SOUTHERN CROSS
CREDIT UNION

Annual Report
2021

2020/21 Highlights

Strong Profit Result

Achieved a strong profit result of $2.709M in challenging times, allowing us to continue our investment in your Credit Union.

Employee Engagement Survey

Supported a more mobile workforce, introduced increased welfare measures and received a strong engagement score of 88% through our survey.

Community Support

Increased our community support in a time of greater need, contributing over $80K in funding through various programs to ensure we were there when our communities needed us the most.

Digital Capability

Introduced digital wallets via Apple & Google Pay, enhanced our online lending capabilities and systems to improve, automate and further personalise our service offering.

Financial Hardship

At its peak we worked with over 200 customers suffering financial hardship through COVID-19 related impacts to support them through difficult times.

Sustainability

Set in motion the beginnings of our Sustainability Plan, recognising the need to act and be committed to making a positive impact for a more sustainable future that benefits generations to come.

Customer Satisfaction

Achieved an outstanding Customer Satisfaction result of 86% through our first annual survey which we continue to take action on, using feedback to shape our future direction and perfect our customer experience.

Realising Dreams

We supported 918 customers totalling $160M in settlements to assist with purchasing their new home, investment property, car or refinancing to take advantage of what SCCU and customer owned banking has to offer.

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Opening Statement

The quality of our people, financial strength and continued commitment to deliver an exceptional banking experience remains unwavering. While turbulent times have tested us personally, as a community and as a business, we're proud to have adapted quickly, increased support and stayed true to our mutual ethos.

It is without question that 2020 was one of the most challenging years in modern times with the pandemic causing disruption and uncertainty for individuals, groups and companies of all sizes. Their welfare has been our priority, and while the operating environment has become more complex and exacting, this year presented opportunities to strengthen our business and truly demonstrate our difference.

We are acutely aware that the industry won't go back to the same environment that it once was, and that today's impacts have had a lasting effect on many people. With a renewed focus on what's most important and increased consideration to support local, with a strong sense of community coming to the forefront, we've witnessed a change in behaviour that increasingly aligns with our own heritage and values.

The need for online alternatives due to restrictions has also accelerated and as a result we continue to make significant investment in technology to better service our customers with a fast-tracked time frame to enhance our digital infrastructure. Our goal is to ensure we have high levels of connectivity and can operate more effectively, efficiently and securely, without compromising on our award-winning service.

Along with evolving customer preferences and an ever increasing wave of new technological innovation, this year also put a spotlight on the determined timeline of regulatory change post Royal Commission. It is anticipated much of the desired change through new and or revised prudential standards and reporting, is likely to roll out over the next few years. Managing this compliance especially in the context of historically low interest rates, strong competition, and the many economic factors at play, will be challenging. We're already making inroads to evolve our operations to increase capability, reprioritise our people where needed and expedite key projects that elevate customer experience particularly digitally. An area we will continue to make a priority.

Against this backdrop and despite complexities, we have delivered a strong profit result and are proud of our people who have helped each other and our customers throughout the year. While the present situation is disruptive, we have persevered and are doing everything we can to keep us all safe. This has included keeping our Financial Services Centres (FSC) open, given the essential service we provide for many who prefer face to face interaction, and mobilising our Corporate Service Centre to work from home to play our part in following government and health recommendations.

It was incredibly rewarding to have received outstanding results in our Customer Satisfaction and Employee Engagement Surveys. For us, these results are an indicator that we're doing things the right way, for the right reasons and increases confidence in our strategic approach that continues to deliver back to the needs of today.

COVID-19 Response

As a business being so close to the Queensland and New South Wales border certainly had and continues to have, an impact on our operations especially given different state-based approaches to keep their communities safe. We remain humbled and grateful for the ongoing support from all and while we continue to work our way through the changing environment, know we are much stronger as a business and community having navigated this together.

We're enormously proud of what we have achieved to increase support through COVID-19 including flexible repayment options, access to enhanced online alternatives and a range of other mechanisms designed to make things easier for our customers. Responding swiftly in times of uncertainty and ongoing strain has allowed us to help many get back on their feet quickly. As at 30 June none of our customers were on hardship arrangements, a far cry from being over 200 some 12 months ago. The dedication and care our people have shown while we keep pushing ourselves to be even better in trying times has been outstanding. We would like to particularly recognise those in our hardship team who worked tirelessly to achieve a positive result, through such personal and difficult circumstances.

During the year we also increased our levels of internal communication as the rhetoric constantly in the media was focused on the effects of the virus, varying lock down measures across the nation, a myriad of stimulus packages, international trade wars, the lowest cash rate in our country's history, the effect on property prices and cyber security concerns just to name a few. With such an influx of information, on top of the already complex nature of the banking industry, specifically in regards to heightened regulations, we felt it important to try to stay as informed and connected as possible.

We have weathered the storm extremely well as can be seen in our financial performance, team engagement and customer survey results, yet we appreciate that not all families and businesses have come through this year unscathed. We will continue to work hard to help them through these trying times, have their back and we send our thoughts to those doing it tough.

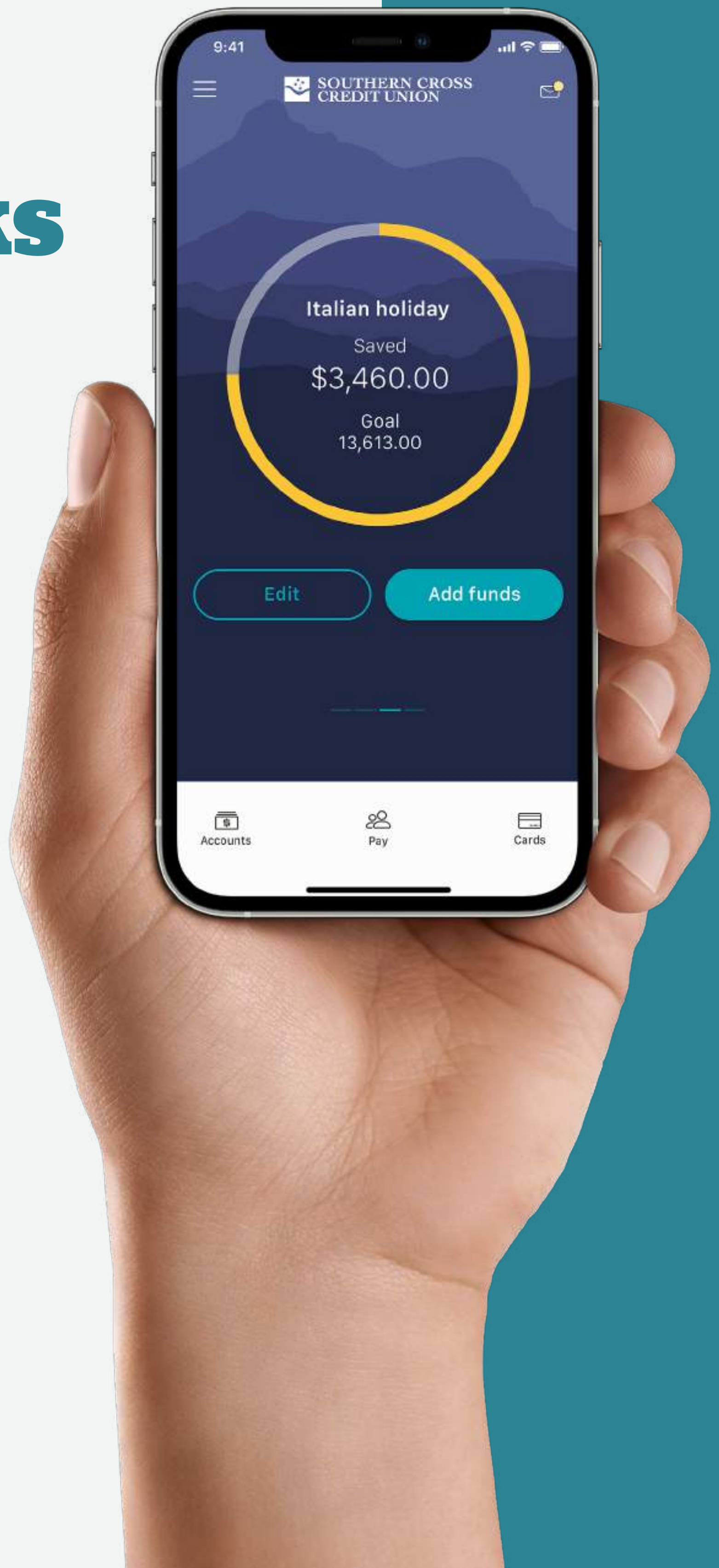
Both our regulators acknowledge the importance of the continued flow of credit to affected customers and industries in the current environment. We have been encouraged to work constructively with those affected during any period of disruption which we continue to do. Also, as a registered Authorised Deposit-Taking Institution (ADI) in the Government Guarantee Scheme, we will continue to play our part in helping the economy recover for those who need it. For their part, Australian Prudential Regulation Authority (APRA) and Australian Securities and Investment Commission (ASIC) will take account of the circumstances in which lenders, acting reasonably, are currently operating during the prevailing circumstances when administering their respective laws and regulations. With the government's rhetoric on the supply of credit to stimulate lending and growth, it will be interesting to see how this plays out and the approach taken to responsible lending and regulation in the year ahead.

> From the outset, our approach has been to ensure the health, safety and wellbeing of our people and customers.

Stuart Edwards,
Chief Executive Officer.

Banking That Works for You

The continued growth of our business and efforts to become more digitally enabled, are evidence of the ongoing success of our strategy and the results we have been able to achieve. As we increasingly move to online channels and provide greater options for customers, our journey prevails in keeping up with consumer demand to deliver a unique, relevant and meaningful banking ecosystem, complimented by our already award-winning service. We have undertaken a lot over the last 12 months to ensure we are providing the products and services expected in today’s world, building on our progress each year.



We thought it important to provide a snapshot of some key initiatives delivered over the last 12 months:

Launched Apple & Google Pay to make contactless payment easier with approximately 4,000 installs on customer devices and over 15,000 monthly transactions, a figure that increases every month. Our digital wallet continues to evolve, particularly with ‘tap and go’ becoming a preference payment method for many looking for ‘touch free’ alternatives.

Introduced the ability to apply for a loan online with the first iteration of our Online Lending Application introduced. Continuing our digital transformation to provide flexible banking options that enable us to compete with digital-first business models, we’ve already seen the positive uptake in customers being able to ‘apply now’ with a few simple clicks.

Introduced DocuSign technology for mortgages that will be further leveraged along with a digital encrypted platform with our legal partner and provider, for efficiencies and customer ease. Removing the need for wet signatures and document printing is just the start.

Implemented secure messaging to enhance our end to end online experience and share confidential materials such as contracts with customers through our Netbanking platform. This will be further integrated with other technology we have introduced including DocuSign.

Initiated a digital verification process with the introduction of IDYou, an alternative identification verification method that’s quick, online and convenient. We will be building on this in the coming year to give our customers greater flexibility on how they wish to be identified, supporting our existing methods such as Australia Post along with new online alternatives.

Completed our Financial Service Centre (FSC) Refurbishments with Cabarita, Mullumbimby and Lismore receiving final touches to bring together a consistent look that is reflective of who we are today. This has been a milestone for a while and supports the unique SCCU customer experience at every location with an aesthetic that portrays who we are and makes our customers feel at home.

Delivered our first annual survey and ongoing feedback for those connecting through our Customer Call Centre. Our efforts to understand our customers and respond to their needs remains central to our strategy, and promise to deliver on our purpose.

Enhanced communication to more clearly articulate who we are today, what we offer and the difference we can deliver. Designed to connect with different customers, a new suite of videos and content has been used across our website, social media channels and on television. Welcoming a new, unique style that also highlights the beautiful region in which we live, our local commitment and customer-first focus.

Our Financial Performance

Our unwavering commitment to our customers, community and strategic plan saw us deliver an underlying Net-Profit of $2.709M despite the impacts of the COVID-19 crisis.

An exceptional result in an extremely unpredictable year and hyper-competitive home loan market. Our achievements reflect our drive to increasingly deliver simpler, relevant and competitive products and services. In a time when such positive results were unforeseeable, we're fortunate to have a dedicated team who, through their exceptional service and shared-vision to help our customers achieve their financial dreams, are to be commended.

Loan Growth	**9.8%**
Deposit Growth	**3.9%**
Profit Before Tax	**$3,663M**
Percentage Return on Assets	**0.39%**
Total Assets	**$688M**
Customers	**20,040**

Our progression to change the way in which we originate loans through third party broker network to strengthen our multi-channel approach has been very encouraging and a key contributor in our performance. With the broker market continuing to gain momentum, this channel will remain an important part of our strategy and we expect it to account for circa 60% of mortgage settlements in the foreseeable future. We're pleased to note that our partnerships continue to go from strength to strength, aided by the development of our technological infrastructure and resolve to improve our own operations. This, along with our strong capital position and accelerated digital road-map has us well positioned to protect profitability and continue investment in our business for customer benefit.

