

2015-2016
Annual Report



**SOUTHERN CROSS
CREDIT UNION**





SOUTHERN CROSS CREDIT UNION

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Chairman and Chief Executive Officer's Report



John Rutledge, Chairman
Stuart Edwards, CEO

“ We have continued to make good strategic progress while successfully balancing our growth, margin and risk priorities in a market featuring high levels of competition, and regulatory uncertainty ”

The 2015/2016 financial year has been an exciting year of transformation, change and success for our organisation. The growth and performance delivered this year has been remarkable, especially at a time of unprecedented change in the banking environment.

This year, the industry has again faced challenges as a result of increased competition and regulation, making our success even more significant. Despite these challenges, we have secured a strong and profitable outcome.

Our focus has remained on providing an exceptional five star customer experience delivered by passionate and caring people who embody our purpose of helping people realise their dreams of home ownership, starting or growing their business, or achieving their savings goals.

We have continued to make good strategic progress while successfully balancing our growth, margin and risk priorities in a market featuring high levels of competition, and regulatory uncertainty.

Our ability to navigate these challenges and deliver a positive year result reflects our strength and positions us well for the future.

Our Financial Performance at a Glance

We had a record year of new lending and profit in 2015-16. Our loan book has grown from \$302M to \$360M (\$58M net growth in 12 months), equalling a growth rate of 19.46%, well above industry levels of 7.4%. The majority of this growth has been achieved through the funding of high quality, low risk home loans.

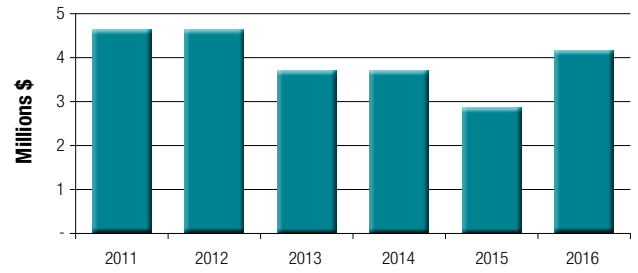
- At 0.70%, our Return on Assets (ROA) is one of the best in the customer owned banking industry and an indicator of our strength and stability;
- Capital, the basis of our financial strength, grew by 6.9% to \$46.581M;
- Profit after tax was \$2.966M, an increase of 46%. This increase was attributed to an increase in non-interest income, customer growth, mortgage and other product sales, and an insurance recovery of an external fraud that occurred in the previous financial year;
- Liquidity averaged 16.19% of liabilities, above regulatory minimums and within the Credit Unions policy limits;
- Loans in arrears (a measure of credit quality) was 1.04% of total loans, reflecting our responsible lending practices and excellent work from our team in assisting customers facing financial difficulties;
- Total Assets increased to \$421.9M (an increase of 12%);
- Customer deposits surpassed \$369M; and
- Customer shareholding at June 2016 totalled 17,952.

Our Financial Highlights at a Glance

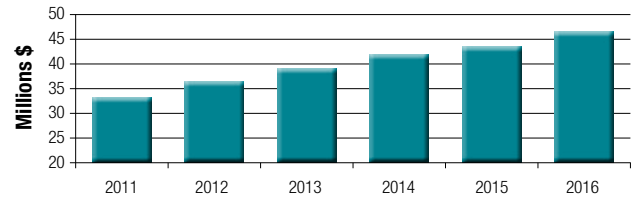
Profit Before Tax	\$4.20M	Up 45.36%
Total Reserves	\$46.58M	Up 6.94%
Total Loans	\$360.47M	Up 19.47%
Total Deposits	\$369.43M	Up 12.96%
Total Assets	\$421.92M	Up 12.09%



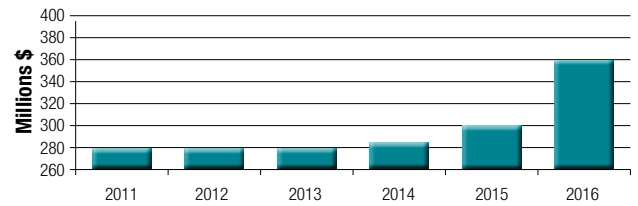
Profit Before Tax



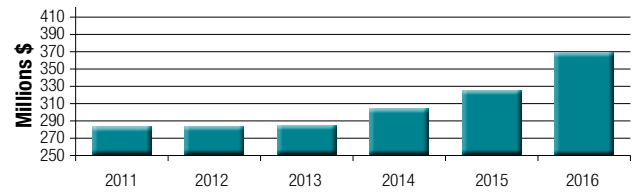
Reserves



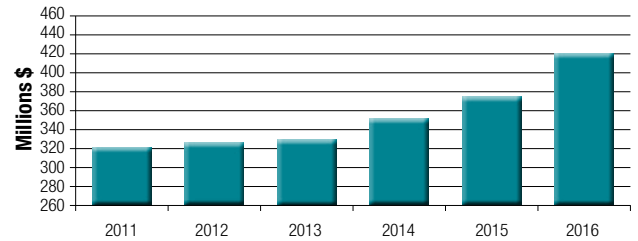
Total Loans



Total Deposits



Total Assets



Chairman and Chief Executive Officer's Report

Celebrating 50 years of Community Banking

This year we celebrate 50 years of community banking. We have undertaken a number of initiatives to mark this special occasion with celebrations continuing into the second half of 2016, including:

- Customer Recognition: To say thank you, all customers will be entered into a draw to 'Win a Car'.
- Community Grants: We are supporting local community groups and events with our Community Grants program. Following an application and voting process we will be awarding three \$5,000 community grants to local organisations.
- Our New Television Campaign; focused on our 50 year anniversary and reminds our customers and our community that we are 'always there for you'. The television campaign highlights our brand story, as well as advertising for our personal loan and home loan products.

Website Enhancements

Our website was relaunched in April with an updated aesthetic and functionality based on extensive research and customer feedback. The aim of the update is primarily to provide a simple and easy online banking experience for our customers.

The homepage has been simplified, with clear navigation to the content that is most relevant to our customers and visitors. The website is optimised for mobile and careful consideration was given to ensuring ease of use across multiple devices (mobile, tablet and desktop) throughout the design process.

Visits to the website have increased by more than 10% since the launch in April and more than 50% of visitors to our site use a tablet or mobile device.

Our Home Loans Awarded 5 Stars for Outstanding Value

Our Platinum Home Loan and Platinum Home Loan Professional products received 5 Stars for outstanding value from Canstar, Australia and New Zealand's leading financial services comparison site.

Only the top 10% of the whole Home Loan market is eligible for 5 Star ratings so this achievement is recognition of our competitiveness when building and pricing our products, and further proof of our strength and success in what is a very competitive and tough marketplace.

Keeping your Money Secure

Regulation, security and cybercrime continue to present challenges for financial institutions. We are continuously working to make sure we are going above and beyond our baseline obligations in this area to ensure your money and information is secure.

This year we implemented a new Compliance and Risk Management System, bringing to fruition the culmination of nine months of work. The new system streamlines our current approach to compliance through the use of a centralised online tool, and removes duplication, paper and manual processes when it comes to meeting our compliance and risk management obligations.

As a continuation of the development of our Risk and Compliance Area and to align our business to



best governance and audit practice, we have engaged an external company, Grant Thornton, to perform our Internal Audit function. Grant Thornton are one of the world's leading audit, tax and advisory organisations and have worked with us previously to develop our Risk Management Framework. They have an excellent understanding of SCCU and the challenges we are likely to face as a result of the many regulatory changes impacting the banking industry.

We have also recently conducted extensive security and penetration reviews of our core banking system and have upgraded our fraud monitoring services provided by our security partner.

Updates to our Constitution

At the 2015 Annual General Meeting (AGM) we made some important amendments to our Constitution:

- Removal of \$10 shareholding payable on joining;
- Removal of our Common Bond; and
- Removal of requirement for written application to join the Credit Union.

The changes reflect our Vision 'To be the first choice for easy to understand banking'. We are continuing to remove barriers to doing business with us to ensure we remain relevant, continue our strong growth and position ourselves positively for the future. As a result of these changes we have seen our customer base grow for the first time in many years.

Putting Customer Needs First

In late 2015 we commenced our enhancement program to build specialisation in key customer service areas across our organisation.

We now have a team of dedicated Branch Managers, Home Loan Specialists and Customer Service Specialists across our network, focused on delivering five star service tailored to our customers' needs. The success of the enhancement is reflected in our positive performance over the past 12 months.

We enhanced and launched new products in 2015 aimed at providing our customers greater choice when it comes to rates and features. These included our award winning Platinum Home Loan and Platinum Home Loan Professional, as well as our Green Loans for home and personal loans aimed at rewarding our customers for making sustainable choices when purchasing a home or vehicle.

Recognition and Awards

During the year, members of our team were also recognised for outstanding personal and professional achievements.

Our Marketing Manager, Kristy Jones won the prestigious 2015 Customer Owned Banking Association Emerging Leader Award. Winning this national award is a great achievement and a well-deserved acknowledgement of all of the hard work and dedication Kristy has shown to SCCU and the Customer Owned Banking sector.

At the 2016 Tweed Coast Women's Awards, our Director Belinda Henry won Business Woman of the Year and Jenny O'Gorman, Customer Service Specialist at our Cabarita Beach branch won the Excellence in Customer Service Award.



