTAL EQUITY** | **20,775,418** | 20,483,580 |

The Accounting Standards require the comparative figures for June 2005 to be shown and not December 2004.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2005

| | | Economic Entity | |
|---|---|---|---|
| | | **31 December 2005** | 31 December 2004 |
| | Note | **$** | $ |
| **Total equity at the beginning of the interim period** | 2c | **20,483,580** | 19,088,221 |
| Adjustments on adoption of AASB 132 and AASB 139 net of tax: | | | |
| - Retained profits | 2k | **12,444** | - |
| - Reserves | 2k | **(69,689)** | - |
| Adjustments against equity during period | | | |
| - Cashflow hedges | | **42,372** | - |
| - Asset Revaluation Reserve | | **-** | 77,668 |
| - Adjustment to prior period tax liability | | **(2,291)** | |
| **Net income recognised directly in equity** | | **(17,164)** | 77,668 |
| **Profit for the period** | | **931,373** | 884,543 |
| **Total recognised income and expense for the interim period attributable to members** | | **914,209** | 962,211 |
| Transactions with ordinary shareholders in their capacity as ordinary shareholders: | | | |
| - Dividends paid | 5 | **(622,371)** | (558,327) |
| - Shares issued through the dividend re-investment plan | 5 | **-** | 360,033 |
| **Total equity at the end of the interim period** | | **20,775,418** | 19,852,138 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

for the Half-Year Ended 31 December 2005

| | Note | Economic Entity 31 December 2005 $ | 31 December 2004 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest received | | **16,080,510** | 15,581,879 |
| Other cash receipts in the course of operations | | **2,626,638** | 3,104,358 |
| Interest paid | | **(9,553,161)** | (9,809,414) |
| Other cash payments in the course of operations | | **(8,392,113)** | (7,874,600) |
| Income tax paid | | **(435,240)** | (9,197) |
| Net loans and advances funded to clients | | **(10,287,862)** | (15,287,166) |
| Net increase in client deposits | | **31,019,974** | 22,108,067 |
| **NET CASH FROM OPERATING ACTIVITIES** | | **21,058,746** | 7,813,927 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net (increase) / decrease in other financial assets | | **(14,312,511)** | (3,239,046) |
| Proceeds from disposal of property, plant and equipment | | **42,679** | 341,592 |
| Expenditure on property, plant and equipment | | **(1,536,897)** | (558,641) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **(15,806,729)** | (3,456,095) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issue | 6 | **-** | 360,033 |
| Dividends paid | 5 | **(622,371)** | (558,328) |
| Repurchase of debt scurities | 6 | **(298,736)** | - |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | **(921,107)** | (198,295) |
| Net increase / (decrease) in cash and liquid assets | | **4,330,910** | 4,159,537 |
| Cash and liquid assets at beginning of half-year | | **14,667,097** | 10,001,234 |
| **CASH AND LIQUID ASSETS AT END OF HALF-YEAR** | | **18,998,007** | 14,160,771 |
| **RECONCILIATION OF CASH** | | | |
| Cash | | **14,198,007** | 12,160,771 |
| Deposits at Call | | **4,800,000** | 2,000,000 |
| | | **18,998,007** | 14,160,771 |

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Pioneer Permanent Building Society Limited (the "Society") is a company domiciled in Australia. The condensed consolidation interim financial report of the Society for the six months ended 31 December 2005 comprises the Society and controlled entities.

### (a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with the Australia Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the Australian Accounting Standards Board, being the Australian equivalents to IFRS (AIFRS).

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for a part of the period covered by the first AIFRS annual financial report and AASB1 – *First Time Adoption of Australian Equivalents to International Financial Reporting Standards.*

The interim financial report should be read in conjunction with the most recent annual financial report. However, the basis of the preparation of this interim report is different to that of the most recent annual financial report due to the first time adoption of AIFRS.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in Note 2. This note includes reconciliations of equity and profit or loss for comparative periods under Australian Generally Accepted Accounting Principles to those reported for those periods under AIFRS.