Securitisation

Taking advantage of the Reserve Bank of Australia (RBA) initiative to provide cheaper funding in defence of COVID-19 impact, we have established a Securitisation Trust with credit rating agency Standard and Poors (S&P) which is AAA rated. This is a great sign of the quality of our loan book and will give us the liquidity support needed as we continue to grow.

Official Cash Rate

Despite the 2020 recession, the Australian mortgage market remains resilient. Underpinned by a low interest market, the demand for property is robust. RBA Governor, Philip Lowe, commenting that the central bank would not be making any change to its official cash rate, currently 0.10%, holding interest rates at a record low and would be monitoring trends in housing borrowing "carefully" while staying committed to maintaining highly supportive monetary conditions to support a return to full employment in Australia.

While economic recovery has been stronger than expected, the RBA will not look to increase the cash rate until actual inflation is sustainably within the 2.0% to 3.0% target range. In his statement, the Governor stated that despite the recovery, inflation and wage pressures are subdued. While a pick-up in inflation and wages growth is expected, it is likely to be only gradual and modest.

Pursuing Profitable Growth

With no rate increases expected from leading analysts in the short term, margins and profitability will come under increased pressure, especially given the current economic uncertainty and regulatory environment. Macro prudential tightening could be on the horizon to subdue the current housing market situation and mitigate against potential vulnerabilities.

As expected in a low interest rate environment, we are moving to a period of lower profitability as measured by the Return on Assets (ROA). Continued loan growth is required to offset the lower returns to cover a cost base that is mostly fixed due to structural limitations. However unlike many other small to medium ADI's our capital ratio is high and healthy. While not as profitable as past years, with ROA between 0.3% and 0.4%, we remain in a strong position through our careful margin management, cost control and focused strategic priorities.

Non-Interest and Net-Interest income from current sources is expected to continue its decline and is mostly out of our control driven by competitive pressures, consumer behaviour and regulation. This will continue to place pressure on our profit and therefore maintenance of our capital at current levels. Funding levels above this will require new structures to be put in place which we are working towards.

Our strategy is designed to counteract these known pressures with our action plans designed to be both offensive and defensive. While there is certainly some unknowns about what the New Year will bring, our main focus financially is to maintain our profitability that allows adequate capitalisation, dictating our ability to extend our customer base and achieve our growth potential.

Risk, Regulation, Compliance & Governance

We continue to adopt a sound risk management culture led by the Board and Executive that supports our Risk Management Strategy and one that instils an appropriate risk culture across the business.

The past 12 months has seen an increasing focus on maintaining a robust risk management framework to ensure the financial stability and performance of the industry. We have made significant investments in further strengthening our own internal risk frameworks, redefining our core risk appetite, and building capability to keep up with the evolving regulatory landscape and emerging threats we face.

Our overarching strategy to enable continued business transformation and sustained growth is intrinsically linked to our Risk Appetite, in the areas of: Market Growth, Financial Strength, Credit Risk, Reputation and Branch Image, and Loss Exposure.

The regulatory agenda in the past year, following the Royal Commission findings, has been bold with new obligations coming into effect across 2021. These will have various flow on effects in a numbers of areas including how we market, deliver and communicate our products, in line with new laws surrounding anti-hawking provisions. These key changes aligning the industry to ensure all financial product providers are acting in the best interests of the customer is something we welcome.

These changes encompassed the introduction of design and distribution obligations intended to ensure a better alignment between products and consumer needs. We have invested heavily in the development of this framework, and training of employees, to ensure we are distributing our products correctly and bring greater clarity for our customers. This extends to any products we distribute on behalf of any of our partners.

The past year has also seen the commencement of Open Banking across the industry, directed at improving secure data-sharing between organisations, driving choice and simplifying the process for those looking to switch financial providers. It aims to provide Australians with greater control over how their data is used and disclosed. At SCCU, data security is of utmost importance and Open Banking is no exception.

A key requirement to operationalise these changes is to ensure the technology used has sound information security controls to safeguard personal information. We have set very high standards for the stability and security of our core banking systems, and data we manage, on behalf of those who place their trust in us. Having delivered the first phase to ensure our product information is readily available, we are currently in the process of finalising the next phase to enable direct consumer data sharing before the end of 2021.

The completion of our first year engagement with audit firm KPMG has seen a number of our internal controls, processes and policies reviewed with no material issues identified. Saying that we have implemented a number of improvements enabling us to further build our compliance program and risk governance frameworks, with a continued focus on regulatory adherence.

With the ongoing development of technologies and greater acceptance of online interaction, we have continued our efforts in ensuring we have the right safeguards, tools and processes in place to protect our customer's interests while delivering to today's expectations. Scams and fraud are ever present which is why we continue to heighten our level of communication, to build knowledge and understanding about what to look out for, and the steps that can be taken to increase protection. Behind the scenes we have deployed sophisticated monitoring tools to help identify unusual activity, and we will continue to investigate ways to build greater resilience. This will continue to evolve as financial crime becomes more developed, giving rise to ongoing fraud threats.

Our Commitment to Corporate Governance

We're committed to maintaining a transparent and accountable approach to corporate governance across all areas of our organisation. This is supported through robust governance frameworks in the areas of Risk, Compliance and Finance. We are dedicated to conducting business in strict compliance with applicable laws and with the highest standards of personal and corporate integrity.

Investing in Our People

Our values connect us all – it's what brings likeminded people together, encourages resilience and creates a culture where people thrive.

Our team play an important role in helping us realise our vision and deliver on our strategic objectives. While the pandemic has introduced a number of complexities that impact both the professional and personal, it was heart-warming to have witnessed the care, resilience and unity shown throughout. We believe the development of our people is an important factor in our success. With support, leadership and proven frameworks, together we move forward.

By continually improving our operational efficiencies we have increased the capacity of our team to spend more time with customers to understand what matters to them most. With customer and culture at the centre of everything, our approach has been to build on, refine and promote our existing programs made available to all our team members. This includes a well-established professional development offering, leader led customer conversation framework and peer experience program.

Wellbeing and safety remains a priority for the business, strengthened in the last year with a focus on mental health and increased communications to support those responsible for in-branch safety, as well as to better connect a workforce spread across locations with many working remotely. Through our Employee Assistance provider, we will continue to provide interactive Mental Health Awareness programs covering the understanding of mental health conditions, how to initiate a mental health conversation, skills practice and self-care strategies.

Given the disruptive year which shifted the way we operate from social distancing, work from home requirements and how our customers interact with us, we were immensely pleased with our Employee Survey results. With 91% participation, engagement within our business our score has increased this year from 82% to 88%. An outstanding result with most recent benchmarking by Culture Amp for Employee Engagement in Australia averaging 70%.

Acknowledging the success alongside that of our customer survey results is a positive indicator that we are moving in the right direction, as a business and as an employer. In the coming year we will continue to seek our team's valuable insights and encourage ownership both individually and collectively in shaping our culture and success.

Our Commitment to Our Team Members

We're committed to providing a supportive, safe and respectful work environment where learning and development opportunities are embraced.

Our employment conditions and benefits are designed to attract good people, build our experience and knowledge base and provide opportunities for our team to develop their skills and careers. We commit to maintaining high standards in the areas of equal employment opportunities, diversity, employee satisfaction, recruitment and retention, training, health and wellbeing strategies and remuneration. Our goal to be an employer of choice in our community.

Investing in Our Community

As a customer-owned institution this year we sought to be more visible, vocal and thoughtful. Rethinking 'business-as-usual' and offering meaningful support for those facing an uphill battle.

Our approach to community took on a different meaning. Understanding the challenges that continue to impact everyone, from business to clubs as well as families and individuals, we were able to step in and step up. Reflecting our ongoing commitment to the Credit Union ethos of 'People Helping People' and why we're different for all the right reasons.

Taking the view that communities of all sizes needed support more than ever before, we diversified our community programs to be more inclusive, impactful and locally relevant. From launching our 'Goals' initiative that saw each of our Financial Service Centre's (FSC) partner with grassroots groups, through to tripling our Community Grants investment, we were able to maximise our reach and reinvest into the place we call home.

Investing over $80K through these programs allowed us to connect more powerfully with those looking for a financial institution with shared values and strengthen our resolve as a true community based financial institution.

> Our community programs are about partnership and helping the region that sees both our home and heritage, prosper. This year saw our new and long-term partners face a range of challenges that often forced them to rethink their practices to avoid losing positive momentum and still deliver their goals. We're immensely proud to have worked with each of them, navigate things together and helping build a better future for the Northern Rivers. Our approach is a true reflection of who we are as a business, where we're going and the power that comes from responding with understanding and empathy.

Cassie Nicole, Community & Sponsorship Specialist

Our Commitment to Our Community

We're committed to the people, place and spirit that form our community. We understand that communities come in all sizes and work hard to support everyday people and grass roots groups, through to regional causes and national programs.

We seek to form true partnerships and use our network to connect others for the betterment of all. As a local business, we are a reflection of those around us, helping support with monetary and in-kind support that makes a difference.

Spotlight on Community Grants

Increasing investment and opening up our Community Grants program to allow applications from individuals to larger groups, saw us receive a record-breaking number of applications and community votes. In stark contrast to feelings of restriction or regression, Grant applications focused on 'taking back momentum' and 'creating a better future', to foster hope for the future of the Northern Rivers.

Our community responded in droves with our finalists covering a range of topics from emergency support, sustainability practices, research projects and new technologies to name a few.

Major Grant Recipients:

Emergent Leaders Foundation

Emergent Leaders Foundation introduced the Impactful Youth Project to the Northern Rivers through the SCCU Community Grant. The Impactful Youth Project is a four day camp for 11-16 year old young men and women: based on indigenous cultures – an initiation process marking the transition from child to adult. It’s a safe environment for young people to test themselves, in confidence, personal leadership, emotional literacy, and teamwork. Our Grant covered 50% of the cost, providing scholarships for up to 22 young warriors to participate.

Precious Plastics Norther Rivers

The local Precious Plastic team created a community-access plastic recycling centre in the Byron Shire. Instead of going into landfill or being sent overseas, the idea is to have plastic waste recycled and provided to local designers and craftspeople as a raw material for innovative use. Turning cheap raw materials into new, beautiful and useful creations. Our Grant covered the cost of purchasing three machines that help shred, melt, and recycle plastic collected from our local region.

Byron Bay Wildlife Hospital (BBWH)

BBWH is non-for profit, and have launched Australia’s largest mobile wildlife hospital. The mobile hospital offers expert veterinary care to native animals, is fully self-sustainable and is ready to hit the road whenever there is a crisis impacting wildlife. Offering support during bushfire season and other natural disasters, the Grant is being used in partnership with Australian Seabird Rescue to secure a much-needed Sea Turtle Recovery Dry Docking System, bringing a world-class enclosure to our shores. The station allows more advanced conservation strategies to continue efforts in wildlife rehabilitation and release, specifically for ill and injured sea turtles.

> Through their Community Grants program, Southern Cross Credit Union have demonstrated their commitment to environmental sustainability in our region in a number of ways. As well as funding projects to recycle plastic waste and remediate contaminated soil, they have supported Byron Bay Wildlife Hospital to provide expert veterinary care to native animals. Many of our patients are sea turtles, and SCCU’s $10,000 grant will be used in partnership with Australian Seabird Rescue to secure a much-needed Sea Turtle Recovery Dry Docking System, assisting with their rehabilitation before being released back into their ocean home. We’re so very grateful to SCCU for their support and applaud their commitment to conservation and sustainability projects.

Dr Stephen Van Mil, Founder and CEO, Byron Bay Wildlife Hospital

Partnering for Long Term Impact

Our partnerships continued seeing us support over 19 organisations and while each had their own unique challenges in the wake of the lockdowns, loss of trade and financial impacts, we’re proud to have sustained these relationships through shared values, mutual respect and a commitment to get back out there.

Of particular note, this year we also signed a new three year partnership with Positive Change for Marine Life (PCFML), bringing our efforts in community and sustainability together.

PCFML’s mission is to drive long-term change for marine life and ocean communities. This local partnership supports their River Warriors program, which focuses on restoring rivers and estuaries to their former glory by bringing stakeholders together to develop a more comprehensive understanding of the challenges these important systems face.

Seeing first-hand the impact, our decision to establish a more substantial, long-term relationship with PCFML this year was particularly rewarding given it also aligned with our own plans in sustainability.

> We are so grateful to have a strong partnership with such a great company that really cares about its local environment and lives up to the community custodianship we hope to share with our partners and supporters.