Chairman and Chief Executive Officer's Report

What's coming up?

Over the coming 12 months, we will be continuing to focus on maintaining our growth and forward momentum by working on:

- Our new Corporate Service Centre in Kingscliff;
- The launch of our new branch design in Tweed City;
- Improving our service through an upgrade to our Contact Centre;
- Investing in technology and releasing our new mobile banking app;
- Embedding our new service offering Premium Banking;
- Launch of our very own SCCU branded Credit Card.

Director Retirements

During the past financial year, two long serving Directors Mr Col Lee OAM and Ms Pauline Ross retired from the Board.

Ms Ross served as a Director for more than 11 years, while Mr Lee retired after 19 years of service. On behalf of the customers, employees and Board we thank both Ms Ross and Mr Lee for their dedication and service.

On behalf of the Board and Executive Management we would like to thank our team and customers for their ongoing support to help shape our organisation into the success it is today.



John Rutledge
Chairman



Stuart Edwards
CEO

Directors' Report to Members

Your Directors submit their report for the financial year ended 30 June 2016.

Directors

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

NAME	QUALIFICATIONS	EXPERIENCE	RESPONSIBILITIES
John Rutledge	JP, AAMI Diploma in Financial Services	Board Member since 27 July 2004	Chairman
Guy Bezrouchko	Bachelor of Business Certified Practising Accountant AAMI, JP Diploma in Financial Services	Board Member since 20 June 2006	Deputy Chairman Member - Audit Committee Member - Risk Committee
Phillip Hoffman	Director Development Course AAMI Diploma in Financial Services	Board Member since 27 November 2001	Chair - Audit Committee Member - Risk Committee
Belinda Henry	Bachelor of Laws Practical Legal Training Course Legal Practice Management Course	Board Member since 30 June 2011	Chair - Risk Committee Member - Audit Committee
Stuart Edwards	Diploma in Financial Services AAMI	Board Member since May 2016	Executive Director Chief Executive Officer

Each Director holds one ordinary share in the Credit Union.



John Rutledge



Guy Bezrouchko



Phillip Hoffman



Belinda Henry



Stuart Edwards

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:

No. of meetings	Director Meetings	
	Held	Attended
Phillip Hoffman	13	13
John Rutledge	13	13
Guy Bezrouchko	13	13
Belinda Henry	13	13
Stuart Edwards	2	2

No. of meetings	Audit Committee Meetings*		Risk Committee Meetings *	
	Held	Att ended	Held	Attended
Phillip Hoffman	4	4	4	4
Guy Bezrouchko	4	4	4	4
Belinda Henry	4	4	4	4
Stuart Edwards	1	1	1	1

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 Member of the Australian Institute of Company Directors	27 years' experience encompassing 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.

Indemnity Insurance

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.

FINANCIAL PERFORMANCE DISCLOSURES

Principal Activities

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

Operating Results

The net profit after income tax was \$2,966,000 (\$2,032,000 in 2015), representing an increase of \$934,000.

The results for the year were affected by:

- an increase in Net Interest Income of \$1,083,000 due to the growth in the loan portfolio of \$58,718,000, offset by a reduction in investments rates largely due to competitive market pressures;
- an increase in Non-Interest Income of \$703,000, of which \$517,000 was an Insurance Recovery of a Fraud Loss from the 2015 financial year, and remaining increase of \$196,000 comprises Insurance Commission increase of \$81,000 and other lending related fees offset by a continuing decline in ATM revenues;
- an increase in Employee and Associated Expenses of \$662,000 as the Credit Union continues to expand its loan and deposits portfolio, employ key specialist roles and the Executive Management Team has now been in place for the full year. In addition, redundancies were taken during the financial year by long term employees;
- Marketing and Advertising expense increased by \$66,000 due to the production of new Television Commercials and the SCCU website following the establishment of a new strategic direction;
- a decrease in occupancy expense of \$53,000 following the amalgamation of the two Tweed Heads branches into one;
- Visa costs increasing by \$130,000 as intensive fraud monitoring is followed protecting customer's accounts following an increase in Visa Paywave transactions of 30% and the effects of declining Australian dollar on Visa International US dollar denominated fees; and
- a decrease in Consultancy management fees of \$96,000 following extensive legal and compliance reviews in the previous financial year.



Review of Operations

The nature of the Credit Union's operations from its activities of providing financial services to its customers did not change significantly from those of the previous year.

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 Occurring After Balance Date

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

Environmental regulations

All activities have been undertaken in compliance with environmental regulations that apply to credit unions.

Likely Developments and Results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

- i) The operations of the Credit Union;
- ii) The results of those operations; or
- iii) The state of affairs of the Credit Union.

CORPORATE GOVERNANCE DISCLOSURES

Board

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union. All 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 set down 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 in the form of allowances 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
- Compliance
- Regulatory, Compliance and Ethical Matters

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
- 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
- Operational Risk Management
- Outsourcing Risk Management

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 Thomas Noble & Russell, a Lismore based firm. The firm of Thomas Noble & Russell has been auditing credit unions for over 20 years. The firm utilises sophisticated Computer Assisted Audit Software to supplement the compliance testing.

Internal Audit

An internal audit function exists using the services of an external firm, Grant Thornton, 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 auditors 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.

Auditors' Independence

The auditor has provided the following declaration of independence to the Board as prescribed by the Corporations Act 2001.



Workplace Health & Safety

The nature of the finance industry is such that the risks of injury to employees and the public are less apparent than in other high-risk industries. Nevertheless, our two most valuable assets are our employees and our customers 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.

Employees are trained in robbery procedures and offices are designed to detract from such acts by:

- Little or no cash being held in accessible areas;
- Cameras and counter screens in all offices to allow detection and identification of unauthorised persons.

The Credit Union has established an 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 CEO for actioning by management. Secure cash handling policies are in place and lifting heavy weights are managed by proper techniques to minimise the risk of damage.

Regulatory Disclosures

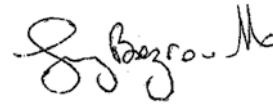
Regulatory Prudential disclosures required by APS 330 Public Disclosure issued by APRA can be located on the Credit Union's web site at the following address: www.sccu.com.au

Signed in accordance with a resolution of the Board of Directors



John Rutledge
Chairman

Dated this 6th day of October 2016



Guy Bezrouchko
Deputy Chairman

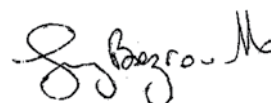
Directors' Declaration

1. In the opinion of the Directors of the Credit Union:
 - (a) The attached financial statements and notes set out on pages 18 to 52 are in accordance with the Corporations Act 2001, including:
 - i) complying with Accounting Standards and the Corporations Regulations 2001; and
 - ii) giving a true and fair view of the Credit Union's financial position as at 30 June 2016 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 they become due and payable.
2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

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:



John Rutledge
Chairman



Guy Bezrouchko
Deputy Chairman

Dated this 6th day of October 2016



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Southern Cross Credit Union Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Dated at Lismore this 06th day of October 2016.

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**

A handwritten signature in black ink, appearing to read 'A J Bradfield', is written over a horizontal line.

A J BRADFIELD (Partner)
Registered Company Auditor

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Interest Income	2	18,057	18,034
Interest Expense	3	<u>(6,847)</u>	<u>(7,907)</u>
Net Interest Income		11,210	10,127
Non-interest income	2	3,590	2,887
Impairment expense	11	(69)	(39)
Employee benefits expense	3	(4,888)	(4,226)
Occupancy expense	3	(917)	(983)
Depreciation and amortisation expenses	3	(291)	(347)
Other expenses	3	<u>(4,434)</u>	<u>(4,530)</u>
Profit before income tax		4,201	2,890
Income tax expense	4	(1,235)	(858)
Profit for the year		<u>2,966</u>	<u>2,032</u>
Other Comprehensive Income, net of income tax			
Net changes in the fair value of Land and Buildings		-	(34)
Net changes in the fair value of cash flow hedges (1)		78	(211)
Income tax on items of other comprehensive income (1)		<u>(23)</u>	<u>74</u>
Other comprehensive income for the year, net of income tax		55	(171)
Total Comprehensive Income for the Year		<u>3,021</u>	<u>1,861</u>
Total Comprehensive Income attributable to Members of the Credit Union		<u>3,021</u>	<u>1,861</u>

(1) Items that may be reclassified subsequently to profit and loss

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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
ASSETS			
Cash and cash equivalents	7	6,397	9,265
Receivables from other financial institutions	8	51,859	61,333
Other receivables	9	519	548
Loans and advances to members	10&11	360,390	301,672
Available for sale property	12 (a)	748	-
Available for sale investments	12 (b)	577	577
Other assets	16	127	131
Property, plant and equipment	13	561	1,539
Current tax assets	20	-	506
Deferred tax assets	14	491	636
Intangible assets	15	253	193
TOTAL ASSETS		<u>421,922</u>	<u>376,400</u>
LIABILITIES			
Deposits from members	17	369,426	327,027
Payables and other liabilities	18	5,006	5,126
Derivatives	19	185	261
Current tax liability	20	304	-
Provisions	21	420	424
TOTAL LIABILITIES		<u>375,341</u>	<u>332,838</u>
NET ASSETS		<u>46,581</u>	<u>43,561</u>
MEMBERS EQUITY			
Redeemed preference share capital	22	376	349
Other reserves	23	2,916	2,443
Retained earnings		43,289	40,769
TOTAL MEMBERS EQUITY		<u>46,581</u>	<u>43,561</u>