### (b) Basis of Preparation

The financial report is presented in Australian dollars.

The interim financial report has been prepared on historical cost basis except that the following assets and liabilities are stated at their fair value:

***Current period policy***

- derivative financial instruments and financial instruments classified as available for sale.
- land and buildings

***Comparative period policy***

- land and buildings

The preparation of an interim financial report in conformity with AASB134 – *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous AGAAP. Except for the change in accounting policy relating to classification and measurement of financial instruments (see Note 3), the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition from previous AGAAP to AIFRS as explained in Note 2.

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont)**

Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the consolidated entity for the purposes of this condensed consolidated interim financial report.

**(c) Principles of Consolidation**

The consolidated financial report includes the financial statements of the Company, being the parent entity, and all its subsidiaries. Subsidiaries are all those entities over which the Company has the power to govern directly or indirectly decision making in relation to financial and operating policies, so as to require that entity to conform with the Company's objectives. Balances and effects of inter-entity transactions are eliminated on consolidation. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced, or up to the date control ceased.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances in the consolidated entity's bank accounts and cash on hand. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flow.

**(e) Derivative Financial Instruments and Hedging**

***Current period policy***

The consolidated entity uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. The entity has a policy not to hold or issue derivative financial instruments for trading purposes however derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, any resultant gain or loss in fair value is recognised in equity in the cash flow hedge reserve.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet ate, taking into account current interest rates and the current creditworthiness of the swap counterparties.

***Comparative period policy***

The consolidated entity 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. The quantitative effect of the change in accounting policy is set out in note 3

**(f) Property, Plant and Equipment**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of such assets includes:

- The initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site at which they are located, and
- Changes in the measurement of existing liabilities recognized for these costs resulting from the changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to AIFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. These items had a total fair value of $1,147,614.

*Depreciation*

Depreciation is charged to the income statement on a straight line or reducing balance method over the estimated useful lives of each part of an item of property, plant and equipment, but excluding land. The estimated useful lives in the current and comparative periods as follows:

- Freehold buildings — 40 years
- Leasehold improvements — Over the unexpired term of the lease
- Plant and equipment — 4 to 20 years

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**(g) Investments in debt and equity securities**

***Current period policy***

Investment securities available for sale consist of securities that are not actively traded and are intended to be held for an indefinite period of time. Such securities are available for sale and may be sold should the need arise, including liquidity needs, or impacts of changes in interest rates, or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs, Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity, until the asset is derecognise or impaired, at which time the cumulative gain or loss will be recognised in the income statement. Fair values of quoted investments in active markets are based on current mid-prices. If the relevant market is not considered active, or other methods of determining fair value do not result in a reasonable estimate, then the investment is measured at cost less impairment losses.

***Comparative period policy***

Financial instruments were either classified as held for trading or held to maturity. Those classified as held for trading were revalued to reflect fair values at the balance sheet date, with the revaluation increment or decrement for the period being taken to the income statement for that period. Those designated as held to maturity were carried at cost plus accrued interest, with the accrued interest being recognised in the income statement for the period. All equity securities were held at cost unless there was considered to be a permanent diminution in value.

The change in accounting policy did not have any quantitative impact upon the financial reports.

**(h) Impairment**

The carrying amounts of the consolidated entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

***Loan impairment***

All loan assets are subject to recurring review and assessed for possible impairment. All bad debts are written off in the period in which they are identified.

***Current period policy***

Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

Specific provisions are recognised where specific impairment is identified. Where individual loans are found not to be impaired, they are collectively assessed for losses that have been incurred but not yet identified.

***Comparative period policy***

A specific provision for doubtful debts is recognised for individual loans which are identified as being impaired. A general provision is maintained to recognise bad debts inherent in the loan portfolio which have not yet been identified.

***Calculation of recoverable amount – assets other than loans and advances***

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflect current market assessments of the time value of the money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(i) Dividends Declared**

Dividends payable are recognised when declared.