Dane Marx, Northern Rivers Project Coordinator, PCFML

Corporate Social Responsibility & Sustainability

We believe our attitude and actions reflect our respect and sense of responsibility to those we serve, as well as the environment.

We take pride in our continued ability to evolve to reflect the needs of each generation. Our own transformation this year has included an update on all Corporate Social Responsibility (CSR) statements which can be seen throughout this Annual Report, to communicate who we are now, the work we're doing and our efforts in fostering a culture that is ethically and socially responsible.

As always, we continue to practice responsible investment, good governance and a commitment to customer experience, with a professional and understanding manner. No matter if you visit us in person, connect online or speak to one of our team on the phone, our service respects the important role we play in safeguarding customer information, handled in line with best practice and comprehensive governance. We have introduced a number of policies to further improve our ways of working, including those addressing hardship, flexible working and vulnerable customers.

We remain appreciative of the trust that is placed in us, and by extension, our teams to act ethically and seek to deliver long-term benefit for our customers and community. A part of this by addressing the environmental, social and economic challenges that exist today.

Working Towards a More Sustainable Future

Following market research and feedback received through our customer survey we have introduced an ongoing sustainability program, aligned to our overarching business strategy. We believe this is important and that we have a duty to help influence better decisions. We recognise the need to act and are committed to making a positive impact for a more sustainable future that benefits generations to come. While we've been on this journey for some time, formalising our efforts and sharing these with the community is important to us as we move toward the future.

Our Commitment to Sustainability

We're committed to making a positive impact for a more sustainable future and demonstrate what it means to care about people and place, through actions that reflect our mutual ethos. We seek to continuously grow our knowledge, inspire others and share our progress in addressing the environmental, social and economic challenges that are most material to our people, customers and communities.

To support our cause we became a partner of NSW Office of Environmental and Heritage's Sustainability Advantage Program. Through the program we have access to tools and specialists, and will participate in their Sustainability Advantage Recognition Scheme which acknowledges those organisations who have committed to achieving real environmental improvements. Through small changes such as our gift boxes, and larger initiatives like our Community Grants we hope to positively influence a diverse and far reaching community, holding ourselves accountable through measurable actions.

We have also introduced a Sustainability Action Plan (SAP) which outlines a number of actions over an initial three year period. Designed for continuous improvement as progress is made, SAP is divided into four main pillars to clearly articulate our path forward and steer our efforts. These are as follows:

Engaging All People

Through engagement, shared-learning, collaboration and open communication we strive to partner for environmental and social good, influencing change and embedding a culture of sustainability that extends beyond our team.

Managing Our Impact

Adapting our operations to reduce carbon emissions and constantly looking at ways to improve of process and procedures to ensure we are acting responsibly and playing our part to manage our impact on the environment.

Developing Sustainable Finance

By providing individuals, families, businesses and groups' with financial products and services that reward sustainable choices and we aim to improve financial wellbeing.

Acting With Integrity

Acting as a responsible business goes beyond our role in finance. We seek to better understand, work with and engage our suppliers, partners and customers to ensure ethical practices are upheld.

Protecting & Listening to Our Customers

By joining the conversation, providing versatile and secure options that align with what matters most to today's consumers, we deliver on our promise to be "the first choice for easy to understand banking". We know trust is earnt and through our continued investment to protect our customer information, we seek to reinforce the customers' decision to bank with us every day, and at every interaction, sharing in each other's success.

Information Security

We have continued to make significant investments in cyber security to safeguard against evolving cyber threats. One of our major ongoing cyber security projects is a commitment to uplift our Information, Communication and Technology (ICT) Governance framework to follow internationally recognised best practices and better align the business with the requirements of the APRA CPS 234 prudential standard. This requires us to take a holistic look at our ICT policies and processes across our business, and ensure that cyber security is top of mind across all of our activities.

A major component of this is ongoing threat detection and monitoring. We have engaged Threat Defence to act as our Security Operations Centre and perform Cyber Security Event and Incident Management.

Due to the evolving nature of the cyber security landscape, having a proactive testing program in place will increase our capability to find and fix security flaws before they can be exploited by an attacker. We have recently engaged Loop Secure to perform this ongoing service.

This year we delivered a program of work to increase the security of our customer's Visa debit cards amidst heightened levels of fraud due to the pandemic. We have partnered with Orion to provide real-time fraud monitoring 24 hours a day. Orion is able to evaluate every Visa debit card transaction performed by our customers and block potentially fraudulent transactions, or contact them for confirmation before allowing a transaction to complete.

In addition to fraud monitoring, we have upgraded all of our Visa debit cards to use the new Visa 3D Secure service, which enforces two-factor authentication over SMS for high-risk transactions. This helps to prevent stolen cards from being used over the internet, if the transaction is considered high-risk by the automated RSA risk engine.

We have also made major investments in IT Infrastructure with a significant spend on new hardware in our data centres, replacing a number of aging components with further spending next year. This will ensure that our computer systems and networks have ample capacity to meet our needs for the next several years and that all our systems are up to date and are actively supported by our vendors.

Looking to the future, we have a number of major projects on the horizon, including upgrades to our Netbanking platform and mobile App. The upgrades will bring a new look and feel in addition to the latest security features behind the scenes. We will also be rolling out two-factor authentication over short message services (SMS) to all of our Netbanking customers. While this feature has been available for some time, given the growing risk of fraud we believe it is imperative that all customers have two factor authentication to protect their savings.

In our longer term strategy, we are also working on a lot of new and exciting features such as, new loan application system so that lending decisions and approvals are faster to market and support the ever increasing broker network, New Payments Platform (Osko) to enable customers to make real time payments and transfers to other financial institutions and, the Open Banking Consumer Data Right providing customers with the ability to authorise their banking data to be seamlessly delivered to authorised third parties.

Amplifying the Voice of the Customer

The results of our first annual customer survey to hear first-hand what our customers felt about our service, the products and services we provide, and their expectations of us we are extremely proud of. Our overall Customer Satisfaction score being 86% with most customers indicating that they felt 'satisfied' or 'very satisfied' banking with us. We included a secondary measure which saw over half of the respondents ranking us with a perfect score of 10.

86%

Customer Satisfaction score

It was pleasing to receive positive results on service across all channels including our Customer Service Centre, those in our FSCs or through our Lending Specialists. This feedback tells us that people and conversations remain at the heart of the SCCU experience and through our authentic, knowledgeable and friendly approach we are on the right path.

Unsurprisingly, when asked about what our customers were most concerned about for the year ahead comments reflected that Health & Wellbeing, the Environment & the Economy were at the top of their list. We've taken these insights and are working to deliver support and align with customer sentiment in these areas. Noting the efforts already in sustainability and internal health and wellbeing programs, we look forward to further transforming ourselves, shaped by the voice of our customers and thank everyone who participated.

We continue to receive overwhelming messages of support which reinforces that what we are doing and the service we are providing to our customers is meaningful and having a real impact. Our award winning service is something we're known for, and while these results are an outstanding achievement we know we have a lot more to do and are committed to ever-evolving our banking experience. As we move towards a digital society, the overarching theme remains to place the customer at the centre of everything we do and balance the need for convenience and digitisation with security. Central to our efforts will be to give our customers greater choice and an experience that is consistent, safe and secure.

Our Commitment to Our Customers

We're committed to helping our customers realise their financial dreams for the future. We seek to understand their current and future needs to assist in improving financial well-being, request feedback and strive to offer exceptional service at every touch point. We are genuine in our approach to ensure our customers are valued and truly matter.

Looking Forward

We remain committed to our vision, purpose and values that have underpinned our success. Our achievements are a result of the hard work done behind the scenes that help us reach our goals and strengthen our offering to the community and our customers. The many projects that we were able to deliver last year was truly remarkable and a tribute to the strength of our identity and position as a customer owned business.

We have proven there is still plenty of opportunity for a niche boutique financial services business in the Northern Rivers to remain competitive, profitable and be a genuine viable alternative to banking in the market. We're incredibly excited to deliver on projects next year that will not only see us add to our current offering, but also further streamline our practices so every experience, whether online, via our App or face to face, is consistently exceptional. We have plenty in the pipeline for the year ahead to help us deliver back to today's expectations.

Our focus on providing clear solutions to address primary pain points and improve the financial wellbeing of our customers will continue. Building on the past years momentum, we're confident that by holding ourselves accountable, listening to our customers and delivering on our own individual expectations we can continue to excel in the ever changing and fast paced environment we find ourselves in.

In Closing

To our wonderful staff, customers and partners that support our business and customer owned banking, we can't thank you enough. We know how deeply many have been affected by the issues of this year and while it seems these will be with us for a while yet, we appreciate the trust and confidence you have placed in us.

We know banking can be simple, headache free and trustworthy and this is something we constantly strive to achieve and deliver. We truly appreciate the many families, individuals, young professionals and businesses that continue to choose us to support them on their financial journey. For this we are extremely grateful and we remain absolutely committed to our customers and the communities we serve.

While distance may temporarily separate us we look forward to continuing our partnership and sharing our future success together.

Your Directors

The names of Directors in office at any time during the year and at the date of this report and their qualifications, experience and special responsibilities are as follows:

Guy Bezrouchko

Qualifications

- Bachelor of Business
- Certified Practising Accountant
- Diploma in Financial Services
- Justice of the Peace

Experience

Board Member since 20 June 2006

Special Responsibilities

- Chairperson
- Member - Audit Committee
- Member - Risk Committee

John Rutledge*

Qualifications

- Diploma in Financial Services

Experience

Board Member since 27 July 2004

Special Responsibilities

- Ex-officio Member - Audit Committee
- Ex-officio Member - Risk Committee

Belinda Henry

Qualifications

- Bachelor of Laws
- Practical Legal Training Course
- Legal Practice Management Course
- Graduate – Australian Institute of Company Directors

Experience

Board Member since 30 June 2011

Special Responsibilities

- Chair - Risk Committee
- Member - Audit

Stuart Edwards

Qualifications

- Diploma in Financial Services
- Commissioner of Declarations

Experience

Board Member since 26 April 2016

Special Responsibilities

- Executive Director
- Chief Executive Officer
- Member - Audit Committee
- Member - Risk Committee

Alvaro Lozano Rodriguez

Qualifications

- Graduate Certificate of Project Management
- Masters of Engineering – Electronics Engineering
- Bachelor of Science - Physics

Experience

Board Member since 28 February 2017

Special Responsibilities

- Chair - Audit Committee
- Member - Risk Committee

Suzie Slingsby

Qualifications

- Graduate – Australian Institute of Company Directors
- PS146 Qualified

Experience

Board Member since 25 September 2018

Special Responsibilities

- Member - Audit Committee
- Member - Risk Committee

Patrick McIntosh^, AM, CSC

Qualifications

- Bachelor of Business (Accounting / Human Resources)
- Graduate Diploma of Management
- Master of Business Administration
- Member – Australian Institute of Company Directors

Experience

Board Member since 29 June 2021

Special Responsibilities

- Member - Audit Committee
- Member - Risk Committee

* John Rutledge retired on the 30th of November 2020.

^ Patrick McIntosh commenced on 29th June 2021

All Directors have held their office from 1 July 2020 to the date of this report unless otherwise stated. Each Director holds one ordinary member share in the Credit Union.

Directors' Meetings

The number of meetings of Directors (including committee meetings) held, where each Director was available during the year, and the number of meetings attended by each Director were as follows:

	Director Meetings	
No. of meetings	**Held**	**Attended**
*John Rutledge	5	5
Guy Bezrouchko	12	12
Belinda Henry	12	12
Suzie Slingsby	12	12
Alvaro Lozano Rodriguez	12	12
Stuart Edwards	12	12
^Patrick McIntosh	1	1

	Audit Committee Meetings		Risk Committee Meetings	
No. of meetings	**Held**	**Attended**	**Held**	**Attended**
*John Rutledge	2	2	2	2
Guy Bezrouchko	4	4	4	4
Belinda Henry	4	4	4	4
Suzie Slingsby	4	4	4	4
Alvaro Lozano Rodriguez	4	4	4	4
Stuart Edwards	4	4	4	4
^Patrick McIntosh	1	1	0	0

* Retired 30th of November 2020 ^ Commenced 29th of June 2021

The name of the Company Secretary in office at the end of the year is:

Name	Qualifications	Experience
Brett Myles	Bachelor of Commerce, JCU Chartered Accountant, Institute of Chartered Accountants of Australia & New Zealand Member of the Australian Institute of Company Directors	31 years' experience encompasing roles in a Big 4 accounting firm, Senior Executive Roles at Financial Institutions and Management Consulting Firms.

Directors' Benefits

No Director of the Credit Union has received or has become entitled to receive a benefit because of a contract made by the Credit Union with the Director or with a firm of which the Director is a member or with an entity in which the Director has a substantial financial interest.