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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Asset Revaluation Surplus	Capital Profits	Redeemed Preference Share Capital	Hedging Reserve	General Reserve for Credit Losses	Retained Earnings	Total Members Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014	537	229	324	(35)	1,842	38,802	41,700
Profit for the year	-	-	-	-	-	2,032	2,032
Other comprehensive income	(23)	-	-	-	-	-	(23)
Net gain/(loss) on cash flow hedges, net of tax	-	-	-	(148)	-	-	(148)
Total comprehensive income for the year	(23)	-	-	(148)	-	2,032	1,861
Transfers to Redeemed Preference Share Capital	-	-	25	-	-	(25)	-
Transfers from General Reserve for Credit Losses	-	-	-	-	40	(40)	-
Balance at 30 June 2015	514	229	350	(183)	1,882	40,769	43,561
Profit for the year	-	-	-	-	-	2,966	2,966
Other comprehensive income	-	-	-	-	-	-	-
Net gain/(loss) on asset revaluation, net of tax	-	-	-	54	-	-	54
Net gain/(loss) on cash flow hedges, net of tax	-	-	-	54	-	2,966	3,020
Total comprehensive income for the year	-	-	-	54	-	2,966	3,020
Transfers to Redeemed Preference Share Capital	-	-	26	-	-	(26)	-
Transfers from General Reserve for Credit Losses	-	-	-	-	420	(420)	-
Balance at 30 June 2016	514	229	375	(129)	2,303	43,289	46,581

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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
i) Cash flows from operating activities			
Interest received		18,057	18,034
Dividends received		82	82
Other non interest income received		3,519	2,811
Interest paid		(6,947)	(8,031)
Payments to suppliers and employees		<u>(10,015)</u>	<u>(10,273)</u>
		4,696	2,623
Movements in operating assets and liabilities			
Net movement in member loans		(58,787)	(16,047)
Net movement in member deposits		<u>42,234</u>	<u>21,681</u>
		(16,553)	5,634
Income taxes paid		<u>(281)</u>	<u>(1,707)</u>
Net cash provided by / (used in) operating activities	37(c)	<u>(12,138)</u>	<u>6,549</u>
ii) Cash flows from investing activities			
Net movement in receivables due from other financial institutions		9,474	(7,831)
Payments for property, plant and equipment and intangible assets		(203)	(441)
Proceeds from sale of property plant & equipment and intangible assets		<u>-</u>	<u>1</u>
Net cash provided by / (used in) investing activities		<u>9,271</u>	<u>(8,271)</u>
iii) Cash flows from financing activities			
Net movement in other borrowings		<u>-</u>	<u>-</u>
Net cash used in financing activities		<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalent assets held		(2,868)	(1,722)
Cash and cash equivalents at the beginning of the financial year		<u>9,265</u>	<u>10,986</u>
Cash and cash equivalents at the end of the financial year	37(a)	<u>6,397</u>	<u>9,265</u>

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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report covers Southern Cross Credit Union Limited as a single for-profit entity which is a public company limited by shares, incorporated and domiciled in Australia. The nature of the credit union's operations and principal activities are disclosed in the directors' report. The financial report was authorised for issue on 6 October 2016 by the directors of the Credit Union.

Basis of Preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards.

This financial report has been prepared on an accruals basis except for the statement of cash flows, and is based on historical costs modified by the revaluation of land and buildings, and certain other financial assets and financial liabilities (including derivative instruments) for which the fair value basis of accounting has been applied.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Credit Union under ASIC Corporations (rounding in Financial/Directors report) instrument 2016/191. The Credit Union is an entity to which this instrument applies.

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

(a) Income Tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted, or substantively enacted, at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

(b) Revenue

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members' loan accounts on the last day of each month. For loans where interest is charged in advance, the income is recognised as it accrues on a monthly basis.

Loan interest is not brought to account when the Credit Union is informed that the member is deceased or generally if a loan has been transferred to a debt collection agency or a judgement has been obtained. No interest is charged on loans where repayments are in arrears and the prospect of a contribution from the member is minimal. However, accrued interest may be recovered as part of the recovery of the debt.

Loan fees are brought to account as income in the year of receipt up to the amount of costs recouped. Loan fees in excess of costs are brought to account as income over the period of the loan.

Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

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NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Con't)

(c) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(d) Loans to members

Loans and advances to members are recognised as recoverable amounts, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan contract.

Specific Provision for Impairment

The amount provided for impairment of loans is determined by management and the Board. The Prudential Standards issued by APRA require a minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. In addition, the Board makes a provision for loans in arrears where the collectability of the debts are considered doubtful by estimation of expected losses.

General Reserve for Credit Losses

In addition to the above specific provision, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has been previously recognised, write offs for bad debts are recognised in profit or loss.

Components of Impaired Assets

The various components of impaired assets are as follows:

"Non-accrual loans" are loans and advances:

- (i) for which there is reasonable doubt that the Credit Union will be able to collect all amounts of principal and interest in accordance with the terms of the contract; or
- (ii) which do not meet the definition of a restructured loan only because it yields less than the Credit Union's average cost of funds;

and includes category two loans, category three loans and category four loans, in accordance with harmonised Prudential Standards Guidance Note AGN 220.1.

"Restructured loans" are loans and other similar facilities where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member or group of members.

"Assets acquired through the enforcement of security" are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

"Past-due loans" means a loan or similar facility in arrears which has not been operated within its key terms by the borrower for at least 30 days and which is not an impaired loan and includes category one loans in accordance with Prudential Standards APS 220 that are in arrears for at least 30 days and are well secured.

(e) Receivables

Receivables Due from other Financial Institutions

Receivables from other financial institutions are primarily negotiable certificates of deposit or term deposits with other financial institutions which have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity and is brought to account in the Statement of Profit or Loss and Other Comprehensive Income when earned. All deposits are in Australian currency.

Other Receivables

Other receivables are accrued income for Commissions and Transaction Fees from Members and other sundry clearing accounts.

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(f) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transactions costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised costs using the effective interest rate method.

Held-to-maturity investments

Held to maturity investments are non-derivative financial assets that have fixed or determinable payments, and it is the Credit Unions intention to hold these investments to maturity. Any held-to-maturity investments held by the Credit Union are stated at amortised cost using the effective interest rate method.

The Credit Union assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in estimated future cash flows.

Available-for-sale financial assets

Available-for-sale financial assets include any non-derivative financial assets that are either designated as such or that are not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(g) Property, plant and equipment

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

Property

Freehold land & buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the Credit Union to have an independent valuation every three years, with annual appraisals being made by the Directors.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The revaluation of freehold land and buildings has taken account of the potential capital gains tax on assets acquired after the introduction of capital gains tax.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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 net profit or loss from ordinary activities in the reporting period in which the recoverable amount write-down occurs. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the estimated useful life of the improvements.

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Property, plant and equipment is depreciated on a straight line basis in accordance with the following rates:

Buildings 2.5%	Motor Vehicles 20%
Furniture & Equipment 15%	Plant & Equipment 20%
Computer Equipment 25%	Leasehold improvements 10%
Assets under \$300 are not capitalised.	

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

(h) Intangible assets

Computer software held as intangible assets are amortised over the expected useful life of the software. These lives range from 3 to 8 years resulting in a straight line depreciation base of 33.3% to 12.50% respectively.

(i) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(j) Members' deposits

Members' deposits are brought to account at the gross value of the outstanding balance. Interest on deposits are brought to account on an accruals basis.

(k) Borrowings

Borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings using the effective interest method. Borrowing costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

(l) Employee Benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to wholly settled within one year, have been measured at their nominal amount. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

Present values are discounted using rates on high quality corporate bonds having terms to maturity that match, as closely as possible, the terms of the related liabilities. Future increases in remuneration rates are taken into account in estimating future cash outflows.

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

All employees of the Credit Union are entitled to benefits on retirement, disability or death. The Credit Union contributes to various defined contribution plans on behalf of its employees.

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments available.

(m) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with the changes in the presentation of the current year.

(n) Derivative Instruments

The Credit Union uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational activities.

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the Statement of Profit or Loss and Other Comprehensive Income unless they are designated as hedges.

The credit union designates certain derivatives as either:

- i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii) hedges of highly probable forecast transactions (cash flow hedges).

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(n) Derivative Instruments (Con't)

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the credit union's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Profit or Loss and Other Comprehensive Income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

Amounts accumulated in the hedge reserve in equity are transferred to the Statement of Profit or Loss and Other Comprehensive Income in the periods when the hedged item will affect profit or loss.

(o) Goods and Services Tax (GST)

As a financial institution the Credit Union is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchase cannot be recovered on a proportionate basis. In addition certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the ATO. 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 are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

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

(p) Risk Management Objectives and Policies

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

Market Risk and Hedging Policy

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.

Details of the interest rate risk profile are set out in Note 29.

Managing Interest Rate Risk

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

(i) Hedging

To mitigate interest rate risk the Credit Union has entered into interest rate swaps. The Credit Union hedges its exposure to interest rate risk on fixed rate loans/assets by entering into pay fixed/receive floating interest rate swaps.