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**(j) Employee Benefits**

- *Salaries, redundancy costs and annual leave*
  Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of reporting period represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

- *Long service leave*
  The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the consolidated entity resulting from employees' services provided up to reporting date.

  The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

**(k) Revenue recognition**

- **Interest Income and fees for services rendered**
  Except as described below, revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The principal sources of revenue are interest income, commission income and fee income.

  Interest income arising from loans is brought to account using the effective interest rate method. Other income, commission and fee income is recognized in the income statement when earned (except as described below)

- **Loan origination income**
  ***Current period policy***
  Revenue received in relation to the origination of loans is capitalized and recognised in the income statement over the expected life of the relevant loans. The balance outstanding of the capitalized origination income is recognised in the balance sheet as a decrease in the value of loans outstanding. This change in policy has had the effect of decreasing reported fees and commissions income for the period relative to the comparative period policy.

  ***Comparative period policy***
  Revenue received in relation to the origination of loans is recognised in the income statement as it is received.

**(l) Expenses**

- **Loan origination expenses**
  ***Current period policy***
  Expense incurred in relation to the origination of loans is capitalised and recognised in the income statement over the expected life of the relevant loans. The balance outstanding of the capitalized origination income is recognised in the balance sheet as an increase in the value of loans outstanding. This change in policy has had the effect of decreasing reported fees and commissions expense for the period relative to the comparative period policy.

  ***Comparative period policy***
  Commissions paid to introducers are capitalised and recognised in the income statement over the expected life of the relevant loans. All other expenses are expensed as they are incurred. The balance outstanding of the capitalised expense is recognised as an other asset.

**(m) Payables**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed to the Society or consolidated entity. Payables are stated at cost and are normally settled within 30 days.

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**(n) Goods and Services Tax**

Revenues, expenses and assets are recognized 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 recognized 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.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(o) Income Tax**

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates current at the balance sheet date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**NOTE 2: EXPLANATION OF TRANSITION TO AIFRS**

As stated in Note 1a, these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRS.

The accounting policies in Note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing the opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows it set out in the following tables and the notes that accompany the tables.

| | | Economic Entity | |
|---|---|---|---|
| **Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards** | | | |
| **(a) Reconciliation of Equity at 1 July 2004** | Previous GAAP at 1.7.2004<br>$ | Adjustments on introduction of Australian equivalents to IFRS<br>$ | Australian equivalents to IFRS at 1.7.2004<br>$ |
| **ASSETS** | | | |
| Cash and liquid assets | 10,001,234 | | 10,001,234 |
| Receivables due from other financial institutions | 71,500,000 | | 71,500,000 |
| Accrued receivables | 1,964,367 | | 1,964,367 |
| Investment securities | 92,926,323 | | 92,926,323 |
| Loans and advances | 280,253,219 | 212,103 | 280,465,322 |
| Other investments | 563,166 | | 563,166 |
| Property, plant and equipment | 4,420,740 | (1,292,987) | 3,127,753 |
| Deferred tax assets | 1,095,624 | 27,500 | 1,123,124 |
| Intangible assets | 66,867 | 1,328,820 | 1,395,687 |
| Other assets | 488,385 | (212,103) | 276,282 |
| **TOTAL ASSETS** | 463,279,925 | | 463,343,258 |
| **LIABILITIES** | | | |
| Deposits | 420,186,462 | | 420,186,462 |
| Payables and other liabilities | 5,877,384 | | 5,877,384 |
| Interest bearing liabilities | 17,416,439 | | 17,416,439 |
| Current tax liabilities | 196,376 | (67,197) | 129,179 |
| Provisions | 450,876 | 127,500 | 578,376 |
| Deferred tax liabilities | - | 67,197 | 67,197 |
| **TOTAL LIABILITIES** | 444,127,537 | | 444,255,037 |
| **NET ASSETS** | 19,152,388 | | 19,088,221 |
| **EQUITY** | | | |
| Contributed equity | 15,534,846 | | 15,534,846 |
| Reserves | 1,434,111 | | 1,434,111 |
| Retained profits | 2,183,431 | (64,167) | 2,119,264 |
| **TOTAL EQUITY** | 19,152,388 | | 19,088,221 |

**Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)**

| | Economic Entity | | |
|---|---|---|---|
| **(b) Reconciliation of Equity at 31 December 2004** | Previous GAAP at 31.12.2004 $ | Adjustments on introduction of Australian equivalents to IFRS $ | Australian equivalents to IFRS at 31.12.2004 $ |
| **ASSETS** | | | |
| Cash and liquid assets | 14,160,771 | | 14,160,771 |
| Receivables due from other financial institutions | 81,758,983 | | 81,758,983 |
| Accrued receivables | 2,249,646 | | 2,249,646 |
| Investment securities | 85,908,394 | | 85,908,394 |
| Loans and advances | 295,670,513 | 300,274 | 295,970,787 |
| Other investments | 563,166 | | 563,166 |
| Property, plant and equipment | 4,324,936 | (1,492,752) | 2,832,184 |
| Deferred tax assets | 954,591 | 29,587 | 984,178 |
| Intangible assets | 62,308 | 1,534,130 | 1,596,438 |
| Other assets | 641,219 | (300,274) | 340,945 |
| **TOTAL ASSETS** | 486,294,527 | 70,965 | 486,365,492 |
| **LIABILITIES** | | | |
| Deposits | 443,318,333 | | 443,318,333 |
| Payables and other liabilities | 4,713,803 | | 4,713,803 |
| Interest bearing liabilities | 17,416,439 | | 17,416,439 |
| Tax liabilities | 434,573 | (95,250) | 339,323 |
| Provisions | 490,206 | 140,000 | 630,206 |
| Deferred tax liabilities | - | 95,250 | 95,250 |
| **TOTAL LIABILITIES** | 466,373,354 | 140,000 | 466,513,354 |
| **NET ASSETS** | 19,921,173 | (69,035) | 19,852,138 |
| **EQUITY** | | | |
| Contributed equity | 15,894,879 | | 15,894,879 |
| Reserves | 1,511,781 | | 1,511,781 |
| Retained profits | 2,514,513 | (69,035) | 2,445,478 |
| **TOTAL EQUITY** | 19,921,173 | (69,035) | 19,852,138 |

Economic Entity

**Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)**

| (c) Reconciliation of Equity at 30 June 2005 | Previous GAAP at 30.6.2005 $ | Adjustments on introduction of Australian equivalents to IFRS $ | Australian equivalents to IFRS at 30.6.2005 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and liquid assets | 14,667,097 | | 14,667,097 |
| Receivables due from other financial institutions | 75,287,826 | | 75,287,826 |
| Accrued receivables | 1,922,303 | | 1,922,303 |
| Investment securities | 61,679,446 | | 61,679,446 |
| Loans and advances | 307,586,080 | 325,683 | 307,911,763 |
| Other investments | 563,166 | | 563,166 |
| Property, plant and equipment | 4,900,049 | (2,146,138) | 2,753,911 |
| Deferred tax assets | 767,224 | 31,955 | 799,179 |
| Intangible assets | 57,749 | 1,888,763 | 1,946,512 |
| Other assets | 525,336 | (325,683) | 199,653 |
| **TOTAL ASSETS** | 467,956,276 | (225,420) | 467,730,856 |
| **LIABILITIES** | | | |
| Deposits | 423,549,932 | | 423,549,932 |
| Payables and other liabilities | 5,117,640 | | 5,117,640 |
| Interest bearing liabilities | 17,416,439 | | 17,416,439 |
| Tax liabilities | 444,286 | (128,635) | 315,651 |
| Provisions | 578,979 | 140,000 | 718,979 |
| Deferred tax liabilities | - | 128,635 | 128,635 |
| **TOTAL LIABILITIES** | 447,107,276 | 140,000 | 447,247,276 |
| **NET ASSETS** | 20,849,000 | (365,420) | 20,483,580 |
| **EQUITY** | | | |
| Contributed equity | 16,165,850 | | 16,165,850 |
| Reserves | 1,511,781 | | 1,511,781 |
| Retained profits | 3,171,369 | (365,420) | 2,805,949 |
| **TOTAL EQUITY** | 20,849,000 | (365,420) | 20,483,580 |