Indemnification of Directors and Officers

The Credit Union has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of Directors, Secretaries, Executive Officers and employees of the Credit Union and of related bodies corporate as defined in the insurance policy.

The insurance policy grants indemnity against liabilities permitted to be indemnified by the Corporations Act 2001. The insurance policy prohibits disclosure of the nature of the liabilities insured and the premium specified.

No insurance cover has been provided for the benefit of the Auditor. No indemnities have been given to the Officers or Auditors.

Financial Performance Disclosures

Principal Activities

The Credit Union operates as a community based Credit Union providing financial services to members in the form of deposit taking, the provision of financial accommodation and other member services as prescribed by the constitution. There were no significant changes in the nature of those activities during the financial year.

Operating Results

A pleasing net profit after income tax result of $2,709,000 (2020 $2,730,000) taking into consideration COVID-19 impacts and above budget expectations.

Review of Operations

The result affected by:

- an increase in Net-Interest Income of $726,000, driven by a decrease in interest expense of $3,660,000 as rates reduced in a highly fluid savings and term deposit market. This is offset by interest income decreasing $2,934,000 due to the record low rates in a highly competitive loans market with the RBA cash rate remaining low to continue to stimulate the economy during COVID-19 pandemic. During the year the loan portfolio showed strong growth at 10%;
- a decrease in Non-Interest Income of $237,000 due to an increase in loan related expenses due to the 10% loan portfolio growth;
- an increase in Employee and Associated Expenses of $762,000 as the Credit Union continues to expand its sales channels and employ key specialist roles;
- an increase in Information Technology costs of $148,000 as the Credit Union invests in an upgrade to the core banking system including a new loan origination system to facilitate further enhancements to digital channels including on-line lending; and
- an increase in General Administration costs of $153,000; during the year the Credit Union established a securitisation trust to complement our funding options.

Dividends

In accordance with the Constitution of the Credit Union, dividends are not paid to members.

Significant Changes in State of Affairs

Apart from the review of operations as detailed above, there were no significant changes in the state of the affairs of the Credit Union during the year.

Events Subsequent to the End of the Reporting Period

No matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years.

Environmental regulations

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Board believes that the Credit Union is not aware of any breach of environmental requirements as they apply to the Credit Union. The Credit Union has a Corporate Social Responsibility and Commitment to our team, customers, sustainability and governance.

Likely Developments and Results

Further information about likely developments in the Operations of the Credit Union and the expected results of those operations in future financial years have not been included in the report because disclosure of the information would be likely to result in unreasonable prejudice of the Credit Union.

Corporate Governance Disclosures

Board

The Credit Union's Board has responsibility for the overall management and strategic direction of the Credit Union. All non-executive Board members are independent of management. Directors are elected by members on a 3-year rotation.

Each Director must be eligible to act under the Constitution as a member of the Credit Union and Corporations Act 2001 criteria. The Directors also need to satisfy the Fit and Proper criteria required by APRA.

The Board has established policies to govern conduct of the Board meetings, Directors conflicts of interest and training so as to maintain Director awareness of emerging issues and to satisfy all governance requirements.

Board Remuneration

The Board receives remuneration from the Credit Union agreed to each year at the AGM and out of pocket expenses. There are no other benefits received by the Directors from the Credit Union.

Board Committees

An Audit Committee exists to assist the Board by providing an objective non-executive review of the effectiveness of the SCCU's financial reporting and audit function.

A Risk Committee exists to assist the Board by providing an objective non-executive review of the effectiveness of the SCCU's risk management framework.

The Directors form the majority of these committees with Executive Management participation.

The Audit Committee oversees the financial reporting and audit process. Its responsibilities include:

- Financial Reporting
- External Audit
- Internal Audit and Internal Control

The Risk Committee oversees the risk management and compliance framework and associated process. Its responsibilities include:

- Risk Management
- Risk Measurement and Risk Tolerance levels
- Risk Appetite
- Regulatory, Compliance and Ethical Matters
- Insurance Program

Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

Key risk management policies include:

- Risk Management Framework
- Capital Adequacy Management
- Liquidity Management
- Credit Risk Management
- Data Risk Management
- Cyber Risk Management
- Information Security Policy
- Operational Risk Management
- Outsourcing Risk Management
- Bank Executive Accountability Regime Policy.

Chief Risk Officer

The Credit Union has a Chief Risk Officer (CRO) who is the Executive accountable for enabling the efficient and effective governance of significant risks, and related opportunities, to a business and its various segments. The CRO reports to the Board Risk Committee for enabling the business to balance risk and reward. The CRO is responsible for coordinating the organisation's Enterprise Risk Management (ERM) approach.

External Audit

The annual audit of the Credit Union's financial report and compliance with prudential standards is performed by BDO Audit Pty Ltd (BDO). The firm of BDO has been auditing credit unions for over 32 years and has provided services to most of the entities in the Mutual Banking industry at some point over this period.

Internal Audit

An internal audit function exists using the services of an external firm, KPMG, to deal with the areas of internal control, compliance and regulatory compliance only.

The internal audit function reports directly to the Board Audit Committee, making recommendations to the committee for improvements to the Credit Unions operations and internal controls.

This role is also supplemented by other external compliance reviews performed, including security audits on the data processing systems/centres for adequacy of the back-up, disaster recovery and internet security systems.

Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union; and
- Australian Securities and Investment Commission (ASIC) for adherence to the Corporations Act, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements.

The Auditor's report to both authorities on an annual basis regarding compliance with respective requirements. The external auditors also report to ASIC on FSR compliance and APRA on prudential policy compliance.

Workplace Health & Safety

The nature of the finance industry is such that the risks of injury to staff and the public are less apparent than in other high-risk industries. Nevertheless, our two most valuable assets are our staff and our members and steps need to be taken to maintain their security and safety when circumstances warrant.

WH&S policies that comply with the Work Health and Safety Act legislation have been established for the protection of both members and staff and are reviewed six monthly for relevance and effectiveness.

The Credit Union has established a WH&S Committee of Employees that meets regularly to consider any concerns for security or safety raised by employees or the public. All matters of concern are reported to the Risk Management Committee for actioning by Management.

Regulatory Disclosures

Regulatory Prudential disclosures required by APS 330 Public Disclosure issued by APRA can be located on the Credit Union's web site at the following address: https://www.sccu.com.au/get-to-know-us/our-governance/disclosures

Proceedings

No person has applied for leave of the Court to bring proceedings on behalf of the Credit Union or interfere in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or part of those proceedings. The Credit Union was not a party to any such proceedings during the year.

Rounding of amounts

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Credit Union is permitted to round to the nearest one thousand dollars ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Auditor's Independence Declaration

The Auditor's independence declaration for the year ending 30 June 2021 forms part of this report and a copy of this declaration is attached.

This report is signed for and on behalf of the directors in accordance with a resolution of the Board of Directors.

Guy Bezrouchko
Chairperson

Dated this 28th day of September 2021

Alvaro Lozano Rodriguez
Audit Committee Chair

Dated this 28th day of September 2021

Declarations & Financial Report

30 JUNE 2021

Southern Cross Credit Union Ltd
ABN 82 087 650 682

DIRECTORS' DECLARATION

In the opinion of the Directors of Southern Cross Credit Union Limited (the Credit Union):

(a) The attached financial statements and notes of the Credit Union are in accordance with the *Corporations Act 2001*, including:

i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in Note 1.1(a) *Basis of preparation* to the financial statements and the *Corporations Regulations 2001*;and

ii) giving a true and fair view of the financial position of Southern Cross Credit Union Limited as at 30 June 2021 and of its performance for the year ended on that date; and

(b) There are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when theybecome due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Guy Bezrouchko
Chairperson

Alvaro Lozano Rodriguez
Audit Committee Chair

Dated this 28th day of September 2021

Southern Cross Credit Union Ltd
ABN 82 087 650 682

AUDITOR'S INDEPENDENCE DECLARATION

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF SOUTHERN CROSS CREDIT UNION LTD

As lead auditor of Southern Cross Credit Union Ltd for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 28 September 2021

Statement of profit or loss and other comprehensive income for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Interest income	2.1	17,925	20,859
Interest expense	2.2	(3,947)	(7,607)
Net interest income		**13,978**	**13,252**
Fee and commission income		2,740	2,437
Fee and commission expense		(2,108)	(1,567)
Net fee and commission income		**632**	**870**
Other income	2.3	159	361
Net operating income		**14,769**	**14,483**
Expenses			
Employee benefits expense	2.4(a)	(6,967)	(6,205)
Occupancy expense	2.4(d)	(323)	(298)
Depreciation and amortisation expense	2.4(c)	(1,360)	(1,248)
Credit impairment losses	2.4 (b)	396	(403)
Other expenses	2.4(e)	(2,852)	(2,609)
Total expenses		**(11,106)**	**(10,763)**
Profit/(loss) before income tax		**3,663**	**3,720**
Income tax (expense)/benefit	2.5(a)	(960)	(990)
Profit/(loss) for the year		**2,703**	**2,730**
Other comprehensive income for the year, net of income tax *- items that will not be reclassified to profit or loss* Net gain in investments in equity instruments		**6**	**-**
Total comprehensive income for the year		**2,709**	**2,730**

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

Statement of financial position as at 30 June 2021

	Note	2021 $'000	2020 $'000
Assets			
Cash and cash equivalents	4.1	21,727	15,832
Due from other financial institutions	4.3	110,177	119,930
Other receivables	7.4	2,031	644
Loans and advances	3.1	545,375	496,567
Investment securities	4.2	980	980
Other assets		3,089	259
Current tax receivable		565	164
Plant and equipment	7.1	2,351	1,896
Right-of-use assets	7.2	1,589	2,111
Deferred tax assets	2.5	-	338
Intangible assets	7.3	485	569
Total assets		**688,369**	**639,290**
Liabilities			
Deposits	4.4	594,943	572,865
Payables and other liabilities	7.5	4,386	4,787
Lease liabilities	7.2	1,685	2,173
Borrowings	4.5	24,849	-
Deferred tax liability	2.5	362	-
Provisions	7.6	461	491
Total liabilities		**626,686**	**580,316**
Net assets		**61,683**	**58,974**
Equity			
Redeemed preference shares	5.1	436	428
Reserves	5.2	3,609	3,347
Retained earnings		57,638	55,199
Total equity		**61,683**	**58,974**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of changes in equity for the year ended 30 June 2021

	Fair Value Reserve $'000	Capital Profits Reserve $'000	Redeemed Preference Shares $'000	General Reserve for Credit Losses $'000	Retained earnings $'000	Total Members' Equity $'000
Balance at 1 July 2019	**292**	**229**	**419**	**2,932**	**52,372**	**56,244**
Profit for the year	-	-	-	-	2,730	2,730
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2,730**	**2,730**
Transfers	-	-	-	-	-	-
Redemption of member shares	-	-	9	-	(9)	-
Appropriation of retained earnings to credit losses reserve	-	-	-	(106)	106	-
Balance at 30 June 2020	**292**	**229**	**428**	**2,826**	**55,199**	**58,974**
Balance at 1 July 2020	292	229	428	2,826	55,199	58,974
Profit for the year	-	-	-	-	2,703	2,703
Other comprehensive income	6	-	-	-	-	6
Total comprehensive income for the year	**6**	**-**	**-**	**-**	**2,703**	**2,709**
Transfers	-	-	-	-	-	-
Redemption of member shares	-	-	8	-	(8)	-
Appropriation of retained earnings to credit losses reserve	-	-	-	256	(256)	-
Balance at 30 June 2021	**298**	**229**	**436**	**3,082**	**57,638**	**61,683**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of cash flows as at 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Interest received		17,925	20,859
Dividends received		14	63
Fees and commissions received		2,877	2,761
Interest paid		(4,699)	(8,724)
Payments to suppliers and employees		(14,682)	(10,454)
Net movement in loans and advances		(48,481)	6,195
Net movement in due from other financial institutions		9,753	(57,420)
Net movement in deposits		20,805	57,469
Income taxes paid/(refunded)		(661)	(1,131)
Net cash provided by operating activities	**4.1(c)**	**(17,149)**	**9,618**
Cash flows from investing activities			
Payments for plant and equipment		(1,098)	(307)
Net cash used in investing activities		**(1,098)**	**(307)**
Cash flows from financing activities			
Borrowings		24,849	-
Principal portion of lease liabilities paid		(707)	(668)
Net cash used in financing activities	**4.1(d)**	**24,142**	**(668)**
Net increase in cash and cash equivalents held		**5,895**	**8,643**
Cash and cash equivalents at the beginning of the financial year		**15,832**	**7,189**
Cash and cash equivalents at the end of the financial year	**4.1(b)**	**21,727**	**15,832**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1: Basis of preparation

1.1 Corporate information

The financial report covers Southern Cross Credit Union Ltd (referred to as "the Credit Union") as a single for- profit entity which is a public company limited by shares, incorporated and domiciled in Australia. The principal activities of the Credit Union during the year comprised the raising of funds by deposit and the provision of loans and associated services to the members, as prescribed by the Constitution.