(ii) 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 2016, the VaR is \$490,435 or 1.10% of capital (30 June 2015 \$69,998 and 0.16% of capital).

Credit Risk – Loans

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 and off-balance sheet financial instruments such as loan commitments.

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(p) Risk Management Objectives and Policies (Con't)

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.

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 per cent and bi-annual reviews of compliance with this policy are conducted.

The Credit Union has a concentration in retail lending for members who comprise employees and family in the public healthcare industry. This concentration is considered acceptable on the basis that the Credit Union was formed, in part, to service these members and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 31.

Credit Risk – Liquid Investments

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.

i) Concentration of credit risk

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL Limited. Refer to Note 35 for further details about CUSCAL.

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, with the exclusion of CUSCAL Limited.

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. In addition, the Credit Union is required to maintain deposits with CUSCAL to the value of not less than 120% of all Committed Overdraft Facility Limits approved with CUSCAL.

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 exposure values associated with each credit quality step for the credit union are as follows:

Actual Rating (S&P Rating)	2016	2015
	\$'000	\$'000
	Balance	Balance
A-1+/AA-	450	450
A-1/A-	2,005	3,011
A-2/BBB-	43,396	51,852
A-3/BB-		-
B-		-
Others / Unrated	6,008	6,020
TOTAL	51,859	61,333

Credit Risk – Equity Investments

All investments in equity instruments are solely for the benefit of service to the Credit Union. The Credit Union invests in an entity, being CUSCAL, set up for the provision of services such as IT solutions, treasury services etc where specialisation demands quality staff which is best secured by one aggregated entity. Further details of these investments are set out in Note 12.

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.

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(p) Risk Management Objectives and Policies (Con't)

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 26.

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. Note 25 details the borrowing facilities available to the Credit Union as at balance date.

The maturity profile of the financial assets and financial liabilities based on the contractual repayment terms is set out in Note 28.

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

Liquid funds to total adjusted liabilities:	2016	2015
- As at 30 June	13.95%	19.25%
- Average for the year	15.67%	22.39%
- Minimum during the year	13.94%	19.24%
Liquid funds to total member deposits:		
- As at 30 June	15.77%	21.59%

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

Operational Risk

Operational Risk is the risk of loss to the Credit Union resulting from inadequate or failed internal processes, people and systems or from external events.

The Credit Union maintains a risk register that identifies all material risks the Credit Union is exposed to. This register rates risks on their likelihood and consequence and risks above the Board's desired risk appetite are actioned by strengthening controls designed to reduce these risks.

The main Operational Risks the Credit Union is exposed to include internal fraud, external fraud, employment practices and workplace safety risks, business continuity, compliance risks, business disruption and information technology failure, employee errors and outsourced supplier failure.

Controls in place to reduce Operational Risks include business continuity plans, including comprehensive information technology disaster recover plans to limit the impact of major business disruptions, adequate insurance cover, sound human resource policies, policies and systems designed to reduce errors and segregation of employee duties, including approval and processing duties.

Capital Management

The Credit Union is required to hold a minimum level of capital compared to calculated risk weighted assets, as prescribed by APRA regulations. Credit Union internal policies at reporting date require 13% capital to be held which is a ratio that is higher than the minimum required by APRA. To manage the Credit Unions capital the Credit Union reviews the ratio monthly and monitors major movements in asset levels.

The Credit Union maintained capital in excess of the Board and APRA prudential requirements at all times during the year.

Capital and other regulatory disclosures as required by Prudential Standard *APS 330: Public Disclosure* can be located at the Credit Union's website: www.sccu.com.au

Capital resources

(i) Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits; and
- Realised reserves

(ii) Tier 2 Capital

Tier 2 capital generally comprises:

- A general reserve for credit losses that records amounts previously set aside as a general provision for impaired loans is maintained to comply with the Prudential Standards as set down by APRA.

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NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Con't)

(q) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Credit Union.

Significant Accounting Estimates

Recovery of deferred tax assets

Deferred tax assets have been recognised on the Statement of Financial Position as management considers that it is probable that future taxable profits will be derived to utilise these assets.

Estimation of the useful lives of assets

Management's estimation of the useful lives of property, plant and equipment is based on historical experience, manufacturers information and valuers estimates. Details of depreciation rates and useful lives is provided at Note 1(g).

Impairment of loans

Management have made accounting estimates when applying the Credit Union's accounting policies with respect to the specific impairment provisions for loans - refer Note 11.

(r) Fair Values

Fair values may be used for financial and non-financial asset and liability measurement as well as sundry disclosures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the Credit Union.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the Credit Union uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

The fair value of liabilities may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed into the respective note to the financial statements.

(s) Impairment of 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.

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(t) New and amended standards and interpretations not yet adopted

The following Australian Accounting Standards issued or amended are applicable to the credit union but are not yet effective for the 2016 financial year and have not been adopted in the preparation of the financial statements at report date. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB	Title
9	<p><i>Financial Instruments (application date 30 June 2019)</i></p> <p>The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. This supersedes AASB 9 (issued in December 2009-as amended) and AASB 9 (issued in December 2010).</p> <p>AASB 9 may have a potential increase in the Credit Union's loans and advances provisioning. The change is applied retrospectively; however comparatives need not be retrospectively restated. Instead, the cumulative effect of applying the change for the first time is recognised as an adjustment to the opening balance of retained earnings on 1 July 2018.</p> <p>However, the Credit Union has not yet fully assessed the impact of AASB 9 (December 2014) as this standard does not apply mandatorily before 1 January 2018.</p>
2010-7	Amendments to Australian Accounting Standards Arising from AASB 9
2012-6	Amendments to Australian Accounting Standards Arising from AASB 9 - Mandatory Effective Date of AASB 9 and Transitional Disclosures
2013-9	Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments
2014-1	Amendments to Australian Accounting Standards
2014-7	Amendments to Australian Accounting Standards arising from AASB 9
2014-8	Amendments to Australian Accounting Standards arising from AASB 9
15	<p><i>Revenue from contracts with customers (application date 30 June 2019)</i></p> <p>The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.</p> <p>The Credit Union is yet to assess the full impact of this Standard.</p>
2014-5	Amendments to Australian Accounting Standards arising from AASB 15
2015-8	Amendments to Australian Accounting Standards arising from AASB 15
2016-3	Amendments to Australian Accounting Standards - clarifications to AASB 15
2015-2	<p><i>Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101 (application date 30 June 2017)</i></p> <p>Amends AASB 101 Presentation of Financial Statements to clarify that:</p> <ul style="list-style-type: none"> • Materiality applies to all primary financial statements and notes, and applies even to a list of specific, minimum disclosures • Line items can be disaggregated if doing so could influence a user's decision • Subtotals must be made up of items recognised in accordance with Australian Accounting Standards • Additional subtotals in the Statement of Profit or Loss and Other Comprehensive Income must be reconciled back to subtotals required by AASB 101 • Notes no longer need to follow the order of items in the financial statements and related items can be grouped together (e.g. all financial instruments) • Accounting policies can be placed at the end of the notes to the financial statements <p>These amendments affect presentation and disclosures only. Therefore on first time adoption of these amendments on 1 July 2016, comparatives will need to be restated in line with presentation and note ordering.</p>
16	<p><i>Leases (application date 30 June 2020)</i></p> <p>Except for short-term leases (less than 12 months from commencement date, including extension options), and 'low value' items, all leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value of the obligation. This means that we will no longer see straight-line rental expense in profit or loss (except for short-term leases and low value items). All leases will incur a front end loaded expense, comprising depreciation on the right-of-use asset, and interest on the lease liability.</p> <p>When initially measuring the right-of-use asset and lease liability, non-cancellable lease payments (including inflation-linked payments), as well as payments for option periods which the entity is reasonably certain to exercise, must be included in the present value calculation.</p> <p>There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.</p> <p>The Credit Union is yet to assess the full impact of this Standard.</p>

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
NOTE 2 - REVENUE		
Interest Revenue		
Cash and cash equivalent assets	925	591
Deposits with other financial institutions	395	1,462
Loans and advances	16,737	15,982
Total Interest Revenue	<u>18,057</u>	<u>18,035</u>
Non-Interest Revenue		
Dividends	82	82
Fees and commissions	2,982	2,800
Bad debts recovered	8	4
Profit on sale of property, plant & equipment	-	1
Other	518	1
Total non-interest revenue	<u>3,590</u>	<u>2,888</u>
Total Revenue	<u>21,647</u>	<u>20,923</u>
NOTE 3 - EXPENSES		
Interest Expenses		
Payable to other financial institutions		2
Member deposits	6,847	7,905
Borrowings	-	-
Total Interest Expense	<u>6,847</u>	<u>7,907</u>
Non-Interest Expenses		
Employee benefit expense		
Wages, salaries and other employee benefits	4,479	3,869
Superannuation	409	357
Total employee benefit expense	<u>4,888</u>	<u>4,226</u>
Employee related on-costs expense	426	363
Rental expense on operating leases	511	524
Depreciation and amortisation expense		
Depreciation of buildings	12	12
Depreciation of plant & equipment	228	248
Amortisation of intangible assets	51	87
Total depreciation and amortisation expense	<u>291</u>	<u>347</u>
Other Expenses		
Fees and commissions	1,445	1,231
General administration	1,176	1,223
Occupancy expenses (excluding rental expenses on operating leases)	406	459
Information technology expenses	547	476
Marketing and promotion expenses	459	393
Telephone and communication expenses	206	214
Derivatives - fair value loss on interest rate swaps	-	-
- net loss on hedged item	144	77
Other expenses	33	554
Total non-interest expenses	<u>10,532</u>	<u>10,085</u>
Total Expenses	<u>17,378</u>	<u>17,993</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
NOTE 4 - INCOME TAX EXPENSE		
(a) The income tax expense comprises amounts set aside as follows:		
Provision for income tax - current year	1,093	936
Under / (over) provision for income tax in prior years	(2)	15
(Increase) / decrease in the deferred tax asset account	144	(93)
	1,235	858
(b) The prima facie tax on operating profit is reconciled to the income tax expense as follows:		
Prima facie tax expense on profit before income tax at 30%	1,260	867
Add tax effect of:		
Non-deductible items	13	12
Non-assessable income (fully franked dividends)	(35)	(35)
Other sundry items	(1)	(1)
Under / (over) provision for income tax in prior years	(2)	15
Total income tax expense	1,235	858
Applicable weighted average effective tax rate	29.39%	29.68%
(c) 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		
	17,304	16,965
Under the terms of the Credit Union's constitution the franking account credits shown above are not able to be paid.		