| | Economic Entity | | |
|---|---|---|---|
| **Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)** | AIFRS except 132/139 1.7.2005 | Adjustments on introduction of Australian equivalents to IFRS | Australian equivalents to IFRS at 1.7.2005 |
| **(d) Reconciliation of Equity at 1 July 2005** | $ | $ | $ |
| **ASSETS** | | | |
| Cash and liquid assets | 14,667,097 | | 14,667,097 |
| Receivables due from other financial institutions | 75,287,826 | | 75,287,826 |
| Accrued receivables | 1,922,303 | | 1,922,303 |
| Investment securities | 61,679,446 | | 61,679,446 |
| Loans and advances | 307,911,763 | 17,776 | 307,929,539 |
| Other investments | 563,166 | | 563,166 |
| Property, plant and equipment | 2,753,911 | | 2,753,911 |
| Deferred tax assets | 799,179 | 49,162 | 848,341 |
| Intangible assets | 1,946,512 | | 1,946,512 |
| Other assets | 199,653 | | 199,653 |
| **TOTAL ASSETS** | 467,730,856 | | 467,797,794 |
| **LIABILITIES** | | | |
| Deposits | 423,549,932 | | 423,549,932 |
| Payables and other liabilities | 5,117,640 | 99,555 | 5,217,195 |
| Interest bearing liabilities | 17,416,439 | | 17,416,439 |
| Current tax liabilities | 315,651 | | 315,651 |
| Provisions | 718,979 | | 718,979 |
| Deferred tax liabilities | 128,635 | 24,628 | 153,263 |
| **TOTAL LIABILITIES** | 447,247,276 | | 447,371,459 |
| **NET ASSETS** | 20,483,580 | | 20,426,335 |
| **EQUITY** | | | |
| Contributed equity | 16,165,850 | | 16,165,850 |
| Reserves | 1,511,781 | (69,689) | 1,442,092 |
| Retained profits | 2,805,949 | 12,444 | 2,818,393 |
| **TOTAL EQUITY** | 20,483,580 | | 20,426,335 |

The adjustments made in this reconciliation relate to adoption of AASB 132 “Financial Instruments: Disclosure and Presentation” and AASB 139 “Financial Instruments: Recognition and Measurement”. The transitional rules contained in AASB1 do not require the restatement of comparative information for these adjustments and therefore they have been made to the opening balance sheet at 1 July 2005.