The financial report was authorised for issue on 28th September 2021 in accordance with a resolution of the Directors of the Credit Union.

The registered office and principal place of business of the Credit Union is Level 2, 38-42 Pearl Street, Kingscliff, NSW 2487.

The principal activities of the Credit Union during the year comprised the raising of funds by deposit and the provision of loans and associated services to the members, as prescribed by the Constitution.

1.2 Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001 and the prudential standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements cover Southern Cross Credit Union Limited as an individual entity. For the purposes of preparing the financial statements, Southern Cross Credit Union Limited is a for-profit entity.

The financial statements have been prepared on an accruals basis and are based on historical costs except for financial assets at FVOCI that have been measured at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Corporations Instrument 2016/191. The Company is an entity to which the ASIC Corporations Instrument applies.

(a) Statement of compliance

The financial statements of Southern Cross Credit Union Limited as an individual entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

(b) Presentation of financial statements

The Credit Union presents its statement of financial position in order of liquidity based on the Credit Union's intention and perceived ability to recover/settle the majority of assets/ liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

1.3 Summary of significant accounting policies

(a) Impairment of assets (excluding financial assets)

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss (except for items carried at revalued amount).

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(b) 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statements of Financial Position are shown inclusive of GST.

1.4 Significant accounting judgments, estimates and assumptions

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of the Credit Union's accounting policies and the reported amounts of assets and liabilities, revenues, expenses, and the accompanying disclosures. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

	Reference
Accounting treatment for loans assigned to a special purpose vehicle used for securitisation purposes	Note 4.6

Estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2021 is included in the following notes.

	Reference
Expected credit losses and impairment of loans and advances	Note 3.2
Determination of fair value of financial instruments with significant unobservable inputs	Note 7.9

COVID-19

Coronavirus (COVID-19) pandemic and related measures to slow the spread of the virus, have since had a significant impact on the Australian and global economy, supply chains and financial markets. Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Credit Union based on known information.

The Credit Union has considered the impact of COVID-19 and related market volatility in preparing these financial statements. While the methodologies and assumptions applied in the measurement of various items within the financial statements remain unchanged from those applied in the 2020 financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19. Principally this has resulted in updates to the Credit Union's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non- financial assets.

The Credit Union's risk and capital management framework continues to be applied and the Credit Union continues to monitor the impact of COVID-19 on the Credit Union's risk and capital profile. Non-financial risks emerging from global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Credit Union's Risk Management Framework.

Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Credit Union unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

Note 2: Financial performance

2.1 Interest income

	2021 $'000	2020 $'000
Financial Assets at amortised cost		
Cash and cash equivalents	-	5
Due from other financial institutions	740	1,196
Loans and advances	17,185	19,658
Total interest income - assets at amortised cost	**17,925**	**20,859**

2.2 Interest expense

	2021 $'000	2020 $'000
Financial liabilities at amortised cost		
Borrowings	(29)	(2)
Deposits	(3,918)	(7,605)
Total interest expense - liabilities at amortised cost	**(3,947)**	**(7,607)**
Net interest income	**13,978**	**13,252**

Recognition and measurement

Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.2 and Note 5.3(b)(i).

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

2.3 Other income

	2021 $'000	2020 $'000
Fees and commissions revenue	2,740	2,437
Fee and commission expense	(2,108)	(1,567)
Net fee and commission income	**632**	**870**
Dividends - Investment securities measured at FVOCI	14	63
Bad debts recovered	20	32
Other	125	266
Total other income	**159**	**361**

Recognition and measurement

Interest income and interest expense

The Credit Union earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Credit Union expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Credit Union provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

Fees and commissions income and expense

Fee and commission fees that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognised using the effective interest method are included with loan and advances balances in the statement of financial position. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight- line basis over the commitment period.

When a third party is involved in providing goods or services to the Credit Union's customer (ie insurance commissions), the Credit Union assesses whether the nature of the arrangement with its customer is as a principal or an agent of the third party. When the Credit Union is not acting in a principal capacity, the income earned by the Credit Union is net of the amounts paid to the third party provider. The net consideration represents the Credit Union's income for facilitating the transaction.

Dividend income

Dividend income is recognised on an accruals basis when the Credit Union's right to receive the dividend is established. Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

2.4 Expenses

	2021 $'000	2020 $'000
(a) Employee benefits expense		
■ Salaries, wages and other personnel costs	5,955	5,360
■ Employee related on-costs expense	434	335
■ Superannuation expense (defined contribution)	578	510
	6,967	**6,205**
(b) Credit impairment losses		
■ Impairment of loans and advances	(520)	(23)
■ Bad debts written off	124	426
	(396)	**403**
(c) Depreciation and amortisation expense		
■ Plant and equipment	550	476
■ Intangible assets	168	152
■ Right-of-use assets - properties	642	619
	1,360	**1,247**
(d) Occupancy expense		
■ Other	323	298
	323	**298**
(e) Other expenses		
■ General administration	1,119	966
■ Rental expense on operating leases	19	17
■ Finance cost on lease liabilities	100	111
■ Information technology expenses	1,034	886
■ Marketing and promotion expenses	341	343
■ Telephone and communication expenses	182	221
■ Other expenses	55	65
	2,852	**2,609**
Total expenses	**11,106**	**10,763**

2.5 Taxation

	2021 $'000	2020 $'000
(a) Components of income tax expense in profit or loss		
Current tax		
Current tax expense	260	976
Total current tax expense	**260**	**976**
Deferred tax		
Origination and reversal of temporary differences	700	14
Total deferred tax expense	**700**	**14**
Total income tax expense in profit or loss	**960**	**990**
(b) Reconciliation of income tax expense to the profit before tax multiplied by applicable tax rate		
Profit before income tax	**3,663**	**3,720**
Prima facie tax at the Australian tax rate of 26.0% (2020: 27.5%)	952	1,023
Add tax effect of:		
Changes in tax rate	24	-
Less tax effect of:		
Tax offset for franked dividends	(6)	(27)
Other non-assessable items	(10)	(6)
Income tax expense	**960**	**990**
(c) Franking account		
Balance of the franking account at year end adjusted for franking credits arising from payment of the provision for income tax, payment of dividends payable or receipts of dividends receivable at reporting date based on a tax rate of 26.0% (2020: 27.5%)	**23,140**	**22,478**

	2021 $'000	2020 $'000
(d) Deferred taxes		
Deferred tax assets comprise temporary differences attributable to:		
Employee benefits leave provision	227	262
Other provisions	(157)	285
Tax base of assets	334	535
Total deferred tax assets	**404**	**1,082**
(e) Deferred tax liabilities		
Deferred tax liabilities comprise temporary differences attributable to:		
Financial assets	(96)	(94)
WDV of assets	(670)	(650)
Total deferred tax liabilities	**(766)**	**(744)**
(f) Offset		
Total deferred tax assets	404	1,082
Total deferred tax liabilities	(766)	(744)
Net deferred tax assets	**(362)**	**338**
(g) Deferred tax balances gross movements		
Opening balance	338	352
(Charged)/ credited to profit or loss	(700)	(14)
Closing balance	**(362)**	**338**

Recognition and measurement

Income tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the Credit Union has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax assets and deferred tax liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities in the financial statements and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of deductible temporary differences brought to account as deferred tax assets is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the deferred tax asset to be realised and comply with the conditions of deductibility imposed by the law. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Note 3: Loans and advances

3.1 Loans and advances

	2021 $'000	2020 $'000
Term loans	540,148	489,400
Overdrafts	4,607	7,648
Gross loans and advances at amortised cost	**544,755**	**497,048**
Less: Unamortised loan fees	831	250
Less: Provision for expected credit loss	(211)	(731)
Net loans and advances at amortised cost	**545,375**	**496,567**

Recognition and measurement

Loans and advances to members

Loans and advances are financial assets for which the contractual cash flows are solely repayments of principal and interest and that are held in a business model with the objective of collecting contractual cash flows.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. These costs are amortised over the estimated life of the loan. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for impairment.

Loans and advances by credit quality

Refer to Note 5.3 (b) (i) for details.

3.2 Impairment of loans and advances

The provision for expected credit loss of loans and advances reflects expected credit losses (ECLs) measured using the three-stage approach as detailed below. The following tables show the movements in the impairment provisions by ECL stage.

2021	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Credit-impaired $'000	Total provision $'000
Balance at 1 July 2020	**114**	**146**	**471**	**731**
Changes due to loans and advances recognised in the opening balance that have:				
- Transferred to 12-month ECL	3	(3)	-	-
- Transferred to lifetime ECL not credit-impaired	-	-	-	-
- Transferred to lifetime ECL credit-impaired	-	(2)	2	-
Net re-measurement of loss allowance	58	(140)	(438)	(520)
Balance at 30 June 2021	**175**	**1**	**35**	**211**

2020	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Credit-impaired $'000	Total provision $'000
Balance at 1 July 2019	**115**	**91**	**548**	**754**
Changes due to loans and advances recognised in the opening balance that have:				
- Transferred to 12-month ECL	-	-	-	-
- Transferred to lifetime ECL not credit-impaired	50	(50)	-	-
- Transferred to lifetime ECL credit-impaired	-	(35)	35	-
Net re-measurement of loss allowance	(51)	140	(112)	(23)
Balance at 30 June 2020	**114**	**146**	**471**	**731**

As shown in the above table, the overall provision for credit impairment for loans and advances decreased from $731k at 30 June 2020 to $211k at 30 June 2021 due to:

- the high volume of new mortgages loans originated during the period, aligned with the Credit Union's organic growth objective, increased the gross carrying amount of the mortgage book by 9.6%, with a corresponding $58k increase in the loss allowance measured on a 12-month ECL basis.
- The modification of mortgage contracts following renegotiation with customers facing financial difficulties resulted in a reduction of $65k in the gross carrying amount of Stage 2/3 mortgages. This also resulted in the reversal of $454k Stage 2/3 loss allowance.
- The write-off of mortgage loans with a total gross carrying amount of $580k resulted in the reduction of the Stage 3 loss allowance by the same amount.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that have been written off by the Credit Union as at 30 June 2021 and that were still subject to enforcement activity was nil (2020: nil).

Modifications

The Credit Union has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments for members and customers for an initial period of up to six months. The terms and conditions related to the deferrals were considered to be non-substantial modifications and accounted for as continuation of the existing loan agreements. No material modification gains or losses have been recognised in respect of loans on deferral.

The table below sets out the gross credit risk exposures which remained on deferral as at 30 June:

	2021 $'000	2020 $'000
Stage 1	-	-
Stage 2	-	140
Stage 3	-	314
Total	**-**	**454**

Options for members and customers upon expiry of initial deferral period include: resuming regular repayments, extension of loan terms, converting to interest only for a period of time, consolidation of debt, extension of initial deferral period for up to 6 months, hardship assistance or a combination of these measures

Recognition and measurement

Expected credit losses

The Credit Union applies a three-stage approach to measuring allowance for expected credit loss (ECL) for loans and advances to members measured at amortised cost.

Equity instruments are not subject to impairment under AASB 9. Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

At each reporting date, the Credit Union assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in credit risk is observed, the asset will remain in Stage 1. Should an asset become impaired it will be transferred to Stage 3. The Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward looking analysis.

Based on the above process, the Credit Union groups its loans into Stage 1, Stage 2,and Stage 3, as described below:

Stage	Measurement basis
Stage 1: 12-months ECL	Where there has been no significant increase in credit risk (SICR) since initial recognition or the asset is not credit impaired upon origination, a portion of the lifetime ECLs associated with the probability of default events occurring within the next 12 months is recognised. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2: Lifetime ECL – not credit impaired	Where there has been a SICR since initial recognition but the asset is not credit impaired, the lifetime ECL is recognised. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3: Lifetime ECL – credit impaired	When a loan to a member is assessed as credit impaired (includes exposures that are greater than 90 days past due), the lifetime ECL is recognised. Interest revenue is calculated on a net basis (gross carrying amount less associated ECL provision)

Lifetime ECLs are generally determined based on the contractual maturity or behavioural life of the financial asset. When measuring ECLs, the Credit Union takes into account the probability weighted outcome of cash shortfalls over the expected life of the asset discounted at its current effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group is expected to receive.

Embedded into the ECL model are all loans on COVID-19 pandemic support, these loans are allocated to a Stage based on the number of days since the inception of support, Stage 2 >30 & <90 days; Stage 3 >=90 days.

Inputs, assumptions and techniques used for estimating impairment

In assessing the impairment of financial assets under the ECL model, the Credit Union defines default in accordance with its Credit Policy and Procedures, which includes defaulted assets and impaired assets as described below. Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Credit Union will be paid in full without recourse to actions, such as realisation of security.