	2016 \$	2015 \$
NOTE 5 - AUDITOR'S REMUNERATION		
Amounts received or due and receivable by the auditor for:		
Auditing the financial report	58,150	58,000
Other services - compliance matters including Prudential Audits	33,300	38,000
	91,450	96,000
These figures exclude the non-refundable component of the GST.		

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 6 - RELATED PARTY AND KEY MANAGEMENT PERSONNEL

(a) Key Management Personnel (KMP) Compensation

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 2016 comprises the Chief Executive Officer, Chief Financial Officer, Executive Manager Sales & Distribution, Executive Manager Risk & Compliance and Executive Manager Human Resources.

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

	2016	2015
	\$'000	\$'000
Short-term employee benefits	1,070	1,059
Post-employment benefits - superannuation contributions	92	57
Other long-term benefits - net increases in LSL provision	14	5
	1,176	1,122
Total compensation	1,176	1,122

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 21.

(b) Loans to Related Parties

(i) The aggregate value of loans to KMP as at balance date amounted to:

- secured loans	2,628	1,059
- overdrafts	-	-

(ii) The total value of revolving credit facilities available to Directors and other KMP, as at balance date amounted to:

	5	6
Less amounts drawn down and included in (i)	-	-
Net balance available	5	6

(iii) During the year the aggregate value of loans disbursed to Directors and other KMP amounted to:

- secured loans	1,834	571
- overdrafts	-	4

(iv) During the year the aggregate value of revolving credit facility limits granted or increased to Directors and other KMP amounted to:

	-	-
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Interest and other revenue earned on loans and revolving credit facilities to Directors and KMP amounted to:

	66	53
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The Credit Union's policy for lending to KMP is that all loans are approved on the same terms and conditions which applied to Members for each class of loan, however, all employees (including KMP) are entitled to an employee discount from the standard loan rate. There are no loans which are impaired in relation to the loan balances with KMP.

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2016
\$'000 **2015**
\$'000

NOTE 6 - RELATED PARTY AND KEY MANAGEMENT PERSONNEL (Cont'd)

(c) Deposits from Related Parties

Total value of term and savings deposits from KMP	249	55
Interest paid on deposits from KMP	-	1

The Credit Union's policy for receiving deposits from KMP 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 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, arms length basis.

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. There are no loans which are impaired in relation to the loan balances with 'close family members' of KMP.

The Credit Union's policy for accepting deposits from related parties is that all deposits are accepted on the same terms and conditions which applied to members for each class of deposit. This policy has been adhered to for the full financial year. 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.

NOTE 7 - CASH AND CASH EQUIVALENTS

Cash on hand	825	1,083
Deposits with ADI's	5,572	8,182
	6,397	9,265

NOTE 8 - RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS

<u>Held to Maturity</u>		
Deposits with ADI's	51,859	61,333

Included in Deposits with ADI's is \$450,000 Cash Security Deposit securing the Credit Union's payments under the Interest Rate Swap Agreements. This Security Deposit cannot be redeemed until all interest rate swap contracts are terminated (Refer Note 19 for Swap Settlement Periods).

NOTE 9 - OTHER RECEIVABLES

Accrued income	71	82
Sundry receivables	449	466
	519	548

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
NOTE 10 - LOANS AND ADVANCES TO MEMBERS		
Overdrafts	8,112	8,911
Term loans	352,361	292,826
Gross loans and advances	360,472	301,737
Specific provision for impairment	(82)	(65)
Net loans and advances	360,390	301,672
<u>Credit Quality - Security held against loans</u>		
Secured by mortgage over real estate	349,057	292,350
Secured by bill of sale over motor vehicle	8,482	7,151
Secured by other assets	439	755
Secured by funds lodged with the credit union	802	564
Unsecured	1,692	917
	360,472	301,737

It is not practical to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

NOTE 11 - IMPAIRMENT OF LOANS AND ADVANCES

(a) Provision for impairment

Specific provision for impairment

Opening balance	65	65
Impairment expense	69	39
Bad debts written off	(52)	(39)
Closing balance	82	65

(b) Provision for impairment calculation

Prescribed provision required by prudential standards	21	11
Additional specific provision for impairment	61	54
Total specific provision for impairment	82	65

Key assumptions in determining the provision for impairment:

In the course of the preparation of the financial statements the Credit Union has determined the likely impairment loss on loans and overdrafts which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances.

In identifying the impairment arising from these events the Credit Union is required to estimate the impairment, using the length of time the loan is in arrears, and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment as follows:

Period of Impairment	Overdrafts (Category 4 Facilities) % of Balance	Loans (Category 3 Facilities) % of Balance	Loans (Category 2 Facilities) % of Balance
14 to 89 days	40	-	-
90 days to 181 days	75	40	5
182 days to 272 days	100	60	10
273 days to 364 days	100	80	15
Over 364 days	100	100	20

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 11 - PROVISION ON IMPAIRED LOANS AND ADVANCES (Con't)

In addition, an additional specific provision for all loans in arrears greater than 90 days is raised less the realisable value of any collateral security held against those facilities.

Category 1 Facilities

Category One facilities are well-secured and include:

- (a) a facility that is secured by a registered first mortgage against a residential property and is insured by an eligible lenders mortgage insurer for 100 per cent of the outstanding balance;
- (b) a facility that is secured by a registered first mortgage against a residential property, where the ratio of the outstanding balance, less the amount of mortgage insurance, to the valuation of the security is no more than 80 per cent (where the exposure is 90 days or more worth of payments past due, and the valuation is not older than 12 months); and
- (c) a facility that is secured by a registered second mortgage against a residential property where:
 - (i) the ratio of the outstanding balances of the facilities secured by both first and second mortgages to the valuation of the residential property does not exceed 80 per cent, and the first mortgage cannot be extended without it being subordinated to the second mortgage;
 - or
 - (ii) where the ratio of the outstanding balances of the facilities secured by both first and second mortgages to the valuation of the residential property exceeds 80 per cent, and the first mortgage cannot be extended without it being subordinated to the second mortgage, and the outstanding balance is 100 per cent mortgage insured by an eligible lenders mortgage insurer.

No provisions are required for Category One facilities.

Category 2 Facilities

A Category Two facility is defined as a facility that is secured by a registered first mortgage against a residential property, where the ratio of the outstanding balance, less the amount of mortgage insurance, to the valuation of the security is greater than 80 per cent but no more than 100 per cent (where the loan is 90 days or more worth of payments past due, and the valuation is not older than 12 months).

Category 3 Facilities

This category applies to all facilities that do not fall into Categories One, Two, or Category Four. Personal and commercial loans (both secured and unsecured), and mortgage loans where the ratio of the outstanding balance, less the amount of mortgage insurance, to the valuation of the security is greater than 100 per cent, are included.

	2016	2015
	\$'000	\$'000

Category 4 Facilities

This category applies to overdrawn savings accounts and overdrawn limits on credit cards, overdrafts and line of credit advances.

(c) Impaired loans and advances

Net impaired loans	954	10
Past due but not impaired	673	606
Neither past due or impaired	358,764	301,056
	360,390	301,672

(d) Past due loans, not impaired at balance date

These loans are not considered to be impaired as they are well secured by residential property.

Aging Analysis

30 to 90 days	-	-
91 to 180 days	-	350
181 to 270 days	-	-
271 to 365 days	673	-
365 days or more	-	256
Carrying Amount	673	606

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	2016 \$'000	2015 \$'000
NOTE 11 - PROVISION ON IMPAIRED LOANS AND ADVANCES (Con't)		
(e) Loans and advances by impairment and security		
(i) Against individually impaired		
Secured by mortgage over real estate	952	-
Secured by goods mortgage	-	-
Unsecured	22	21
(ii) Against past due but not impaired		
Secured by mortgage over real estate	673	606
Secured by goods mortgage	-	-
Unsecured	-	-
(iii) Against neither past due nor impaired		
Secured by mortgage over real estate	348,385	291,745
Secured by goods mortgage	8,922	7,906
Secured by funds lodged with the Credit Union	802	564
Unsecured	718	896
Total Loans	360,472	301,738
(f) Restructured Loans		
The credit union does not carry any restructured loans at balance date.		
(g) Interest and other revenue recognised and foregone		
Interest foregone on non-accrual loans	1	1
Interest recognised on non-accrual loans	1	1
	2	2
(h) Assets acquired via enforcement of security		

No material assets were acquired by the credit union under these circumstances. The credit union's policy is to sell asset via auction or private treaty after measures to assist the members to repay the debts have been exhausted.