| **Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)** | Economic Entity | | |
|---|---|---|---|
| | Previous GAAP | Adjustments on introduction of Australian equivalents to IFRS | Australian equivalents to IFRS |
| | $ | $ | $ |
| **(e) Reconciliation of Profit or Loss for the half year 31 December 2004** | | | |
| Interest revenue | 15,345,568 | | 15,345,568 |
| Borrowing costs | (9,547,080) | | (9,547,080) |
| Net interest revenue | 5,798,488 | | 5,798,488 |
| Other revenue from ordinary activities | 3,166,958 | | 3,166,958 |
| Bad and doubtful debts net (expense)/ recovery | 130,127 | | 130,127 |
| Employee benefits expense | (2,863,287) | | (2,863,287) |
| Occupancy expense | (394,265) | | (394,265) |
| Depreciation and amortisation expense | (403,757) | (6,955) | (410,712) |
| Fees and commissions | (2,182,398) | | (2,182,398) |
| Other expenses from ordinary activities | (1,974,027) | | (1,974,027) |
| Profit from ordinary activities before income tax | 1,277,839 | (6,955) | 1,270,884 |
| Income tax expense | (388,428) | 2,087 | (386,341) |
| Net profit from ordinary activities after income tax attributable to members of the company | 889,411 | 4,868 | 884,543 |
| Total changes in equity other than those resulting from transactions with owners as owners | 889,411 | 4,868 | 884,543 |
| **(f) Reconciliation of Profit or Loss for the full year to 30 June 2005** | | | |
| Interest revenue | 30,695,144 | | 30,695,144 |
| Borrowing costs | (18,877,649) | | (18,877,649) |
| Net interest revenue | 11,817,495 | | 11,817,495 |
| Other revenue from ordinary activities | 6,027,444 | | 6,027,444 |
| Bad and doubtful debts net (expense)/ recovery | 454,833 | | 454,833 |
| Employee benefits expense | (5,369,932) | | (5,369,932) |
| Occupancy expense | (816,501) | | (816,501) |
| Depreciation and amortisation expense | (830,826) | (14,851) | (845,677) |
| Fees and commissions | (4,184,124) | | (4,184,124) |
| Other expenses from ordinary activities | (4,301,138) | | (4,301,138) |
| Profit from ordinary activities before income tax | 2,797,251 | (14,851) | 2,782,400 |
| Income tax expense | (839,829) | 4,455 | (835,374) |
| Net profit from ordinary activities after income tax attributable to members of the company | 1,957,422 | (10,396) | 1,947,026 |
| Total changes in equity other than those resulting from transactions with owners as owners | 1,957,422 | (10,396) | 1,947,026 |

**Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)**

**(g) Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

**(h) Notes to the reconciliations of equity and profit and loss**

The impact on deferred tax of the adjustments described below is set out in note 2i.

(1) An obligation exists to restore certain sites for the effect of the consolidated entity's operations. Under previous AGAAP, the cost of rectification was recognised as an expense when incurred. In accordance with AIFRS, restoration costs should be recognised as part of the cost of assets and as a provision at the time of the obligating events.

The effect in the consolidated entity is to increase *Property, plant and equipment* by $35,833 at 1 July 2004, $41,378 at 31 December 2004 and by $33,482 at 30 June 2005, and *Provision for make good costs* by $127,500 at 1 July 2004, $140,000 at 31 December 2004, and $140,000 at 30 June 2005.

(2) Under previous AGAAP, revaluation increments and decrements relating to individual assets within a class could be offset. Under AIFRS, increments and decrements cannot be offset and revaluation reserves cannot be created in respect of *Intangible assets.* The effect in the consolidated entity is to reduce *Intangible assets* by $290,856 at 30 June 2005.

(3) Under previous AGAAP, computer software was classified as *Property, plant and equipment*. Under AIFRS, computer software is classified as *Intangible assets*. The effect in the consolidated entity is to reduce *Property, plant and equipment* by $1,328,820 at 1 July 2004, $1,534,130 at 31 December 2004 and by $2,179,620 at 30 June 2005, and increase *Intangible Assets* by $1,328,820 at 1 July 2004, $1,534,130 at 31 December 2004 and by $2,179,620 at 30 June 2005.

**(i) Impact upon deferred tax asset and liability**

The changes detailed in notes 2 and 3 increased the deferred tax asset as follows:

| | AIFRS adjustments | | | Accounting policy changes |
|---|---|---|---|---|
| | 1 Jul 2004 | 31 Dec 2004 | 30 Jun 2005 | 1 Jul 2005 |
| Property, plant & equipment | 27,500 | 29,587 | 31,955 | - |
| Loan origination income | - | - | - | 19,296 |
| Derivative instruments | - | - | - | 29,866 |
| **Increase in deferred tax asset** | 27,500 | 29,587 | 31,955 | 49,162 |

The changes detailed in notes 2 and 3 increased the deferred tax liability as follows:

| | AIFRS adjustments | | | Accounting policy changes |
|---|---|---|---|---|
| | 1 Jul 2004 | 31 Dec 2004 | 30 Jun 2005 | 1 Jul 2005 |
| Loan origination expenses | - | - | - | 24,628 |
| **Increase in deferred tax liability** | - | - | - | 24,628 |

**(j) Impact upon tax expense**

The effect on the income statement of the tax changes detailed in notes 2 and 3 for the six months ended 31 December 2004 and for the year ended 30 June 2005, was to decrease the previously reported tax charge for the period by $2,087 and $4,455 respectively.

**Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)**

**(k) Impact upon equity**

The effect of the changes detailed in notes 2 and 3 upon equity is as follows:

| | AIFRS adjustments | | | Accounting policy changes |
|---|---|---|---|---|
| | 1 Jul 2004 | 31 Dec 2004 | 30 Jun 2005 | 1 Jul 2005 |
| *Retained Earnings Adjustments* | | | | |
| Property, plant & equipment | (64,167) | (69,035) | (74,564) | - |
| Intangible assets | - | - | (290,856) | - |
| Loan origination | | | | 12,444 |
| *Hedging Reserve Adjustments* | | | | |
| Derivative instruments | | | | (69,689) |
| **Total adjustment to retained earnings and reserves** | (64,167) | (69,035) | (365,420) | (57,245) |

**NOTE 3: CHANGE IN ACCOUNTING POLICY**

In the current financial year the consolidated entity adopted AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement". This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for the financial instruments within the scope of AASB 132 and AASB 139.

(a) The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity (retained earnings, hedging reserve, and fair value reserve) at 1 July 2005. The impact on the balance sheet in the comparative period is set out in the table in note 2d as an adjustment to the opening balance sheet at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

(b) In accordance with AASB 139, available-for-sale investments and all derivative financial instruments have been recognised as assets or liabilities at fair value. Under previous AGAAP, all derivatives and many investments were recognised at cost. The policy of measuring available-for-sale investment securities at fair value had no impact at 1 July 2005. The measurement of all derivatives at fair value has increased Derivative liability by $99,555 at 1 July 2005.

(c) In accordance with AASB 139, financial assets previously classified as receivables due from other financial institutions or investment securities are now classified as *Investments held to maturity*, except assets that are classified as Loans and receivables which are financial assets that have fixed or determinable payments and are not quoted in an active market. The effect of this change at 1 July 2005 is to decrease Investment securities and Receivables due from other financial institutions by $61,679,446 and $75,287,826 respectively, and to increase Investments held to maturity by $136,967,272. Other investments decreased by $563,166 and Other financial assets increased by $563,166.

(d) Under previous AGAAP, certain income and expense items relating directly to the origination of loans were recognised in the income statement as received. Broker origination commissions were previously deferred and amortised to the income statement over the expected life of broker originated loans. Under AIFRS, these income and expense items are capitalised and included in the loan's effective yield and recognised over the expected life of the loan.

The effect in the consolidated entity is to increase Loans and receivables by $338,127, decrease Other assets by $325,683 and increase Retained profits by $12,444 at 1 July 2005.

| | Economic Entity 31 December 2005 $ | Economic Entity 31 December 2004 $ |
|---|---|---|
| **NOTE 4: REVENUE FROM ORDINARY ACTIVITES** | | |
| Interest revenue | **16,193,317** | 15,345,568 |
| Other revenue from ordinary activities: | | |
| Dividends | **-** | - |
| Fees and commissions | **2,448,856** | 3,064,391 |
| Bad debts recovered | **29,397** | 18,424 |
| Other revenue | | |
| - Rent | **58,185** | 27,378 |
| - Profit on disposal of property, plant and equipment | **27,258** | 19,186 |
| - Profit on disposal of investments | **9,692** | 37,181 |
| - Sundry | **3,362** | 398 |
| | **98,497** | 84,143 |
| Total other revenue from ordinary activities | **2,576,750** | 3,166,958 |
| **Total Operating Revenue** | **18,770,067** | 18,512,526 |