Impaired exposures under the expected credit loss model consist of:

- Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days or more past due with insufficient security to cover principal and arrears of interest revenue.
- Unsecured portfolio managed facilities which are 180 days past due (if not written off).
- Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Forward-looking information

Forward-looking information is used in the measurement of ECLs through probability weighted scenarios and includes macroeconomic variables that influence credit losses such as RBA cash rates, gross domestic product (GDP) data, unemployment rates and changing house prices.

The consideration of COVID-19 impacts on forward-looking information is summarised below.

Assessment of significant increase in credit risk

The Credit Union will assess whether there has been a significant increase in credit risk (SICR) for financial assets by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date to the corresponding risk of default at origination. In assessing whether there has been a SICR, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. The credit risk assessment is carried out on an individual and collective basis. The Credit Union considers contractual payments that are 30 days past due, financial hardship or default events (e.g. 90 days past due) as primary indicators of SICR. The determination of SICR also takes into consideration various qualitative and quantitative factors, including past due arrears information, hardship and watch-list status.

Calculation of expected credit losses

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortised cost are credit- impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Write off

Loans and advances are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Significant accounting judgements and estimates

In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions. Macro-economic variables used in these scenarios, include (but are not limited to) the cash rate, unemployment rates, GDP growth rates and residential and commercial property price indices. Forward looking macro-economic information and assumptions relating to COVID-19 have been considered in these scenarios, including potential impacts of COVID-19, recognising that uncertainty still exists in relation to the duration of COVID-19 related restrictions and the anticipated impact of government stimulus and regulatory actions.

When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward looking information and analysis based on the Credit Union's historical loss experience.

COVID-19 considerations

In response to COVID-19, the Credit Union undertook a review of the potential impact on the ECL of its loan portfolios. The review considered the assessment of SICR thresholds, the Credit Union's COVID-19 Financial Hardship & Assistance and payment deferral options of between three to six months offered to affected members and the macroeconomic outlook. The Credit Union's ECL methodology, SICR thresholds and definition of default remains consistent with prior periods other than model inputs and forward-looking information which were revised to account for COVID-19.

Consistent with industry practice and guidance issued by the International Accounting Standards Board (IASB) on 27 March 2020, customer support payment deferrals as part of COVID-19 support packages in isolation will not necessarily result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 (12-month ECL) to stage 2 (Lifetime ECL) in the credit impairment provision for such loans.

While the loan repayment deferral is not considered an overarching SICR trigger, the level of support packages offered by Government and lenders to consumers and businesses differs significantly to our ordinary historical experience which is used to inform our ECL calculations.

Note 4: Liquidity

4.1 Cash and cash equivalents

(a) Cash and cash equivalents

	2021 $'000	2020 $'000
Cash on hand	801	868
Deposits with ADIs	20,926	14,964
Total cash and cash equivalents	**21,727**	**15,832**

Recognition and measurement

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value, and are used by the Credit Union in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

(b) Notes to the statements of cash flows

Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and 'at call' deposits, net of overdrafts with other financial institutions.

Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

	2021 $'000	2020 $'000
Cash and cash equivalents	21,727	15,832
	21,727	**15,832**

Cash held that is not available for use as at 30 June 2021 is nil (2020: nil)

Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statements of Cash Flows:

- Deposits and withdrawals;
- Sales and purchases of dealing securities;
- Provision of loans and advances and the repayment of such loans and advances.

	2021 $'000	2020 $'000
Reconciliation of cash flow from operations with profit after income tax		
Profit/(loss) after income tax	2,703	2,730
Credit impairment losses	(396)	403
Amortisation of intangible assets	168	152
Depreciation of plant and equipment and ROU assets	1,192	1,094
(Gain)/loss on sale of property, plant and equipment	8	-
Changes in operating assets and liabilities		
(Increase)/decrease in other receivables	(8)	26
(Increase)/decrease in other assets	(2,828)	53
(Increase)/decrease in due from other financial institutions	9,753	(57,420)
(Increase)/decrease in loans and advances	(48,412)	6,241
(Increase)/decrease in deferred tax assets	338	15
Increase/(decrease) in income tax payable	(39)	(155)
Increase/(decrease) in deposits	20,805	57,469
Increase/(decrease) in payables and other liabilities	(373)	(1,181)
Increase/(decrease) in provisions	(61)	191
Net cash provided by/(used in) operating activities	**(17,149)**	**9,618**

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities

2021	1 July 2020 $'000	Cash flows $'000	Non-cash changes AASB 16 adoption $'000	Non-cash changes Other $'000	30 June 2021 $'000
Lease liabilities	2,173	(707)	-	219	1,685
Borrowings	-	24,849	-	-	24,849
Total liabilities from financing activities	**2,173**	**24,142**	**-**	**219**	**26,534**

2020	1 July 2019 $'000	Cash flows $'000	Non-cash changes AASB 16 adoption $'000	Non-cash changes Other $'000	30 June 2020 $'000
Lease liabilities	-	(668)	2,730	111	2,173
Borrowings	-	-	-	-	-
Total liabilities from financing activities	**-**	**(668)**	**2,730**	**111**	**2,173**

4.2 Investment securities

	2021 $'000	2020 $'000
Financial assets measured at FVOCI		
Shares in unlisted entities - Cuscal Limited (CUSCAL)	980	980
Total financial assets measured at FVOCI	**980**	**980**
Amount of investment securities (expected to be recovered more than 12 months after the reporting date	**980**	**980**

Recognition and measurement

Equity investments

Equity investments are instruments that meet the definition of equity from the issuer's perspective; that is the instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Credit Union has elected, at initial recognition, to irrevocably designate all equity investments at fair value through other comprehensive income (FVOCI). The Credit Union's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns and the Credit Union intends to hold for the foreseeable future.

Gains or losses arising from changes in the fair value of financial instruments measured at fair value through other comprehensive income are recognised in a separate component of equity and are not subsequently reclassified to profit or loss, including on disposal, Impairment losses (and reversal of impairment losses) and are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Credit Union's rights to receive payment is established.

4.3 Due from other financial institutions

	2021 $'000	2020 $'000
Financial assets at amortised cost		
Deposits with ADIs	110,177	119,930
Total due from other financial institutions	**110,177**	**119,930**
Amount of due from other financial institutions expected to be recovered more than 12 months after the reporting date	**35,044**	**37,058**

Recognition and measurement

Due from other financial institutions includes deposits held with financial institutions and other investments with original maturities of more than three months. Due from other financial institutions are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the profit or loss statement when the financial assets are derecognised or impaired.

Impairment

The Credit Union recognises a loss allowance for expected credit losses (ECL allowance) on financial assets measured at amortised cost. The measurement of the loss allowance depends upon the Credit Union's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. The Credit Union considers 'due from other financial institutions' to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

4.4 Deposits

	2021 $'000	2020 $'000
Call deposits (including withdrawable shares)	366,101	289,605
Term deposits	228,842	283,260
Total deposits	**594,943**	**572,865**
Amount of deposits expected to be settled more than 12 months after the reporting date	**2,747**	**1,731**

Recognition and measurement

Deposits

Deposits are initially measured at fair value less directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.

4.5 Borrowings

	2021 $'000	2020 $'000
RBA Term Funding Facility due September 2023	14,924	-
RBA Term Funding Facility due May 2024	9,925	-
Total borrowings	**24,849**	**-**
Amount of deposits expected to be settled more than 12 months after the reporting date	**24,849**	**-**

The Term Funding Facility (TFF) was established in March 2020 by the Reserve Bank of Australia (RBA) as part of a comprehensive policy package to support the Australian economy in the face of economic and financial disruptions resulting from the COVID-19 pandemic. The TFF provides a source of low cost funding for the banking system, with funding available for three year terms at an initial fixed interest rate of 0.25 percent, with further borrowing at 0.10 percent. The TFF borrowings are secured by the MTG SCCU Trust Repo Series 1.

Recognition and measurement

Borrowings

Borrowing is initially measured at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowing using the effective interest method.

The Credit Union classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

4.6 Securitisation

On the 26th of August 2020, the Credit Union has transferred the rights and benefits of a parcel of mortgage secured loans to the securitisation entity, MTG Trust. The MTG Trust has been established to support the ongoing liquidity management of the Credit Union. The Credit Union has purchased the Residential Mortgage Backed Securities (RMBS) issued by MTG Trust. The senior RMBS held by SCCU is eligible to be utilised as collateral in repurchase agreements with the Reserve Bank of Australia (RBA). These arrangements enable the Credit Union to raise funds from the RBA utilising its loans as the underlying security. The loans included in this facility have not been de-recognised as the Credit Union retains the benefits of MTG Trust until such time as a drawing is required.

Notwithstanding the transfer, the Credit Union has retained substantially all the risks and rewards of ownership of the relevant loan and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risks and rewards of ownership the Credit Union continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction.

The Credit Union collects the cash receipts relating to the mortgage secured loans and passes these receipts on to the MTG Trust. The Credit Union cannot use the transferred assets as they have been transferred to the MTG Trust and pledged as security for securities issued by MTG Trust.

The following table sets out the carrying amounts of transferred financial assets and the associated liabilities at the reporting date:

	2021 $'000	2020 $'000
Carrying amount of transferred assets	**66,499**	**-**
Carrying amount of associated liabilities	**66,499**	**-**
For those liabilities that have recourse only to the transferred assets:		
Carrying amount of transferred assets	**66,499**	-
Carrying amount of associated liabilities	**66,499**	-
Net position	-	**-**

Recognition and measurement

Securitisation

The Credit Union enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains substantially all of the risks and rewards of ownership of the transferred assets. If substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of substantially all risks and rewards include, for example, certain loan securitisation and repurchase transactions.

In transactions in which the Credit Union neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognise the asset to the extent of its continuing involvement.

In transactions in which the Credit Union either transfers substantially all the risks and rewards of ownership of the transferred assets or neither transfers nor retains substantially all the risk and rewards and does not retain control of the transferred assets the Credit Union derecognises the transferred assets. The Credit Union also recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

Note 5: Risk and capital management

5.1 Redeemed preference shares

	2021 $'000	2020 $'000
Movements in redeemed preference shares		
Balance at the beginning of year	428	419
Transfers from retained profits for the redemption of shares	8	9
Balance at end of year	**436**	**428**

Recognition and measurement

Member shares

Under the *Corporations Act 2001*, member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated

5.2 Reserves

Capital profits reserve

The capital profits reserve records non-taxable profits on sale of investments.

Fair value reserve

The fair value reserve relates to the fair value adjustment of the Cuscal shareholding at net tangible assets per share.

General reserve for credit losses

APRA Prudential Standard APS 220 Credit Quality requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The reserve for credit losses represents an appropriation of retained profits to non-distributable reserves and is maintained to comply with the Prudential Standards as set down by APRA.

5.3 Risk management policy and objectives

Overview of Risk Management Framework

The Board of Directors (the Board) has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk management;
- Liquidity risk management;
- Credit risk management; and
- Operations risk management including data risk management.

Authority flows from the Board to the risk committee and from there to the audit committee which are integral to the management of risk.

The main elements of risk governance are as follows:

(i) Board

This is the primary governing body and approves the level of risk to which the Credit Union is exposed and the framework for reporting and mitigating those risks.

(ii) Audit Committee

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Risk Committee for their consideration.

(iii) Internal Audit

Internal Audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

(iv) Risk Committee

This is a key body in the control of risk. It has representatives from the Board as well as the Credit Union's Chief Risk Officers. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Risk Committee through monthly review of operational reports. Control assignments are reviewed by the Risk Committee monthly to confirm whether risks are within the parameters outlined by the Board.

The Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations. The Risk Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

(v) Risk Manager: This person has responsibility for both liaising with the operational function to ensure timely production of information for the Risk Committees and ensuring that instructions passed down from the Board via the Risk Committees are implemented.

(vi) Asset and Liability Committee (ALCO) - Market Risk

This committee meets weekly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP. The weekly scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Risk Committee.

(vii) Asset and Liability Committee (ALCO) – Credit Risk

This committee of senior management meets weekly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCO also determines the credit risk of loans in the Credit Union's book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

The committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre- approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the committee or the Board. All exposures are checked daily against approved limits, independently of each business unit, and are reported to the committee.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Risk Committee weekly and the Risk Committee monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the committee, implements the Credit Union's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at reporting date.

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

(a) Market Risk – Interest rate risk

Market risk is the potential adverse change in the Credit Union's income or the value of its net assets arising from the movement in interest rates or other market prices.

The Credit Union is not exposed to currency risk and other price risk. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates due to the mismatches between the repricing dates of assets and liabilities. The Board monitors these risks through monthly reporting and a review of the risk management profile is conducted by internal audit.