NOTE 12 - AVAILABLE FOR SALE ASSETS

NOTE 12 (a) - AVAILABLE FOR SALE PROPERTY

<u>Land</u>		
Freehold land at fair value	294	
<u>Buildings</u>		
Buildings at fair value	466	
Additions at cost	-	
Less accumulated depreciation	(12)	
	454	
Land and Building	748	-

The Credit Union's Board has resolved that the current Credit Union head office located at 2-4 Commercial Road, Murwillumbah NSW 2441, is surplus to requirements and is to be disposed of in the immediate future and as soon as practicable once the Credit Union's head office departments have been relocated to Kingscliff, NSW. The Credit Union has received a written offer that has been accepted, the offer has proceeded to an unconditional contract.

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	2016	2015
	\$'000	\$'000

NOTE 12 (b) - AVAILABLE FOR SALE - INVESTMENTS

Financial Assets, at cost

Shares in unlisted entities - Cuscal	<u>577</u>	<u>577</u>
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Credit Union Services Corporation (Aust) Limited (Cuscal)

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member ADI's and originally did not have an independent business focus. These shares were originally held to enable the Credit Union to receive essential banking services. These shares are not publicly traded and are not redeemable.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily. The Credit Union is not intending to dispose of these shares.

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FOR THE YEAR ENDED 30 JUNE 2016

2016
\$'000

2015
\$'000

NOTE 13 - PROPERTY, PLANT & EQUIPMENT

Land

Freehold land at fair value	-	294
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Buildings

Buildings at fair value	-	466
Less accumulated depreciation	-	-
	-	466

Plant and equipment

Plant and equipment at cost	1,464	2,203
Less accumulated depreciation	(956)	(1,490)
	508	713

Leasehold improvements

Leasehold improvements at cost	614	606
Less accumulated depreciation	(561)	(540)
	53	66

Work in Progress - Capital Additions

	-	-
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Total Property, Plant and Equipment

	561	1,539
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	Land	Buildings	Plant & Equipment	Leasehold Improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year	294	466	713	66	1,539
Additions	-	-	84	8	92
Revaluation movements	-	-	-	-	-
Disposals	-	-	(82)	-	(82)
Depreciation	-	(12)	(207)	(21)	(240)
Transfer to Available for Sale Property (refer Note	(294)	(454)	-	-	(748)
Carrying amount at the end of the financial year	-	-	508	53	561

Land and buildings were last valued at a market value of \$780,000 as at 30 June 2015, based upon an independent valuation conducted by Asset Advisory Property Consultants Pty Ltd, members of The Australian Property Institute. The carrying value of land and buildings was adjusted for selling costs of \$20,000.

The valuation used the capitalisation of income approach whereby assessed rents are capitalised at an appropriate market yield and the summation approach whereby the depreciated values of improvements are summated to the market value of the land.

Capitalisation Approach: Assessed Gross Annual Income \$86,471 capitalised at 10.25%.

With the capitalisation approach, the higher the capitalisation (discount) rate, the lower the fair value.

Summation Approach: Value of Land \$300,000 plus Depreciated Value of Improvements \$480,000

With the summation approach, the land is valued using the sale price comparison approach. Sales prices of comparable land in a similar location are adjusted for differences in key attributes such as land size. The valuation model is based on a price per square metre. The value of the improvements is based on the depreciated replacement cost and takes into account age, style, and architectural features.

Historical Cost Comparison

Details on the historical cost of land and buildings are not readily available and as such are not provided as required under current accounting standards.

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	2016	2015
	\$'000	\$'000
NOTE 14 - DEFERRED TAX ASSETS		
Deferred tax assets	<u>491</u>	<u>636</u>
Deferred tax assets reconciliation:		
Opening Balance	636	543
Transfer from deferred tax liabilities	-	-
Current year charge	(144)	93
Prior year adjustment	-	-
Closing balance	<u>491</u>	<u>636</u>
Closing balance comprised of the following:		
Leave provisions	233	230
Other provisions	62	198
Financial assets	55	78
Written down value of assets	(469)	(520)
Tax base of assets	<u>612</u>	<u>648</u>
	<u>491</u>	<u>636</u>
NOTE 15 - INTANGIBLE ASSETS		
(a) Computer Software	360	1,127
Less provision for amortisation	<u>(106)</u>	<u>(934)</u>
	<u>253</u>	<u>193</u>
(b) Movements in carrying amounts		
Balance at beginning of the financial year	193	206
Additions	111	74
Amortisation Expense	<u>(51)</u>	<u>(87)</u>
Carrying amount at the end of the year	<u>253</u>	<u>193</u>
NOTE 16 - OTHER ASSETS		
Prepayments	<u>127</u>	<u>131</u>
NOTE 17 - DEPOSITS FROM MEMBERS		
Member at call deposits (including withdrawable shares)	161,354	145,301
Member term deposits	<u>208,072</u>	<u>181,726</u>
	<u>369,426</u>	<u>327,027</u>

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2016
\$'000

2015
\$'000

NOTE 18 - PAYABLES AND OTHER LIABILITIES

Accrued interest payable	1,977	2,078
Accrued expenses	672	519
Annual leave	356	344
Member suspense transactions	<u>2,001</u>	<u>2,185</u>
	<u>5,006</u>	<u>5,126</u>

NOTE 19 - DERIVATIVES

Interest rate swap contracts - cash flow hedges - fair value	<u>185</u>	<u>261</u>
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Derivative instruments used by the Credit Union

Interest rate swap contracts - cash flow hedges

The Credit Union enters into derivative transactions in the normal course of business to hedge exposure to fluctuations in interest rates in accordance with the Credit Union's interest rate risk management policies.

The Credit Union's variable rate deposit's currently bear an average variable rate of interest of 0.98%. It is the Credit Union's policy to keep sufficient deposits at fixed rates of interest to ensure Market Risk triggers are kept within Board approved limits by entering into interest rate swap contracts under which the Credit Union is obliged to receive interest at variable rates and to pay interest at fixed rates. Fixed interest rates payable on each of the interest rate swap contracts are detailed below and the variable rates being the 30 day bank bill rate, which at the end of the reporting date was 1.85% pa.

At reporting date, the details of the interest rate swap contracts are as follows:

Settlement

Notional Principal

Less than 1 year	5,000	-
1 - 2 years	10,000	5,000
2 - 3 years	<u>-</u>	<u>10,000</u>
	<u>15,000</u>	<u>15,000</u>

Effective Average Interest Rate Payable

Less than 1 year	3.15%	-
1 - 2 years	2.91%	3.15%
2 - 3 years	-	2.91%

The contracts require settlement of net interest receivable or payable on the 1st day of each month. Settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

Gains or losses from remeasuring the interest rate swap contracts at fair value, are recognised in other comprehensive income and accumulated in the hedging reserve to the extent that the hedge is effective, and reclassified to profit or loss when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 2016, no ineffective portion was reclassified to profit and loss.

The fair value of derivatives is calculated using the present value of the estimated cash flows based on the observable yield curves at Balance Date.

Based on calculations as at 30 June 2016, the market value of the swaps for a 1% movement in interest rates would be:

BBSW +1% \$(47,770)
BBSW -1% \$(323,218)

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NOTES TO THE FINANCIAL STATEMENTS
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	2016	2015
	\$'000	\$'000
NOTE 20 - TAX LIABILITIES/ASSETS		
Current income tax liability/(asset)	<u>304</u>	<u>(506)</u>
	<u>304</u>	<u>(506)</u>
Current tax liability reconciliation		
Opening balance	(506)	251
Current year tax charge	1,115	862
Tax payments	(303)	(1,633)
Prior year adjustments	<u>(1)</u>	<u>14</u>
Closing balance	<u>304</u>	<u>(506)</u>
NOTE 21 - PROVISIONS		
Long-term Employee benefits		
Long service leave & other post employment benefits	<u>420</u>	<u>424</u>
NOTE 22 - REDEEMED PREFERENCE SHARE CAPITAL		
Opening balance	350	324
Transfers from retained profits for redeemable preference shares	<u>26</u>	<u>25</u>
Closing Balance	<u>376</u>	<u>349</u>

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.