### NOTE 5: DIVIDENDS

| | | |
|---|---|---|
| A final dividend for the year ending 30 June 2005 of 6.00 cents (2004: 5.50 cents) per ordinary share fully franked at tax rate of 30% was paid on 27 September 2005. | **622,371** | 558,327 |
| Since the end of the half year, the Directors have declared an interim dividend of 5.00 cents per share fully franked at the tax rate of 30% (2004: 4.00 cents). The financial effect of this dividend has not been brought to account in these financial statements and will be recognised in subsequent financial reports | **518,642** | 411,154 |

### NOTE 6: DEBT AND EQUITY SECURITIES

**Issue of debt and equity securities during the period**

| | | |
|---|---|---|
| <u>Ordinary Shares</u> Nil Ordinary shares issued pursuant to the dividend reinvestment plan (2004: 127,457) | **0** | 360,034 |

| | Economic Entity | |
|---|---|---|
| | **31 December 2005** | 31 December 2004 |
| | **$** | $ |
| **NOTE 6: DEBT AND EQUITY SECURITIES (Cont)** | | |
| **Repurchase of debt and equity securities during the period** | | |
| Pioneer Income Notes | | |
| Face value of securities repurchased | **179,700** | 0 |
| Purchase consideration | **179,493** | 0 |
| Subordinated Capital Notes | | |
| Face value of securities repurchased | **123,000** | 0 |
| Purchase consideration | **119,242** | 0 |

## NOTE 7: NON-CASH FINANCING ACTIVITY

For the purposes of the Statement of Cash Flows, shares issued under the Society's Dividend Reinvestment Scheme have been treated as a cash flow item under the heading "Proceeds from share issue" as it involved the conversion of liabilities to equity.

## NOTE 8: BAD AND DOUBTFUL DEBTS

A review of the lending portfolio at the reporting date resulted in a net reduction in provisions for impairment of loans of $179,024 (2004: $130,127). The review took into account the impact of the following considerations over the reporting period:

- Continued improvement in quality of the loan book demonstrated by reduction in loan arrears.
- Stable property markets in the major areas in which Pioneer has lending exposures.
- No new debts were identified during the period requiring significant levels of provisioning.
- Economy is continuing to perform well.
- There were no material changes to lending policies during the period.

## NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the half-year which would be likely to have a significant affect on the operations of the economic entity, the results of these operations or the state of affairs of the economic entity in subsequent financial periods.

## NOTE 10: CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

## NOTE 11: SEGMENT REPORTING

The consolidated entity operates predominantly in the banking and financial services industry in Australia.

## DIRECTORS' DECLARATION

The directors of Pioneer Permanent Building Society Limited declare that:

1. The financial statements and notes, as set out on pages 4 to 21:

    (a) comply with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and

    (b) give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.

2. 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.

C Flor
Chairman of Directors

Dated this 27th day of February 2006.

## INDEPENDENT REVIEW REPORT

## TO THE MEMBERS OF PIONEER PERMANENT BUILDING SOCIETY LIMITED AND CONTROLLED ENTITIES

31st December 2005

**Scope**

We have reviewed the financial report of Pioneer Permanent Building Society Limited for the half-year ended 31 December 2005 comprising the Condensed Consolidated Interim Income Statement, Condensed Consolidated Interim Balance Sheet, Condensed Consolidated Interim Statement of Changes in Equity, Condensed Consolidated Interim Statement of Cash Flows, notes to the Condensed Consolidated Interim Financial Report and Directors' Declaration. The company's directors are responsible for the financial report. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting 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 financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission, Australian Prudential Regulation Authority and the Newcastle Stock Exchange.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pioneer Permanent Building Society Limited is not in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position at 31 December 2005 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

**Independence**

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

**SH Tait & Co.**
Chartered Accountants
MACKAY

**L. E. MANNING**
27 February 2006