The Credit Union manages its interest rate risk using the following methods:

Value at Risk (VaR)

The policy of the Credit Union is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. This is measured and monitored using the Value at Risk methodology (VaR). The Credit Union's policy limit in respect of VaR is to keep this measurement below 3% of capital. The VaR is measured monthly to identify any large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets and term deposits liabilities to rectify the imbalance to within acceptable levels.

Based on the Value at Risk (VaR) calculations as at 30 June 2021, the VaR is $311,467 or 0.53% of capital (30 June 2020: $101,133 or 0.18% of capital).

The Credit Union's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

(a) Market Risk – Interest rate risk

2021	Floating interest rate $'000	Fixed interest rate maturing: Within 1 year $'000	Fixed interest rate maturing: 1-5 years $'000	Fixed interest rate maturing: Over 5 years $'000	Non-interest sensitive $'000	Total Carrying Amount $'000	Effective interest rate %
Financial assets							
Cash and cash equivalents	20,926	-	-	-	801	21,728	0.00%
Other receivables	-	-	-	-	2,031	2,031	n/a
Due from other financial institutions	44,047	66,130	-	-	-	110,177	0.46%
Loans and advances	331,430	38,385	175,560	-	-	545,375	3.22%
Investment securities	-	-	-	-	980	980	n/a
	396,403	**104,515**	**175,560**	**-**	**3,812**	**680,290**	
Financial liabilities							
Borrowing	-	-	24,849	-	-	24,849	0.19%
Deposits	366,101	226,095	2,747	-	-	594,943	0.41%
Lease liabilities	-	579	1,047	59	-	1,685	5.40%
Payables and other liabilities	-	-	-	-	4,386	4,386	-
	366,101	**226,644**	**28,643**	**59**	**4,386**	**625,863**	

2020	Floating interest rate $'000	Fixed interest rate maturing: Within 1 year $'000	Fixed interest rate maturing: 1-5 years $'000	Fixed interest rate maturing: Over 5 years $'000	Non-interest sensitive $'000	Total Carrying Amount $'000	Effective interest rate %
Financial assets							
Cash and cash equivalents	14,965	-	-	-	868	15,833	0.00%
Other receivables	-	-	-	-	644	644	n/a
Due from other financial institutions	37,058	82,872	-	-	-	119,930	0.80%
Loans and advances	336,905	87,463	72,199	-	-	496,567	3.71%
Investment securities	-	-	-	-	980	980	n/a
	388,928	**170,335**	**72,199**	**-**	**2,492**	**633,954**	
Financial liabilities							
Borrowing	-	-	-	-	-	-	-
Deposits	289,605	281,528	1,732	-	-	572,865	1.23%
Lease liabilities	-	605	1,342	226	-	2,173	5.40%
Payables and other liabilities	-	-	-	-	4,787	4,787	-
	289,605	**282,133**	**3,074**	**226**	**4,787**	**579,825**	

(b) Credit Risk

Credit risk is the risk of financial loss as a result of a default by counterparties to satisfy contractual obligations. The Credit Union's credit risk largely arises from its lending activities which includes residential mortgages and off-balance sheet financial instruments such as loan commitments and from the financial instruments held for liquidity purposes.

Maximum credit exposure

Credit exposures are capped to the carrying value reported on the statement of financial position for the related assets. The table below (refer to Credit quality – investment with counterparties) presents the Credit Union's maximum credit exposure to the respective asset classes at the reporting dates. The amounts are presented gross of provisions for impairment and before taking account of any collateral held or other credit enhancement.

(i) Credit Risk – Loans and advances

The credit risk associated with loans and advances to members has been minimised through the implementation of credit assessment policies and procedures before these loans and advances are approved. The Credit Union's Board of Directors has delegated responsibility for the management of credit risk to the Risk Committee. The Board has developed policies and procedures designed to ensure strong lending practices which comply with credit legislation. Policies and procedures reduce the risk of credit loss by providing clarity and guidance relating to:

- Credit assessment and approval of loans and facilities;
- Compliance with regulatory and statutory requirements;
- Security requirements in respect to the acceptable types of security and maximum loan to security value ratios;
- Limiting concentrations of exposures to individual borrowers, industry groups and geographic locations;
- Establishing and maintaining lending approval delegations for new and renewing credit facilities;
- Reassessment of and review of credit exposures and facilities;
- Establishment of appropriate provisions to recognise the impairment of loans and advances; and
- Debt recovery procedures.

The risk of losses from loans to members is primarily reduced by the nature and quality of the security taken. The Board Policy is to maintain at least 65% of the loans in well secured residential mortgages which carry an 80% Loan to Valuation ratio or less.

The Credit Union manages its exposure to credit risk by adhering to its lending policies which require assessment of the quality of security offered and the capacity of the member to repay the loan in accordance with the terms and conditions of the loan.

Loans and advances – Collateral held

The Credit Union holds collateral in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. To mitigate credit risk, the Credit Union can take possession of the security held against the loans and advances as a result of default. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance.

The following table sets out the principal types of the collateral held against loans and advances:

	2021 $'000	2020 $'000
Secured by mortgage over real estate	533,011	487,879
Secured by bill of sale over motor vehicle	9,138	5,954
Secured by other assets	189	424
Secured by funds lodged with the credit union	632	632
Unsecured	1,785	2,159
Total gross loans and advances at amortised cost	**544,755**	**497,048**

Collateral held - Loans and advances

The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired. The value of the collateral for residential mortgage loans is based on the collateral value at origination. For credit-impaired loans the value of collateral is based on the most recent appraisals.

As at 30 June 2021, the fair value of collateral held against those loans and advances that have been individually assessed as Stage 3 credit impaired is $890,000 (2020: $6,639,000). It has not been practicable to determine the fair value of the collateral held as security against Stage 1 and Stage 2 loans.

Credit Quality – Loans and advances

The table below shows the distribution of loans and advances by credit quality and the exposure to credit risk based on the Credit Union's credit rating system and the year-end stage classification. The amounts are presented gross of impairment allowances.

2021	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Residential - Owner Occupied	369,046	-	576	369,622
Residential - Investor	119,167	-	-	119,167
Commercial	40,780	4	-	40,784
Personal Secured	10,458	45	76	10,579
Personal Unsecured	19	-	-	19
Other/Overdrafts	4,578	2	4	4,584
Total gross loans and advances at amortised cost	**544,048**	**51**	**656**	**544,755**

2020	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Residential - Owner Occupied	276,933	38,997	14,434	330,364
Residential - Investor	104,038	6,721	4,545	115,304
Commercial	32,881	3,117	1,733	37,731
Personal Secured	7,096	519	235	7,850
Personal Unsecured	41	15	11	67
Other/Overdrafts	5,709	3	20	5,732
Total gross loans and advances at amortised cost	**426,698**	**49,372**	**20,978**	**497,048**

Concentration Risk

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base. The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation Ratio (LVR) of no more than 80 percent and ongoing hindsight compliance reviews of this policy are conducted.

The following groups represent concentrations of loans and advances in excess of 10% of capital.

	2021		2020	
2021	$'000	%	$'000	%
Geographic Locations				
New South Wales	350,309	64.2%	345,053	69.4%
Queensland	175,278	32.1%	145,698	29.3%
Customer or Industry				
Southern Cross Credit Union Ltd Employees	11,788	2.2%	13,017	2.6%

Credit Risk – investment with counterparties

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the credit union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the credit union.

The Liquidity Management policy is that investments are only made to Authorised Deposit Taking Institutions (ADIs). The Board has established policies that a maximum of 40% of its capital can be invested in any one ADI at a time.

The risk of losses from the liquid investments undertaken is reduced by the limits to concentration on one entity. Also the relative size of the credit union compared to the industry is relatively low such that the risk of loss is reduced.

Under the Credit Union liquidity support scheme at least 3.2% of the total assets must be invested in an approved ADI to allow the scheme to have adequate resources to meet its obligations.

External credit assessment for institutional investments

The Credit Union uses the ratings of reputable rating agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA Prudential Practice Guide APG 112. The credit quality assessment scale within this standard has been complied with.

The following tables summarise the counterparty concentration risk exposure by credit rating grades:

	2021 $'000	2020 $'000
Actual Rating (S&P Rating)		
ADIs - A and above	93,029	102,400
ADIs - Below A	11,011	12,019
ADIs - Unrated	6,136	5,511
	110,176	**119,930**

(c) Liquidity Risk

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual and daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate cash reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The credit union has a long standing arrangement with the industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should this be necessary at short notice. Additional disclosure is provided at Note 25.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within two business days under APRA Prudential standards. The Credit Union Policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. This ratio is checked daily. Should the liquidity ratio fall below this level, management and the Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.

The table below shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to carrying amount.

2021	Carrying amount $'000	Total cash flows $'000	Less than 12 months $'000	Over 12 months $'000
Deposits	594,943	595,040	592,281	2,759
Payables and other liabilities	4,386	4,386	4,358	28
Lease liabilities	1,685	1,870	656	1,214
Borrowings	24,849	24,990	-	24,990
Unrecognised loan commitments	-	42,089	42,089	-
	625,863	**668,375**	**639,384**	**28,991**

2020	Carrying amount $'000	Total cash flows $'000	Less than 12 months $'000	Over 12 months $'000
Deposits	572,865	573,209	571,462	1,747
Payables and other liabilities	4,787	4,787	4,749	38
Lease liabilities	2,173	2,449	706	1,743
Borrowings	-	-	-	-
Unrecognised loan commitments	-	21,957	21,957	-
	579,825	**602,402**	**598,874**	**3,528**

The ratio of liquid funds over the past year is set out below:

	2021	2020
Liquid funds to total adjusted liabilities:		
- As at 30 June	18.64%	22.64%
- Average for the year	23.61%	17.19%
- Minimum during the year	17.35%	12.82%
Liquid funds to total member deposits:		
- As at 30 June	22.17%	23.70%

The Credit Union maintained liquidity levels in excess of APRA prudential requirements at all times during the year.

5.4 Capital management

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for the Credit Union under Australian Prudential Standard 110 Capital Adequacy (APS 110). Under APS 110, the Credit Union must maintain minimum levels of Tier 1 capital and may also hold Tier 2 capital up to certain prescribed limits. Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charges against earnings;
- Rank behind claims of depositors and other creditors in the event of winding up.

The Credit Union's Tier 1 capital includes redeemed preference share capital, retained earnings, and reserves (except for credit losses reserve), adjusted by regulatory adjustments.

Tier 2 capital comprises capital instruments that, to varying degrees, fall short of the quality of Tier 1 capital but exhibit some of the features of equity and contribute to the overall strength of the Credit Union as a going concern. The Credit Union's Tier 2 capital includes general reserve for credit losses.

Capital is made up as follows:

	2021 $'000	2020 $'000
Tier 1 capital		
Share capital	437	428
Capital reserve	229	229
Retained profits	56,173	53,310
Net Tier 1 capital	**56,839**	**53,967**
Tier 2 capital		
Credit losses reserve	3,081	2,825
Net Tier 2 capital	**3,081**	**2,825**
Total capital	**59,920**	**56,792**

The Credit Union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time in accordance with APRA Prudential Standards. The Credit Union has complied with all externally imposed capital requirements throughout the period. The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

The capital ratios as at the end of each reporting period, for the past 5 years follow:

2021	2020	2019	2018	2017
17.5%	18.3%	18.8%	19.3%	19.6%

The Credit Union's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally imposed capital ratios. To manage the Credit Union's capital, the management reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and the regulator if the capital ratio falls below 13%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Note 6: Unrecognised items

6.1 Outstanding loan commitments

	2021 $'000	2020 $'000
Loans and credit facilities approved but not funded or drawn at the end of the financial year:		
Loans approved but not funded	35,418	18,500
Undrawn overdraft and line of credit	6,671	3,457
	42,089	**21,957**

6.2 Contingent liabilities

The Credit Union is a participant in the Credit Union Financial Support System (CUFSS). The purpose of the scheme is to protect the interests of credit union members, increase stability in the industry and to provide emergency liquidity support.

As a participant in CUFSS, the Credit Union:

(a) May be required to advance funds of up to 3% of total assets to another credit union requiring financial support;

(b) Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

The value of any calls made and permanent loans advanced at 30 June 2021 was nil (2020: nil).

6.3 Events Subsequent to the End of the Reporting Period

No matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of the Credit Union in subsequent financial years.

Note 7: Other information

7.1 Property, plant and equipment

(a) Carrying amounts

	2021 $'000	2020 $'000
Plant and equipment - at cost	1,931	1,761
Accumulated depreciation	(1,067)	(1,184)
Total plant and equipment	**864**	**577**
Leasehold improvements - at cost	2,072	1,810
Accumulated amortisation	(846)	(593)
Total leasehold improvements	**1,226**	**1,217**
Work in progress	**261**	**102**
Total property, plant and equipment	**2,351**	**1,896**

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the financial year are set out below.