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	2016	2015
	\$'000	\$'000
NOTE 23 - OTHER RESERVES		
Capital reserve	<u>229</u>	<u>229</u>
The capital profits reserve records non-taxable profits on sale of investments.		
Asset revaluation surplus	<u>514</u>	<u>514</u>
Opening balance	514	537
Decrease recognised on revaluation of assets	-	(34)
Deferred tax benefit	-	10
Closing Balance	<u>514</u>	<u>513</u>
The asset revaluation reserve records revaluations of non-current assets.		
Hedging Reserve	<u>(129)</u>	<u>(183)</u>
Opening balance	(183)	(35)
Movement in fair value of cash flow hedge	77	(211)
Deferred tax benefit	(23)	63
Closing Balance	<u>(129)</u>	<u>(183)</u>
The hedge reserve records revaluations of items designated as hedges.		
General reserve for credit losses		
Opening balance	1,882	1,842
Add increase / (decrease) transferred from retained earnings	420	40
	<u>2,302</u>	<u>1,882</u>
This reserve records amounts previously set aside as a general provision and is maintained to comply with Prudential Standards mandated by APRA.		
Total Other Reserves	<u>2,916</u>	<u>2,443</u>
NOTE 24 - FINANCIAL COMMITMENTS		
a) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial report, payable:		
- Not later than 1 year	503	390
- Later than 1 year but not later than 2 years	386	294
- Later than 2 years but not later than 5 years	636	302
- Later than 5 years	316	-
Total Expenditure Commitments	<u>1,841</u>	<u>986</u>
Operating leases relate to rentals for the Credit Unions branches. There are no contingent rentals applicable to these leases and the terms of each lease agreement are between 2 and 5 years.		
b) Outstanding loan commitments		
Loans and credit facilities approved but not funded or drawn down at the end of the financial year:		
- Loans approved but not funded	15,291	31,573
- Undrawn overdraft, line of credit and VISA	11,064	11,241
	<u>26,355</u>	<u>42,814</u>
c) Capital and other expenditure commitments		
The Credit Union has committed to contribute \$112k of capital expenditure for the fitout of the new head office at Kingscliff. There is no commitment of other expenditure at reporting date.		

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25 - STAND-BY CREDIT FACILITIES

The Credit Union has a gross credit standby facility with Credit Union Services Corporation (Aust) Limited (Cuscal) of:

	Approved Facility \$'000	Amount Used \$'000	Net Available \$'000
2016			
Pre-committed loan facility	-	-	-
Overdraft facility	2,000	-	2,000
Standby loan facility	-	-	-
Wholesale funding multi-option facility	-	-	-
IOOF Wholesale Facility	27,000	12,000	15,000
	<u>29,000</u>	<u>12,000</u>	<u>17,000</u>
2015			
Pre-committed loan facility	-	-	-
Overdraft facility	2,000	-	2,000
Standby loan facility	-	-	-
Wholesale funding multi-option facility	-	-	-
Tower Wholesale Trust Facility	27,000	-	27,000
	<u>29,000</u>	<u>-</u>	<u>29,000</u>

NOTE 26 - CONTINGENT LIABILITIES

Credit Union Financial Support System

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% (excluding permanent loans) of total assets to another credit union requiring financial support;
- (b) May be required to advance permanent loans of up to 0.1% of total assets per financial year to another credit union requiring financial support;
- (c) Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

The value of any calls made and permanent loans advanced during the year was nil (2015 - nil).

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 27 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2016

ASSETS

	Less than 12 months \$'000	Over 12 months \$'000	Total \$'000
Cash and cash equivalents	6,397	-	6,397
Receivables due from other financial institutions	51,409	450	51,859
Receivables	519	-	519
Loans and advances to members	52,264	308,127	360,391
Available for Sale Investments	577	-	577
Available for Sale Property	748	-	748
Other assets	127	-	127
Derivatives	-	-	-
Property, plant and equipment	-	561	561
Deferred tax assets	491	-	491
Intangible assets	-	253	253
Total Assets	112,532	309,391	421,923

LIABILITIES

Deposits from members	366,019	3,407	369,426
Payables & other liabilities	4,866	140	5,006
Current tax liabilities	304	-	304
Derivatives	44	141	185
Provisions	86	334	420
Total Liabilities	371,319	4,022	375,341

AS AT 30 JUNE 2015

ASSETS

	Less than 12 months \$'000	Over 12 months \$'000	Total \$'000
Cash and cash equivalents	9,265	-	9,265
Receivables due from other financial institutions	60,883	450	61,333
Receivables	548	-	548
Loans and advances to members	43,954	257,718	301,672
Available for Sale Investments	577	-	577
Other assets	131	-	131
Derivatives	-	-	-
Property, plant and equipment	-	1,539	1,539
Deferred tax assets	636	-	636
Intangible assets	-	193	193
Total Assets	115,994	259,900	375,894

LIABILITIES

Borrowings	-	-	-
Deposits from members	322,172	4,855	327,027
Payables & other liabilities	4,885	240	5,126
Current tax liabilities	(506)	-	(506)
Derivatives	-	261	261
Provisions	86	338	424
Total Liabilities	326,638	5,694	332,332

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 28 - MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The associated table shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the Statement of Financial Position.

30 June 2016

	Within 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	No maturity \$'000	Total Contractual Amounts \$'000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	6,397	6,397
Receivables	-	-	-	-	-	519	519
Receivables due from other financial institutions	17,503	33,906	-	450	-	-	51,859
Loans and advances to members	10,835	5,803	22,952	104,581	393,326	-	537,496
Available for Sale Investments	-	-	-	-	-	577	577
Derivatives						-	-
On Balance Sheet	28,337	39,708	22,952	105,031	393,326	7,494	596,848
Undrawn commitments (Note 24b)	26,355	-	-	-	-	-	26,355
Interest rate swaps	-	-	5,000	10,000	-	-	15,000
Total Financial Assets	54,692	39,708	27,952	115,031	393,326	7,494	638,203
Financial Liabilities							
Deposits from members	192,159	53,825	122,197	3,548	-	-	371,729
Payables & other liabilities	5,006	-	-	-	-	-	5,006
Derivatives	-	185	-	-	-	-	185
On Balance Sheet	197,165	54,010	122,197	3,548	-	-	376,920
Operating leases (Note 24a)	41	104	359	1,023	316	-	1,843
Interest rate swaps	-	-	5,000	10,000	-	-	15,000
Total Financial Liabilities	197,206	54,114	127,556	14,571	316	-	393,763

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 28 - MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (Con't)

30 June 2015

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total Contractual Amounts
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	9,265	9,265
Receivables	-	-	-	-	-	548	548
Receivables due from other financial institutions	24,022	35,026	2,000	450	-	-	61,498
Loans and advances to members	11,322	5,046	19,719	90,224	338,666	-	464,977
Available for Sale Investments	-	-	-	-	-	577	577
On Balance Sheet	35,344	40,072	21,719	90,674	338,666	10,389	536,865
Undrawn commitments (Note 24b)	42,814	-	-	-	-	-	42,814
Interest rate swaps	-	-	-	15,000	-	-	15,000
Total Financial Assets	78,158	40,072	21,719	105,674	338,666	10,389	594,679

LIABILITIES

Financial Liabilities							
Deposits from members	177,509	50,934	95,568	5,095	-	-	329,106
Payables & other liabilities	5,126	-	-	-	-	-	5,126
Derivatives	-	261	-	-	-	-	261
On Balance Sheet	182,635	51,195	95,568	5,095	-	-	334,493
Operating leases (Note 24a)	32	65	292	595	-	-	985
Interest rate swaps	-	-	-	15,000	-	-	15,000
Total Financial Liabilities	182,667	51,260	95,860	20,690	-	-	350,478

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 29 - INTEREST RATE RISK

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:

30 June 2016

	Floating Interest Rate \$'000	Fixed Interest Rate Maturing In:-			Non Interest Sensitive \$'000	Total Carrying Amount per the Financial Statements \$'000	Weighted Average Interest Rate %
		1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000			
Financial Assets							
Cash and cash equivalents	5,572	-	-	-	825	6,397	0.45%
Receivables	-	-	-	-	519	519	
Receivables due from other financial institutions	450	51,409	-	-	-	51,859	2.57%
Loans and advances to members	216,622	72,346	71,422	-	-	360,390	4.74%
Available for Sale	-	-	-	-	577	577	
Derivatives	-	-	-	-	-	-	
Total Financial Assets	222,644	123,755	71,422	-	1,921	419,742	

Financial Liabilities

Borrowings	-	-	-	-	-	-	
Deposits from members	-	341,816	27,610	-	-	369,426	2.07%
Payables and other liabilities	-	-	-	-	5,006	5,006	
Derivatives	185	-	-	-	-	185	
Total Financial Liabilities	185	341,816	27,610	-	5,006	374,617	

30 June 2015

	Floating Interest Rate \$'000	Fixed Interest Rate Maturing In:-			Non Interest Sensitive \$'000	Total Carrying Amount per the Financial Statements \$'000	Weighted Average Interest Rate %
		1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000			
Financial Assets							
Cash and cash equivalents	8,182	-	-	-	1,083	9,265	0.80%
Receivables	-	-	-	-	547	547	
Receivables due from other financial institutions	450	60,883	-	-	-	61,333	2.54%
Loans and advances to members	116,886	126,057	58,729	-	-	301,672	5.23%
Available for Sale	-	-	-	-	-	-	
Investments	-	-	-	-	577	577	
Total Financial Assets	125,518	186,940	58,729	-	2,207	373,394	

Financial Liabilities

Borrowings	-	-	-	-	-	-	
Deposits from members	-	300,377	26,650	-	-	327,027	2.15%
Payables and other liabilities	-	-	-	-	5,126	5,126	
Derivatives	261	-	-	-	-	261	
Total Financial Liabilities	261	300,377	26,650	-	5,126	332,414	

NOTE 30 - SEGMENT REPORTING

The Credit Union operates as a community credit union in Northern New South Wales and Southern Queensland. The operations are predominantly the provision of retail financial services to members and are treated as one operating segment.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2016 **2015**
\$'000 **\$'000**

NOTE 31 - CREDIT RISK

(a) Credit risk exposure

The Credit Union's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated on the Statement of Financial Position plus undrawn facilities as disclosed at Note 25.

(b) Concentrations of credit risk

The following groups represent concentrations of financial assets in excess of 10% of capital.

Geographic Locations

New South Wales	307,015	262,079
Queensland	51,179	37,206

Customer or Industry

Southern Cross Credit Union Ltd Employees	9,810	5,811
Public Health	12,464	11,642

NOTE 32 - WITHDRAWABLE SHARES

The Credit Union requires members to purchase shares at \$10 for an adult or business membership and \$2 for a junior member. The value of shares held for these classes at balance date was as follows:

Adult/Business Membership	151	165
Junior Membership	3	4
	154	169

NOTE 33 - EVENTS OCCURRING AFTER BALANCE DATE

There were no events subsequent to balance date that would materially impact on the financial statements.

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 34 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The net fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and receivables from other financial institutions

The carrying values of cash, liquid assets, and receivables due from other financial institutions approximate their net fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans, advances and other receivables is net of specific provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of the net fair value.

The net fair value for fixed rate loans is 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 reporting date.

Deposits and amounts due to other financial institutions

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature.

The net fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repriced within six months is the carrying value as at reporting date. Discounted cash flow models based upon deposit type and its related maturity were used to calculate the net fair value of other term deposits.

	2016		2015	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and cash equivalents	6,397	6,397	9,265	9,265
Receivables due from other financial institutions	51,859	51,859	61,333	61,333
Other receivables	519	520	548	548
Loans and advances	360,472	360,920	301,737	302,209
Derivatives	-	-	-	-
Available for sale investments	577	577	577	577
Total	<u>419,824</u>	<u>420,272</u>	<u>373,460</u>	<u>373,932</u>
Liabilities				
Borrowings	-	-	-	-
Members' Deposits	369,426	369,485	327,027	327,127
Payables and other liabilities	5,006	5,006	5,126	5,126
Derivatives	185	185	261	261
Total	<u>374,617</u>	<u>374,676</u>	<u>332,414</u>	<u>332,514</u>

The credit union measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Land and buildings
- Derivatives

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 34 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Con't)

Fair Value Hierarchy

The credit union measures fair values of assets and liabilities carried at fair value in the financial report using the following hierarchy that reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market of an identical asset or liability.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using:

- Quoted market prices in active markets for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities 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 assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between them.

Fair values for financial instruments or non-financial assets or liabilities 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 table below categorises assets and liabilities measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2016					
Recurring fair value measurements					
- land and buildings	13	-	-	748	748
- derivatives	19	-	185	-	185
2015					
Recurring fair value measurements					
- land and buildings	13	-	760	-	760
- derivatives	19	-	261	-	261

Land and buildings have transferred into level 3 during the year as no formal revaluation was performed in the current year. Additional disclosure regarding level 3 assets are not considered material to users of the financial report.

Disclosed Fair Values

The Credit Union has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

Cash and cash equivalents as well as receivables from other financial institutions are short-term liquid assets which approximate fair value.

The carrying value less impairment provision of receivables and payables is a reasonable approximation of their fair values due to their short-term nature. The fair value of member fixed interest loans and advances for disclosure purposes is estimated by discounting the future contractual cash flows as the current market interest rate on similar loans offered in the market place. The carrying amount of variable interest member loans and advances approximate their fair value.

The fair value of financial liabilities such as members' deposits for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Credit Union for similar financial instruments.

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 34 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Con't)

Valuation Techniques Used to Derive Level 2 and 3 Fair Values Recognised in the Financial Statements

Land & Buildings

Land and buildings are valued independently every 3 years. At the end of each reporting period the Credit Union reassesses whether there has been any material movement to the fair value of land and buildings to determine whether the carrying amount in the financial statements requires adjustment. The Credit Union determines each property's value within a range of reasonable fair value estimates.

The best evidence of fair value in current prices is an active market for similar properties. Where such information is not available the Credit Union considers information from a variety of sources, including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- discounted cash flow projections

Due to the nature of the Credit Union's property it is considered to have level 2 valuation inputs.

Derivatives

The Credit Union's Derivatives (interest rate swaps) are valued independently every year. At the end of each reporting period the Credit Union uses comparison to similar instruments for which market observable prices exist.

NOTE 35 - 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, Cuecards, 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) First Data Resources Australia Limited

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

(d) Cuscal Ltd

The Credit Union has established an overdraft facility with this entity and has also invested a share of its operating liquidity with this entity.

NOTE 36 - COMPANY DETAILS

Southern Cross Credit Union Ltd. is a company limited by shares and incorporated in Australia. The registered office of the company is Southern Cross Credit Union Ltd. 2-4 Commercial Road, Murwillumbah NSW 2484.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2016
\$'000

2015
\$'000

NOTE 37 - CASH FLOW INFORMATION

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with other financial institutions. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:

Cash and cash equivalents	6,397	9,265
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(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the cash flow statement:

- (a) customer deposits and withdrawals from savings, money market and other deposit accounts;
- (b) placement and redemption of term deposits;
- (c) short-term borrowings;
- (d) provision of member loans and the repayment of such loans.

(c) Reconciliation of cash flow from operations with net profit after income tax

Profit after income tax	2,966	2,032
Non-cash flows in profit from continuing operations:		
Provision for loan impairment	69	39
Amortisation	51	87
Depreciation	240	260
Net loss/(profit) on sale of property, plant & equipment	82	(1)
Changes in assets and liabilities:		
Increase / (decrease) in interest payable	(101)	(124)
Increase / (decrease) in income tax liabilities	809	(757)
Decrease / (increase) in deferred tax assets	144	(93)
Decrease / (increase) in fees and commissions receivables	11	6
Increase / (decrease) in financial liability derivatives	(23)	(148)
Increase / (decrease) in accrued expenses	153	163
Decrease / (increase) in prepayments	5	(19)
Increase / (decrease) in employee benefits	7	(531)
Net cash provided by operating activities	4,414	915
Changes in operating assets and liabilities:		
Increase / (decrease) in deposits	42,234	21,681
Decrease / (increase) in member loans	(58,787)	(16,047)
Net cash provided by operating assets and liabilities	(16,553)	5,634
Net cash provided by all operating activities	(12,139)	6,549

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2016

To the members of Southern Cross Credit Union Limited

Report on the Financial Report

We have audited the accompanying financial report of Southern Cross Credit Union Limited (“the Credit Union”), which comprises the statement of financial position as at 30 June 2016, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration, for the Credit Union.

Directors’ Responsibility for the Financial Report

The directors of the Credit Union 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements of the Credit Union comply with International Financial Reporting Standards.

Auditor’s Responsibility

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

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. The Auditor's Independence Declaration required by the Corporations Act 2001 has been provided to the directors of the Credit Union as at the date of this auditor's report.

Opinion

In our opinion:

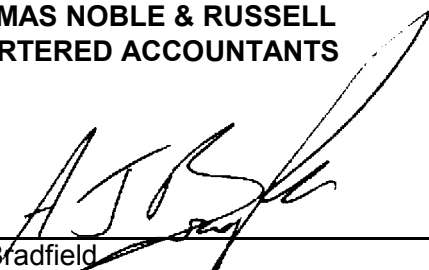
- (a) the financial report of Southern Cross Credit Union Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2016 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Southern Cross Credit Union Limited for the financial year ended 30 June 2016 published in the annual report and included on the Credit Union's website. The Credit Union's directors are responsible for the integrity of the Credit Union's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Dated at Lismore this 06th day of October 2016.

**THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS**



A J Bradfield (Partner)
Registered Company Auditor



Southern Cross Credit Union Ltd

ABN: 82 087 650 682

AFSL: 241000

Registered Office

2-4 Commercial Road
Murwillumbah NSW 2484
Tel (02) 6672 2744

Chief Executive Officer

Stuart Edwards

Executive Management

Brett Myles	Chief Financial Officer
Simon Lehmann	Executive Manager Sales and Distribution
Craig Barker	Executive Manager Risk and Compliance
Joan Meehan	Executive Manager Human Resources

Auditors

Thomas Noble & Russell, Lismore NSW

Bankers

Indue Ltd, Cuscal Ltd
National Australia Bank, Westpac

Branches

Lismore	70 Woodlark St	(02) 6621 7371
Mullumbimby	56 Burringbar St	(02) 6684 2574
Casino	Shop 6, Casino RSM Shopping Centre	(02) 6662 2877
Ballina	Shop 46, Ballina Fair	(02) 6686 5999
Byron Bay	107 Jonson St	(02) 6685 8144
Tweed Heads South	Shop 103, Tweed City Shopping Centre	(07) 5524 2411
Cabarita	Shop 3/36 Coast Rd	(02) 6676 2377
Lennox Head	1/64 Ballina St	(02) 6687 6166
Murwillumbah	2-4 Commercial Rd	(02) 6672 2744

Directors

John Rutledge	Chairman
Guy Bezrouchko	Deputy Chairman
Phillip Hoffman	
Belinda Henry	
Stuart Edwards	Executive Director

Affiliations

World Council of Credit Unions
Instil
COBA – Customer Owned Banking Association