	Plant and Equipment $'000	Leasehold Improvements $'000	Work in progress $'000	Total $'000
Balance at 1 July 2019	714	1,460	115	2,289
Additions	95	2	212	309
Depreciation expense	(232)	(245)	-	(477)
Transfer to P&E and leasehold improvements	-	-	(225)	(225)
Balance at 30 June 2020	**577**	**1,217**	**102**	**1,896**
Additions	580	284	732	1597
Disposals	(18)	-	-	(18)
Depreciation expense	(276)	(275)	-	(550)
Transfer to P&E and leasehold improvements	-	-	(572)	(572)
Balance at 30 June 2021	**864**	**1,226**	**261**	**2,351**

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2020: Nil).

Recognition and measurement

Plant and equipment

Each class of property, plant and equipment is carried at cost less depreciation, where applicable, any accumulated impairment losses. Assets under $300 are not capitalised.

The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows, which will be received from the assets employment and subsequent disposal. The decrement in the carrying amount is recognised as an expense in the profit or loss in the reporting period in which the recoverable amount write- down occurs.

Depreciation

The depreciable amount of all property, plant and equipment is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight-line basis.

A summary of the rates used is:

- Plant and equipment 10-33%
- Leasehold improvements 10-33%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

7.2 Leases

The Credit Union leases a number of properties for offices and branches. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security.

(a) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	2021 $'000	2020 $'000
Opening balance at 1 July	2,111	2,730
Additions	119	-
Amortisation expense	(642)	(619)
Closing balance at 30 June	**1,589**	**2,111**

(b) Lease liabilities

Set out below are the carrying amounts of lease liabilities (included under payables and other liabilities and the movements during the year:

	2021 $'000	2020 $'000
Opening balance at 1 July	2,173	2,730
Additions	119	-
Accretion of interest	100	111
Lease payments	(707)	(668)
Closing balance at 30 June	**1,685**	**2,173**

The maturity analysis of lease liabilities are disclosed in Note 5.3 (a).

(c) Amounts recognised in profit or loss

	2021 $'000	2020 $'000
Depreciation charge of right-of-use assets	642	619
Interest expense (included in finance cost)	100	111
	742	**730**

The Credit Union had total cash outflows for leases of $707,000 in 2021 (2020: $668,000). The Credit Union also had non-cash additions to right-of-use assets and lease liabilities of $120,000 in 2021 (2020: $2,730,000 resulting from initial application of AASB 16).

Recognition and measurement

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Credit Union's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Credit Union if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Credit Union is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight- line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Credit Union revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

For contracts that both convey a right to the Credit Union to use an identified asset and require services to be provided to the Credit Union by the lessor, the Credit Union has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

7.3 Intangible assets

(a) Computer software

	2021 $'000	2020 $'000
Cost	1,175	1,138
Accumulated amortisation	(690)	(569)
	485	**569**

(b) Movements in carrying amounts

	2021 $'000	2020 $'000
Balance at beginning of the financial year	569	498
Additions	83	223
Amortisation Expense	(168)	(152)
Carrying amount at the end of the year	**485**	**569**

Recognition and measurement

Intangible assets

Computer software

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as an intangible asset. Computer software acquired by the Credit Union is measured at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits of the computer software. All other expenditure is expensed as incurred.

Amortisation is calculated using the straight-line method to write down the cost of the computer software to the residual value over the estimated useful life of the computer software. The estimated useful life ranges from 3 to 8 years resulting in a straight line depreciation base of 33.3% to 12.50%. The computer software's residual value and useful life are reviewed, and adjusted if appropriate, at each year end date.

7.4 Other receivables

	2021 $'000	2020 $'000
Accrued income	31	23
Sundry debtors	2,000	621
Total other receivables	**2,031**	**644**

7.5 Payables and other liabilities

	2021 $'000	2020 $'000
Accrued interest payable	579	1,330
Accrued expenses	897	555
Annual leave	472	503
Deferred Income	122	190
Member clearing	2,316	2,209
	4,386	**4,787**
Amount of other payables expected to be settled more than 12 months after the reporting date	**28**	**38**

7.6 Provisions

	2021 $'000	2020 $'000
Long service leave	400	448
Make good	61	43
	461	**491**
Amount of provisions receivables expected to be settled more than 12 months after the reporting date	**319**	**364**

Recognition and measurement

Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Short-term employee benefits

Liabilities for wages and salaries, profit-sharing and bonuses and the value of fringe benefits received (including non- monetary benefits), and accumulating sick leave which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled, plus related on-costs. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long-term employee benefits

Liabilities for long service leave and annual leave which are not expected to be settled within twelve months of the end of the reporting period are recognised as provisions for employee benefits and are measured at the present value of the expected future payments to be made in respect of services provided to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary and wage increases, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions are made by the Credit Union to employee superannuation funds and are recognised in profit or loss when incurred.

7.7 Related Parties

(a) Key management personnel (KMP)

KMP are those persons having the authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any Director (whether executive or otherwise) of the Credit Union. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits for the Credit Union.

KMP has been taken to comprise the Directors and members of the Executive Management team responsible for the day to day financial and operational management of the Credit Union. The Executive Management Team for 2021 comprises the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief People Officer.

The total compensation paid to KMP during the year, comprising amounts paid or payable or provided for, was as follows:

	2021 $	2020 $
Short-term employee benefits	1,210,738	1,204,124
Post-employment benefits	107,359	113,769
Other long-term benefits	15,997	21,673
Total compensation	**1,334,094**	**1,339,566**

In the table directly above for remuneration shown as short-term benefits means (where applicable) salary and wages, director fees, superannuation, paid annual leave and paid sick leave, profit sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to non-executive Directors was approved by the members at the previous Annual General Meeting of the Credit Union. Post-employment benefits include vesting payments upon termination as disclosed in note 7.6.

(b) Loans to KMP and close family members

	2021 $	2020 $
(i) The aggregate value of loans as at reporting date amounted to:	6,328,664	8,935,902
(ii) The total value of revolving credit facilities available, as at reporting date	5,000	5,000
Less amounts drawn down and included in (i)	-	-
Net balance available	**5,000**	**5,000**
(iii) During the year the aggregate value of loans disbursed amounted to:		
- secured loans	3,368,354	3,427,000
- unsecure loans / overdrafts	-	-
(iv) Interest and other revenue earned on loans and revolving credit facilities amounted to:	192,582	223,928

The above table includes amounts for the Credit Union's Directors and other KMP in office or employed by the Credit Union at reporting date and their related parties. Directors and other KMP who resigned during the 2021 financial year are excluded from the 2021 analysis but are included in the 2020 comparative analysis.

The Credit Union's policy for lending to related parties is that all loans are approved on the same terms and conditions which applied to members for each class of loan. This policy has been adhered to for the full financial year. All loans were at lending terms and conditions applicable to members. KMP may receive concessional rates of interest on their loans and facilities that are available to all the Credit Union's employees. No amounts were written down or recorded as impaired during the year (2020: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2020: nil). No loan balances with family or relatives of the Credit Union's Directors and other KMP were written down or recorded as impaired during the year (2020: nil).

(c) Deposits from KMP and close family members

	2021 $	2020 $
Total value of term and savings deposits	1,124,959	1,131,077
Interest paid on deposits	270	7,026

The Credit Union's policy for receiving deposits from KMP and close family members is that all deposits are accepted on the same terms and conditions which applied to members for each type of deposit. This policy has been adhered to for the full financial year.

KMP and close family members have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of the Credit Union.

Other transactions with related parties

The Credit Union's related parties consist of KMP and the close family members of KMP and entities that are controlled or significantly influenced by those KMP, individually or collectively with their close family members.

Other transactions between related parties include loans and deposits from the 'close family members' of KMP and the exchange of assets or services from time to time on a commercial, arm's- length basis.

There are no benefits paid or payable to the 'close family members' of KMP. There are no service contracts to which KMP or their 'close family members' are an interested party.

7.8 Remuneration of auditors

Amounts received or due and receivable by BDO for:

	2021 $	2020 $
Audit services		
- Audit of financial statements	68,000	61,000
- Audit and review of APRA compliance and regulatory returns	17,150	26,770
Total audit services	**85,150**	**87,770**
Non-audit services		
- Taxation services	8,570	6,814
- Other services	5,000	-
Total non-audit services	**13,570**	**6,814**
Total auditor's remuneration	**98,720**	**94,584**

7.9 Fair value measurement of financial instruments

(a) Fair value hierarchy

The Credit Union measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:
  - quoted market prices in active markets for similar instruments
  - quoted prices for identical or similar instruments in markets that are considered less than active; or
  - other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values for financial instruments traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible assumptions used are based on observable market prices and rates at the end of the reporting date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(b) Fair value estimates

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

Cash and cash equivalents and other receivables

The carrying values approximate their fair value as they are short term in nature or are receivable on demand.

Due from other financial institutions classified as financial assets at amortised cost

The fair value of these assets was determined using discounted cash flow models based on the maturity of the deposits. The discount rates applied were based on the benchmark rates on offer for the remaining term of each deposit at reporting date.

Investment securities classified as financial assets at fair value through other comprehensive income (FVOCI)

The Credit Union's unquoted equity instruments represent the investment in Cuscal Ltd shares which is stated at fair value and is classified as Level 3 in the fair value hierarchy. These shares represent an investment that the Credit Union intends to hold long term for strategic purposes and are not actively traded. These shares were measured at fair value on initial recognition and subsequently where their value cannot be measured reliably, the assets are measured at the carrying amount determined at the last date on which the fair value could be determined reliably. The shareholding in Cuscal is measured at net tangible assets per share fair value which approximates its fair value as at 30 June 2021.

Loans and advances

For variable rate loans the carrying value is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June.

Borrowings and other payables

The carrying value approximates their fair value as they are short term in nature.

Deposits

The fair value of at call and variable rate deposits, and fixed rate deposits repriced within twelve months, approximates the carrying value. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at reporting date.

	2021		2020	
	Total fair values $'000	Carrying amount $'000	Total fair values $'000	Carrying amount $'000
Financial assets measured at fair value:				
Investment securities	980	980	980	980
Financial assets for which fair values are disclosed:				
Cash and cash equivalents	21,727	21,727	15,832	15,832
Due from other financial institutions	110,177	110,177	119,930	119,930
Other receivables	2,031	2,031	644	644
Loans and advances	545,587	547,534	500,173	497,298
Financial liabilities for which fair values are disclosed:				
Deposits	594,943	595,040	573,209	572,865
Payables and other liabilities	6,072	6,072	4,787	4,787
Lease liabilities	1,685	1,685	2,173	2,173
Borrowing	24,849	24,849	-	-

The Credit Union's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

(d) Level 3 reconciliation

Level 3 fair value measurement – investment securities

In the current financial year, the fair value of these assets has been estimated taking into consideration the most recently transacted prices for the shares and earning multiples of other similar entities and the net asset value per share of the underlying investment. This asset is categorised at Level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

The following table shows reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

	2021 $	2020 $
Balance at beginning of financial year	980	980
Additions	-	-
Disposals	-	-
Gains recognised in other comprehensive income	-	-
Balance at end of financial year	**980**	**980**

The Credit Union's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to investment in CUSCAL measured at FVOCI. As such, a change in the assumption used to value the investment as at 30 June 2021 attributable to reasonably possible alternatives would not have a material effect.

7.10 Economic dependency

The Credit Union has an economic dependency on the following suppliers of service:

(a) Indue Ltd.

This entity supplies the Credit Union with facilities for the use and settlement for VISA Cards, personal cheques and facilitates the earning of commission income on certain VISA transactions. The Credit Union has invested a share of its operating liquidity with this entity.

(b) Ultradata Australia Pty. Ltd.

Ultradata Australia Pty. Ltd. provides and maintains the application software utilised by the Credit Union.

(c) Fiserv Limited

This company operates the switching computer used to link VISA to the Credit Union's computer systems.

7.11 New and amended accounting standards and interpretations adopted during the year

The Credit Union applied, for the first time, certain new and amended accounting standards and interpretations which are effective for annual periods beginning on or after 1 July 2020. There are no new and amended accounting standards and interpretations became effective as of 1 July 2020 that has material impact to the Credit Union.

7.12 New and amended accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2021 reporting period and have not been early adopted by the Credit Union. None of these are expected to have a material effect on the financial statements of the Credit Union.

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INDEPENDENT AUDITOR'S REPORT

To the members of Southern Cross Credit Union Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Southern Cross Credit Union Ltd (the Company), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of Southern Cross Credit Union Ltd, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the directors' report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO
T J Kendall

T J Kendall
Director

Brisbane, 28 September 2021

Southern Cross Credit Union Ltd

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